The Effect of Board Characteristics on the firm’s Financial Performance in Egypt

Mostafa Seif-Elyazal

ABSTRACT

Due to various corporate scandals and failures over the past years, there has been a renewed interest on the role of Corporate Governance in the financial performance of firms. To the best of my knowledge as a developing country, Egypt lacks research in aspects related to Corporate Governance. Moreover, most studies in Egypt mainly use only financial variables to measure financial performance, not knowing that corporate governance has a significant role in altering performance outcomes of firms.

The purpose of this study is to examine the effect of board characteristics on firm performance of firms in Egypt under the Agency theory.

In this research, Ordinary Least Square regression analysis is used to examine the relationship between board characteristics and firm’s financial performance of the most active 50 Egyptian companies listed on the Egyptian Stock Exchange of the non-financial sector during the period 2006-2012. The results after removing the outliers showed that; board size has a significant positive relationship with Return on assets and significant negative with Return on equity and Tobin’s Q. Non-executive board members showed significant negative relationship with Return on assets, Return on equity and Tobin’s Q. Finally Chief executive officer duality showed significant positive relationship with Return on assets, Return on equity and Tobin’s Q.
The empirical results of this study provide support to corporate managers in increasing the awareness of corporate governance and therefore leading to better performing companies in emerging countries such as Egypt. Even though, the research results were useful, yet no straightforward conclusion can be drawn due to the contradicting results, therefore, further research should be pursued.