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# The Impact of Corporate Governance on Firm Performance: Evidence from Damascus Securities Exchange

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# The Impact of Corporate Governance on Firm Performance: Evidence from Syria

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1. Why to study the impact of corporate governance on firm performance?
2. Governance matters! How? Where? Which provision?
3. Corporate Governance: what the results tell us?

# The Purpose

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1. Examining the impact of aggregate and individual CG provisions on firm performance on all firms listed at Damascus Securities Exchange
2. Identifying the influential pillar in Ownership Structure Provision (ownership concentration or foreign ownership?)

# Corporate Governance in Syria

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1. Establishment of the Syrian Insurance Supervisory Commission (SISC) 2004;
2. Establishment of the Syrian Commission of Financial Markets and Securities (SCFMC) 2005;
3. Stock Exchange Law (55/ 2006)
4. Disclosure Instructions Act (SCFMC 2006);
5. Good Governance Practices by SISC (2007);
6. Corporate Governance Act (SCFMC 2008);
7. Governance Code (Central Bank of Syria 2009).

# Governance Provisions

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1. Board of Directors
2. Ownership Structure
3. Audit
4. Disclosure

# Research Variables, Measures, and Data

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1. Governance (Comprehensive Index and sub-indexes for the sub-categories of governance provisions)
2. Performance (Return on Assets, Earning Per Share)
3. Control Variables (Size and Growth)
4. 76 firm-year observations

# Sample Statistics

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<b>Sub-indexes of Corporate Governance</b>	<b>Average</b>	<b>Standard deviation</b>
<b>Board of director</b>	0.66	0.13
<b>Audit</b>	0.74	0.15
<b>Disclosure</b>	0.13	0.79
<b>Ownership structure</b>	0.17	0.54
<b>Total index</b>	0.44	0.28

# Research Methodology

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## Multiple Linear Regression

$$\text{EPS}_{i,t} = \alpha + \beta_1 \text{Board}_{i,t} + \beta_2 \text{Audit}_{i,t} + \beta_3 \text{Disclosure}_{i,t} + \beta_4 \text{Ownership}_{i,t} + \beta_5 \text{Size}_{i,t} + \beta_6 \text{Growth}_{i,t} \quad (1)$$

$$\text{ROA}_{i,t} = \alpha + \beta_1 \text{Board}_{i,t} + \beta_2 \text{Audit}_{i,t} + \beta_3 \text{Disclosure}_{i,t} + \beta_4 \text{Ownership}_{i,t} + \beta_5 \text{Size}_{i,t} + \beta_6 \text{Growth}_{i,t} \quad (2)$$

# Research Results: Regression output (EPS)

	M1	M2	M3	M4	M5	M6	M7	M8	M9	M10
Constant	-7.92 (0.64)	-31.20 (0.51)	-10.39 (0.47)	-39.20 (0.38)	13.87 (0.23)	74.24 (0.17)	4.61 (0.49)	-2.48 (0.96)	-0.29 (0.46)	7.82 (0.89)
Board	6.04 (0.14)	4.55 (0.40)								
Audit			7.61* (0.06)	6.52 (0.14)						
Disclosure					0.70 (0.79)	-3.71 (0.31)				
Ownership							3.65** (0.03)	3.50* (0.10)		
Governance index									1.77** (0.05)	2.20 (0.15)
Size		1.26 (0.62)		1.41 (0.50)		4.61 (0.09)		0.32 (0.89)		-1.07 (0.74)
Growth		0.32 (0.41)		0.31 (0.41)		0.26 (0.51)		0.31 (0.41)		0.35 (0.37)

# Research Results

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1. Corporate Governance (aggregate index) has no effect on firm performance (EPS or ROA)
2. Audit has a positive & significant impact on EPS (insignificant when control variables are added!)
3. Audit has insignificant impact on ROA
4. Disclosure has no effect on firm performance
5. Ownership has a positive & significant impact on EPS
6. Ownership is the only significant provision that affect ROA (insignificant when control variables are added!)

# Research Results – Ownership Structure

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1. Ownership Concentration has insignificant effect on firm performance (EPS or ROA)
2. Foreign ownership has a positive & significant effect on firm performance (EPS & ROA)
3. Foreign ownership loses its significance in the presence of control variables

# Research Conclusions

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1. Ownership structure matters for firms performance
2. Other governance provisions have no significant impact on firm performance
3. Ownership structure---- Foreign ownership
4. Foreign institutional investors= established governance practices

# Research Recommendations

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1. Regulators: Why disclosure and audit have no impact?
2. Regulators: Encouraging local firms to accept certain levels of foreign institutional ownership
3. Regulators: Board of directors— reforming the requirements to make BODs more productive
4. Regulators: Governance codes need to be re-evaluated
5. Investors: foreign ownership associates with high performance

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