The Impact of Ownership Duality on Firm Performance in Egypt

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Abstract

Corporate governance is considered to have significant implications for the growth prospects of an economy. Good corporate governance practices are regarded as important in reducing risk for investors, attracting investment capital and improving the performance of companies. The purpose of this study was to examine the relationship between corporate governance practices and firm performance in Egypt, as a result of the adoption privatisation since 1996 and the extent of changes to corporate governance practices. During this period, the firms that operated in Egypt were affected by political and economic transformation. The theoretical basis for this study was agency theory, which focuses on the ownership duality and control. The conceptual framework of the study described how the board structure in Egypt impacted on firm performance. In this framework corporate governance were be indicated ownership duality. Ownership duality refers to the separation of the position of chairman and CEO. The research explored the relationship of this variable to firm performance. Firm performance was assessed by Return on equity, Return on assets and Tobin’s Q. This is the first study conducted in Egypt on corporate governance and firm performance during periods of high volatility in the environment due to adverse economic and political conditions after the 25th of January’s revolution. As a result, this study makes a significant contribution to the body of knowledge on corporate governance in developing countries and illustrates how corporate governance impacts on firm performance in unstable political and economic environments such as that experienced in Egypt. This study is a comparative analysis to measure the changes to corporate governance practices from 2005 to 2012. A sample of 42 companies was selected from the top 100 listed companies in EGX 100 (Egyptian stock exchange). The selection was determined by the availability of data for both years. Data were obtained from annual reports and the Egyptian Capital Market Authority. In addition, key accounting data as well as annual reports were obtained from the following sources: Cairo and Alexandria Stock Market Exchanges (CASE) and financial year book (financial statements from 2005 to 2012). The data were analysed with SPSS to obtain quantitative measures of descriptive statistics, Spearman’s correlation and analysis of variance. Descriptive statistics from the study showed positive relationship for separate leadership and firm performance based on return on equity. In this study, the positive relationship between corporate governance structures, separate leadership, and firm performance indicate that firms have implemented corporate governance strategies, which have resulted in higher profitability and share price performance.

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