

# **The Impact of corporate governance on Moroccan firm performance**

Degree of Doctor of Philosophy (PhD)

**Marketing and reputation**

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# **Declaration of original authorship**

I confirm that this is my own work and the use of all material from other sources has been properly and fully acknowledged

Ouarda Dsouli

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IN THE NAME OF GOD, THE MERCIFUL, THE COMPASSIONATE

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**I dedicate this thesis to my beloved father, Amarouche Dsouli.**

**In memory of a loving living soul. I wish you were alive.**

# Research outcomes

## Publications:

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## Conferences:

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Dsouli, O. and Kakabadse, N. K. (2012) **Teleology of the purpose of the firm: thinking beyond profit maximisation for a sustainable firm**. Paper presented at: 11th World Congress of The International Federation of Scholarly Associations of Management (IFSAM 2012), University of Limerick, Ireland, 26 - 29 June 2012.

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# Abstract

This research project investigates the impact of corporate governance on Moroccan firm performance using a quantitative approach. The model that has been developed tests the impact of corporate governance mechanisms – namely, share ownership typology, leadership characteristics, and board of directors and board of management composition – on the performance of dispersed- and concentrated-ownership Moroccan listed firms. The results contend that these mechanisms do impact performance and that the extent of this impact depends on the nature of ownership, the industry, the governance mechanisms themselves and the firm's performance measures. The results show that all share ownership typologies are positively associated with enhanced firm performance within dispersed-ownership financial and concentrated-ownership non-financial family firms. However, there is less protection for minority shareholders in dispersed-ownership non-financial and concentrated-ownership financial family firms. This study contends that the separation of CEO and chair roles and the presence of CEO-owners enhances firm performance. In addition, a long CEO tenure is found to be negatively associated to the performance of all Moroccan firms. The results show that larger board size and gender diversity in the boardroom enhance the performance of non-financial concentrated-ownership Moroccan family firms, whereas the presence of owners on the board decreases the performance of non-financial concentrated-ownership Moroccan family firms. A larger board of management/top management team and the presence of females on this team enhances the performance of, respectively, non-financial dispersed-ownership and concentrated-ownership family firms, and dispersed-ownership Moroccan family firms. The presence of independent board members enhances the performance of dispersed-ownership non-financial firms. The presence of foreigners on the boards of financial firms is negative for dispersed-ownership and concentrated-ownership family firms. This study proves the importance of considering the interdependences among a number of governance mechanisms. The model allows all shareowners of Moroccan listed firms to focus on the most effective corporate governance mechanisms depending on their share ownership typology and operating industry. This study is the first of its kind in a Moroccan context.

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## List of abbreviations

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Age	Year/date of incorporation
Bodsize	Size of the board of directors
Bomsize	Size of the board of management
Ceonal	Nationality of the CEO
Ceoown	Having owners (or representative) as CEO
Ceotenure	Tenure of CEO
Cfamily	Family ownership concentration equal to or greater than 50%
Cfrgn	Foreign ownership concentration equal to or greater than 50%
CG	Corporate governance
Chairnal	Nationality of the chairperson
Chairtenure	Tenure of Chairperson
CNGE	Commission Nationale de Gouvernance d'Entreprise
Excbod	Executive on the board of director
Family	Family ownership
Fembod	Female board members
Fembom	Female on the board of management
Ffamily	Family ownership concentration equal to or greater than 30%
Fflot	Free-float ownership
Ffrgn	Foreign ownership concentration equal to or greater than 50%
Foreign	Foreign ownership
Frgnbod	Foreigner board members
Frgnbom	Foreigners on the board of management
Indbod	Independent board members
Indcl	Company's general industry classification (DataStream classification)
Inflcrossh	Influential cross-holding ownership
Instit	Institutional ownership
Lmk	Log market capitalisation
LRI	Log of the total return index
MTBV	Market to book value
Ownbod	Owners as board members
Ownbom	Owners/founders (or their representatives) on the board of management
ROA	Return on assets
ROE	Return on equity
Singledual	Leadership structure
TDTA	Total debt to total assets



# Chapter 1

## Introduction

### Synopsis

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This research project investigates the impact of corporate governance on Moroccan firm performance using a quantitative research approach. The rationale for this research guides the need for: 1) a model for the investigation of interdependences of corporate governance determinants; 2) an investigation of corporate governance from a stakeholder perspective; and 3) the development of governance research in emerging countries.

The research develops a model for investigating corporate governance, which will serve as a useful tool for strengthening business practices within Morocco. Furthermore, the research will contribute to stakeholder theory by exploring its applicability within an emerging market context.

### 1.1. Research overview

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Financial scandals and corruption – as exemplified by the Enron, Tyco and WorldCom bankruptcies – has hastened demands for improved governance practices around the world and especially among developing and emerging countries (Baydoun et al., 2013). While, from an Anglo-American perspective, good governance has been associated with improved firm performance, transparency and satisfying wider stakeholders (Aguilera & Cuervo-Cazurra, 2004), there is only limited evidence that good governance in emerging countries contributes to enhanced firm performance, investment rights and the promotion of economic development (Braga-Alves & Shastri, 2011; Price, Roman & Rountree, 2010).

Despite an increase in corporate governance codes of practice within emerging

countries, a lack of appropriate governance remains endemic (Ekanayake, Perera & Perera, 2010). The last global financial crisis has highlighted governance weaknesses and vulnerabilities within some of the most leading legally strong systems which are characterised by an advanced institutional environment and the protection of minority shareholders (Claessens, 2011). This has led to an increased worldwide demand for stronger codes (e.g. the Walker Report of 2009 and the UK corporate governance code, 2010–16) and called the effectiveness of existing corporate governance mechanisms into question.

Despite the vagueness around the concept of corporate governance (Blair, 1995; Cadbury, 1992; OECD, 1999, 2004; G20/OECD, 2015; Ntim, 2018), there is an underlying consensus that it concerns the eradication of corporate misgovernance and the promotion of good practice regardless of cost (Fernando, 2012). Corporate governance mechanisms were initially designed to control agents' self-serving behaviour (Berle & Means, 1932; Jensen & Meckling, 1976). Such mechanisms have included a board of directors and mutual monitoring among managers (Fama, 1980; Fama & Jensen, 1983b), direct managerial share ownership (Jensen & Meckling, 1976), remuneration schemes (Murphy, 1985), a supervisory role played by large shareholders (Demsetz & Lehn, 1985), the market for corporate control (Grossman & Hart, 1980), the appointment of outside directors (Dalton *et al.*, 1998) and the separation of CEO and chairperson roles (Boyd, 1995; Dalton & Dalton, 2011; Dey, Engel & Liu, 2011). Such corporate governance mechanisms have undoubtedly led to the proliferation of good practice around the world (Cuomo, Mallin & Zattoni, 2016). However, recurrent management misbehaviour – highlighted most prominently in high-profile corporate scandals – indicates the need for a review of those corporate governance mechanisms that appear to have a further impact on firm performance (Kim, Black & Jang, 2006).

Corporate governance mechanisms can be classified into three categories: market-based (e.g. concerning ownership structure and the composition of the board of directors), culture-based (i.e. concerning corporate culture and integrity) and discipline-based (e.g. executive penalties and auditing) (Luo, 2007). Market-based and discipline-based mechanisms are among the most researched topics in corporate governance literature (Aguilera *et al.*, 2015). Recent governance literature refers to market-based corporate governance mechanisms as being

control-enhancing in terms of determinants (e.g. owners' identities) and effects (performance and entrenchment) (Saggese, Sarto & Cuccurullo, 2016). An overwhelming majority of studies in this area explore the impact of internal market-based governance mechanism determinants on firm performance; but their results are mixed (Aguilera *et al.*, 2015). The aspects most frequently studied are: ownership structure (Jensen & Meckling, 1976; La Porta *et al.*, 2000); management compensation (Devers *et al.*, 2007; Tosi *et al.*, 2000); and board structure and board leadership (Dalton *et al.*, 1998; Dalton & Dalton, 2011).

**Empirical corporate governance literature looking at the relationship between ownership structure and firm performance offers no unequivocal answer about the costs and benefits of different ownership typologies. Some scholars have found a positive correlation between family ownership and corporate performance (e.g. Miller & Le Breton-Miller, 2005; Audretsch, Hülsbeck & Lehmann, 2013; Wagner *et al.*, 2015), while others have found a negative one (Pérez-González, 2006; Bloom & Van Reenen, 2007). Similarly, an assessment of the impact of foreign ownership on firm performance generates mixed results across nations (Greenaway, Guariglia & Yu, 2014; Yavas & Erdogan, 2016). Institutional ownership is understood to be associated with better governance (Nikolov & Whited, 2014), but its impact on firm performance is contingent on the stability of the institutional investors (Callen & Fang, 2013).**

In addition, a continuous body of research (Dalton *et al.*, 1998; DeRue *et al.*, 2009) exploring board composition, board leadership and financial performance found no concluding evidence of a systematic relationship either between board composition and firm performance (Bhagat, Bolton & Romano, 2008; Dalton & Dalton, 2011) or between leadership and firm performance (Dalton *et al.*, 2007; Dalton & Dalton, 2011). Furthermore, top management team composition remains unresearched in the field of corporate governance, especially in emerging markets where top management teams play a key governance role (Aguilera & Haxhi, 2018).

We are therefore faced with no consistency in results from investigations into links between any particular corporate governance mechanism and firm performance. The last global financial crisis, which called into question the effectiveness of corporate governance mechanisms and highlighted governance

weaknesses and vulnerabilities (Claessens, 2011), and the excessive focus on agency theory for the investigation of corporate governance, all suggest a need for the further investigation of governance impacts on firm performance beyond the Anglo-American context. The lack of studies in the Middle East and North Africa (MENA) region (Khamis, Hamdan & Elali, 2015; Soliman, 2013; Turki & Sedrine, 2012; Omran, Bolbol & Fatheldin, 2008) further indicate the need for investigating CG from emerging market perspective. In light of the issues raised above, this research aims at examining the perception of corporate governance in emerging countries, using Morocco as a specific example. This study focuses chiefly on the effect of market-based corporate governance mechanisms on the performance of listed Moroccan firms.

## 1.2. Research gap

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As far as the current study is concerned, the most salient gap in the literature stems from a failure to consider the practice of governance in totality as opposed to considering the most studied governance mechanisms: for a long time, corporate governance research has routinely only examined the link between a single corporate governance mechanism and firm performance (Aguilera *et al.*, 2008). This is a rather limited approach, only capturing a firm's unique characteristics in a specific governance environment (Aguilera *et al.*, 2008). More comprehensive governance research would consider the interdependences of corporate governance mechanisms in order to understand their effectiveness (Aguilera *et al.*, 2008; Tosi, 2008; Filatotchev & Boyd, 2009; Walls, Berrone & Phan, 2012; Misangyi & Acharya, 2014). Therefore, this research investigates the determinants of internal corporate governance mechanisms, namely: ownership (i.e. family, foreign), leadership characteristics (i.e. CEO duality, CEO tenure), board of directors' composition (i.e. percentage of independent directors, board size) and management structures or top management teams (i.e. size of board of management, involvement of owners). This study also examines the determinants of external corporate governance mechanisms by considering the percentage of institutional share ownership.

A second gap in the literature with regard to the current study is the lack of research on corporate governance beyond the Anglo-American context. The majority of current studies on governance mechanisms have a Western

perspective, paying scant attention to emerging markets (Arora & Sharma, 2016). Corporate governance is more than just a set of codes based on mechanisms and determinants designed to boost firm performance and realign agents' self-interest (Berle & Means, 1932; Jensen & Meckling, 1976; Child & Rodrigues, 2003 a,b). It depends on a country's business context, its culture and its legislative system (civil law and case law) (Mallin, 2010), along with other internal and external factors such as corporate strategy, firm size, industry sector, environmental uncertainty and the firm's lifecycle (Luo, 2007). As such, there is a need to look beyond the Anglo-American context and beyond agency theory in order to examine the impact of the determinants of corporate governance. Thus, stakeholder theory is employed here in the investigation of corporate governance in Morocco. The rationale for drawing on stakeholder theory here is the country's conservative Islamic culture and its progressive nature. See further Section 1.5, "Theoretical framework".

A third gap is a general lack of academic research on the topic of governance in Morocco. Little evidence has been presented thus far from the MENA region about the positive contribution of corporate governance to firm performance (Khamis, Hamdan & Elali, 2015; Soliman, 2013; Turki & Sedrine, 2012; Omran, Bolbol & Fatheldin, 2008; Naceur, Ghazouani, & Omran, 2007; Khanchel El Mehdi, 2007), so more research into emerging markets – especially from the MENA countries (ElGammal, El-Kassar & Canaan Messarra, 2018) and Morocco in particular – is indicated. As such, the main contribution of this study is to provide an investigation of corporate governance mechanisms adopted by Moroccan listed firms and their effect on company performance. This study is the first of its kind in the Moroccan context.

In view of the above, this study offers innovative work in both context and content. For more on the contribution and significance of this study, see Sections 1.8 and 1.9.

### **1.3. The context and motivation behind this study**

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Morocco is an interesting case for five reasons. First, the Casablanca Stock Exchange is one of the fastest-growing within the MENA region (Farooq & Benali,

2011).<sup>1</sup> Second, the country is a pioneer of economic growth within African and MENA countries, and it a magnet for foreign direct investment (FDI)<sup>2</sup> (WP World Profile Group, 2015). Third, the country has undergone major legislative changes impacting corporate governance practice (Eskinazi, 2010, WP World Profile Group, 2015).

Fourth, corporate governance has been recognised since the early 2000s as an essential component in improving the Moroccan investment climate and achieving the necessary level of confidence for satisfactory operation within the Moroccan market economy (Eskinazi, 2010). The first corporate governance code was introduced in Morocco in March 2008, supported additionally by specialised guidance for (1) SMEs and family-owned enterprises (2009), (2) banks and financial institutions (2010) and (3) state-owned enterprises (a specific code in 2011) (Eskinazi, 2010; ECGI, 2018).

Lastly, and most importantly, research on the subject is a relatively new phenomenon in the literature. Apart from World Bank and OECD reports and European Bank studies (Eskinazi, 2010; OECD, 2011; Koldertsova, 2011; Cigna & Mezio, 2016), little has been published on corporate governance in Morocco (Binder, 2009; Al-Zaubia & Al-Nahlehb, 2010, Mako & Sourrouille, 2010; Farooq & El Kacemi, 2011; Farooq & El Jai, 2012; El Bouanani, 2014; Mossadak, Fontaine & Khemakhem 2016; Aguenau, Farooq & Di, 2017). The earliest study dates back to 2005 ("A Survey of Corporate Governance"; Belkahia, 2005), with the remainder having basically been driven by Dr Farooq and his colleagues between 2008 and 2011 (see Appendix 1 for a detailed analysis of the studies). The papers by Mossadak, Fontaine & Khemakhem (2016) and Aguenau, Farooq & Di (2017) emerged from Farooq's studies, investigating the impact of ownership structure on dividends. In light of the paucity of prior research, this study will have important implications for different business players within the Moroccan economy (for more on the significance of this study, see Section 1.9).

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<sup>1</sup> The market capitalisation of Moroccan listed companies rose sixfold between 2000 and 2010 (World Bank, 2012).

<sup>2</sup> FDI rose by 79% between 2009 and 2014 (World Bank, 2017).

## 1.4. Research question aims and objectives

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### **Research question**

The general research question to which this project seeks to give an answer is the following:

### ***How do corporate governance determinants impact the performance of Moroccan firms?***

In order to answer it, the followed sub-questions will be explored (see Figure 1.1, "corporate governance model", p.25, and Table 1.1 for sub-questions and hypotheses, p26-27).

Q1: Is there an association between 1) dispersed and 2) concentrated share ownership and firm performance?

Q2: Is there an association between board leadership characteristics and firm performance?

Q3: Is there an association between board of directors' composition and firm performance?

Q4: Is there an association between top management team composition and firm performance?

### **Aim**

This research seeks to develop a model for measuring corporate governance by exploring governance metrics in Morocco.

### **Objectives**

- Review of the extant literature and corporate governance practices with a focus on Morocco.
- Test model (i.e. a set of hypotheses) developed from the extant corporate governance literature.
- Proposal of a model for the effective evaluation of corporate governance practices in Morocco.

## 1.5. Theoretical framework

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Building on the concepts of shared value and the incorporation of all stakeholders' interests (Freeman *et al.*, 2010), stakeholder theory constitutes the "bedrock of all business theories" (Al-Qaradawi, 1995; Centesimus Annus, 1991). The corporation as it has developed in modern history has been characterised by shareholder theory, whereby its purpose is the creation of value for its shareholders (Smith, 1776; Alchian & Demsetz, 1972; Friedman, 1962, 1970). A disassociation from religious moral values and a transition from the simple business to the modern corporation has raised concerns about the separation of management from ownership – concerns articulated in "agency theory" (Smith, 1776; Berle & Means, 1932; Fama & Jensen 1983a, b). As a remedy, stewardship theory emerged (Donaldson, 1990; Donaldson & Davis, 1994; Davis, Schoorman & Donaldson, 1997a, b) to address the agency problem and realign shareholders' interests with managers via incentive mechanisms (Jensen & Meckling, 1976; Murphy, 1998).

In the meantime, the agency problem expanded to include various contractors' interests. In this context, several theories emerged with a view to maintaining "value creation" (Friedman, 1962), including resource dependency theory (Pfeffer, 2003), transaction cost economics (Williamson, 1975) and institutional theory (Scott, 1987). The Enron, WorldCom, Tyco and Adelphia scandals, along with the sub-prime mortgage crisis that exploded into the global financial crisis, have resulted in the very morality of business itself being called into question. Consequently, a reconsideration of stakeholder theory is called for as the driving theory for the future sustainability of capitalism (Freeman, 1984; Freeman *et al.*, 2010).

In reviewing the theories underpinning corporate governance, the main ones to emerge are agency theory (Smith, 1776; Berle & Means, 1932; Fama & Jensen 1983a, b), stewardship theory (Donaldson, 1990; Donaldson & Davis, 1994; Davis, Schoorman & Donaldson, 1997a, b), shareholder theory (Friedman, 1962) and stakeholder theory (Freeman, 1984; Freeman *et al.*, 2010). However, the chosen guiding theory for this research project is Islamic stakeholder theory, one that combines Islamic ethical values (Beekun & Badawi, 2005) and a Western stakeholder approach (Freeman, 1984, 2015, 2017; Freeman, Wicks, & Parmar,



2004; Freeman *et al.*, 2010) to business practice. Islamic stakeholder theory sees morality in gaining wealth. As such, Morocco adopts responsible capitalism (Freeman, 2015, 2017) based on spiritual values (Dsouli, Khan & Kakabadse, 2012). The Islamic stakeholder classification is based on that of Freeman (1984): “any group of individuals who can affect, or be affected by the achievements of an organisation’s purpose” (Freeman, 1984, p. 46). Islamic stakeholders are divided into three layers: primary/internal (owners/financiers and employees [including management]), upper secondary (suppliers and customers) and lower secondary (to include all external parties).

This choice of theoretical framework is justified by the country’s progressive nature, which offers a balance between Eastern and Western traditions, conserving those of Islam. Morocco has been impacted by the French governance system, which is a stakeholder model (Mallin, 2010).

## 1.6. Developed model

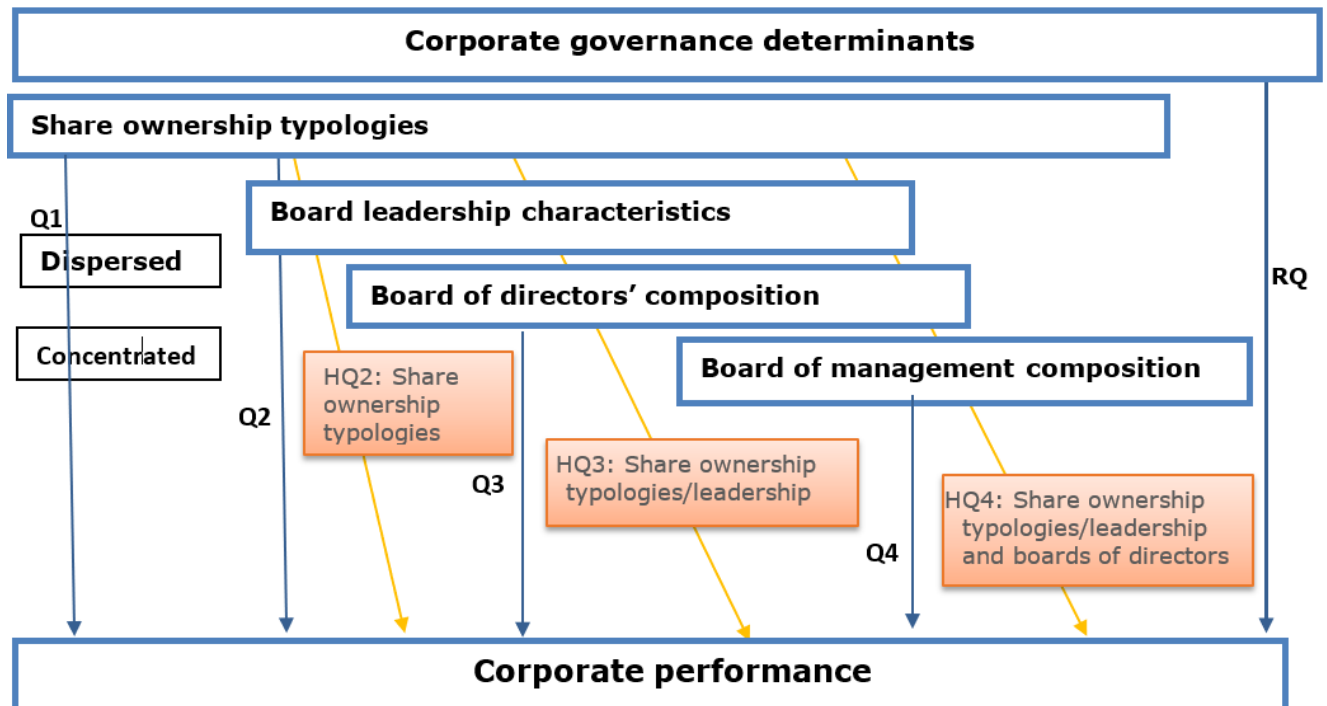
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This section presents the proposed governance model (Figure 1.1), as developed from the range of corporate governance literature, to assess the impact of corporate governance in Morocco. The model tests, respectively, the impact on firm performance of: the determinants of ownership (Q1), board leadership (Q2), board of directors’ composition (Q3) and board of management composition (Q4). The impact of each corporate governance aspect on firm performance is assessed by testing a series of hypotheses. Table 1.1 summarises the respective hypotheses relative to the impact on firm performance of: ownership (Q1), board leadership (Q1), board of directors composition (Q2) and board of management or top management team composition (Q4) (in this study “top management team” and “board of management” are used interchangeably). Also, this study uses the term “share ownership typologies” to indicate the different forms of ownership.

Furthermore, the model considers that each governance mechanism further shapes the relationship between the previously studied corporate governance mechanism and firm performance in that it allows that board leadership characteristics can change the impact of share ownership on firm performance, which is captured in HQ2. Similarly, board composition changes the impact of board leadership and ownership, as captured in HQ3. Moreover, board of

management composition changes the impact on firm performance of ownership, board leadership and board of directors.

**Figure 1.1: Corporate governance model**



Source: compiled by the author

— Refers to a direct relationship between corporate governance determinants and corporate performance.

— Refers to the effect of additional corporate governance determinants in shaping the relationship between previously investigated governance components and corporate performance (e.g. the implication that shareholders' presence on the board influences the impact of ownership on firm performance).

**Table 1. 1: Summary of the hypotheses on the impact on firm performance of: ownership (Q1), board leadership (Q1), board of directors' composition (Q2) and board of management composition (Q4)**

<b>Research sub-questions</b>	<b>Research hypothesis</b>
<b>Q 1: Is there an association between a) share ownership typology and b) concentrated share ownership, and firm performance?</b>	<p>H1a1. Family ownership (Family) in dispersed ownership structures is associated with increasing firm performance.</p> <p>H1a2. Foreign ownership (Foreign) in dispersed ownership structures increases firm performance.</p> <p>H1a3. Institutional ownership (Instit) in dispersed ownership structures is associated with enhancing firm performance.</p> <p>H1a4. Influential cross-holding ownership (Inflcrossh) in dispersed ownership structures is associated with increasing firm performance.</p> <p>H1a4. Influential cross-holding ownership (Inflcrossh) in dispersed ownership structures is associated with increasing firm performance.</p> <p>H1a6. Free-float ownership (Fflot) in dispersed ownership structures increases firm performance.</p> <p>H1b1. Family ownership concentration (<math>C_{family} \geq 50\%</math>)/ (<math>F_{family} \geq 30\%</math>) decreases firm performance.</p> <p>H1b2. Foreign ownership concentration (<math>C_{frgn} \geq 50\%</math>)/ (<math>F_{frgn} \geq 30\%</math>) decreases firm performance.</p> <p>H1b3. Minority shareholding (Instit)/(Fflot)/(Inflcrossh)/(Infl) is negatively correlated with firm performance in concentrated panels.</p>
<b>Q2: Is there an association between board leadership characteristics and firm performance?</b>	<p>H 2a - Leadership structure (Singledual) is associated with increasing firm performance.</p> <p>H 2b - The implication of having owners (or representative) as CEO (Ceoown) increases firm performance.</p>

	<p>H 2c1- The long-term tenure of CEO (Ceotenure) is likely to enhance firm performance.</p> <p>H 2c2- The long-term tenure Chairperson (Chairtenure) is likely to enhance firm performance.</p> <p>H 2d1. The presence of non-Moroccan CEO (Ceonal) is associated with increased firm performance.</p> <p>H2d2. The presence of non-Moroccan chairperson (Chairnal) is associated with increased firm performance.</p>
<p><b>Q3: Is there an association between board of directors composition and firm performance?</b></p>	<p>H3a. A larger board of directors (Bodsize) negatively impacts firm performance.</p> <p>H3b1. The presence of independent board members (Indbod) is likely to enhance firm performance.</p> <p>H3b2. The presence of owners as board members (Ownbod) is likely to enhance firm performance.</p> <p>H3b3. The presence of executive directors (Excbod) is likely to enhance firm performance.</p> <p>H3c. The presence of female board members (Fembod) is likely to enhance firm performance.</p> <p>H3d. The presence of foreigners on the board of directors (Frgrnbod) is likely to enhance firm performance.</p>
<p><b>Q4: Is there an association between the top management team composition and firm performance?</b></p>	<p>H4a: A larger board of management (Bomsize) negatively impacts firm performance.</p> <p>H4b: The presence of owners/founders (or their representatives) on the board of management (Ownbom) is likely to enhance firm performance.</p> <p>H4c: The presence of foreigners on the board of management (Frgrnbom) is likely to enhance firm performance.</p> <p>H4d: Female participation in the board of management (Fembom) is associated with increased firm performance.</p>

Source: compiled by the author

## 1.7. Research methodology and methods

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The methodology chosen for this research project is quantitative; it involves data sampling, measurement and inferential statistics (Crotty, 1998; Amaratunga *et al.*, 2002). A longitudinal study was undertaken to examine the relationship between corporate governance determinants and firm performance, in the period 2009–13. Panel data analysis is the statistical analysis adopted for this study.

The data collection for this study is based on secondary data, which has been collected specifically for the purpose of this research project. The studied sample consists of firms listed on the Casablanca Stock Exchange between 2009 and 2013. The availability of data justifies the focus on listed companies. Listed firms are subject to stricter disclosure requirements than non-listed ones. Data was gathered from the period 2009–13. The choice of 2009 as the start year is because of the introduction of the Moroccan Code of Good Corporate Governance Practices in March 2008. The choice of 2013 as the end year is linked to the availability of data; Moroccan firms' fiscal years end in December and companies have until the 31 July 2014 to submit their accounts to the Moroccan tax authorities (Direction Générale des Impôts). Thus, the majority of 2013 financial information and annual reports become available only in late 2014 or early 2015.

The sample consists of 46 companies quoted on the Casablanca Stock Exchange between 2009 and 2013, for which share ownership, leadership, board of directors, and board of management data was available.

This study consists of a balanced data panel of 46 listed firms. Panel data regression analysis is the adopted method. The generalised least squares (GLS) estimation of a random effects panel (xtreg) technique is used to test the effect of corporate governance determinant's contribution (ownership, leadership, management and board of directors) on corporate performance. The choice of GLS model is premised on its ability to test for variations among cross-sectional variables and across individual variables over time (Schmidheiny, 2011).

## 1.8. Research contribution

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The research makes several contributions to the corporate governance literature in general and Morocco in particular. First, this research is the first of its kind to investigate the impact of corporate governance practices on the performance of Moroccan listed firms.

Second, it represents an important contribution to governance literature in Morocco and the MENA region more broadly, as there is a paucity of studies investigating the relationship between governance practices and firm performance within emerging countries and MENA in particular. Most such research focuses on developed countries.

Third, this research makes a significant theoretical contribution to the existing debate on the appropriate theoretical model for understanding governance in emerging countries and MENA countries in particular. It suggests that stakeholder theory is more appropriate for MENA countries such as Morocco (as discussed in Chapters 2 and 6). It suggests that Islamic stakeholder theory is more appropriate for MENA countries such as Morocco (as discussed in Chapters 2 and 6). It contributes to Islamic stakeholder theory by exploring its applicability in understanding and measuring the impact on firm performance of corporate governance determinants within Morocco. Given the increasing importance attached to business ethics, and the role of corporate governance in enhancing firm performance, such insights will be highly valuable for Moroccan businesses in particular and foreign investors more generally.

Fourth, the research develops a model for measuring the impact of corporate governance on firm performance. The model takes into consideration the interdependences between market-based corporate governance mechanisms rather than merely considering the impact of a single mechanism or those mechanisms most commonly studied.

Fifth, the model will allow the assessment of governance practices in MENA countries and those countries with similar cultural backgrounds and characteristics. It will offer a useful tool for strengthening business practices within Morocco.

Lastly, the research will have important implications for different players within the Moroccan economy and will hopefully provide useful information for future corporate governance studies both in Morocco and in MENA countries more generally.

## **1.9. The significance of the study**

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The findings of this research will contribute significantly to the understanding of the current state of corporate governance practices and issues within Moroccan listed firms. These findings will be of great importance to many stakeholders, including:

- Regulators, policy-makers, academics, and investors.
- The Moroccan stock exchange authority, Casablanca stock exchange.
- The national commission of corporate governance, the Commission Nationale de Gouvernance d'Entreprise
- The Moroccan Association of Enterprises, the Confédération des Grandes Entreprises Marocaines (CGEM)
- The Moroccan market capital authority, the Autorité Marocaine du Marché des Capitaux (AMMC) formerly the Conseil Déontologique des Valeurs Mobilières (CDVM).
- Listed companies on the Casablanca Stock Exchange.
- Policy-makers in neighbouring Maghrib<sup>3</sup> and MENA countries with similar economic environments.

Furthermore, this research will develop a corporate governance model tailored to the Moroccan context and which can assess the level of corporate governance practice within MENA countries, and Morocco in particular.

The current study is potentially of much use to researchers and academics investigating the implications of corporate governance mechanisms in improving firm performance, especially considering that it is the first of its kind to examine the effects of corporate governance on Moroccan firms. Furthermore, it is one of

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<sup>3</sup> Meaning “West” in Arabic, this is the region of North Africa bordering the Mediterranean, essentially comprising the Atlas Mountains and the coastal plain of Morocco, Algeria, Tunisia and Libya.

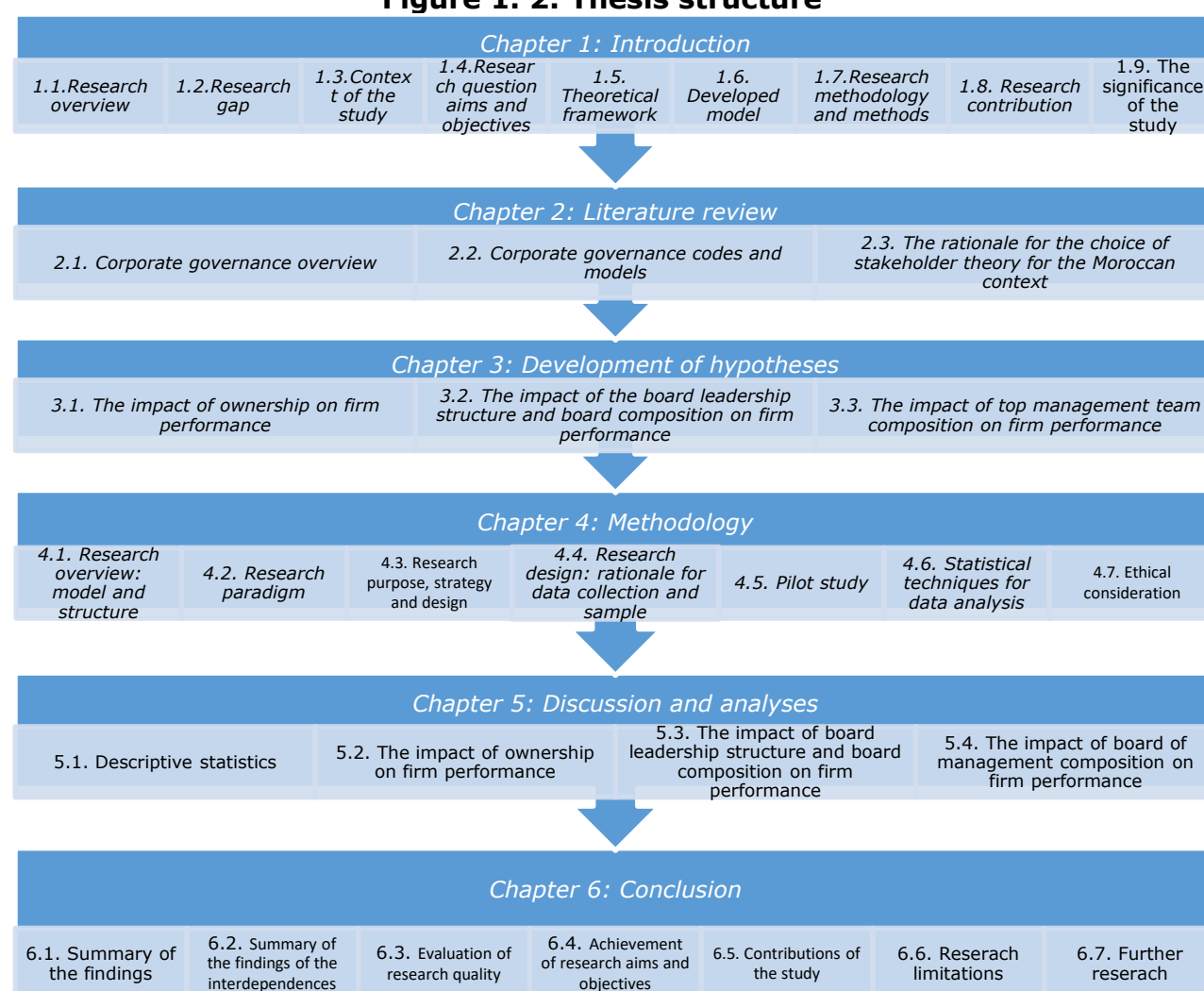
the very few to examine corporate governance practices in Morocco at all. It also represents one of a limited number of studies on governance in the MENA countries.

In general, this research study offers practitioners a comprehensive illustration of corporate governance practices within Morocco, presenting a clear view of the relationship between corporate governance mechanisms and firm performance in Morocco. It therefore, provides new insights and important primary evidence about a country that is considered representative of the MENA and Maghrib region.

## 1.10. Structure of the thesis

This thesis comprises six chapters. Figure 1.2 presents a graphical illustration of its structure.

**Figure 1. 2: Thesis structure**



Source: compiled by the author



The present chapter introduces the topic and provides the background to the study. It includes an outline of the research gap, and the context of the study. The research question, aim and objectives, as well as the developed model and hypotheses, are introduced in this chapter. The research methods provide a brief overview of the methodology adopted for this study. Its contribution to the current knowledge on corporate governance in the Moroccan context and its significance are also discussed.

Chapter 2 includes, in the first section, an overview of corporate governance concepts, the purpose of the firm, and corporate governance theories, with the aim of justifying the rationale behind the chosen concept, purpose and theoretical framework applicable to the Moroccan context. The second section includes a review of corporate governance codes and models with a particular focus on Morocco and the MENA region. The last section provides a rationale for the choice of stakeholder theory – specifically, “Islamic stakeholder theory” – as the guiding theory for this research while providing a historical overview of Morocco and the roles firms play in ensuring social welfare.

Chapter 3 synthesises existing empirical findings on the link between the determinants of corporate governance mechanisms and firm performance. It does so in three sections: the determinants of ownership, board leadership and boards of directors, and boards of management; this gives rise to various research hypotheses which are incorporated within the corporate governance research model available from Figure 1.1, “Corporate governance model”, p.25).

Chapter 4 consists of seven sections, the first three offering an overview of the Corporate governance model research model and structure, the methodology adopted for this research project and the relevant literature informing the choice. The fourth section describes the research design, data strategy and research sample. The fifth section includes the pilot study design and results. The sixth section elucidates the statistical models and techniques used for the analysis. The last part of this chapter sheds light on the research’s limitations and ethical considerations

Chapter 5 consists of four sections that provide an overview of the descriptive statistics as well as the inferential statistics. The first section offers an

overview of the descriptive statistics. The second, third and fourth sections include discussion and analyses of the findings for ownership, board composition and leadership and board of management composition respectively.

Chapter 6 includes a summary of the overall study. In particular, it provides an overview of the conclusions drawn about the relationship between corporate governance mechanisms and firm performance, and an evaluation of the achievement of research aims and objectives. The last four sections present discussions on the contribution, limitations, directions for future research, as well as a reflection on the author's personal journey in conducting this research.

# Chapter 2

## Literature Review

### Synopsis

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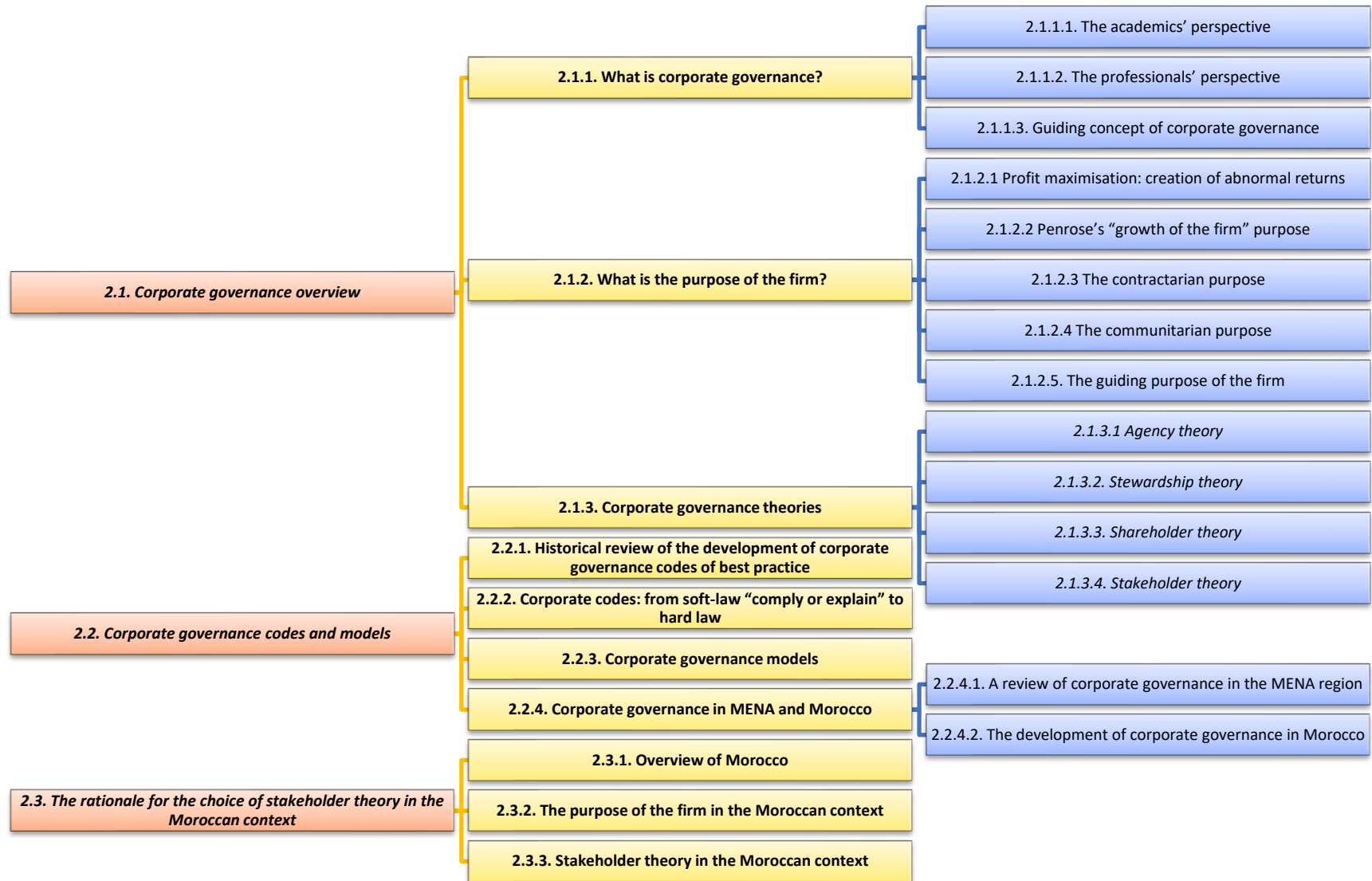
This chapter provides an overview of CG concepts, theories, models and codes.

This chapter aims to answer the following questions:

- What is CG?
- What is the purpose of the firm?
- What are the theoretical frameworks behind the development of CG?
- How has CG developed around the world? The focus here is on the development of CG in the MENA (Middle East and North Africa) region and specifically Morocco.

These questions are crucial to the orientation of this research study: their answers will provide a core understanding of CG and possible determinants for the measurement of CG impact on firm performance. This chapter is structured as follows. First, there is an overview of CG, which includes CG concepts, the purpose of the firm, and CG theories, with the aim of justifying the rationale behind the chosen concept, purpose and theoretical framework applicable to the Moroccan context. Second, a review of the development of CG codes and models around the world is provided, with particular attention being paid to the development of MENA codes and models, specifically in Morocco. Finally, the last section of this chapter sets the scene for the choice of stakeholder theory, specifically “Islamic stakeholder theory”, as the guiding theory for this research, while also providing a historical overview of Morocco and the roles firms play in social welfare. The full structure of this chapter is presented in Figure 2.1.

**Figure 2. 1: Structure of Chapter 2**



Source: compiled by the author

## 2.1. Corporate governance overview

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CG as a practice is as old as trade itself. And governance – in the context of government – is ancient. Chaucer (c. 1343–1400) was the first to use the word, and Shakespeare (1564–1616) understood the problem of governance: in *The Merchant of Venice* an agonised Antonio, the merchant, witnesses his ships sail out of sight with his fortune entrusted to others (Tricker & Tricker, 2015). Most of the literature recognises Adam Smith (1776) as the first to identify the agency problem: “being the managers rather of other people’s money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance”.

However, the actual term “corporate governance” was scarcely used before the 1980s (Tricker & Tricker, 2015), a decade in which Reaganite and Thatcherite market-driven growth-oriented policies championed shareholder value maximisation through the privatisation of state-run entities (Tricker & Tricker, 2015) – a model that resulted in a steep rise in the numbers of mergers, acquisitions and corporate collapses, imperilling the interests of other stakeholders, namely employees and communities (Tricker & Tricker, 2015; Levillain & Segrestin, 2018). Concerns about corporate social responsibility increasingly began to be heard (Tricker & Tricker, 2015; Levillain & Segrestin, 2018). This transitional period in the history of CG saw a myriad of theoretical explorations, the most prominent to emerge being agency theory (Fama & Jensen; 1983a, b), stakeholder theory (Freeman 1984; Freeman, Wicks, & Parmar, 2004), shareholder theory (Friedman, 1962, 1970) and stewardship theory (Donaldson, 1990; Donaldson & Davis, 1991). As a result of these developments, a debate has continued among CG scholars for more than 20 years now about the very purpose of the corporation, which is viewed as “the most important issue in corporate law” (Levillain & Segrestin, 2018).

With this background in mind, this section traces the evolution of the concept of CG, the purpose of the firm, and CG theories over the years. Section 2.2.3 focuses on those theories that are particularly relevant within the perspective of this research.

### 2.1.1. What is corporate governance?

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Corporate governance as a concept seems at first sight simple and unambiguous. However, when one seeks to alight on a single definition by reviewing the relevant literature, one is confronted with numerous concepts. The early-20th-century definition of CG differs entirely from that of the late 20th and 21st centuries, and this is because of the expansion from CG being a simple agency problem to broader concept wherein numerous stakeholders are involved (see further Section 2.3 on corporate governance theories). The notion of CG varies depending on whether one's standpoint is that of an academic or a professional, so this section focuses on providing an overview of the differences between CG concepts from academic and professional viewpoints.

#### 2.1.1.1. The academics' perspective

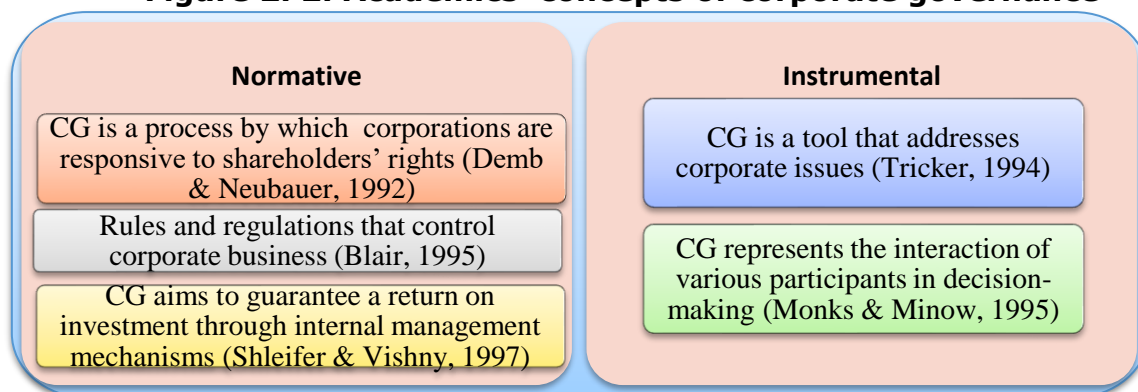
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Academics' conceptions of CG fall into two broad categories: normative and instrumental. The former involves the rules under which the firm operates and the regulations to which it needs to conform, such as the legal system, accounting rules, financial markets and labour regulations (Blair, 1995; Demb & Neubauer, 1992). As such, the normative approach is concerned with protecting the external investors from misappropriation by those inside (Shleifer & Vishny 1997). The normative approach differs from country to country: CG rules are not universal, and each country has its own rules and regulations (Claessens & Yurtoglu, 2012) – for instance, Sharia law plays an important role in shaping many aspects of life in Muslim countries, e.g. ethical and social practices, and criminal and civil jurisprudence (Lewis, 2005). The second category, the instrumental<sup>4</sup> aspect of CG, deals with the actual behaviour of the firm such as boards, executive compensation, shareholder roles and overall firm performance (Monks & Minow, 1995; Tricker, 1994). Figure 2.2 summarises the main differences between academics' viewpoints.

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<sup>4</sup> "Instrumental" means that, if certain practices are carried out, then certain results will be obtained.

**Figure 2. 2: Academics' concepts of corporate governance**



Source: Compiled by the author

Shleifer & Vishny (1997) associate CG with "the way suppliers of finance assure themselves of getting a return on their investment". Their concept endorses – in addition to the protection of shareholders' rights against misappropriation by insiders – a normative framework that regulates the relationship between shareholders and managers. Their concept remains very narrow in scope as it is highly shareholder-centric (Tricker & Tricker, 2015).

Demb and Neubauer (1992) and Blair (1995) approach CG from a broad normative aspect which includes all stakeholders. Indeed, Demb and Neubauer (1992) make a firm responsive to all its contractors, describing CG as "the process by which corporations are made responsive to the rights and wishes of stakeholders". Their definition was recognised by Tricker & Tricker (2015) as being stakeholder-inclusive. Blair (1995) links CG to the structure and the functioning of the board, describing CG as "the whole set of legal, cultural, and institutional arrangements that determine what public corporations can do, who controls them, how that control is exercised, and how the risks and return from the activities they undertake are allocated". Similarly, La Porta *et al.* (2000) define CG as a set of rules, regulations and mechanisms that protect external investors from expropriation by managers and insiders.

On the other hand, the approaches to CG of Monks and Minow (1995) and Tricker (1994) are both instrumental, but they diverge in purpose. Tricker (1994) classifies CG as an element that addresses the corporate issues that face boards of directors, i.e. "the interaction with top management and relationship with the owners and others interested in the affairs of the company, including creditors,

debt financiers, analysts, auditors and corporate regulators". Monks and Minow (1995), however, link the CG concept to the role of the relationship among various participants in determining a corporation's direction and performance. Monks and Minow's (1995) definition of CG was classified by Tricker & Tricker (2015) as one that regulates the relationship among stakeholders.

The academics' standpoint is either narrow in scope (shareholder-centric) or broad (stakeholder-inclusive) and is either normative or instrumental. From the academics' perspective, there is therefore no complete concept of CG that is inclusive of all aspects of CG.

#### 2.1.1.2. The professionals' perspective

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The professionals' interest in researching and defining CG was spurred by the successive corporate scandals of the late 20th century. Unlike that of the academics, the professionals' perception of CG is inclusive of numerous stakeholders as well as being simultaneously instrumental and normative (Cadbury, 1992; OECD, 1999, 2004). The concepts of CG of Cadbury (1992) and the Organisation for Economic Co-operation and Development (OECD) (1999, 2004) were classified by Tricker & Tricker (2015) as operational in the application of CG within the firm context. Tricker & Tricker (2015) notes that these definitions have formed the basis for much research into CG.

The Cadbury (1992) approach to the CG concept is inclusive of a large number of stakeholders. That report regards CG as a tool concerned with the alignment of all stakeholders' interests: individuals, corporations and society. Also, the report states that CG is concerned with the best use of resources by means of stewardship and accountability to the owners. The societal perspective of the Cadbury (1992) take on CG is supported by Tricker & Tricker (2015). The OECD (1999, 2004) further developed the concept of CG. A quite recent publication by the G20 and the OECD (2015) defines CG as the set of relationships between a company's management, its board, its shareholders, and other stakeholders. Also, they associate CG with the structure and process by which the objectives of the company are set, and the means of attaining those objectives and monitoring performance (OECD 1999, 2004; G20/OECD, 2015).



Despite the vagueness of the CG definition – the academic versus professional standpoints, being either “narrow” and limited to shareholder satisfaction or “broad”, serving the interests of all of stakeholders (Ntim, 2018) – there is nonetheless an underlying uniformity in the perception of CG, which is the eradication of corporate misgovernance and the promotion of good CG practice regardless of cost. As such, the adoption of sound governance principles should not be limited to the corporate sphere, but should apply to all societies and countries worldwide (Fernando, 2012).

In light of the above, it is crucial in this research to examine CG from a “broad” perspective (Ntim, 2018) in order to measure its effectiveness and its impact on Moroccan firm performance in the most appropriate way. This is because the exclusion of any one element as a determiner may lead to less accurate results. For instance, in analysing its performance, it is not possible to disassociate a firm from its external environment (national regulation, economic circumstances [e.g. recession]) because the latter can have highly significant effects. Therefore, the approach of this research to the CG concept is one of broad stakeholder inclusion and which is simultaneously normative and instrumental.

#### 2.1.1.3. Guiding concept of corporate governance

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This study of the impact of corporate governance on Moroccan firm performance adopts the CG concept as laid out in the G20/OECD Principles of Corporate Governance (2015, p. 9):

Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

The choice of this inclusive concept is further guided by the conservative Islamic nature of the country. Moroccan culture encompasses Islamic business ethics, which is based on the inclusion of all stakeholders (see further Section 2.3.3 on stakeholder theory in the Moroccan context).

The concept of CG adopted for this study sees CG and corporate social responsibility as one and underpins Islam in understanding governance (Murphy & Smolarski, 2018). Islam teaches that firms have moral obligations to society (Murphy & Smolarski, 2018), which is in line with Eijssbouts (2017, p. 186) who holds that a traditional, narrow concept of corporate governance as a set of norms, principles, and rules on the distribution of powers between management, supervision, and shareholders, must be understood more broadly. This broader view considers governance and CSR as an integral normative framework that adds to the narrow question of "who holds the reins?". This is also in line with the Moroccan Code of Corporate Governance (2008), being based on OECD guidelines.

### 2.1.2. What is the purpose of the firm?

*"For more than twenty years now, Corporate Governance scholars have hesitated between shareholder, director, and stakeholder primacy, making the purpose of the corporation "the most important issue in corporate law."*

*Levillain and Segrestin (2018, p. 1).*

In the early 20th century, with the UK and the USA reaping the benefits of the Industrial Revolution and rise of capitalism, early scholars formed a view of the firm based on profit maximisation (Alchian & Demsetz, 1972; Alchian, 1982; Bain, 1948, 1951, 1954; Schumpeter, 1950, Coase, 1937; Williamson, 1975). Over the years, scholarly contributions further advanced the Anglo-American capitalistic shareholder view, captured in Friedman's (1962) thesis of profit maximisation as the sole purpose of the firm. This perspective has survived into the present but attracts criticism from those who decry the idea of a firm as no more than a money-generating machine (Kanter, 2011, p. 11; Freeman, 2017).

Competitive pressure from emerging markets such as China, India and South America have challenged this narrow view of the firm (Porter & Kramer, 2011; Mahathir, 2012; Kay, 2011). Such challenges have failed to constitute a wake-up call, as developed markets continue to engage in short-selling of shares and currencies, sub-prime lending, securitisation, and leveraged investments through innovative financial products, i.e. hedge funds, derivatives and swaps (Mahathir, 2012). The desire for profit maximisation and the determination to optimise

short-term financial performance has not declined but in fact has become the driving force for firms over the last few decades (Porter & Kramer, 2011).

Friedman's (1962) narrow definition of the firm's purpose has become a mantra for world business, legitimised by market liberalisation policies (Tricker & Tricker, 2015). On the other hand, criticism of this has intensified, due to the greater incidence of boom-and-bust economic cycles (Schularick & Taylor, 2009) and the globalisation of capital and resources (Porter, 1990). Amidst these increasingly competitive and global pressures, the drive toward "responsible capitalism" (Cameron, 2012a; Freeman, 2017) highlights a need to review the purpose of the firm beyond that of profit maximisation.

While the narrow definition of the purpose of the firm has remained unchanged, the means of achieving it have. In the early 20th century firms were fighting for survival (Coase, 1937), whereas in the 21st century they have developed into conglomerate "modern corporations". This has resulted in the separation of management from ownership (Berle & Means, 1932; Fama & Jensen, 1983a,b; Roe, 1994), where boundaries have become an issue (Coase, 1937; Penrose, 1959). A firm's boundary is determined by ownership ("propriety right theory": Demsetz, 1967; Alchian & Demsetz, 1973; Kakabadse, Kakabadse & Kouzmin, 2011) and resources. While resources are determined within "transaction cost economics" (Coase, 1937; Williamson, 1975) as contractual factors, the "resource-based theory" (Pfeffer, 1972; Pfeffer & Salancik, 1978) also includes non-contractual factors in defining the boundary of the firm (Penrose, 1959). Within the theory of the firm, the concept of ownership and resources has received considerable attention with regard to a definition of boundaries (Holmstrom & Roberts, 1998).

Holmstrom & Tirole (1989) asserted that the theory of the firm must address two questions: why firms exist (their purpose) and what determines their scale and scope. Accordingly, this author proposes a two-dimensional matrix to explore the purpose of the firm (see Figure 2.3), which allows the purpose and the function of the firm to be summarised over time, based on the theories cited above. Sections 2.2.1–2.2.4 provide an overview of how the purpose of the firm has developed, based on the matrix in Figure 2.2.

**Figure 2. 3: The purpose of the firm**

Purpose	
Profit maximisation: the creation of abnormal returns	
Growth	
Function	Scope
	Scale
	<p><b>Creation of abnormal returns</b>  <b>Neoclassical perfect competition theory</b>  Production team–price theory  (Alchian, 1982; Alchian &amp; Demsetz, 1972)  <b>Bain, 1948, 1950, 1951, 1954</b>  Firms are restrainers of productive output through the exercise of collusive/monopolistic practice.  <b>Schumpeter, 1950</b>  Dynamics of competition–innovation  <b>Chicago (Kitch, 1983)</b>  Production and distribution efficiency (renaissance of neoclassical theory)  <b>Transaction cost economics</b>  (Coase, 1937; Williamson, 1975)  Avoiders of the costs of market exchange (the distinguishing feature of the firm is the supersession of the price mechanism (Coase) or opportunistic potential (Williamson))</p>
	<p><b>Penrose (1959, 2009)</b>  The firm is a collection of production resources, humans and non-human, under administrative coordination and authoritative communication which produces goods and services for the sale in the market.  Set firm bounds: the boundary of the firm is what it distinguishes it from the market.  Internal and external drivers of growth</p>
	<p><b>Contractarian</b>  The firm is a nexus of contracts: the ultimate goal is profit maximisation (Anglo-American model)  - <b>Financial theories:</b> Managerial hegemony (Berle &amp; Means, 1932), agency theory (Fama &amp; Jensen, 1983a, b) and shareholder theory (Friedman, 1962)  - <b>Partnership theories:</b>  Stewardship theory (Donaldson, 1990), transaction cost economics (Williamson, 1975) – an extension of Alchian and Demsetz (1972) where firms are combiners of input to produce end products</p>
	<p><b>Communitarian</b>  Ownership and equitable distribution of created wealth: Asia-Pacific and Continental European model  Stakeholder theory (Freeman, 1984; Blair, 1995)</p>

Source: compiled by the author

#### 2.1.2.1 Profit maximisation: creation of abnormal returns

Within the primary profit maximisation perspective (Friedman, 1962, 1970) there are five major schools of thoughts: neoclassical theories (Alchian, 1982; Alchian & Demsetz, 1972), the perfect competition model of industrial organisation (Bain, 1948, 1950, 1951, 1954), the Schumpeterian model (Schumpeter, 1950), the Chicago model (Kitch, 1983), and Coase and Williamson's transaction cost economics (Coase, 1937; Williamson, 1975, 1985, 1991, 2010). These schools do not differ with regard to the firm's fundamental goal which is to maximise profit,

but rather with regard to the primary means through which the objective is achieved. Each identifies a paramount problem affecting firm profitability that must be solved in order to achieve abnormal returns (Conner, 1991). The theories are summarised in Table 2.1 and further discussed in detail in this section.

**Table 2. 1: The creation of abnormal returns: five major theories of the firm from an industrial organisational economics perspective**

Neoclassical theories/schools of thoughts	Views of the firm	Limitations
<b>Neoclassical perfect competition theory (Alchian, 1982; Alchian &amp; Demsetz, 1972)</b>	<p><b>Firms are combiners of multiple inputs to produce an end product under the assumption that markets are perfect.</b></p> <p><b>Perfect competition</b> theory assumes that the right input mix can be readily ascertained, that resources are mobile, and that information is available and complete; also, it asserts that size and scope are not a problem.</p>	<ul style="list-style-type: none"> <li>- The markets are imperfect therefore, the idea of perfect competition is called into question: inputs are problematic to predict and combine, resources might be unavailable to purchase, and firm size and scope are important issues. Therefore, persistent performance differentials will exist.</li> </ul>
<b>Bain (Bain 1948, 1950, 1951, 1954)</b>	<p><b>Firms are restrainers of productive output through the exercise of collusive/monopolistic practice. This implies that the firm delivers persistent above-normal returns.</b></p> <p>Bain's (1948, 1950 1951, 1954) hypothesis of <b>structure-conduct-performance</b> is built on erecting entry barriers. Bain's hypothesis assumes that firm structure (vertical integration, product diversification and economies of scale) determines firm conduct (advertising and pricing) which in turn determines firm performance.</p>	<ul style="list-style-type: none"> <li>- Restraints of output and monopolistic/collusive practice to create entry barriers are not primary sources of persistent, abnormal returns, although it seems to have worked in the late 20th century (for rampant takeovers, see Section 2.3 on CG practices around the world)</li> <li>- Nefarious and unethical firm behaviour that occurs at the expense of consumers.</li> <li>- Governmental intervention to counter industrial concentration in the 1970s as a result of imperfect competition: huge corporations manipulated prices throughout the great depreciation.</li> </ul>
<b>Schumpeter (1950)</b>	<p><b>The firm is a seeker of new ways of competing</b></p> <p>Schumpeter's <b>dynamics of competition</b> vision assumes that innovation is the key to making rivals' positions obsolete and therefore creating abnormal returns.</p> <p>This reverses the presumption of Bain (1948, 1950, 1951, 1954) about the negative effects of monopoly on societal welfare.</p>	<ul style="list-style-type: none"> <li>- Inherently risky and costly</li> <li>- Limited to the possession of monopoly power: firms with a stronger monopoly are in a better position to develop revolutionary innovation</li> </ul>
<b>Chicago (Kitch, 1983, cited in Conner, 1991)</b>	<p><b>The firm exists to enhance production and distribution efficiency</b></p> <p>The Chicago response represents a renaissance of neoclassical price theory (Alchian, 1982; Alchian &amp; Demsetz, 1972) of market efficiency in enhancing welfare goals.</p> <p>The Chicago school supports some practices within the Bain (1948, 1950, 1951, 1954) monopolistic model: it provides an efficiency-based explanation of vertical integration and natural monopolistic practices.</p>	<ul style="list-style-type: none"> <li>- Short-term focus</li> <li>- Efficiency is limited to current products</li> <li>- Size and scope determine the extent to which production and distribution efficiencies are achieved.</li> <li>- Efficiency results from economies of scale which is only achievable for big firms.</li> </ul>

<p><b>Transaction cost economics</b>  <b>Coase (1937) and Williamson (1975)</b></p>	<p><b>Firms are economisers/avoiders of the costs of market exchange: markets are alternative methods for coordinating production and avoiding the costs of using market price mechanisms</b></p> <p>(Coase, 1937): Firms and market exchange are alternative methods for coordinating</p> <p>Williamson (1975) asserts that firms exist to avoid opportunism: this is conditioned by the avoidance of asset specificity, small numbers of potential contractors and imperfect information. Asset specificity imposes condition of dependence on the owner of specific asset. Reliance on small numbers of contractors reinforces this dependence. The imperfect information and prediction of later opportunism by contractors impair transactions. Thus, transactions between autonomous contracts will dominate once these are controlled for.</p>	<ul style="list-style-type: none"> <li>- A firm's borders are not determined (Coase, 1937)</li> <li>- It ignores the firm's ability to combine inputs and focus on opportunism</li> <li>- Klein &amp; Leffler (1981) opposed Williamson's opportunistic potential. They asserted that opportunism is not sufficient to cause resources to be owned jointly.</li> </ul>
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Source: compiled by the author inspired by Conner (1991)

First, the neoclassical approach (Alchian, 1982; Alchian & Demsetz, 1972) views the firm as a perfect *input combiner*, under an assumption of freely available and costless resource mobility and infinite input divisibility, which in the real world is hardly achievable. For instance, China controls 85% of the world's rare-earth metals (Zhou, Li, & Chen, 2017) and in 2016 55% of total world manufacturing production (UNIDO, 2018).

- Second, Bain (1948, 1950, 1951, 1954) assumed that abnormal returns could only be achieved through *monopolistic* and collusive practice. This was the distinguishing feature of business success in the late 20th century, and it resulted in significant changes, in the shape of government intervention to counter industrial concentration in the US in the 1970s. Presently, more than 120 countries have antitrust laws or competition enforcement authorities, with different goals and regulations (Yale Insights, 2016).
- Third, Schumpeter (1950) asserted that *innovation* is a core strategic choice in creating abnormal returns; he views the Bain (1948, 1950, 1951, 1954) monopolistic approach positively, in the sense that it could counter the risk of possible imitation and strengthen the position of the firm. His approach has been criticised because it is highly costly and limited to big corporations. It also has been investigated by many researchers (e.g. Cohen & Levin, 1989; Kamien & Schwartz, 1982), who found no conclusive evidence to support a link between industry concentration (a proxy for monopoly), firm size and innovation.

These findings are subject to controversy as new studies have found that innovation is key to survival and success in highly competitive markets (Kim & Maubourgne, 2005). The recent demise of big corporations such as Kodak (Wiles, 2012) and Nokia (Ciesielska, 2017) exemplifies the failure of companies to embrace innovation and new technologies. A study of the relationship between innovation and performance in 115 emerging countries found that a firm's propensity for innovation has a significant impact on improving its performance (Sipos & Ionescu, 2018). Nevertheless, in meta-analyses of 42 empirical studies based on 21,270 firms, the innovation–performance relationship in SMEs is found to be conditional to the firm's age, innovation type, and national cultural context



(Rosenbusch, Brinckmann, & Bausch, 2011). Thus, innovation is key to firm longevity.

Fourth, the Chicago production and distribution *efficiency theory* (Kitch, 1983) is a renaissance of the neoclassical model (Alchian & Demsetz, 1972; Alchian, 1982). It assumes that effective production and distribution is the key critical success factor in achieving above-normal returns. The Chicago (Kitch, 1983) view offers an efficiency-based explanation of the vertical integration and diversification of the Bain monopolistic view (Bain, 1948, 1950, 1951, 1954), focusing on differentials in producing and selling current products, which represent an entry barrier to new competitors. However, it fails to consider investing in new innovative products, which represents a threat as imitative entry could drive a firm into unprecedented losses. Current business strategies and practices combine both views within multiple strategic frameworks (e.g. the VRIN model, core competencies, SWOT, Porter's five forces, the BCG matrix) to establish a firm's strategic position, choice and implementation (Johnson, Scholes & Whittington, 2008). These frameworks are widely used in business and taught in business schools across the globe.

- Fifth, Coase (1937) and Williamson's (1975) transaction cost economics (TCE) assumes that abnormal returns can be achieved by avoiding market price (Coase, 1937) or through potential opportunities. Williamson (1975) assumes that markets have existed from the beginning, while Coase (1937) believes that the firm exists because markets fail ("suppression of market price"). Although Williamson and Coase's contributions are credited with introducing the theory of the firm, they have attracted much criticism within the literature (Conner, 1991).

Their view characterised the transition from communism to industrial market capitalism, from which point of view Williamson's (1975) statement that the market existed at the beginning is called into question because transactions in the past were managed through social relationships rather than markets (decentralisation) and/or hierarchy (central planning). This implies that there are other groups – government, associations, community – whose relationships were ignored (Conner, 1991). Similarly, Coase (1937) claims that economic transactions or the achievement of economies of scale in production is achievable

through the firm rather than the market, ignoring other groups (Turnbull, 1997). Also Williamson's (1975) opportunistic view that a firm can perform better through cost reduction, by holding informal contracts with business partners – suppliers and customers (relational contracts) – is called into question. Klein & Leffler (1981) criticised his view, arguing that autonomous contractors will seek to restructure their relationship in the long term to avoid diseconomies of management. This resulted in the appearance of a new type of business practice: franchise-tying contracts and exclusive contracts (Conner, 1991).

Williamson (2010) widened the application of TCE, arguing that all contracting issues could be examined to advantage in TCE terms. He asserted that all "vertical integration, vertical market restrictions, franchising, regulation and deregulation, labour market organisation, the organisation of work, corporate finance and CG, family firms, multinational firms, and the economics of trust" operations qualify for TCE. He further added that TCE provides "informative lenses with which to study complex economic organisation" from a contractual perspective. Tracing its roots to Coase (1937, 1960) and further developed by Williamson (1975, 1985, 1991, 2010), TCE theory is widely used on account of its broad applicability and the empirical work that it has produced (Williamson, 2016). Current reviews of TCE theory (Williamson, 2016) concern combining markets (decentralisation) and hierarchies (central planning), wherein economies of scale can be achieved through a combination of the disciplines of law, economics and organisation (Williamson, 2016). These ideas have been incorporated into contract law, CG, antitrust enforcement and regulations (Williamson, 2016).

Profit maximisation, as captured by shareholder theory (Friedman, 1962, 1970), remains the overriding goal for firms across the globe, with variation in its application according to the thoughts of previous scholars. Bain's (1948, 1950, 1951, 1954) monopolistic viewpoint and the neoclassical (Alchian, 1982; Alchian & Demsetz, 1972) abundance-of-resources view are close to becoming obsolete. The Chicago (Kitch, 1983) and Schumpeterian (Schumpeter, 1950) views have been reimagined and adapted to suit firms' needs. TCE (Coase, 1937; Williamson, 1975, 1985, 1991, 2010) continues to be widely used across firms to achieve economies of scale. Penrose's (1959, 2009) growth-of-the-firm vision is a

reconsideration of the purpose of the firm based on the profit maximisation schools of thoughts and is discussed in the next section.

#### 2.1.2.2 Penrose's "growth of the firm" purpose

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The pioneering work of Penrose (2009) expands the description of a firm from a simple set of supply and demand functions to that of an economic activity that is regulated by an administrative organisation. According to Penrose (1959, 2009), a firm is "a collection of production resources humans and non-human under administrative coordination and authoritative communication that produces goods and services for sale in the market for profit". In contrast to Coase's (1937) assumption of a firm's boundary-less institutional form, Penrose (2009) argues that the "boundary of the firm is what distinguishes it from the market". Also, Penrose (2009) assumes that *internal* attitudes and *external* conditions are determinant factors for firm growth. *Internal* factors include resources and management, which represent "core competencies" of the firm (Prahalad & Hamel, 1990). Penrose (2009) states that effective use and innovative combinations of firms' internal and external resources result in the creation of a source of competitive advantage (Porter, 1985, 2011). This, in turn, could contribute to firm expansion. Penrose (2009) asserts that there is no limit to firm size, only to its rate of growth. With this statement, Penrose (2009) captures both the Schumpeterian dynamics-of-competition *innovation* view (Schumpeter, 1950) and the Chicago production-and-distribution *efficiency* view (Kitch, 1983).

Moreover, Penrose (2009) recognises the importance of the TCE feature of economies of scale. Penrose describes the TCE (Coase, 1937; Williamson, 1975) view as the major factor in explaining the growth of firms in a market economy. In this sense, Penrose's work represents continuity from Coase's assumption about the reduction of transaction costs through internal firm *knowledge generation*. This also supports the Chicago production-and-distribution efficiency view (Kitch, 1983).

Penrose (2009) opposes pure profit maximisation as a firm's purpose, arguing that growth and profits move in the same direction. In other words, Penrose (2009) asserts that the sustainability of profit, in the long run, is a critical success

factor in the growth and expansion of the firm. Penrose's (2009) work represents a reinvention of the classical theory of resource creation (Joasby, 1999), and incorporates the neoclassical resource *coordination* approach (Alchian, 1982; Alchian & Demsetz, 1972), although falling short of acknowledging it directly. This is due to the neoclassical aspect of pure rent extraction: profit generation.

Similar to the Chicago assumption (Kitch, 1983), Penrose (2009) contradicts Bain (1948, 1950, 1951, 1954)'s monopolistic view, stating that it is not a growth factor. She points out that, once the firm has exploited to the full the opportunities of the monopolistic gains available to it, its protection barrier to entry against new competitors will fall unless it invests in its growth through innovation. Penrose (2009) argues that the profitability, growth and survival of the firm depend on its ability to gain competitive advantage and be innovative. Herein lies the basis for the longevity of the firm, which is predetermined mainly by its age and profitability (Panza, Ville & Merrett, 2018).

#### 2.1.2.3 The contractarian purpose

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The contractarian view sees a firm as a nexus of contractors (Jensen & Meckling, 1976) and regards it from a wealth creation perspective or, in other words, through the profit maximisation lens. The contractual view of the firm as nexus of contracts underpinning the theory of the firm has shaped modern finance theory, initially with its notorious market efficiency and capital asset pricing model (CAPM) (Sharpe, 1963; Treynor, 1961), which, according to Romano (2005), introduced a straightforward normative agenda for the maximisation of share prices. The theory of the firm eventually developed into the economics of the firm via TEC (Coase, 1937; Williamson, 1975) and agency cost (Jensen & Meckling, 1976) theories. It is believed that both theories derived from finance theory and were mathematised by economists (Bodie, 2011).

The contractual view is split into two groups: financial theories and partnership theories (Charreaux, 2000). According to Charreaux (2000), financial theories encapsulate shareholder theory (Friedman, 1962, 1970) and agency theory (Jensen & Meckling, 1976), whereas partnership theories involve TCE (Coase, 1937; Williamson, 1975) and stewardship theory (Donaldson, 1990; Donaldson &

Davis, 1991). These theories deal with the optimisation of profit maximisation through cost reduction via:

- Alignment of the costs resulting from conflicts of interest between stewards-agents and owners-principals: "agency theory/agency costs" (Jensen & Meckling, 1976). This creates a win-win position for both parties (stewardship theory) (Donaldson, 1990; Donaldson & Davis, 1991) and can be achieved through various channels of which the most prominent is managerial remuneration (Murphy, 1998) and share ownership (Jensen & Meckling, 1976).
- Reduction of transaction costs through TCE (Coase, 1937; Williamson, 1975).

Financial and partnership theories are at the heart of the shareholder theory that underpins shareholder capitalism and presumes loyalty to shareholders (Friedman, 1962, 1970) (these theories will be discussed in detail in Section 2.1.3 on corporate governance theories). The contractarian view of the firm as a nexus of contracts underpinning the theory of the firm focuses entirely on a firm's financial transactions, with very little attention paid to its strategic operations (Bodie, 2011) or moral and social obligations. Criticism of Jensen's earlier work engendered an "enlightened value maximization", which posits an "enlightened stakeholder theory" as a vision of the firm's purpose (Jensen, 2010), in which the author "accepts maximization of the long run value of the firm as the criterion for making the requisite tradeoffs among its stakeholders". The "enlightened value maximisation" proposed by Jensen (2010) lays the ground for the communitarian view discussed in the next section.

#### 2.1.2.4 The communitarian purpose

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While the contractual view revolves around profit maximisation, the communitarian view has emerged from an assumption of firm growth and the welfare of the society.

The communitarian "stakeholder context" has a long and rich history within the Abrahamic religions, including Islamic business practices (Al-Qaradawi, 1995), *Centesimus Annus*, Catholic social teaching (Abela, 2001), and ancient civilisations such as the Islamic golden age of merchant capitalism between the 8th and the 13th centuries (Banaji, 2003). Pope Innocent IV promulgated in the

12th century the creation of the fictional commercial entity the purpose of which was wealth generation and its equitable distribution for the wider good of the community (Kakabadse, Kakabadse & Kouzmin, 2011). However, concerns about ownership and equitable distribution of wealth go back as far as the dispute between Joseph's coat and Jacob's inheritance in the *Torah (Old Testament)*. (Kakabadse, Kakabadse & Kouzmin, 2011). This is a debate that continues to the present day.

Stakeholder theory as we know it has its basis in the ancient civilisations mentioned above (Freeman, 1984), but the modern formulation of the concept emerged in 1963 from the Stanford Research Institute and was later developed by Freeman (1984). Freeman, Wicks, & Parmar (2004) stated that organisations have stakeholders, namely "groups and individuals who can affect, or are affected by, the achievement of an organisation's mission" (for more on stakeholder theory, see Section 2.1.3.4). This revolutionary statement represented an alternative view to shareholder capitalism and a real challenge to the neoclassical (Alchian, 1982; Alchian & Demsetz, 1972) and Chicago (Kitch, 1983) schools of thought.

Freeman (1984) included those external stakeholders who do not necessarily have a direct relationship with the firm but still impact or are impacted by its operations. Evans and Freeman (1988) stated that "the very purpose of the firm is to serve as a vehicle for coordinating stakeholder's interests". Similarly, Kakabadse, Kakabadse and Kouzmin (2011) stated that the purpose of the firm is to "create wealth or value for its stakeholders by converting their stakes into goods and services". As such, the stakeholder approach, or so-called stakeholder capitalism (Freeman, 2017), is an ally of the Penrose (2009) growth view, as both visions support the creation of positive value that incorporates profits and promotes societal welfare by engaging with the continual and responsible growth of the firm. The stakeholder approach of responsible capitalism (Freeman, 2017) is the behavioural platform supporting the Continental European and Asia-Pacific systems as well as those of many of the Muslim-dominated countries in the MENA region (Dsouli, Khan & Kakabadse, 2012).

Some of the outstanding companies identified by Kanter (2011, p. 11) and Collins and Porras (1994) offer good examples of embracing the communitarian view of responsible capitalism (Freeman, 2017): companies within both of these studies have put humans at the centre of their activities to create common good (Alford & Naughton, 1997) and have simultaneously thrived as businesses. For instance, Kanter (2011, p. 11), in her study of 20 admired and successful firms from four continents, notes that these companies “believe that business is an intrinsic part of society, and like the family, government, and religion, has been one of its pillars for centuries”. These firms work to make money while building durable institutions. According to Kanter (2011, p. 11), the 20 outstanding firms examined all operate on “institutional logic”<sup>5</sup> which combines six societal and human values as decision-making criteria. Similarly, Collins and Porras (1994), the authors of *Built to Last*, found that firms with a purpose that goes beyond profit maximisation perform much better than their financially focused peers, 50% of which went bad or even bankrupt. This, in turn, suggests that communitarian assumptions – which assert that business growth and profit go hand in hand, and which prioritise growth over profit and include societal and human value – are the key elements to a firm’s sustainable evolutionary growth process (Dsouli & Kakabadse, 2012).

#### 2.1.2.5. The guiding purpose of the firm

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As we have seen, over the years notions of the purpose of the firm have been underpinned by profit maximisation (Friedman, 1962), the “growth of the firm” (Penrose, 1959, 2009) and attempts to resolve the agency problem (Jensen & Meckling, 1976), and these ideas have persisted to this day. However, at the time when Jensen and Meckling (1976) introduced their “nexus of contractors” theory of the firm, the US was emerging from the Great Depression in the 1930s, and only a decade ago we seemed to have reverted to the starting point with the global financial crisis. Therefore, as a safeguard against future global recession, the purpose of the firm needs to be reconsidered (Dsouli & Kakabadse, 2012). The competing theories we have looked at – the contractual context of the firm

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<sup>5</sup> The six societal and human value decision-making criteria of Kanter’s “institutional logic” are: common purpose; a long-term view; emotional engagement; community building; innovation; and self-organization (Kanter, 2011, p. 11).

(Jensen & Meckling, 1976) driven by the profit maximisation school of thought (TCE) (Coase, 1937; Williamson, 1975), stewardship (Donaldson, 1990) and the neoclassical schools (Alchian & Demsetz, 1972; Alchian, 1982; Kitch, 1983; Bain, 1948, 1950, 1951, 1954; Schumpeter, 1950) – fail to fully comprehend the social nature of contracts and the reality of the human dimensions within them (Smith, 1933; Tudway, 2001; Fontrodona & Sison, 2006), and fail to distribute wealth equitably (Kakabadse, Kakabadse & Kouzmin, 2011).

In recent decades, this has led to the growth of corporate social responsibility (CSR) and a more systematic consideration of business ethics (Freeman, 1991; Donaldson & Dunfee, 1994), receiving considerable attention in academic circles and the popular press (Archie & Kareem, 2010; Lindgreen & Swaen, 2010). However, the latest crisis of capitalism (*Financial Times*, 2011) has demonstrated that social responsibility is still seen as a peripheral rather than core issue (Porter & Kramer, 2011). In response, Jensen (2010) has called for “enlightened value maximisation” and Freeman (2017) “responsible capitalism”. There is a clear appetite for developing a new “teleology of the sustainable purpose of the firm” (Boxhaul, 1984; Hill, 1998; Tudway, 2001, Fontrodona & Sison, 2006; Kakabadse, Kakabadse & Kouzmin, 2011).

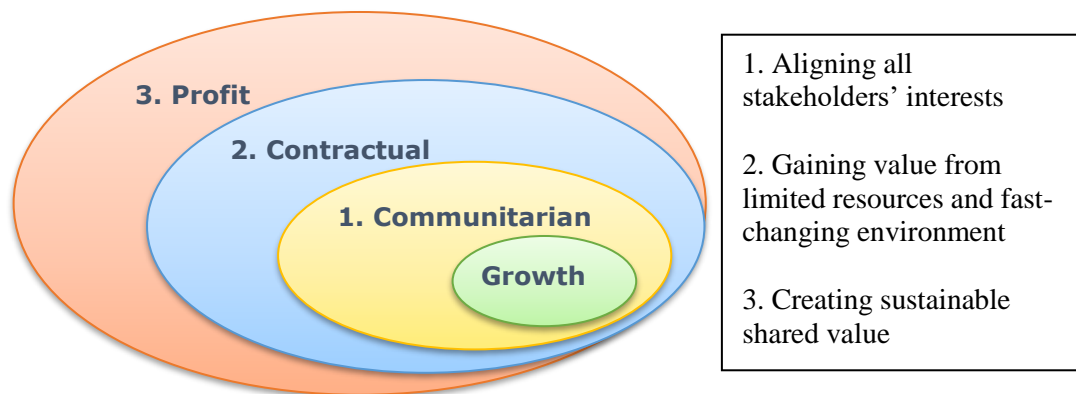
Dsouli and Kakabadse (2012)’s “teleology of the sustainable purpose of the firm” proposes that firm performance must go beyond profit maximisation in order to bring business and society back together (Porter & Kramer, 2011) and must position social value at its centre. Firms should prioritise “value creation” (Penrose, 2009) and societal welfare (Al-Qaradawi, 1995, Centesimus Annus, 1991) in order to achieve sustainable shared value (Porter & Kramer, 2011), instead of creating profit per se (Kakabadse, Kakabadse & Kouzmin, 2011) and serving minority interests, namely shareholders and managers (Sternberg, 1997; Barry, 2002; Henderson, 2005; Fontrodona & Sison, 2006). This is in line with Levillain and Segrestin (2018)’s “shareholder commitment” model, which fosters companies’ responsibility for securing both “shareholders’ and directors’ commitment towards a broader purpose”, one that involves either social or environmental responsibility.



According to Dsouli and Kakabadse (2012), the contractual context of the agency problem identified by Jensen and Meckling (1976) should be reformulated to consider a firm as a community of persons each of whom is endowed with unique dignity (i.e. ends in themselves), rather than a nexus of contractual relationships, where people are a means to an end, namely profit maximisation (Fontrodona & Sison, 2006; Jensen, 2010). There is a need to revise Friedman's (1970) shareholder theory to include, for instance, the creation of sustainable shared value in pursuit of "responsible capital" (Freeman *et al.*, 2010; Freeman, 2017). Additionally, the stakeholder approach (Freeman, 1984; Freeman *et al.*, 2010) – the "bedrock of all business theories" (Al-Qaradawi, 1995; Centesimus Annus, 1991) – needs to incorporate all stakeholders, not just those with material connections with the firm (Fontrodona & Sison, 2006).

This research adopts the "teleology of the sustainable purpose of the firm" (Dsouli & Kakabadse, 2012), which is based on the framework of the sustainable evolutionary growth process of the firm (Figure 2.4). Dsouli and Kakabadse (2012)'s view of firm purpose puts growth at the heart of the firm's priorities, permitting the firm to achieve sustainable shared value while also protecting, through contracts, the interests of all its stakeholders in a fast-changing environment with limited resources (Pitelis & Teece, 2009). The rationale for the choice of the "teleology of the sustainable purpose of the firm" is in line with the teaching of Islamic CG in which firm decision making involves core stakeholders ((i.e., employees, customers, suppliers, shareholders, and the local community) as well as nongovernmental organizations (NGOs), and Shariah scholars within the firm, corporate governance structure to enhance firm responses to stakeholder concerns and priorities, while mitigating interstakeholder and intraboard power asymmetries (Murphy & Smolarski, 2018, p. 1). Thus, Islamic CG posits that "large firms within Muslim majority countries have the moral obligation to assist governments in addressing challenges related to sustainable socioeconomic development and in advancing human rights" (Murphy & Smolarski, 2018, p. 1). As a Muslim-dominated country, Morocco is an ideal subject to illustrate the teleology of the sustainable purpose of the firm (Dsouli & Kakabadse, 2012, p. 5).

**Figure 2. 4: The sustainable evolutionary growth process of the firm: a framework**



Source: Dsouli and Kakabadse (2012), adapted for this context by the author

The emergence of new forms of firms in the US under the names of “benefit corporations”, “public benefit corporations”, “social purpose corporations” (Alexander, 2017; Clark Jr & Babson, 2011; Hiller, 2013; Rawhouser, Cummings, & Crane, 2015; Reiser, 2012) or “profit-with purpose corporations” (PPCs) (Prior, Cohen & Fox, 2014) is evidence of a move to embrace the teleology of the sustainable purpose of the firm (Dsouli & Kakabadse, 2012). Besides being in line with Islamic CG teaching (Murphy & Smolarski, 2018), the engagement of most of Moroccan companies (SMEs and family-owned) with CSR (Elbaz *et al.*, 2012; Elbaz & Laguir, 2014) illustrates their commitment to the teleology of the sustainable purpose of the firm and further supports the rationale behind its choice as a guiding purpose for this study.

### 2.1.3. Corporate governance theories

A large number of CG theories exist, with various perspectives for understanding the issues (Tricker & Tricker, 2015). However, a survey of existing CG theories undertaken by Hawley and Williams (1996) on behalf of the OECD, in the US context, identified just four, which are: agency (simple financial model) (Fama & Jensen, 1983 a,b), stewardship (Donaldson, 1990; Donaldson & Davis, 1991), stakeholder (Freeman, 1984, 1991; Freeman, Wicks, & Parmar, 2004) and political theories (Turnbull, 1997). Political theory (Turnbull, 1997) revolves around the allocations of corporate power, privileges and profits among owners,

managers and stakeholders; stakeholder theory has absorbed this theory. In turn, stakeholder theory gained particular ground in the aftermath of the scandals of the 2000s and the 2008 global financial crisis. Today, agency, stewardship, shareholder and stakeholder theories are the leading CG theories and have been extensively researched within the CG literature (Ahmad & Omar, 2016; Htay, Salman & Meera, 2013), forming the heart of core CG textbooks (Solomon, 2007; Tricker & Tricker, 2015) in relation to their contribution to firm performance enhancement. Table 2.2 provides a summary of the CG theories and includes influential authors for each theory, the concept, the theories' use in investigating their influence on firm performance, the purpose of the firm that each theory serves, their role in CG research and suggested mechanisms or what the author has identified in this thesis as determinants for CG best practice.

**Table 2. 2: Corporate governance theories**

Theory	Influential author/year	Concepts	Influence on firm performance	Firm purpose	Role of CG	Suggested mechanism/determinants
Agency principle (trust law model)	Blackstone (1765/1991) Harris (1994)	Owners and managers have different interests.	Merged into agency theory			
Agency principle (case law model)	Blackstone (1765/1991) Harris (1994)	Owners (principals) and managers (agents) have different interests. Agency theory mainly deals with the forestalling of conflicts of interest and reduction of agency cost through mechanisms.	Yes, wide	Contractual/profit maximisation	Control/compliance and conformance	Financial performance: profitability
Managerial hegemony theory Principal-agent or agency theory (financial model)	Berle & Means (1932) Jensen & Meckling (1976) Fama & Jensen (1983 a, b)					
Resource dependency theory	Pfeffer (1972) Pfeffer & Salancik (1978)	Stakeholders who deliver specific resources to the firm that reduce uncertainty in meeting strategic performance. Forming alliances with stakeholders allow the firm to thrive.	Moderate	Contractual/growth	Control	Financial/growth/social
Institutional theory	Meyer & Rowan (1977) Later developed by DiMaggio & Powell, (1983) and Gimžauskienė & Klovienė (2008)	Institutions are subject to isomorphic pressures (pressures towards homogeneity and conformity). The pressures take three forms coercive isomorphism, mimetic isomorphism and normative isomorphism.	Moderate	Contractual/profit maximisation	Compliance and conformance	Financial efficiency/board role/ strategic orientation
Stewardship theory	Donaldson (1990)  Donaldson & Davis (1991)	Owners and managers share interests – they are partners. Stewardship theory refers to managers as stewards of company assets and holds the stewards responsible for acting in the best interests of shareholders.	Yes, wide	Contractual/profit maximisation	Supportive Create a win-win position/add value and partnership	Profitability and CSR
Transaction cost economics	Coase (1973)  Williamson (1975, 1985, 1991, 2010)	Owners and managers share interests – they are partners. Stewardship theory. Transactional costs reduction	Limited	Contractual/profit maximisation	Governance structure	Profitability
Shareholder theory	Alchian & Demsetz (1972), Cornish & Clark (1989), Friedman (1962, 1970)	The shareholder theory is associated with the primary goal behind shareholders' initial investment, which is that of doing business and making profits.	Yes, wide, from the agency theory perspective	Contractual/profit maximisation	Compliance and conformance	Financial performance: profitability
Democratic theory (political theory)	Turnbull (1997)	Political theory revolves around the allocations of corporate power, privileges	Absorbed by stakeholder theory			

Stakeholder theory	Freeman (1984)  Freeman, Wicks & Parmar (2004)	and profits among owners, managers and stakeholders. "Groups of individuals who can affect, or are affected by, the achievement of an organisation's mission." "Groups who are vital to the survival of the organisation."	Yes, wide	Communitarian/ growth	Compliance and conformance	Financial/ growth/ social
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Source: Kakabadse *et al.* (2002; 2010), adapted for this context by the author

Agency principle (trust law model) (Blackstone 1765, 1991; Harris, 1994), agency principle (case law model) (Blackstone 1765, 1991; Harris, 1994) and managerial and hegemony theory (Berle & Means, 1932) merged into the principal-agent or agency theory (financial model) (Jensen & Meckling, 1976; Fama & Jensen, 1983a,b). Agency theory has influenced much of the research into CG and has been widely used to investigate the link between CG and firm performance (e.g. Kouki & Guizani, 2015; Turki & Sedrine, 2012; Soliman, 2013; Sur, Lvina & Magnan, 2013; Al-Saidi, 2013; Al-Ghamdi & Rhodes, 2015). Agency, stewardship and shareholder theories complement one another. While research focuses on agency theory, it refers to agency problems (Fama & Jensen, 1983a,b), the absence of good stewardship (Donaldson, 1990; Donaldson & Davis, 1991) and the maximisation of shareholder wealth (Shleifer & Vishny, 1997) under the assumption of protecting shareholder primacy (Levillain & Segrestin, 2018). Agency theory is the only theory that allows us to examine the three CG lenses of control, conformance and compliance.

Institutional theory (Meyer and Rowan, 1977; Frendland & Alford, 1991) implies that that institution are subject to isomorphic pressurises (pressures towards homogeneity and conformity). These pressures take three forms: coercive isomorphism, mimetic isomorphism and normative isomorphism (DiMaggio & Powell, 1983; Gimžauskienė & Klovienė, 2008). Accounting standards, financial legislation and socioeconomic-political institutions (e.g. ISO and the UN) are sources of coercive isomorphism. CG codes are also good examples of this (Baeten, Balkin & Van den Berghe, 2011). Mimetic isomorphism, as its names indicates, consists of imitation of other organisations' best practices (Baeten, Balkin, & Van den Berghe, 2011). Normative isomorphism consists of adhering to the practices of professional institutions, consultants and educational research (DiMaggio & Powell, 1983; Gimžauskienė & Klovienė, 2008). Institutional theory allows an analysis of CG from compliance and conformance perspectives. It has been investigated in the context of executive compensation (e.g. Bruce, Buck & Main, 2005; Buck & Shahrim, 2005; Baeten, Balkin & Van den Berghe, 2011) and the appointment of outside directors (Peng, 2004).

Resource dependency theory (Pfeffer, 1972; Pfeffer & Salancik, 1978) consists of forming alliances with stakeholders who could potentially deliver specific

resources to the firm to reduce uncertainty in the operating environment (Berman, Phillips & Wicks, 2005) and meet strategic performance goals. For instance, the appointment of external board members, interlocking directorships (Muth & Donaldson, 1998) and the appointment of CEOs (Finkelstein, Hambrick & Cannella, 2009) can decrease environmental uncertainties as directors/CEOs are likely to bring skills, experience, knowledge and social ties to the board that add economic value to the firm. Resource dependency theory has been principally investigated to study the link between firm performance and CG through the control lens: for instance, regarding CEO compensation (Baeten, Balkin & Van den Berghe, 2011; Peng, Sun & Markóczy, 2015) and board interlocks (Zona, Gomez-Mejia & Withers, 2018).

TCE (Coase, 1973; Williamson, 1975, 1985, 1991, 2010) is about achieving economies of scale by combining markets (decentralisation) and hierarchies (central planning) (TCE theory was discussed extensively in Section 2.1.2.1). TCE has influenced CG through the promotion of CG structures, in that TCE ideas have been incorporated into contract law, CG, antitrust enforcement and regulations, through a combination of legal, economic and organisational disciplines (Williamson, 2016).

Stakeholder theory (Freeman, 1984, 2017; Freeman, Wicks, & Parmar, 2004), which consists of the promotion of value creation for shareholders and welfare for society, claims that each stakeholder has a stake in the business and that all stakeholders should derive benefit from the company. This is in line with the underlying concept of the communitarian purpose of the firm (Kakabadse, Kakabadse & Kouzmin, 2011). Stakeholder theory has been primarily researched from a CSR perspective. Much of the research has focused on the impact of CG on CSR, investigating multiple aspects of CG such as remuneration, board composition and ownership (Jain & Jamali, 2016). Thus, much of the research with a stakeholder perspective focuses on compliance and conformance.

With regard to the elements cited above, this research focuses on the leading theories of CG, namely: agency (Jensen & Meckling, 1976; Fama & Jensen, 1983a,b), stewardship (Donaldson, 1990; Donaldson & Davis, 1991), shareholder (Friedman, 1962, 1970) and stakeholder (Freeman, 1984; Freeman, Wicks, &

Parmar, 2004). This research provides a review of the four theories with the aim of justifying the theoretical framework – the guiding theory for this study.

### 2.1.3.1 Agency theory

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Agency theory traces its origins back to 1776 when Adam Smith mentioned for the first time the problematic situation of the separation of ownership from management. Although theories about the separation of ownership and management have a long pedigree – the agency principle (trust law model) (Blackstone, 1765, 1991; Harris, 1994), agency principle (case law model), (Blackstone, 1765, 1991; Harris, 1994) and managerial hegemony (Berle & Means, 1932) – they came to prominence only when Jensen and Meckling fully developed agency theory in 1976. They demonstrated a potential conflict of interest between managers (agents) that hold no financial shares in the firm and shareholders (principals). Since that time, economists have worked in great number to understand, define, measure and minimise these conflicts, and counter their negative impact on firm performance (e.g. Fama, 1980; Grossman & Hart, 1983; Fama & Jensen, 1983 a, b).

The nature of these conflicts of interests is that: while shareholders' interests mainly relate to the increase of share value, management interests go beyond enhancement of firm performance to include fulfilment of a desire for recognition, power, and thrill of the challenge (Buchanan, 2017). This has resulted in many cases of managers pursuing these benefits in preference to shareholders' interests (Denis, 2001; Buchanan, 2017). Agency theory is a control-based theory, whereby managers, by virtue of their firm-specific knowledge and managerial expertise, are in an advantageous position, with the owners completely removed from the firm's operational aspects (Dalton *et al.* 1998). This information asymmetry between managers (CEOs) and shareholders has led to instances among major world firms (e.g. Lehman Brothers) of expropriation of wealth and misappropriation of assets by managers (CEOs) through fraudulent practices, and corporate scandals brought about by excessive risk-taking in pursuit of generous remuneration packages (Buchanan, 2017).

Agency costs also comprise a problematic area of agency theory, being related to those operational and non-operational management expenses that



shareholders accept in principle but may find too high in reality if they exceed certain limits. Agency costs could include such perks as apartments, games of golf, corporate jets or plush offices (Denis, 2001). The agency costs issue receives less attention in the literature than agency theory (e.g. Ang, Cole & Lin, 2000; Singh & Davidson, 2003; Fleming, Heaney & McCosker, 2005).

To address the agency problem, various mechanisms have been recommended by agency theorists for the effective monitoring of management. These include: the board of directors and mutual monitoring among managers (Fama, 1980; Fama & Jensen, 1983b); direct managerial share ownership (Jensen & Meckling, 1976); variable manager remuneration schemes (Murphy, 1985); a supervisory role played by major shareholders (Demsetz & Lehn, 1985); debt financing (Jensen, 1986); a market for corporate control (Grossman & Hart, 1980); the managerial labour market (Fama, 1980); the product market (Hart, 1983); the appointment of outside directors (Dalton *et al.* 1998); and the separation of the CEO and chairperson roles (Boyd, 1995; Dalton & Dalton, 2011; Dey, Engel & Liu, 2011). In pursuit of a solution to the problem, the introduction of CG mechanisms has resulted in a proliferation of CG good practices across the world (Cuomo, Mallin & Zattoni, 2016).

Corporate scandals and the negative global consequences deriving from a corporate environment characterised by faceless investors (Child & Rodrigues, 2003 b), dormant shareholders and passive institutional investors (Cremers, 2017) have resulted in agency theory taking on a new dimension in comparison to how it was originally conceived. As a consequence, CG has come to include new CSR reporting measures, the introduction of stakeholder representatives on boards (Huse & Rindova, 2001) and, more recently, accounting for stakeholder value (Mitchell *et al.*, 2015). Yet corporations remain subject to fraudulent financial statement manipulation and compromised audit checks, of which the most recent instance is the Tesco scandal of 2015 (*Telegraph*, 2018).

#### *2.1.3.2. Stewardship theory*

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Jensen and Meckling's (1976) interpretation of the firm as a "nexus of contracts" for wealth creation is the result of agency cost savings (Coase, 1991; Jensen, 1986; Ang, Cole & Lin, 2000). The short-term opportunistic behaviour of

managers (Smith, 1776; Klein, Crawford & Alchian, 1978; Williamson, 1975, 1985; Grossman & Hart, 1986) and the impossibility of designing “complete contracts”<sup>6</sup> (Maher & Andersson, 1999) weakens the institutional sovereignty of the theory of the firm, as developed by the neoclassical scholars (Coase, 1937; Jensen & Meckling, 1976; Fama & Jensen, 1983a,b; Williamson, 1975, 1985; Aghion & Bolton, 1992; Hart, 1995). As a remedy, stewardship theory emerged (Donaldson, 1990; Donaldson & Davis, 1994; Davis, Schoorman & Donaldson, 1997 a, b) to address the agency problem and realign shareholder interests with those of managers through incentive mechanisms such as direct managerial share ownership (Jensen & Meckling, 1976) and variable incentivised managerial remuneration schemes (Murphy, 1998). Stewardship theory identifies managers as good stewards rather than just agents pursuing their self-interest over that of the owners: “Stewardship theory argues that managers are good stewards to the corporation and diligently work to attain high levels of corporate profit and shareholder returns” (Donaldson & Davis, 1994).

Davis and Donaldson (1997) propose stewardship theory as an alternative to agency theory (Jensen & Meckling, 1976; Fama & Jensen, 1983a,b). Their argument assumes that, in the absence of conflicts of interest between agents and principals, the specific reason for the existence of agency theory would disappear. Albanese, Dacin and Harris (1997) strongly criticised the work of Davis and Donaldson (1997), claiming that the latter confused agency theory with the agency problem. Albanese, Dacin and Harris’s (1997) assertion was based on Eisenhardt’s (1989) assumption, which posits that agency theory presumes an organisational conflict of goals between principals and agents rather than a human self-interest conflict. Eisenhardt (1989) departed from the majority of scholars who associated the agency problem with a conflict of human self-interests (Jensen & Meckling, 1976; Fama & Jensen, 1983b; Jensen, 1993).

Davis, Schoorman and Donaldson (1997a) criticised Albanese, Dacin and Harris’s (1997) proposition as being weak, as Eisenhardt’s (1989) assumption was based on Perrow’s (1986) work which was critical of agency theory. Davis, Schoorman and Donaldson (1997b) and Albanese, Dacin and Harris (1997) eventually agreed on a convergence of stewardship and agency theory, stating

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<sup>6</sup> It is impossible to formulate contracts that cover all future contingencies of conflicts of interest between the firm and its contractors, particularly agents (Maria and Andersson, 1999).

that, if stewardship was examined against agency theory, it would lose its explanatory power if stewards act irrationally and prefer their interest over that of principals. Based on this argument, they concluded that a more complete agency theory is a combination of agency theory and stewardship theory with a reserve on the particularity of the fundamental assumption behind each theory (Davis, Schoorman & Donaldson, 1997 a, b; and Albanese, Dacin & Harris, 1997).

However, rather than rebalancing the agency problem, stewardship theory has exacerbated it (Murphy, 1985; Barro & Barro, 1990; Hall & Liebman, 1997; Ezzamel & Watson, 1997; Yermack, 1997), giving rise to managerial capitalism (Marris, 1964; Chandler, 1977, 1984; Martin & Moldoveanu, 2003). As a consequence, executive pay has been augmented, as managers, rather than owners, appear to have greater control in determining the fate of the firm (Jenkins, 2012). Executive pay has reached a peak within the last decade in the UK, for instance<sup>7</sup> (*Guardian*, 2010): a significant cause for concern within the last banking crisis (Cameron, 2012b). As a result, “say on pay” or binding vote legislations were introduced to counter excessive pay around the world (Thomas & Van der Elst, 2014).

#### 2.1.3.3. Shareholder theory

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Shareholder theory is derived from a combination of agency and stewardship theory (Kakabadse & Kakabadse, 2001). Its premise is based on the classical view of the corporation which asserts that “There is one and only one social responsibility of business – to use its resources to engage in activities designed to increase its profits as long as it stays within the rules of the game, in effect, open and free competition without deception and fraud” (Friedman, 1962; Demb & Neubauer, 1992; Kakabadse & Kakabadse, 2001). Similarly, McCloskey (1998) argued that the maximisation of shareholder value is the ideology *par excellence* of economists. Sundaram and Inkpen (2004) stated that the goal of maximising shareholder value is the only appropriate one for managers in the modern corporation.

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<sup>7</sup> FTSE 100 companies’ top executives’ pay rose by more than 160% between 2000 and 2010. Britain’s bosses’ pay rose by 55% between 2009 and 2010 and only a 1.5% drop was registered among the FTSE 100 top chief executive officers during the peak of the recession between June 2008 and 2009 (*Guardian*, 2010).

Such an ideology advocates the preference of shareholders' rights over those of other groups but not at the expenses of other groups. Freeman, Wicks, & Parmar (2004) claims that that firm performance creation underpins shareholder wealth creation; in his argument, morality and value creation go hand in hand. Any proposition to oppose shareholder and stakeholder theories is now redundant (Jones & Wicks, 1999), especially in the aftermath of the early-21st-century corporate scandals (e.g. Enron, WorldCom and Xerox).

Venkataraman (2002) asserts that the stakeholder approach allows a better assessment of entrepreneurial risk as more stakeholders are engaged in the risk appraisal process, which makes strategy implementation a natural process. With reference to Figure 2.3 concerning the purpose of the firm, here business profitability and business sustainability diverge; indeed, firms that aim to create value for their shareholders thrive in the short term but fail to maintain profitability in the long term – something endemic to boom-and-bust cycles (Schularick & Taylor, 2009). Firms that plan for sustainability and growth (e.g. Merck, Johnson & Johnson and 3M) will find success, as their purpose includes all stakeholders' interests including creating wealth for shareholders. Freeman et al. (2010) claims that, if Friedman were alive today, he would have agreed with the stakeholder capitalism approach. As such, stakeholder theory proposes a kind of capitalism that is more inclusive and comprehensive in the creation of wealth and in safeguarding the interests of a wider range of stakeholders as well as creating common good (Freeman, 2017). This is in line with Levillain and Segrestin's (2018) "shareholder commitment" model, which fosters companies' responsibility in securing both shareholders' and directors' commitment towards a broader purpose.

#### *2.1.3.4. Stakeholder theory*

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For almost 38 years the theoretical stakeholder approach to understanding the governance of the firm has been a powerful heuristic device, intended to broaden the management- and shareholder-centric vision of profit maximisation to include the creation of value for non-stockholding groups. Stakeholder theory is basically about how business can work effectively in the best interests of all stakeholders (Freeman *et al.* 2010). Stakeholder theory has evolved to solve the problems of:

first, value creation and trade, and the effectiveness of business management in achieving the same; second, the ethics of capitalism, in that business managers should act in the best interests of all stakeholders; third, the managerial approach, which means a practical managerial mindset that combines business and ethics (Freeman *et al.* 2010). The route to ethical business practices is stakeholder capitalism (Freeman, Martin & Parmar, 2007; Freeman *et al.*, 2010), otherwise known as responsible capitalism (Freeman, 2017).

The stakeholder concept emerged in 1963 at the Stanford Research Institute (SRI) and was developed mainly by Freeman. The SRI asserted that all stakeholders (employees, customers, suppliers, lenders and society) and their interrelationships are central to the success of the firm (Freeman & Reed, 1983). The Stanford memos constitute a renaissance of the organisational stakeholder concept introduced by Follet (1918), referring to “the self and organisation” (cited in Dodd, 1932; Schilling, 2000), which states that

If the unity of the corporate body is real, then there is reality and not simply legal fiction in the proposition that the managers of the unit are fiduciaries for it and not merely for its individual members, that they are trustees for an institution rather than attorneys for the stockholders (Dodd, 1932).

Stakeholder theory developed in five stages. First, the SRI’s stakeholder concept had to fight for survival in its formative stage against opposition from one of its co-founders, Igor Ansoff. In his classic book *Corporate Strategy* (1965), Ansoff rejected the stakeholder concept, claiming that “responsibilities” and “objectives” were not synonymous but yet were conflated in the stakeholder concept. He identified “responsibilities” as the firm’s duties and “objectives” as decisions that guide management in measuring the firm’s performance against its purpose; he went on to highlight a need to identify the purpose of the firm. “The purpose of the firm” was subsequently adopted as a central tenet by management theoreticians in formulating the stakeholder concept.

Second, came the extensive work of management theoreticians in four disciplines:

- Corporate planning: Taylor (1971), King and Cleland (1978) and Hussey and Langham (1978) in consecutive publications predicted the importance of

stakeholders, established a method for analysing stakeholders, and proposed stakeholder models for corporate planning.

- The stakeholder system theory: Ackoff (1970) and Churchman (1968) investigated the impact of external parties on the firm and developed a collective strategy that optimises the firm network.
- Corporate social responsibility (CSR): CSR and business ethics polished the concept of the stakeholder approach, in the sense that CSR puts all stakeholders and their interrelationships at the centre of business sustainability. Post's (1981) work drew the lines for this research area.
- Organisational theory: Rhenman (1968) defined groups on whom the firm is dependent for its survival and vice versa.

These four management theories originated in the concept of survival, which would later constitute the kernel of Freeman's (1984) work. However, the impact of the external environment was not fully explored, and groups such as competitors or other rivals were marginalised (Freeman, 2010). Porter (1980) was the first theorist to include SWOT (strengths, weaknesses, opportunities and threats) analysis, which aims to evaluate the firm's internal environment (strengths and weaknesses) versus its external environment (opportunities and threats).

Third, the stakeholder concept achieved recognition through the pioneering work of Freeman (1984). Freeman (1984, p. 46) stated that firms have stakeholders: namely, "groups of individuals who can affect, or are affected by, the achievement of an organisation's mission". This assertion represented a rebirth of the societal welfare view of the communitarian approach and called into question the shareholder approach of Nobel prize-winner Friedman (1970). Since then, the stakeholder concept has been developed by various academics (e.g. Sternberg, 1997; Letza, Sun & Kirkbride, 2004; Freeman *et al.*, 2010; Freeman, 2017; Ntim, 2018).

Fourth, Donaldson and Preston's (1995) contribution was hugely important, as they established the ground for stakeholder theory by identifying its four aspects: descriptive, instrumental and normative. They claimed that stakeholder theory is descriptive of the corporate business, instrumental in orienting and examining

stakeholder management practices, normative<sup>8</sup> in protecting stakeholders' rights, and managerial in promoting attitudes, structures and practices. Donaldson and Preston's (1995) pioneering work was limited in scope, however, as their paper considers the corporation as the system of interest. Indeed, it describes a corporation as "a constellation of co-operative and competitive interests possessing intrinsic value", and they draw a line of separation between ethics and economics. This is quite contrary to Freeman *et al.*'s (2010) view of stakeholder theory: they assert that the survival of the firm is subject to a combination its of moral practice and value creation for all stakeholders. This is supported by Freeman, Martin and Parmar (2007) and Freeman *et al.*'s (2010) previous assertions about stakeholder capitalism.

Fifth, the dynamics of stakeholders is a very important aspect of stakeholder theory and concerns the identification of potential stakeholders. Freeman (1984) and Alkhafaji (1989) recognised the importance of this and claimed that stakeholders can change over time depending on the strategic issue in question. Mitchell, Agle and Wood (1997) and Agle, Mitchell and Sonnenfeld (1999) contributed to this concept with their pioneering work on the three attributes for identifying potential stakeholders: power, legitimacy and urgency. In combining these attributes, they generated a stakeholder typology.

The stakeholder concept has been interpreted from different perspectives. Indeed, some scholars have linked it to the survival of the firm (Bowie, 1998; Freeman & Reed, 1983; Näsi, 1995, Freeman, Wicks & Parmar ,2004), whereas others have linked it to relationships of exchange among different contractors (Freeman & Evan, 1990; Hill & Jones, 1992). In identifying stakeholders, academics saw the firm and its stakeholders in a two-way relationship: the firm's management of its stakeholders and the influence of stakeholders on the firm and its strategies (Freeman *et al.* 2010). Clarkson (1995) associated it with the risks taken as a result of investing in some form of capital: financial, human, or something of value in the firm. Meanwhile, other scholars avoided defining potential stakeholders, preferring to identify the fiduciary duties of the firm towards its stakeholders, which represents a normative approach to stakeholders.

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<sup>8</sup> The normative aspect of stakeholders has received much attention among scholars (Evans & Freeman, 1988; Freeman, 1994; Wicks, Gilbert, & Freeman, 1994; Langtry, 1994; Donaldson & Preston, 1995).

Accordingly, many scholars associated the stakeholder concept with the business and management ethical behaviour of the firm: for instance, Freeman (1994) and Wicks, Gilbert and Freeman (1994) linked the stakeholder approach with the management of the business and its responsibility for creating and maintaining moral relationships with its contractors. Similarly, Evans and Freeman (1988), Langtry (1994) and Donaldson and Preston (1995) stated that the stakeholder concept is about the firm's responsibility to distribute fairly the benefits and the harms of its actions. The moral aspect of stakeholder theory has received much media and general public attention as a result of corporate misbehaviour and led to the alignment of the stakeholder approach with the CSR concept, bringing about a widespread misunderstanding of the former. CSR is a best-practice distillation of stakeholder theory and not the reverse.

Attention paid to the influence of stakeholders on the firm and its strategies increased significantly over the ensuing years (Scholes & Clutterbuck, 1998; Sharma & Henriques, 2005). Early stakeholder theorists – namely Dill (1975) and Freeman and Reed (1983) – explored the ability of stakeholders to influence the firm depending on the nature of their stakes and their power. Harrison and St John (1996) examined stakeholders' influence on environmental uncertainty from a power perspective. As discussed, Mitchell, Agle and Wood (1997) identified the three attributes of power, urgency and legitimacy which define the degree of each stakeholder group's influence and the attention that management needs to allocate to them. Using social network analysis and the institutional and resource dependency theories, Rowley (1997) further stated that multiple stakeholders influence the firm simultaneously. Oliver (1991) identified that the concentration of a firm's stakeholders and its network centrality influence that firm's degree of resistance to stakeholders' demands.

A firm's stakeholder management aims to identify and manage relationships with potential groups that affect the firm. Donaldson and Preston (1995) contrasted two stakeholder models: the input-output model, wherein investors, employees and suppliers are contributors, and customers are beneficiaries; and the interactive stakeholder model, wherein the firm is a nexus of stakeholders. They concluded that the input-output model is very much confined to the benefit of shareholders, whereas the interactive model benefits all stakeholders' interests.



Additionally, Clarkson (1995) identified a distinction between primary and secondary stakeholders. Primary stakeholders are those with whom the relationship is vital to business survival and vice versa. Secondary stakeholders are not vital to the firm's continuity. Based on Mitchell, Agle and Wood (1997), Friedman and Miles (2001) define two criteria to determine a firm's stakeholder relationships: compatible or incompatible; and necessary or contingent. Based on Clarkson (1995), Freeman, Martin & Parmar (2007) identified a stakeholder grid with two layers consisting of primary and secondary stakeholders. They claimed that stakeholders are essential in creating and sustaining value. Frooman (1999) proposes four types of stakeholder strategy: withholding, usage, direct and indirect, to be deployed dependent on the stakeholder's degree of influence. Coff (1999) put in place four strategies to cope with stakeholders' ability to extract economic rents from the firm. Murillo-luna, Garcés-Ayerbe and Rivera-Torres (2008) classified stakeholders based on the level of the firm's proactivity, notably its environmental objectives and allocation of internal resources.

A classification of stakeholders is not an end in itself, but a means to build a stronger relationship with each and all potential stakeholders (Wagner Mainardes, Alves & Raposo, 2012). A recent analysis of stakeholder characteristics returned 885 definitions and proposed 16 category models for stakeholder classification (Miles, 2017): clearly, one size does not fit all. "Class 10: Influencer Recipient" of the Miles (2017) model and the definition of a stakeholder as "any group of individuals who can affect, or be affected by the achievements of an organisation's purpose" (Freeman, 1984, p. 46) is the stakeholder theory approach adopted for the current study of the impact of CG on Moroccan firm performance. This is in line with the Islamic nature of the country, wherein "Islam attempts to address the fiduciary responsibilities of firms to organisational stakeholders, particularly within developing societies, where the government is often unable or unwilling to uphold its economic, political, and social obligations to society" (Murphy & Smolarski, 2018). The justification of the choice of stakeholder theory is further discussed in Section 2.3.

## 2.2. Corporate governance codes and models

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A proliferation of codes has emerged in the last two decades to encourage firms to enhance their accountability and transparency (Mallin, 2013). The various legal and regulatory environments and ownership structure have influenced the development of CG systems and CG codes within different corporate models (Aguilera & Cuervo-Cazurra, 2004; Maher & Andersson, 1999). This section provides an overview of the development of CG codes, an analysis of the effectiveness of soft-law “comply and explain” versus hard-law CG codes, and a review of the world’s leading CG models. The second part focuses on a review of CG development in the MENA region with a particular focus on Morocco.

### 2.2.1. Historical review of the development of corporate governance codes of best practice

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The seeds of CG code development were sown in the US and eventually diffused to the rest of the world. The expansion of CG from theories to codes of CG good practice occurred in three stages. The first was characterised by the *dispersion of ownership* and control in the late 19th century (Blackstone 1765, 1991; Harris 1994).

The second phase took place in the early 20th century, as a response to the unethical conduct of managers pursuing their own interests over those of the shareholders during the stock market boom of the late 1920s. This phase was characterised by the introduction of managerial hegemony theory (Berle & Means, 1932) and the 1934 Securities and Exchange Act, an attempt to defend against possible misalignment of interests between managers and owners/shareholders (Monks & Minow, 1995).

The third phase was linked to the Watergate scandals during the Nixon presidency of the late 20th century. The scandal was centred around gross misbehaviour by big corporations, whose corrupt practices and bribing of government officials led to Nixon’s resignation (Fernando, 2012). As a consequence, significant CG reforms took place in the 1970s in the US (Kakabadse & Kakabadse, 2001). This phase was accompanied by the conglomerate mergers of the late 1960s and the hostile takeovers of the late 1980s and early 1990s (Aguilera & Cuervo-Cazurra, 2004), in addition to the emergence of junk bonds,

CEO dismissals, recession and the shareholders' revolt of 1992–93 (Kakabadse & Kakabadse, 2001).

The first CG code was published in the US in 1978 by the Business Roundtable. The report was entitled *The Role and Composition of the Board of Directors of the Large Publicly Owned Corporation*. According to Aguilera and Cuervo-Cazurra (2004), this report shifted the role of directors "from being an ornamental one to one with considerable proclaimed directors' duties". It represented a first step towards the promotion of CG best practice in the US in particular and the world in general.

In the same vein, CG reforms have been driven all over the world (e.g. UK, Japan, Germany, France) by corporate scandals, false statements and illegal practices (Becht, 1997; Kakabadse & Kakabadse, 2001). Hong Kong was the second country to publish a code of good practice in 1989, followed by Ireland in 1991 (Aguilera & Cuervo-Cazurra, 2009). The UK's first code of CG good practice – the Cadbury Report – appeared in 1992, which according to Aguilera and Cuervo-Cazurra (2004) profoundly impacted the development of CG worldwide (Aguilera & Cuervo-Cazurra, 2009). By 1999, 24 countries had published at least one code of good governance, increasing the total number of codes to 72 (Aguilera & Cuervo-Cazurra, 2004); by 2009 this had risen to 70 countries, according to the European Corporate Governance Institute (ECGI) (Cicon *et al.* 2012); and, by the end of 2014, there were 91, including both developing and developed countries. Worldwide, there are currently 345 codes (91 first codes and 254 revisions codes), with European countries being the most active in this area, publishing 174 (Cuomo, Mallin & Zattoni, 2016), following on from the UK's trailblazing Cadbury Report. France followed suit with the Vienot Report in 1995, the Netherlands with the Peters Report in 1997, Belgium with the Cardon Report in 1998, and Spain with the Olivencia Code in 1998 (Cuomo, Mallin & Zattoni, 2016).

The wave of CG codes was accompanied by the launch of transitional codes by the OECD, which published the *Principles of Corporate Governance* in 1999, followed by a revised version in 2004 and a more recent version in 2015 in partnership with the G20 (Cuomo, Mallin & Zattoni, 2016). The OECD principles have contributed to the diffusion of codes across developing countries assisted by the 2006 publication of its *Corporate Governance of Non-Listed Companies in*

*Emerging Markets* guidelines for non-listed companies in emerging markets (Cuomo, Mallin & Zattoni, 2016).

CG has undergone a series of continuous reforms and development across the world. The corporate scandals of the 2000s and the recent sub-prime mortgage crisis and global financial crisis (Cuomo, Mallin & Zattoni, 2016), resulted in significant reforms of CG codes of good practice; for instance, the EU published its EU Green Paper and the audit policy lessons learned from the crisis (Grant Thornton, 2013). Similarly, the US issued the Sarbanes–Oxley Act in 2002 and new governance guidelines for the NYSE and NASDAQ. Also, the UK published the Walker Report in 2009, and the combined CG and stewardship codes in 2010, which are revised on a two-year basis (Grant Thornton, 2013). This also resulted in a call for uniformity of accounting standards and brought the introduction of the International Financial Reporting Standards (IFRS) and the US Generally Accepted Accounting Principles (GAAP) (Calder, 2008).

### 2.2.2. Corporate codes: from soft-law “comply or explain” to hard law

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Codes of good governance are essentially a set of “best practice” recommendations designed to tackle deficiencies in the CG system (Aguilera & Cuervo-Cazurra, 2004). Codes of governance are of two types: hard law (regulatory codes) and soft law (“comply or explain” codes). In hard laws (e.g. the Sarbanes–Oxley Act of 2002) compliance is mandatory, whereas soft-law codes are based on the “comply or explain” principle, which implies that companies have a choice to apply the recommendations or not, as long as they provide reasons for choosing not to do so (Cicon *et al.* 2012). Soft laws provide more flexibility in their application and are more subtle in responding to market changes and evolutionary in nature (Haxhi & Aguilera, 2014), thus providing a means for the innovation and improvement of CG practices (Aguilera & Cuervo-Cazurra, 2004, 2009; Mallin, 2013). Yet scholars have cast doubt on the effectiveness of the CG “comply or explain” approach (e.g. Pietrancosta, 2011), claiming that governance codes are more effective in countries wherein the disclosure of governance is mandatory owing to the effect of the disciplinary market mechanism (Cuomo, Mallin & Zattoni, 2016). The debate on the effectiveness of hard-law versus soft-law codes remains inconclusive, but part of the uncertainty is that they

are context-specific (Pietrancosta, 2011; Aguilera, Goyer & Kabbach-Castro, 2013): rather than being an alternative to mandatory regulations, soft laws can be perceived as complementary solutions (Hopt, 2011). Recent studies have found a combination of soft- and hard-law codes effective in countering rent-seeking action by interest groups opposed to reforms in the Brazilian context (Carvalho & Pennacchi, 2012; Chavez & Silva, 2009). An increased focus on a hybrid approach seems to be warranted (Aguilera, Goyer, & Kabbach-Castro, 2013).

There are three hierarchical levels designed into CG codes: international, national and individual firm (Cuomo, Mallin & Zattoni, 2016). International codes are employed to promote the diffusion of good practice around the world (e.g. the OECD principles) or in a specific region (e.g. Pan-European, Commonwealth) (Cuomo, Mallin & Zattoni, 2016). National codes, as the name implies, are specific to a country and are designed to promote best governance practices therein (Cuomo, Mallin & Zattoni, 2016). These could be issued by an individual authority or could be joint efforts of several institutions within the country (e.g. the stock exchange, government, investors, directors, managers or professional associations) (Cuomo, Mallin & Zattoni, 2016). At firm level, some of the larger corporations (e.g. General Motors) have also published their own codes to communicate the principles of governance adopted within their corporation to their investors and other stakeholders (Cuomo, Mallin & Zattoni, 2016).

The extent of adherence to a CG code in the country context varies depending on its provenance: firms feel a more coercive pressure when stock exchanges or investors publish a code, an imitative pressure when a management association publishes a code, and a normative pressure in other situations (Aguilera & Cuervo-Cazurra, 2004). National and international codes target listed firms. However, codes can also be designed for non-listed firms, different financial institutions (e.g. banks, mutual funds), firms with specific ownership structures (family- or state-owned) or charitable organisations (Cuomo, Mallin & Zattoni, 2016).

Even though the list of applicable CG codes is unique to each country, their ultimate goal across all countries is to increase companies' transparency and accountability (Weir & Laing, 2000; Dahya, McConnell & Travlos, 2002; Aguilera & Cuervo-Cazurra, 2004; Mallin, 2013). In this context, Mayer (1997) has

asserted that good practice realigns the interests of shareholders and management. This section reviews the world's leading CG codes with reference to the MENA region, focusing more particularly on Moroccan CG codes.

### 2.2.3. Corporate governance models

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The Anglo-American liberalised market economy and the European coordinated market economy models form a continuum and are the most developed CG models across the world owing to their highly regulated CG practices (CG codes). The Asia-Pacific region differs from the Continental European model because of its unique culture and ownership structure. South American (Brazil) and South African and Indian models are similar in nature, and they combine both the Anglo-American approach of profit maximisation (contractual systems) and the Continental European approach to ethical values (communitarian systems), hence their exclusion from this analysis. The MENA model is very different as it combines the Western business approach and Islamic ethical values. European systems (i.e. French, Portuguese and Italian) impact North African countries, whereas the British system has impacted the Gulf Cooperation Council (GCC) countries as a result of colonisation. While the Anglo-American system is a market-based one, Continental Europe has a mixture of a bank and a social-based system, and the Asia-Pacific system is relationship-based (Fukao, 1995). The MENA system is a combination of the market-based and bank systems.

The main divergence in CG models across countries has its origins in the specific nature of each country's political, economic and historical background. Table 2.3 summarises the seven key characteristics influencing CG models: business form, predominant ownership structure, legal system, board structure, firm vision, CG theory and important influential aspects. The next section will discuss the differences among the studied models, namely the Anglo-American, the Continental European, the Asia-Pacific and the Middle East and North African (MENA)<sup>9</sup> models.

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<sup>9</sup> This study uses the OECD's MENA regional classification, which comprises: Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestinian National Authority, Qatar, Saudi Arabia, Syria, Tunisia, United Arab of Emirates and Yemen (17 countries) (Koldertsova, 2011). This classification is different to that of the World Bank, which also includes Djibouti, Iran, Israel and Malta to make 21.

**Table 2. 3: Key characteristics influencing CG models**

Characteristics	Anglo-American		Continental Europe		Asia-Pacific		MENA	
	UK	US	German	France	Japan	China	Morocco	Saudi Arabia
<b>Main business form</b>	Public or private companies limited by shares	Public or private companies limited by shares	Public or private companies limited by shares	Public (SA) or private companies limited by shares (SARL)	Public limited companies	State-owned enterprises (SOEs) and joint stock firms	Public (SA) or private companies limited by shares (SARL)	Privatised and state-owned
<b>Predominant ownership structure</b>	Institutional share investors, individuals	Institutional share investors, individuals	Financial and non-financial companies	State, institutional investors, individuals	Keiretsu; but growing institutional ownership	State	Block holders: family-owned companies	Banks/state-owned (SOE)/family-owned companies
<b>Legal system</b>	Common law/case law		Civil law		Civil law		Civil law/corporate law and capital or securities	
<b>Board structure</b>	Unitary	Unitary	Dual	Unitary (subject to other possible structure)	Dual	Dual	Dual (executive)	Unitary
<b>Firm vision</b>	Contractual: profit maximisation		Communitarian: growth		Communitarian: growth		Contractual: communitarian/growth	
<b>CG theory</b>	Shareholder theory		Stakeholder theory		Stakeholder theory		Stakeholder theory	
<b>Specific influential aspects</b>	Misbehaviour of managers in the late 19th century and corporate scandals	Corporate scandals and the growing influence of stakeholders	Compulsory employee representation on supervisory board	Many shares with multiple voting rights	Influence of Keiretsu and the Asia-Pacific 1999s financial downturn.	Influence of the Communist Party and the Asia-Pacific 1999s financial downturn.	Influence of the French system, board structure	Prominent family members mainly occupy board seats in companies and banks

Source: Compiled by the author based on Mallin (2016), Tricker & Tricker (2015) and Clarke (2016).

First and foremost, business form and predominant ownership structure are at the heart of the divergence among the four identified CG models. Public shareholders and private institutions mainly dominate the UK and US ownership structure, whereas German and Japanese firms are mainly owned by block shareholders: banks, families and private institutions. The fact that in France some share ownership remains in the hands of the state is associated with Continental Europe's late 1980s denationalisation (Mallin, 2016). In the Asia-Pacific countries, although ownership can be concentrated either within families or cross-holdings (e.g. Japan), in most countries companies are still predominantly state-owned (e.g. China, where privatisation is very rare and most companies are government-owned) (Mallin, 2016). Most MENA countries are populated by state-owned companies, banks and family companies (Saidi, 2011). Banks hold 60% of market capitalisation.

Second, board structure plays a part in the difference between countries. Board structure takes one of two forms: dual or unitary. A unitary board is characterised by a single board comprising both executive and non-executive directors (Tricker & Tricker, 2015), which is responsible for all aspects of a firm's activities. This structure is typical in the US and the UK (Tricker & Tricker, 2015), where one will commonly find a single-tier board acting at two levels: executive officers responsible for the day-to-day management of the business; and boards of directors composed of external non-executives directors and chairperson (Tricker & Tricker, 2015). The board of directors manages several committees: board of directors, audit, remuneration and nominating committees, among others (Tricker & Tricker, 2015). The unitary board is also the predominant structure in Europe (Mallin, 2016) and across the MENA region, especially within the GCC (Binder, 2009).

A dual board consists of two boards: supervisory and executive (Tricker & Tricker, 2015). Dual boards are characterised by a clear separation of management and control (supervision and monitoring). A member of one board cannot be a member of the other. This structure is the norm in Germany and Japan (Tricker & Tricker, 2015), and newly privatised and listed Chinese firms must also have a dual structure (Tricker & Tricker, 2015). Islamic banks operating in GCC countries have a Sharia supervisory board, which is composed of Sharia



scholars to ensure compliance with Sharia principles (Hamza, 2013). Some Moroccan companies also have a supervisory board (Binder, 2009)

Finally, the country's legal system, the firm's vision of its purpose and its theoretical approach to CG are determining factors shaping the development of the studied models of CG. They are also influential factors in explaining the country-specific variations in CG around the world (Aguilera & Cuervo-Cazurra, 2004; Hermes, Postma & Zivkov, 2006; Cicon *et al.*, 2012). Many studies (e.g. Kraakman & Hansmann, 2017) have contended the superiority of the common law system and applauded the fact that there is a substantial convergence towards it. Similarly, La Porta *et al.* (1997) asserted that the common law system provides the best set of investor protections; they also proposed the ultimate convergence of international governance practices to the UK standards. Aguilera and Cuervo-Cazurra (2004) investigated the development of codes of good governance in 49 countries operating under common law and/or case law systems, and found that countries operating under the common law system (.g. the US) are very active and are continuously renewing their systems to complement their legal system and address its imperfections. Also, common law countries demonstrate higher economic performance in comparison to civil law countries (e.g. East Asia [Japan] and Continental Europe [France]) (Kraakman & Hansmann, 2017).

The increasing liberalisation of markets and the movement towards global economies puts pressure on national institutions to harmonise with international practices. These internal and external pressures further push the debate towards a convergence of codes (Aguilera & Cuervo-Cazurra, 2004). A number of studies (La Porta *et al.*, 1997; Hall, 2001; Collier & Zaman, 2005; Clarke, 2016) have investigated whether there is a national CG code that performs best in the globalised economy. Aguilera and Cuervo-Cazurra (2004) dismissed the possibility of convergence, claiming that codes of good governance are conceived to address a pressing issue within a given country. They argued that codes developed by the Hong Kong Stock Exchange, for instance, address family group issues, while Italian codes emphasise the need for enhancing accountability in pyramidal business groups. Similarly, Hermes, Postma and Zivkov (2006), in a study examining European Commission corporate code compliance in 22 EU countries, asserted that national institutions and domestic issues are critical determinant

factors of CG systems. Cicon *et al.* (2012, p. 623) found only a limited convergence towards an Anglo-Saxon CG model, opining that “a limited convergence contends that convergence will be neither comprehensive in scope nor widespread in practice”. The debate is never-ending: a more recent study by Kraakman and Hansmann (2017) claimed the Anglo-American governance model to be the best and predicted a larger but not entire global convergence towards it. Clarke (2016) disagreed, claiming that convergence towards a single governance model for all countries is “unrealistic, unfounded and unimaginable” due to the historical and cultural differences of each country.

To sum up, CG is conditioned by local culture, heritage, business purpose and the way business should be run, the legal system, political, economic and social circumstances, as well as religious background (Tricker & Tricker, 2015). The uniqueness of each governance model reflects this. Introducing the topic of the development of CG in the MENA region and Morocco, the next section provides an in-depth review of CG codes in those areas.

#### 2.2.4. Corporate governance in MENA and Morocco

CG developed in the Middle East and North Africa (MENA) region relatively recently, from a nascent concept in 2000 (Koldertsova, 2011) to a commonly shared concept over the last decade (Shehata, 2015). Although most MENA countries currently have codes of good practice, MENA market regulators’ efforts to implement and generalise the practice of good governance across the region is facing serious challenges in the areas of transparency and disclosure, board practices and risk management, for listed companies, banks and state-owned enterprises (Saidi, 2004; Shehata, 2015). Family-owned companies are at the heart of the problem of CG development, being the dominant business structure in the market (Tricker & Tricker, 2015; Shehata, 2015). They rarely make their equity available to the public as they are reluctant to list their shares on the stock exchange, which has resulted in limited corporate growth and development of the capital market (Tricker & Tricker, 2015; Shehata, 2015).

#### 2.2.4.1. A review of corporate governance in the MENA region

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As stated, the first wave of CG consciousness appeared on the agenda of the MENA regional regulators and the private sector players around a decade ago. The driving force for this was mainly a desire to attract foreign investment and develop the region's financial sector (GCC Board Directors Institute, 2011; Shehata, 2015). The shift towards a market-based economy in countries such as Egypt, Morocco and Jordan accelerated this trend (Sourial, 2004). The development of capital markets brought about a need for greater transparency and heralded calls for the implementation of codes of good CG practice. The 2008 sub-prime mortgage crisis and stock market crash brought CG to the forefront of the MENA countries' agenda. Indeed, the financial crash accentuated the development of CG within the region, with ten countries launching codes of conduct between 2008 and 2010<sup>10</sup> (Koldertsova, 2011).

The first wave saw a diffusion of CG between 2005 and 2010, with Oman being the exception and developing a CG code as early as 2002 (Koldertsova, 2011). The development of codes in the MENA region is a direct reflection of each country's level of economic development. The region is divided into three groups, with the early reformers including Morocco, Jordan, Tunisia and Egypt, in which economic liberalisation began in the mid-1980s. They opened up to foreign investment, reduced their budget deficit and inflation, privatised their state-owned enterprises and liberalised their trade. The second group includes oil-exporting GCC countries which rely heavily on oil production and exportation (Sourial, 2004). The third group includes countries with unstable political systems such as the West Bank, Gaza and Iraq, and countries in early stages of reform, including Lebanon, Algeria, Syria, Sudan, Libya and Yemen. These countries have few or no securities markets (Sourial, 2004), are underdeveloped and are dominated by very small companies (International Finance Corporation, 2008). Table 2.4 provides an overview of codes in the MENA region based on the group classification highlighted above.

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<sup>10</sup> Algeria, Bahrain, UAE, Lebanon, Morocco, Tunisia, Qatar, Syria, Yemen, Palestine and Kuwait.

**Table 2. 4. Corporate governance codes in the MENA region**

Group	Country	Codes	Issuing date/year
First group: early reformers	Jordan	Jordanian Corporate Governance Code Corporate Governance Code for Shareholding Companies Listed on the Amman Stock Exchange Corporate Governance Code for Banks in Jordan	30 November 2011 30 November 2007 30 November 2006
	Egypt	Egyptian Code of Corporate Governance Guide to Corporate Governance Regulations and Standards in Egypt Code of Corporate Governance for Listed Companies	31 July 2016 01 February 2016 13 February 2011
	Morocco	Code Marocain de Bonnes Pratiques de Gouvernance des Etablissements et Entreprises Publics (EEP) Code Spécifique de Bonnes Pratiques des Etablissements de Crédit Code spécifique de bonnes pratiques de gouvernance des PME et Entreprises familiales Moroccan Code of Good Corporate Governance Practices	02 February 2011 28 February 2010 30 September 2008 17 March 2008
	Tunisia	Guide de Bonnes Pratiques de Gouvernance des Entreprises Tunisiennes	June 2008
Second group: GCC countries	Bahrain	Corporate Governance Code Kingdom of Bahrain	16 March 2010
	Oman	Code of Corporate Governance for Public Listed Companies – 2016 Questions on the Code of Corporate Governance – Oman, 2016 Code of Corporate Governance for Public Listed Companies	01 December 2016 01 December 2016 03 June 2002
	Qatar	Corporate Governance Code for Companies Listed in Markets Regulated by the Qatar Financial Markets Corporate Governance Guidelines for Banks and Financial Institutions	27 January 2009 29 February 2008
	Saudi Arabia	Corporate Governance Regulations in the Kingdom of Saudi Arabia Corporate Governance Regulations in the Kingdom of Saudi Arabia Corporate Governance Regulations in the Kingdom of Saudi Arabia	13 February 2017 16 March 2010 12 November 2006
Third group:	UAE	Corporate Governance Code for Small and Medium Enterprises Dubai – 2011 Ministerial Resolution No. (518) of 2009 Concerning Governance Rules and Corporate Discipline Standards Corporate Governance Code for Joint-Stock Companies	31 August 2011 29 October 2009 09 April 2007
	Kuwait	CSR's Corporate Governance Code: Principles and Recommended Best Practices for Public Companies	2010
Third group:	Algeria	Code Algérien de Gouvernance d'Entreprise	30 November 2008
	Lebanon	Corporate Governance Guidelines for Listed Companies The Lebanese Corporate Governance Code	30 November 2009 13 June 2006

politically unstable	Yemen	Corporate Governance Code for the Banking Sector Guidelines on Corporate Governance	30 November 2012 29 March 2010
	Libya	None	
	Sudan	None	
	West Gaza	None	
	Syria	None	
	Iraq	None	

Source: compiled by the author (ECGI, 2018)

Today, apart from Libya, Sudan, West Gaza, Syria and Iraq, which are war-torn countries fighting for basic safety (i.e. law and order), all MENA countries have CG codes (ECGI, 2018). Except for Lebanon, Algeria and Yemen, the countries in the third group are still enduring repressed corporate growth due to political instability and a past kleptocratic system. Apart from Egypt, which has recently issued revised codes in 2016, a comparison of the GCC countries with early reformers reveals that the GCC codes are more novel than those of the early reformers (ECGI, 2018). The rise of CG codes within the GCC was mainly driven by the 2008 global financial crisis (GCC Board Directors Institute, 2011). CG codes within MENA are based on the OECD principles of CG and are mostly introduced via national regulation (Koldertsova, 2011; Shehata, 2015). For instance, the Kuwaiti CSR/CG code of 2010 (Hawkamah–IIF in Shehata, 2015) states clearly that it is based on international best practices and the OECD principles (Shehata, 2015). The majority of codes in the MENA region, including those of Morocco, Jordan and the GCC, are “comply or explain” codes (Shehata, 2015). UAE has the strictest code, based on a “comply/penalise” premise. The Tunisian and Egyptian codes include guidelines and recommendations (Shehata, 2015).

Codes within the MENA region are supported additionally by specialised guidance for state-owned enterprises, banks and family-owned companies (Shehata, 2015). The Egyptian Institute of Directors was the first to introduce a code dedicated to state-owned enterprises based on the OECD principles (Shehata, 2015; Koldertsova, 2011). The efforts to develop CG codes in the region derive from both governmental and private-sector initiatives (Koldertsova, 2011). For instance, in Algeria, the CG code was the initiative of a private-sector CG commission, whereas in Saudi Arabia, Egypt and Oman the initiative comes from

the public sector (Koldertsova, 2011). CG code development has benefited from the support of international organisations such as the OECD, the Global Corporate Governance Forum (GCGF) and the International Monetary Fund (IMF) (Shehata, 2015) – the Bahrain code was revised by the IMF (Shehata, 2015).

The increasing demand for CG know-how has been accompanied by the launch of nonprofit organisations such as the Hawkamah Institute of Corporate Governance and the Egyptian Institute of Directors (Koldertsova, 2011; Shehata, 2015). Hawkamah is an institution active in bridging the CG gap within the MENA countries, which aims to increase awareness, conducting studies on the state of CG in the region and outlining areas for reform. It also provides training, technical assistance and advice to companies and regulators (Saidi, 2011; Shehata, 2015). As such, Hawkamah plays an important role in shaping CG code developments.

Aware of the role of CG codes in improving compliance with legal and regulatory requirements (Hawkamah Institute & Institute of Directors Mudara, 2008), most code authors appreciate the importance of the separation of CEO and chair roles, board independence, board member tenure, board member induction, frequency of meetings, committees (especially audit committee) and directors' remuneration (Shehata, 2015) (a comparison of MENA region code requirements is included in Section 2.2.2.2 on the development of CG in Morocco). Also, all codes include a section about CSR (Shehata, 2015), which highlights the importance of the protection of stakeholder interests within the region.

#### [2.2.4.2. The development of corporate governance in Morocco](#)

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Unlike the GCC countries, which began the process of an open free market in the 2000s, and the politically and economically unstable countries (Palestine, Libya, Iraq, Lebanon and Syria), for which securities markets still do not exist or are minuscule, Morocco, along with early reformers Egypt and Jordan, started a process of reform as long ago as the early 1980s (Sourial, 2004; Binder, 2009). Indeed, CG has been recognised since the beginning of the 2000s as an essential component in improving the Moroccan investment climate and achieving the necessary level of confidence for satisfactory operation within the Moroccan market economy (World Bank, 2010)

On the request of the Moroccan government, the World Bank in 2000 undertook its First Report on the Observance of Standards and Codes (ROSC), which was followed by the publication of a list of recommendations for the Moroccan authorities in 2001 (World Bank, 2010). An update of this report was undertaken in 2003 to assess progress and identify areas requiring further attention, and the third CG review came out in 2010 (World Bank, 2010).

The 2003 World Bank ROCS report received much attention from the private sector (World Bank, 2010). Indeed, the Moroccan Association of Enterprises (Confédération des Grandes Entreprises Marocaines [CGEM]), in 2005 conducted a detailed survey of corporate governance practice in Morocco, to identify impediments to growth and establish a robust CG framework. The study investigated the practices of 40 companies from various financial and non-financial sectors (Belkahia, 2005). Prepared in accordance with OECD principles, the questionnaire was targeted at directors (Belkahia, 2005), with a participation rate of 45%, which is equivalent to 15 listed and five non-listed companies (Belkahia, 2005). The CGEM initiative raised awareness of CG best practice among participants in particular and business professionals in general. The public and private sectors, as represented here by CGEM, showed a real commitment to improving CG in Morocco: indeed, both parties organised joint events to promote CG – efforts that were crowned in 2007 with the foundation of a national corporate governance commission (Commission Nationale de Gouvernance d'Entreprise) (CNGE) by the Ministry of Economic and General Affairs and CGEM (World Bank, 2010). The CNGE brought together all key players in CG in Morocco and involves all key public-sector institutions and private sector groupings<sup>11</sup> (World Bank, 2010). Furthermore, CNGE benefits from the support of the OECD and IFC Global Corporate Governance Forum (World Bank, 2010).

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<sup>11</sup> The Corporate Governance Commission consists of: the Ministry of Economic and General Affairs, Bank Al Maghreb (BAM), the Moroccan Securities Regulator (Conseil Déontologique des Valeurs Mobilières [CDVM]), the Casablanca Stock Exchange (Bourse de Casablanca [BVC]), the Professional Group of Banks in Morocco (Groupement Professionnel des Banques du Maroc [GPBM]), the Centre of Young Managers (Centre des Jeunes Dirigeants [CJD]), the Moroccan Federation of Chambers of Commerce, Industry and Services (Fédération des Chambres Marocaine de Commerce, d'Industrie et des Services [FCMCIS, CGEM]), the Depositary and Fund Reserve Management Public Institution (Caisse de Dépôt et de Gestion [CDG]), the Moroccan Institute of Certified Public Accountants (l'Ordre des Experts Comptables [OEC]), the National Agency for SMEs (Agence Nationale de la PME [ANPME]), the Ministry of Justice, the Ministry of Economy and Finance, and the Ministry of Public Sector Modernization.

The CNGE's first mission was the launch of the Moroccan Code of Good Corporate Governance Practices in March 2008 (World Bank, 2010). Broad in scope, it covers all companies, whether listed or not. It was based on the OECD principles and was written with input from the OECD and the IFC Global Corporate Governance Forum (World Bank, 2010); and it aligns international CG principles with the local Moroccan context and the specificities of the economy (Moroccan Code of Good Corporate Governance Practices, 2008). Sector-specific annexes to the Moroccan Code of Good Corporate Governance Practices were launched in 2009 (SMEs and family-owned enterprises) and 2010 (banks). A specific code for state-owned enterprise (Etablissements et Entreprises Publics) was launched in February 2011 (ECGI, 2018). As a result, CG has undergone significant prominent legislative changes<sup>12</sup> (World Bank, 2010), in part because of the recommendations of the report of the Committee of the CGEM and the ROSC reports.

The Moroccan Code of Good Corporate Governance Practices calls for the separation of CEO and chair roles; however, as in Tunisia and Egypt, the two positions can be filled by one person; this is unlike Jordanian and GCC codes which are stricter (Shehata, 2015).

Similar to Egypt's CG code, the Moroccan code does not offer guidelines for a minimum number of independent board members whereas Tunisia, Jordan and GCC countries' codes all have guidelines for board independence. In fact, board independence is defined in all the region's codes within the exception of Egypt. Bahrain defines independence precisely as having no financial relationship with the firm (Shehata, 2015). As with the majority of GCC CG codes (except for Bahrain's), the Moroccan code does not include guidelines for board member length of tenure (Shehata, 2015). Maximum board tenure is included in the Tunisian code (three years maximum), the Jordanian (between two and four years, renewable for three additional terms), the Bahraini (six years maximum) and the Egyptian (three years maximum) (Shehata, 2015). Board member induction and training are required by Moroccan as well as GCC and Jordanian

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<sup>12</sup> The Ministry of Industry and Commerce amended securities markets law in 2004 and 2007, further to reforming company law in 2008. The Moroccan Securities Regulator (CDVM) passed a series of regulations between 2004 and 2010. Bank Al Maghreb (BAM) launched a new banking law in 2006, in addition to publishing a circular on internal controls and CG in 2007.



codes. Board meeting frequency is set at once a year minimum in Morocco (Shehata, 2015). This is much lower than the rest of MENA region: Egyptian and Jordanian CG codes require a minimum of four meetings per year whereas Qatar and the UAE CG codes require a minimum of six per year (Shehata, 2015). Apart from the Tunisian CG code – which recommends that at least one-third of the board is preferred to be under 40 years old and one-third to be over 60 – the MENA countries, including Morocco, have no requirements for board diversity (Shehata, 2015).

Requirements about audit committees are discussed in depth in all MENA CG codes with variations as to the frequency of meetings and independence of the boards (Shehata, 2015). As with the Jordanian and the majority of GCC countries' CG codes, the Moroccan code requires the majority of an audit committee to comprise independent members (Shehata, 2015). Tunisian and Egyptian codes require audit committees to comprise at least three non-executive directors (Shehata, 2015). Under the Moroccan CG code, the audit committee should meet at least twice a year (Shehata, 2015), which is half of the obligation asked by the majority of GCC CG codes and the Egyptian CG code, which require four meetings a year, yet more exacting than the Jordanian and Tunisian codes which specify no minimum number of meetings. The GCC CG and Jordanian CG codes all stipulate a whistleblowing policy (Shehata, 2015) but this is not the case in the Moroccan code (Shehata, 2015). The presence of nomination and remuneration committees as either two separate committees or a single combined committee is required by the Moroccan CG code and most other MENA CG codes except for those of Egypt and Oman (Shehata, 2015). Recommendations pertaining to risk management and remuneration are included in all MENA CG codes including that of Moroccan (Shehata, 2015).

Based on the review of MENA-region codes, the Moroccan code demonstrates some shortfalls. It lacks updates: the last version was published in 2008; separation of chair and CEO roles is not addressed with as much rigour; there is an absence of guidance on board member diversity and tenure; and the frequency of meetings of board members and audit committees is set at a low number. All these factors call into question the effectiveness of the Moroccan CG code, bearing

in mind that the extent of compliance is affected by the fact that the code is a “comply or explain”.

## **2.3. The rationale for the choice of stakeholder theory in the Moroccan context**

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In validating the selection of the guiding theory for this thesis, it is crucial to review the context within which the study is taking place. Therefore, this section includes an overview of Morocco and a rationale for the choice of the CG concept (2.1.1.3, “The guiding concept of corporate governance”), the purpose of the firm (2.1.2.5, “The guiding purpose of the firm”) and stakeholder theory (2.1.3.4, “Stakeholder theory”).

### **2.3.1. Overview of Morocco**

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Situated in the north of Africa and close to Europe, Morocco benefits from a strategic location that has shaped its history, enticing Phoenicians, Romans, Visigoths, Vandals, Byzantine, Greeks and various Arab dynasties (International Business Publications, 2008). The Idrisid, Fatimid, Umayyad, Almoravid, Almohad, Marinid, Wattasid and Saadi dynasties all conquered Morocco successively from the 7th century AD, bringing Arabic and Islamic civilisation to Morocco and Andalusia (Njoku, 2006; International Business Publications, 2008; Danver, 2015). The Almoravids, Almohads and Marinides were Berber dynasties in origin and ruled Morocco consecutively from 1056 to 1464 (Kachru & Nelson, 2001). It was under the reign of the Almohads that the original Berber residents of Morocco achieved a golden age of strategic and political might as well as theological, juridical and artistic accomplishments (Danver, 2015), promoting the heterodox religious beliefs of peaceful conviviality between Muslim, Jewish and Christian communities (Danver, 2015). The Alaouite dynasty that rules today can trace its origins back to 1649, and it is one of the oldest surviving dynasties in the world (International Business Publications, 2008). The Alaouites survived the various colonial aspirations of England, Portugal, France and Spain, and it was under the reign of Mohamed V, and with the strenuous support of the Berber community in

north Morocco, that the Alaouite succeeded in freeing the country from its status as a French protectorate (imposed in 1912) in 1956. In 1975 thousands of Moroccans peacefully marched under the ruling of Hassan II to force the withdrawal of Spain from Western Sahara (Zunes & Mundy, 2010). Moroccan Western Sahara remains a subject of political controversy to the present day.

A historical review of Morocco places it somewhere between an Islamic conservative country, embedded in Islamic principles, and a modern country with Western values. Claiming descent from the Prophet Muhammad (PBUH), the current king, Mohamed VI, like his ancestors, is the state religious figure: "Commander of the Faithful" and "Defender of the Faith" (*Amir al muminin*) (Zunes & Mundy, 2010; Oxford Business Group, 2015). Also, the king is the commander-in-chief of the military and head of state in the modern constitutional monarchy. As in its Western counterparts, the house of representatives and chamber councillors play a major role in shaping political decisions and economic stability within Morocco (Zunes & Mundy, 2010). Thanks to Morocco's strong government structure and the foresight of the king, Morocco was saved from the turmoil of the Arab political upheavals, through the introduction of major constitutional reform in 2011 (Economist, 2016). Persistent cultural memories of the 7th-century dynasties, and struggles under former leader King Mohammed V to free the country from protectorate, go some way in explaining the success and endurance of this monarchy (Economist, 2016).

The French colonial protectorate mark on Morocco is undeniable. French is the language of business: all business communications and documentation are in French, and French is the spoken language of choice within the Moroccan business community (Oxford Business Group, 2015). Furthermore, Moroccan law is founded on Western traditions: except for family codes on marriage and inheritance, which are Sharia-based, codes are aligned with European communitarian law books, especially French civil law (EBRD, 2013). These codes, in turn, are brought into line with Roman and Christian principles. Morocco has also inherited the attributes of the French paternalistic system, where the leader of a business wields all power within the firm and is responsible for the lives of workers and their families (Ballet & De Bry, 2001).

### 2.3.2. The purpose of the firm in the Moroccan context

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In French law, the basis for Moroccan law, the purpose of the company is defined as “social interest”, a role designed to serve the common good (the going concern of the enterprise) for the benefit of all stakeholders including the shareholders (Robe, 1999). Unlike the Anglo-American contractualist conception of business where directors and shareholders are the only ones responsible for business failure, the Moroccan system inherited the French institutionalist conception of firms in which the responsibility of a firm’s collapse extends to all stakeholders with significant pressure on public authorities. Thus, in addressing business difficulties, local authorities, banks, creditors, unions and social organisations intervene to save jobs and find solutions (Bazzoli, Kirat & Villeval, 1994; Habisch *et al.*, 2005). This mindset persists: the country recently lauded the efforts of unions and government to save La Samir, a Moroccan oil refinery, from liquidation (Reuters, 2016).

In sum, Moroccan firms “have the moral obligation to assist governments in addressing challenges related to sustainable socioeconomic development and in advancing human rights” (Murphy & Smolarski, 2018, p. 1), and, if they fail to do so, then it is for the government to step in. This is in line with the “teleology of the sustainable purpose of the firm” (Dsouli & Kakabadse, 2012, p. 6), which puts growth at the heart of a firm’s priorities, and permits the firm to achieve sustainable shared-value “profit” while also allowing it to protect the interests of all its stakeholders in a fast-changing environment with limited resources (Dsouli & Kakabadse, 2012). (For further on the chosen purpose of the firm, see Section 2.1.2.5, “The guiding purpose of the firm”.)

### 2.3.3. Stakeholder theory in the Moroccan context

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The purpose of the firm from the French/Moroccan perspective lays the basis for the communitarian view of the Latin business system which supports cultural expectations about the role of business to support society (Lenssen & Vorobey, 2005). Initially captured by social contract theory (Donaldson & Dunfee, 1994), and developed into the state–society–business triangular social contract arrangement in Suchman’s (1995) legitimacy theory, the contribution of the firm

to all stakeholders and society as a whole is better explained through stakeholder theory (Freeman, 1984). With the privatisation and modernisation of French and Moroccan enterprises (Morin, 1996; Najem, 2001), stakeholder theory developed into social cohesion theory (Lépineux, 2005). Cohesion theory attaches importance to the role the firm plays in society and highlights the importance of the uniqueness of each country's political and cultural systems in determining the main players and definition of stakeholder theory (Lenssen & Vorobey, 2005). The development of this theory culminates in stakeholder thinking (Agle, *et al.*, 2008) and the call for responsible capitalism (Freeman, 2015, 2017; Barton, Horvath & Kipping, 2016).

Following this line of thinking, and taking into account Morocco's Islamic background and the French/European influences on Morocco cited above, we can see that Morocco combines an Islamic (Beekun & Badawi, 2005) and a Western (Freeman, 1984, 2015, 2017; Freeman, Wicks, & Parmar, 2004; Freeman *et al.*, 2010) stakeholder approach to business practice. Islamic social cohesion, stakeholder thinking (Lépineux, 2005; Lenssen & Vorobey, 2005; Beekun & Badawi, 2005), as well as responsible capitalism (Freeman, 2015, 2017; Barton, Horvath & Kipping, 2016) form the basis for understanding CG practices in Morocco. This is in line with the G20/OECD (2015) concept of CG highlighted in Section 2.1.1.3, "The guiding concept of corporate governance".

Islamic stakeholder thinking is captured in the Islamic as well as the Abrahamic business principles of trusteeship, justice, respect, care, responsibility and citizenship (Schwartz, 2005; Beekun & Badawi, 2005; Dsoul, Khan & Kakabadse, 2012). With this in mind, the Islamic stakeholder approach fits in between Freeman *et al.*'s (2010) and Goodpaster's (1991) views. While claiming multi-fiduciary duties to all stakeholders, Islam does not consider all stakeholders to have equal claims (Freeman *et al.*, 2010): in Islam owners certainly have more rights than customers. Islam extends Freeman *et al.*'s (2010, p. 24) classification of stakeholders (primary versus secondary) to three layers: primary/internal stakeholders (owners/financiers and employees [including management]), upper secondary (suppliers and customers) and lower secondary to include all external parties. Differing from Goodpaster's (1991, Pp. 63) assertions about morality – "It seems essential, yet in some ways illegitimate, to orient corporate decisions by

ethical values that go beyond strategic shareholder considerations to multi-fiduciary ones” – Islamic stakeholder theory sees morality in acquiring wealth.

In line with Abrahamic religions, Confusion, Buddhisim and moral teachings profit in Islam should not be at the expense of moral obligations to society and all affected by the firm’s operations. Thus, Islam seeks to protect the free market and aims at promoting responsible spiritual capitalism (Donaldson & Preston, 1995; Phillips, 2003; Beekun & Badawi, 2005; Dsoul, Khan & Kakabadse., 2012). In this regard, the Islamic stakeholder approach promotes business sustainability in all stakeholders’ interests and discourages self-interested favouritism (Dsoul, Khan & Kakabadse, 2012). Islam recognises morality as an act of faith, whereby Muslims are considered to be the trustee (*khalifah*) of God on Earth, and their work (*Amal*) as an act of God-worship for which they are accountable in this life and the hereafter – i.e. life is a test (Qur’an, 67:2). Islam praises highly ethical behaviour (*khuluq* or *Akhlak*), in that the Prophet Muhammad (P) asserts, “I was sent for no other reason, except to perfect the noble traits of character” (*al - Bukhari*, No. 273) and the Qur’an states that “In the Messenger of Allah you have a beautiful pattern of conduct” (Qur’an, 33:21). Along these lines, Morocco adopts responsible capitalism (Freeman, 2015, 2017) based on spiritual values (Dsoul, Khan & Kakabadse, 2012).

## Chapter 2 summary

Table 2.5 provides a summary of adopted CG concept, purpose of the firm and stakeholder theory adopted for this research.

**Table 2. 5: Summary of the research**

Guiding approach	Adopted concept
CG concept: G20/OECD (2015) CG definition	G20/OECD Principles of Corporate Governance (2015, p. 9): “Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.”
Purpose of the firm: the teleology of the sustainable purpose of the firm (Dsouli and Kakabadse, 2012)	The “teleology of the sustainable purpose of the firm” (Dsouli and Kakabadse, 2012), which is based on the sustainable evolutionary growth process of the firm. This purpose puts growth at the heart of the firm’s priorities, and it permits the firm to achieve shared-value “profit” while also allowing it to protect the interests of all its stakeholders in a fast-changing environment with limited resources through contracts.
Guiding theory: Islamic stakeholder	Morocco combines an Islamic (Beekun & Badawi, 2005) and Western stakeholder (Freeman, 1984, 2015, 2017; Freeman, Wicks, & Parmar, 2004) Freeman et al., 2010) approach to business practice. The Islamic stakeholder perspective sees morality in acquiring wealth. Thus, Morocco adopts responsible capitalism (Freeman, 2015, -2017) based on spiritual values ( Dsoul, Khan & Kakabadse, 2012).
Guiding stakeholder classification: Islamic stakeholder classification	Based on Freeman’s (1984) stakeholder classification: “any group of individuals who can affect, or be affected by the achievements of an organisation’s purpose” (Freeman, 1984, p. 46). The Islamic approach classifies stakeholders into three layers: primary/internal stakeholders (owners/financiers and employees [including management]), upper secondary (suppliers and customers) and lower secondary to include all external parties.
Governance model	MENA model
Governance codes	Moroccan Code of Good Corporate Governance Practices of 2008

Source: compiled by the author

The study of the impact of corporate governance on Moroccan firms’ performance is based on the G20/OECD (2015, p. 9) concept of CG, which is line with the Moroccan Code of Good Corporate Governance Practices and MENA countries’ CG codes, which all adopt the OECD principles (Shehata, 2015). The study adopts the “teleology of the sustainable purpose of the firm” (Dsouli and Kakabadse, 2012) as the guiding purpose of the firm, which is in line with French protectorate colonial values and Islamic teaching of business ethics underpinning business affairs (Murphy & Smolarski, 2018). The Islamic stakeholder approach is

the guiding theory for this study of the impact of CG on firm performance. It combines Islamic ethical values (Beekun & Badawi, 2005) and a Western stakeholder approach (Freeman, 1984, 2015, 2017; Freeman, Wicks, & Parmar, 2004; Freeman *et al.*, 2010) to business practice. Islamic stakeholder theory sees morality in acquiring wealth. As such, Morocco adopts responsible capitalism (Freeman, 2015, 2017) based on spiritual values (Dsoul, Khan & Kakabadse, 2012). The Islamic stakeholder classification is based on Freeman's (1984) definition: "any group of individuals who can affect, or be affected by the achievements of an organisation's purpose" (Freeman, 1984, p. 46). The Islamic stakeholder approach classifies stakeholders into three layers: primary/internal stakeholders (owners/financiers and employees [including management]), upper secondary (suppliers and customers) and lower secondary to include all external parties.



# Chapter 3

## Development of the hypothesis

### Synopsis

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The recent wave of Western corporate governance scandals (e.g. the global financial crisis, the VW emissions scandal) raises questions about the effectiveness of corporate governance mechanisms in disciplining corporate misconduct. Corporate governance mechanisms are corrective ones that limit agents' self-serving behaviour (Berle & Means, 1932; Jensen & Meckling, 1976; Eisenhardt, 1989; Child & Rodrigues, 2003 c). The determinants of corporate governance mechanisms are evaluated through market-based, culture-based, and discipline-based mechanisms (Luo, 2007). Market-based mechanisms consist of ownership structure, board leadership characteristics, board of directors composition and board of management composition. Culture-based mechanisms include governance culture and corporate integrity – "Both set the moral tone for governance" – and discipline-based mechanisms involve executive penalties, internal auditing, and codes of conduct and ethics programmes (CSR) (Luo, 2007). Unlike culture-based mechanisms, market-based and discipline-based mechanisms are among the most researched topics in corporate governance literature (Aguilera *et al.*, 2015).

Market-based mechanisms are classified into internal (e.g. remuneration, composition of boards of directors) and external mechanisms (e.g. large shareholdings, the market of corporate control) (Walsh & Seward, 1990). "Purpose" is also a means of classifying corporate governance mechanisms: monitoring (e.g. boards of directors, external shareholdings) and alignment (e.g. performance-contingent compensation, managerial ownership). Dalton *et al.* (2007) propose a combination of external and internal mechanisms to mitigate the agency problem, namely: board independence, equity either through block shareholding or managerial ownership, and the market for corporate control. Most recent governance literature refers to market-based corporate governance

mechanisms as control-enhancing mechanisms in terms of determinants (e.g. owner's identity) and effects (performance and entrenchment) (Saggese, Sarto & Cuccurullo, 2016).

Research mainly focuses on internal governance mechanisms and in particular boards of directors, ownership and managerial incentives (Aguilera *et al.*, 2015). Furthermore, corporate governance research has long been examining links between single corporate governance mechanisms and firm performance (Aguilera *et al.*, 2008), which is rather limited as each governance mechanism captures only a firm's unique characteristics in a unique governance environment (Aguilera *et al.*, 2008). Therefore, there is a need for more comprehensive research in which the interdependencies of corporate governance mechanisms are considered to understand their effectiveness (Aguilera *et al.*, 2008; Tosi, 2008; Filatotchev & Boyd, 2009; Walls, Berrone, & Phan 2012; Misangyi & Acharya, 2014). Therefore, this study investigates the determinants of internal corporate governance mechanisms, namely: ownership (i.e. family, foreign), leadership characteristics (i.e. CEO duality, CEO tenure), board of directors structure (i.e. percentage of independent directors, size of the board) and the structure of boards of executives or top management teams (i.e. TMT board size, involvement of owners). This study also considers the determinants of external corporate governance mechanisms by considering the percentage of institutional share ownership.

Furthermore, most studies of CG mechanisms take a Western perspective with very limited attention paid to emerging markets (Arora & Sharma, 2016). Thus there is a need for more evidence from emerging markets, especially the MENA countries (ElGammal, El-Kassar & Canaan Messarra, 2018) and in particular Morocco. In addition to combining internal and external CG mechanisms, this study of the impact of CG in the Moroccan context is the first of its kind and therefore offers novelty of both context and content.

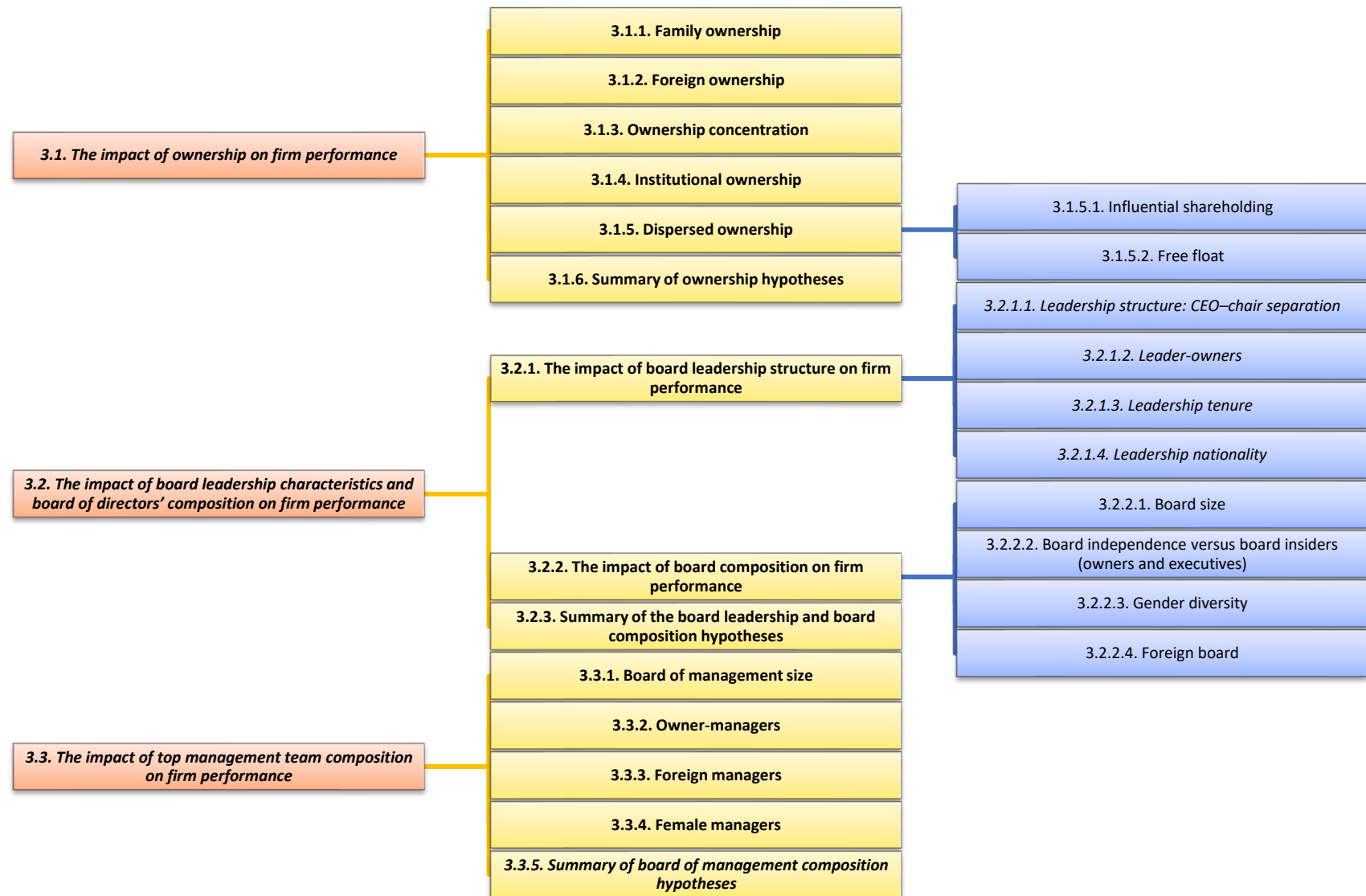
Chapter 3 synthesises existing empirical findings on the link between the determinants of CG mechanisms and firm performance, namely the determinants of ownership, board leadership, boards of directors, and boards of management, giving rise to various research hypotheses which are incorporated within the Corporate governance model (Figure 1.1, p.25). This chapter focuses on the

empirical side of the thesis. The first section includes findings from the literature on the link between ownership and firm performance, including different typologies of ownership and concentrated ownership. The second section includes a review of the CG literature on the link between board leadership characteristics, board of directors' composition and firm performance. The third and last section comprises a literature review on the link between board of management or top management team (TMT) composition and firm performance. This study seeks to answer:

***How do corporate governance determinants impact the performance of Moroccan firms?***

Figure 3.1 presents a full graphical representation of this chapter.

**Figure 3. 1: Structure of Chapter 3**



Source: compiled by the author

### **3.1. The impact of ownership on firm performance**

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At the heart of CG, ownership is still the problem and the solution to corporate misbehaviour. It all started in the 18th century with the separation of ownership and control. Adam Smith (1776) pointed out for the first time that “being the managers rather of other people’s money than of their own, it cannot well be expected that, they should watch over it with the same anxious vigilance with which the partners in a private copartner frequently watch over their own.” This separation was exacerbated by the rise of modern corporations initially appearing in the US in the 1930s (Berle & Means, 1932); this model was soon to become the norm across the world.

The modern corporation as we know it today enjoys numerous benefits, e.g. easy expansion of business, the capacity to proliferate (takeover/mergers) and outreach to customers across the globe (Franks & Mayer, 2017). Because of this, the agency problem jumped to a new level. Thus, the world witnessed increasing agency costs (Jensen & Meckling, 1976; Shleifer & Vishny, 1997), for which not only were the shareholders responsible, but all stakeholders were involved and had to pay a price – whether in the form of bank bailout in the UK in the 2008 financial crisis or even before that with fraudulent behaviour across the globe. Examples include: the money-laundering scandal of the British BCCI bank in 1991, which was found to be lending money to terrorists and governments (BBC, 2004); the Canadian Bre-X mining company claiming to have found gold in 1997 in order to stimulate the share price (CNN Money, 2007); Enron’s 2001 debt and accounting falsification; HP hacking into journalists’ and board members’ phone records in 2005 (NBC News, 2006); VW bribing unions to agree to change working conditions in 2005 (New York Times, 2005); and, more recently, BP’s 2010 oil spill, the FIFA corruption scandal and the VW emissions scandal (Brown, 2016). This list is far from exhaustive, and it seems that, as long as humans exist, the misbehaviour will continue.

The separation of ownership from administration was initially seen as positive for firms, as it implies a separation of decisions and risk-bearing roles, which meant that more specialised management is in charge of decision-making. It also

meant that a structure for effective control is in place, which reduces agency problems (Fama & Jensen, 1983b). As such, the separation brought about expertise, independence and accountability to the board. The call for more expertise and independence is welcomed across the board and cited in CG codes (e.g. the UK Combined Code of Corporate Governance of 2016; the Moroccan Code of Good Corporate Governance Practices). Yet it seems that, in some parts of the world, the ever-growing corporation results in dispersed ownership and passive shareholders, which in turn lead to a shift of power from owners to the top executive and board of directors, thus laying the ground for corporate misbehaviour, as highlighted in the previous paragraph (Chapelle, 2004). On this basis, ownership and the active intervention of the owners seems to be the solution and the mechanism for alleviating the free-rider model of asset misappropriation and countering conflicts of interest and agency problems (Jensen & Meckling, 1976; Schmidt & Fahlenbrach, 2017).

One way to achieve this was to make the managers owners in order to align interests; this was driven by stewardship theory (Donaldson, 1990; Donaldson & Davis, 1991). It was contended that the greater the stake of managers' ownership, the greater their performance. However, several studies (Murphy, 1985; Morck, Shleifer & Vishny, 1988; Ang, Cole & Lin, 2000; Denis & Sarin, 1999) found an inverse relationship between managerial share ownership and agency costs. Meta-analyses also found mixed results: while Sundaramurthy, Rhoades and Rechner (2005) found no relationship between managerial ownership and firm performance, Dalton et al. (2003) found a positive relationship when block shareholding was taken into account. Bennett et al. (2017) suggest that linking managerial compensation to performance incurs costs which vary depending on the target profit. Managerial ownership takes a different form in Morocco, as most of the owners of Moroccan firms are involved in management.

Unlike the Anglo-American CG system, wherein ownership is dispersed, and CEOs/managers pretty much determine firm policy, Morocco is characterised by concentrated ownership in the hands of very few, where the owners are also managers (see Section 2.2.3, "Corporate governance models"). While concentrated ownership allows better control over firm performance, it is not necessarily free from problems (Aguilera & Crespi-Cladera, 2016). Concentrated

ownership is likely to result in the expropriation of minority shareholders by major shareholders (La Porta et al., 1998; Hansmann and Kraakman, 2004), and it entails the involvement of owners in the business (Schulze et al., 2001; Fan, Wong & Zhang, 2007), who are not always the best-qualified individuals for the job: frequently, owners have the money but not the knowledge or know-how.

Drawing on the review of the impact of ownership typology on firm performance as presented in this section, this study distinguishes between share ownership concentration and share ownership typologies. The share ownership typology includes all typologies of ownership within Morocco, namely: family, foreign, institutional, and dispersed ownership including influential cross-holding, and influential and free-float ownership. The present section reviews empirical findings on the link between share ownership, concentrated ownership (Section 3.1.3) and share ownership typologies (Sections 3.1.1, 3.1.2, 3.1.4 and 3.1.5) and firm performance. Section 3.1.6 includes a summary of all the hypotheses. The review of the empirical findings guides the development of hypotheses relating to each ownership type discussed in this chapter, with the ultimate goal of answering the following research sub-question:

Q 1: Is there an association between 1) dispersed and 2) concentrated share ownership and firm performance?

### 3.1.1. Family ownership

Family ownership is an effective market-based internal CG mechanism that reduces agency costs, as it aligns the interests of owners and management (Jensen & Meckling 1976; Fama & Jensen, 1983a, b; Schulze et al. 2001). Family ownership counteracts the free-rider problem (Bartholomeusz & Tanewski, 2006): thanks to the involvement of family owners in the business, it reduces the risk of expropriation of shareholders' wealth by managers. Family firms are geared towards long-term performance (Jensen & Meckling, 1976; James, 1999) and are less inclined to maximising profit in the short term (Stein, 1988, 1989; Chami, 1999). Family insider knowledge of firm affairs allows for more effective monitoring (Bartholomeusz & Tanewski, 2006) and makes family companies more risk-averse (Shleifer & Vishny, 1997; Maug, 1998). Family firms have a different risk profile to those with typical shareholders as they are more concerned with the

reputation of the firm, and the firm as a long-term going concern (Anderson, Mansi & Reeb, 2002).

Nevertheless, agency issues are more complex in family-owned enterprises (Gomez-Mejia, Larraza-Kintana & Makri, 2003; Steier, 2003). Family firms can use their blockholding to expropriate the wealth of outsider and/or non-family shareholders (Pérez-González, 2001; Anderson, Mansi & Reeb, 2002; Anderson & Reeb, 2003; Arosa, Iturralde & Maseda, 2010). Furthermore, the expropriation of non-family members is higher in pyramidal family-controlled firms (Morck & Yeung, 2003; Bartholomeusz & Tanewski, 2006). The incentive for larger or controlling shareholders to expropriate the wealth of small owners in concentrated ownership supports the argument for the entrenchment hypothesis (Fama & Jensen, 1983a,b; Shleifer & Vishny, 1997). Sometimes, conflicts of interest can also arise between members of the same family.

Studies deliver mixed results about the impact of family firms on firm performance: positive studies insist on the long-term and lower management-owner agency costs in driving positive firm performance in family firms (Miller & Le Breton-Miller, 2005; Audretsch, Hülsbeck & Lehmann, 2013); negative ones posit that family altruism and nepotism has a negative impact on family firms (Pérez-González, 2006; Bloom & Van Reenen, 2007). A few meta-analyses have been conducted to reconcile the differences in the results (e.g. O'Boyle, Pollack & Rutherford, 2012; Carney et al., 2013; Machek, Brabec & Hnilica, 2013; and Van Essen et al., 2014). However, due to weak statistical results and the small sample size of these studies, results remained inconclusive – until recently, when Wagner et al. (2015) found that family firms demonstrate higher performance than non-family firms, especially when studies use the ownership definition of family firms in large and public firms. In line with Wagner et al.'s (2015) findings, this study of the impact of CG on Moroccan firm performance posits that family ownership increases firm performance (H1a1). This study tests the impact of family ownership as an internal market-based CG mechanism on firm performance. In doing so, it tests the following hypothesis:

H1a1: Family ownership (Family) in dispersed ownership structures is associated with increased firm performance.



The long-term orientation of family firms (Wang, 2006), their risk-averseness (Shleifer and Vishny, 1997; Maug, 1998) and their insider knowledge of the firm (Bartholomeusz & Tanewski, 2006) guide the development of this hypothesis. The conservative and progressive nature of Moroccan society which combines Islamic and communitarian French values further supports the long-term orientation of Moroccan family firms and their eagerness to enhance firm performance over the long term.

The identification of family firms takes the discussion to a new area. How do we distinguish between family firms and non-family firms? To start with, there is no consensus on a definition of family firms (Steier, Chrisman & Chua, 2004; Chua, Chrisman & Sharma, 1999), and family firms are contingent to the institutional, legal and cultural contexts in which the companies operate (Allouche et al., 2008). In an attempt to overcome this ambiguity, Shanker and Astrachan (1996) propose the following ownership classification: the "wide" family, which oversees management; the "intermediate" family, which implies founders and their descendants directly involved in management; and the "restrictive" family, which monopolises control.

Le Breton-Miller, Miller and Steier (2004) recognise family ownership by a succession of proprietorship from one family member to another. Zahra, Hayton and Salvato (2004) identify family firms by the involvement of several generations of family members in ownership and leadership. Morck and Yeung (2004) use family control criteria to identify the family business as follows: (1) a block of shareholding belongs to the family; and (2) the percentage held by the family is higher than 10% of the voting right. This definition is used in the studies of Boubaker and Labégorre (2008) and Faccio and Lang (2002). Chrisman, Chua and Steier (2002) and Chua, Chrisman and Sharma (1999) identify family ownership using the following criteria: ownership, management, trans-generational management, and succession within the family.

This study of family ownership in Morocco adopts Chua, Chrisman & Sharma, (1999), and Chrisman, Chua & Steier (2002) definition of family ownership. Moroccan family ownership is identified when family members have a stake in the business when one or more family members are involved in management, and

when descendants of the founder take over through succession (in the case of death) or there is cession of shares and/or transfer of control to new descendants. Family members are identified through the use of a family name. Further efforts are made to trace owners' partners (wife or husband), and the profile of each owner is investigated meticulously.

To the best knowledge of the author, Aguenau, Farooq and Di (2017) and Nnadi, Efobi and Oledinma (2017) are the only studies to investigate the impact of family ownership in a Moroccan context. Aguenau, Farooq and Di (2017) studied the impact of family ownership on dividend policy, and Nnadi, Efobi and Oledinma (2017) researched the impact of family firms and the choice of audit quality. As such, the impact of CG on firm performance in Morocco is under-researched. Thus, this investigation of the impact of family ownership on firm performance is the first of its kind in a Moroccan context. This study further tests, in Hypothesis H1b1, the impact of family-concentrated ownership at thresholds of 30% and 50% (see further Section 3.1.3 on ownership concentration).

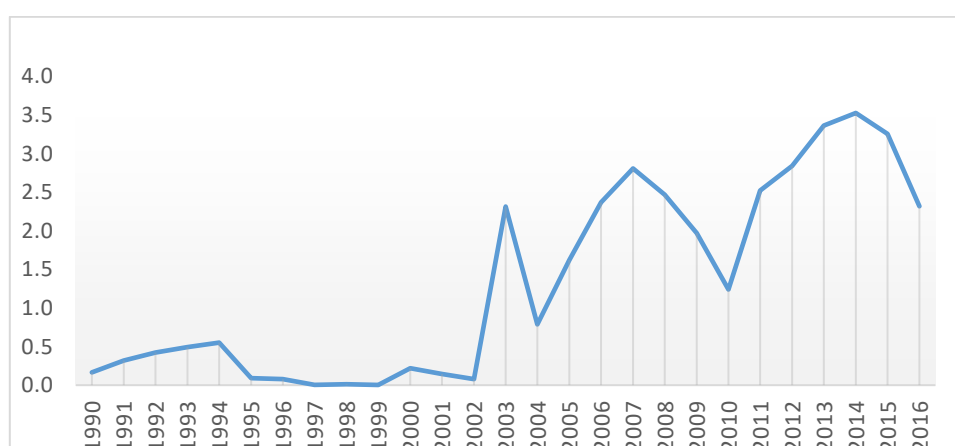
### 3.1.2. Foreign ownership

Foreign investment is an effective governance mechanism that increases government scrutiny and allows for disciplining opportunistic behaviour and expropriation by insiders (Dharwadkar, George & Brandes, 2000; and Kho, Stulz & Warnock, 2009). Yet foreign (Kim & Cheong, 2015) and institutional ownership (Dang, Nguyen & Tran, 2018) are relatively recent phenomena in most emerging countries. The rise of foreign ownership is a result of the liberation of trade and economic reforms in the 1980s (Sachs *et al.*, 1995). Morocco is no exception: in 1987, it was accepted as a member of the General Agreement on Tariffs and Trade (GATT) and became a member of the World Trade Organization in 1994 (WTO, 2018). Morocco ratified the agreement of association with the European Union in 1996, an agreement that entered into force in 2000 and established two-way free trade between Morocco and the EU, gaining "advanced status" of free trade with the EU in 2008 (Export Gov, 2017). Negotiations for a more advanced-status Deep and Comprehensive Free Trade (DCFTA) agreement between the EU and Morocco were launched in 2013; so far, four rounds of negotiations have taken place, and in January 2015 Morocco concluded talks for an Agreement on Geographical indication (European Commission, 2017). Morocco has also signed the Free

Agreement of Agadir with Jordan, Egypt and Tunisia, an agreement that became effective in 2006. The free trade agreement with Turkey and the US was also signed as part of the Agadir agreement (Hakimi & Hamdi, 2016; European Commission, 2017).

With a strategic position in North Africa at the crossroads of Europe, Africa, the Arab world and the Maghrib regions, and with a high investment presence in more than 25 African countries, Morocco's entrepreneurial advantages and position as gateway to Africa for international investors makes it a regional leader (WP World Profile Group Ltd & Ministry of Communication, Kingdom of Morocco, 2015). Morocco's strategic focus on a value-added export industry and the emergence of modern industrialisation, as well as its commitment to reforms, a stable and dynamic economy and political stability, has made Morocco a foreign direct investment (FDI) magnet, especially in the last two decades and especially since Mohamed VI become king in 1999 (WP World Profile Group Ltd & Ministry of Communication, Kingdom of Morocco, 2015). The increase in FDI net inflow to Morocco (Figure 3.2) reflects trade liberalisation and Moroccan political and economic stability. The decline in FDI in 2010 reflects the impact of the 2008 financial crisis (Morocco World Bank data, 2017). FDI investments in Morocco are made across the industries of tourism, manufacturing, energy, infrastructure, financial services, technology and telecommunications (International Trade Centre, 2018).

**Figure 3. 2: Foreign direct investment, net inflows (BoP, current US\$ billion)**



Source: World Bank data (2017)

The EU dominates Moroccan trade, with 56.5% of imports coming from the EU and 64.6% of exports going to the EU. Morocco is the 22nd largest trading partner for the EU, and its trade represents 1% of EU world trade (European Commission, 2017). The EU also dominates FDI inflows to Morocco, with France topping the list for several years (Santander Trade, 2017). France has 500 subsidiary companies in Morocco across sectors (Santander Trade, 2017): Holcim, Renault, Nestlé and Sanofi-Aventis figure among some of the leading French brands. And Holcim and Sanofi-Aventis are among the listed firms on the Casablanca Stock Exchange (Office des Changes, 2017, Santander Trade, 2017).

FDI is highly attractive for all countries regardless of their status, be it developed, emerging or less developed (Thompson & Zang, 2015). In addition to the direct benefit of FDI, which manifests in the creation of jobs and access to technology (Acs et al., 2007), FDI contributes to economic growth and improved CG in emerging markets (Yavas & Erdogan, 2016): indeed, FDI is crucial in boosting economic growth in emerging markets (Greenaway, Guariglia & Yu, 2014), with Morocco being one of the best examples in this regard (Baliamoune-Lutz, 2004); however, it has found that spillovers are limited to sectors with simpler technologies (Haddad & Harrison, 1993).

As well as increasing government scrutiny over firms (Dharwadkar, George & Brandes, 2000), foreign ownership brings financial, marketing, technological and governance benefits (Barbosa & Louri, 2005), and means the disciplining of opportunistic behaviour and effective monitoring of controlling insiders and shareholders (Kho, Stulz & Warnock, 2009). Despite these benefits, previous studies have focused on the impact of family, institutional and managerial ownership on firm performance (Callen & Fang, 2013; Ntim et al., 2015; Wagner et al., 2015) and the impact of foreign ownership remains under-researched (Yavas & Erdogan, 2016), although policy-makers and academics are now showing unprecedented interest (Yavas & Erdogan, 2016).

Research on foreign ownership in the Moroccan context has mainly focused on FDI (Haddad & Harrison, 1993; Page & Underwood, 1998; Baliamoune-Lutz, 2004; Bouoiyour, 2007; Kinda, 2012). To the best knowledge of this author there are only three studies that investigate the impact of foreign ownership from a CG

perspective in the Moroccan context (Farooq & El Jai, 2012; Mossadak, Fontaine & Khemakhem, 2016; and Aguenau, Farooq & Di, 2017). Farooq and El Jai (2012) investigate the impact of ownership on earning management, and Mossadak, Fontaine and Khemakhem (2016) and Aguenau, Farooq and Di (2017) investigate the impact of ownership structure on dividends. As such, this research is the first to investigate the impact of foreign ownership on firm performance, from a governance perspective, in the Moroccan context.

Examinations of the impact of foreign ownership on firm performance deliver mixed results across nations (Greenaway, Guariglia, & Yu, 2014; Yavas and Erdogan, 2016), with variations across developing and developed countries (Yavas & Erdogan, 2016). Certain studies in developed nations find foreign ownership to be positive: Grant (1987), Caves (1996) and Alan and Steve (2005) found a positive relationship between firm performance and foreign ownership in the UK, and in the UK and Canada. Similar findings came from Belgian listed firms (Gorthels & Ooghe, 1997), Canadian multinationals (Boardman, Shapiro & Vining, 1997) and US industrial firms (Qian, 1998). However, others have found a negative correlation. For example, Kim and Lyn (1990), in a random selection in the US, found that US-owned companies performed better than those with foreign ownership. Globerman, Ries and Ilan (1994) found that capital intensity and large size are the only drivers for higher firm productivity in foreign-owned multinationals in Canada. And Driffield and Girma (2003) found that the higher wages of foreign firms in the UK offset productivity advantages. Barbosa and Louri (2005) concluded that foreign ownership makes no difference among Greece and Portuguese firms.

Similarly, mixed results are also witnessed in emerging markets. A positive relationship has been identified between firm performance and foreign ownership in developing markets (Lecraw, 1984), in Brazil (Willmore; 1986), in India (Majumdar, 1997; Chhibber & Majumdar, 1999; Douma George & Kabir, 2003), in Turkey (Gunduz & Tatoglu, 2003;), in Egypt (Omran, 2009), in Indonesia (Blomström & Sjöholm, 1999), in Mexico (Khawar, 2003) and in Ukraine (Akimova & Schwödiauer, 2004). Although a positive relationship is the conclusion of most of the studies, some differ. Konings (2001) demonstrated that domestic firms perform better than foreign firms in Bulgaria and Romania (although not in

Poland). Greenaway, Guariglia and Yu (2014) found that joint ventures perform better than exclusively foreign-owned firms but that firm performance declines after reaching a certain point. Yavas and Erdogan (2016) also found that foreign ownership enhances firm performance up to a certain level. A meta-analysis focused on Asia showed that foreign firms perform better than domestic ones (Heugens, Van Essen & Van Oosterhout, 2009). Similarly, Wang and Shailer's (2017) meta-analysis concluded that the ownership-performance relationship across emerging markets is greater for institutional/foreign ownership than for family/management ownership.

The weakness of the majority of studies on the impact of foreign ownership on firm performance is that few investigate foreign ownership based on degree of ownership (Aitken & Harrison, 1999; Blomström & Sjöholm, 1999; Chhibber & Majumdar, 1999; Dimelis & Louri, 2002; Takii, 2004; Greenaway, Guariglia & Yu, 2014): their focus is on domestic versus foreign ownership without distinguishing between wholly owned foreign, joint-venture firms, and firms with different foreign ownership (Greenaway, Guariglia & Yu, 2014). Therefore, this research fills this gap by looking at different degrees of foreign ownership in Morocco. It seeks to investigate all the degrees of foreign ownership of Moroccan firms along with other firm ownership typologies, free from any threshold (H1a2). In line with Greenaway, Guariglia and Yu (2014), Yavas and Erdogan (2016) and Wang and Shailer (2017), this research posits that foreign ownership in a dispersed ownership structure increases firm performance (H1a2). The study tests the following hypothesis:

H1a2: Foreign ownership (Foreign) in a dispersed ownership structure increases firm performance.

Also, this research investigates the degree of foreign ownership at 30% and 50% concentration (the 50% level was also used by Yavas and Erdogan [2016]). This threshold is supported by the Moroccan Law of Public Limited Companies (Loi n° 17-95, 1996). Hypothesis H1b2 investigates the impact of foreign ownership concentration on Moroccan firm performance. The rationale for the investigation of ownership concentration follows in Section 3.1.3.

### 3.1.3. Ownership concentration

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Traditional theories assert that the governance is most robust under a large single blockholder, as this is more likely to lead to value-enhancing interventions (Edmans & Manso, 2010) and active shareholder monitoring of management (Chen, 2001). The basis for this argument is that, in comparison to the outsider-dominated system (e.g. the UK and the US), where ownership is dispersed and there is little investor protection, the insider-dominated system (e.g. China, Japan and Korea) registered remarkable growth in the second half of the 20th century (Franks & Mayer, 2017) and through the financial crisis. Thus, ownership concentration is proposed as an expedient for good governance and an effective internal market-based CG mechanism.

While in some parts of the world share ownership is widely dispersed – e.g. Anglo-American countries – in emerging markets, and developing nations ownership is generally concentrated (Rogers, 1993; Claessens, Djankov & Lang, 2000; Lins, 2003; Wang & Shailer, 2015). This is because across these nations money remains in the hands of very few. Ownership concentration measures the extent to which shares of publicly listed firms are widely or closely held (OECD, 1993). The mixed results about the relationship between ownership concentration and firm performance (Wang & Shailer, 2015) call into question the possibility of a systematic relationship between ownership and firm performance (Demsetz, 1983; Himmelberg, Hubbard & Palia, 1999). In fact, the literature on the relationship between ownership concentration and firm performance is quite polarised into two opposing views: positive and negative relationships.

Those that see a positive relationship between firm performance and concentration of ownership point to an alignment of interests by mitigating the agency problem (Demsetz, 1983; Himmelberg, Hubbard & Palia, 1999), in that the major shareholder has the upper hand in monitoring and disciplining managerial compensation (Grossman & Hart, 1980; Shleifer & Vishny, 1986, 1997; Huddart, 1993). Additionally, it is posited that ownership concentration substitutes for a weak legal system, a factor especially pertinent in emerging markets (La Porta et al., 1998; Denis & McConnell, 2003; Perotti & Von Thadden, 2006). However, the last financial crisis has shown firms' vulnerability even in

legally strong systems with advanced institutional environments and protection of minority shareholders (Claessens, 2011). Stulz (2005) claimed that ownership concentration counters the risk of misappropriation by insiders (states or corporations). Finally, the positive-relationship argument points to the likelihood of concentrated ownership bailing out corporations in an economic downturn and/or in financial distress (La Porta et al., 2002).

Those that see a negative relationship assume that concentrated ownership raises conflicts of interest between majority and minority shareholders and puts minority shareholders' interests at risk of expropriation because of diminished control of shareholder behaviour (Barclay & Holderness, 1989; La Porta et al., 1998; Hansmann & Kraakman, 2004). Such a risk is exacerbated in emerging markets due to weaker external control mechanisms and under-developed institutions (Williamson, 1991; La Porta, Lopez-de-Silanes & Shleifer, 1999). The argument also goes that firms with concentrated ownership are less likely to reach out to raise capital, relying heavily as they do on controlling shareholders' funds, which incurs a high capital cost, means lower risk diversification, and in turn lower firm performance (Carney & Gedajlovic, 2002; Wang & Shailer, 2015).

A further argument against there being a positive relationship between concentrated ownership and firm performance centres around the owners themselves: family owners and their representatives in executive positions rather than highly qualified outsiders (Schulze et al., 2001; Fan, Wong & Zhang, 2007). This is likely to hinder board effectiveness and the market for corporate control (Jensen & Ruback, 1983; Holmstrom & Tirole, 1993), and is also likely to counteract the benefit derived from monitoring by institutional and foreigners investors (Chaganti & Damanpour, 1991; Khanna & Palepu, 1999). After controlling for population and choice of model differences, and inadequate treatment of endogeneity, Wang and Shailer's (2015) meta-analysis on this topic concluded that concentration of ownership in emerging markets has a negative relationship with firm performance across countries.

This investigation of the impact of concentrated ownership posits that ownership concentration enhances firm performance, as it offsets the weak legal system (La Porta et al., 1998; Denis & McConnell, 2003; Perotti & Von Thadden,



2006) and raises commitment to bail out corporations in an economic downturn and/or financial distress (La Porta et al., 2002). This study considers that ownership of a concentration above 30% is likely to hinder firm performance, which is in line with Anderson and Reeb's (2003) and Shyu's (2011) findings. This study also suggests that an ownership concentration of above 50% could be even more negatively associated to Moroccan firms performance. Thus, this research posits that the disadvantages of concentrated ownership are likely to outweigh the advantages, as overall firm performance will decrease (Wang & Shailer, 2015). The author seeks to compare the results of 50%+ ownership with 30%+ to indicate the level of concentration in which the entrenchment is more likely in Moroccan firms. This study investigates the two dominant concentrated ownership structures in Morocco, namely family-owned and foreign-owned. Ownership of listed Moroccan firms is predominately concentrated in the hands of a few families and institutional investors (El Bouanani, 2014; US Department of State, 2015). Foreign ownership is omnipresent across Moroccan firms in the form of family firms, multinational companies and institutional investors. The choice of the measure of concentration and the comparison between 30–50% threshold is further discussed in the following paragraphs.

The methods of measuring concentration of ownership vary across studies. Some simply rely on the share held by the largest shareholder (Thomsen & Pedersen, 2000), with ownership taxonomies often accompanying this measure to trace and define the owners (La Porta, Lopez-De-Silanes & Shleifer, 1999).<sup>13</sup> Other measures either combined shares held by the largest shareholders (McConnell & Servaes, 1990; Demsetz & Villalonga, 2001; Gedajlovic & Shapiro, 2002; De Miguel, Pindado & de la Torre, 2004; Farooq & El Jai, 2012) or relied on indices (e.g. HHI and GINI). The Herfindahl index or Herfindahl–Hirschman Index (HHI) (Herfindahl, 1950; and Hirschman, 1970) measures the squared sum of all shares and is used in several studies (Demsetz & Lehn, 1985; Cubbin & Leech, 1983; Leech & Leahy, 1991; Mossadak, Fontaine & Khemakhem, 2016; Aguenau,

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<sup>13</sup> La Porta, Lopez-De-Silanes and Shleifer (1999)'s owner taxonomy identifies families, state, individual, widely held by institutions and/or corporations, or miscellaneous. Hirschman (1970) distinguishes between owners' voice and exit power. Jensen and Meckling (1976) classify owners as institutional or non-institutional investors and insider or outsider owners.

Farooq & Di, 2017). Due to lack of availability of data, HHI is used to measure the equity held by the largest shareholders. The Gini coefficient (Gini, 1945; Deaton, 1997) uses the mean of the ownership distribution and the total numbers of owners as well as their voting rights. This coefficient captures changes in all quantiles of shareholder distributions but is not a common measure in the CG literature (Overland, Mavruk & Sjögren, 2012). Neither the Gini nor HHI indices capture the relative power of individual shareholders and the possibility of influence from the smallest shareholder.

The Banzhaf index (Banzhaf, 1965) and the Shapley–Shubik index (Shapley & Shubik, 1954), on the other hand, are based on the ability of owners to form winning coalitions and are both based on indices for weighted voting games. Both indices measure the probability of one individual owner to affect decision-making taking their voting shares into account and those of the other shareowners. Due to the lack of availability of data, no CG study has accounted for all shareholders; both measures have been developed to classify the major and minor owners, focusing more on major shareholders (Rydqvist, 1996; Zingales, 1994, 1995; Leech, 2003). In a review of the impact of these different measurement approaches, Overland, Mavruk and Sjögren (2012) suggested that the relationship between ownership concentration and firm performance is contingent on the choice of concentration measure.

Drawing on the above, this investigation of family and foreign ownership in Morocco takes the most straightforward approach for measuring concentration, in that it compares the effect of 30% and 50% concentrations as thresholds for investigation. The Moroccan Law of Public Limited Companies (Loi n° 17-95, 1996) guides this rationale: according to this law those with 51% ownership or greater have the ultimate say in the business's strategic direction, and those with 31% or greater have the power to block decisions.

Weston (1979) further supports these 30% and 50% thresholds, claiming that entrenchment is less likely in firms with insiders owning over 30%, but deeper entrenchment might well be reached well before the 50% mark. The 50% threshold of concentration is further supported by Holderness and Sheehan (1988) and Shleifer and Vishny (1986). Shleifer and Vishny (1986) suggest that large

shareholders mitigate the risk of agency problems in that they are profit maximisers and controllers of assets driven by a desire to protect their stakes. Besides, 66% of listed firms on the Casablanca Stock Market are held by blockholders (CDVM, 2013; El Bouanani, 2014). The rationale for the 30% threshold is further supported by Anderson and Reeb's (2003) findings, which suggest that positive impact on firm performance in family firms starts to diminish when family ownership exceeds 30%, which is similar to Shyu's (2011) results. In line with these findings, the author seeks to examine and compare the impact of 50%+ with 30%+ family and foreign ownership likelihood to decrease firm performance among Moroccan firms (H1b1 and H1b2). The study examines the following two hypotheses:

H1b1: Family ownership concentration ( $C_{family} \geq 50\%$ ) / ( $F_{family} \geq 30\%$ ) decreases firm performance.

H1b2: Foreign ownership concentration ( $C_{frgn} \geq 50\%$ ) / ( $F_{frgn} \geq 30\%$ ) decreases firm performance.

Where there is a foreign family, the foreign aspect precedes the family ownership, and the ownership is considered to be foreign. The originality of this study is that it segregates the impact of the majority shareholders from all share ownership typologies to account for the coalitions between owners and thereby considers all owners. The royal family owns Moroccan listed firm Société Nationale d'Ivertissement (SNI), a subsidiary of Copropar, a Moroccan royal holding. SNI is considered a family- and not a state-owned enterprise as the interests/equity are in the hands of the royal family and the holding is independent of government resources and revenues (Le Monde, 2015).

#### 3.1.4. Institutional ownership

The dispersion of ownership in developed countries has given rise to an increasing incidence of institutional shareholding (Gorga, 2009), which has been associated with better governance (Nikolov & Whited, 2014). However, the extent of institutional influence and effectiveness depends on whether or not they hold a significant stake in the business (Shleifer & Vishny, 1986); even then, it depends on whether that stake is held by an individual mutual fund or a block of

institutions/mutual funds (Edmans & Manso, 2010). In either case, it means the institutional shareholding is unlikely to be an effective external market-based mechanism (Schmidt & Fahlenbrach, 2017). The rise of shareholder activism following the financial crisis is further testimony to the passiveness and ineffectiveness of institutional investors (Ivanova, 2017).

The literature on institutional ownership centres on their monitoring role and short-term orientation (Ivanova, 2017) – or, in other words, their “voice or exit” channels in influencing corporate governance decisions (Schmidt & Fahlenbrach, 2017). The “voice” refers to active engagement with management to voice preferences – a monitoring role – and the “exit” channel is the ability to exit and sell the shares: a short-term orientation (Schmidt & Fahlenbrach, 2017). The engagement of institutional owners depends on those owners’ profiles: institutions with a substantial shareholding will hold a monitoring role (Callen & Fang, 2013), a role that supports their active participation in management (Shleifer & Vishny, 1986, 1997) and the pursuit of long-term profit maximisation (Dobrzynski, 1993; Monks & Minow, 1995). Transient institutions focus on short-term gains, however (Callen & Fang, 2013). Institutional investors should hold a significant percentage of the stake to counter the free-rider problem (e.g. Shleifer & Vishny, 1986).

Recent years have seen a decrease in monitoring as a result of increased monitoring costs (Coffee, 1991; Manconi, Massa & Yasuda, 2012). Consequently, investors hardly engage with investee firms (Black, 1990), preferring to respond to poor performance by simply selling the shares – “exit” (Coffee, 1991; Manconi, Massa & Yasuda, 2012) – characterising them as passive investors (Davis, 2008; Jackson, 2008) with a short-term orientation who fail to act as responsible stewards (Graves & Waddock, 1990; Yan & Zhang, 2009; Ivanova, 2017). Della Croce, Stewart and Yermo (2011) claim that the short-termist orientation of institutional investors feeds asset price bubbles. Manconi, Massa and Yasuda (2012) provide evidence that institutional investors drove the financial crisis as a result of a contagious spread from securitised bonds to corporate bonds. Similarly, Holmstrom (2008) claims that institutional investors’ desire for low-risk debt is behind the excessive US credit and securitisation expansion in 2003–2006, which also fuelled the financial crisis. The above raises concerns about the effectiveness

of institutional investors as an effective external CG mechanism and calling into question their role as responsible shareholders (European Parliament, 2010).

Empirical evidence does, however, point to the positive impact of institutional ownership on firm performance (Elyasiani & Jia, 2008), profitability and operating performance (Dimson, Karakas & Li, 2015), and shareholder value (Becht *et al.*, 2010). However, this positive relationship depends on the institutional investors' orientation and stability (Callen & Fang, 2013). Stable institutional investors act as monitors and are more able to influence management decision-making than their transient counterparts who are mainly focused on short-term gains (Callen & Fang, 2013). Consistent with this view, Elyasiani and Jia (2008) and Elyasiani, Jia and Mao (2010) assert that stable institutional investors are more motivated and able to effectively monitor, which implies that they play an important role in mitigating agency conflicts of interest and countering information risks.

Transient institutional investors impel the firm's aggressive earnings (accruals) management to meet/beat earnings benchmarks, but that is not the case with stable institutional investors (Koh, 2007). Yan and Zhang (2009) find that short-term institutional investors are better informed than long-term ones and that they exploit their informational advantage in trading. Gaspar, Massa and Matos (2005) and Bushee (1998) noted that firms with high turnover dominated by institutional investors are associated with poorer equity performance in mergers and acquisitions and are more inclined to cut long-term R&D projects to meet short-term earnings targets. Furthermore, Bushee (2001) argues that scenarios of high ownership levels by institutions with a short-term orientation are likely to be those in which managers are pressured to embrace short-term gains.

The increase of institutional ownership among Moroccan firms – 75–80% of firms have institutional ownership (Farooq & El Jai, 2012) – guides this investigation of the impact of institutional ownership on Moroccan firm performance. Ownership is mainly held by mutual insurance companies/funds, namely: Caisse Marocaine des Retraites (CMR), run for the benefit of government employees (CMR, 2018), Caisse Interprofessionnelle Marocaine de Retraite (CIMR), run for the benefit of private-sector employees (CIMR, 2018), in addition to Mutuelle Agricole Marocaine d'Assurance (MAMDA) and Mutuelle Centrale Marocaine d'Assurance (MCMA), which ensures the agricultural and academic

sectors (Telquel, 2016). The latter is a leading Moroccan stock market player, holding 4% of the Casablanca Stock Exchange (Telquel, 2016).

The Caisse de Dépôt et de Gestion (CDG) is also a major financial institutional player in Casablanca. CDG is a state-owned financial institution managing long-term savings, namely: Caisse Nationale de Retraites et d'Assurances (CNRA) and Régime Collectif d'Allocations de Retraite (RCAR) (CDG, 2018). CDG holds numerous subsidiaries operating in various sectors of the economy and is modelled after the French fund Caisse des Dépôts et Consignations (CDG, 2018). All of the above mutual funds are stable institutional investors, some of which were funded as long ago as the 1930s, '40s and '50s (CMR in 1931, CIMR in 1949, CDG in 1959, and, most recently, MAMDA in 1963 following Moroccan independence) (CMR, 2018; CIMR, 2018; CDG, 2018; Telquel, 2016).

Drawing on the above, the continued longevity and success of Moroccan institutional investors speaks to their stability (Callen & Fang, 2013). Callen and Fang's (2013) study suggests that institutional investors play an important role in the monitoring of Moroccan listed firms, which is likely able to enhance Moroccan firm performance. Henceforth, Moroccan institutional investors are considered an effective external market-based corporate governance mechanism that is likely to enhance firm performance among Moroccan firms. This is consistent with Farooq and El Jai's (2012) findings of a negative relationship between institutional ownership and earning management. Accordingly, this study tests the following hypothesis:

H1a3: Institutional ownership (Instit) in dispersed ownership structures is associated with enhanced firm performance.

Where foreign institutional ownership is present, the institutional aspect precedes foreign, and this is considered institutional. In addition to investigating the impact of family and foreign ownership, this study is the first to investigate the impact of institutional ownership on performance in the Moroccan context, and to consider the actual percentage of institutional holding.

### 3.1.5. Dispersed ownership

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In addition to investigating the impact of the three major ownership typologies in Morocco – family, foreign and institutional (Farooq & El Jai, 2012; CDVM, 2013; El Bouanani, 2014) – this study investigates the impact of dispersed ownership on Moroccan firm performance. It considers the impact of influential cross-holding, influential, and free float in dispersed ownership structures (H1a4, H1a5 and H1a6), and concentrated ownership (H1b3). This research classifies these dispersed ownership typologies and institutional ownership as a minority shareholding, and it concludes that minority shareholding is negatively correlated with firm performance in concentrated ownership by testing the following hypothesis:

H1b3: Minority shareholding (Instit)/(Fflot)/(Inflcrossh)/(Infl) is negatively related to firm performance in concentrated panels; Cfamily, Cfrgn, Ffamily and Ffrgn

#### 3.1.5.1. Influential shareholding

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A report on the observance of standards and codes by World Bank (2010) revealed that, on average, 75% of shares listed in Casablanca are held by the largest three shareholders (World Bank, 2010). It is unlikely that a firm will have two families as major shareholders, but private family holdings are well spread across companies (e.g. Holmarcom, 2018). This study classifies this private family holding as an influential cross-shareholding (institutions owned by powerful families: generally insurance companies) and investigates the extent of the influence of their cross-shareholding on firm performance in dispersed (H1a4) and concentrated ownership (H1b3 – mentioned in Section 3.1.5) considering their actual shareholdings as follows:

H1a4: Influential cross-holding ownership (Inflcrossh) in dispersed ownership structures is associated with increased firm performance.

Furthermore, this study classifies shareholdings of private individuals, a group of individuals or stakeholders, and government as influential shareholders. This

category of ownership considers the percentage held by individuals, employees (personnel of the firm or other companies), and government offices. This study investigates the actual percentage held by an influential shareholding (H1a5) in dispersed structures as follows:

H1a5: Influential ownership (Infl) in dispersed ownership structures is associated with increased firm performance.

#### 3.1.5.2. Free float

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To account for the impact of all shareholders, this study considers all shares and traces share ownership to its ultimate owners (family, foreign, institutional, influential cross-holding, and influential and free float). This research considers dispersed ownership as a total of 100% ownership and investigates each ownership category based on its actual shareholding and along with other forms of ownership. For example, if a family holds 50% of ownership, foreign owns 10%, institution holds 18%, influential holds 5% and 17% is floated on the stock exchange, then this research investigates the impact of each and all ownership on firm performance. The rationale for the inclusion of free float tests Berle and Means's (1932) findings which assert that diffused ownership negatively impacts firm performance.

H1a6: Free-float ownership (Fflot) in dispersed ownership structures increases firm performance.

To the best knowledge of the author, this is a unique study in considering the totality of ownership and studying all ownership simultaneously.

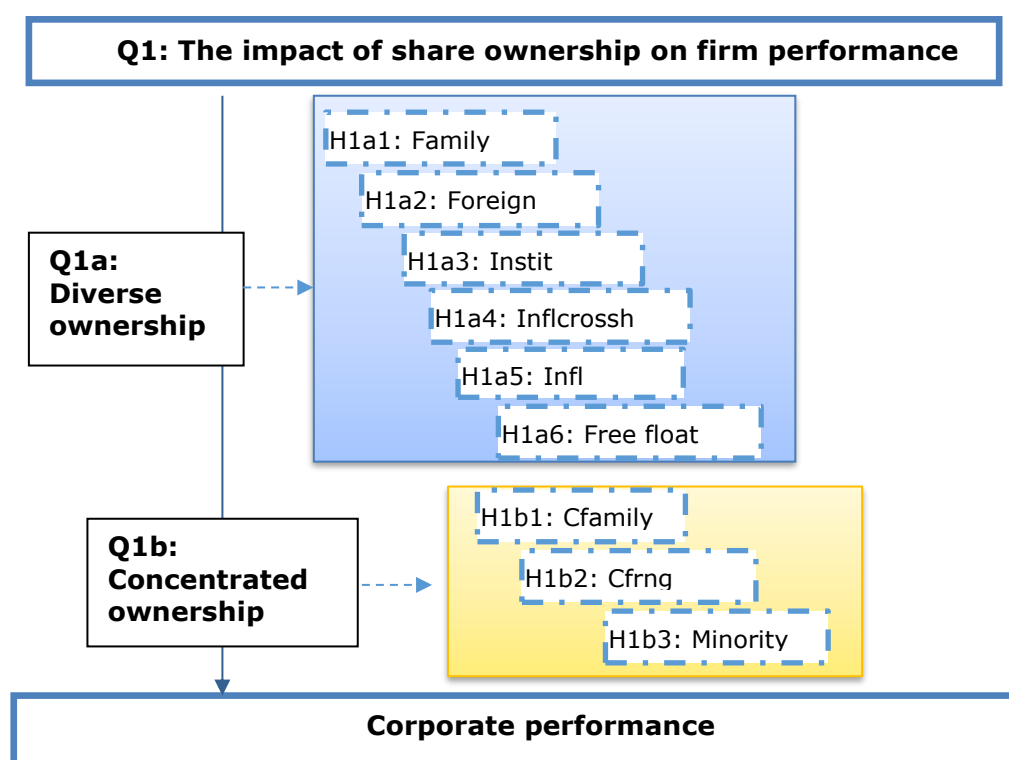
#### 3.1.6. Summary of ownership hypotheses

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This section includes a summary of the investigation of the impact of ownership on firm performance. Figure 3.3 graphically summarises the hypotheses developed within this section. Table 3.1 includes an overview of all the hypotheses.



**Figure 3. 3: Model (1) Impact of ownership on firm performance**



Source: compiled by the author

— Refers to a direct relationship between corporate governance determinants and corporate performance.

— Refers to the effect of additional corporate governance determinants in shaping the relationship between previously investigated governance components and corporate performance (e.g. the presence of shareholders in board leadership influences the impact of ownership on firm performance).

**Table 3. 1: Summary of the hypotheses of the impact of ownership (Q1) on firm performance**

Research sub-questions	Research hypothesis
<b>Q 1: Is there an association between 1) dispersed and 2) concentrated share ownership and firm performance?</b>	H1a1: Family ownership (Family) in dispersed ownership structures is associated with increased firm performance.
	H1a2: Foreign ownership (Foreign) in dispersed ownership structures increases firm performance.
	H1a3: Institutional ownership (Instit) in dispersed ownership structures is associated with enhanced firm performance.

H1a4: Influential cross-holding ownership (Inflcrossh) in dispersed ownership structures is associated with increased firm performance.

H1a5: Influential cross-holding ownership (Inflcrossh) in dispersed ownership structures is associated with increased firm performance.

H1a6: Free-float ownership (Fflot) in dispersed ownership structures increases firm performance.

H1b1: Family ownership concentration ( $C_{family} \geq 50\%$ ) / ( $F_{family} \geq 30\%$ ) decreases firm performance.

H1b2: Foreign ownership concentration ( $C_{frgn} \geq 50\%$ ) / ( $F_{frgn} \geq 30\%$ ) decreases firm performance.

H1b3: Minority shareholding ( $Instit$ ) / ( $Fflot$ ) / ( $Inflcrossh$ ) / ( $Infl$ ) is negatively related to firm performance in concentrated panels;  $C_{family}$ ,  $C_{frgn}$ ,  $F_{family}$  and  $F_{frgn}$ .

Source: compiled by the author

### **3.2. The impact of board leadership characteristics and board of directors' composition on firm performance**

The role of the board of directors varies from one country to another (Pierce, 2011; Dsouli, Khan & Kakabadse, 2013). In addition to national cultural contexts – “concessionist”, where boards seek to maximise shareholder value (Monks & Minow, 2004), and “communitarian”, where boards prioritise the interests of all stakeholders, of which shareholders are an important group, among employees, creditors, the environment and other constituents (Monks and Minow, 2004; Freeman, 1984; Freeman et al. 2010) – boardroom decisions are further influenced at the macro level by prevailing industry and sector conditions or political governance regulatory forces (Dsouli, Khan & Kakabadse, 2013). At the micro level, the firm adopts a position within the marketplace by engaging organisational controllable internal mechanisms (resources, skills, teamwork, internal dynamics)

(Dsouli, Khan & Kakabadse, 2013). The combination of the above cultural dynamics defines corporate organisational lifecycle stages, ownership patterns and board dynamics (Pye and Pettigrew, 2005; Luo, 2007; Minichilli et al. 2012; Dsouli, Khan & Kakabadse, 2013). Together these reflect the philosophy, values and morals that shape the culture of the company and more specifically the culture of the boardroom (Dsouli, Khan & Kakabadse, 2013). In the case of Morocco, it is Islamic values and communitarian thinking that shape the role of the boards; this is because in Morocco the role of the firm extends beyond profit maximisation to that of ensuring shared value while protecting the interests of all its stakeholders in a fast-changing environment with limited resources (Dsouli & Kakabadse, 2012; Murphy & Smolarski, 2018).

Board performance has mainly been researched using archival and survey data through three sets of variables: input (board size and composition), process (board meetings and fiduciary tasks) and output (e.g. an organisation's financial performance and reputation) (Dsouli, Khan & Kakabadse, 2013). Regardless of the research approach, the findings remain inconclusive (Dalton et al., 1998; Bhagat, Bolton & Romano, 2008; Dalton & Dalton, 2011). Most worldwide research on boards focuses on the effect of board composition on firm performance in an Anglo-American context (Eisenberg, Sundgren & Wells, 1998; Bhagat & Black, 2001; Bozec & Dia 2007; Coles, Daniel & Naveen, 2008; Jermias & Gani, 2014) and in developed countries (Loderer & Peyer 2002; Bennedsen, Kongsted & Nielsen, 2004; Hopt & Leyens, 2004; Volonté, 2015; Pellegrini & Sironi, 2017). Evidence from countries with different legal, regulatory and institutional systems is limited, especially with regard to the Arab world (Al-Ghamdi & Rhodes, 2015; Wahba & Elsayed, 2015; Turki & Sedrine, 2012; Elsayed, 2011). There is a clear need for research on the impact of corporate governance in emerging countries, especially in Morocco.

Considering the central role of the board of directors as a control mechanism in determining firm performance (Fama, 1980; Elsayed, 2011; Turki & Sedrine, 2012; Al-Ghamdi & Rhodes, 2015; Wahba & Elsayed, 2015), and drawing on the importance of researching leadership and board determinants in the Moroccan context, this study focuses on the impact on firm performance of leadership

characteristics and board member composition by testing a set of hypotheses which will ultimately answer the following sub-questions:

Q2: Is there an association between board leadership characteristics and firm performance?

Q3: Is there an association between board of directors' composition and firm performance?

This study aims to extend the literature on the effect of board composition on company performance. To the best knowledge of this author, this is the first study that focuses on the impact on firm performance of board leadership characteristics and determinants of board structure in the Moroccan context. Furthermore, this study focuses on investigating the impact of board leadership and determinants of structure based on stakeholder theory (Freeman, 1984). The choice of the stakeholder approach is supported by the nature of the firm being a combination of progressive and conservative (see further Chapter 2, "Guiding theory").

### 3.2.1. The impact of board leadership structure on firm performance

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Leadership structure is an internal market-based mechanism of corporate governance for effective board monitoring and increasing firm performance. This study classifies the attributes of CEO and chairperson as leadership characteristics that are likely to impact firm performance, namely: duality, ownership, tenure and nationality. By testing a set of hypotheses, highlighted in Sections 3.2.1.1–3.2.1.4, this study ultimately investigates the following sub-question:

Q2: Is there an association between board leadership characteristics and firm performance?

#### 3.2.1.1. Leadership structure: CEO–chair separation

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Concerns about the separation of the CEO and chairperson role have been ongoing for the last two decades (Tonello, 2011). While a combined role entails the CEO/chair putting into practice his or her expertise and acting with autonomy and determination – the ultimate leadership role (Davis & Donaldson, 1997) – this

unitary structure could be detrimental for business transparency. The actions of a CEO/chairperson might go unmonitored, which may further pave the way for scandal and corruption, as exemplified in the West by the bankruptcy of Enron, Bank Credit and Commercial International (BCCI), Polly Peck, and Maxwell Publishing (Dsouli, Khan & Kakabadse, 2013).

As a remedy to the conflict-of-interest problem, the separation of the role of chairperson and CEO emerged (Dsouli, Khan & Kakabadse, 2013). The separation of these two roles remains a subject of predilection, country's cultural dynamics and heritage as well as the predominant ownership structure (Dsouli, Khan & Kakabadse, 2013). As noted, some countries separate the two roles while others prefer the single board structure. The separation is supported by a number of CG codes, e.g. in the UK (UK Combined Code of Corporate Governance, 2010–16), the Netherlands (Dutch Corporate Governance Code, 2008), and South Africa (King III, 2009; King IV, 2016), among others. The Moroccan Code of Good Corporate Governance Practices (2008) and all MENA countries' codes call for separation, although in Morocco, Egypt and Tunisia the two positions can be filled by one person, which is not the case for Jordan and the remainder of the GCC countries (Shehata, 2015).

The practice of splitting the two top corporate positions is widespread in most developed countries. Aligned to the separation of roles, the independence of leadership has received much attention (Katz, 2012; Krause, Semadeni & Cannella, 2014). For instance, in the UK, the separation of CEO and chairperson positions is widespread, with less than 4% of the FTSE350 firms having a combined CEO/chairperson (Grant Thornton, 2017). In contrast, within the US, strong single corporate leadership has prevailed for some time (Coombes & Wong, 2004; Hanson & Song, 2000; Brickley, Coles & Jarrell, 1997). Currently, 51% of S&P 500 firms have separated the two roles, considerably lower than the 77% of 15 years ago (Larcker & Tayan, 2016; Spencer Stuart, 2017a). Subject to revised legislative regulations (Higgs Codes, 2010), all UK chairpersons are independent, while within the US S&P 500 28% of firms have an independent chairperson compared to 13% in 2007 (Spencer Stuart, 2017b), which suggests that, after the global financial crisis of 2008, the US is changing its corporate structures endogenously towards independence. In France, although legislation allows for

the splitting of roles (Viénot, 1999), in 2017 52.5% (down from 62.5% in 2012) of French companies still opt for single leadership where the “président directeur-général” (PDG) runs both the board and the company (Spencer Stuart, 2012a, 2017b).

On the one hand, the CEO plays a crucial role as mediator between management and the board, while also managing the business on a day-to-day basis (Kakabadse & Kakabadse, 2001). On the other hand, the chairperson role is more that of a moderator between shareholders, CEO and the board of directors and board committee members. Hence, his or her skill in managing sensitive board relationships, individual egos, and subtly mitigating interpersonal collision is crucial for effective boardroom dynamics (Kakabadse & Kakabadse, 2001). The complementarity of these roles is vital for realising the full potential of board performance (Dsouli, Khan & Kakabadse, 2013).

The CEO–chair impact on firm performance has been primarily investigated from an agency–stewardship theory perspective (Krause, Semadeni & Cannella, 2014). Agency theory suggests the separation of the leadership structure, with the of CEO and chairperson functions separated (Lorsch & MacIver, 1989; Kesner & Johnson, 1990; Rechner & Dalton, 1991; Dahya, Garcia & Van Bommel, 2009; DeRue et al., 2009; Dalton et al., 2007; Dey, Engel & Liu, 2011). Although, the separated, “dual” structure is associated with high firm performance (Rechner & Dalton, 1991) and effective monitoring of the firm (Finkelstein & D’Aveni, 1994; Monks & Minow, 2008; Conger & Lawler, 2009), a preference remains for the joint leadership structure (Anderson & Anthony, 1986; Donaldson, 1990; Lipton & Lorsch, 1992; Finkelstein & D’Aveni, 1994). Stewardship theory supports a joint board structure, also citing a positive contribution to firm performance (Donaldson & Davis, 1991) and clarity in defining who is responsible for firm processes and outcomes (Dahya, Garcia & Van Bommel, 2009; Dey, Engel, & Liu, 2011; Faleye, 2007; Dalton et al., 2007; Baliga, Moyer & Rao, 1996; Finkelstein & D’Aveni, 1994; Lipton & Lorsch, 1992; Donaldson, 1990; Anderson & Anthony, 1986).

Faleye (2007, p. 256), too, claims that pressure to “separate CEO and chairman duties may be counterproductive” and “may not produce the desired results”. This takes us back to the onset of agency theory, whereby Fama and Jensen (1983

a,b) put forward an opposing view to dual structure, arguing that it would limit the ability of the board to monitor the CEO effectively. Despite the eagerness of CG codes to separate CEO and chair roles, there is a little evidence from the literature investigating the CEO–chair relationship from any theoretical setting other than agency and stewardship (Krause, Semadeni & Cannella, 2014). Thus, there is no research examining this relationship from the perspectives of institutional theory (DiMaggio & Powell, 1983), legitimacy (Suchman, 1995), and legitimacy and signalling theory (Krause, Semadeni & Cannella, 2014; Freeman, 1984, 2017). This research fills the gap by examining the impact of separation of CEO and chair through an Islamic stakeholder theoretical lens, which combines Islamic ethics (Beekun & Badawi, 2005), spiritual values (Dsouli, Khan & Kakabadse, 2012) and a Western stakeholder approach (Freeman, 1984, 2015, 2017; Freeman, Wicks, & Parmar, 2004; Freeman et al., 2010) to achieving responsible capitalism (Freeman, 2015, 2017).

Twenty-four years after Finkelstein and D'Aveni's (1994) foundational study on the separation of CEO and chair roles, the study of board leadership is in continuous flux. Large companies are more than ever opting for a separation of CEO and chair roles (Lublin, 2012), something that is applauded by institutional investors and governance advisers (Monks & Minow, 2008). However, the arguments for and against it vary depending on the amount of increased checks and balances, board independence, long-term vision and accountability (DGA, 2004; Coombes & Wong, 2004; Kakabadse, Kakabadse & Barratt, 2006), and the literature findings, thus far, remain inconclusive (Dsouli, Khan & Kakabadse, 2013). Further to the eradication of conflicts of interest (Brickley, Coles & Jarrell, 1997), GMI Ratings data for 180 North American mega-corporations (2012) suggests that the segregation of the two roles leads to the reduction of costs and risks associated with ESG (environmental, social and governance) (GMI Ratings, 2012). This further facilitates improved accountability, greater investor protection, shareholder returns and transparency (GMI Ratings, 2012). Dalton and Dalton (2011) and Dalton et al.'s (1998) studies find no influence of duality on firm performance. Similarly, Jayaraman, Nanda and Ryan (2015) find no evidence for a combined CEO/chairperson hurting shareholders' interests.

Krause and Semadeni (2013) reconciled the disagreement about the impact of a combined CEO/chair role on shareholder value by suggesting that separation should be enacted as a solution to a problem, but is otherwise detrimental. This was confirmed by Krause and Semadeni's (2013) results, which found that the impact on future firm performance was positive if past performance was weak, and negative when past performance was strong. Krause and Semadeni (2013) considered separation necessary in those cases where: 1) the CEO/chair steps down from the CEO role and remains chair while a newly appointed CEO takes over the role ("apprentice"); 2) the CEO departs and two individuals are appointed to take over as CEO and chair ("departure"); 3) the CEO remains in position and an independent chair is appointed ("demotion"). In a similar Quigley and Hambrick (2012) found that the departing CEO who remains as chair has a power that surpasses the newly appointed CEO. This is found to have a pronounced impact on the CEO, which is mainly manifested in the prevention of major declines as opposed to registering big performance gains.

Despite the conflicting evidence prevalent in the literature, the small size of research, and the meta-analyses that indicate no direct relationship between CEO-chair separation and firm performance, scholars continue to research the impact of a dichotomous CEO and chair on firm performance (Dalton et al., 1998; Anderson & Reeb, 2004; Dalton & Dalton, 2011; Quigley & Hambrick, 2012; and Krause and Semadeni, 2013).

Morocco is an interesting case in this regard as, first, Moroccan legislation and its governance code vests the companies with the authority to opt for either single or dual board leadership under the one-tier system. Moroccan firms can also opt for the two-tier system which involves having a board of directors and a supervisory board, but the one-tier system remains predominant among Moroccan listed firms, and the majority of firms have combined CEO and chair roles (Cigna & Mezio, 2016). In line with the Moroccan Code of Good Corporate Governance Practices (2008), an investigation into the separation of CEO and chair roles suggests that the segregation of the two roles is likely to enhance firm performance. Hypothesis H2a tests the impact of the segregation of CEO and chair roles on firm performance



H2a: Leadership structure (Singledual) is associated with increased firm performance.

### *3.2.1.2. Leader-owners*

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Despite the mixed results, scholars claim that the CEO–chair split is more complicated than a simple dichotomy (Daily & Dalton, 1997; Coles & Hesterly, 2000; Dalton & Dalton, 2010; Dalton & Aguinis, 2013; Krause, Semadeni, & Cannella, 2014). Nevertheless, very few studies (e.g. Krause, Semadeni & Cannella, 2014) acknowledge the multifaceted nature of the CEO–chair split and call for more conclusive research.

The literature seems to have ignored the fact that decisions about separation are predominately determined by the history of the company and the preference and influence of its leaders (Krause, Semadeni & Cannella, 2014). This was captured in Daily and Dalton’s studies (1992, 1993) which found no effect of the separation on firm performance using market- and accounting-based performance measures. It can be posited that founders’ power over the board’s leadership structure remains even after their departure from the firm (Nelson, 2003). Similarly, dominant families or investors influence the structure of leadership especially if they are represented on the board (Anderson & Reeb, 2004).

The concentration of ownership among Moroccan companies (El Bouanani, 2014; US Department of State, 2015) implies an influence of founders on their leadership (Nelson, 2003). This study investigates CEO/chairs in family- and investor-dominated enterprises. The examination of the implications of owners in the leadership of Moroccan firms posits that an owner (or representative) CEO/chair can enhance firm performance. Hypothesis H2b test this relationship.

H2b1: Having owners (or representatives) as CEOs (Ceoown) increases firm performance.

Hypotheses H2b is in line with Bartholomeusz and Tanewski’s (2006) findings, which suggest that insider knowledge of firm affairs allows for more effective monitoring in family firms. This study does not consider having a chair owner as this is controlled for by the separation of chair-CEO role.

### *3.2.1.3. Leadership tenure*

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Leadership tenure, or period spent in office as a leader, reflects the leader experience, which plays an important role in determining firm performance. CEO tenure is among the most studied CEO characteristics (Wang et al., 2016; Im and Cao, 2015). The impact of CEO leadership is determined by the CEO's cognitive paradigms which shape his/her actions over time. At first, a CEO's innovative and entrepreneurial risky actions are constrained by his/her limited knowledge of the firm. As CEO tenure increases, the CEO gains knowledge and power to achieve his/her aspirations, and his/her achievements as the head of the company are at their peak. However, at some point in time, his/her success starts to wane and eventually decreases (Hambrick & Fukutomi, 1991; Boling, Pieper & Covin, 2016). This has previously been characterised as a CEO tenure lifecycle, wherein a CEO initially learns rapidly but grows stale as a result of losing touch with the external environment (Henderson, Miller & Hambrick, 2006).

CEO tenure has been widely researched from the upper-echelon theory perspective (Finkelstein, Hambrick & Cannella, 2009; Wang et al., 2016), the majority of studies reporting that the longer-tenured CEO is associated with limited strategic action, rigidity, persistence and a commitment to the status quo (Finkelstein & Hambrick, 1990). The long-tenured CEO usually accumulates power and autonomy over time, surrounding him/herself with like-minded people on the board (Acharya & Pollock, 2013; Zajac & Westphal, 1996), and acquiring the knowledge and skills to resist pressure from other stakeholders (Meyer, 1975). As a result, CEOs often become "stale in the saddle" (Miller, 1991), becoming too concerned about their legacies to pursue new and risky initiatives (Matta & Beamish, 2008).

Conversely, when CEOs are newly appointed, they are exposed to a higher risk of dismissal (Shen & Cannella, 2002). Therefore, CEOs at this stage are fully invested in proving their competence, which is often reflected in new strategic actions (Prendergast & Stole, 1996). Some CEOs might seek allies and support for their strategic actions from well-established knowledgeable top management or board members (Shen, 2003; Westphal, 1998). But it is the nature of the external environment and the CEO's flexibility in adapting to change that determines the

CEO's success. CEOs in stable industries enjoy more prolonged periods of effectiveness, whereas in volatile dynamic industries CEOs' performance peaks at an early stage and declines after a brief time in office (Henderson, Miller & Hambrick, 2006).

CEO tenure has either a positive or negative impact on firm performance depending upon the CEO's lifecycle seasons (Miller & Shamsie, 2001). Hambrick and Fukutomi's (1991) leader lifecycle theory claims an inverse relationship between CEO tenure and firm performance. The theory records five phases in the CEO-firm performance relationship, namely: response to the mandate; experimentation; selection of an enduring theme; convergence; and dysfunction. The performance is at its peak during the first years/phases and fades after six years (Hambrick, Geletkanycz & Fredrickson, 1993). Several other studies document similar results (Henderson, Miller & Hambrick, 2006; Miller & Shamsie, 2001).

The CEO tenure and firm performance relationship is determined by the CEO's relationship with the firm's internal and external stakeholders (Luo, Kanuri & Andrews, 2014). Longer CEO tenures strengthen employees' identification with the firm, which in turn positively impacts firm performance (Luo, Kanuri & Andrews, 2014). Unlike a new CEO, longer-tenured CEOs are less inclined to respond to consumer needs (Luo, Kanuri and Andrews, 2014). New CEOs are more effective in catering to the needs of the market and adjusting to the external environment, which in turn enhances firm performance (Luo, Kanuri & Andrews, 2014). Thus, short CEO tenure is more welcomed by the external stakeholders. Nevertheless, short-tenured CEOs are less experienced in assessing risk than their longer-tenured counterparts, who are far more knowledgeable and more likely to shape top management team (TMT) strategic risk-taking (Simsek, 2007).

CEO tenure is tied up with positive firm performance: longer tenure is usually the result of improved firm financial performance (Dikolli, Mayew & Nanda, 2011). Authors have associated poor firm performance with CEO dismissal by investigating CEO turnover. Dikolli, Mayew and Nanda (2011) reported a four-year threshold in which CEOs have to improve financial results to retain their position.

CEO tenure and governance characteristics are endogenous: longer CEO tenure implies weaker governance (Dikolli, Mayew & Nanda, 2011). Dikolli, Mayew and Nanda (2011) report a positive association between CEO tenure and CEO ownership and single leadership (where the CEO is also the chairperson), and a negative association with board independence, director share ownership and the number of board meetings. Controlling for these endogenous effects, Schmid, Limbach & Scholz (2016) claim a hump-shaped relationship between CEO tenure and firm performance, which depends on the variation in industry dynamics, business cycle and CEOs' adaptability to change. Im and Cao's (2015) meta-analysis of the CEO tenure and firm financial performance relationship reconciles the differences, establishing that CEO tenure is positively associated with increasing firm performance. Im and Cao (2015) claim that CEO founder status, ownership, and presence of independent board members intensifies the CEO tenure–firm performance relationship. Drawing on the above, this investigation of the impact of CEO tenure on Moroccan firm performance suggests that CEO tenure enhances firm performance. Hypothesis H2c1 tests the CEO tenure–firm performance relationship.

H2c1: The long-term tenure of the CEO (Ceotenure) is likely to enhance firm performance.

Chair tenure as an antecedent of firm performance is less explored than that of CEO tenure. As with CEO tenure, short chair tenure is predetermined by ownership power (Udueni, 1999) and expertise (McNulty, 2011). A chairperson with a substantial ownership share (chair founder) is less likely to depart in cases other than stepping down voluntarily for medical reasons (or death). The tenure of the independent chair, on the other hand, is subject to performance, either in the form of a poorly performing board or CEO resulting in lower firm financial performance (Florou, 2005). Florou (2005) found that a chairperson is likely to depart following declining performance by a CEO, either because that chairperson was involved in the CEO's selection or simply because he or she developed strong ties with the CEO and therefore became ineffective in imposing discipline for poor performance. Yet McNulty (2011) found that longer-tenured chairs are more likely to acquire expertise and power by gaining insider knowledge of the business. Kakabadse and Kakabadse (2007) found that a long-tenured chair – with 12–15 years in the post

– is more effective in carrying out his or her duties and has a greater understanding of the firm's strengths and weaknesses. In line with Kakabadse and Kakabadse (2007) and McNulty (2011), this examination of the impact of chair tenure on firm performance claims that chair tenure is in alignment with increased firm performance. Hypothesis H2c2 tests the chair–firm performance relationship:

H2c2: The long-term-tenured chairperson (Chairtenure) is likely to enhance firm performance.

#### *3.2.1.4. Leadership nationality*

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Nationality is a personal leadership characteristic that has been solely investigated from the CEO/chair perspective (Ziadi, Zouaoui & Rhouma, 2017). The CEO performance literature has demonstrated that CEOs' different places of birth are associated with different revenues to stockholders (Jalbert et al., 2007). However, Horton, Millo and Serafeim (2012) excluded CEO nationality from their study, claiming that there is no theoretical framework from either a human capital or networking perspective that posits that any specific nationality performs better or worse than another. Nonetheless, Sebbas (2017) has indicated that CEOs of different nationalities are likely to bring different international experience and managerial styles which can present a mismatch with the local management style, which in turn is likely to negatively impact firm performance. Sebbas (2017) found that firms with a foreign CEO perform better than average. CEO nationality has mainly been investigated from a succession (Georgakakis & Ruigrok, 2017) and compensation perspective (Horton, Millo & Serafeim, 2012; Jalbert et al., 2007), and focuses only on one country or region (Sebbas, 2017)

Multinational companies are likely to recruit from an internal pool of candidates with insider knowledge of the firm, which is likely to make the TMT more homogenous (Keck & Tushman, 1993). Carpenter, Sanders and Gregersen (2001) found that a CEO's international experience improved a multinational's performance. However, Gong (2003) found that, regardless of CEO nationality, the effectiveness of the CEO of a multinational subsidiary contributes to positive firm performance only if coupled with a competent TMT. Daily, Certo and Dalton (2000), Kirca et al. (2012), Hsu, Chen and Cheng (2013) and Le and Kroll (2017) investigated CEOs' international experience in relation to enhancing firm

performance. Le and Kroll (2017) found that 387 new CEOs with international experience had a positive effect on firm performance and strategic change. Hsu, Chen and Cheng (2013) found that international experience, as well as age, duality and education level, moderates the effect of the relationship between business internationalisation and firm performance for 187 Taiwanese SMEs expanding their businesses. The high presence of foreign ownership in Moroccan firms implies different CEO nationalities on their boards. This investigation of the impact of CEO nationality on Moroccan firm performance claims that foreign CEOs enhance firm performance (H2d1). This study therefore tests the following hypothesis:

H2d1: The presence of non-Moroccan CEO (Ceonal) is associated with increased firm performance.

Unlike CEO nationality, chair nationality is unresearched (Ziadi, Zouaoui & Rhouma, 2017, Amran et al., 2014). While Ziadi, Zouaoui and Rhouma (2017) found that chair attributes – namely, nationality, age, education and duality – do not affect firm performance within the CAC40 top French listed companies in the period 2010–14, Amran et al. (2014) showed that there is a relationship between a chairperson's ethnicity and age – as well as the firm's age and size – and firm performance for government-linked Malaysian firms listed between 2005 and 2009. Based on the above set of arguments, and considering the high presence of foreign investment in Moroccan firms, this study suggests that chair nationality enhances firm performance. Hypothesis H2d2 tests the chair–firm performance relationship.

H2d2: The presence of non-Moroccan chairperson (Chairnal) is associated with increased firm performance.

### 3.2.2. The impact of board composition on firm performance

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There is a continuous body of multidisciplinary primary narrative research (e.g. Walsh & Seward, 1990; Bhagat, Bolton & Romano, 2008; Dalton et al., 2007) and meta-analysis (Dalton et al., 1998; Wagner, Stimpert, & Fubara, 1998; DeRue et al., 2009; Rhoades, Rechner & Sundaramurthy, 2000) dedicated to the issue of board composition and its relationship with financial performance. This research

extends over many years and relies on multiple operationalisations of board composition (Daily, Johnson & Dalton, 1999) and indicators of firm financial performance such as return on assets, return on equity, return on investment, Tobin's Q, return on sales, shareholder returns, earnings per share, abnormal returns, Jensen's Alpha, market-to-book ratio, price-to-earnings ratio, and profit margin (e.g. Dalton et al., 1998; Rhoades, Rechner, & Sundaramurthy, 2000; DeRue et al., 2009). The findings of these researchers are that there is no evidence of a systematic relationship between board composition and firm performance (Chaganti, Mahajan & Sharma, 1985; Kesner, Victor & Lamont, 1986; Zahra and Stanton, 1988; Walsh & Seward, 1990; Daily and Dalton, 1992, 1993; Fogel & Geier, 2007; Bhagat, Bolton & Romano, 2008; Coles, Daniel & Naveen, 2008; Bebchuk, Cohen & Ferrell, 2009; Dalton & Dalton, 2010).

Most of the above studies are based in the West, so there is a need to reconcile the findings with the Moroccan context. This study classifies the attributes of board composition that are likely to impact firm performance, namely: board size, board independence versus insider boards, gender diversity and foreign board members. The choice of these attributes and the rationale for investigating their impact on Moroccan firm performance is included in Sections 3.2.2.1–3.2.2.4. This study tests a set of hypotheses with the ultimate goal of answering the following sub-question:

Q3: Is there an association between board of directors' composition and firm performance?

#### 3.2.2.1. Board size

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The size of the board, the number of board members (Jensen & Meckling, 1976), is known to be a significant factor in determining corporate governance efficiency (Pearce & Zahra, 1992). However, there is no consensus on the optimal board size: many studies propose that it should comprise between seven and fifteen members (Ogbechie, Koufopoulos & Argyropoulou, 2009), whereas others contend that it should be limited to a maximum of seven or eight (Lipton & Lorsch, 1992). Communication and coordination in large boards are complicated, and the agency problems and conflicts of interest are greater (Turki & Sedrine, 2012) and more costly to address (Topak, 2011). Larger boards are generally associated with

lower firm performance (Cheng, 2008), and, conversely, smaller boards are associated with positive firm performance (Turki & Sedrine, 2012; Barnhart & Rosenstein, 1998). However, Dallas (2001) and Dalton et al. (1998) report that larger boards enhance decision-making by providing greater expertise, which is more effective in averting corporate failure. Also, by bringing in a variety of skills and experience, larger boards are found to be effective in monitoring the CEO's performance (Zahra & Pearce, 1989).

As stated, the literature delivers mixed results about the relationship between firm performance and board size. Yermack (1996), Eisenberg, Sundgren and Wells (1998) and Cornett, Marcus and Tehranian (2008) found a negative relationship whereas Pfeffer (1972), Pearce and Zahra (1992), Mak and Li (2001), Kiel and Nicholson (2003), Bonn, Yoshikawa and Phan (2004), Adams and Mehran (2005), Al-Ghamdi and Rhodes (2015), Ghabayen, Mohamad and Ahmad (2016) and Tulung and Ramdani (2018) found a positive one; other studies found no statistically significant relationship, namely: Bhagat and Black (2001), Chen et al. (2005), Black, Jang & Kim (2006), Fooladi (2012) and Ghabayen (2012). Based on the above, this study seeks to reconcile the literature findings, assuming that the large size of the Moroccan boards – eight members on average (Cigna & Meziou, 2016), which is really the maximum suggested size of the boards (Lipton & Lorsch, 1992; Jensen, 1993) – is likely to hinder firm performance (H3a). This study investigates the impact of board size on Moroccan firm performance by testing the following hypothesis:

H3a: A larger board of directors (Bodsize) negatively impacts firm performance.

#### 3.2.2.2. Board independence versus board insiders (owners and executives)

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Boards of directors developed within the modern corporation (Berle & Means, 1938) to resolve the agency problem arising between shareholders who are distant from management and managers who are highly involved in day-to-day business (Jensen & Meckling, 1976; Fama, 1980; Fama & Jensen, 1983a,b; Eisenhardt, 1989; Dey, 2008). In view of this, it has been argued that effective boards consist of a greater proportion of outside directors – “independent directors” – who are not affiliated to the corporation's management (Lorsch & MacIver, 1989; Zahra &



Pearce, 1989; Dalton et al., 2007; Fogel & Geier, 2007). Independent directors are considered an important corporate governance mechanism for monitoring managers (Bhagat, Bolton & Romano, 2008) and are thought to reduce agency problems and enhance firm performance (Baysinger & Butler, 1985; Schellenger, Wood & Tashakori 1989; Rosenstein & Wyatt, 1990; Pearce & Zahra, 1992; Ezzamel & Watson 1993). The positive effect of board independence on firm performance has been supported by recent studies such as Kiel and Nicholson (2003), Cho and Kim (2007), Coles, Daniel and Naveen (2008), Cornett, Marcus and Tehranian (2008), Knyazeva, Knyazeva and Masulis (2013) and Chen, Cheng and Wang (2015).

An alternative perspective to agency theory is that managers are good stewards that work diligently to maximise shareholders' wealth (Donaldson, 1990; Donaldson & Davis, 1991, 1994). Because of the benefits that insider firm managers can potentially bring to the enterprise, studies adopting the stewardship theoretical lens display a proclivity towards them (e.g. Baysinger & Hoskisson, 1990; Baysinger, Kosnik & Turk, 1991; Hoskisson, Johnson, & Moesel, 1994). For instance, Baysinger and Hoskisson (1990) associate insider directors with the effective evaluation of top managers, whereas Baysinger, Kosnik and Turk (1991) find a positive relationship between insider managers and R&D spending. Also, in early studies, insider directors are found to be firm performance enhancers (Vance, 1964; Kesner, 1987).

In line with this argument, the positive relationship between board independence and firm performance has been challenged by several authors, with Bhagat and Black's (2001) results rejecting the hypothesis that greater board independence enhances firm performance. Similarly, Klein (1998) and Yermack (1996) have found that reliance on outside directors leads to poor performance. This is supported by the results of Al-Ghamdi and Rhodes (2015) and Wahba and Elsayed (2015). However, Zahra and Pearce (1989), Prevost, Rao & Hossain (2002), Connelly and Limpaphayom (2004) and Turki and Sedrine (2012) found no statistically significant relationship between board independence and firm performance.

Despite these mixed results, most corporate governance codes call for greater board independence; for instance, the UK Code of Corporate Governance encourages companies to have a board with at least 50% of the members independent (i.e. UK Corporate Governance Code, 2016). This 50% entails a mixture of insider and outsider board members, so companies could get the best of both worlds. The Moroccan Code of Good Corporate Governance Practices (2008) includes guidelines for board independence, but does not offer guidelines for a minimum number of independent board members (Moroccan Code of Good Corporate Governance Practices, 2008; Shehata, 2015), nor is the definition of independence included there comprehensive (Cigna & Meziou, 2016). Based on the above, this research advocates that board independence is of great importance to Moroccan firms as it assumes that independence enhances firm performance (H3b1).

H3b1: The presence of independent board members (Indbod) is likely to enhance firm performance.

While the Moroccan code calls for independence, Moroccan law<sup>14</sup> does not require companies (except banks) to have independent board members: it only requires them to have a majority of non-executive members. Also, the law requires all board members to be shareholders, and legal entities may serve on boards, which is “an observed common practice” (Cigna & Meziou, 2016). The concentration of ownership among Moroccan companies (El Bouanani, 2014; US Department of State, 2015) implies the influence of founders on their leadership (Nelson, 2003), and suggests that dominant families or investors influence the structure of the board (Anderson & Reeb, 2004). This investigation of the presence of owners as board members proposes that owners enhance firm performance. Hypotheses H3b2 tests this relationship.

H3b2: The presence of owners as board members (Ownbod) is likely to enhance firm performance.

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<sup>14</sup> The primary governance legislation in Morocco is the Commercial Code, the Investment Charter, the Law on Partnerships, Limited Partnerships, Limited Partnership by Shares, Limited Liability Companies and Joint Ventures; and the Law on Public Limited Companies (Cigna & Meziou, 2016).

The long-term orientation of family firms (Wang, 2006), their risk-averseness (Shleifer and Vishny, 1997; Maug, 1998), and their insider knowledge of the firm (Bartholomeusz & Tanewski, 2006) underpin the development of this hypothesis.

Additionally, the board is likely to be populated with executive members that are not owners and not independent. Therefore, this study contends that the presence of executive board members enhances firm performance (H3b3), in that executive inside directors play a governance agency role in safeguarding the contractual relationships between the firm and the board and the firm and the shareholders (Williamson, 1985). Running the day-to-day business, an executive brings business expertise and relevant knowledge to the board (Fama & Jensen, 1983a; Klein, 1998). This makes executives the preferred choice for staffing boards in emerging economies (e.g. Malaysia) (Shakir, 2008), Morocco being no exception. Hypothesis H3b3 tests the impact of the presence of executives in enhancing firm performance among Moroccan firms.

H3b3: The presence of executive directors (Excbod) is likely to enhance firm performance.

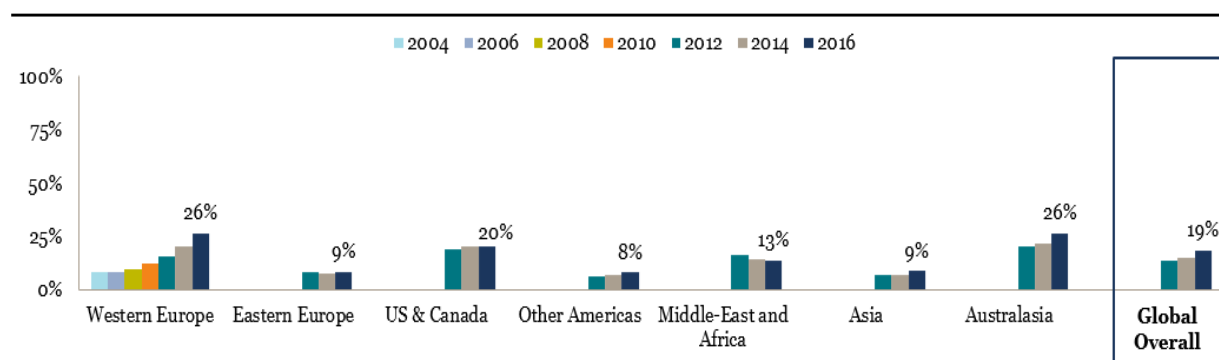
#### 3.2.2.3. Gender diversity

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Over the years scholarly contributions on the subject of board diversity have explored visible factors (gender, age, ethnicity) and invisible ones (education, values, personality, skills) (Milliken and Martins, 1996; Petersen, 2000; Watson, Johnson & Merritt, 1998). At a time when corporate transparency is fast becoming a necessity (Rivas, 2012) rather than a competitive advantage (Porter, 1985), the endogenous institution of the board of directors (Hermalin and Weisbach, 2003) remains reluctant to diversify (Harvey Nash, 2012).

Demographically, the most noticeable change in Western corporations has been the introduction of legislation in countries such as Norway (2004), Spain (2008) and France (2011) imposing quotas for female representation on boards (Ahern & Dittmar, 2011; Davies Report 2011; Davies Report, 2015). However, Zahidi (2012) maintains that corporate gender equality remains a myth and indeed female representation varies significantly across regions, as indicated in Figure 3.4.

**Figure 3. 4: Percentage of board positions held by women**

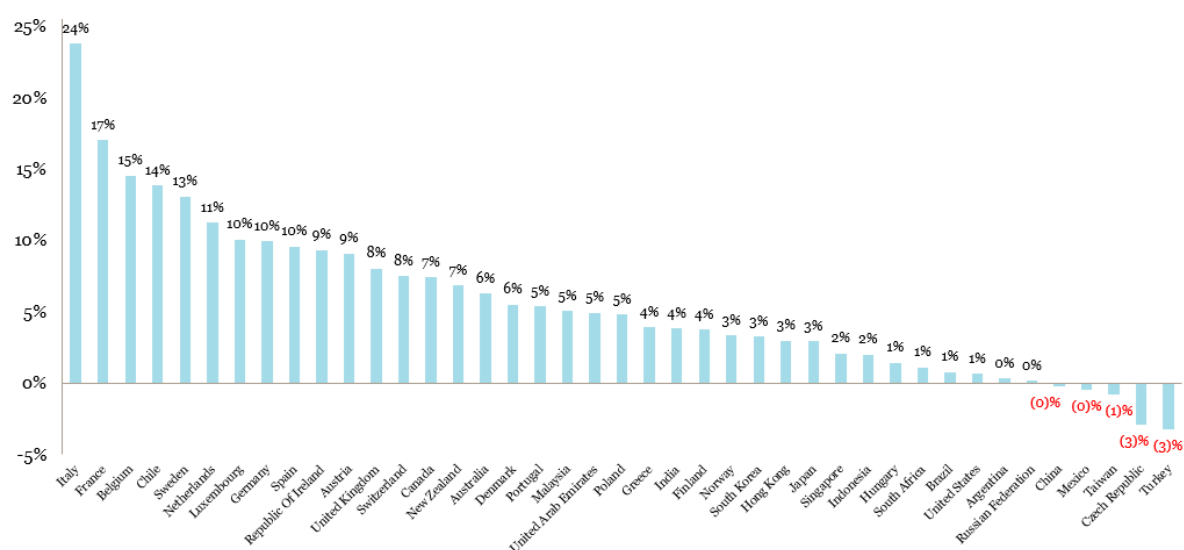


Source: Egon Zehnder (2016)

The extant literature supports a business rationale for legislation on female representation (Shrader, Blackburn & Iles, 1997; Carter, Simkins & Simpson, 2003; Schwartz-Ziv, 2012) whereby better strategic input, leadership style and balanced decision-making are indicated (Catalyst, 1995). However, this should be recognised as distinct from role modelling and stakeholder satisfaction motives, which imply tokenism or numerical representation (Scherer, 1997). In Figure 3.4, Australasian (Australia and New Zealand) and Western European (specifically Scandinavian) countries lead the world in terms of board gender diversity, followed by the US and Canada. Middle Eastern and African countries boards are slightly more diverse than those of Asian and other American countries. In line with the average figure for the African and Middle East region (Figure 3.4), female board representation within Moroccan listed firms is around 10% (El Bouanani, 2014).

Figure 3.5 shows that countries across the world have registered a significant increase in female board representation between 2012 and 2016. While certain countries (e.g. Continental European countries such as Belgium, France and Italy) are prioritising gender diversity, others (e.g. Turkey, Taiwan and the Czech Republic) are lagging behind. The rest of the world is yet to catch up with the idea of balanced gender representation. Importantly, it should be reinforced that in a merit-based democracy culture should not create a barrier against equality of opportunity (Dsouli, Khan & Kakabadse, 2013).

**Figure 3. 5: Percentage change of female-held board positions over the four-year period 2012–16**



Source: Egon Zehnder (2016)

The impact on firm performance of improved gender balance on boards has been positive in the US (Erhard, Werbel & Shrader, 2003), while studies in Denmark suggest no correlation (Rose, 2007). This is maybe justified by the positive influence of female-friendly governance systems in Norway, Sweden and Denmark which offer higher-order social benefits and employment regulation for family life planning. The ongoing legal issue in Europe about whether positive discrimination is fair (BBC, 2012) foregrounds the argument for merit-based, gender-blind appointments that simply recognise skills and experience.

Research suggests that, while gender equality may be a positive factor and a desirable goal, having a supply of highly skilled and educated women on the job market is a prerequisite before quotas are imposed by legislation (Dsouli, Khan & Kakabadse, 2013). Having said that, such a legal requirement (Reding, 2011) may, over time, foster more highly educated female role models and stakeholders (Catalyst, 1995) for subsequent generations. An earlier adopter of such legislation in 2004, Norway is known in board circles for the phenomenon of the “Golden Skirts”, which refers to a group of 70 female board members who sit on multiple boards to meet the quota requirements (Vinnicombe & Sealy, 2012). Beyond Norway, Kaczmarek, Kimino and Pye (2012) have noted that multiple directorships typically attract regulators’ attention in the UK, as the Walker Report (2009)

attests. In this respect, the US Securities and Exchange Commission Requirement Regulation S-K, Item 407(c) advocates increased transparency as part of ethical board recruitment processes (Schwartz-Ziv, 2013).

In contrast to the mainstream literature, which links board composition to firm performance (Erhardt, Werbel & Shrader, 2003; Ahern and Dittmar, 2011; Erhard, Werbel & Shrader, 2003), an alternative perspective (Hermalin and Weisbach, 2003) posits that boards should be understood on the basis of their actions and the situation in which the firm finds itself. In this regard, the unique lens of Schwartz-Ziv (2013) taking us “inside the black box” of the boardroom (Daily, Dalton & Cannella, 2003; Leblanc, 2004) contends that men and women have different qualities from a management/supervisory point of view, whereby women are more communicative, active participants and prefer small networks, whereas men are more likely to take action individually and decisively. In this respect, male-dominated boardrooms lack the holistic qualities needed for high-performing board teams (Sonnenfeld, 2002; Payne, Benson & Finegold, 2009).

Looking for direct links between firm performance and board gender balance using linear relationships and correlations uncovers mixed results: Krishnan and Park (2005), Ren and Wang (2011), Mahadeo, Soobaroyen and Hanuman (2012), Lückerath-Rovers (2013) and Hoobler et al. (2018) all found a positive relationship, whereas Inmyxai and Takahashi (2012) and Pathan and Faff (2013) found a negative one. Still other researchers found a non-significant relationship (Zhang, Zhu & Ding, 2013; Jia & Zhang, 2013; Dezsö & Ross, 2012; Manner, 2010). The results are hence inconclusive.

In line with these findings, and building on the Moroccan Code of Good Corporate Governance Practices (2008) call for gender diversity and the Gender Equality and Parity in Morocco Act (2015), this study contemplates that gender diversity on the board promotes value among Moroccan firms. The Moroccan Code of Good Corporate Governance Practices (2008) calls for diversity of gender as well as of nationality:

The composition of the governing body is critical in enabling it to fulfil its role in the best possible way. It must be made up of members with integrity and

competence who are well informed and involved, and who impart a diversity (in terms of training, professional experience, male-female balance, age, nationality, etc.) that will help lead to genuine debate and steer clear of a systematic search for consensus (Pp.15). Hypothesis H3c tests the positive impact of gender on Moroccan firm performance:

H3c: The presence of female board members (Fembod) is likely to enhance firm performance.

To the best knowledge of this author, no prior study has investigated the impact of women on the board in the Moroccan context. Therefore, this study is the first of its kind in Morocco.

#### 3.2.2.4. Foreign board

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Globalisation and trade liberalisation has resulted in the internationalisation of the boardroom (Dsouli, Khan & Kakabadse, 2013). Staples's study (2007) reports that, in 2005, 75% of transnational corporations had at least one non-national home country board member, indicate a considerable uptick from previous years (36.3% in 1993) (Gillies and Dickinson, 1999). However, only 10% of these corporations are governed by a majority of non-national members (Staples, 2007). More interestingly, post-global financial crisis (Knyght et al., 2011b), European boards averaged 23% non-national directors, which is an increase of 11% from 2008 (Heidrick and Struggles, 2009).

A larger cross-sectional study of 20,000-plus firms operating in 98 countries (Miletkov, Poulsen & Wintoki, 2012) concluded that younger firms with a larger number of international shareholders and significant foreign operations are more likely to have foreigners on their board. Also, companies operating in countries with relatively low human capital are more likely to have foreigners on their boards (Miletkov, Poulsen & Wintoki, 2012). However, interestingly, the results do not support a relationship between foreign directors and firm performance. This seems to suggest that the new generation of corporations is looking beyond geographic borders for financing and market opportunities, while at the same time the global talent pool is open for recruitment (Dsouli, Khan & Kakabadse, 2013). Where talent is restricted locally, a corporation can import it to add value to the firm.

Interestingly, there is a negative correlation between financial performance and internationalisation of boards for firms operating in situations of developed-market equity, higher education and strong legislative institutions (Miletkov, Poulsen & Wintoki, 2012). The internationalisation of board members is not randomly distributed, as the decision to recruit independent foreign board members depends on firm size, shareholder structure and the potential costs and benefits associated with this diversification (Rivas, 2012).

European countries dominate FDI inflows to Morocco, with France having topped the list for several years (Santander Trade, 2017). France has 500 subsidiary companies in Morocco across sectors (Santander Trade, 2017). Foreign companies, especially from the EU, are likely to recruit from the European talent pool, either from the parent company's country or other European countries. This study contends that the presence of foreign board members (H3d) is associated with increased firm performance. Hypothesis H3d tests the impact on firm performance of the presence of foreign members on the board of directors.

H3d: The presence of foreigners on the board of directors (Frgrnbod) is likely to enhance firm performance.

The rationale for this hypothesis is supported by a need to focus not only on the direct impact of foreign ownership on firm performance but also on how foreign actors are embedded in the governance system (Ahmadjian & Robbins, 2005). This is further supported by Desender et al.'s (2016) findings which suggest that a board monitoring role is achieved when shareholder-oriented foreign ownership is high and that the influence of foreign ownership is especially strong in firms without large domestic owners and with high levels of risk and poor performance.

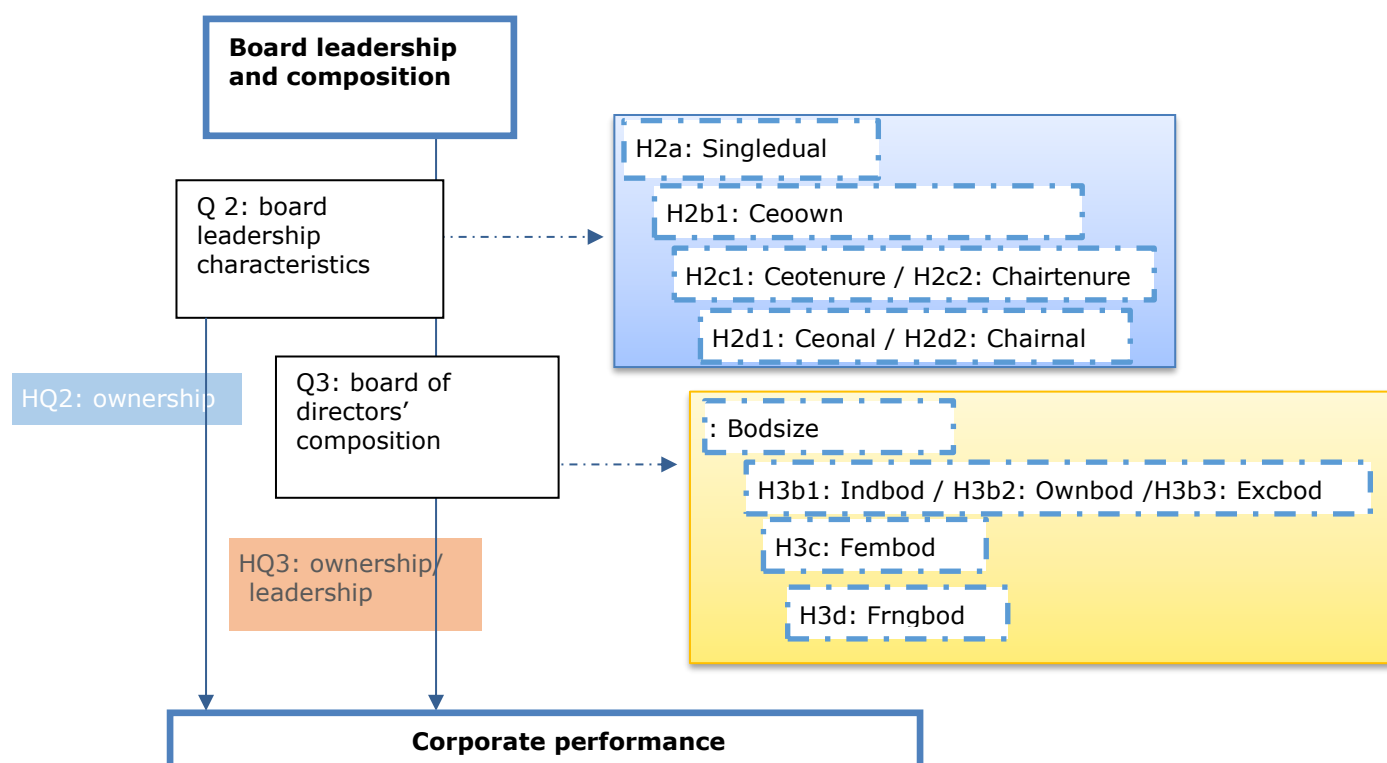
### 3.2.3. Summary of the board leadership and board composition hypotheses

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This section includes a summary of the hypotheses investigating the impact of board leadership characteristics and board composition on firm performance. Figure 3.6 graphically summarises the hypotheses developed within Section 3.2. Table 3.2 presents an overview of all the hypotheses tested within this section.



**Figure 3. 6: Model (2): Impact of board leadership and composition on firm performance**



Source: compiled by the author

— Refers to a direct relationship between corporate governance determinants and corporate performance.

— Refers to the effect of additional corporate governance determinants in shaping the relationship between previously investigated governance components and corporate performance (e.g. the presence of shareholders in board leadership influences the impact of ownership on firm performance).

**Table 3. 2: Summary of the hypotheses of the impact of board leadership (Q2) and board of directors' composition (Q3) on firm performance**

Research sub-questions	Research hypothesis
<b>Q2: Is there an association between board leadership characteristics and firm performance?</b>	<p>H2a: Leadership structure (Singledual) is associated with increased firm performance.</p> <p>H2b: Having owners (or their representatives) as CEOs (Ceoown) increases firm performance.</p> <p>H2c1: The long-term tenure of the CEO (Ceotenure) is likely to enhance firm performance.</p> <p>H2c2: The long-term tenure of the chairperson (Chairtenure) is likely to enhance firm performance.</p>

	<p>H2d1: The presence of non-Moroccan CEO (Ceonal) is associated with increased firm performance.</p> <p>H2d2: The presence of non-Moroccan chairperson (Chairnal) is associated with increased firm performance.</p>
<p><b>Q3: Is there an association between the board of directors' composition and firm performance?</b></p>	<p>H3a: A larger board of directors (Bodsize) negatively impacts firm performance.</p> <p>H3b1: The presence of independent board members (Indbod) is likely to enhance firm performance.</p> <p>H3b2: The presence of owners as board members (Ownbod) is likely to enhance firm performance.</p> <p>H3b3: The presence of executive directors (Excbod) is likely to enhance firm performance.</p> <p>H3c: The presence of female board members (Fembod) is likely to enhance firm performance.</p> <p>H3d: The presence of foreigners on the board of directors (Frngbod) is likely to enhance firm performance.</p>

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Source: compiled by the author

### 3.3. The impact of top management team composition on firm performance

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Top management team (TMT) demographics – age, tenure and education – have been widely researched in the strategy literature (e.g. Carpenter, Gelektanycz & Sanders, 2004; Hambrick, 2007). Prior strategy research literature has established that TMT demographic heterogeneity is associated with a propensity for change (e.g. Grimm & Smith, 1991; Wiersema & Bantel, 1992) and firm performance (Glick, Miller & Huber, 1993; Hambrick, Cho & Chen, 1996; Kilduff, Angelmar, & Mehra, 2000; Simons, Pelled & Smith, 1999). Also, the entrepreneurship literature has found that TMT demographic characteristics influence firm strategy and performance (e.g. Certo et al., 2009; Cooper & Bruno, 1977; Daily et al., 2003; Eisenhardt & Schoonhoven, 1990; Gilbert, McDougall & Audretsch, 2006; Weinzimmer, 1997; Zimmerman, 2008).

Moreover, research on the impact of the board of management or TMT from a CG perspective has focused mainly on TMT compensation (Junqing, Zuhui & Yongxiang, 2003; Altuwaijri, 2016; Burrows, 2018), TMT turnover (Cho & Shen, 2007) and CSR (Mugwang'a et al., 2018). But TMT composition remains unresearched in the field of CG, especially in emerging markets (Aguilera & Haxhi, 2018), and in countries with high concentrated ownership (e.g. Italy) (Napoli, 2018) where TMTs play a key role in governance. Accordingly, this study researches the impact on firm performance of board of management composition; the rationale behind the inclusion of the board of management as an internal market-based CG mechanism in this study is supported by the Moroccan Code of Good Corporate Governance Practices (2008). This study will refer to the "top management team" as the "board of management" for data collection and hypotheses formulation. "top management team" and "board of management" are used interchangeably for the remaining of this study

The Moroccan Code of Good Corporate Governance Practices (2008, p. 28) defines the governing body as follows: "In a joint stock company, the governing body is the Board of Directors (in a monist structure), or the Supervisory Board or Management Board depending on the case (in a dual structure). For the other forms of companies, the governing body is the management." This implies that, in the absence of a board of directors or supervisory board, the management board plays a vital role in corporate governance. Accordingly, this study investigates the impacts on firm performance of the board of management composition as effective internal market-based corporate governance mechanisms. This study seeks to answer the following sub-question:

Q4: Is there an association between top management team composition and firm performance?

In line with Section 3.2.2 on the impact of board composition on firm performance, this research considers the size of the board of management (Section 3.3.1), owner-managers (Section 3.3.2), foreign managers (Section 3.3.3) and female managers (Section 3.3.4). The rationale behind the development of the hypothesis testing the impact on firm performance of the board of management are provided in these sections.

This study is one of the very few (Napoli, 2018) to consider board of management composition as an effective market-based internal CG mechanism. Furthermore, this study is the first of its kind to focus on Morocco.

### 3.3.1. Board of management size

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Size is a highly researched TMT characteristic. A large TMT implies a greater availability of resources (Hambrick and D'Aveni, 1992), information processing and problem-solving capabilities, potentially resulting in better decisions (Cummings, Huber & Arendt, 1974; Haleblan & Finkelstein, 1993). Entrepreneurship studies have found that larger TMTs allow more effective problem-solving and greater firm performance than do smaller ones (Cooper & Bruno, 1977; Eisenhardt & Schoonhoven, 1990; Song et al., 2008).

Nevertheless, large TMTs experience higher transactions costs, more disagreements and more coordination problems than smaller ones (Brüderl, Preisendorfer & Ziegler, 1992; Gilbert, McDougall & Audretsch, 2006; Koeller & Lechler, 2006) and tend to take longer to reach decisions (Thomas & Fink, 1963). Accordingly, this examination of the impact of TMT size on firm performance postulates that a larger board of management (Bomsize) negatively impacts firm performance. Hypothesis H4a tests this relationship:

H4a: A larger board of management (Bomsize) negatively impacts firm performance.

### 3.3.2. Owner-managers

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Ownership structure has a profound effect on TMT composition in emerging markets (Aguilera & Haxhi, 2018). Moroccan listed firms exhibit a high degree of concentration of ownership (El Bouanani, 2014; US Department of State, 2015), which implies that owners' – namely family and foreign representatives – influence on the management of Moroccan firms is inevitable. The composition of the board of directors and board of management often corresponds in companies with concentrated ownership: it is common to find the same individuals holding

positions at various levels of governance (Saidi, 2004), which is mainly the case in family firms (Mustakallio et al., 2002; Melin & Nordqvist, 2002). Thus, there is a need to appreciate the importance of the TMT as a main player and facilitator in effective corporate governance.

Ensley and Pearson (2005) suggest that a strong presence of family members in the TMT makes for shared strategic consensus on account of altruism, loyalty and commitment. However, this is not empirically supported in their study. Similarly, the involvement of family owners in the business counters conflicts of interest (Jensen & Meckling's 1976; Fama & Jensen, 1983a, b; Schulze et al. 2001) and free-rider problems (Bartholomeusz & Tanewski, 2006), and allows more effective monitoring (Bartholomeusz & Tanewski, 2006). Furthermore, family owners are more geared towards long-term performance (Jensen & Meckling, 1976; James, 1999) and are less inclined to short-term profit maximisation (Stein, 1988, 1989; Chami, 1999). As in Kuwait (Al Saidi, 2013), family firms in Morocco have a high regard for their family names and reputation. Moroccan families maintain a strong long-term relationship with their firms and losing the firm can be accompanied by a loss of reputation (Al Saidi, 2013). Drawing on the above, the implication is that family ownership is associated with increased firm performance.

Foreign companies also recruit owners or representatives'. Driven by high investment, most companies see the market for human capital in Morocco as being limited, thus end up staffing with personnel from their own countries, and with top team managers with international backgrounds and TMT experience, to ensure that their firm's decision-making is in line with market entry strategies with the ultimate goal of improved firm performance (Nielsen & Nielsen, 2011). Given this, the implication is that foreign owners enhance firm performance. In line with the above, it is hypothesised (H4b) that the presence of owner-founders' family or foreigners (or their representatives) in the business enhances firm performance.

H4b: The presence of owners-founders (or their representatives) on the board of management (Ownbom) is likely to enhance firm performance.

### 3.3.3. Foreign managers

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Firms operating beyond their national borders face increased environmental uncertainty and lack of knowledge about the local systems: political, legal, tax, etc. To overcome these uncertainties, firms tend to expand into markets that are geographically and culturally close (the Uppsala internationalization process model) (Johanson & Vahlne, 1977; Johanson and Wiedersheim-Paul 1975). Moreover, they tend to staff with expatriates (Can & Çetinarslan, 2017), namely personnel from the parent company's country or third-country nationals. The staffing of foreign companies (i.e. subsidiaries, multinationals) is based not only on economic considerations (i.e. agency theory, transaction cost theory, etc.) but also on social constructs (values, norms, beliefs) (Ando, 2011). For instance, multinational companies staff with a combination of parent-company nationals, host-country nationals and third-country nationals to achieve global integration and control as well as harmonising with local markets and transferring knowledge (Can & Çetinarslan, 2017). The high presence of foreign investment in Morocco implies the likelihood of staffing with international members. Thus, an investigation into foreign managers the total number of foreign nationals. This study contends that the presence of foreign members (H4c) is associated with increased firm performance. Hypothesis H4c tests the impact on firm performance of the presence of foreign members.

H4c: The presence of foreigners on the board of management (Frgrnbom) is likely to enhance firm performance.

### 3.3.4. Female managers

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Hand in hand with an interest in gender diversity generally (e.g. Carter, Simkins & Simpson, 2003; Vinnicombe & Sealy, 2012), female representation on TMTs is receiving increased interest, with many studies investigating its impact on firm performance; yet the literature is inconclusive (Wu, Yao & Muhammad, 2017). Some studies have found a positive relationship between female representation on TMTs and firm performance (i.e. Smith, Smith & Verner, 2006; Joy, Carter & Wagner, 2007): Smith, Smith and Verner (2006) found that a higher proportion of women on the TMT is linked with significantly better firm performance for the

2,500 largest Danish firms between 1993 and 2001. However, this positive impact is contingent on the qualifications of the top female managers. Using a US sample from between 1996 and 2000, Joy, Carter and Wagner (2007) found a positive relationship between the proportion of women in top management and firm performance. Ting and Zheng (2010) also demonstrated a positive empirical relationship between female presence on the TMT and firm performance in the Chinese context, between 2009 and 2010. Wu, Yao and Muhammad (2017) showed that female involvement in TMTs promotes growth among Chinese listed SMEs. Ping and Qihong (2012) also found that the presence of female executives enhances innovation performance.

Contrary to these findings, Alowaihan (2004) contends that female-led firms perform worse than male-led ones. Aterido and Hallward-Driemeier (2011), Coleman (2007), Coleman and Robb (2009), Bardasi, Sabarwal and Terrell (2011) and Zwan et al. (2012) all conclude that female-led firms have a lower firm size, and have a lower survival rate and lower growth, compared to male-led firms.

In line with Smith, Smith and Verner (2006), Joy, Carter and Wagner (2007) and Wu, Yao and Muhammad (2017), this investigation of female participation in TMTs postulates that it enhances value in Moroccan firm. Hypothesis H4d tests this relationship:

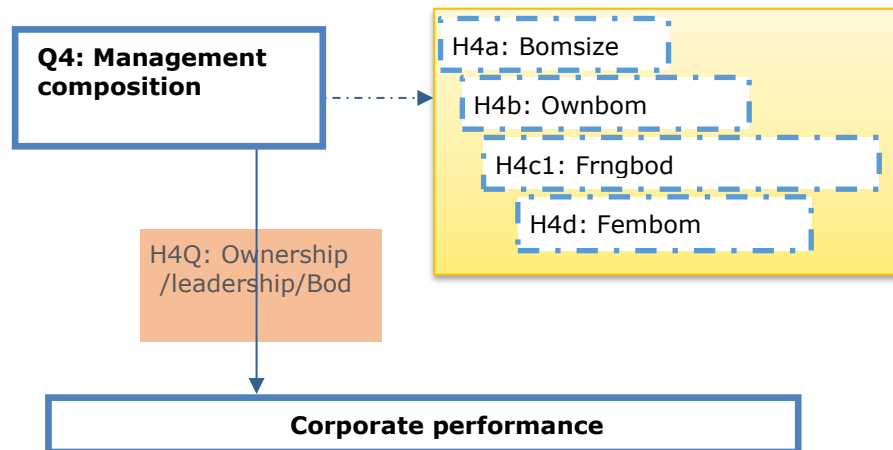
H4d: Female participation in the board of management (Fembom) is associated with increased firm performance.

### *3.3.5. Summary of board of management composition hypotheses*

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This section includes a summary of the hypotheses investigating the impact of board of management composition on firm performance. Figure 3.7 graphically summarises the hypotheses developed within this section. Table 3.3 includes an overview of all the hypotheses.

**Figure 3. 7: Model (3): Impact of board of management composition on firm performance**



Source: compiled by the author

**Table 3. 3: Summary of the hypotheses of the impact of board of management composition (Q4) on firm performance**

Research sub-questions	Research hypothesis
<b>Q4: Is there an association between top management team composition and firm performance ?</b>	<p>H4a: A larger board of management (Bomsiz) negatively impacts firm performance.</p> <p>H4b: The presence of owner-founders (or their representatives) on the management board (Ownbom) is likely to enhance firm performance.</p> <p>H4c: The presence of foreigners on the board of management (Frngbod) is likely to enhance firm performance.</p> <p>H4d: Female participation in the board of management (Fembom) is associated with increased firm performance.</p>

Source: compiled by the author



## Chapter 3 summary

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This chapter includes an overview of the literature review that has guided the development of hypotheses for this study. In general, most prior research on the impact of corporate governance has focused on the impact of one aspect of governance – ownership, leadership or board composition – on firm performance (Aguilera et al., 2008), which is rather limited as each governance mechanism captures only a firm's unique characteristics in a single governance environment (Aguilera et al., 2008).

Therefore, this study of the impact of CG determinants on firm performance fills a gap as it proposes a more comprehensive governance model (see Figure 1.1, p.25, "corporate governance model") in which the interdependencies of CG mechanisms are considered side by side in order to understand their effectiveness (Aguilera et al., 2008; Tosi, 2008; Filatotchev & Boyd, 2009; Walls, Berrone & Phan, 2012; Misangyi & Acharya, 2014).

This research seeks to answer the following research question (RQ): How do corporate governance determinants impact the performance of Moroccan firms? It does so through a series of four sub-questions, namely:

Q 1: Is there an association between 1) dispersed and 2) concentrated share ownership and firm performance?

Q2: Is there an association between board leadership characteristics and firm performance?

Q3: Is there an association between board of directors' composition and firm performance?

Q4: Is there an association between top management team composition and firm performance?

A set of hypotheses (Table 1.1, p26-27) are tested within this study to support the answer to these questions (see further Sections 3.1.6, 3.2.3 and 3.3.5).

This study investigates the determinants of internal CG mechanisms, namely: Q1 ownership (i.e. family, foreign), Q2 leadership characteristics (i.e. CEO duality,

CEO tenure), Q3 board of directors' structure (i.e. percentage of independent directors, size of board) and Q4 board of management composition (i.e. board of management size, involvement of owners). This study also considers the determinants of external CG mechanisms by considering the percentage of institutional share ownership in Q1.

This research posits that each governance mechanism further shapes the relationship between previously studied corporate governance mechanisms and firm performance in that it contends that board leadership characteristics affect the impact of share ownership on firm performance; this is captured in HQ2. Similarly, board of directors' composition affects the impact of board leadership and ownership as captured in HQ3. Moreover, board of management composition affects the impact on firm performance of ownership, board leadership and board of directors.

# Chapter 4

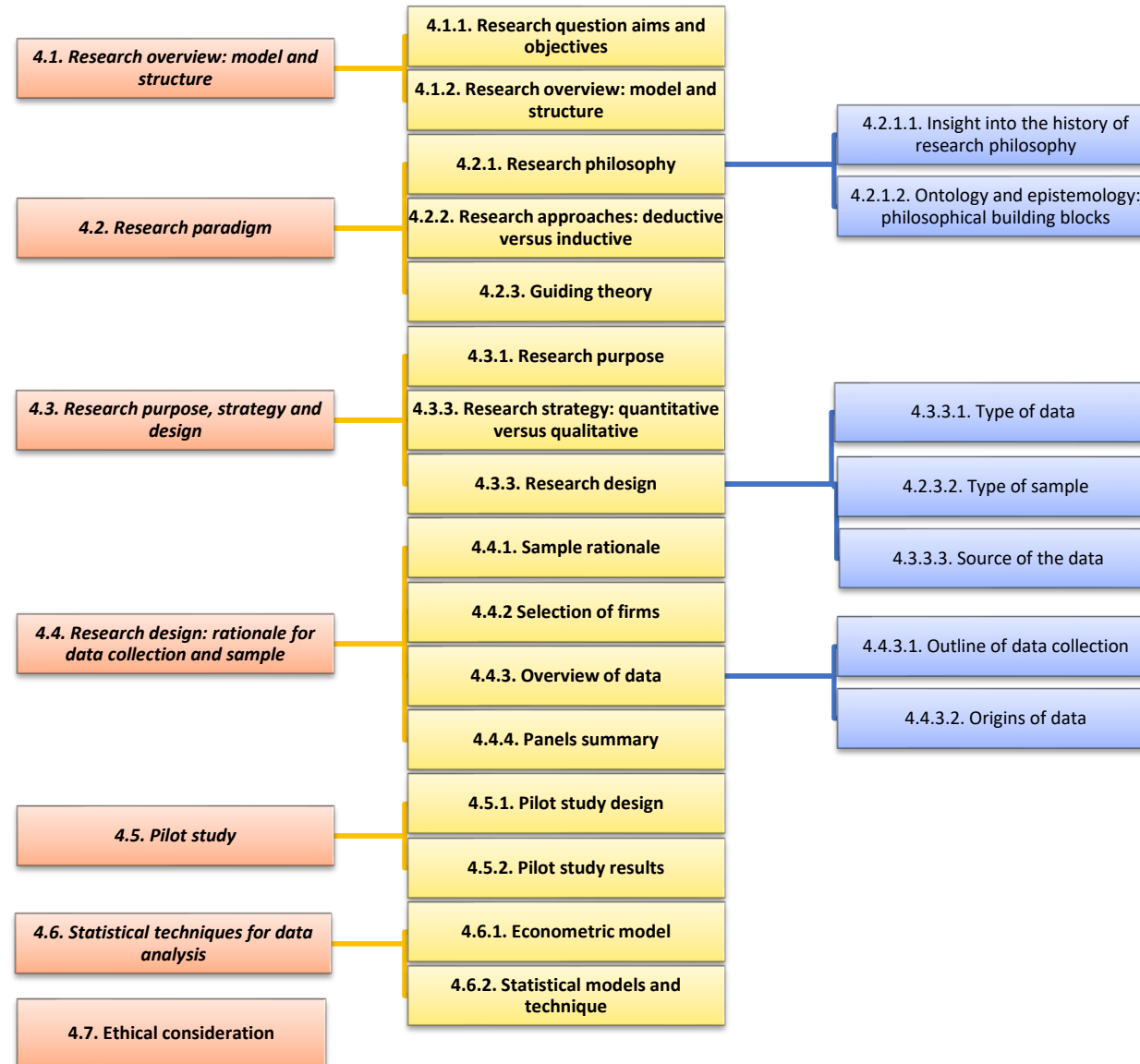
## Methodology

### Synopsis

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This chapter provides an overview of the methodology used in this study to fulfil the research aims and objectives highlighted in Chapter 1 (reproduced in Section 4.1). This chapter has seven sections: the first presents an overview of the Corporate governance model and structure, the second and third explain the methodology adopted and the reading around the research methods which informed the choice of methods. The fourth section describes the practical part of the project, which involves the research design, data strategy and research sample. The fifth presents the pilot study design and results, the sixth section elucidates the statistical models and techniques used for the analysis. The final section sheds light on the research's ethical considerations. Figure 4.1 presents a graphical illustration of the structure of this chapter.

**Figure 4. 1: Structure of Chapter 4**



Source: compiled by the author

## 4.1. Research overview: model and structure

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This section includes an overview of the research question, aims and objectives, as well as the Corporate governance model and structure for this research, building on Chapters 2 and 3 of this thesis.

### 4.1.1. Research question aims and objectives

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□ Research question:

The general research question which this research seeks to answer is the following:

**How do corporate governance determinants impact the performance of Moroccan firms?**

□ Aim:

This research seeks to identify the determinant characteristics of corporate governance practice in Morocco.

□ Objectives:

- Review the relevant literature and corporate governance practices with a focus on Morocco.
- Test models (i.e. a set of hypotheses) developed from the reviewed corporate governance literature.
- Propose a model for the effective evaluation of corporate governance practices in Morocco.

### 4.1.2. Research overview: model and structure

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Figure 1.1, "corporate governance model", p.25, presents the research Corporate governance model developed from the reviewed CG literature, to test a set of hypotheses (Table 1.1 Summary of the hypotheses on the impact on firm performance of: ownership (Q1), board leadership (Q1), board of directors' composition (Q2) and board of management composition (Q4), p.26-27). The corporate governance model (Figure 1.1, p.25) illustrates that this research focuses on the impact on firm performance of four determinants of corporate

governance, namely: ownership, management composition, board leadership and board composition. The study investigates the impact of each of these determinants on firm performance. The first sub-question (Q1) of the model investigates the impact of ownership on firm performance (Hypotheses H1a1–H1a6 and H1b1–H1b3). The second sub-question examines the effect of board leadership (Q2) on firm performance (Hypotheses H2a–H2d2). The third sub-question examines the impact of board of directors’ composition on firm performance (Hypotheses H3a–Hd2) The fourth sub-question (Q4) focuses on the influence of management composition on firm performance (Hypotheses H4a–H4d). A detailed overview of the hypotheses is presented in Table 1.1 Summary of the hypotheses on the impact on firm performance of: ownership (Q1), board leadership (Q1), board of directors’ composition (Q2) and board of management composition (Q4), p. 26-27.

Table 1.1., p. 26-27 of this thesis, summarizes the hypotheses relative to the impact on firm performance of ownership (sub-question Q1), board leadership (sub-question Q1), board of directors composition (sub-question Q2), and board of management composition (sub-question Q4).

## 4.2. Research paradigm

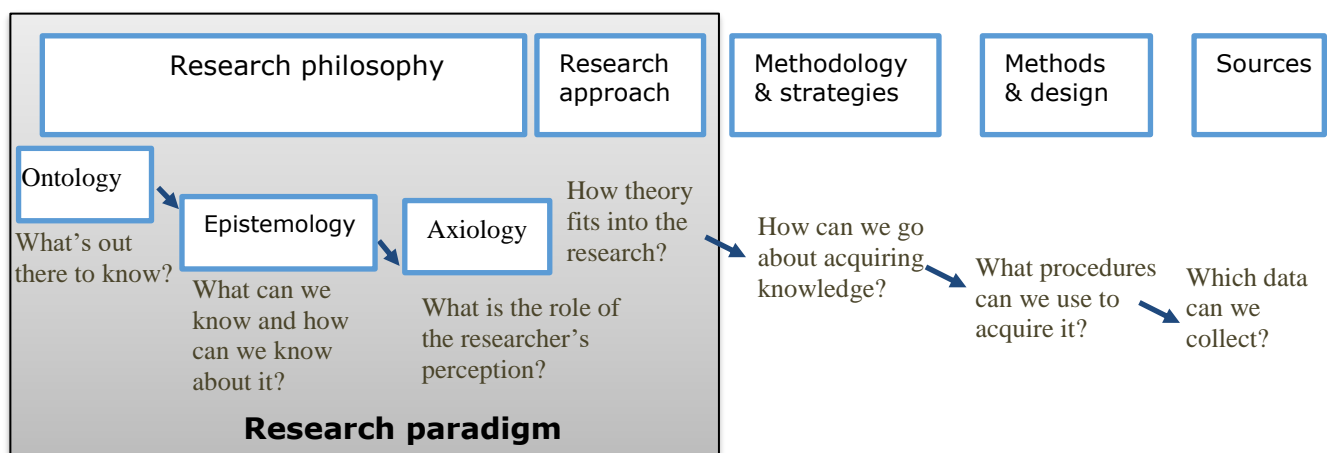
*"framework that guides how research should be conducted, based on people philosophies and their assumptions about the world and the nature of knowledge."*

(Collis & Hussey, 2013, p. 10)

*"worldviews" and "shared understandings of reality" are synonyms of paradigms*

(Rossman & Rallis, 2013, p. 36)

**Figure 4. 2: Framework for understanding the research process**



Source: Adapted from Hay (2002): 64.

Figure 4.2 provides a framework for understanding the research process. As illustrated in this figure, understanding research philosophy is essential for successful research. Research philosophies are perceived as ways of understanding the world, with ontological and epistemological approaches frequently explored in order to understand research in business studies, where ontology means reflective approaches of one's personal perceptions, beliefs and assumptions, and epistemology refers to how knowledge is created and how it is recognised<sup>15</sup> (Heider, 1988; Roth & Mehta, 2002). Ontology and epistemology have a considerable impact on the way research is undertaken from design to conclusion (James & Vinnicombe, 2002). Individual beliefs are much more relevant to research in social sciences than they are in natural sciences, owing to an individual's human interaction with the research subject (Blaikie, 1993) which introduces the "inherent preferences" component (James & Vinnicombe, 2002) to the research subject matter (Blaikie, 2000). This explains the variations in interpretation derived from observing the same phenomena from different philosophical perspectives (Hatch & Cunliffe, 2006).<sup>16</sup> Such divergence in viewpoints can, in some cases, result in tension among academics as schools of thought compete (Denzin & Lincoln, 2003; Kvale, 1996).

Ontology is perceived as one view of what constitutes social reality (Blaikie, 2000) and is driven by metaphysics, which is a branch of philosophy that studies existence, objects, properties and causality (Honderich, 2005). Epistemology is a branch of philosophy that describes "the possible ways of gaining knowledge of social reality" (Blaikie, 2000, p. 8). Since ontology and epistemology are branches of philosophy, and considering the implications of an individual's own philosophical perspectives for the orientation of the research project, it is necessary to investigate the origins of philosophy (Blaikie, 2000). An in-depth understanding of philosophy will inform the choice of the philosophical position and the research approach as well as the methodology deployed.

#### 4.2.1. Research philosophy

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<sup>15</sup> The so-called "Rashomon effect" is relevant here, in which the same event is interpreted in different ways by different individuals.

<sup>16</sup> Different philosophical perspectives "encourage researchers to study phenomena in different ways" (Hatch and Cunliffe, 2006).

Hughes (1994) poses the following questions:

what is it about philosophy that gives it this seemingly vital role in human intellectual affairs? Is this simply a contingent fact of our intellectual history, or is there something distinctive about philosophy itself which gives it this authoritative place?

The answer to these questions are very much related to the nature of the philosophical enquiry. "It is the uncomplicated style and innocent way of questioning, which produces confusion and instability in our assumptions and ideas about the world, that makes the study of the philosophy of special benefit" (Crossan, 2003). Thus, philosophy is strongly linked to one's personal beliefs (Proctor, 1998).

Philosophy is at the core of modern research; it is clear that all humans cannot perceive reality in the same way. For instance, say a group of people witness an accident. The level of depth and criticality in which the accident is reported will be different from one person to another because of individual differences in the perception of reality – the "Rashomon effect" (Heider, 1988; Roth & Mehta, 2002).

The significance of philosophy in conducting research is threefold. First, it can help to clarify the research design. Second, knowledge of research philosophy will guide in identifying the adequate methodology. Finally, it gives the researcher room to be creative in designing the research in alignment with previous studies. While increasing awareness of the constraints and the difficulties of the research, research philosophies also allow the adoption of methodologies from other disciplines, and afford more creativity and innovation through the selection or adaptation of methods outside the research experience (Easterby-Smith *et al.*, 1997).

#### 4.2.1.1. Insight into the history of research philosophy

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The history of philosophy is commonly associated with the ancient Greeks. The Qur'an claims that, apart from Adam, who was taught all knowledge by God, "الله" (Qur'an, 2:31; Al-sSwaidan, 2013), all humans, including Adam's descendants



and the prophets, have to undergo the same process of enquiring after knowledge. The fact that humans are part of an environment where inherited knowledge evolves over time, with a quest for continual updates and cognitive integrity, explains how philosophy has gradually developed from Greek to Roman, to medieval, to the Arab Golden Age, to the Renaissance, to the Enlightenment and finally to modern philosophies (Windelband, 1926). Also, it gives rise to the variety of philosophical branches across disciplines, e.g. metaphysics, logic, mathematics, axiology, ethics, economics, theology and epistemology (Honderich, 2005), and leads to the broad diversity of current Western and Eastern philosophies (Nema, 1956).

Our first knowledge of philosophy is from 500 BCE (i.e. 2,500 years ago), with individual philosophers directing their attention to address particular philosophical problems (Kenny, 2018). Some philosophies are appropriate to a given period – for instance, the political philosophies of Locke (1632–1704), Rousseau (1712–78), Marx (1818–83), Mill (1806–73) and Rawls (1921–2002) – whereas others are relevant to all times, such as the ethical philosophies of Plato (428–348 BCE), Aristotle (384–322 BCE), Ross (1877–1971), Kant (1724–1804), Bentham (1806–73) and (Mill 1806–73).

Most philosophies originate from the Greek period of Aristotle (384–322 BCE), with Plato<sup>17</sup> (428–348 BCE) particularly recognised as the founder of the Western philosophy: “The safest general characterisation of the European philosophical tradition is that it consists of a series of footnotes to Plato. I do not mean the systematic scheme of thought which scholars have doubtfully extracted from his writings. I allude to the wealth of general ideas scattered through them” (Whitehead, 1978). As a pupil of Socrates, Plato adopted the Socratic or “elenchus” method of analysis using patterns of reasoning and argument in the process of answering queries (Benjamin, 1997). In this context, a particular query is broken into a series of questions which will be answered in turn to achieve the ultimate response. This was the main method used in Plato’s quest to examine

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<sup>17</sup> Ancient Graeco-Roman philosophy, a period of Western philosophy starting in the 6th century [c. 585] BC to the 6th century AD, is usually divided into three periods: the pre-Socratic period, the period of Plato and Aristotle, and the post-Aristotelian (or Hellenistic) period. A fourth period that is sometimes added includes the Neoplatonic and Christian philosophers of Late Antiquity (*Encyclopaedia Britannica*, 2016).

moral concepts such as good and justice. This concept is widely used nowadays in scientific methods as the inductive approach to research.

Aristotle (384–322 BCE) is the founder of systematic logical reasoning: his study of the structure of reality shapes our patterns of reasoning today (Dobson, 2016). Plato believed in what existed without seeking to understand its underlying meaning (Dobson, 2016), whereas Aristotle questioned everything that was presented to him and was able to discern the most minute details and not only understand what each of them represented but how they all fit together to form a larger system (Dobson, 2016). The fact that Aristotle was Plato's student did not prevent them from being rivals (Grote, 1872). Aristotle brought us the scientific observational approach to research, inventing the notion of empiricism – understanding the world through observation and measurement – which forms the basis of modern science (Honderich, 2005). Moreover, this is what is known today as a deductive approach to reasoning. The transition from ancient Greek philosophy to the modern period beginning in Renaissance Europe was facilitated by Arabic philosophers such as Al-Kindi, Averroes (Ibn Rushd) and Ibn Sina (Avicenna) between the 9th and the 12th centuries, and is recognised as the greatest transfer of knowledge in history (Al-Rodhan, 2012).

#### 4.2.1.2. Ontology and epistemology: philosophical building blocks

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Building from Plato and Aristotle, for hundreds of years two research paradigms prevailed, underpinning two distinctive philosophies (ontology and epistemology), and each based on a different approach (inductive versus deductive). Other paradigms emerged with time to fit other needs and problems (Kuhn, 1962), but ontology and epistemology remain the main branches of philosophy that are used to inquire about business research (Figure 4.2).

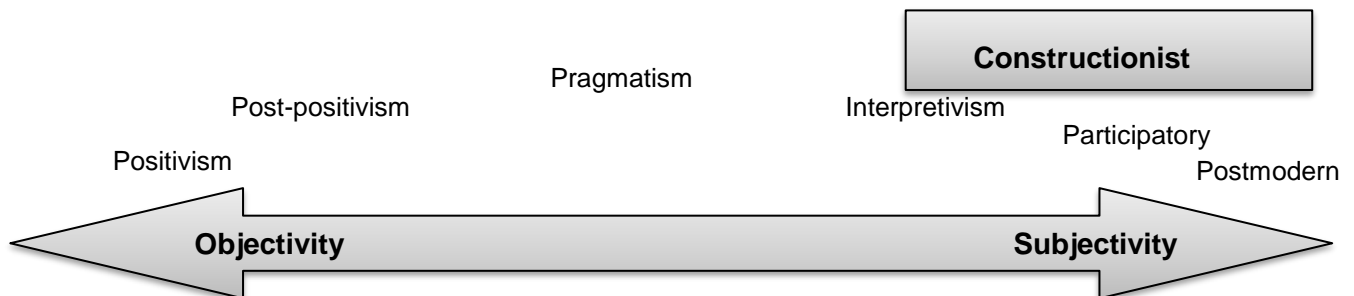
An individual's ontological position is his/her perception of social and political reality, which is empirically irrefutable: there are no wrong or right ontologies (Crotty, 1998). This captures the example of witnesses' reporting of an accident, mentioned earlier.

There are two ontological positions (Crotty, 1998; Bryman & Bell, 2015):

- Objectivity: which assumes that knowledge is absolute regardless of its cognisance.
- Subjectivity or constructionism: which assumes a difference of perspectives. It posits that knowledge becomes available through interactions. This is known as self-understanding, and this is ever-evolving as social interactions occur.

To support these ontological positions, a continuum of epistemological assumptions exists (Crotty, 1998). This is captured in the framework in Figure 4.3.

**Figure 4. 3: Epistemological continuum**



Source: Adapted from Crotty (1998, p14)

Epistemology stands for the theoretical perspective informing methodology (Crotty, 1998). The study of epistemologies underpinning ontology began in Classical Greek times with (the positivists) on the one hand (Plato), and the anti-positivists (or Sophists, such as Protagoras or Hippias of Elis) on the other (Dobson, 2016). After a long, dark period in European scientific thought, there was a renaissance of the discipline in the 16th and 17th centuries (Russell, 2013). Since that time, well-known positivists have included Bacon (1561–1626), Descartes (1596–1650), Mill (1806–73), Durkheim (1858–1917), Russell (1872–1970) and Popper (1902–94), with, on the opposing side, Kant (1724–1804), Hegel (1770–1831), Marx (1818–83), Freud (1856–1939), Polanyi (1886–1964) and Kuhn (1922–96) (Hirschheim, 1985). The evolution of social science laid the foundation for the development of a continuum of epistemologies (Figure 4.3). However, “positive” and “interpretive” are the main prevailing distinctive features of epistemology. Table 4.1 captures the difference between positivism and interpretivism.

**Table 4. 1: Distinctive features of positivism and interpretivism**

Positivism	Interpretivism
Produce the knowledge that we can sense and measure  <i>Predict models that can be tested against statistical data</i>  Seek explanations and predictions of events and patterns, by looking for correlations in data.	Denotes an alternative to the accepted positivist view that held sway for decades. "It is predicated upon the view that a strategy is required that respects the differences between people and the objects of the natural sciences and therefore requires the social scientist to grasp the subjective meaning of social action" (Bryman & Bell, 2011).  Seeks to understand the other, but not an explanation of his/her actions. The researcher in this process aims to understand the context and to make an interpretation based on his/her own perspective. He or she attempts to understand the context of what he/she finds which is shaped by his/her own experience and background (Crotty, 1998).

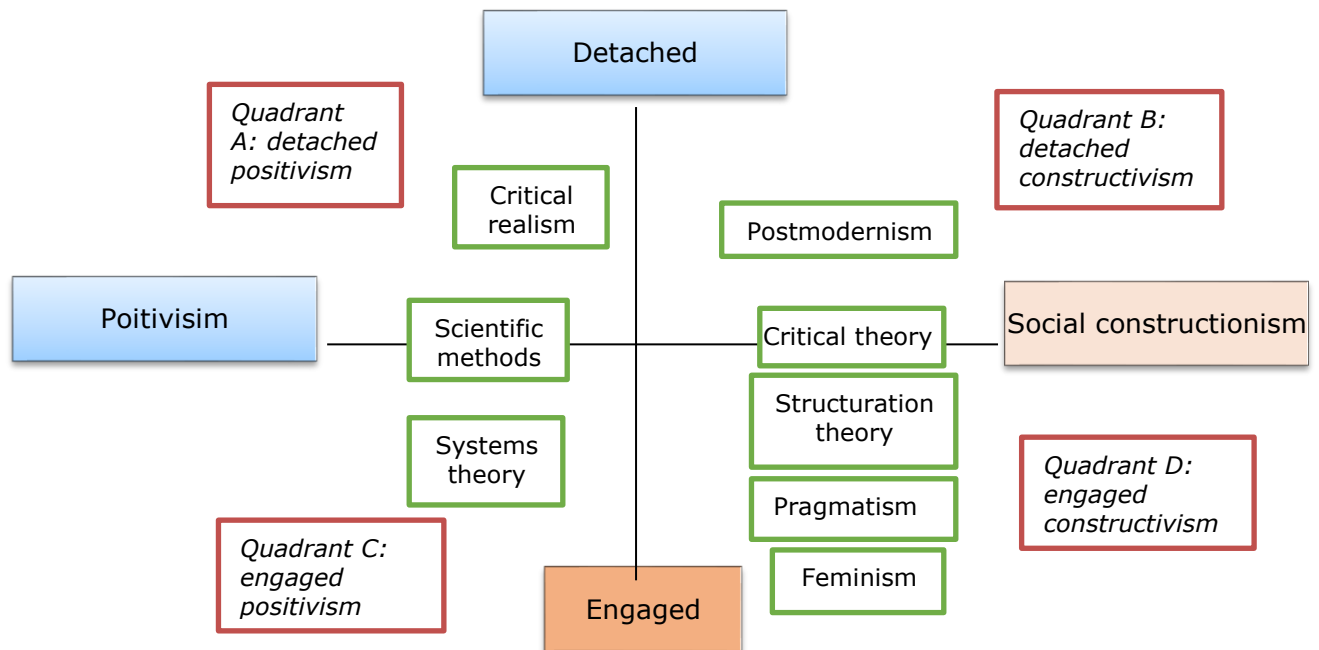
Source: compiled by the author

Researchers approaching a subject from an objective ontological perspective look for causes, effects and explanations. In this enquiry, this researcher has tried to predict events and test theories and hypotheses, which is the essence of positivism (Bryman & Bell, 2011,2015,), and stands in opposition to the other two positions – subjectivism and constructionist – which seek to understand and describe rather than explain. Thus, with the exception of the positivist position, there is a subjective element to the rest of the continuum of epistemologies.

Less commonly known, axiology is concerned with the researcher's values and ethics. Essentially, it concerns the role that the researcher's own perceptions play in the study (Wilson, 2014). Positivists consider research to be objective and values-free, with the researcher being independent of the research, an external investigator. However, from an interpretivist viewpoint, the researcher takes an active role in conducting the research, compromising the notion of objectivity and introducing bias (Wilson, 2014). Nonetheless, it is not only the interpretive researcher that needs to control for bias to ensure the credibility of results, but positivists also must avoid interpreting results in accordance with their own cultural values. This has been widely addressed in discussions of ethics in research. However, it is almost impossible to completely disassociate a researcher's beliefs and values from the research process (Fisher, 2010). This

point has been captured in Easterby-Smith *et al.*'s (2018) discussion of the redesign of the research paradigm. This author proposes adapting Easterby-Smith *et al.*'s (2018) diagram (Figure 4.5) which depicts the positioning of the researcher (detached/engaged) against the known research philosophical positions.

**Figure 4. 2: Research paradigms and schools of thought**



Source: Adapted from Easterby-Smith *et al.* (2018)

Easterby-Smith, Thorpe and Jackson (2015-2018) proposed a detached/engaged approach to understanding subjectivity, which in turns captures the axiology dimension. In their diagram, these researchers propose detached constructivism, an objective standpoint. The philosophical positions underpinning this approach are hermeneutics and postmodernism. Hermeneutics derives from theological studies which focus on the interpretation of human actions, a method initially introduced by Protestant groups in Germany in the 7th century in relation to biblical interpretation (Bryman & Bell, 2015). This method remains relevant for modern management studies, as it allows for context-based observation and analysis of corporate documents (e.g. annual reports, industry reports) in contrast to content analysis, which relies on enumeration of occurrences (Easterby-Smith, Thorpe & Jackson 2015; Krippendorff, 2004, 2012). Postmodernism came on the scene following the English publication of Jan François Lyotard's *Postmodernism Condition* (1984). As alluded to above, current research adopting a postmodernist approach (Easterby-

Smith, Thorpe & Jackson, 2015) takes an opposing view to realism, questioning the invisible elements and processes underpinning business decision-making. Postmodernism criticises any scientific progress that is not for the benefit of the common good: contemporary postmodernism studies question the role of the organisation in creating lasting value for society. Also, postmodernism does not see firms as monolithic or static, a perspective that is particularly relevant to the study of organisational change and organisational dynamics (Easterby-Smith, Thorpe & Jackson, 2015).

Engaged positivism posits the ultimate subjectivity of the researcher; the philosophical approaches underpinning this approach are pragmatism, feminist critical theory and structuration theory (Easterby-Smith, Thorpe & Jackson, 2015). This approach fosters empiricism, suggesting that only knowledge that is gained through sense and experience is acceptable (Brayman & Bell, 2015). Pragmatism is regarded as a compromise between internal realism and relativism, neither accepting that theories and frameworks can shape knowledge and truth, nor that individuals can construct their own truths out of nothing. The critical point is that individuals should seek meaning in the truth based on their own lived experiences. The pragmatic approach is widely used in assessing the development of knowledge and learning within an organisation; the Kolb learning cycle (Kolb, 1984) describes this process. Pragmatism is also used for grounded theory (involving a cycle of theoretical sampling and comparison of evolving theories leading to theoretical saturation) and ethical studies (attempting to find the best way through a specific moral situation without absolute belief [Gibson, 2013]). Critical theory criticises the effects of society and technology on human development, claiming that society leads to inequalities and that there is a degree of irrationality in a capitalist society that instils a false consciousness about wants and needs. This approach makes a clear distinction between the natural and social sciences, claiming that natural science is based on sense-related experiences (monologic), whereas social science consists of a two-way dialogue between the researcher and researched in attempting to make sense of the situation (Habermas, 1970). Critical theory is used in management and organisational research to discern the impact of powerful people and groups (Easterby-Smith, Thorpe & Jackson, 2015).

Feminism addresses the failure to acknowledge women's viewpoints and perspectives in society and scientific enquiry. Blaikie (2007) identified five aspects to this: a lack of women employed in social science; gender bias in the definition of research problems; bias in the design and interpretation of research; male-dominated science; and a lack of rationality and objectivity in social science. This has given rise to an emancipatory agenda within feminism. The "feminist empiricist" approach calls for a readjustment of the norms and procedures of natural and social sciences to incorporate a gendered perspective. The feminist standpoint argues that social science and its methods require a fundamental rethink to include issues of power dynamics and gender difference, with the aim of fostering subjective experience and reflexivity (Easterby-Smith, Thorpe & Jackson, 2015). These approaches have brought a new dimension to business research, reflected in one respect by an increased number of female researchers. Structuration theory claims that structures are created by regular interaction between social structures and social action: "structural duality" (Giddens, 1984). This theory is widely used in management research to understand relationships between employees and organisations or between the communications and information systems that facilitate them (Easterby-Smith, Thorpe & Jackson, 2015).

While constructivist epistemologies embrace numerous approaches and perspectives, the number of positivist epistemologies is limited. Engaged positivism consists only of systems theory, which is an interdisciplinary methodology studying systems both living and inanimate (Easterby-Smith, Thorpe & Jackson, 2015; Easterby-Smith, *et al.*, 2018). Systems theory stipulates that systems should be explored in their totality and that the interrelationship between human and non-human plays a critical role in defining knowledge (Easterby-Smith, Thorpe & Jackson 2015). It also attaches importance to a methodological unification across systems to identify common properties. Systems theory has two branches: soft systems theory, which is designed to be used collaboratively to study complex, unstructured problems within organisations; and critical systems theory, which is aimed at investigating situations of conflicting interests and sizeable differences in the power of participants (Easterby-Smith, Thorpe & Jackson 2015; Easterby-Smith, *et al.*, 2018). These approaches are common to research in management science departments and project management groups or

IT units. The collaborative aspect of systems theory implies that the latter fits better in the category of engaged constructivism (Easterby-Smith, Thorpe & Jackson, 2015; Easterby-Smith, *et al.*, 2018).

Detached positivism consists of the scientific method and critical realism (Easterby-Smith, Thorpe & Jackson, 2015; Easterby-Smith *et al.*, 2018). The scientific method requires the researcher's independence from the research; under this method the expected findings, measures (variables) and ways of measuring outcomes (statistics) should be specified in advance (Easterby-Smith, Thorpe & Jackson, 2015; Easterby-Smith *et al.*, 2018). The scientific method is the dominant positivist method in medicine, biology, physics and business studies, with 80% of papers in leading US business journals adopting the approach, although the figure is only 25% in European counterparts (Li, Easterby-Smith & Bartunek, 2009). Critical realism, on the other hand, compromises between strong positivism and constructivism in that it recognises that social conditions (e.g. wealth, class) have a real influence regardless of whether or not they are observed (Easterby-Smith, Thorpe & Jackson, 2015; Easterby-Smith *et al.*, 2018). However, it asserts that social life is the product of individual actions and the external impact on them (Ackroyd & Fleetwood, 2000).

This leads us to the debate about positivism and realism. Both epistemological assumptions derive from empiricism. Positivism entails developing and testing hypotheses from existing theories to either reject or accept knowledge on a predetermined subject (Brayman & Bell, 2015). Realists use a similar approach but accepts that distortions may be caused by the researcher's subjectivity (Saunders & Lewis, 2012). It can be claimed that positivism is a type of empiricism, but not all varieties of empiricism are positivistic (Crotty, 1998). This justifies Easterby-Smith, Thorpe and Jackson's (2015) positioning of critical theory in the engaged constructivism category and systems theory under engaged positivism. This is aligned with Islamic views on ontology and epistemology which lie in between the realist-subjectivist ontology and objectivist-subjectivist epistemology, holding that knowledge is acquired in a holistic manner regardless of social, cultural or political backgrounds, and using the Qur'an and Hadith as sources of knowledge (Kamil, 2011).



In consideration of the nature of this study, which consists of testing a set of hypotheses, this research will adopt the objectivist ontology, the positivist epistemological assumption and value-free axiology as guiding philosophies (detached positivism). This position is aligned with the idea that social entities, in this case, Moroccan firms, exist independently of the social and political actors that implement or constitute them (the scientific method). This view holds that the corporate governance determinants being analysed – namely, ownership, board leadership, boards of directors and boards of management within Moroccan firms – are quite similar regardless of the operating differences. Moreover, these can be treated as variables of the organisation which can be manipulated to produce the desired result or level of financial performance (Easterby-Smith, Thorpe & Jackson, 2015). To ensure the objectivity of the researcher in the identification of variables and measures, this researcher follows a rigid strategy and undertakes an in-depth review of the literature. Further details are available in Section 4.4, “Research design: rationale for data collection and sample”.

#### 4.2.2. Research approaches: deductive versus inductive

Aristotle and Plato laid the foundations for deductive and inductive reasoning (Politis, 2004). The two approaches involve two distinct enquiry processes that depend on how theory features in the study (Wilson, 2014). Deductivism entails developing hypotheses based on a literature review and the theoretical foundations found therein. The researcher then seeks to gather the required data to confirm or reject the hypotheses based on statistical analysis, i.e. empirical evidence (Bryman & Bell, 2011, 2015). Thus, the deductive approach consists of a quantitative methodology (Bryman & Bell, 2011, 2015) and foregrounds the role of theory in guiding empirical evidence (Merton, 1967). As with sociological studies, business studies are associated with the contribution of middle-range theories (contingency theory, strategic choice and trait theory) in guiding research (Bryman & Bell, 2011, 2015; Merton 1967). The inductive approach entails collecting data in order to generalise inferences and findings with the ultimate aim of developing theory. As such, the inductive approach has theory as its outcome and involves qualitative research (Bryman & Bell, 2011, 2015; Wilson, 2014). This leads us to the debate about the choice between qualitative and quantitative methods as appropriate methodologies to support either of these two reasoning approaches (covered in Section 4.3, “Research purpose, strategy and design”).

Drawing sharp distinctions between these approaches could be misleading, as inductive reasoning can involve the collection of quantitative data, and deductive approaches can entail collecting qualitative data through interviews (Wilson, 2014). Moreover, choosing a theoretical foundation for a deductive study is not an easy task, neither is ascertaining the exact amount of data required to generate a hypothesis in an inductive study. The abductive approach has emerged to overcome these weaknesses.

Abductive reasoning is gaining popularity in business research (Bryman & Bell, 2011, 2015; Wilson, 2014). It seeks to make sense of “puzzling facts” (Danielle & Dougherty, 2015) by “turning surprising facts into a matter of course” (Mantere & Ketokivi, 2013). It requires the back-and-forth linking of practice to literature in a process of “dialectical shouting” (Schwartz-Shea & Yanow, 2012; Atkinson, Coffey & Delamont 2003), which entails researchers alighting on the best explanations or interpretations based not only on their own computational skills but also on their cognitive reasoning in theory building and rationality (Mantere & Ketokivi, 2013). Thus, the abductive approach allows the researcher to “think out of the box” and remains open to the possibility of being surprised by the data rather than using it to attempt to corroborate preconceptions (Alvesson & Kärreman, 2007). Nonetheless, the deductive and inductive approaches remain the most popular reasoning logics in business research.

Building on the above and taking into account the nature of this study, this research will be based on a deductive reasoning approach. It will test the impact of the determinants of corporate governance on Moroccan firm performance by testing a set of hypotheses (Figure 1.1, p.25 and Table 1.1, p.26-27 of the thesis).

#### 4.2.3. Guiding theory

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The chosen guiding theory for this research project is Islamic stakeholder theory, which combines Islamic ethical values (Beekun & Badawi, 2005) and a Western stakeholder approach (Freeman, 1984, 2015, 2017; Freeman, Wicks & Parmar, 2004; Freeman *et al.*, 2010) to business practice. The concept of Islamic stakeholder theory was supported by the teleology of the sustainable purpose of the firm (Dsouli & Kakabadse, 2012), which was developed by the author and her

supervisor as part of this thesis. For more on. The rationale for the choice of stakeholder theory in the Moroccan context, see Section 2.3, Chapter 2.

The choice of this theoretical framework is justified by the progressive nature of the country, which offers a balance between the Eastern and Western traditions while conserving those of Islam. Morocco has been impacted by the French governance system which is based on a stakeholder governance principle (Mallin, 2010, 2013).

### **4.3. Research purpose, strategy and design**

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It is imperative at this point to make clear that some academics refer to the methodological choice between quantitative and qualitative as “research strategy” (Bryman & Bell, 2015), whereas others refer to it simply as a methodological choice (Saunders, Lewis & Thornhill, 2015), claiming that strategies are the methodological link between philosophy and choice of methods used to collect data (Denzin & Lincoln, 2011), which include case study, survey, experiment and archival data (Saunders, Lewis, & Thornhill, 2015). Others call these strategies “research methodologies” (Crotty, 1998). This chapter will refer to the distinctive features of quantitative and qualitative studies as strategies.

#### **4.3.1. Research purpose**

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The selection of research type usually influences the research design. A review of existing research typology according to purpose reveals four types: exploratory, descriptive, analytical or evaluative, and explanatory or predictive (Blaikie, 2009; Collis & Hussey, 2013). In exploratory research, the researcher asks open questions to gain insight into the research topic, which usually follows an inductive approach and takes the form of in-depth interviews, focus groups and historical observation (Wilson, 2014). Descriptive studies seek to gain knowledge of a particular phenomenon, person, event or situation through observation, and can be either qualitative or quantitative. The research questions for these kinds of study usually start with “Who”, “What”, “Where”, “When” or “How” (Collis & Hussey, 2013).

Explanatory studies usually seek to establish causal relationships between

variables, through empirical evidence, taking an either quantitative or qualitative form (Bryman & Bell, 2015; Collis & Hussey, 2013). Evaluative or analytical studies seek to find how well something works. Research questions for these kinds of study start with “How” and “What”, and this type of the research aims to evaluate the effectiveness of the object studied, whether an organisational strategy, a marketing campaign, a costing strategy or any other aspect of the business. Evaluative studies allow an object to be assessed and its performance compared, and they may offer a theoretical contribution (Collis & Hussey, 2013). Evaluative studies can also be either qualitative or quantitative.

This leads us to consider the purpose of this study – “the impact of corporate governance on firm performance ” – and its outcomes, which consist of generating empirical evidence by identifying the influence on firm performance of determinants of governance, captured in four categories – ownership, board leadership, board directorship and board of management – and testing a set of hypotheses (Figure 1.1 , p.25 and Table 1.1, p.26-27).

Looking at the characteristics of an explanatory study and the purpose of this study, it is clear that this investigation of the impact of corporate governance on Moroccan firm performance falls under the category of explanatory study (Collis & Hussey, 2013).

Thus, this research is carried out in three stages:

- ✚ Exploration: includes an in-depth approach (discussion) to the research subject from both a theoretical (literature review) and a practical (results of previous studies) point of view
- ✚ Explanation: involves the results from stage 1 which will guide the formulation of hypotheses and collection of variables to be tested in stage 3
- ✚ Testing: entails data processing and analysis in order to draw conclusions

#### 4.3.3. Research strategy: quantitative versus qualitative

The selection of either qualitative or quantitative depends on the researcher’s perspective on the research and the nature of the study. Qualitative research encompasses “the qualities of entities” and “the processes and meanings that are not experimentally examined or measured [if measured at all]” (Denzin & Yvonna,

2000). In this context, qualitative studies stress the “socially constructed nature of reality, the intimate relationship between the researcher and what is studied, and the situational constraints that shape inquiry” (Denzin & Yvonna, 2000). The research aims in this context to find answers to the “questions that stress how social experience is created and given meaning” (Denzin & Yvonna, 2000). Thus, “Qualitative forms of inquiry are considered by many social and behavioural scientists to be as much a perspective on how to approach investigating a research problem as it is a method” (Denzin & Yvonna, 2000). Quantitative studies emphasise the “measurement and analysis of causal relationships between variables, not processes” (Denzin & Yvonna, 2000).

Quantitative and qualitative research strategies (Denzin & Yvonna, 2000) vary in many ways. Table 4.2 captures the differences between these in purpose, philosophical position, research approach, the object of the study and the methods used to support each of these.

**Table 4. 2: Qualitative versus quantitative**

	<b>Quantitative</b>	<b>Qualitative</b>
Research purpose	To predict To explain To test theory	To describe and explain To explore and interpret To build theory
Philosophical position Ontology Epistemology	Objectivism Positivism	Subjectivism Interpretivism
Reasoning	Deductive	Inductive
Object of study	Variables Measurement Variance	Social phenomenon Meanings Process
Data type	Numbers (large sample)	Words (small sample)
Methods – strategies	Survey Experiment	Case study Ethnography
Analysis	Statistical data analysis (SPSS, R, STATA, Excel)	NVivo/Atlas.ti Conversation analysis
Results	Numbers, statistics	Words, narrative, individual quotas

Source: compiled by the author

Considering the nature of this research subject which consists of testing a set of hypotheses using secondary archival data and statistical analysis, and based on

the differences in research strategies highlighted above, this research is based on quantitative research.

### 4.3.3. Research design

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Building on Table 4.2, quantitative studies are more commonly found in research designs for survey and experimental studies, whereas others are associated with qualitative research, e.g. ethnography, action research, grounded theory or narrative inquiry. However, archival documentary research and case studies can be either qualitative or quantitative (e.g. ethnographic studies extended over time, where the researcher interviews the same participants on more than one occasion; this is also the case for qualitative content analysis of documents, which could fall under the heading of longitudinal research) or even both, in a multi-strategy research (Bryman & Bell, 2015; Easterby-Smith, Thorpe & Jackson, 2015; Collis & Hussey, 2013).

This study of the impact of corporate governance consists of investigating the influence of governance determinants on firm performance, captured in four categories: ownership, board leadership, board of directors and board of management, by testing a set of hypotheses as captured in Figure 1.1, p.25 and Table 1.1, p. 26-27 of this thesis. Thus, the impact of corporate governance on firm performance is a longitudinal study that uses archival and documentary data: specifically, annual and financial reports, as well as listing documents, annual general meeting records and other materials which are all fully accessible online. Section 4.4.3 outlines in detail the provenance of the data for this research, and how it was aligned to the appropriateness of the study.

The researcher combined a variety of resources to gain a sufficient number of firms (sample size) to optimise the efficacy of the research and to ensure the reliability and validity of chosen measures and variables (Bryman & Bell, 2015).

#### 4.3.3.1. Type of data

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Neuman (2013) distinguishes between four types of data dependent on the time horizon for conducting the research. First, cross-sectional research consists of observing a collection of individuals/variables at one point in time. Second, time

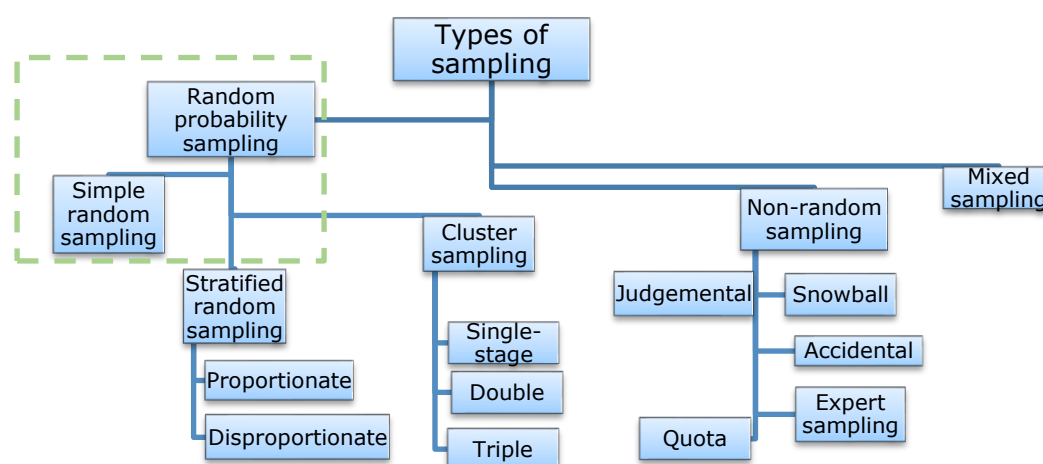
series involves observing different individuals/variables at multiple times. Third, panel data or longitudinal studies entail observing the same individuals/units of analysis at two or more times, providing multiple observations on each individual/unit in the sample (Hsiao, 2014). Finally, cohort study entails observing people who have shared an experience two or more times (Neuman, 2013).

This study of corporate governance in Morocco uses panel/longitudinal data which involves measuring the impact on firm performance of four aspects of the governance of Moroccan listed firms – ownership, board leadership, board directorship and board of management – over a period of five years and generating observations for each firm for the period studied.

#### 4.2.3.2. Type of sample

Figure 4.6 presents a summary of the types of sampling. A review of these types will inform the choice of simple random sampling as the preferred method (within the green border in Figure 4.6)

**Figure 4. 3: Types of sampling**



Source: adapted from Kumar (1999)

According to Kumar (1999, 2014) (Figure 4.6), there are three types of random probability sampling. First is the simple random sample for which the sampling fraction is equal to  $n/N$ , where  $n$  = sample size and  $N$  = population size. Second is stratified random sampling, entailing first categorising the entire population into “strata” (e.g. relevant divisions or departments of a company) so that the sample

can be proportionately representative of each stratum. The researcher can then randomly select within each category for a simple random sample. And third is the multi-stage cluster sampling which is useful for widely dispersed populations. It entails, first, dividing the population into groups (clusters) of units, e.g. geographic locations or industries/sectors. The researcher then categorises these clusters into sub-clusters (sub-groups); if appropriate, the researcher can then randomly select units from each (sub-)cluster and collect data consecutively from each cluster of units (Bryman & Bell, 2015).

A non-probability sampling design is used when the population size is either unknown or cannot be identified. There are five different designs, the choice among which mostly depends on the convenience of accessing the sampling population (Kumar, 1999, 2014). First, quota sampling, often used in market research and opinion polls, is relatively cheap, quick and easy to manage. It requires a proportional representative sample of a population's social categories (strata) and usually consists of interviewers selecting people to fit their quota for each category (Easterby-Smith *et al.*, 2018). Second, accidental sampling is aleatory and does not follow predetermined criteria for participant selection as is the case for quota sampling (Kumar, 1999, 2014). Third, judgemental or purposive sampling (Easterby-Smith *et al.*, 2018), as the name indicates, targets specific individuals who can provide pertinent information in pursuit the research objectives. This method is common to historical reality and phenomenon studies (Kumar, 1999, 2014). Fourth, expert sampling, using the researcher's judgement, entails sampling individuals recognised as experts in their field (Kumar, 1999, 2014), differing from judgemental sampling where participant selection depends entirely on the researcher's assessment of individuals' suitability. Fifth and finally, there is snowball sampling, where the researcher initially makes contact with a small group and these introduce others in their network (Kumar, 1999, 2014; Easterby-Smith *et al.*, 2018). Not included in Figure 4.6 but very common in research is convenience sampling (Easterby-Smith *et al.*, 2018), which involves the researcher in selecting sample units based on their ease of accessibility (e.g. friends, family, colleagues); this sampling method could fall into more than one of the above-cited categories: for instance, purposive sampling, if the researcher has contacts or friends who can provide pertinent information; expert sampling, if the researcher is her- or himself a professional expert with access to colleagues; or



snowball sampling, if the researcher uses his or her friends, colleagues or family contacts (this is widespread in research across social media platforms such as LinkedIn or Facebook).

The five non-probability sampling designs described above can be used in either quantitative or qualitative studies; what determines the choice is whether or not the sample size is predetermined at the start of the process (Kumar, 1999, 2014). Thus, quantitative studies deploy these designs to select a predetermined number of cases (sample size), whereas qualitative studies are not predetermined by the initial sample, in that the participant recruitment process depends on reaching a data saturation point (Kumar, 1999, 2014). Systematic sampling consists of selecting units directly from the sampling frame, e.g. from a random starting point, choosing every third unit (Kumar, 1999, 2014). Random and systematic sampling are confined to quantitative studies (Bryman & Bell, 2015).

The sample size can be affected by: a) time and cost (samples become increasingly cost-inefficient as they increase in size); b) non-response; c) heterogeneity of the population and sample size (the greater the diversity of the population, the larger the sample should be); and d) the type of analysis to be adopted (some statistical tests require a specific sample size) (Bryman & Bell, 2015).

For the purpose of this study, the researcher has selected simple random sampling. Thus, this selection comprises all Moroccan firms quoted on the Casablanca Stock Exchange between 2009 and 2013, for which all data was available. The sample size consists of 46 firms. Details on the rationale behind the choice of sample and the selection of firms is provided in Sections 4.4.1 and 4.4.2.

#### 4.3.3.3. Source of the data

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The archival data for the study of the impact of governance on firm performance comprises secondary data, which consists of readily available data adapted to the research purpose. The data derives from multiple sources and comprises raw secondary data for all governance determinant measures, for which the data received no or little processing, in addition to compiled data that was taken from business databases (DataStream and Osiris) for company financial

performance and control variables (Brayman & Bell, 2015; Saunders, Lewis & Thornhill, 2015). Section 4.5.2 of this chapter includes a detailed outline of data sources. This also brings the issue of the validity and reliability of the data to the forefront, which is covered in Section 6.6, “Research limitations” in Chapter 6.

## **4.4. Research design: rationale for data collection and sample**

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This section includes an overview of the sample, the firm selection process, and an outline of measures used for the study.

### **4.4.1. Sample rationale**

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The data collection method for this study is quantitative, based on secondary data, which is collected specifically for the purpose of this research project. The studied sample consists of firms listed on the Casablanca Stock Exchange between 2009 and 2013. The availability of data justifies the focus on listed companies. Listed firms are subject to stricter disclosure requirements than are non-listed ones. Data is gathered for the period 2009–13. The choice of 2009 as the starting year is based on the introduction in March 2008 of the Moroccan Code of Good Corporate Governance Practices. The choice of 2013 as the end year is linked to the availability of data: Moroccan firms’ fiscal years end in December and companies have until 31 July of the following year to submit their accounts to the Moroccan tax authorities (Direction Générale des Impôts). Listed firms are required to have their Annual General Meeting (AGM) within 6 months -before 30 June- of the end of fiscal year; 31 December (Article 388, Loi n° 20-05). Companies have to deposit their accounts within 30 days from the date of their approval by the AGM (Article 158, Loi n° 20-05). Companies depositing their account past the deadline are subject to fine (Article 420, Loi n° 20-05). In line with the above for the majority of 2015’s at time of data collection, 2014 financial information and annual reports were unavailable.

#### 4.4.2 Selection of firms

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The sample consists of all companies quoted on the Casablanca Stock Exchange between 2009 and 2014, excluding those delisted or recently joined. The sample comprised initially of 77 enterprises in 2009, which was further expanded to 78 in 2013. However, following the selection criteria, only 64 companies remained, which was further reduced to 59 for which ownership data was available. This dropped to 46 that had data for all governance determinants under investigation. The study therefore tests the impact of corporate governance determinants on firm performance for 46 publicly listed firms.

#### 4.4.3. Overview of data

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The development of the hypotheses (Chapter 3) and model for the research (see Section 4.1, “Overview of the research”) provides the rationale for data collection. The selection of measures for this research followed an in-depth investigation of the literature to identify suitable CG measures. This section includes an overview of the collected data and its provenance.

##### 4.4.3.1. Outline of data collection

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Table 4.3 presents an overview of the data that was gathered to test the model.

**Table 4. 3: Summary of model metrics**

Corporate governance determinants	Share ownership typology	In testing the impacts on a firm's performance of share ownership typologies, the research investigates the influence of varieties of ownership typologies (see table below). The research tests a set of hypotheses that will distinguish concentrated and dispersed ownership.		
		Variables	Proxy	Measures
		Free float	FFlot	Floating percentage and or undetermined percentage
		Family ownership	Family	Percentage held by family members
		Foreign	Frqn	Percentage held by foreigners (company, family or individuals
		Influential shareholders	Infl	Percentage held by individual employees (personnel of the firm other companies, the government and/or other offices
		Institutional	Instit	Percentage held by Moroccan institutional investors: MAMDA, CIMR
		Influential cross-holding	Inflcrossh	Institution owned by powerful families, generally insurance companies
	Board leadership characteristics	The study investigates the impact on firm performance of leadership structure (single versus dual) as well as owners' leadership. Besides these, the study investigates other traits of leadership such as tenure and nationality (see table below)		
		Variable	Proxy	Measure
		Leadership structure	Singledual	Single versus dual structure Single: the CEO is the chairperson Dual: CEO and chairman are two separate individuals
		Leaders' ownership	Ceoown	The CEO is the owner
		CEO leadership	Ceotenure Ceonal	CEO tenure CEO nationality
		Chairman leadership	Chairtenure Chairnal	Chairman tenure Chairman nationality

	Board of directors' composition	The study further investigates board effectiveness by exploring the impact on firm performance of the composition of the board directors. The study also focuses on the impact of having owners on the board.		
		Variable	Proxy	Measures
		Board size	Bodsize	No. of board members
		Independence	Indbod	No. of independent board members
		Representation of owners on the Board	Ownbod	No. of owners and or representatives on the board
		Executive	Execbod	No. of executives on the board
		Gender diversity	Fembod	No. of females on the board
		Foreign board	Frgnbom	No Foreigners on the board
	Board of management composition	Testing the impact on firm performance of the presence of owners in top management positions. Also, the research tests the impacts of several characteristics of management boards (see table below).		
		Variable	Proxy	Measures
		Board size	Bomsize	No. of boards members
		Representation of owners on the board	Ownbom	No. of owners and/or their representatives on the board
		Foreign manager	Frgnbom	No. of foreigners on the board
		Female managers	Fembom	No of females in the board
Firm performance	Market-based Accounting-based	Tobin q / Market-to-Book Value (MTBV) Return on Assets (ROA)/ Return on Equity ROE Log Total Return Index (LRI)		
Control variable	Size Age Leverage Industry	Log market capitalisation Year/date of incorporation Total debt to total assets Company's general industry classification (DataStream classification)		

Source: compiled by the author

While most studies combine a few of the leading CG mechanisms – e.g. board leadership and ownership of firms (Ghabayen, 2012; Turki & Sedrine, 2012; Al-Ghamdi & Rhodes, 2015) – this study allows control for the interdependencies of corporate governance mechanisms to better understand their effectiveness (Aguilera *et al.*, 2008; Tosi, 2008; Filatotchev & Boyd, 2009; Walls, Berrone & Phan, 2012; Misangyi & Acharya, 2014). As such, this research investigates the determinants of internal CG mechanisms, namely: ownership (i.e. family, foreign), leadership characteristics (i.e. CEO duality, CEO tenure), board of directors' structure (i.e. percentage of independent directors, size of board), and the structure of boards of management or TMTs (i.e. board of management size, involvement of owners). This study also considers the determinants of external CG mechanisms by considering the percentage of institutional share ownership. This study of the impact of governance practice on Moroccan firms adopts the following measures:

- Share ownership typology: includes measures for family, foreign and institutional as well as influential cross-holding, influential and free-float share ownership. This share ownership typology allows us to test the set of hypotheses (available in Table 1.1, p.26-p27) relative to sub-question 1 (Q1) (Figure 1.1, p.25): Is there an association between 1) dispersed and 2) concentrated share ownership and firm performance?
- Board leadership characteristics: includes separation of CEO and chair roles, CEO and chair tenure, CEO and chair nationalities, and CEO position held by owners. These measures allow the testing of the set of hypotheses developed to answer sub-question 2 (Q2): Is there an association between board leadership characteristics and firm performance? (Figure 1.1, p.25).
- Board of directors' composition: includes measures for board size, presence of independent directors, presence of owners, presence of executive directors, gender diversity, and presence of foreign directors. These measures allow the testing of the set of hypotheses (available in Table 1.1, p.26-27) relative to sub-question (Q3): Is there an association between board of directors' composition and firm performance?
- Board of management composition: includes measures for the size of the board of management or the TMT, presence of owners, presence of women, and presence of foreigners. These measures allow the testing of the set of

hypotheses (available in Table 1.1, p.26-27) relative to sub-question (Q4): Is there an association between top management team composition and firm performance ?

The rationale behind the development of hypotheses and choice of these measures is supported with evidence in Chapter 3.

The rationale behind the choice of performance measures is presented in this chapter. Return on equity (ROE) and return on assets (ROA) (accounting-based measures), and Tobin Q and market-to-book value (market-based measures) are the performance units used in this study. These measures are the most popular in current corporate governance studies (Al-Ghamdi & Rhodes, 2015; Wang & Shailer, 2015; Wagner *et al.*, 2015; Al-Saidi, 2013; Sur, Lvina & Magnan, 2013; Turki & Sedrine, 2012; Farooq & El Kacemi, 2011; Orlitzky, Schmidt, & Rynes, 2003; Rhoades, Rechner & Sundaramurthy, 2001; Rhoades, Rechner, & Sundaramurthy, 2000). This study also uses the total return index (RIND). Although less popular, it is an important measure for firm performance as it combines firm cash flow, asset growth and changes in profitability (Evans, Evans & Loh, 2002). This measure is also used in Boubaker and Labégorre (2008), a French study that shares similar characteristics vis-à-vis business and the stakeholder approach with affairs in Morocco. It has also been used in a recent study by Wright, Magee and Li (2016), a study that is gaining in notoriety.

This study of the impact of governance practice among Moroccan firms controls for industry effects, as well as size (market capitalisation) and age. It also controls for the firm's level of leverage (total debt to total assets).

#### 4.4.3.2. Origins of data

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The outline of data implies that data is needed for the four aspects of corporate governance (share ownership, board of management, board leadership, and board of directors' composition) and firm performance. The data derives from multiple data sources; Table 4.4 highlights the provenance of data for each of the variables.

**Table 4. 4: Origins of the data**

Type of data	Origins of data							Data-Stream
	Osiris	Annual reports	AMMC	Thomson One Banker	Bourse de Casablanca	Moroccan local press and the web	Company official website	
Share ownership	x	x	x	x	x		x	
Board leadership and composition		x	x		x	x	x	
Board of management		x	x		x		x	
Firm performance								x

Source: compiled by the author

AMMC=The Moroccan market capital authority, the Autorité Marocaine du Marché des Capitaux

The data collection process went through several phases and explored a vast spectrum of resources, e.g. Wharton Research Data Services through the International Capital Market Association (ICMA) Centre Bloomberg database, OneSource by the Global Business, Thomson One Banker by Thomson Reuters, and Boardex, alongside the databases mentioned above. However, relevant data ranged from limited to non-existent in the majority of these databases. The databases retained for this study failed the quality checks for reliability. Thus, the data quality was deficient and markedly inconsistent with other sources, namely: annual reports and CDVM reports. The AMMC (Autorité Marocaine du Marché des Capitaux) is equivalent to the FCA (Financial Conduct Authority) in the UK and the SEC (Securities and Exchange Commission) in the USA. For instance, the Thomson One Banker database provided by Thomson Reuters offered only one year's data on ownership (year = 2013). Also, the data retrieved from Osiris provided by Bureau van Dijk, used as the primary source of share ownership data, revealed some critical issues with regard to the percentages provided: sometimes the ownership percentages summed to much less than 100%; in other cases, the data was simply out of date, or missing in figures, or some shareholders were totally omitted. Further investigation revealed that the Osiris database suffers from some double counting due to the origins of the sources consulted and the timing of the data provided.



To ensure completeness and guarantee the quality and reliability of data, this study combined more than one source of information, i.e. annual reports, Osiris, CDVM reports, Bourse de Casablanca, companies' official websites, some Moroccan newspapers and web pages. The data for firm performance derives from Datastream–Thomson Reuters.

Locating data sources was not an easy task, but, once that challenge was overcome and the sources of data identified, the process of collating data began and data for each company was identified separately for each year. To add to the task, the data was not clean: for instance, the author downloaded five years of ownership data from Osiris, but the records were incomplete – the figures did not sum to 100%, and many ownership categories returned missing data. To overcome this obstacle, the author used data from Thomson Banker for 2013 and data published by the Casablanca Stock Exchange/Bourse de Casablanca. To further augment the data, the author examined annual reports where available and company websites. Also, the author complemented this with data from the Moroccan market capital authority – the Autorité Marocaine du Marché des Capitaux (AMMC), formerly the Conseil Déontologique des Valeurs Mobilières (CDVM). AMMC (ex CDVM) includes data on initial public offerings, share transfers and cessation of individual companies.

Data on leadership, boards of directors and boards of management came from several sources: annual reports, company websites, AMMC (ex CDVM) notes of annual general meetings, and the Bourse de Casablanca. The author also tracked directors' names to find their start and end of service and nationality. The author retrieved performance and control variables data from Datastream.

#### 4.4.4. Panels summary

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Following an assessment of the limitations of this study and considering an initial investigation of the sample (Section 6.6 "Research limitations", Chapter 6) and feedback from research conferences where the researchers presented her findings – the research has been structured to include multiple panels. The analysis consists of one primary panel including annual data for all 46 companies in all industries (Main panel all industries) for the period of 2009 to 2013. This panel is then split into two: all companies in all industries excluding foreign

ownership (Family excluding foreign all industries), and all companies in all industries excluding family ownership (Foreign excluding family all industries). The second layer of panels comprises three: companies excluding financial services (Excluding financial firms), companies excluding financial and foreign ownership (Family excluding foreign and financial firms) and excluding family ownership and financial firms and (Foreign excluding family and financial firms).

The rationale for splitting the main panel into sub-panels is to test the variability of results across panels. Consisting of 22% of the sample, the financial services industry represents a significant proportion, which will have an impact on the overall analysis, especially seeing that financial institutions have benefited since 2010 from a more detailed and more stringent corporate governance code on disclosure (Iatridis & Zaghmour, 2013; Corporate governance code for Financial Institutions, 2010; Zeitun & Gang Tian, 2007). However, due to the ownership structure and board structure of these institutions, being mainly dominated by families and foreign owners, this study contrasts and compares two sets of data through the totality of the sample and the panel excluding financial services. This is to control for the differences between financial and non-financial industries in reporting profitability and liquidity measures (this study excludes banking and insurance sectors) (Soliman, 2013; Turki & Sedrine, 2012; Zeitun & Gang Tian, 2007). The rationale for the full and excluding financial services panels is similar to that of Omran, Bolbol and Fatheldin's (2008) study.

To further highlight the distinctive features of Moroccan firms – characterised by two dominant ownership typologies, family and foreign – this research investigates the impact of these ownerships jointly in all panels and excluding financial services and examines their influence separately in all industries and all panels. More details are available in Table 4.5. All panels are short panels, consisting of a low number of firms over a five-year period (Cameron & Trivedi, 2009).

Furthermore, this study investigates the impact of concentrated ownership among Moroccan firms evaluating ownership at concentration thresholds of both 50% and 30%. This is in line with Moroccan law (Loi n° 17-95, 1996) and previous

research (Maury, 2006; Anderson & Reeb, 2003; Holderness & Sheehan, 1988; Shleifer and Vishny, 1986).

**Table 4. 5: Panel characteristics**

All industries panels							
Main panel all industries		Family excluding Foreign ownership		Foreign excluding family ownership			
46 firms		46 firms		46 firms			
229 observations		229 observations		229 observations			
Excluding Financial Firms Panels							
Main panel excluding the financial firms		Family excluding Foreign ownership and excluding the financial firms		Foreign excluding family ownership and excluding the financial firms			
34 firms		34 firms		34 firms			
170 observations		170 observations		170 observations			
Concentrated panels							
Family ≥ 50% (Cfamily)		Family ≥ 30% (Ffamily)		Frgn ≥ 50% (Cfrgn)		Frgn ≥ 30% (Ffrgn)	
24 firms		31 firms		12 firms		19 firms	
109 observations		150 observations		57 observations		81 observations	

Source: compiled by the author

## 4.5. Pilot study

This study of corporate governance practice in Morocco initially deployed a qualitative strategy, and was aimed at interviewing Moroccan board members; however, when this researcher sought the consent of the Moroccan authority (CGEM/Ministry of Finance) for ethical approval, it was revealed that the information was considered confidential and permission was not granted. This accords with Clark's (2006) findings.

Following this, the researcher sought alternative approaches. A leading figure in Moroccan business was interviewed on an informal basis, during which he confirmed that an interview-based study in the context of Morocco would be practically impossible, claiming that obtaining access to board members could be very time-consuming or even impossible. The interviewee then advised a quantitative study and provided some guidance. This confirms the difficulties in conducting fieldwork in a Middle East context highlighted by Clark (2006), namely

those concerned with political implications, ethical concerns, access to interviewees and gender.

As a consequence, the researcher had to take a new approach, given it was to be a quantitative study. This required an initial assessment of the feasibility of the study and the risk associated with the reliability, accessibility and validity of data. To address this, a pilot study was conducted to collect one year's worth of data: the most the recent year, 2011, was chosen.

The process was lengthy and time-consuming. The method revealed that the availability of data was limited to companies with annual reports, with other firms' information very limited and requiring the mining of multiple channels (company websites, newspapers, official sources such as stock exchange listing requirement, annual general meetings). Data reliability was deemed acceptable because it was made available via official public sources.

#### 4.5.1. Pilot study design

The pilot study aimed to test the governance practice of all listed firms in 2011 as the studied year. The rationale for 2011 was the availability of data: although the study took place at the end of 2012, companies are only required to provide financial data for 2011 by the end of 2012. The sample consisted of 62 companies listed on the Casablanca Stock Exchange. The study consisted of investigating data for companies listed under different sectors according to Casablanca Stock Exchange classifications: banks, construction & building, materials distributors, food producers & processors, investment companies & other finance, materials, software & computer services, chemicals, and insurance.

The pilot study aimed to investigate the following CG determinants: 1) corporate ownership typology, 2) board leadership, 3) board of directors' composition, 4) board of management composition and 5) transparency. The rationale behind this choice of these determinants was guided by an initial overview of the literature and the importance of these aspects in enhancing firm performance.

Data was compiled from different sources: the OneSource Global Business Browser, companies' websites, annual reports, the Bourse de Casablanca and CDVM (Conseil Déontologique des Valeurs Mobilières). Section 4.5.2 presents the initial findings from this pilot study.

#### 4.5.2. Pilot study results

Table 4.6 summarises the pilot study results

**Table 4. 6: Pilot study results**

Corporate governance determinants	Results	Implications
1) Ownership typology	Concentrated 100% ownership concentration 32% foreign participation	Low protection of minority investors (consistent with World Bank results, 2010)
2) Board leadership	35 out of 62 firms have a single leadership structure 18 firms out of 62 have a non-executive chairperson on the board	Consistent with CDVM, 2010  Inconsistent with CDVM, 2010 results
3) Board composition	53% of firms have independent directors on the board 44% of firms have owners on the board	
4) Board of management	37% of companies have owners on the board of management	
5) Transparency Information disclosure has received very little consideration (Ashbaugh <i>et al.</i> , 2004). 41% of firms publish full detailed annual reports, of which 58% report on IFRS standards; among the most regulated firms are Société Nationale d'Investissementfirms and financial services: banks, insurance and lending and mortgage firms.		
– Board disclosure	26% of firms have a remuneration committee in place 31% of companies have other committees in place (supervisory, strategy, risk assessment boards) 42% of companies disclose board structure within their annual report and/or websites	
– Reporting and management Transparency	81% of companies recruit one or two leading interactional audit firms	

<b>Governance practice/ awareness</b>	90% of companies have a website, of which 52% do not disclose corporate governance information	Consistent with CDVM, 2008
Internal control/ process transparency	34% of companies have ISO certification, and 66% have an audit committee in place	Stakeholder consideration (Freeman, 1984, Freeman et al., 2010)
<b>Equitable treatment of Stakeholders</b>	40% Companies reports CSR activities; donations, Employees CSR activities	

Source: compiled by the author

Although the data collection process was difficult and time-consuming, the pilot study demonstrated that this study is nonetheless feasible. While data for 2011 was very limited, it was not necessarily an indication of the availability of historical data.

The initial findings demonstrate a concentration of ownership in line with the World Bank's (2010) findings; this suggests low protection of minority shareholders (Laporta, 1999). The results also found that owners dominate board leadership, as well as the board of directors in general and firm management, which is consistent with CDVM (2010) results. While 90% of the sample firms published annual reports, only 52% of these firms published governance reports, with royal-family-owned companies being the most effective companies as regards disclosure. The results are consistent with CDVM (2008). Finally, and very interestingly, 40% of the sample companies were socially active, and 66% of firms had an audit committee – surprising findings. Also, 34% of firms had ISO certification – all of which justifies the use of stakeholder theory (Freeman, 1984, Freeman et al., 2010).

An official government report also highlighted weakness of transparency. Good governance practice among Moroccan firms (Minister of Governance and General Affairs Dr Najib Boulif, 2012) was proposed as a remedy to the Moroccan tax imposition and transparency crisis (Ministry of Economy and Finance Dr Baraka, 2012) (L'économiste, 2012)

## 4.6. Statistical techniques for data analysis

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This study relied on the random effects model for panel data, the applicability of this module being justified by the nature of the data (Wooldridge, 2010-2015). This study consisted of a balanced panel data of 46 listed firms; data analysis was conducted using Stata. Microsoft Excel was used initially to import and store data. Panel regression models (xtreg) were used to test corporate governance determinant's contribution to corporate performance (Figure 1.1, "Corporate governance model", p.25).

### 4.6.1. Econometric model

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Since the sample for this study combines time-series data and cross-sectional data (Hsiao, Pesaran & Tahmiscioglu, 2016; Cigna, Risser & Sami, 2014; Antweiler, 2001), panel data is the most efficient and appropriate model for this study. Panel data has gained fame since the seminal work of Balestra and Nerlove (1966). Hsiao's (1986) publication accounted for 29 studies using panel data, a number that was extended to 773 in 2005 (Hsiao, 2007). The proliferation of panel data studies is attributed to increased data availability, greater advantages in modelling for complex data than cross-sectional or time-series, more accurate inferences, controlling the impact of omitted variables, uncovering dynamic relationships, and proving micro foundations for aggregate data analysis (Hsiao, 2007).

Panel data takes into account unobservable and constant heterogeneity, i.e. by noting period-invariant firm-specific and/or firm-invariant time-specific effects (Hsiao, Pesaran, & Tahmiscioglu, 2016; Cigna, Risser & Sami, 2014). The linear, non-linear and dynamic are all models for analysing panel data (Hsiao, 2007, 2014), among which random and fixed model effects are the most popular (Hsiao, 2014, 2007; Baltagi, 2008; Wooldridge, 2002, 2010). The primary model for this study is random effects. "... The crucial distinction between fixed and random effects is whether the unobserved individual effect embodies elements that are correlated with the regressors in the model, not whether these effects are stochastic or not" (Green, 2008, p. 183).

The random effects model allows for the inclusion of some time-invariant variables, which is useful for this study, as variables such as ownership (family, foreign, institutional), boards of directors and management (Bodfrgn, Bodown, Ceowon), remain invariant for some years. This makes the use of fixed effects unhelpful as it could either absorb or wipe out the variation across entities.

Aware of the complexity of analysing unbalanced data, the study combined multiple sources to optimise data collection for all firms over the years. In pursuit of this, this study presented data for most of the variables except a few missing variables for the board of management (corporate governance), ROE and ROA (firm performance) and Total Debt to Total assets TDTA (control variable). (Table 4.7 includes the list of missing variables.) As a result, this study combines unbalanced panel data with a balanced percentage of 87%. The study consists of a short panel whereby the panel is composed of 46 firms over a five-year period (Cameron & Trivedi, 2009).

**Table 4. 7 Missing variables**

Variable	Obs=.	Obs>.	Obs<.	Obs<.		
				Unique values	Min	Max
bomsize	5		225	23	2	30
ownbom	5		225	8	0	7
fembom	5		225	6	0	5
frgnbom	5		225	9	0	8
nalbom	5		225	3	0	2
roe	3		227	215	-31.82	61.85
roa	1		229	122	-14.5	24.5
tdta	1		229	214	0	65.83

Source: extract of Stata

#### 4.6.2. Statistical models and techniques

Panel data regression analysis is adopted for this study. Generalised least squares (GLS) estimation of a random effects panel (xtreg) technique is used to test each corporate governance determinant's (ownership, leadership, management and board of directors) contribution to corporate performance (Figure 1.1, "Corporate governance model", p.25). The choice of GLS estimation of the random effects panel (xtreg) model is premised on its property to test for variations among cross-sectional variables and across individual variables over



five years (Schmidheiny, 2011; Baum, 2006). To test the appropriateness of the GLS panel model as opposed to the simple ordinary least squares (OLS), the Lagrange multiplier test of the Breusch–Pagan test (Xttest 0) was performed after each xtreg regression. The null hypothesis in the Breusch–Pagan Lagrange multiplier test of independence is that residuals across entities are not correlated (Torres-Reyna, 2007). All panel models were found to be insignificant (equal to zero), which confirms that the random effects model is appropriate.

Preliminary analysis of the data consisted of ensuring that all variables included in the regression are free from error and do not violate the multiple regression assumptions of normality for panel data regression.

First, the study used summary statistics to examine each variable; standard deviation, skewness, kurtosis, mean, median, maximum and minimum. Any identified missing data was traced back to the original data source to check the authenticity of data, and a few corrections were made. Where data was missing, the researcher traced the data back to its original source and reconfirmed whether it was genuinely missing. Normality tests were carried out for each variable to ensure that no skewed variables were entered into the regression model. The return index (RI) was the only variable that was transformed ( $\text{Log RI} = \text{Lri}$ ); normality checks were performed after transformation to retest it.

Second, the study used correlation coefficients to check for multicollinearity among the independent variables as per the assumptions of the random effects model regression. Apart from a very few cases where the significant pairwise correlation was identified (in excess of 0.8), between foreign ownership (Frqn) and foreign boards (Frqnbod), and between CEO (Ceoown) and chair (Chairown) owners, there were no additional cases of multicollinearity (Gujarat & Porter, 1999). The correlated elements made complete sense: as foreign-owned companies they are more likely to recruit foreign members. Also, in the predominantly family- or foreign-owned business, it is very likely that the owners will hold CEO and chair positions. Hence it was not possible to drop any of these variables. However, the generalised difference equation of the GLS model allows autocorrelation problems to be dealt with so this was not an issue (Gujarat & Porter, 1999).

Third, since it is rarely possible to be sure about equicorrelated errors, it is better to use robust standard errors for the RE estimator. Thus, the robust command was added to all models due to its efficiency in controlling for autocorrelation, multicollinearity, outliers and normality of distribution (Hoechle, 2007; Wooldridge, 2010, 2015). his research also controls for year effects.

Finally, the study used a kernel density plot, QQ plot and histogram with normal curve plot. Any detected residuals were traced back to the data source to ensure they are genuine. Some evidence of residual was particularly acceptable.

#### **4.7. Ethical consideration**

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The Moroccan legislation obliges firms listed on the Casablanca stock exchange - Companies Act No. 17-95 relating to public limited companies and Dahir (Decree Royal) No. 1-06-10 of February 2006 on the Board of Ethics securities (CDVM), to disclose and publish information about their financial and business activities. In this context, this research is carried out in accordance with ethical business rules in general and the ethical requirement of the University of Reading in particular. The research does not require special consent from the companies because the data for the studied sample is already available in the public domain

## Chapter 4 summary

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Table 4.8 provides a summary of the research methodology and methods guiding this study.

**Table 4. 8: Summary of the research**

Research paradigm	Ontology	Objectivism	Detached positivism Scientific method
	Epistemology	Positivism	
	Axiology	Value-free	
	Reasoning	Deductive	
Type of research: purpose	Explanatory		
Research strategy	Quantitative		
Research design	Archival data		
Source of data	Secondary multiple data which combines raw and compiled data		
Time horizon: type of sample	Longitudinal: panel data (2009–13)/46 firms		
Sample	Simple random sample		
Econometric model	Random effect panel		
Statistical techniques	Generalised least squares (GLS) estimation of a random effects Panel (xtreg) technique		

Source: compiled by the author

The study of the impact of corporate governance on Moroccan firms' performance is based on quantitative research, following a theoretical-deductive reasoning approach, under an objectivist, positivist, value-free research philosophy which involves the collection and analysis of statistical data. The study follows a scientific method, and is an explanatory study that involves the collection and analysis of statistics.

This study consists of balanced panel data of 46 listed firms. The panel regression model (GLS) was used to test each corporate governance determinant's contribution to corporate performance (Figure 1.1, "Corporate governance model", p.25). This study relies on the random effects model for panel data, the applicability of this module being justified by the nature of the data (Wooldridge, 2010, 2015).

# Chapter 5

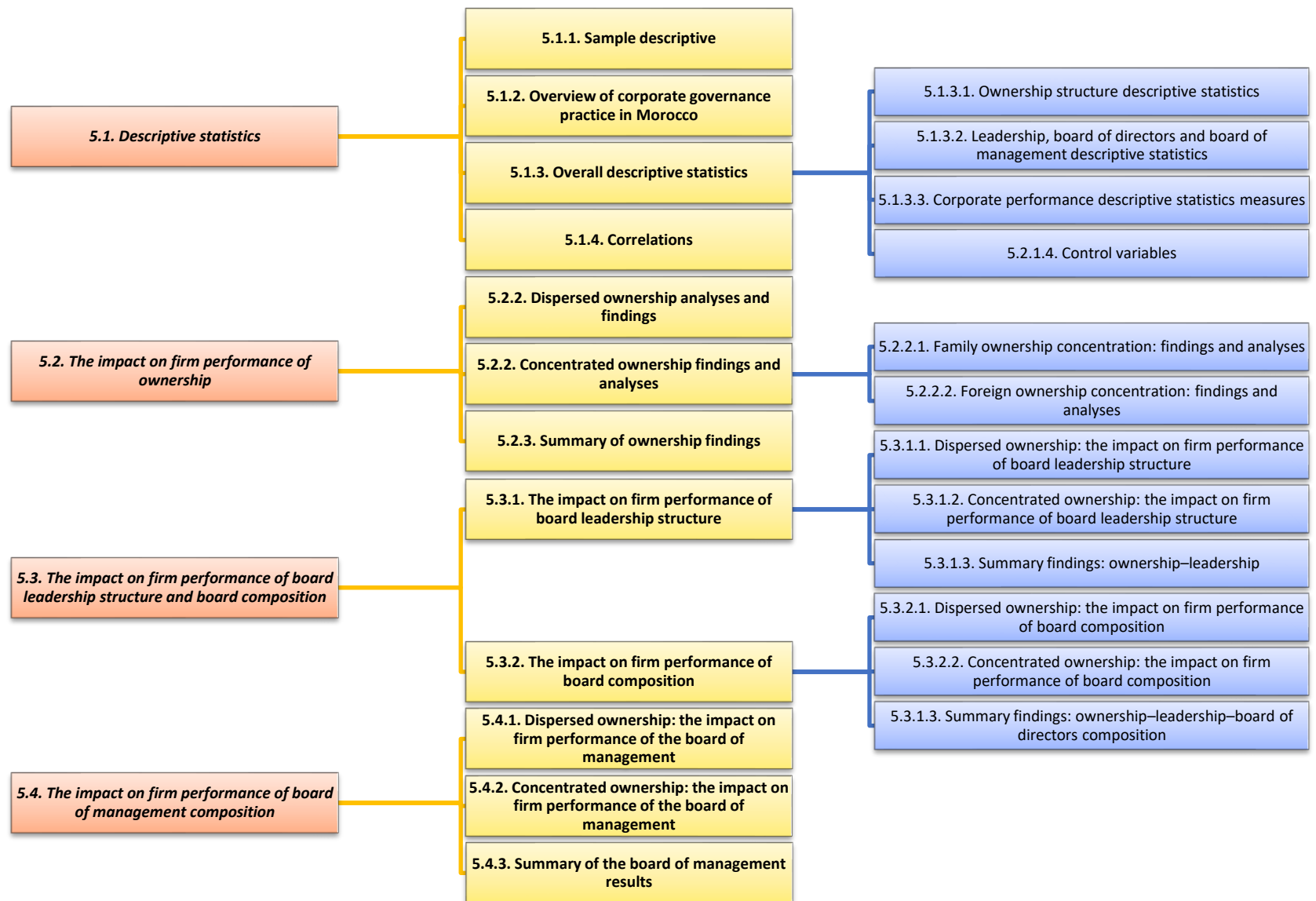
## Analyses and discussion

### Synopsis

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This chapter provides an overview of both the descriptive statistics and the inferential statistics. It comprises four sections, with the first providing a summary of the overall descriptive statistics. Sections 2–4 look at the impact on firm performance of, respectively, share ownership typology, leadership characteristics, board of directors' composition and board of management composition. An overview of the findings is provided followed by a discussion around dispersed and concentrated panels. Figures 5.1 gives a graphical representation of this chapter.

**Figure 5. 1: Structure of Chapter 5**



Source: compiled by the author

## 5.1. Descriptive statistics

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This section includes an overview of the sample descriptive, an overview of corporate governance practices in Morocco, and the descriptive statistics for all measures used in this study. The latter includes descriptive statistics of share ownership typology, leadership characteristics, board of directors, board of management, firm performance and control variables. This section also includes correlations between the different variables within this study.

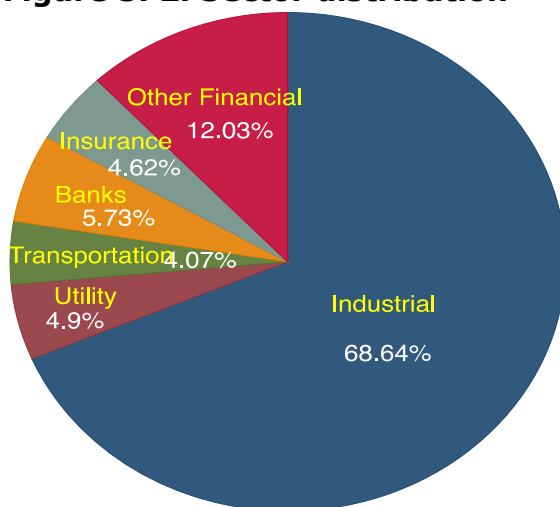
### 5.1.1. Sample descriptive

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The sample consists of 46 firms quoted on the Casablanca Stock Exchange from 2009 to 2013. The listed firms amounted to 77–78 companies between 2009 and 2013, out of which only 64 remained listed for the full extent of the period studied. The sample was reduced to 59 companies for which ownership data was available, which was further reduced to 46 companies that had data for all governance determinants under investigation, which is the final sample for this study.

The sample consists of mainly industrial firms (68.84%). Financial sectors – banks, insurance and lending – represent 22.38% of the sample while transportation and utility sectors represent 8.97% (see Figure 5.2).

**Figure 5. 2. Sector distribution**



Source: compiled by the author

### 5.1.2. Overview of corporate governance practice in Morocco

Table 5.1 presents descriptive statistics of the main attributes of the determinants of governance among the 46 listed companies on the Moroccan Stock Exchange between 2009 and 2013.

**Table 5. 1: Overall descriptive results**

<b>Corporate governance determinants</b>	<b>Results</b>	<b>Implications</b>
<b>Ownership typology</b>	70% of the listed firms in the sample have concentrated ownership of 51% or higher.  24.78% of firms are majority-owned by foreign owners with a mean of 66.83% ownership.  45.65% are majority family-owned companies with an average of 69.11% ownership.  There is a significant institutional ownership representation among Moroccan companies, with 7.82% of firms having institutional investors owning 31% or more. Moreover, 49.13% of the sample have institutional investors owning over 5%.	High concentration (EBRD, 2013)  Low protection of minority investors (consistent with World Bank results [World Bank, 2010])
<b>Board leadership</b>	57.39% of firms have a single leadership structure.	Consistent with CDVM (2010) results
<b>Board composition</b>	There is 100% representation of owners on boards (there is at least one owner on each board of directors).	
<b>Management composition</b>	On average there are two (2.017) owners on the board of management.  97.83% of firms have owners on the board of management.	Consistent with CDVM (2010)  El Bouanani (2014)

Source: compiled by the author

The initial descriptive results indicate that overall governance practice within Morocco is dominated mainly by major shareholders controlling the leadership and board of directors, which is in line with Iatridis and Zaghmour (2013). There are few efforts to embrace the good practice of separating leadership and introducing independent boards. This is in line with El Bouanani's (2014) findings.

### 5.1.3. Overall descriptive statistics

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This section outlines descriptive statistics for the corporate governance measures, namely: ownership structure, board leadership, boards of directors and boards of management. It outlines corporate performance measures, namely: the accounting-based measures return on assets (ROA) and return on equity (ROE), the market-based measures market-to-book value (MTBV) and Tobin's q as well as the log of return index. Finally, this section outlines the descriptives of the control variables used for this research.

#### 5.1.3.1. Ownership structure descriptive statistics

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Table 5.2 presents summary statistics of share ownership typologies.

**Table 5. 2: Ownership structure descriptive**

Stats	Min	Max	Mean	Median	Standard dev
Fflot	3.2	48.480	20.47	18.24	8.752
Family	0	90.140	40.94	41.79	29.837
Foreign	0	83.590	23.20	6.7	28.130
Infl	0	51.210	2.71	0	7.506
Instit	0	88.000	10.90	3.72	17.326
Inflcrossh	0	19.100	1.77	0	3.664

Source: compiled by the author

The descriptive statistics in Table 5.2 show that the means for "Family" (percentage held by family members including the royal family holdings) and "Foreign" (percentage held by foreigners [company, family or individuals]) represents the highest type of shareholding within the sample, with means consistent of 40.94% and 23.20% respectively. With a 10.90% mean shareholding, "Instit" (percentage held by Moroccan institutional investors: MAMDA, CIMR) is the third largest player in Moroccan listed firms. This in line with Farooq and El Jai (2012), CDVM (2013) and El Bouanani's (2014) findings.

Influential shareholders ("Infl"; percentage held by individual, employees [i.e. firm personnel], other companies, the government or other offices), and influential cross-shareholding ("Inflcrossh"; institutions owned by powerful families, generally insurance companies) have the lowest means within the sample. Furthermore, there are large differences which are shown by high standard



deviation and the large spread between the minimum of 0% and maximum of over 80% across the majority of shareholdings and in particular foreign, family and institutional ownership, which is expected, as ownership concentrations are high for some firms. Table 5.3 further illustrates the differences between leading share ownership.

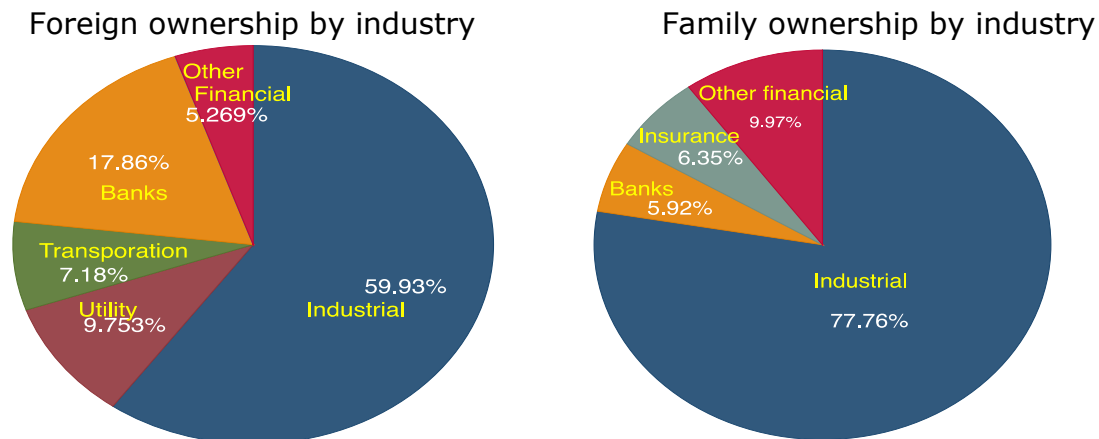
**Table 5. 3: Ownership concentration versus influence**

Ownership of 51%: absolute majority		
Concentration	Family	45.65% of firms have an ownership of 51% or more, going to a maximum of 90.14% owned.
	Foreign	24.78% of firms have an ownership of 51% or more, going to a maximum of 83.59% owned.
	Instit (institutional)	4.78% of firms are majority-owned by institutional investors, going to a maximum of 88% ownership.
Ownership of over 31%: blocking minority		
Blocking rights	Family	64.78% of the family firms within the sample have the minimum decision blocking rights.
	Foreign	35.28% of the foreign firms have minimum blocking rights.
	Fflot (free float)	12.17% of firms have minimum blocking rights, going to a maximum of 48.48%. However, these rights are not in the hands of single owners.
	Instit	7.83% of firms have a minimum 31% ownership, but this could be across several institutions.
Influential right: 5%		
	Inflcrossh (influential cross-holding)	One member of the influential family holds at least 5% in 16.52% of the firms within the sample.
	Infl (Influential)	13.91% of the firms within the sample are owned by influential shareholders (individuals/ government)

Source: compiled by the author

The results reveal that the dominant forms of ownership are Family and Frgn (foreign), with institutional shareholders coming third. This shows the importance of foreign and institutional shareholding in the Casablanca Stock Exchange, which is similar to Mossadak, Fontaine and Khemakhem's (2016) findings. Figure 5.3 includes industry breakdown by foreign and family ownership.

**Figure 5. 3: Industry by dominant ownership type**



Source: compiled by the author

Figure 5.3 demonstrates that both family and foreign ownership have a high presence in the industrial sector, but with differences in sizes of holding. Family shareholdings are not diversified, with the majority of ownership in the industrial sector and 22.24% across the banking and finance sectors (insurance and other financial institutions). Foreign ownership is more widely spread to also include utilities and the transportation sector. To capture the differences between these dominant ownership typologies, this study considers the joint effect of family and foreign ownership, as well as their respective separate effects. It separates the impacts of foreign and family ownership in all samples in order to capture the differences and eliminate possible endogenous impacts; this is line with Boubaker and Labégorre's (2008) study of French listed firms which investigated the relative impact of different ownership typologies by successively discarding and including them.

Moreover, this study considers the impact of concentrated ownership (Wagner *et al.*, 2015; Overland, Mavruk & Sjögren, 2012). To do so, it examines the concentration of family and foreign ownership at levels exceeding the thresholds of (a) 50% and (b) 30%. The Moroccan Law of Public Limited Companies (Loi n° 17-95, 1996), as well as Shleifer and Vishny (1986), Holderness and Sheehan (1988) and Boubaker and Labégorre (2008), explain the rationale for using the 30% and 50% thresholds, which is further supported by Anderson and Reeb (2003) and Maury (2006) who found that firms are more profitable when ownership exceeds 30%. Furthermore, this study investigates the impact on Moroccan firm performance of different share ownership typologies. This is similar

to Mossadak, Fontaine and Khemakhem's (2016) study, which investigated the impact on the dividend policy of Moroccan firms of individual and concentrated ownership.<sup>18</sup> Due to differences in legislative and accounting procedures for financial firms,<sup>19</sup> and consistent with the majority of previous studies (e.g. Al-Saidi, 2013; Iatridis & Zaghmour, 2013), this study considers both the totality of the sample including financial firms (banks, insurance companies and other financial institutions) but also excluding financial firms from the sample. Further details about the sample are available in Section 4.4.4, "Panels summary".

#### 5.1.3.2. Leadership, board of directors and board of management descriptive statistics

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Table 5.4 includes a summary of the descriptive statistics for leadership, board of directors and board of management statistics.

**Table 5. 4: Leadership and board descriptive statistics**

Stats	Min	Max	Mean	Median	Standard Dev
Singledual	1	3.000	1.49	1	0.618
Ceoown	0	1.000	0.50	0	0.501
Ceotenure	0	32.000	10.49	9	8.075
Ceonal	1	2.000	1.25	1	0.483
Chairtenure	0	33.000	4.18	0	7.641
Chairnal	0	2.000	0.62	0	0.816
Bodsize	3	15.000	8.24	9	2.872
Ownbod	1	15.000	6.52	6	2.672
Indbod	0	7.000	1.09	1	1.526
Fembod	0	4.000	0.75	1	0.899
Execbod	0	8.000	1.68	1	1.594
Frgnbod	0	8.000	2.39	2	2.539
Bomsize	2	30.000	8.85	8	4.697
Ownbom	0	7.000	2.02	2	1.873
Fembom	0	5.000	1.20	1	1.301
Frgnbom	0	8.000	0.99	0	1.570

Source: compiled by the author

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<sup>18</sup> This study investigates concentrated ownership using the Herfindahl index.

<sup>19</sup> Moroccan listed firms have a choice of complying with either IFRS or Moroccan local accounting rules for their financial accounts, with the exception of banks and other financial institutions listed on the Casablanca Stock Exchange, which, from 1 January 2008, have been required to report in accordance with IFRS rules only (Iatridis & Zaghmour, 2013).

The descriptive statistics show that the majority of Moroccan firms opt for a single corporate governance structure, which is consistent with Cigna and Mezio's (2016) findings. Both Ceotenure and Chairtenure have a maximum of over 30 years, indicating that the founders of some of the firms are taking the lead as sole administrator and supreme ruler, which is also found in Spanish–Moroccan joint-owned SMEs (Lopez-Perez & Rodriguez-Ariza, 2013). While the mean and median for Ceotenure are 10.49 and 9 years respectively, those for Chairtenure are 5.18 and 0 respectively, which illustrates that Ceotenure is higher than Chairtenure.

"Bodsize" (board size) shows that on average Moroccan firms have a mean of 8 and a median of 9 board members on their boards, which confirms Cigna and Mezio's (2016) findings. With a minimum of 3 board members and a maximum of 15, the size of the board conforms to the Moroccan Law for Publicly Listed Companies (Loi n° 17-95, 1996). The majority of Moroccan boards have on average 6 owner-members (Bodown). The descriptive statistics also reveal that Moroccan firms have a mean of 1.68 executive members (Execbod) and 1.09 independent board members (Indbod), which implies the presence of more executive than independent members within Moroccan listed firms. This is consistent with El Bouanani's (2014) and Cigna and Mezio's (2016) findings of low board independence among Moroccan firms. Although the mean for female board members is 0.75, the presence of females on the board (Fembod) of Moroccan firms is significant considering the country has no legislation on female board representation, simply a code promoting gender equality (Conseil National des Droits des Hommes, 2015). The presence of foreigners on Moroccan boards (Bodfrgn) is significant, with, on average, two foreigners sitting on Moroccan boards, reflecting a high presence of foreign investment. For instance, France has 500 subsidiary companies in Morocco across sectors (Santander Trade, 2017).

Similar to "Bodsize", the size of the board of management shows an 8.85 mean. However, owners (Ownbom) are on average less present on boards of management than they are on boards of directors (median = 2; mean = 2.02). Foreigners (Bomfrgn) are also underrepresented among Moroccan executives, with the Frgnbom mean being 0.99. Women, on the other hand, are better represented with, on average, one female sitting on a board of management.

### 5.1.3.3. Corporate performance descriptive statistics measures

Table 5.5 presents an overview of the descriptives of firm performance.

**Table 5. 5: Firm performance descriptives**

Stats	Min	Max	Mean	Median	Standard Dev
ROA	(14.500)	24.500	5.20	3.8	5.436
ROE	(31.820)	61.850	14.984	13.940	11.819
Tobin's q	0.110	4.440	1.182	0.915	0.908
MTBV	0.480	10.110	2.786	2.285	1.761
LRI	2.578	9.173	5.896	5.889	1.437

Source: compiled by the author.

The descriptive statistics show a mean of 5.20% and 14.98% for, respectively, ROA (return on assets) and ROE (return on equity) accounting-based measures. Also, the LRI (log of return index) shows a mean of 5.90%, which indicates that Moroccan firms have a tendency to focus on accounting measures and returns rather than the market-based measures. This is further supported by the low percentage of market-to-book value (MTBV) and Tobin's q, which have means of 2.8 and 1.2 respectively, indicating the lower emphasis on market-based measures. From the above it can be taken that Moroccan firms are more focused on long-term profit generation, which supports the choice of stakeholder theory for this study (Freeman, 1984, 2017).

### 5.2.1.4. Control variables

**Table 5. 6: Control variables descriptives**

Stats	Min	Max	Mean	Median	Standard Dev
LMK	3.980	11.780	7.987	8.155	1.718
TDTA	0	65.830	19.845	17.59	13.663
Age	10	102.000	46.348	41.5	24.326
Indcl	1	6	2.0869	1	1.7336

Source: compiled by the author.

With 46 years as a mean age, a minimum of 10 years and a maximum of 102 years, Moroccan firms are old, established companies. A mean of 20% TDTA (total debt to total assets) implies a choice of debt financing of their assets, which suggests that the majority of Moroccan firms prefer self-funding to external

financing. Also, firms have a mean LMK (log of market capitalisation) of nearly 8, a reasonable market capitalisation size. The LMK and TDTA means correspond to Aguenau, Farooq and Di's (2017) results. The above emphasises the importance of stakeholder relationships, and again supports stakeholder theory as a guiding theory for this research.

#### 5.1.4. Correlations

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Table 5.7 presents the correlations among the variables used throughout this study. Several patterns were identified, which will be discussed below, but it should be emphasised that the research will not focus on correlations between variables; this is studied later in the panel regression analyses.

**Table 5. 7: Correlations**

	Fflot	Family	Foreign	Infl	Instit	Inflcrossh	Singledual	Ceoown	Ceotenure	Ceonal	Chairtenure	Chairnal	Bodsize	Ownbod	Indbod	
Fflot	1															
Family	-0.0155	1														
Foreign	-0.1804	-0.7635	1													
Infl	-0.0191	-0.2901	0.0294	1												
Instit	-0.131	-0.367	-0.2008	0.0481	1											
Inflcrossh	-0.2116	0.0719	-0.102	-0.1116	-0.0165	1										
Singledual	0.0488	-0.5643	0.6262	0.0052	-0.0667	-0.0008	1									
Ceoown	0.2455	0.3967	-0.4152	-0.1541	-0.0603	-0.0364	-0.2685	1								
Ceotenure	0.1413	0.3967	-0.3	-0.0203	-0.2755	0.0767	-0.3735	0.6756	1							
Ceonal	0.0508	-0.5162	0.677	-0.0825	-0.1869	-0.032	0.5222	-0.1952	-0.1461	1						
Chairtenure	0.0839	-0.192	0.3059	-0.0605	-0.2016	0.1091	0.5568	0.1179	0.0408	0.3669	1					
Chairnal	0.019	-0.5946	0.6167	0.0428	-0.0143	0.0629	0.7508	-0.2454	-0.3027	0.5803	0.5488	1				
Bodsize	-0.2581	-0.3625	0.3794	0.0868	0.0929	0.0451	0.2198	-0.439	-0.3794	0.1692	-0.087	0.1712	1			
Ownbod	-0.2672	-0.3297	0.309	0.0722	0.1321	0.1806	0.2747	-0.3395	-0.2939	0.1625	0.0114	0.3692	0.7315	1		
Indbod	0.047	-0.0795	0.249	-0.1365	-0.1952	-0.1566	0.1405	-0.0669	-0.037	0.1793	-0.0605	-0.0862	0.32	-0.2822	1	
Fembod	0.1445	0.1897	-0.1187	-0.009	-0.1847	-0.0844	-0.1829	0.2867	0.2317	-0.0121	-0.075	-0.2078	0.0607	0.0772	0.0267	
Execbod	0.2449	0.1586	-0.2939	0.2424	-0.0137	-0.0636	-0.5106	0.3092	0.316	-0.2416	-0.1608	-0.4196	0.0905	-0.1094	0.0064	
Frngbod	-0.1678	-0.6475	0.8191	0.016	-0.1184	-0.0579	0.4383	-0.4826	-0.3536	0.5473	0.0917	0.5334	0.604	0.5344	0.2078	
Bomsize	-0.294	0.2345	-0.1804	-0.0793	-0.0025	0.342	-0.1721	-0.0903	0.0406	-0.148	-0.0318	-0.2739	0.2066	0.0547	0.0289	
Ownbom	0.0887	-0.1374	0.205	0.1925	-0.2649	0.2004	0.0134	0.0608	0.1207	0.1679	-0.0948	-0.0627	0.0749	0.1451	-0.082	
Fembom	-0.2263	0.2976	-0.115	-0.0023	-0.2334	0.1064	-0.0483	0.0861	0.1541	-0.0381	0.2213	-0.0938	-0.1334	-0.1024	-0.1265	
Frngbom	-0.1489	-0.5163	0.6823	-0.0415	-0.1759	0.2636	0.5054	-0.3296	-0.2411	0.588	0.2518	0.4831	0.2866	0.3087	0.1185	
ROE	-0.0419	0.0094	0.0438	0.2059	-0.1288	-0.1245	-0.1042	-0.0184	0.0418	-0.072	-0.157	-0.2234	-0.0997	-0.13	0.0185	
Roa	-0.0544	-0.0116	0.1387	0.1153	-0.1888	-0.1758	-0.0582	0.0686	0.0817	0.0024	-0.0199	-0.1232	-0.0557	-0.0286	0.0118	
Tobinq	-0.1442	-0.0159	0.0748	0.1248	-0.0521	-0.1081	-0.0018	0.0979	0.0936	-0.0289	-0.0417	-0.0305	0.0296	0.0907	0.0378	
MTBV	-0.2216	-0.0039	0.0292	0.0933	0.0528	-0.107	-0.0616	0.0651	0.0357	-0.102	-0.137	-0.1363	0.0214	0.0024	0.0714	
LRI	-0.3323	-0.0281	0.1744	0.0975	-0.0838	-0.115	0.0554	-0.2277	-0.2014	0.0541	-0.1466	-0.0536	0.4151	0.1227	0.3358	
Age	-0.2874	-0.0251	0.0045	-0.1225	0.2655	-0.1535	-0.1219	-0.1122	-0.2538	0.0193	-0.0756	-0.1023	0.2545	0.042	0.1429	
Indcl	-0.1224	-0.1614	0.006	0.2388	0.2628	-0.1817	0.0378	-0.2876	-0.1154	-0.0403	-0.0925	-0.0399	0.1016	0.0265	-0.0169	
Lmk	-0.1711	-0.2687	0.1001	0.2201	0.3037	-0.0674	0.0953	-0.3361	-0.1682	-0.0359	-0.1997	-0.0335	0.4366	0.2454	0.1613	
Tdta	0.2082	0.0574	-0.0957	0.1236	-0.1176	0.0713	0.0052	0.0483	0.2345	0.0749	-0.0124	0.0836	-0.1646	-0.1139	-0.0183	
	Fembod	Execbod	Frngbod	Bomsize	Ownbom	Fembom	Frngbom	ROE	Roa	Tobinq	MTBV	LRI	Age	Indcl	Lmk	Tdta
Fembod	1															
Execbod	0.3017	1														
Frngbod	-0.0837	-0.259	1													
Bomsize	0.0722	0.0443	-0.0403	1												
Ownbom	0.3557	0.3684	0.2005	0.0923	1											
Fembom	0.0276	-0.1375	-0.079	0.5282	0.0416	1										
Frngbom	-0.0023	-0.2068	0.6246	0.0562	0.5293	0.0807	1									
ROE	-0.1981	-0.1232	-0.0245	0.123	0.0254	0.2102	0.0051	1								
Roa	-0.0649	-0.0754	0.0352	0.0172	-0.026	0.0667	-0.0407	0.8044	1							
Tobinq	-0.0151	-0.0952	0.0348	-0.0263	-0.0715	-0.0753	-0.0873	0.4066	0.6814	1						
MTBV	-0.1196	-0.1754	0.0322	0.0708	-0.1101	0.1052	-0.0472	0.5775	0.5299	0.7158	1					
LRI	-0.1124	-0.1069	0.2433	0.3453	-0.2244	0.0639	-0.0026	0.3653	0.3101	0.2555	0.3666	1				
Age	0.0583	-0.1262	0.0699	0.3926	-0.3792	0.1307	-0.2272	-0.0665	-0.0148	-0.0558	-0.0029	0.3413	1			
Indcl	-0.1175	-0.0233	0.0135	-0.0186	-0.0765	0.0736	0.0283	-0.0311	-0.353	-0.4544	-0.1689	0.1056	-0.0007	1		
Lmk	-0.3682	-0.0482	0.2793	0.2604	-0.0699	-0.0845	0.0472	0.2198	0.1167	0.2994	0.4409	0.4316	0.1501	0.1266	1	
Tdta	0.0127	0.0752	-0.1997	-0.1331	-0.0144	-0.2011	-0.1392	-0.2312	-0.3091	-0.1067	-0.2076	-0.1594	-0.1661	0.0158	-0.0909	1

Source: compiled by the author

The results reveal that CEO nationality (Ceonal), chair nationality (Chairnal) and foreign ownership are positively correlated. Similarly, board structure variables indicate a positive correlation between the presence of foreigners on the board of directors (Frgrnbod) and the board of management (Frgrnbom) and Frgrnbod, Frgrnbom and Foreign. This indicates that foreign firms are likely to staff the board of directors and the board of management with foreigners. This is in line with the assumption that most foreign-owned companies tend to employ international board members that are usually from their home countries (Can & Çetinarslan, 2017). This is similar to Alpay et al.'s (2005) findings that American firms recruit board members from within the organisation to mitigate culture clashes between parent company and host country.

The results show a positive correlation between Singledual leadership structure and chair nationality (Chairnal), suggesting that, in addition to appointing a foreign chair, foreign firms opt for separation of chair and CEO roles. This is similar to Alpay et al.'s (2005) findings that European multinational enterprises frequently opt for the separation of these roles. Also, Bodsize is positively correlated with Ownbod, which implies that the presence of owners influences board size.

The results reveal that family ownership is negatively correlated with foreign ownership and foreign board members (Frgrnbod), which shows that company ownership is dominated by family and foreign. The results also indicate that family-owned companies are less likely to employ foreign members. To further investigate the impact of these share ownership patterns, this study will consider their impact both combined and separate. More details are available in Section 4.4.4, "Panels summary".

The leadership variables show some interesting correlations, with CEO owner (Ceoown) positively correlated with CEO tenure (Ceotenure). This is in line with Dikolli, Mayew and Nanda's (2014) findings which support a positive association between CEO tenure and CEO ownership and single leadership (i.e. where the CEO is also the chair). This suggests that founders preside over family businesses until they decide to step down in favour of the next generation, or until they die, when share ownership and leadership automatically transfers to family successors. This is the case for a few companies: for instance, the death of the founder and owner



of Colorado resulted in the transfer of ownership to the owner-successor; and in both Dari Couspate and Addoha the founders are ceding some authority to their descendants.

The results demonstrate no correlations between the control variables and the dependent variables. They show some positive correlation among the dependent accounting-based measures ROE and ROA and the accounting-based measures and market-based measures Tobin's q and ROA. Also, there is a positive correlation between MTBV and Tobin's q. However, this is not a concern here, as the impact of each of these dependent variables will be investigated independently.

## **5.2. The impact on firm performance of ownership**

This section outlines the impact of dispersed and concentrated ownership on firm performance and aims to answer the following sub-question:

Q 1: Is there an association between 1) dispersed and 2) concentrated share ownership and firm performance?

This section tests a set of hypotheses developed from the range of literature examined in Section 5.2.1, "The impact on firm performance of ownership". The hypotheses are summarised as follows:

H1a1: Family ownership (Family) in dispersed ownership structures is associated with increased firm performance.

H1a2: Foreign ownership (Frgn) in dispersed ownership structures increases firm performance.

H1a3: Institutional ownership (Instit) in dispersed ownership structures is associated with enhanced firm performance.

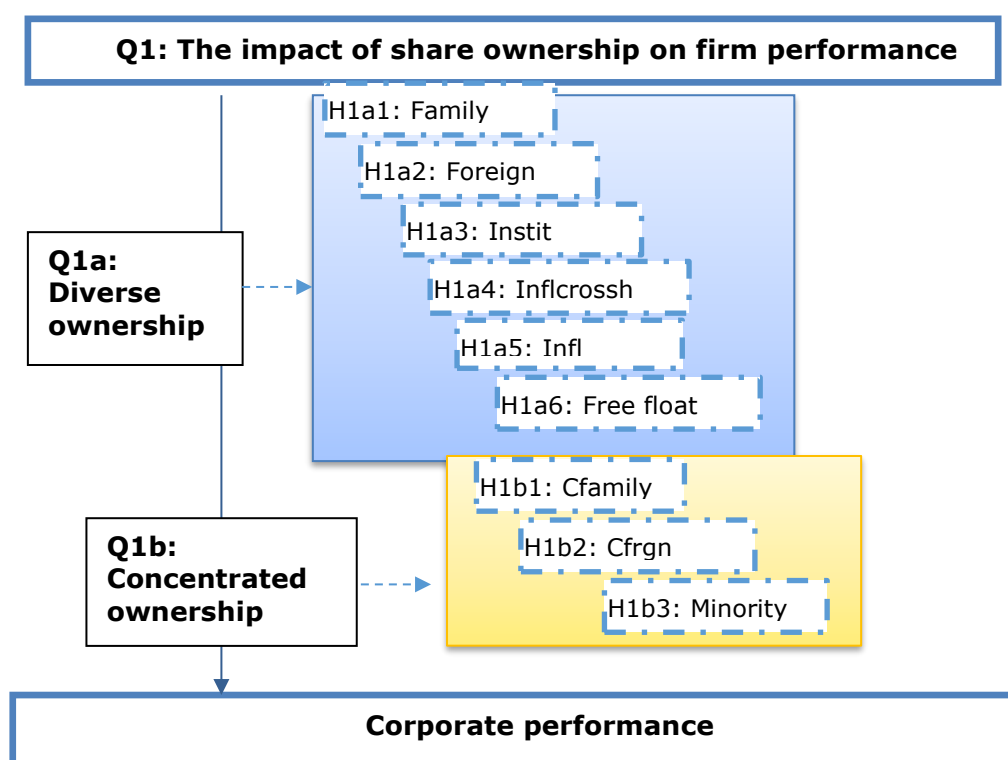
H1a4: Influential cross-holding ownership (Inflcrossh) in dispersed ownership structures is associated with increased firm performance.

H1a5: Influential ownership (Infl) in dispersed ownership structures is associated with increased firm performance.

H1a6: Free-float ownership (Fflot) in dispersed ownership structures increases firm performance .

These hypotheses are summarised in Figure 5.4. The model is developed in line with the above hypotheses.

**Figure 5. 4: Model (1). Impact of ownership on firm performance**



Source: compiled by the author

— Refers to a direct relationship between corporate governance determinants and corporate performance.

- - - Refers to the effect of additional corporate governance determinants in shaping the relationship between previously investigated governance components and corporate performance (e.g. the presence of shareholders in board leadership influences the impact of ownership on firm performance).

The study uses the random effect model (Torres-Reyna, 2007; Wooldridge, 2010, 2015) to test the hypotheses:

$$Y_{it} = \beta X_{it} + \alpha + u_{it} + \varepsilon$$

Where

- $Y_{it}$  is the dependent variable (firm performance measure) for company  $i$  at time  $t$ .
- $\beta$  is the coefficient for that independent variable,
- $X_{it}$  represents the independent variables,

- $\alpha$  is the unknown intercept for each entity (n entity-specific intercepts)
- $u_{it}$  represent the between-entity error,
- $\varepsilon$  reflects the within-entity error the error term.

Furthermore, the analyses use the robust command to control for autocorrelation, multicollinearity, outliers and normality of distribution (Hoechle, 2007; Wooldridge, 2010, 2015). This research also controls for year effects.

The following equations are tested for this section:

$$MTBV_{it} = \beta_1 Fflot_{it} + \beta_2 Family_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 1)}$$

$$\text{Tobin's } q_{it} = \beta_1 Fflot_{it} + \beta_2 Family_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 2)}$$

$$ROA_{it} = \beta_1 Fflot_{it} + \beta_2 Family_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 3)}$$

$$ROE_{it} = \beta_1 Fflot_{it} + \beta_2 Family_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 4)}$$

$$LRI_{it} = \beta_1 Fflot_{it} + \beta_2 Family_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 5)}$$

### 5.2.2. Dispersed ownership analyses and findings

Table 5.8 reports the results from the panel regression (xtreg) with a robust command that links firm performance as measured by market-based measures (MTBV and Tobin's q), accounting-based measures (ROA and ROE) and log of total return index and share ownership typologies across all dispersed panels. Table 5.8 summarises the results of dispersed ownership in all industries and excluding financial firms' industry panels. The table also includes the results for Family excluding foreign ownership panels and Foreign excluding family panels.

Table 5.8: Summary table of dispersed ownership analyses: Main panel

	Main panel					Family excluding foreign panel					Foreign excluding family panel				
VAR	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI
Fflot	23.8432***	5.6725	53.8179	6.0630	5.2744***	-0.0632***	-0.0307***	-0.0568	-0.0697	-0.0108**	-0.0526***	-0.0299***	-0.0628	-0.0978	-0.0071
Family	23.8951***	5.7022	53.8794	6.1606	5.2812***	-0.0106	-0.0009	0.0059	0.0281	-0.0037***					
Foreign	23.9057***	5.7031	53.8736	6.1326	5.2850***						0.0106	0.0009	-0.0059	-0.0281	0.0037***
Instit	23.8844***	5.6986	53.8355	6.0753	5.2705***	-0.0214	-0.0045	-0.0381	-0.0570	-0.0145***	-0.0107	-0.0036	-0.0440*	-0.0851*	-0.0108***
Inflcrossh	23.7703***	5.6515	53.4858	5.5442	5.2629***	-0.1357***	-0.0516***	-0.3880***	-0.5891*	-0.0221	-0.1251***	-0.0508***	-0.3940***	-0.6172*	-0.0184
Infl	23.8825***	5.7085	53.9183	6.3416	5.2792***	-0.0231	0.0055	0.0450	0.2090	-0.0058	-0.0124	0.0063	0.0390	0.1809	-0.0021
Age	-0.0108	-0.0042	-0.0081	-0.0495	0.0155	-0.0109	-0.0042	-0.0082	-0.0496	0.0155	-0.0109	-0.0042	-0.0082	-0.0496	0.0155
Indcl	-0.3118**	-0.3030***	-1.3509***	-0.7150	-0.0055	-0.3127**	-0.3032***	-1.3525***	-0.7160	-0.0056	-0.3127**	-0.3032***	-1.3525***	-0.7160	-0.0056
Lmk	0.7684***	0.2433***	0.5902	1.6137**	0.8643***	0.7710***	0.2442***	0.5934	1.6143**	0.8652***	0.7710***	0.2442***	0.5934	1.6143**	0.8652***
Tdta	-0.0034	-0.0005	-0.0674***	-0.1258**	-0.0029***	-0.0034	-0.0005	-0.0675***	-0.1256**	-0.0030***	-0.0034	-0.0005	-0.0675***	-0.1256**	-0.0030***
Constant	2,390.0691**	-569.2836	-5,379.3481	-601.7190	-529.5883***	0.4947	1.0203	7.9888**	11.5344	-1.0942	-0.5666	0.9350*	8.5832**	14.3441	-1.4658*
Obser	229	229	229	227	229	229	229	229	227	229	229	229	229	227	229
N of firms	46	46	46	46	46	46	46	46	46	46	46	46	46	46	46
r2_o	0.291	0.379	0.350	0.200	0.242	0.291	0.378	0.350	0.200	0.242	0.291	0.378	0.350	0.200	0.242
	Main panel excluding financial					Family excluding foreign and financial panel					Foreign excluding family and financial panel				
VAR	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI
Fflot	-0.0536**	-0.0298*	-0.1513	-0.5195	0.0004	-0.0674**	-0.0342***	-0.0472	0.0160	-0.0123**	-0.0488**	-0.0319***	-0.0555	-0.0286	-0.0090*
Family	-0.0048	0.0021	-0.0958	-0.4909	0.0094	-0.0186	-0.0023	0.0082	0.0446	-0.0033***					
Foreign	0.0138	0.0044	-0.1040	-0.5355	0.0127*						0.0186	0.0023	-0.0082	-0.0446	0.0033***
Instit	-0.0239	-0.0032	-0.1805	-0.6172*	-0.0009	-0.0377	-0.0076	-0.0765**	-0.0817	-0.0136***	-0.0191	-0.0053	-0.0847***	-0.1263*	-0.0103***
Inflcrossh	-0.1228**	-0.0476**	-0.4770***	-1.0425**	-0.0143	-0.1365**	-0.0520**	-0.3730***	-0.5070*	-0.0270	-0.1180**	-0.0496**	-0.3812***	-0.5516**	-0.0237
Infl						-0.0138	-0.0044	0.1040	0.5355	-0.0127*	0.0048	-0.0021	0.0958	0.4909	-0.0094
Age	-0.0041	0.0005	0.0203	0.0083	0.0307**	-0.0041	0.0005	0.0203	0.0083	0.0307**	-0.0041	0.0005	0.0203	0.0083	0.0307**
Indcl	-0.5489	-0.1819	0.8583	3.7868	0.2891	-0.5489	-0.1819	0.8583	3.7868	0.2891	-0.5489	-0.1819	0.8583	3.7868	0.2891
Lmk	0.8474***	0.3027***	0.9616***	2.3359***	0.8668***	0.8474***	0.3027***	0.9616***	2.3359***	0.8668***	0.8474***	0.3027***	0.9616***	2.3359***	0.8668***
Tdta	-0.0053	-0.0065	-0.1186***	-0.2131**	-0.0040***	-0.0053	-0.0065	-0.1186***	-0.2131**	-0.0040***	-0.0053	-0.0065	-0.1186***	-0.2131**	-0.0040***
2010.Year	0.2595	0.0016	-0.4687	1.0625	0.0299	0.2595	0.0016	-0.4687	1.0625	0.0299	0.2595	0.0016	-0.4687	1.0625	0.0299
O.Infl	-	-	-	-	-										
Constant	-0.8859	0.1520	13.0934	50.8408	-3.2230**	0.4894	0.5919	2.6896	-2.7109	-1.9561	-1.3678	0.3585	3.5123	1.7496	-2.2857*
Obser	170	170	170	169	170	170	170	170	169	170	170	170	170	169	170
N of firms	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34
r2_o	0.348	0.402	0.429	0.300	0.307	0.348	0.402	0.429	0.300	0.307	0.348	0.402	0.429	0.300	0.307

\*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

Source: compiled by the author

The results show a variation in findings between the main “all industries” panel and the main “excluding financial firms” panel. The results in the main panel reveal that all forms of ownership are positively associated with MTBV (market to book value), the market-based measure, and LRI (log total return index), thus confirming H1a1, H1a2, H1a3, H1a4, H1a5 and H1a6. This consideration of all forms of ownership suggests that dispersed ownership, along with the dominant forms of family and foreign ownership, in the main panel indicates that the ownership of Moroccan firms is driven by increasing shareholders’ value in the form of shareholder returns as well as the market-based measure MTBV. This supports Han and Suk’s (1998) findings that stock returns increase as insider ownership increases, namely insider and institutional ownership. The results further support Greenaway, Guariglia and Yu’s (2014) findings that foreign ownership is better when considered alongside other forms of ownership. The results also support Dobrzynski (1993) and Monks and Minow’s (1995) findings that institutional investors engage in effective monitoring of the firm, along with active participation in management in pursuit of long-term profit maximisation.

The main panel excluding financial firms presents a different picture, where free float (Fflot) is negatively associated with the market-based measures MTBV and Tobin’s q. Institutional ownership (Instit) is negatively linked with the accounting-based measure ROE, and Inflcrossh is negatively correlated with market-based measures Tobin’s q and MTBV and accounting-based measures ROA and ROE. Stata automatically drops the effect of influential shareholding (Infl) in the main panel excluding financial firms. The above suggests that free-float (Fflot), institutional (Instit) and influential cross-holding (Inflcrossh) ownerships negatively influence the performance of non-financial firms within Morocco, and the results reject hypotheses H1a3, H1a4 and H1a6. Among the dominant forms of ownership, Foreign is the only type under this panel significantly positively correlated to LRI. The results suggest that the impact of industries and distribution of ownership per industry significantly shapes the impact of share ownership typologies on firm performance. For instance, foreign (Frqn) ownership includes utilities as well as transportation, and these two industries are absent from family business. The above supports hypothesis H1a2 and rejects hypothesis H1a1. These results support findings that foreign firms perform better than domestic firms (Heugens, Van Essen & van Oosterhout, 2009), and suggest that the

stringent regulation within financial industries (banks, insurance and other financial, which represent 20% of family companies) influences the relationship between family ownership and firm performance.

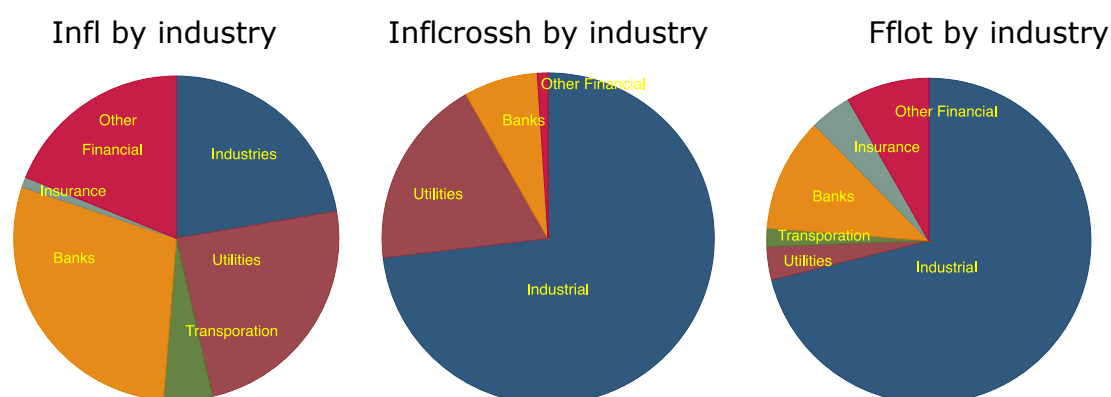
To further investigate the differences between the two dominant forms of ownership, namely family and foreign, this research investigates the impact of each form separately: the Family excluding Foreign panel and the Foreign excluding family panel. Both forms are associated with LRI in all industries and excluding financial panels; the only difference is a sign. Family ownership in the “Family excluding foreign” panel is negatively associated with LRI and foreign ownership in the “Foreign excluding family” panel is positively associated with LRI – thus rejecting hypothesis H1a1 and supporting hypothesis H1a2. This indicates that, unlike family-owned companies, foreign-owned businesses are keener to increase their shareholders’ returns as measured by LRI. This is in line with Yoshikawa and Phan (2003), who show that foreign ownership is associated with shareholder returns. The results support the findings that foreign firms perform better than domestic ones (Heugens, Van Essen & van Oosterhout, 2009). The negative family–LRI relationship suggests two possible scenarios. One is that the presence of foreign ownership in Moroccan listed firms increases government scrutiny (Dharwadkar, George & Brandes, 2000), thus allowing further opportunistic behaviour in disciplining and creating effective monitoring of controlling insiders and shareholders – in this case, family and institutions (Kho, Stulz & Warnock, 2009) – which is plausible as both family and institutional ownership have a positive relationship to LRI in the main panel, all industries. The other is simply that ownership–firm performance requires a consideration of more governance variables. An investigation of share ownership typology alongside other market-based mechanisms is considered in Sections 5.3.1, 5.3.2 and 5.4.

Institutional (Instit) ownership presents different associations with firm performance in the “Family excluding foreign” and “Foreign excluding family” panels. While Instit is negatively associated with LRI for all industries and “Excluding financial firms” panels for both panels, it is negatively associated with ROA solely in the “Family excluding foreign and financial firms” panel, and negatively correlated with ROA and ROE in both “Foreign excluding family all industries” and “Excluding financial firms” panels. The results reject hypothesis

H1a3. This is consistent with Farooq and El Jai's (2012) negative relationship between institutional ownership and earning management among Moroccan listed firms. It raises a question about the extent of institutional owners' involvement in decision-making (Ivanova, 2017), whether or not they hold a significant stake in the business (Shleifer and Vishny, 1986) and whether that stake is held by an individual mutual fund or a block of institutions/mutual funds (Edmans & Manso, 2010). In Morocco, institutional ownership takes the form of a block of institutions and mutual funds, which suggests we need to consider the involvement of institutional representatives on the board as a possible moderator in the relationship between institutional ownership and firm performance. This is further investigated in Sections 5.3, 5.4 and 5.5.

Furthermore, influential shareholding (Infl) is solely negatively associated with LRI in the family panel excluding financial firms. Free-float (Fflot) is negatively associated with MTBV and Tobin's q as well as LRI across foreign and family panels. Also, Fflot is negatively linked to MTBV and Tobin's q, for the foreign panel all industries. Inflcrossh gives the same results for "Family excluding foreign" and "Foreign excluding family" panels, being negatively associated with ROA, ROE, MTBV and Tobin's q across all panels. These results are similar to the main panel excluding financial firms. The results partially reject hypotheses H1a4, H1a5 and H1a6, and indicate the effect of the stringent regulations that apply to financial firms, where all dispersed ownership typologies; Fflot, Infl and Inflcrossh are associated with positive firm performance; and we can see the ineffectiveness of dispersed ownership in enhancing non-financial firms' performance. The variability of the results in the dispersed ownership typologies Fflot, Infl and Inflcrossh reflects the industry effect. Figure 5.5 gives a breakdown of dispersed ownership by industry. All those apart from Inflcrossh, Infl and Fflot are to a large degree associated with the financial sector.

**Figure 5. 5: Dispersed ownership by industry**



Source: compiled by the author.

The results suggest that the Moroccan range of ownership structures works collectively to achieve companies' respective goals. The results support stakeholder theory. Consistent with previous empirical findings, the results tell us that multiple large owners are associated with better corporate value (Attig, Ghouli & Guedhami, 2009; Maury & Pajuste, 2005; Yasser & Mamun, 2017).

The results for the control variables show a similar trend across all panels. The log of market capitalisation (LMK) is positively associated with all firm performance measures except ROA in the main all industries panels, and positively associated with all performance across all non-financial panels. This suggests that high performance is rewarded by higher market capitalisation across all industries. The total debt to total assets (TDTA) is negatively linked to the accounting-based measures ROA and ROE, and LRI, for all panels. This suggests that a firm's reliance on debt for financing (TDTA) negatively affects firm performance (ROA and ROE) and growth (LRI). Moroccan firms should opt for more equity financing as market capitalisation (LMK) looks more positive. Industry (Indcl) shows a negative relationship with MTBV, Tobin's q and ROA across the all industries panel, and no relationship in the excluding financial firms panel, thus implying a negative impact on firm performance of financial industries. Age of firm contributes solely to increasing the log of return index (LRI) for the excluding financial industries panel. The results confirm Braun and Sharma's (2007) findings that a firm's age and shareholder returns are significantly positively correlated, and also support Matemilola et al.'s (2017) findings that a firm's age contributes positively to stock returns. The results imply that the age of the firm is more important among non-



financial firms in increasing firm performance in the long term for family- as well as foreign-owned firms; this supports stakeholder theory and responsible capitalism, as a firm that exists over a long period has a long-term relationship with all its stakeholders.

### 5.2.2. Concentrated ownership findings and analyses

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The results presented in this section concern the impact of concentrated ownership, and are divided into two sections: foreign and family. The author seeks to compare the results of 50%+ ownership (Tables 5.9–5.11) panels with 30%+ ownership in Family and Foreign panels (Tables 5.10–5.12).

The results suggest that these two dominant forms of concentrated ownership have different effects when considered separately as opposed to being considered alongside dispersed ownership and opponent dominant form of ownership.

#### 5.2.2.1. Family ownership concentration: findings and analyses

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The analysis in this section aims to examine the following hypotheses:

H1b1: Family ownership concentration ( $C_{family} \geq 50\%$ ) / ( $F_{family} \geq 30\%$ ) decreases firm performance .

H1b3: Minority shareholding ( $Instit/Fflot/Inflcrossh/Infl$ ) is negatively correlated with firm performance in concentrated panels.

The equation models considered for the  $C_{family}$  hypotheses are as follows:

$$MTBV_{it} = \beta_1 Fflot_{it} + \beta_2 C_{family}_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 6)}$$

$$Tobin's\ q_{it} = \beta_1 Fflot_{it} + \beta_{2C} C_{family}_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 7)}$$

$$ROA_{it} = \beta_1 Fflot_{it} + \beta_2 C_{family}_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 agE_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 8)}$$

$$ROE_{it} = \beta_1 Fflot_{it} + \beta_2 Cfamily_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 9)}$$

$$LRI_{it} = \beta_1 Fflot_{it} + \beta_2 Cfamily_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 10)}$$

The last five columns of Table 5.9 present the results for family ownership within the 50%+ hypothesis: Ffamily; additional columns are included to further check the robustness of the Cfamily ownership results.

The equation models considered for the Ffamily hypotheses are as follows:

$$MTBV_{it} = \beta_1 Fflot_{it} + \beta_2 Ffamily_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 11)}$$

$$\text{Tobin's } q_{it} = \beta_1 Fflot_{it} + \beta_2 Ffamily_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 12)}$$

$$ROA_{it} = \beta_1 Fflot_{it} + \beta_2 Ffamily_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (model 13)}$$

$$ROE_{it} = \beta_1 Fflot_{it} + \beta_2 Ffamily_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 14)}$$

$$LRI_{it} = \beta_1 Fflot_{it} + \beta_2 Ffamily_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 15)}$$

The last five columns in Table 5.10 present the results for the hypotheses of 30%+ family ownership: Ffamily; additional columns are included to further check the robustness of the results.

**Table 5. 9: Cfamily: family ownership  $\geq$  50%**

VARIABLE	mtbv	tobinq	roa	roe	lri	mtbv	tobinq	roa	roe	lri	mtbv	tobinq	roa	roe	lri
fplot						-0.1208*** (0.0387)	-0.0380*** (0.0128)	-0.2981*** (0.0689)	-0.7184** (0.3322)	-0.0002 (0.0079)	21.7539** (9.6299)	5.4153 (6.4978)	115.5052*** (42.3832)	130.3313 (106.4914)	5.1749*** (1.5321)
Cfamily	0.0385 (0.0335)	0.0293*** (0.0095)	-0.0346 (0.0803)	-0.2041 (0.2479)	0.0114* (0.0067)	-0.1010* (0.0539)	-0.0143 (0.0098)	-0.3168*** (0.0553)	-0.8105** (0.3286)	0.0145 (0.0120)	21.7733** (9.6274)	5.4389 (6.4942)	115.4861*** (42.3667)	130.2384 (106.4529)	5.1893*** (1.5348)
instit						-0.1722*** (0.0537)	-0.0507*** (0.0145)	-0.3530*** (0.0947)	-0.5836* (0.3303)	0.0080 (0.0099)	21.7024** (9.6317)	5.4026 (6.4963)	115.4514*** (42.3993)	130.4673 (106.4979)	5.1830*** (1.5339)
inflcrossh						-0.1800** (0.0739)	-0.0476** (0.0201)	-0.6199*** (0.0931)	-1.6219*** (0.3541)	-0.0264 (0.0221)	21.6951** (9.6400)	5.4058 (6.5030)	115.1847*** (42.3370)	129.4310 (106.4630)	5.1488*** (1.5201)
infl						-0.0004 (0.0627)	-0.0053 (0.0453)	-0.0756 (0.2684)	0.2147 (0.8265)	0.0125 (0.0084)	21.8732** (9.6418)	5.4479 (6.4892)	115.7236*** (42.4283)	131.2559 (106.5713)	5.1872*** (1.5321)
frng											21.8748** (9.6394)	5.4534 (6.4950)	115.8031*** (42.3721)	131.0507 (106.4887)	5.1752*** (1.5292)
age	-0.0122 (0.0082)	-0.0070 (0.0049)	-0.0132 (0.0235)	-0.0371 (0.0542)	0.0135 (0.0138)	-0.0087 (0.0059)	-0.0057 (0.0045)	-0.0188 (0.0246)	-0.0903 (0.0660)	0.0116 (0.0144)	-0.0086 (0.0059)	-0.0056 (0.0045)	-0.0188 (0.0246)	-0.0900 (0.0661)	0.0117 (0.0145)
indcl	-0.2773*** (0.1029)	-0.2874*** (0.0705)	-1.1812*** (0.2979)	-0.0934 (0.7028)	0.0451 (0.1542)	-0.1568 (0.1142)	-0.2455*** (0.0665)	-1.1725*** (0.3397)	-0.3935 (0.9200)	0.0198 (0.1623)	-0.1550 (0.1152)	-0.2449*** (0.0669)	-1.1705*** (0.3404)	-0.3882 (0.9238)	0.0207 (0.1632)
lmk	0.6887*** (0.1405)	0.3175*** (0.1035)	0.6831 (0.5581)	1.7531 (1.5048)	0.8271*** (0.0705)	0.5330*** (0.1203)	0.2484*** (0.0832)	0.4292 (0.4013)	1.5641 (1.2766)	0.8547*** (0.0402)	0.5282*** (0.1226)	0.2466*** (0.0838)	0.4191 (0.4037)	1.5441 (1.2854)	0.8527*** (0.0409)
tdta	-0.0186 (0.0132)	-0.0017 (0.0047)	-0.1038*** (0.0368)	-0.2865** (0.1333)	-0.0057** (0.0027)	-0.0165* (0.0088)	-0.0012 (0.0048)	-0.0997*** (0.0328)	-0.2490** (0.1003)	-0.0048*** (0.0014)	-0.0168* (0.0088)	-0.0013 (0.0048)	-0.1010*** (0.0324)	-0.2506** (0.1000)	-0.0049*** (0.0015)
2010.year	0.1805 (0.2483)	-0.0314 (0.1021)	-1.1941 (0.7526)	-0.1106 (2.1559)	0.0538** (0.0260)	0.2647 (0.2195)	-0.0066 (0.1112)	-1.0775 (0.6844)	0.1897 (1.9790)	0.0496* (0.0269)	0.2546 (0.2241)	-0.0090 (0.1144)	-1.1330 (0.6974)	0.1284 (2.0265)	0.0473* (0.0271)
2011.year	-0.2205 (0.2260)	-0.1242 (0.0884)	-1.9700** (0.9065)	-3.1913 (2.4422)	0.0580 (0.0377)	-0.0439 (0.2029)	-0.0725 (0.1018)	-1.6832** (0.8128)	-2.4979 (2.2435)	0.0525 (0.0405)	-0.0632 (0.2102)	-0.0771 (0.1075)	-1.7875** (0.8493)	-2.6168 (2.3411)	0.0481 (0.0409)
2012.year	-0.5901** (0.2376)	-0.2191* (0.1143)	-1.4091 (0.9258)	-3.3868 (2.5005)	0.0445 (0.0521)	-0.4698** (0.2021)	-0.1849 (0.1222)	-1.2240 (0.8874)	-2.9933 (2.3820)	0.0353 (0.0522)	-0.4796** (0.2054)	-0.1874 (0.1252)	-1.2767 (0.9095)	-3.0527 (2.4391)	0.0331 (0.0522)
2013.year	-0.6840*** (0.2417)	-0.3256*** (0.1154)	-1.5390* (0.8759)	-4.7359** (2.1509)	0.0500 (0.0671)	-0.5702*** (0.1970)	-0.2974** (0.1239)	-1.3886* (0.8174)	-4.3172** (1.8888)	0.0491 (0.0676)	-0.5813*** (0.2001)	-0.3001** (0.1272)	-1.4476* (0.8462)	-4.3845** (1.9477)	0.0465 (0.0680)
Constant	-3.4486 (2.8852)	-2.2770* (1.1945)	8.6496 (7.9252)	27.1521 (24.7352)	-1.8365** (0.8580)	10.4712** (5.3013)	2.1892* (1.1524)	39.2197*** (6.3342)	92.9531** (37.1699)	-2.1291 (1.3047)	-2,176.9248** (962.4708)	-543.1178 (649.2898)	-11,540.9359*** (4,235.7870)	-13,011.7414 (10,644.7602)	-519.6032*** (153.2492)
Obs	109	109	109	107	109	109	109	109	107	109	109	109	109	107	109
N	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24
r2_o	0.156	0.306	0.357	0.267	0.240	0.554	0.522	0.637	0.525	0.233	0.556	0.523	0.639	0.526	0.234

Standard errors in parentheses

\*\*\*p<0.01, \*\*p<0.05, \*p<0.1

Source: compiled by the author.

**Table 5. 10: Ffamily: family ownership  $\geq$  30%**

VARIABLE:	mtbv	tobinq	roa	roe	lri	mtbv	tobinq	roa	roe	lri	mtbv	tobinq	roa	roe	lri
fplot						-0.0689*** (0.0242)	-0.0456*** (0.0130)	-0.1359* (0.0743)	-0.1133 (0.1526)	-0.0138** (0.0059)	26.2522*** (9.6853)	4.1786 (4.6673)	116.5719** (49.8257)	106.6074 (121.4704)	5.6843*** (1.4195)
ffamily	0.0036 (0.0123)	0.0059 (0.0079)	0.0080 (0.0416)	0.0803 (0.0799)	0.0031 (0.0043)	-0.0243 (0.0153)	-0.0122 (0.0094)	-0.0433 (0.0524)	0.0521 (0.1008)	-0.0030 (0.0021)	26.2965*** (9.6892)	4.2119 (4.6644)	116.6635** (49.8437)	106.7719 (121.5227)	5.6950*** (1.4219)
instit						-0.0761** (0.0342)	-0.0407** (0.0170)	-0.1557** (0.0757)	-0.0469 (0.1365)	-0.0143** (0.0067)	26.2449*** (9.6955)	4.1834 (4.6649)	116.5515** (49.8544)	106.6726 (121.5409)	5.6838*** (1.4210)
inflcrossh						-0.1423** (0.0617)	-0.0466** (0.0233)	-0.4387*** (0.1409)	-0.8562*** (0.2837)	-0.0306 (0.0242)	26.1793*** (9.6867)	4.1776 (4.6738)	116.2699** (49.8401)	105.8658 (121.5789)	5.6677*** (1.4089)
infl						0.0317 (0.0516)	-0.0168 (0.0323)	-0.0011 (0.2744)	0.6228 (0.6815)	-0.0048 (0.0070)	26.3522*** (9.6763)	4.2073 (4.6641)	116.7042** (49.8524)	107.3396 (121.5180)	5.6932*** (1.4225)
frng											26.3208*** (9.6867)	4.2241 (4.6662)	116.7070** (49.8496)	106.7198 (121.5505)	5.6981*** (1.4216)
age	0.0016 (0.0111)	0.0016 (0.0082)	0.0204 (0.0311)	0.0296 (0.0502)	0.0210 (0.0138)	-0.0041 (0.0082)	-0.0012 (0.0062)	0.0078 (0.0307)	-0.0034 (0.0564)	0.0200 (0.0135)	-0.0040 (0.0082)	-0.0012 (0.0062)	0.0079 (0.0308)	-0.0032 (0.0566)	0.0200 (0.0135)
indcl	-0.1968 (0.1262)	-0.2980*** (0.0808)	-1.5041*** (0.3474)	-0.9048 (0.6881)	-0.1325 (0.2135)	-0.1643 (0.1387)	-0.2671*** (0.0709)	-1.5181*** (0.4025)	-1.2739 (0.8748)	-0.1277 (0.2044)	-0.1630 (0.1385)	-0.2666*** (0.0710)	-1.5145*** (0.4028)	-1.2688 (0.8770)	-0.1272 (0.2052)
lmk	0.6524*** (0.1183)	0.3070*** (0.1050)	0.6992 (0.4733)	1.6891* (0.9301)	0.8736*** (0.0656)	0.6841*** (0.1246)	0.2567*** (0.0805)	0.7843** (0.3601)	1.9497** (0.8896)	0.8675*** (0.0442)	0.6788*** (0.1251)	0.2551*** (0.0810)	0.7711** (0.3627)	1.9341** (0.8956)	0.8656*** (0.0446)
tdta	-0.0085 (0.0109)	0.0037 (0.0040)	-0.0839** (0.0357)	-0.1918* (0.1067)	-0.0034* (0.0018)	-0.0082 (0.0101)	0.0019 (0.0042)	-0.0796** (0.0359)	-0.1656* (0.0970)	-0.0039*** (0.0013)	-0.0084 (0.0102)	0.0018 (0.0043)	-0.0807** (0.0361)	-0.1667* (0.0976)	-0.0039*** (0.0013)
2010.year	0.2458 (0.2349)	-0.0131 (0.0794)	-0.9564 (0.6483)	0.4960 (1.8592)	0.0407* (0.0214)	0.2486 (0.2228)	-0.0114 (0.0831)	-0.9683 (0.6212)	0.6438 (1.7745)	0.0412** (0.0202)	0.2409 (0.2260)	-0.0124 (0.0844)	-1.0044 (0.6321)	0.6116 (1.8052)	0.0397** (0.0200)
2011.year	-0.3904* (0.2006)	-0.1425** (0.0712)	-2.3806** (1.0266)	-3.8127 (2.4507)	0.0112 (0.0369)	-0.3337* (0.1884)	-0.1067 (0.0734)	-2.3416** (0.9811)	-3.5992 (2.3065)	0.0192 (0.0349)	-0.3502* (0.1931)	-0.1092 (0.0760)	-2.4158** (1.0137)	-3.6671 (2.3878)	0.0157 (0.0348)
2012.year	-0.7425*** (0.2137)	-0.2736** (0.1118)	-1.6483** (0.7340)	-3.5584* (1.8477)	-0.0078 (0.0527)	-0.7107*** (0.1888)	-0.2447** (0.1048)	-1.6641** (0.7176)	-3.5940** (1.7750)	-0.0038 (0.0501)	-0.7190*** (0.1905)	-0.2460** (0.1062)	-1.7005** (0.7280)	-3.6272** (1.7994)	-0.0056 (0.0501)
2013.year	-0.7815*** (0.2351)	-0.4086*** (0.1253)	-1.4316** (0.7039)	-3.2686** (1.6557)	0.0118 (0.0646)	-0.7877*** (0.2158)	-0.4159*** (0.1228)	-1.4857** (0.6830)	-3.2213** (1.6344)	0.0073 (0.0616)	-0.7961*** (0.2174)	-0.4172*** (0.1239)	-1.5232** (0.7002)	-3.2549* (1.6689)	0.0055 (0.0617)
Constant	-1.6315 (1.3463)	-0.9442 (0.9789)	4.2243 (5.0204)	3.0830 (12.7178)	-1.6921** (0.8528)	2.1613 (1.7798)	1.9514 (1.2377)	11.8933* (6.8184)	7.9796 (16.5914)	-0.7836 (0.8642)	2,629.8805** (968.2529)	-420.4458 (466.2513)	11,658.6666** (4,982.7381)	10,663.8580570 (12,148.0304)	570.5764*** (141.7875)
Obs	150	150	150	148	150	150	150	150	148	150	150	150	150	148	150
N	31	31	31	31	31	31	31	31	31	31	31	31	31	31	31
r2_o	0.192	0.162	0.268	0.150	0.255	0.322	0.421	0.387	0.168	0.299	0.323	0.423	0.390	0.169	0.299

Standard Errors in parentheses

\*\*\*p<0.01, \*\*p<0.05, \*p<0.1

Source: compiled by the author.

Table 5.9 shows that, when a family ownership of 50%+ (Cfamily) is considered separately, the results show a positive correlation to Tobin's q and LRI. However, if this is considered along with dispersed ownership, Cfamily shows a negative association with MTBV and the accounting-based measures ROA and ROE. A different picture emerges when foreign ownership is considered: Cfamily is then positively correlated with MTBV, ROA and LRI. A similar trend manifests across other forms of ownership, namely: Instit, Fflot, Inflcrossh and Infl. The results support hypotheses H1b1 and H1b3. It also affirms that foreign ownership is crucial to Cfamily businesses as well as dispersed ownership. When Cfamily is considered alongside all share ownership typologies, the results support hypothesis H1b1.

Table 5.10 shows a different picture for 30%+ family ownership (Ffamily): the results show no correlations for Ffamily when considered exclusively; they are also insignificant when considered alongside dispersed ownership and excluding foreign ownership. The results show that Ffamily becomes positively significant if considered alongside all typologies of ownership including foreign. The results show the same outcomes as with concentrated ownership: Cfamily of 50%+ where Ffamily and dispersed ownership are positively correlated with MTBV, ROA and LRI. The results support hypotheses H1b1 and H1b3 when Ffamily and Cfamily are considered alongside all share ownership typologies. This supports Attig, Ghouli and Guedhami (2009), Maury and Pajuste (2005) and Yasser and Mamun's (2017) findings that multiple large shareholders positively influence firm performance among Moroccan firms.

The results for the consideration of family ownership independent of other share ownership typologies show that the relationship between family ownership (Cfamily) and firm performance becomes significant at 50%, which supports the findings of Holderness and Sheehan (1988) and Shleifer and Vishny (1986). Shleifer and Vishny (1986) contend that large shareholders mitigate the agency risk in that they are profit maximisers and assets-control-driven in protecting their stakes. However, when considered independently of foreign ownership, family ownership is negative from 30% and above, which supports Weston's (1979) 30–50% cut-off, which claims that entrenchment is less likely in firms with insiders owning over 30% (a negative but not significant relationship with MTBV, Tobin's

q, ROE and LRI above 30%) but deeper entrenchment might be reached well before 50% insider ownership (significant negative relationship with MTBV, ROA and ROE above 50%). The results confirm Anderson and Reeb (2003) and Shyu's (2011) findings that positive impact on firm performance in family firms starts to diminish when family ownership exceeds 30%. This partially rejects hypothesis H1b1.

#### 5.2.2.2. Foreign ownership concentration: findings and analyses

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Tables 5.11 and 5.12 present the results for foreign ownership of 50%+ (Cfrgn) and 30%+ (Ffrgn). This section tests hypotheses H1b2 and H1b3:

H1b2: Foreign ownership concentration (Cfrgn  $\geq$  50%)/(Ffrgn  $\geq$  30%) decreases firm performance .

H1b3: Minority shareholding (Instit/Fflot/Inflcrossh/Infl) is negatively correlated with firm performance in concentrated panels.

The equations tested for the Cfrgn hypotheses are as follows:

$$\text{MTBV}_{it} = \beta_1 \text{Fflot}_{it} + \beta_2 \text{Family}_{it} + \beta_3 \text{Cfrgn}_{it} + \beta_4 \text{Instit}_{it} + \beta_5 \text{Inflcrossh}_{it} + \beta_6 \text{Infl}_{it} + \beta_7 \text{Age}_{it} + \beta_8 \text{Indlc}_{it} + \beta_9 \text{LMK}_{it} + \beta_{10} \text{TDTA}_{it} + \alpha + u_{it} + \varepsilon \quad (\text{Model 16})$$

$$\text{Tobin's } q_{it} = \beta_1 \text{Fflot}_{it} + \beta_2 \text{Family}_{it} + \beta_3 \text{Cfrgn}_{it} + \beta_4 \text{Instit}_{it} + \beta_5 \text{Inflcrossh}_{it} + \beta_6 \text{Infl}_{it} + \beta_7 \text{Age}_{it} + \beta_8 \text{Indlc}_{it} + \beta_9 \text{LMK}_{it} + \beta_{10} \text{TDTA}_{it} + \alpha + u_{it} + \varepsilon \quad (\text{Model 17})$$

$$\text{ROA}_{it} = \beta_1 \text{Fflot}_{it} + \beta_2 \text{Family}_{it} + \beta_3 \text{Cfrgn}_{it} + \beta_4 \text{Instit}_{it} + \beta_5 \text{Inflcrossh}_{it} + \beta_6 \text{Infl}_{it} + \beta_7 \text{Age}_{it} + \beta_8 \text{Indlc}_{it} + \beta_9 \text{LMK}_{it} + \beta_{10} \text{TDTA}_{it} + \alpha + u_{it} + \varepsilon \quad (\text{Model 18})$$

$$\text{ROE}_{it} = \beta_1 \text{Fflot}_{it} + \beta_2 \text{Family}_{it} + \beta_3 \text{Cfrgn}_{it} + \beta_4 \text{Instit}_{it} + \beta_5 \text{Inflcrossh}_{it} + \beta_6 \text{Infl}_{it} + \beta_7 \text{Age}_{it} + \beta_8 \text{Indlc}_{it} + \beta_9 \text{LMK}_{it} + \beta_{10} \text{TDTA}_{it} + \alpha + u_{it} + \varepsilon \quad (\text{Model 19})$$

$$\text{LRI}_{it} = \beta_1 \text{Fflot}_{it} + \beta_2 \text{Family}_{it} + \beta_3 \text{Cfrgn}_{it} + \beta_4 \text{Instit}_{it} + \beta_5 \text{Inflcrossh}_{it} + \beta_6 \text{Infl}_{it} + \beta_7 \text{Age}_{it} + \beta_8 \text{Indlc}_{it} + \beta_9 \text{LMK}_{it} + \beta_{10} \text{TDTA}_{it} + \alpha + u_{it} + \varepsilon \quad (\text{Model 20})$$

The last five columns of Table 5.11 include the results for the hypotheses of 50%+ foreign ownership: Cfrgn; additional columns are included to further check the robustness of the results.

The equations tested for the Ffrgn hypotheses are as follows:

$$MTBV_{it} = \beta_1 Fflot_{it} + \beta_2 Family_{it} + \beta_3 Ffrgn_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDT_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 21)}$$

$$\text{Tobin's } q_{it} = \beta_1 Fflot_{it} + \beta_2 Family_{it} + \beta_3 Ffrgn_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 22)}$$

$$ROA_{it} = \beta_1 Fflot_{it} + \beta_2 Family_{it} + \beta_3 Ffrgn_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 23)}$$

$$ROE_{it} = \beta_1 Fflot_{it} + \beta_2 Family_{it} + \beta_3 Ffrgn_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 24)}$$

$$LRI_{it} = \beta_1 Fflot_{it} + \beta_2 Family_{it} + \beta_3 Ffrgn_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Age_{it} + \beta_8 Indlc_{it} + \beta_9 LMK_{it} + \beta_{10} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 25)}$$

The last five columns of Table 5.12 include the results for 30%+ foreign ownership: Ffrgn; additional columns are included to further check the robustness of the results.

**Table 5. 11: Cfrgn: foreign ownership ≥ 50%**

VARIABLES	mtbv	tobinq	roa	roe	lri	mtbv	tobinq	roa	roe	lri	mtbv	tobinq	roa	roe	lri
fflot						-0.1391 (0.1092)	-0.0521** (0.0243)	-0.0264 (0.0835)	0.1269 (0.2304)	-0.0092 (0.0087)	-0.0644 (0.0582)	-0.0373** (0.0151)	-0.0703 (0.1422)	-0.0069 (0.1995)	0.0205*** (0.0046)
cfrng	0.0026 (0.0434)	-0.0259 (0.0317)	-0.1258 (0.1537)	-0.2834 (0.2179)	0.0081 (0.0072)	-0.1230** (0.0494)	-0.0759*** (0.0168)	-0.2832*** (0.0683)	-0.3840*** (0.1372)	-0.0092 (0.0096)	-0.0483 (0.0815)	-0.0611*** (0.0158)	-0.3271*** (0.0968)	-0.5178** (0.2099)	0.0205** (0.0087)
family											0.0747 (0.1015)	0.0148 (0.0239)	-0.0439 (0.1340)	-0.1338 (0.2798)	0.0297*** (0.0092)
instit						-0.1254 (0.0930)	-0.0467** (0.0205)	0.0035 (0.0971)	-0.4066** (0.1684)	-0.0222* (0.0131)	-0.0507 (0.1317)	-0.0318 (0.0369)	-0.0404 (0.1724)	-0.5403** (0.2417)	0.0076 (0.0129)
inflcrossh						-0.2179 (0.2303)	-0.1472** (0.0693)	-0.8726*** (0.2869)	-0.5093 (0.4956)	0.0291** (0.0128)	-0.1432 (0.1646)	-0.1323*** (0.0495)	-0.9165*** (0.1864)	-0.6430** (0.2705)	0.0589*** (0.0144)
inflc (o.inflc for the last panel)						-0.0747 (0.1015)	-0.0148 (0.0239)	0.0439 (0.1340)	0.1338 (0.2798)	-0.0297*** (0.0092)	-	-	-	-	-
age	0.0170 (0.0271)	0.0143 (0.0146)	0.0015 (0.0758)	-0.2067** (0.1014)	0.0390 (0.0270)	-0.0256 (0.0478)	-0.0015 (0.0138)	-0.0595 (0.0598)	-0.2349* (0.1282)	0.0397 (0.0253)	-0.0256 (0.0478)	-0.0015 (0.0138)	-0.0595 (0.0598)	-0.2349* (0.1282)	0.0397 (0.0253)
indcl	-0.7154 (0.5817)	-0.3924* (0.2065)	-2.0639** (0.9244)	-2.6078** (1.1931)	0.0861 (0.2946)	-1.0137** (0.5085)	-0.5247*** (0.1080)	-2.2512*** (0.4373)	-3.3989*** (1.2524)	0.1195 (0.3270)	-1.0137** (0.5085)	-0.5247*** (0.1080)	-2.2512*** (0.4373)	-3.3989*** (1.2524)	0.1195 (0.3270)
lmk	1.0721*** (0.3812)	0.1428 (0.1364)	-0.1464 (0.9248)	1.4628 (1.1750)	0.8419*** (0.0810)	0.5036** (0.2495)	0.0586 (0.0746)	-0.2089 (0.2496)	1.5991*** (0.5642)	0.9187*** (0.0567)	0.5036** (0.2495)	0.0586 (0.0746)	-0.2089 (0.2496)	1.5991*** (0.5642)	0.9187*** (0.0567)
tdta	-0.0176 (0.0139)	-0.0028 (0.0100)	-0.0789 (0.0681)	-0.2372* (0.1419)	-0.0041 (0.0027)	-0.0522* (0.0275)	-0.0160 (0.0112)	-0.1595** (0.0767)	-0.4212** (0.1754)	-0.0032 (0.0024)	-0.0522* (0.0275)	-0.0160 (0.0112)	-0.1595** (0.0767)	-0.4212** (0.1754)	-0.0032 (0.0024)
2010.year	0.3384 (0.4135)	0.0968 (0.1958)	0.7364 (1.0553)	2.0587 (2.8448)	0.0399 (0.0390)	0.5932 (0.5086)	0.1448 (0.1995)	0.7029 (1.1261)	2.1292 (3.0024)	0.0413 (0.0333)	0.5932 (0.5086)	0.1448 (0.1995)	0.7029 (1.1261)	2.1292 (3.0024)	0.0413 (0.0333)
2011.year	-0.6434* (0.3444)	0.0834 (0.1538)	0.0632 (1.4135)	0.0009 (3.1085)	-0.0191 (0.0578)	-0.5498 (0.4773)	0.0834 (0.1500)	-0.0398 (1.5131)	-0.0184 (3.2077)	0.0173 (0.0564)	-0.5498 (0.4773)	0.0834 (0.1500)	-0.0398 (1.5131)	-0.0184 (3.2077)	0.0173 (0.0564)
2012.year	-0.8091*** (0.2888)	-0.2626 (0.2121)	-0.9155 (1.5591)	-2.0395 (3.1600)	-0.0378 (0.0823)	-0.5111 (0.4283)	-0.2421 (0.2028)	-0.9094 (1.7278)	-1.7486 (3.4562)	0.0045 (0.0773)	-0.5111 (0.4283)	-0.2421 (0.2028)	-0.9094 (1.7278)	-1.7486 (3.4562)	0.0045 (0.0773)
2013.year	-0.8747*** (0.3465)	-0.2726 (0.3200)	-2.1086 (1.3955)	-5.5564* (3.0287)	-0.0704 (0.1104)	-0.6880 (0.4480)	-0.2801 (0.2894)	-2.0712 (1.4997)	-5.7166* (3.0181)	-0.0364 (0.1009)	-0.6880 (0.4480)	-0.2801 (0.2894)	-2.0712 (1.4997)	-5.7166* (3.0181)	-0.0364 (0.1009)
Constant	-4.5140 (3.8116)	2.2143 (2.2474)	22.3007* (12.5419)	44.4761** (21.4375)	-3.1377* (1.8358)	15.1281** (7.3112)	8.8944*** (2.3436)	39.8056*** (9.4996)	55.8874*** (19.9384)	-2.4487 (2.0309)	7.6538 (5.2756)	7.4112*** (1.0875)	44.1964*** (7.3195)	69.2625*** (12.1789)	-5.4213*** (1.9756)
Observations	57	57	57	57	57	57	57	57	57	57	57	57	57	57	57
Number of companyid	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12
r2_o	0.306	0.485	0.422	0.604	0.211	0.696	0.853	0.830	0.791	0.274	0.696	0.853	0.830	0.791	0.274

Robust standard errors in parentheses

\*\*\*p<0.01, \*\*p<0.05, \*p<0.1

Source: compiled by the author



**Table 5. 12: Ffrgn: foreign ownership ≥ 30%**

VARIABLES	-11 mtbv	-12 tobinq	-13 roa	-14 roe	-15 lri	(6) mtbv	(7) tobinq	(8) roa	(9) roe	(10) lri	(1) mtbv	(2) tobinq	(3) roa	(4) roe	(5) lri
fplot						-0.0683 (0.0661)	-0.0341 (0.0226)	0.0511 (0.1376)	0.4784** (0.2213)	-0.0113 (0.0106)	-0.0408 (0.0415)	-0.0543** (0.0260)	-0.0798 (0.2113)	-0.1226 (0.3353)	0.0194*** (0.0042)
frrng	0.0419	0.0054	0.0258	0.0938	0.0145	0.0097	-0.0088	0.0409	0.0694	-0.0108	0.0372	-0.0290	-0.0901	-0.5316	0.0198**
family	-0.0317	-0.0122	-0.0631	-0.1357	-0.0108	(0.0270)	(0.0159)	(0.0836)	(0.1502)	(0.0097)	(0.0635)	(0.0285)	(0.2007)	(0.3241)	(0.0077)
instit						-0.0752 (0.0667)	-0.0271 (0.0280)	0.0682 (0.1261)	-0.1939 (0.2321)	-0.0359** (0.0149)	-0.0478 (0.0564)	-0.0473 (0.0423)	-0.0627 (0.2662)	-0.7949** (0.3924)	-0.0052 (0.0090)
inflcrossh						-0.0574 (0.0894)	-0.0740* (0.0401)	-0.2679 (0.2596)	0.8490** (0.3987)	-0.0098 (0.0220)	-0.0299 (0.0942)	-0.0941** (0.0378)	-0.3989* (0.2325)	0.2480 (0.3541)	0.0208 (0.0201)
infl (o.infl for the last panel)						-	-	-	-	-	-	-	-	-	-
age	0.014	0.0067	0.0212	-0.0401	0.0343*	0.0104	0.0060	0.0241	0.0965	0.0345*	0.0104	0.0060	0.0241	0.0965	0.0345*
indcl	-0.026	-0.0118	-0.0671	-0.1383	-0.0187	(0.0245)	(0.0128)	(0.0778)	(0.1158)	(0.0178)	(0.0245)	(0.0128)	(0.0778)	(0.1158)	(0.0178)
lmk	-0.4189	-0.3533**	-1.4440*	-0.522	0.2712	-0.3366	-0.4091***	-1.8518**	-0.8250	0.3693	-0.3366	-0.4091***	-1.8518**	-0.8250	0.3693
tdta	-0.3796	-0.1422	-0.8072	-1.5233	-0.247	(0.4401)	(0.1335)	(0.8153)	(1.1943)	(0.2891)	(0.4401)	(0.1335)	(0.8153)	(1.1943)	(0.2891)
2010.year	1.4928***	0.21	0.6554	2.679	0.9087***	1.4392***	0.1074	0.4086	2.5414	0.9878***	1.4392***	0.1074	0.4086	2.5414	0.9878***
2011.year	-0.3948	-0.1375	-1.0393	-1.9618	-0.0738	(0.4177)	(0.1213)	(0.9263)	(1.5456)	(0.0530)	(0.4177)	(0.1213)	(0.9263)	(1.5456)	(0.0530)
2012.year	0.0054	0.0082	-0.0251	-0.0164	-0.0022**	0.0060	0.0079	-0.0293	-0.0231	-0.0024***	0.0060	0.0079	-0.0293	-0.0231	-0.0024***
2013.year	-0.0044	-0.0053	-0.0521	-0.1162	-0.001	(0.0049)	(0.0058)	(0.0578)	(0.1436)	(0.0007)	(0.0049)	(0.0058)	(0.0578)	(0.1436)	(0.0007)
infl	0.2417	0.099	-0.1644	0.7219	0.0255	0.2699	0.1253	-0.1105	0.7041	0.0241	0.2699	0.1253	-0.1105	0.7041	0.0241
Constant	-0.2536	-0.1553	-1.0443	-2.4385	-0.0274	(0.2804)	(0.1529)	(1.0733)	(2.3250)	(0.0249)	(0.2804)	(0.1529)	(1.0733)	(2.3250)	(0.0249)
Observations	-0.5029**	0.0124	-0.4331	0.0953	-0.0236	-0.4937*	-0.0302	-0.6223	-0.1497	0.0084	-0.4937*	-0.0302	-0.6223	-0.1497	0.0084
Number of companyid	-0.256	-0.1252	-1.1751	-2.5854	-0.043	(0.2838)	(0.1384)	(1.2383)	(2.7376)	(0.0410)	(0.2838)	(0.1384)	(1.2383)	(2.7376)	(0.0410)
r2_o	-0.5961***	-0.2562	-1.8469	-3.6129	-0.035	-0.5877**	-0.3054	-2.0511	-4.2917*	-0.0005	-0.5877**	-0.3054	-2.0511	-4.2917*	-0.0005
	-0.2197	-0.1705	-1.1996	-2.2472	-0.0607	(0.2390)	(0.1943)	(1.2951)	(2.4130)	(0.0562)	(0.2390)	(0.1943)	(1.2951)	(2.4130)	(0.0562)
	-0.6368**	-0.349	-2.0749**	-4.6693**	-0.0364	-0.6777**	-0.4157	-2.1973*	-5.4942**	-0.0158	-0.6777**	-0.4157	-2.1973*	-5.4942**	-0.0158
	-0.2732	-0.2415	-1.0143	-2.3185	-0.0781	(0.2882)	(0.2636)	(1.1480)	(2.4919)	(0.0727)	(0.2882)	(0.2636)	(1.1480)	(2.4919)	(0.0727)
						-0.0275 (0.0550)	0.0202 (0.0238)	0.1310 (0.1958)	0.6010** (0.2979)	-0.0307*** (0.0096)					
	-11.4993**	-0.3404	2.4793	-7.9719	-4.1052***	-7.2705*	2.3689	3.1568	-20.8113	-2.9772**	-10.0163	4.3856	16.2549	39.2912	-6.0429***
	-4.6803	-1.2862	-11.1047	-25.4809	-1.2905	(4.1117)	(1.9811)	(15.2456)	(26.7886)	(1.5190)	(6.3725)	(2.9750)	(20.6306)	(33.8662)	(1.2511)
Observations	81	81	81	81	81	81	81	81	81	81	81	81	81	81	81
Number of companyid	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19
r2_o	0.235	0.233	0.222	0.241	0.232	0.300	0.475	0.341	0.439	0.295	0.300	0.475	0.341	0.439	0.295

Robust standard errors in parentheses

\*\*\*p<0.01, \*\*p<0.05, \*p<0.1

Source: compiled by the author

The results of concentrated foreign ownership of 50%+ (Cfrgn) and 30%+ (Ffrgn) (Tables 5.11 and 5.12) show that the foreign ownership is insignificant if considered solely in Cfrgn and Ffamily panels. However, when considered alongside other forms of ownership, no relationship is observed for foreign ownership of 30%+ (Ffrgn; Table 5.12) and a negative correlation with the market-based (MTBV and Tobin's q) and accounting-based measures (ROA and ROE) for foreign ownership of 50%+ (Cfrgn; Table 5.11). Unlike Cfamily and Ffamily ownership typologies which are strongly influenced by foreign ownership (positive association with MTBV, ROA and LRI), the presence of family ownership has a limited impact on Cfrgn and Ffrgn, although Ffrgn becomes uniquely positively associated with LRI with the inclusion of family ownership (Table 5.12). Cfrgn registers a negative relationship with Tobin's q and ROA and ROE and a positive relationship with LRI in consideration alongside family ownership (Table 5.11). This suggests that family ownership in the 50%+ foreign firms (Cfrgn) helps to maintain long-term returns as opposed to displaying positive indications on market-based (Tobin's q) and accounting-based measures (ROA and ROE) (Table 5.11). The relationship between Ffrgn and firm performance is positive when family ownership is considered.

The results confirm Greenaway, Guariglia & Yu (2014) findings that foreign joint ventures with domestic owners perform better than exclusively foreign-owned firms; however, this correlation begins to decline after reaching a certain point. Thus, both Ffrgn and CFrgn are positively associated with LRI, whereas Cfrgn is negatively associated with Tobin's q, ROE and ROA. This is similar to Yavas and Erdogan (2016), who also found that foreign ownership enhances firm performance up to a certain level, thus suggesting that domestic family ownership influence is essential for foreign-owned firms in achieving long-term performance. The results partially support hypothesis H1b2.

**Table 5. 13: Concentrated ownership analyses**

Concentrated Ownership 50%+						Concentrated Ownership 30%+						
Market Based measures		Accounting based measures		Shareholders Return		Market Based measures		Accounting based measures		Shareholders Return		
Panel 3- Cfamily	Mtbv	Tobinq	ROA	ROE	LRI	Panel 5-Ffamily	Mtbv	Tobinq	ROA	ROE	LRI	
	FFflot	+Significant***		+Significant***			+Significant***		+Significant**		+Significant***	
	FFFamily	+Significant***		+Significant***			+Significant***		+Significant**		+Significant***	
	FFFrng	+Significant***		+Significant***			+Significant***		+Significant**		+Significant***	
	FFInstit	+Significant***		+Significant***			+Significant***		+Significant**		+Significant***	
	FFIncrossh	+Significant***		+Significant***			+Significant***		+Significant**		+Significant***	
FFInfl	+Significant***		+Significant***		+Significant***		+Significant**		+Significant***			
Panel 4-CFrng	Mtbv	Tobinq	ROA	ROE	LRI	Panel 6-FFFrng	Mtbv	Tobinq	ROA	ROE	LRI	
	FFflot	-Significant**			+Significant***		FFflot	-Significant**				+Significant**
	FFFrng	-Significant***	-Significant***	-Significant**	+Significant**		FFFrng					+Significant**
	FFFamily				+Significant***		FFFamily			-Significant**		+Significant**
	FFInstit			-Significant**			FFInstit			-Significant**		
	FFIncrossh	-Significant***	-Significant***	-Significant**	+Significant***		FFIncrossh	-Significant**	-Significant*			
FFInfl(omitted)	-	-	-	-	-	FFInfl(omitted)	-	-	-	-	-	

Market Based measures		Accounting based measures		Shareholders Return		Market Based measures		Accounting based measures		Shareholders Return		
Panel 3- Cfamily	Mtbv	Tobinq	ROA	ROE	LRI	Panel 5-Ffamily	Mtbv	Tobinq	ROA	ROE	LRI	
	Age						Age					
	Indcl	-Significant***	-Significant***				Indcl	-Significant***	-Significant***			
	LMK	+Significant***	+Significant***		+Significant***		LMK	+Significant***	+Significant***	+Significant**	+Significant**	+Significant***
TDTA			-Significant***	-Significant**	-Significant***	TDTA			-Significant**	-Significant*	-Significant***	
Panel 4-CFrng	Mtbv	Tobinq	ROA	ROE	LRI	Panel 6-FFFrng	Mtbv	Tobinq	ROA	ROE	LRI	
	Age			-Significant*			Age					+Significant*
	Indcl	-Significant**	-Significant***	-Significant***	-Significant***		Indcl			-Significant***	-Significant**	
	LMK	+Significant**			+Significant***		+Significant***	LMK	+Significant***			+Significant***
TDTA	-Significant*		-Significant**	-Significant**		TDTA					-Significant***	

Source: compiled by the author

Table 5.13 shows that institutional ownership (Instit) is negatively associated with firm performance in foreign ownership concentrated panels (Cfrgn and Ffrgn) as measured by ROE (Tables 5.11 and 5.12) and positively associated with firm performance as measured by MTBV, ROA and LRI in family concentrated panels (Cfamily and Ffamily) (Tables 5.9 and 5.10). This suggests that Instit is more active and performs better in family firms than it does in foreign firms. The results partially support Omran, Bolbol and Fatheldin's (2008) positive relationship between domestic institutional ownership and Tobin's q. This insinuates that Farooq and El Jai's (2012) finding of a negative relationship, among Moroccan listed firms, between institutional ownership and earnings management is partially influenced by foreign ownership. The results partially reject hypothesis H1b3.

Infl and Inflcrossh and Fflot are associated with increased firm performance MTBV, ROE and LRI (Table 5.13) in family-dominated panels (Cfamily and Ffamily). This is not the case for foreign-dominated firms (Cfrgn and Ffrgn): Fflot is positively associated with LRI and negatively associated with Tobin's q for concentrated foreign panels Cfrgn and Ffrgn. Infl shareholding drops automatically in Cfrgn and Ffrgn panels. Inflcrossh is positively associated with LRI for foreign 50%+ ownership (Cfrgn) and negatively with Tobin's q and ROA for Cfrgn and Ffrgn. Thus, it can be concluded that the relationship between individual ownership and firm performance is stronger with family concentrated ownership than with foreign ownership. This partially rejects hypothesis H1b3.

### 5.2.3. Summary of ownership findings

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Table 5.14 summarises the findings on the association between share ownership typology/concentrated ownership and firm performance discussed in Section 5.2

**Table 5. 14: Summary of the hypotheses testing the relationship between share ownership typology/concentrated ownership and firm performance**

Research sub-questions	Research hypothesis
<b>Q1:</b> Is there an association between the structure of 1) dispersed and 2) concentrated share ownership and firm performance?	<p><b>H1a: Dispersed ownership</b></p> <p>Dispersed ownership is associated with increased firm performance depending on the nature of the shareowners.</p> <p><b>H1a1: Partially accepted</b></p> <p>Family ownership is negatively associated with LRI in both family excluding foreign panels. However, family ownership is significantly positively associated with MTBV and LRI in the main all industries panel when considered in networks of ownership. Family ownership is insignificant in the main panel excluding financial firms.</p> <p><b>H1a2: Accepted</b></p> <p>Foreign ownership is positively associated with LRI across all panels. This suggest that the foreign ownership is associated with increased firm performance regardless of whether it is considered independently of or alongside family firms.</p> <p><b>H1a3: Partially accepted</b></p> <p>Instit is negatively associated with long-term returns (LRI) and accounting-based measures ROA and ROE, depending on the panel – except for the main all industries panel, where Instit is positively associated with MTBV and LRI.</p> <p><b>H1a4: Partially accepted</b></p> <p>Inflcrossh is negatively associated with market-based measures (MTBV and Tobin’s q) and accounting-based measures (ROA and ROE) across all panels, except for the main all industries panel, where Inflcrossh is positively associated with MTBV and LRI.</p> <p><b>H1a5: Partially accepted</b></p> <p>Influential ownership (Infl) is positively significant as regards MTBV and LRI in the main all industries panel. Infl is negatively associated with LRI in the family excluding financial firms panel.</p>

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Infl is insignificant in the main panel excluding financial and foreign panels.

**H1a6: Partially accepted**

Fflot ownership is negatively associated with market-based measures MTBV and Tobin's q across all panels, except for the main all industries panel where Fflot is positively associated with MTBV and LRI. In addition, Fflot is negatively associated with LRI for the family panels and the foreign including financial panel.

**H2b: Concentration of ownership**

The positive association between concentration of ownership and firm performance depends on the identity of the owners.

**H1b1: Partially accepted**

Concentrated family ownership is significant at the 30% ownership threshold (Ffamily) if considered in the network of dispersed ownership and the other dominant ownership type (Foreign). Ffamily and Cfamily (50%+ ownership) display the same positive correlations with MTBV, ROA and LRI.

**H1b2: Partially rejected**

Concentrated foreign ownership becomes significant beyond 30% (Ffrgn) when considered alongside family ownership. Foreign concentrated ownership of 50% (Cfrgn) is negatively associated with the market-based Tobin's q and accounting-based measures ROE and ROA and positively associated with LRI when considered alongside family ownership.

**H1b3: Partially rejected**

Institutional (Instit) and minority ownerships (Fflot/Inflcrossh/Infl) are positively associated with MTBV, ROA and LRI in family concentrated panels. This is not the case for the foreign concentrated panel.

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Source: compiled by the author

Consistent with previous empirical findings, the results denote that the presence of multiple large owners in the concentrated or dispersed panels is associated with better corporate value (Attig, Ghouli & Guedhami, 2009; Maury and Pajuste, 2005; Yasser & Mamun, 2017). The Moroccan pattern of ownership structures confirms that all forms of ownership work collectively to achieve their respective goals while serving several stakeholders in the main panel. The results support Islamic stakeholder theory, which combines an Islamic (Beekun & Badawi, 2005) and a Western stakeholder approach (Freeman, 1984, 2015, 2017; Freeman, Wicks, & Parmar, 2004; Freeman *et al.*, 2010) to business practice. However, this is not the case for non-financial firms or when considering each of the dominant ownership typologies separately. This suggests that non-financial firms have very weak governance.

The research suggests a need to consider additional corporate governance mechanisms in investigating the impact of corporate governance determinants on firm performance. It is argued that ownership cannot be considered independently of other mechanisms. Therefore, this study posits that each governance mechanism further shapes the relationships between previously studied corporate governance mechanisms and firm performance in that it contends that board leadership characteristics change the impact of share ownership on firm performance: this is captured in HQ2. Similarly, board of directors composition changes the impact of board leadership and ownership, as captured in HQ3. Further, board of management composition changes the impact on firm performance of ownership, board leadership and board of directors. Figure 1.1, "Corporate governance model", p.25, presents corporate governance model and gives a graphical representation of this hypotheses.

### **5.3. The impact on firm performance of board leadership structure and board composition**

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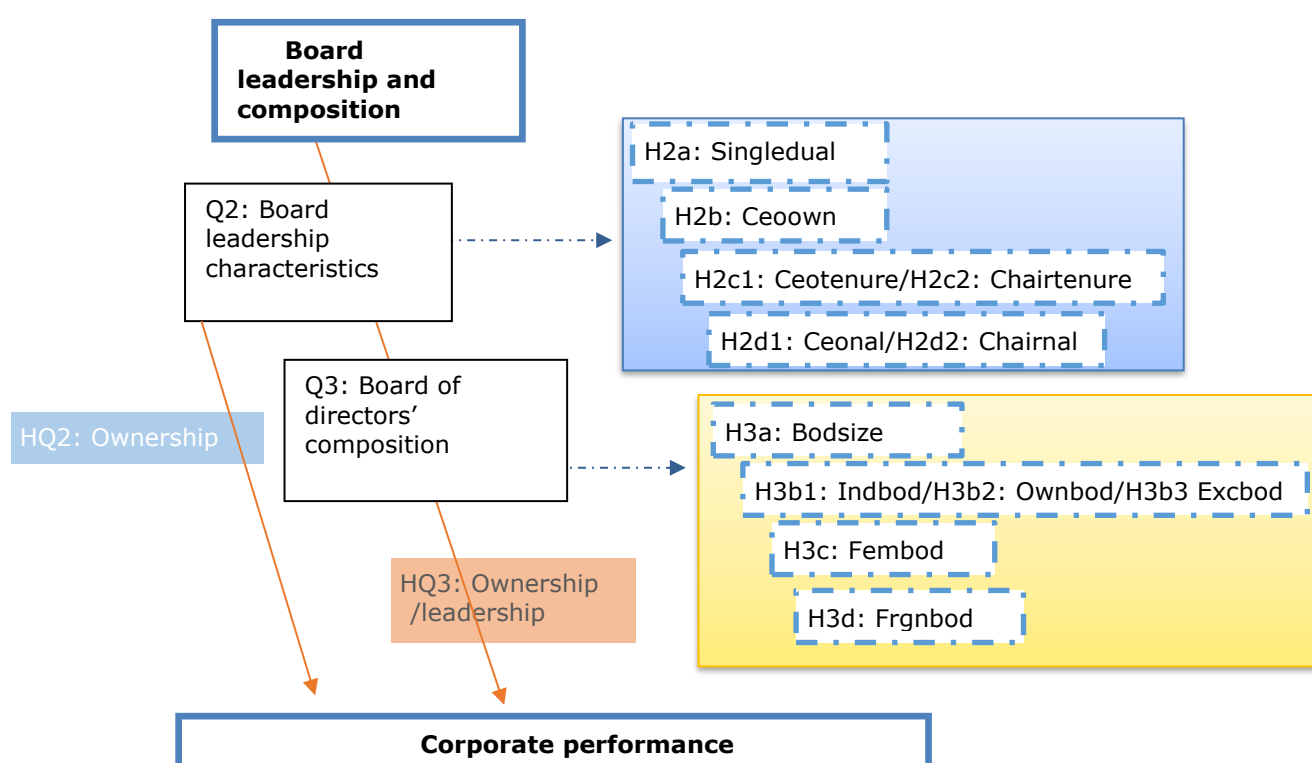
This section addresses the impact on firm performance of board leadership characteristics and board of directors' composition. It aims to answer the following research sub-questions:

Q2: Is there an association between board leadership characteristics and firm performance?

Q3: Is there an association between board of directors' composition and firm performance?

This section tests a set of hypotheses developed from the range of literature examined in Section 5.3. Figure 5.6 outlines the hypotheses tested within this section. Further details on these hypotheses are found in Sections 5.3.1 and 5.3.2.

**Figure 5. 6: Model (2). Impact on firm performance of board leadership and composition**



Source: compiled by the author

— Refers to a direct relationship between corporate governance determinants and corporate performance.

— Refers to the effect of additional corporate governance determinants in shaping the relationship between previously investigated governance components and corporate performance (e.g. the presence of shareholders in board leadership influences the impact of ownership on firm performance).

### 5.3.1. The impact on firm performance of board leadership structure

This section investigates the effect of board leadership on firm performance by testing a set of hypotheses developed from the range of literature. The hypotheses are summarised as follows:



H2a: Leadership structure (Singledual) is associated with increased firm performance.

H2b: Having an owner (or representative) as CEO (Ceoown) increases firm performance.

H2c1: A long-term CEO tenure (Ceotenure) is likely to enhance firm performance.

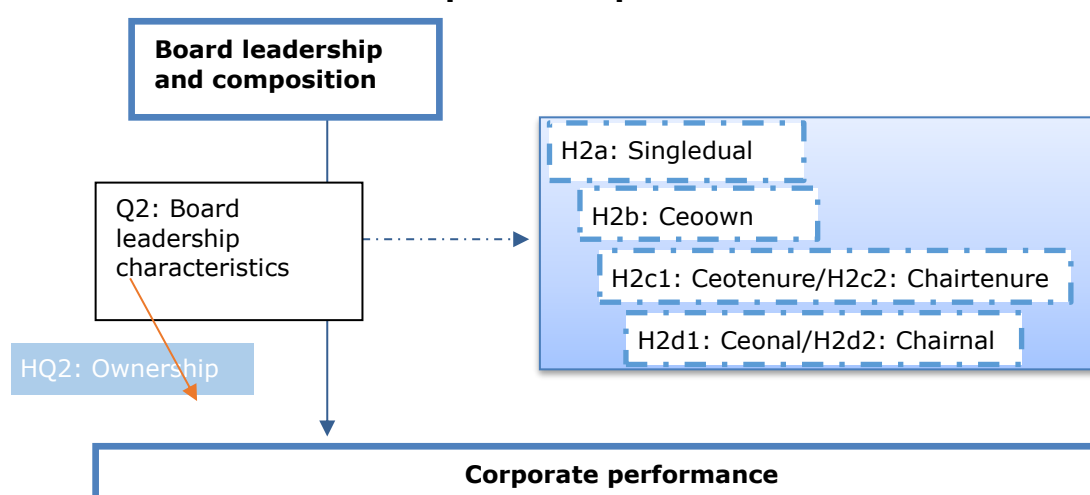
H2c2: A long-term chair tenure (Chairtenure) is likely to enhance firm performance.

H2d1: The presence of non-Moroccan CEO (Ceonal) is associated with increased firm performance.

H2d2: The presence of non-Moroccan chairperson (Chairnal) is associated with increased firm performance.

Figure 5.7 summarises the hypotheses tested within this section.

**Figure 5. 7: Model (2, part 1). Impact on firm performance of board leadership and composition**



Source: Compiled by the author

— Refers to a direct relationship between corporate governance determinants and corporate performance.

— Refers to the effect of additional corporate governance determinants in shaping the relationship between previously investigated governance components and corporate performance (e.g. the presence of shareholders in board leadership influences the impact of ownership on firm performance).

This research recognises that leadership characteristics cannot be considered independently. Therefore, this study considers the effects of leadership alongside ownership. As well as testing the hypotheses stated above, this study tests the following hypothesis:

HQ2: Board leadership characteristics change the impact of share ownership typology on firm performance.

The equations for these hypotheses are as follows:

$$\text{MTBV}_{it} = \beta_1 \text{Fflot}_{it} + \beta_2 \text{Family}_{it} + \beta_3 \text{Foreign}_{it} + \beta_4 \text{Instit}_{it} + \beta_5 \text{Inflcrossh}_{it} + \beta_6 \text{Infl}_{it} + \beta_7 \text{Singedual}_{it} + \beta_8 \text{Ceoown}_{it} + \beta_9 \text{Ceotenure}_{it} + \beta_{10} \text{Ceonal}_{it} + \beta_{11} \text{Chairtenure}_{it} + \beta_{12} \text{Chairnal}_{it} + \beta_{13} \text{Age}_{it} + \beta_{14} \text{Indlc}_{it} + \beta_{15} \text{LMK}_{it} + \beta_{16} \text{TDTA}_{it} + \alpha + u_{it} + \varepsilon \quad (\text{Model 26})$$

$$\text{Tobin's } q_{it} = \beta_1 \text{Fflot}_{it} + \beta_2 \text{Family}_{it} + \beta_3 \text{Foreign}_{it} + \beta_4 \text{Instit}_{it} + \beta_5 \text{Inflcrossh}_{it} + \beta_6 \text{Infl}_{it} + \beta_7 \text{Singedual}_{it} + \beta_8 \text{Ceoown}_{it} + \beta_9 \text{Ceotenure}_{it} + \beta_{10} \text{Ceonal}_{it} + \beta_{11} \text{Chairtenure}_{it} + \beta_{12} \text{Chairnal}_{it} + \beta_{13} \text{Age}_{it} + \beta_{14} \text{Indlc}_{it} + \beta_{15} \text{LMK}_{it} + \beta_{16} \text{TDTA}_{it} + \alpha + u_{it} + \varepsilon \quad (\text{Model 27})$$

$$\text{ROA}_{it} = \beta_1 \text{Fflot}_{it} + \beta_2 \text{Family}_{it} + \beta_3 \text{Foreign}_{it} + \beta_4 \text{Instit}_{it} + \beta_5 \text{Inflcrossh}_{it} + \beta_6 \text{Infl}_{it} + \beta_7 \text{Singedual}_{it} + \beta_8 \text{Ceoown}_{it} + \beta_9 \text{Ceotenure}_{it} + \beta_{10} \text{Ceonal}_{it} + \beta_{11} \text{Chairtenure}_{it} + \beta_{12} \text{Chairnal}_{it} + \beta_{13} \text{Age}_{it} + \beta_{14} \text{Indlc}_{it} + \beta_{15} \text{LMK}_{it} + \beta_{16} \text{TDTA}_{it} + \alpha + u_{it} + \varepsilon \quad (\text{Model 28})$$

$$\text{ROE}_{it} = \beta_1 \text{Fflot}_{it} + \beta_2 \text{Family}_{it} + \beta_3 \text{Foreign}_{it} + \beta_4 \text{Instit}_{it} + \beta_5 \text{Inflcrossh}_{it} + \beta_6 \text{Infl}_{it} + \beta_7 \text{Singedual}_{it} + \beta_8 \text{Ceoown}_{it} + \beta_9 \text{Ceotenure}_{it} + \beta_{10} \text{Ceonal}_{it} + \beta_{11} \text{Chairtenure}_{it} + \beta_{12} \text{Chairnal}_{it} + \beta_{13} \text{Age}_{it} + \beta_{14} \text{Indlc}_{it} + \beta_{15} \text{LMK}_{it} + \beta_{16} \text{TDTA}_{it} + \alpha + u_{it} + \varepsilon \quad (\text{Model 29})$$

$$\text{LRI}_{it} = \beta_1 \text{Fflot}_{it} + \beta_2 \text{Family}_{it} + \beta_3 \text{Foreign}_{it} + \beta_4 \text{Instit}_{it} + \beta_5 \text{Inflcrossh}_{it} + \beta_6 \text{Infl}_{it} + \beta_7 \text{Singedual}_{it} + \beta_8 \text{Ceoown}_{it} + \beta_9 \text{Ceotenure}_{it} + \beta_{10} \text{Ceonal}_{it} + \beta_{11} \text{Chairtenure}_{it} + \beta_{12} \text{Chairnal}_{it} + \beta_{13} \text{Age}_{it} + \beta_{14} \text{Indlc}_{it} + \beta_{15} \text{LMK}_{it} + \beta_{16} \text{TDTA}_{it} + \alpha + u_{it} + \varepsilon \quad (\text{Model 30})$$

Note: Ffamily substitutes for Family in the results for concentrated panels.

The results for this section will enable us to answer the following sub-question:

Q2: Is there an association between board leadership characteristics and firm performance?

The hypotheses are tested against the dispersed ownership and concentrated panels. The latter use family ownership of 30%+. The rationale for dropping the other ownership panels is as follows. First, it is inappropriate to combine analyses

for all industries beyond ownership because financial and non-financial firms comply with different corporate governance codes: in addition to the Moroccan Code of Good Corporate Governance Practices, banks and financial institutions have to comply with the 2010 corporate governance code for financial institutions (Eskinazi, 2010; Corporate governance code for Financial Institutions, 2010). Thus, it is necessary to investigate the impact of financial and non-financial firms separately. This is also because financial institutions have benefited from a more detailed and more stringent transparency code since 2010 (Zeitun & Gang Tian, 2007; Iatridis & Zaghmour, 2013). This separation of financial and non-financial firms in investigating the impact on firm performance of CG is similar to the dispersed ownership panels.

Second, “Ffamily” (family ownership of 30% and above) is the concentrated panel with the highest number of observations. The Ffamily full panel sample size is 143 which reduces to 116 after excluding financial firms. This sample size is comparable to previous studies: for instance, Norhasniza, Ahmad and Roslan (2012) used a sample of 100, Mancinelli and Ozkan (2006) 139, and Mossadak, Fontaine and Khemakhem (2016) 143.

Third – and in a similar vein to the main panel – the rationale for the consideration of the Ffamily full panel excluding financial firms is guided by Omran, Bolbol and Fatheldin’s (2008) study on ownership concentration in Arab equity markets, which used the same full-sample panel excluding financial services.

#### 5.3.1.1. Dispersed ownership: the impact on firm performance of board leadership structure

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Table 5.15 summarises the results for sub-question Q2 and related hypotheses H2a1–H2d2.

**Table 5. 15: Summary table: Ownership–leadership results**

	Main panel					Family excluding foreign panel					Foreign excluding family panel				
VAR	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI
Fflot	20.8372**	1.2237	56.2571	39.7906	6.2879***	-0.0694***	-0.0298***	-0.0595	-0.1040	-0.0110**	-0.0512***	-0.0294***	-0.0514	-0.0572	-0.0078
Family	20.8877**	1.2530	56.3072	39.8466	6.2952***	-0.0182	-0.0004	-0.0081	-0.0467	-0.0032***					
Foreign	20.9061**	1.2534	56.3159	39.8939	6.2985***						0.0182	0.0004	0.0081	0.0467	0.0032***
Instit	20.8679**	1.2490	56.2870	39.7986	6.2844***	-0.0383**	-0.0044	-0.0289	-0.0950	-0.0144***	-0.0201*	-0.0040	-0.0208	-0.0483	-0.0113***
Inflcrossh	20.7787**	1.2041	55.9031	39.2592	6.2762***	-0.1274**	-0.0493***	-0.4123***	-0.6352	-0.0226	-0.1093**	-0.0489***	-0.4042***	-0.5885	-0.0194
Infl	20.8743**	1.2615	56.3577	40.0408	6.2926***	-0.0316	0.0080	0.0425	0.1474	-0.0060	-0.0134	0.0084	0.0505	0.1942	-0.0028
Singledual	-0.0358	0.5959	3.8489*	3.9984	0.0821	-0.0155	0.5950	3.8975*	4.0377	0.1052	-0.0155	0.5950	3.8975*	4.0377	0.1051
Ceown	2.0026***	0.2882	-1.9430	-1.3025	0.0162	2.0127***	0.2902	-1.9298	-1.2945	0.0264	2.0127***	0.2902	-1.9298	-1.2945	0.0263
Ceotenure	-0.0673*	0.0105	0.1978**	0.1633	-0.0004	-0.0673*	0.0104	0.1982**	0.1638	-0.0003	-0.0673*	0.0104	0.1982**	0.1638	-0.0003
Ceonal	-0.1100	0.2024**	-0.3388	-3.2858	-0.0225	-0.0976	0.2032**	-0.3096	-3.2690	-0.0194	-0.0976	0.2032**	-0.3096	-3.2691	-0.0194
Chairtenure	-0.0226	-0.0135	0.0292	0.0897	0.0038	-0.0247*	-0.0136	0.0252	0.0870	0.0029	-0.0247*	-0.0136	0.0252	0.0870	0.0029
Chairnal	-0.1534	-0.2764	-2.5437*	-4.7506*	-0.0323	-0.1547	-0.2752	-2.5465*	-4.7525*	-0.0425	-0.1547	-0.2752	-2.5465*	-4.7525*	-0.0424
Age	-0.0113	-0.0026	0.0007	-0.0443	0.0157	-0.0113	-0.0026	0.0007	-0.0444	0.0158	-0.0113	-0.0026	0.0007	-0.0444	0.0158
Indcl	-0.1818	-0.2745***	-1.4519***	-0.8343	-0.0034	-0.1815	-0.2743***	-1.4517***	-0.8351	-0.0022	-0.1815	-0.2743***	-1.4517***	-0.8351	-0.0022
Lmk	0.8642***	0.2270***	0.4335	1.4228*	0.8687***	0.8664***	0.2276***	0.4363	1.4252*	0.8696***	0.8664***	0.2276***	0.4363	1.4252*	0.8696***
Tdta	-0.0052	-0.0007	-0.0646**	-0.1184*	-0.0028**	-0.0053	-0.0007	-0.0647**	-0.1184*	-0.0029***	-0.0053	-0.0007	-0.0647**	-0.1184*	-0.0029***
Constant	2,090.4464**	-125.5013	-5,626.3983	-3,971.6589	-631.0955***	0.0966	-0.1629	5.0310	17.6086	-1.2851	-1.7193	-0.2049	4.2236	12.9353	-1.6030**
Obser	229	229	229	227	229	229	229	229	227	229	229	229	229	227	229
N of firms	46	46	46	46	46	46	46	46	46	46	46	46	46	46	46
r2_o	0.330	0.471	0.430	0.237	0.239	0.330	0.471	0.430	0.237	0.240	0.330	0.471	0.430	0.237	0.240

	Main panel excluding financial					Family excluding foreign and financial panel					Foreign excluding family and financial panel				
VAR	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI
Fflot	-0.0536*	-0.0271**	-0.0964	-0.4170	0.0008	-0.0806***	-0.0423***	-0.0954	-0.0342	-0.0123**	-0.0550***	-0.0369***	-0.0588	0.0314	-0.0096*
Family	0.0014	0.0098	-0.0377	-0.4484	0.0104	-0.0256*	-0.0054	-0.0366	-0.0657	-0.0027**					
Foreign	0.0270	0.0152	-0.0011	-0.3828	0.0131*						0.0256*	0.0054	0.0366	0.0657	0.0027**
Instit	-0.0438	-0.0034	-0.1125	-0.5571*	0.0005	-0.0708***	-0.0187*	-0.1114***	-0.1743	-0.0126**	-0.0452**	-0.0133	-0.0748**	-0.1087	-0.0099**
Inflcrossh	-0.1016	-0.0429**	-0.3899***	-0.8429*	-0.0140	-0.1286**	-0.0581***	-0.3888***	-0.4602	-0.0272	-0.1030*	-0.0527***	-0.3523***	-0.3945	-0.0244
Infl						-0.0270	-0.0152	0.0011	0.3828	-0.0131*	-0.0014	-0.0098	0.0377	0.4484	-0.0104
Singledual	0.3193	1.0678***	5.1280**	1.8491	0.0545	0.3193	1.0678***	5.1280**	1.8491	0.0545	0.3193	1.0678***	5.1280**	1.8491	0.0545
Ceown	2.4808***	0.5472***	0.2200	2.9501	0.0454	2.4808***	0.5472***	0.2200	2.9501	0.0454	2.4808***	0.5472***	0.2200	2.9501	0.0454
Ceotenure	-0.0898**	0.0098	0.1116	-0.0242	-0.0030	-0.0898**	0.0098	0.1116	-0.0242	-0.0030	-0.0898**	0.0098	0.1116	-0.0242	-0.0030
Ceonal	0.0412	0.2517**	0.6430	-3.1655	-0.0164	0.0412	0.2517**	0.6430	-3.1655	-0.0164	0.0412	0.2517**	0.6430	-3.1655	-0.0164
Chairtenure	-0.0367*	-0.0233**	-0.0407	-0.0135	0.0032	-0.0367*	-0.0233**	-0.0407	-0.0135	0.0032	-0.0367*	-0.0233**	-0.0407	-0.0135	0.0032
Chairnal	-0.4416	-0.5987***	-4.3489***	-5.0691	-0.0294	-0.4416	-0.5987***	-4.3489***	-5.0691	-0.0294	-0.4416	-0.5987***	-4.3489***	-5.0691	-0.0294
Age	-0.0042	-0.0004	0.0131	0.0175	0.0308**	-0.0042	-0.0004	0.0131	0.0175	0.0308**	-0.0042	-0.0004	0.0131	0.0175	0.0308**
Indcl	-0.0897	-0.1014	1.1060	5.6476	0.2982	-0.0897	-0.1014	1.1060	5.6476	0.2982	-0.0897	-0.1014	1.1060	5.6476	0.2982
Lmk	0.9927***	0.2922***	0.8800***	2.5165***	0.8686***	0.9927***	0.2922***	0.8800***	2.5165***	0.8686***	0.9927***	0.2922***	0.8800***	2.5165***	0.8686***
Tdta	-0.0111	-0.0091	-0.1363***	-0.2209**	-0.0037*	-0.0111	-0.0091	-0.1363***	-0.2209**	-0.0037*	-0.0111	-0.0091	-0.1363***	-0.2209**	-0.0037*
O.Infl	-	-	-	-	-										
Constant	-3.4888	-2.2354	0.7367	42.0482	-3.3766**	-0.7892	-0.7133	0.6292	3.7709	-2.0628	-3.3478*	-1.2528*	-3.0286	-2.7962	-2.3352*
Obser	170	170	170	169	170	170	170	170	169	170	170	170	170	169	170
N of firms	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34
r2_o	0.452	0.619	0.594	0.399	0.303	0.452	0.619	0.594	0.399	0.303	0.452	0.619	0.594	0.399	0.303

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Source: compiled by the author

All share ownership typologies – namely, Family, Frgn, Instit, Inflcrossh, Infl and Fflot – remain positively associated with MTBV and LRI in the main panel (Table 5.8) as board leadership characteristics are introduced. Except for influential cross-holding ownership (Inflcrossh), which remains negatively significant only with Tobin's q, ROA and ROE, the relationship between the rest of the ownership typologies and firm performance in the main panel excluding financial firms remains unchanged. Foreign ownership remains positively associated with LRI, and Family and Infl remain insignificant in the main panel excluding financial firms. Instit and Fflot remain negatively associated with ROE, and with MTBV and Tobin's q, respectively, in the main panel excluding financial firms.

While the introduction of leadership characteristics impacts only Inflcrossh in the main panel excluding financial firms, leadership characteristics influence the impact of some of the share ownership typologies in the family excluding foreign ownership and foreign excluding family ownership panels. As well as remaining negatively associated with LRI, family becomes negatively linked with MTBV in the family excluding foreign ownership and financial firms panel. Instit becomes negatively associated with MTBV across all family excluding foreign panels and foreign excluding financial, and remains negatively associated with LRI across all these panels. Instit becomes negatively associated with Tobin's q in the family excluding foreign and financial firms. This suggests that institutional ownership remains an ineffective external corporate governance mechanism in the context of Moroccan non-financial firms.

Inflcrossh becomes only negatively significant to MTBV, Tobin's q and ROA across all family excluding foreign ownership and foreign excluding family ownership panels. The influence on firm performance of Fflot and Infl remains unchanged after the introduction of leadership characteristics across all panels. Foreign ownership becomes positively related to MTBV and remains positively associated with LRI in the foreign excluding family and financial firms panel.

From the above, the introduction of leadership characteristics shows that, although the tested hypothesis remains unchanged (Table 5.16), the relationships between share ownership typologies and firm performance mostly change across family excluding foreign and foreign excluding family panels, with changes to Inflcrossh only in the main panel excluding financial firms. This suggests that

leadership attributes moderate the impact of share ownership on firm performance for non-financial firms and family excluding foreign and foreign excluding family panels. The results partially confirm H2Q. Table 5.16 includes a summary of the hypotheses following the introduction of leadership characteristics.

**Table 5. 16: Summary of ownership hypotheses following the introduction of leadership characteristics**

Ownership + leadership	Hypotheses	H1a1: Family	H1a2: Foreign	H1a3: Instit	H1a4: Inflcrossh	H1a5: Infl	H1a6: Fflot
	Main panel	Accept	Accept	Accept	Accept	Accept	Accept
	Main panel excluding financial	Insignificant	Accept	Reject	Reject	Omitted	Reject
	Family excluding foreign, all industries	Reject	----	Reject	Reject	Insignificant	Reject
	Family excluding foreign and financial	Reject	----	Reject	Reject	Reject	Reject
	Foreign excluding family, all industries	----	Accept	Reject	Reject	Insignificant	Reject
	Family excluding foreign and financial	----	Accept	Reject	Reject	Insignificant	Reject
	Results	Partially accept	Accept	Partially accept	Partially accept	Partially accept	Partially accept

Source: compiled by the author

These results reveal that, apart from the main panel, where all share ownership typologies have a positive relationship with firm performance, in the remaining panels only foreign ownership registers a positive association with firm performance: depending on the panel, foreign ownership is positively associated with LRI. This is in line with Yoshikawa and Phan (2003), who show that foreign ownership is associated with shareholder returns. Consistent with previous empirical findings, the results denote that multiple large owners are associated with better corporate value (Attig, Ghouli & Guedhami, 2009; Maury and Pajuste, 2005; Yasser & Mamun, 2017). However, this is not the case for financial firms.

The governance structure, as measured by single (CEO is chair) or dual (split CEO and chair roles), is positively associated with ROA in all industry panels, and

positively significant with Tobin's q and ROA across all non-financial panels. This indicates that leadership structure plays a vital role in enhancing firm performance. The results confirm hypothesis H2a but reject Turki and Sedrine's (2012) findings which claim a negative relationship between separation of CEO and chair roles and MTBV.

Furthermore, CEO ownership (Ceoown) is positively significant in relation to MTBV across all the industries panels and positively associated with MTBV and Tobin's q across all excluding financial firms. The results confirm H2b, and that Ceoown, mainly a family CEO, is linked to enhanced firm performance (Maury, 2006; Al-Ghamdi & Rhodes, 2015). The tenure of the CEO (Ceotenure) is significantly negatively linked to MTBV across all panels, but significantly positive in relation to ROA across the all industries panels. The results partially reject hypothesis H2c1, but are inconclusive, which is why a consideration of the composition of the board of directors and board of management is of great importance for this study. Chairtenure is insignificant in the main panel of all industries, and significantly negatively linked to MTBV in family excluding foreign and foreign excluding family all industries panels. Chairtenure is negatively linked to MTBV and Tobin's q across the non-financial panels. The results reject hypothesis H2c2. The results for Chairtenure challenge Kakabadse and Kakabadse (2007) and McNulty et al.'s (2011) findings that a long chair tenure is related to enhanced firm performance. These results will be revisited when considering the composition of board of directors and board of management/TMT, as these are believed to influence the effect of chair attributes on firm performance (further details in Sections 5.3.2 and 5.4).

The non-Moroccan chairperson(Chairnal) is negatively significant in relation to ROA and ROE in the all industries panel and negatively significant in relation to Tobin's q and ROA across the excluding financial firms' panels. The CEO's nationality (Ceonal) is positively associated with Tobin's q across all panels. The results confirm hypothesis H2d1 and reject hypothesis H2d2. The negative relationship between Chairnal and firm performance challenges Ziadi, Zouaoui and Rhouma (2017), who found an insignificant relationship between chair nationality, age duality and firm performance in the CAC40 top French listed companies for the period 2010–14. The positive relationship between Ceonal and firm performance supports Hsu, Chen and Cheng (2013) and Le and Kroll's (2017)

findings that a CEO with international experience in a foreign multinational firm is associated with increased firm performance.

The results show that a combination of separation of CEO and chair, Ceoown, and having a Moroccan national as CEO, is of great benefit to Moroccan firms in enhancing value. The results reveal that having a non-Moroccan chair is associated with decreased firm performance. The results will be revisited when considering board of directors' composition in Sections 5.3.2 and 5.4.

### 5.3.1.2. Concentrated ownership: the impact on firm performance of board leadership structure

Table 5.17 summarises the results for sub-question Q2 and related hypotheses H2a1–H2d2 for the concentrated Ffamily panel.

**Table 5. 17: Summary table: Ownership–leadership in concentrated panel results**

VAR	Full Ffamily Panel>=30%					Full Ffamily Panel>=30% excluding financial				
	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI
Fflot	27.8856***	3.6084	-0.1409**	131.2878	5.8660***	-0.1099**	-0.0230	-0.1764	-0.9501*	-0.0130**
Ffamily	27.9389***	3.6422	-0.0314	131.4299	5.8769***	-0.0662	0.0068	-0.0793	-0.8872	-0.0035
Foreign	27.9773***	3.6612	0.0684	131.5292	5.8801***	-0.0106	0.0387	0.0999	-0.6346	0.0009
Instit	27.8824***	3.6114	-0.0667	131.5015	5.8671***	-0.1366***	-0.0254	-0.0026	-0.5446	-0.0127
Inflcrossh	27.8308***	3.6119	-0.4563***	130.5159	5.8500***	-0.1406*	-0.0130	-0.3760	-1.5126**	-0.0285
Infl	27.9777***	3.6322	-0.0361	132.0066	5.8752***					
Singledual	1.9943*	1.9830***	13.6829***	13.6665**	0.4186	1.8834	2.3613***	14.9256***	13.8806**	0.1836
Ceoown	1.2593*	0.2225	-1.3308	-0.0496	-0.0265	1.2315*	0.3298	1.0245	6.1686	0.0370
Ceotenure	-0.0335	0.0144	0.0759	-0.1761	-0.0036	-0.0376	0.0155	0.0059	-0.3187	-0.0048
Ceonal	-0.3579*	0.2730*	1.1380	-2.8940	-0.0043	-0.4188	0.0970	-0.1815	-4.4563	0.0109
Chairtenure	-0.0304	-0.0398***	-0.0619	0.2010	0.0051	-0.0297	-0.0479***	-0.0873	0.1543	0.0045
Chairnal	-1.6260**	-1.1445***	-12.2586***	-21.9037***	-0.4598	-1.6898**	-1.4142***	-13.9485***	-23.5863***	-0.2202
Age	-0.0056	-0.0020	-0.0295	-0.0779*	0.0188	-0.0006	-0.0009	-0.0210	-0.0317	0.0343**
Indcl	-0.1450	-0.2285***	-1.7820***	-2.1854**	-0.1364					
Lmk	0.7106***	0.2104***	0.5356	1.8318**	0.8639***	0.7249***	0.2394***	0.8014***	2.8444***	0.8520***
Tdta	-0.0145	-0.0017	-0.0916**	-0.1700	-0.0036*	-0.0109	-0.0054	-0.1241***	-0.2267*	-0.0030
2010.Year	0.2205	0.0166	-0.8630	0.4969	0.0407**	0.3589	0.0183	-1.0923	-0.3309	0.0297
2011.Year	-0.3022	-0.0781	-2.2364**	-3.5412	0.0199	-0.1900	-0.0693	-2.8162**	-4.2082	-0.0023
2012.Year	-0.6537***	-0.2313*	-1.5570**	-3.3082	0.0037	-0.5715***	-0.2694	-1.9020**	-3.0706	-0.0464
2013.Year	-0.7377***	-0.4250***	-1.5160**	-2.7508	0.0122	-0.6707**	-0.5079***	-1.8439**	-2.4339	-0.0460
O_ Cons			0.0000							
O.Indcl						-	-	-	-	-
O.Infl						-	-	-	-	-
Constant	2,796.0237***	-365.7515		-13,132.4636	-589.0232***	3.7845	-3.0733	-0.4373	83.2975	-1.5334
Obser	150	150	150	148	150	121	121	121	120	121
N of firms	31	31	31	31	31	25	25	25	25	25
r2_o	0.385	0.649	0.629	0.384	0.293	0.518	0.777	0.706	0.520	0.389

Source: compiled by the author



**Table 5. 18: Summary of Ffamily ownership results**

	Full Ffamiy Panel>=30%					Full Ffamiy Panel>=30% excluding financial				
VAR	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI
Fflot	26.2522***	4.1786	116.5723**	106.6073	5.6843***	-0.1266***	-0.0279	-0.1786	-1.0985*	-0.0130**
Ffamily	26.2965***	4.2119	116.6638**	106.7719	5.6950***	-0.0880*	-0.0012	-0.1228	-1.0063	-0.0033
Foreign	26.3209***	4.2241	116.7073**	106.7198	5.6981***	-0.0550	0.0194	-0.0593	-1.0448	-0.0006
Instit	26.2449***	4.1834	116.5518**	106.6726	5.6838***	-0.1640***	-0.0311	-0.1806	-0.9888	-0.0146
Inflcrossh	26.1793***	4.1776	116.2702**	105.8658	5.6677***	-0.1976***	-0.0303	-0.4742	-1.8688**	-0.0308
Infl	26.3522***	4.2073	116.7045**	107.3396	5.6932***					
Age	-0.0040	-0.0012	0.0079	-0.0032	0.0200	0.0018	0.0022	0.0240	0.0247	0.0350**
Indcl	-0.1630	-0.2666***	-1.5145***	-1.2688	-0.1272					
Lmk	0.6788***	0.2551***	0.7711**	1.9341**	0.8656***	0.7464***	0.2678***	1.0607***	2.8657***	0.8742***
Tdta	-0.0084	0.0018	-0.0807**	-0.1667*	-0.0039***	-0.0026	0.0015	-0.0939**	-0.1949*	-0.0033**
2010.Year	0.2409	-0.0124	-1.0044	0.6116	0.0397**	0.3934*	0.0021	-1.0267	0.2537	0.0251
2011.Year	-0.3502*	-0.1092	-2.4158**	-3.6671	0.0157	-0.2372	-0.1054	-2.9496**	-4.1415	-0.0101
2012.Year	-0.7190***	-0.2460**	-1.7005**	-3.6272**	-0.0056	-0.6274***	-0.2887**	-2.0207**	-3.1825*	-0.0561
2013.Year	-0.7961***	-0.4172***	-1.5232**	-3.2549*	0.0055	-0.7113***	-0.4964***	-1.7662**	-2.6766	-0.0510
O.Indcl						-	-	-	-	-
O.Infl						-	-	-	-	-
Constant	-2,629.8816***	-420.4457	-11,658.6981**	-10,663.8551	-570.5764***	7.3256	0.1648	14.7284	102.3266	-1.5488
Obser	150	150	150	148	150	121	121	121	120	121
N of firms	31	31	31	31	31	25	25	25	25	25
r2_o	0.323	0.423	0.390	0.169	0.299	0.409	0.504	0.361	0.168	0.385

Source: compiled by the author

Similar to Ffamily and dispersed ownership, a consideration of all ownership typologies in the Ffamily full panel shows that they are all associated with MTBV, ROA and LRI. The Ffamily excluding financial firms panel shows that Fflot, Family, Instit and Inflcrossh are all negatively significant in relation to different firms' performance. Unlike dispersed ownership panels, foreign ownership is insignificant in relation to firm performance in Ffamily excluding financial firms (Table 5.18). After a consideration of leadership characteristics, all ownership typologies remain positively associated with MTBV and LRI, except for Fflot and Inflcrossh, which become negatively associated with ROA in the Ffamily full panel. Similar to dispersed ownership, Fflot, Instit and Inflcrossh are negatively significant in relation to firm performance in Ffamily excluding financial firms. Thus, the introduction of leadership characteristics shows that, although the tested hypothesis remains unchanged (Table 5.19), the relationships between share ownership typologies and firm performance mostly change across the Ffamily full panel. This suggests that leadership attributes moderate the impact of share ownership on firm performance for financial firms. The results partially confirm hypothesis H2Q. Table 5.19 presents a summary of the hypotheses following the introduction of leadership characteristics.

**Table 5. 19: Summary of the ownership hypotheses following the introduction of leadership characteristics**

	Hypotheses	H1a1: Family	H1a2: Foreign	H1a3: Instit	H1a4: Inflcrossh	H1a5: Infl	H1a6: Fflot
<b>Ownership + leadership characteristics</b>	<b>Ffamily full panel</b>	Accept	Accept	Accept	Mixed	Accept	Mixed
	<b>Ffamily excluding financial</b>	Insignificant	Insignificant	Reject	Reject	Omitted	Reject
	<b>Results</b>	Partially accept	Partially accept	Partially accept	Partially accept	Partially accept	Partially accept

Source: compiled by the author

The results challenge the findings from the dispersed ownership panel, which contend that multiple large owners are associated with better corporate value (Attig, Ghouli & Guedhami, 2009; Maury and Pajuste, 2005; Yasser & Mamun, 2017). However, this is not the case for non-financial firms, as all dispersed ownerships register negative significance in relation to firm performance.

Table 5.17 shows that the separation of chair and CEO roles is positively associated with firm performance across both Ffamily full panels where Singledual is positively associated with MTBV, Tobin's q, ROA and ROE. Singledual is also positively associated with Ffamily excluding financial, thus confirming hypothesis H2a. The results confirm Rechner and Dalton (1991) and Al-Ghamdi & Rhodes's (2015) findings. Ceoown is positively significant in relation to MTBV across both Ffamily panels. The results confirm H2b and that a family CEO is linked to enhanced firm performance (Maury, 2006; Al-Ghamdi & Rhodes, 2015). Ceotenure is insignificant across Ffamily panels, the results rejecting hypothesis H2c1. Furthermore, Chairtenure is negatively significant in relation to, respectively, Tobin's q in the Family full panel, and Tobin's q and ROA in Ffamily excluding financial firms. The results reject hypothesis H2c2 and challenge Kakabadse and Kakabadse (2007) and McNulty et al.'s (2011) findings that a long chair tenure is linked to enhanced firm performance. Ceonal shows mixed results in the Ffamily full panel, where it is positively significant in relation to Tobin's q and negatively significant in relation to MTBV. Ceonal is insignificant in Ffamily excluding financial firms. The results partially reject hypothesis H2d1. Chairnal is also negatively associated with MTBV, Tobin's q, ROA and ROE across Ffamily panels, thus rejecting hypothesis H2d2.

The results show that a combination of the separation of CEO and chair, Ceoown, and having a Moroccan national as CEO, is of great benefit to Moroccan firms in enhancing performance. The results reveal that having a non-Moroccan chair is associated with decreased performance. The results will be revisited when considering board of directors' composition in Sections 5.3.2 and 5.4.

#### 5.3.1.3. Summary findings: ownership-leadership

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Table 5.20 summarises the findings on the association between share ownership typologies, leadership characteristics and firm performance as discussed in Section 5.3.1. It shows that the introduction of leadership characteristics alongside share ownership typologies in dispersed and concentrated panels partially shapes the impact of share ownership typology on firm performance. This confirms the importance of investigating the impact on firm performance of the interdependencies of corporate governance mechanisms (Aguilera *et al.*, 2008; Tosi, 2008; Filatotchev & Boyd, 2009; Walls, Berrone & Phan, 2012; Misangyi & Acharya, 2014).

The results show that the separation of CEO and chair roles and the presence of CEO-owners enhances firm performance across all panels. The results also show that having a foreign national as chair is deleterious for Moroccan firms. There is no consensus on other leadership characteristics, hence the need to revisit the results following a consideration of board of directors' composition in Section 5.3.2, and the impact of board of directors' composition on firm performance and board of management/TMT in Section 5.4.

**Table 5. 20: Summary of the hypotheses testing the association between share ownership typologies/ concentrated ownership, leadership characteristics and firm performance**

Research sub-questions	Research hypothesis	
	Dispersed ownership	Concentrated ownership
<b>Q2: Is there an association between board leadership characteristics and firm performance?</b>	<p><b>H2a:</b> Confirmed</p> <p>The governance leadership structure Singledual is associated with increased firm performance.</p> <p><b>H2b:</b> Confirmed</p> <p>The presence of owners as CEO (Ceoown) is significantly associated with increased firm performance (MTBV) across all panels.</p> <p><b>H2c1:</b> Partially rejected</p> <p>A long CEO tenure (Ceotenure) is negatively associated with MTBV across all panels and positively associated with ROA across all industries panels.</p> <p><b>H2c2:</b> Partially rejected</p> <p>A long chair tenure (Chairtenure) is negatively associated with MTBV across all panels except for the main all industries panels where it is insignificant.</p> <p><b>H2d1:</b> Accepted</p> <p>Having non-Moroccan Ceo (Ceonal) is positively associated with firm performance.</p>	<p><b>H2a:</b> Confirmed</p> <p>The governance leadership structure Singledual is associated with increased firm performance.</p> <p><b>H2b:</b> Confirmed</p> <p>The presence of owners as CEO (Ceoown) is significantly associated with increased firm performance (MTBV) across all panels</p> <p><b>H2c1:</b> Rejected</p> <p>A long CEO tenure (Ceotenure) is insignificant.</p> <p><b>H2c2:</b> Rejected</p> <p>A long chair tenure (Chairtenure) is negatively associated to firm performance.</p> <p><b>H2d1:</b> Partially accepted</p> <p>Having non-Moroccan Ceo (Ceonal) generates mixed results in the Ffamily full panel, and it is insignificant in the Ffamily excluding financial.</p>

<p><b>H2d2:</b> Rejected</p> <p>Having non-Moroccan chair (Chairnal) is negatively associated with firm performance.</p>	<p><b>H2d2:</b> Rejected</p> <p>Having non-Moroccan chair (Chairnal) is negatively associated with firm performance.</p>
<p><b>H2Q:</b> Partially accepted</p> <p>Leadership attributes moderate the impact of ownership on firm performance for non-financial firms and family excluding foreign and foreign excluding family panels.</p>	<p><b>H2Q:</b> Partially accepted</p> <p>Leadership attributes moderate the impact of ownership on firm performance for the Ffamily full panel.</p>

Source: compiled by the author

### 5.3.2. The impact on firm performance of board composition

This section investigates the effect of board composition, board leadership and share ownership typology on firm performance by testing a set of hypotheses developed from the range of literature. The hypotheses are summarised as follows:

H3a: A larger board of directors (Bodsize) negatively impacts firm performance.

H3b1: The presence of independent board members (Indbod) is likely to enhance firm performance.

H3b2: The presence of owners as board members (Ownbod) is likely to enhance firm performance.

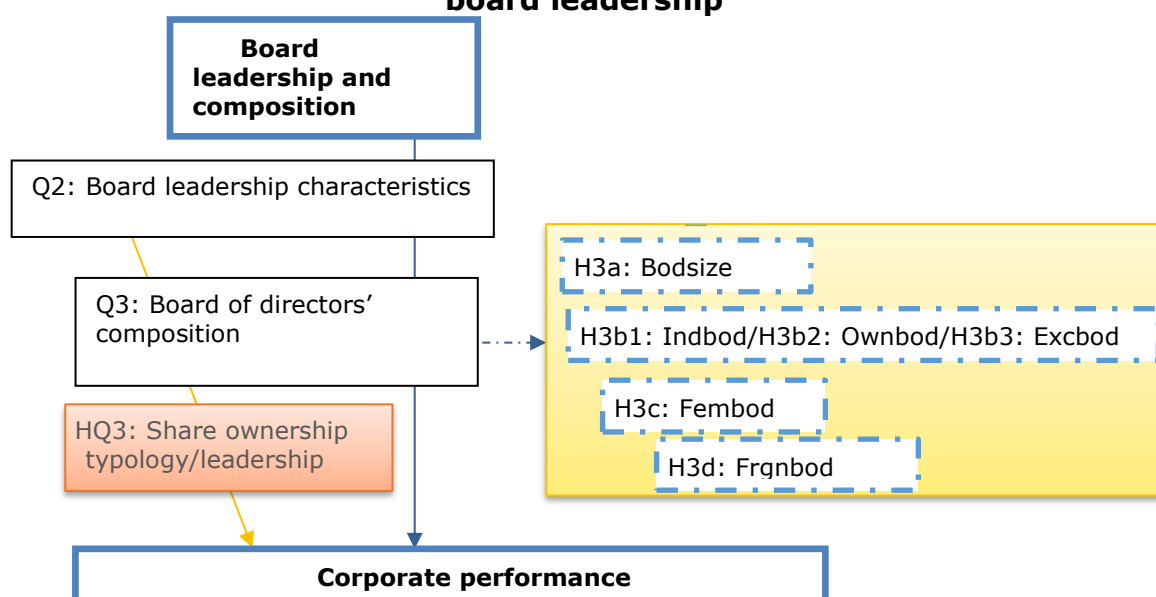
H3b3: The presence of executive directors (Excbod) is likely to enhance firm performance.

H3c: The presence of female board members (Fembod) is likely to enhance firm performance.

H3d: The presence of foreigners on the board of directors (Frqnbod) is likely to enhance firm performance.

Figure 5.8 outlines the hypotheses tested within this section.

**Figure 5.8: Model (2) (2, part 2). Impact on firm performance of board leadership**



Source: compiled by the author

— Refers to a direct relationship between corporate governance determinants and corporate performance.

— Refers to the effect of additional corporate governance determinants in shaping the relationship between previously investigated governance components and corporate performance

This research recognises that leadership characteristics cannot be considered independently and therefore considers the effect of the board of directors' composition alongside leadership characteristics and share ownership typology. As well as testing the hypotheses stated above this study tests the following:

HQ2: Board of directors composition changes the impact of share ownership typologies and leadership characteristics on firm performance.

The equations for these hypotheses are as follows: Foreign

$$MTBV_{it} = \beta_1 Fflot_{it} + \beta_2 Family_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Singledual_{it} + \beta_8 Ceoown_{it} + \beta_9 Ceotenure_{it} + \beta_{10} Ceonal_{it} + \beta_{11} Chairtenure_{it} + \beta_{12} Chairnal_{it} + \beta_{13} Bodsize_{it} + \beta_{14} Ownbod_{it} + \beta_{15} Indbod_{it} + \beta_{16} Fembod_{it} + \beta_{17} Execbod_{it} + \beta_{18} Frgnbod_{it} + \beta_{19} Age_{it} + \beta_{20} Indlc_{it} + \beta_{21} LMK_{it} + \beta_{22} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 31)}$$

$$Tobin's\ q_{it} = \beta_1 Fflot_{it} + \beta_2 family_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Singledual_{it} + \beta_8 Ceoown_{it} + \beta_9 Ceotenure_{it} + \beta_{10} Ceonal_{it} + \beta_{11} Chairtenure_{it} + \beta_{12} Chairnal_{it} + \beta_{13} Bodsize_{it} + \beta_{14} Ownbod_{it} + \beta_{15} Indbod_{it} + \beta_{16} Fembod_{it} + \beta_{17} Execbod_{it} + \beta_{18} Frgnbod_{it} + \beta_{19} Age_{it} + \beta_{20} Indlc_{it} + \beta_{21} LMK_{it} + \beta_{22} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 32)}$$

$$Roa_{it} = \beta_1 Fflot_{it} + \beta_2 Family_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Singledual_{it} + \beta_8 Ceoown_{it} + \beta_9 Ceotenure_{it} + \beta_{10} Ceonal_{it} + \beta_{11} Chairtenure_{it} + \beta_{12} Chairnal_{it} + \beta_{13} Bodsize_{it} + \beta_{14} Ownbod_{it} + \beta_{15} Indbod_{it} + \beta_{16} Fembod_{it} + \beta_{17} Execbod_{it} + \beta_{18} Frgnbod_{it} + \beta_{19} age_{it} + \beta_{20} Indlc_{it} + \beta_{21} LMK_{it} + \beta_{22} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 33)}$$

$$ROE_{it} = \beta_1 Fflot_{it} + \beta_2 Family_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Singledual_{it} + \beta_8 Ceoown_{it} + \beta_9 Ceotenure_{it} + \beta_{10} Ceonal_{it} + \beta_{11} Chairtenure_{it} + \beta_{12} Chairnal_{it} + \beta_{13} Bodsize_{it} + \beta_{14} Ownbod_{it} + \beta_{15} Indbod_{it} + \beta_{16} Fembod_{it} + \beta_{17} Execbod_{it} + \beta_{18} Frgnbod_{it} + \beta_{19} Age_{it} + \beta_{20} Indlc_{it} + \beta_{21} LMK_{it} + \beta_{22} TDTA_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 34)}$$

$$LRI_{it} = \beta_1 Fflot_{it} + \beta_2 Family_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Singledual_{it} + \beta_8 Ceoown_{it} + \beta_9 Ceotenure_{it} + \beta_{10} Ceonal_{it} + \beta_{11}$$

$$\text{Chairtenure}_{it} + \beta_{12} \text{Chairnal}_{it} + \beta_{13} \text{Bodsize}_{it} + \beta_{14} \text{Ownbod}_{it} + \beta_{15} \text{Indbod}_{it} + \beta_{16} \text{Fembod}_{it} + \beta_{17} \text{Execbod}_{it} + \beta_{18} \text{Frgrnbod}_{it} + \beta_{19} \text{Age}_{it} + \beta_{20} \text{Indlc}_{it} + \beta_{21} \text{LMK}_{it} + \beta_{22} \text{TDTA}_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 35)}$$

Note: Ffamily substitutes for Family in the results for concentrated panels.

The results for this section will allow us to answer the following sub-question:

Q3: Is there an association between board of directors composition and firm performance?

The hypotheses are tested for the dispersed ownership and concentrated panels respectively in Sections 5.3.2.1 and 5.3.2.2.

#### 5.3.2.1. Dispersed ownership: the impact on firm performance of board composition

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Table 5.21 summarises the results of the impacts of ownership, leadership and board composition on Moroccan firms' performance.



**Table 5. 21: Summary table: dispersed ownership–leadership–board of directors’ results**

VAR	Main panel					Family excluding foreign panel					Foreign excluding family panel				
	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI
Fflot	22.3549*	-1.0477	10.7641	-107.5313	3.4122	-0.0624***	-0.0308***	-0.0671	-0.0695	-0.0087*	-0.0534***	-0.0272***	-0.0018	0.0929	-0.0064
Family	22.4080*	-1.0204	10.7657	-107.6239	3.4185	-0.0090	-0.0036	-0.0654**	-0.1623**	-0.0022					
Foreign	22.4170*	-1.0168	10.8313	-107.4613	3.4207						0.0090	0.0036	0.0654**	0.1623**	0.0022
Instit	22.3896*	-1.0258	10.7363	-107.6951	3.4081	-0.0278	-0.0090	-0.0950**	-0.2325**	-0.0129***	-0.0188*	-0.0054	-0.0296	-0.0702	-0.0107***
Inflcrossh	22.3131*	-1.0624	10.3882	-108.0022	3.4058	-0.1037*	-0.0455***	-0.4430***	-0.5427	-0.0148	-0.0948*	-0.0419***	-0.3776**	-0.3804	-0.0126
Infl	22.4026*	-1.0136	10.8275	-107.3291	3.4169	-0.0142	0.0032	-0.0038	0.1302	-0.0039	-0.0052	0.0068	0.0616	0.2925*	-0.0017
Singledual	0.0416	0.4499	2.3365	-1.2848	0.0103	0.0439	0.4480	2.3422	-1.2744	0.0131	0.0439	0.4480	2.3422	-1.2743	0.0131
Ceown	1.8968***	0.3268*	-0.8375	2.3829	0.0394	1.9243***	0.3273*	-0.8289	2.3014	0.0464	1.9243***	0.3273*	-0.8289	2.3012	0.0463
Ceotenure	-0.0657*	0.0041	0.1723*	0.0753	-0.0013	-0.0661*	0.0040	0.1722*	0.0762	-0.0014	-0.0661*	0.0040	0.1722*	0.0762	-0.0014
Ceonal	-0.1434	0.2159**	-0.0879	-2.4878	-0.0049	-0.1281	0.2154**	-0.0824	-2.5506	-0.0015	-0.1281	0.2154**	-0.0824	-2.5507	-0.0015
Chairtenure	-0.0224	-0.0154*	0.0004	0.0093	0.0039	-0.0245*	-0.0154*	-0.0001	0.0167	0.0034	-0.0245*	-0.0154*	-0.0001	0.0167	0.0034
Chairnal	-0.1302	-0.1943	-2.2148	-3.7407	0.0118	-0.1299	-0.1931	-2.2132	-3.7350	0.0117	-0.1299	-0.1931	-2.2132	-3.7349	0.0117
Bodsize	-0.0095	-0.0497	0.3492	1.1253	-0.0209	-0.0105	-0.0495	0.3499	1.1266	-0.0214	-0.0105	-0.0495	0.3499	1.1266	-0.0214
Ownbod	-0.1343	0.0270	-0.0835	-0.8300	0.0088	-0.1312	0.0268	-0.0832	-0.8401	0.0098	-0.1312	0.0268	-0.0832	-0.8401	0.0098
Indbod	-0.0349	0.0144	-0.4125	-1.3336	0.0174**	-0.0339	0.0144	-0.4121	-1.3374	0.0177**	-0.0339	0.0144	-0.4121	-1.3374	0.0177**
Fembod	0.1430	-0.0065	-0.9193	-1.6663	-0.0103	0.1302	-0.0062	-0.9245	-1.6195	-0.0132	0.1302	-0.0062	-0.9244	-1.6194	-0.0132
Execbod	-0.0616	-0.0115	-0.5241	-2.4660**	-0.0414	-0.0716	-0.0111	-0.5268	-2.4340**	-0.0446*	-0.0716	-0.0111	-0.5268	-2.4339**	-0.0446*
Frngbod	0.1321	-0.0413	-0.6940***	-1.1877**	0.0097	0.1306	-0.0413	-0.6947***	-1.1786**	0.0095	0.1306	-0.0413	-0.6947***	-1.1785**	0.0095
Age	-0.0118	-0.0017	0.0009	-0.0567	0.0158	-0.0118	-0.0018	0.0009	-0.0566	0.0158	-0.0118	-0.0018	0.0009	-0.0566	0.0158
Indcl	-0.1904	-0.2641***	-1.4382***	-0.8013	-0.0011	-0.1896	-0.2641***	-1.4379***	-0.8022	-0.0003	-0.1896	-0.2641***	-1.4379***	-0.8022	-0.0003
Lmk	0.8832***	0.2740***	0.4004	1.4239	0.8828***	0.8852***	0.2744***	0.4016	1.4257	0.8839***	0.8852***	0.2744***	0.4016	1.4257	0.8839***
Tdta	-0.0042	-0.0015	-0.0737***	-0.1424**	-0.0028***	-0.0043	-0.0015	-0.0736***	-0.1417**	-0.0029***	-0.0043	-0.0015	-0.0736***	-0.1417**	-0.0029***
2010.Year	0.1259	-0.0042	-0.5691	0.7913	0.0303*	0.1365	-0.0047	-0.5642	0.7388	0.0317**	0.1365	-0.0047	-0.5642	0.7387	0.0317**
2011.Year	-0.4408**	-0.1117	-1.8801**	-2.7644	0.0073	-0.4224**	-0.1124	-1.8724**	-2.8512	0.0102	-0.4224**	-0.1124	-1.8724**	-2.8514	0.0102
2012.Year	-0.6441***	-0.2675**	-1.8826**	-3.4180*	0.0028	-0.6242***	-0.2681**	-1.8742**	-3.5098*	0.0060	-0.6242***	-0.2681**	-1.8743**	-3.5099*	0.0059
2013.Year	-0.6480***	-0.3727**	-1.9751**	-3.8860**	0.0108	-0.6320***	-0.3730**	-1.9689**	-3.9585**	0.0132	-0.6321***	-0.3730**	-1.9689**	-3.9587**	0.0132
Constant	-2,241.7416*	101.8481	-1,071.4687	10,780.9529	-343.3571	-0.0661	0.1629	11.6179**	34.8337**	-1.2951	-0.9654	-0.1980	5.0812	18.6012	-1.5181*
Obser	229	229	229	227	229	229	229	229	227	229	229	229	229	227	229
N of firms	46	46	46	46	46	46	46	46	46	46	46	46	46	46	46
r2_o	0.357	0.468	0.487	0.412	0.234	0.359	0.468	0.487	0.411	0.235	0.359	0.468	0.487	0.411	0.235

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Source: compiled by the author

**Table 5.21 (continued)**

	Main panel excluding financial					Family excluding foreign and financial panel					Foreign excluding family and financial panel				
VAR	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI
Fflot	-0.0577*	-0.0283**	-0.0395	-0.2562	0.0013	-0.0772***	-0.0437***	-0.1207**	-0.0898	-0.0104**	-0.0605***	-0.0372***	-0.0177	0.1091	-0.0080*
Family	0.0028	0.0090	-0.0218	-0.3652	0.0093	-0.0167	-0.0064	-0.1031***	-0.1989**	-0.0024					
Foreign	0.0195	0.0154	0.0813	-0.1663	0.0117						0.0167	0.0064	0.1031***	0.1989**	0.0024
Instit	-0.0396	-0.0029	-0.1109	-0.5494**	-0.0015	-0.0591**	-0.0183*	-0.1922***	-0.3831***	-0.0132**	-0.0424*	-0.0118	-0.0892***	-0.1842**	-0.0108**
Inflicrossh	-0.0846	-0.0373**	-0.3811***	-0.6849*	-0.0053	-0.1041	-0.0527***	-0.4623***	-0.5185	-0.0170	-0.0875	-0.0463***	-0.3593***	-0.3197	-0.0146
Infl						-0.0195	-0.0154	-0.0813	0.1663	-0.0117	-0.0028	-0.0090	0.0218	0.3652	-0.0093
Singledual	0.4078	0.9944**	4.3076*	-0.2191	-0.0056	0.4078	0.9944**	4.3076*	-0.2191	-0.0056	0.4078	0.9944**	4.3076*	-0.2191	-0.0056
Ceown	2.3030***	0.4621**	0.8993	7.0392	0.0966	2.3030***	0.4621**	0.8993	7.0392	0.0966	2.3030***	0.4621**	0.8993	7.0392	0.0966
Ceotenure	-0.0848**	0.0091	0.1316*	-0.0310	-0.0039	-0.0848**	0.0091	0.1316*	-0.0310	-0.0039	-0.0848**	0.0091	0.1316*	-0.0310	-0.0039
Ceonal	-0.0001	0.2225**	1.0146	-1.3018	0.0175	-0.0001	0.2225**	1.0146	-1.3018	0.0175	-0.0001	0.2225**	1.0146	-1.3018	0.0175
Chairtenure	-0.0360*	-0.0234**	-0.0897	-0.1623	0.0024	-0.0360*	-0.0234**	-0.0897	-0.1623	0.0024	-0.0360*	-0.0234**	-0.0897	-0.1623	0.0024
Chairnal	-0.4097	-0.5097**	-3.9517***	-4.7337	0.0153	-0.4097	-0.5097**	-3.9517***	-4.7337	0.0153	-0.4097	-0.5097**	-3.9517***	-4.7337	0.0153
Bodsize	-0.0166	-0.0442	0.8471	2.8596	-0.0293	-0.0166	-0.0442	0.8471	2.8596	-0.0293	-0.0166	-0.0442	0.8471	2.8596	-0.0293
Ownbod	-0.1176	0.0207	-0.5540	-2.5088	0.0158	-0.1176	0.0207	-0.5540	-2.5088	0.0158	-0.1176	0.0207	-0.5540	-2.5088	0.0158
Indbod	-0.0210	0.0482	-1.1376	-3.2004	0.0202	-0.0210	0.0482	-1.1376	-3.2004	0.0202	-0.0210	0.0482	-1.1376	-3.2004	0.0202
Fembod	0.2510	0.1159	-0.2795	-1.6936	-0.0226	0.2510	0.1159	-0.2795	-1.6936	-0.0226	0.2510	0.1159	-0.2795	-1.6936	-0.0226
Execbod	-0.0765	0.0138	-0.4730	-2.4081	-0.0533*	-0.0765	0.0138	-0.4730	-2.4081	-0.0533*	-0.0765	0.0138	-0.4730	-2.4081	-0.0533*
Frngbod	0.1033	-0.0250	-0.8283***	-1.4186**	-0.0007	0.1033	-0.0250	-0.8283***	-1.4186**	-0.0007	0.1033	-0.0250	-0.8283***	-1.4186**	-0.0007
Age	-0.0056	0.0001	0.0007	-0.0510	0.0306**	-0.0056	0.0001	0.0007	-0.0510	0.0306**	-0.0056	0.0001	0.0007	-0.0510	0.0306**
Indcl	-0.1233	-0.0972	0.6876	4.1062	0.2439	-0.1233	-0.0972	0.6876	4.1062	0.2439	-0.1233	-0.0972	0.6876	4.1062	0.2439
Lmk	1.0326***	0.3280***	0.8989***	2.3207**	0.8855***	1.0326***	0.3280***	0.8989***	2.3207**	0.8855***	1.0326***	0.3280***	0.8989***	2.3207**	0.8855***
Tdta	-0.0112	-0.0101	-0.1525***	-0.2569***	-0.0039*	-0.0112	-0.0101	-0.1525***	-0.2569***	-0.0039*	-0.0112	-0.0101	-0.1525***	-0.2569***	-0.0039*
2010.Year	0.2855	0.0276	-0.1949	1.4026	0.0221	0.2855	0.0276	-0.1949	1.4026	0.0221	0.2855	0.0276	-0.1949	1.4026	0.0221
2011.Year	-0.3220	-0.0876	-1.7253*	-2.0997	-0.0030	-0.3220	-0.0876	-1.7253*	-2.0997	-0.0030	-0.3220	-0.0876	-1.7253*	-2.0997	-0.0030
2012.Year	-0.5293***	-0.3005*	-1.4379	-1.9855	-0.0183	-0.5293***	-0.3005*	-1.4379	-1.9855	-0.0183	-0.5293***	-0.3005*	-1.4379	-1.9855	-0.0183
2013.Year	-0.5583**	-0.4401**	-1.5672	-2.2940	-0.0273	-0.5583**	-0.4401**	-1.5672	-2.2940	-0.0273	-0.5583**	-0.4401**	-1.5672	-2.2940	-0.0273
O.Infl	-	-	-	-	-										
Constant	-2.9888	-2.2159	-1.0941	40.1327	-3.1567	-1.0384	-0.6754	7.0332	23.4985	-1.9880	-2.7060	-1.3203*	-3.2726	3.6116	-2.2299*
Obser	170	170	170	169	170	170	170	170	169	170	170	170	170	169	170
N of firms	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34
r2_o	0.492	0.628	0.644	0.545	0.297	0.492	0.628	0.644	0.545	0.297	0.492	0.628	0.644	0.545	0.297

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Source: compiled by the author

The introduction of board of directors' composition alongside leadership characteristics substantially reshapes the impact of the share ownership typology and leadership characteristics on firm performance. On the one hand, in the main panel, all ownerships remain positively associated only with MTBV. Free-float ownership (Fflot) remains unchanged in most panels except for the family excluding foreign ownership and financial firms' panels, becoming negatively significant in relation to all ROA as well as remaining negatively linked to MTBV, Tobin's q and LRI. Family ownership remains insignificant in the main panel excluding financial firms. Family ownership becomes negatively associated with ROA and ROE across family excluding foreign panels. Retaining its positive relationship with firm performance, foreign ownership in foreign excluding family firms becomes positively associated with ROA and ROE across all foreign excluding family panels. Foreign ownership becomes insignificant in the main panel excluding financial firms. Except for the main panel where institutional ownership (Instit) and influential cross-holding (Inflcrossh) are positively associated with MTBV, Instit and Inflcrossh are negatively associated with different firm performance measures across all panels. Apart from the main panel all industries, where it is positively related to MTBV, influential ownership (Infl) becomes positively associated with ROE in foreign excluding family all industries panel, and remains insignificant across all panels. Table 5.22 presents a summary of the hypotheses following the introduction of leadership characteristics and board composition.

**Table 5. 22: Summary of the ownership hypotheses following the introduction of leadership characteristics and board composition**

Ownership + leadership characteristics + board of directors composition	Hypotheses	H1a1: Family	H1a2: Foreign	H1a3: Instit	H1a4: Inflcrossh	H1a5: Infl	H1a6: Fflot
	Main panel	Accept	Accept	Accept	Accept	Accept	Accept
	Main panel excluding finical	Insignificant	Insignificant	Reject	Reject	Omitted	Reject
	Family excluding foreign, all industries	Reject	----	Reject	Reject	Insignificant	Reject
	Family excluding foreign and financial	Reject	----	Reject	Reject	Insignificant	Reject
	Foreign excluding family, all industries	----	Accept	Reject	Reject	Accept	Reject
	Family excluding Foreign and financial	----	Accept	Reject	Reject	Insignificant	Reject
	Results	Partially accept	Partially accept	Partially accept	Partially accept	Partially accept	Partially accept

Source:compiled by the author

Drawing on the above and the summary of hypotheses in Table 5.22, the results reveal that, apart from in the main panel where all share ownership typologies have a positive relationship with firm performance as measured by MTBV, only foreign ownership registers positive in the foreign excluding family panels. Also, Infl is positively associated with ROE in the foreign excluding family all industries panels. Family ownership is insignificant in the main panel excluding financial firms. Thus, consistent with previous empirical findings, the results denote that multiple large owners (family, foreign and institutional) are associated with better corporate value for financial firms (Attig, Ghouli & Guedhami, 2009; Maury and Pajuste, 2005; Yasser & Mamun, 2017). The results suggest that all share ownership typologies struggle to maintain positive relationships with firm performance in non-financial firms.

The results partially confirm H3Q: the introduction of board of directors' composition alongside leadership characteristics and share ownership typology shows that, although the tested hypothesis remains unchanged (Table 5.22), the relationships between share ownership typologies and firm performance changes across all panels except for the main panel excluding financial firms. This suggests that leadership attributes impact the effect of ownership typologies on firm performance.

On the other hand, the introduction of board composition to some extent reshapes the effect of leadership on performance. Singledual leadership becomes insignificant across all industries panels and remains positively significant in relation to ROA and ROE in excluding financial firms' panels. The results reject Turki and Sedrine's (2012) findings which claim a negative relationship between separation of CEO and chair roles and MTBV. While the results found no evidence that the separation of CEO and chair roles hurt shareholders' interests (Jayaraman, Nanda & Ryan, 2015), the results for the financial industry (all industries panel) further confirm that leadership structure (Singledual) is more important to non-financial firms. This suggests that, in non-financial firms, role separation is enacted as a solution to a problem (Krause & Semadeni, 2013). The results further partially confirm hypothesis H2a. Thus, Moroccan firms consider separation necessary in those cases where the CEO/chair steps down from the CEO position but remains chair while a newly appointed CEO takes over that role

as an apprentice. This incomer is likely to be descendant (as in the case of Dari Couspate). It is also likely that in such cases the departing CEO maintains the chair role in order to prevent a big decline rather than as a route to increased performance (Quigley & Hambrick, 2012).

Ceoown remains positively associated with MTBV across all panels, becomes positively linked with Tobin's q in the main all industries panel, and remains positive in relation to Tobin's q in the excluding financial firms panel. The results confirm that Ceoown, mainly a family CEO, is linked to enhanced firm performance (Maury, 2006; Al-Ghamdi & Rhodes, 2015). CEO tenure remains significantly negatively associated with MTBV across all panels, as well as remaining positively linked to ROA across all industries panels; it becomes positively linked to ROA across all excluding financial panels. The results for a negative longer CEO tenure (the median being nine years in office) to MTBV suggest that a CEO's success tends to wane after a certain point and continues to decrease thereafter, confirming Hambrick and Fukutomi (1991) and Boling, Pieper and Covin's (2016) findings. However, the results suggest that a longer CEO tenure enhances ROA across all firms.

Non-Moroccan CEO nationality remains significantly positively associated with Tobin's q across all panels. This suggests that Moroccan firms' recruitment of foreign nationals leads to improved performance as measured by Tobin's q, thus confirming that a CEO's international experience enhances firm performance for international firms (Hsu, Chen & Cheng, 2013; Le & Kroll, 2017). However, Gong (2003) found that, regardless of the CEO's nationality, the effectiveness of the CEO of a multinational subsidiary contributes to positive firm performance only if coupled with a competent top management team. Therefore, these findings will be revisited after the introduction of board of management composition in Section 5.4.

Chairtenure becomes negatively significant in relation to Tobin's q in the main panel all industries and negatively linked to Tobin's q, as well as remaining negative with regard to MTBV, in both family excluding foreign and foreign excluding family all industries panels. Chairtenure remain negatively associated with MTBV and Tobin's q across all excluding financial panels. The results for

Chairtenure challenge Kakabadse and Kakabadse (2007) and McNulty et al.'s (2011) findings that a long chair tenure enhances firm performance. These results will be revisited when considering board of management/TMT as regards how they influence the effect of chair attributes on firm performance (further details in Section 5.4). Chairnal becomes insignificant across the all industries panels and remains negatively associated with Tobin's q and ROA across excluding financial firms' panels. The results partially confirm Ziadi, Zouaoui and Rhouma's (2017) findings that, among other attributes, chair nationality does not affect firm performance within the CAC40 top French listed companies for the period 2010–14. However, the negatively aligned significance in non-financial firms suggests that a foreign chair in a Moroccan non-financial firm is not beneficial. Table 5.23 presents a summary of the hypotheses following the introduction of leadership characteristics and board composition.

**Table 5. 23: Summary of the hypotheses following the introduction of leadership characteristics and board composition**

Ownership + leadership characteristics + board of directors composition	<b>H2a: Singledual</b>	<b>H2b: Ceoown</b>	<b>H2c1: Ceotenure</b>	<b>H2c2: Chairtenure</b>	<b>H2d1: Ceonal</b>	<b>H2d2: Chairnal</b>
	Insignificant	Accept	Mixed	Reject	Accept	Insignificant
	Accept	Accept	Mixed	Reject	Accept	Reject
	Insignificant	Accept	Mixed	Reject	Accept	Insignificant
	Accept	Accept	Mixed	Reject	Accept	Reject
	Insignificant	Accept	Mixed	Reject	Accept	Insignificant
	Accept	Accept	Mixed	Reject	Accept	Reject
	<b>Partially Accept</b>	<b>Accept</b>	<b>Partial Reject</b>	<b>Reject</b>	<b>Accept</b>	<b>Partially Reject</b>

Source: compiled by the author

In line with the findings, the results partially confirm H3Q, as the introduction of board composition impacts the majority of the leadership characteristics, namely Singledual, Ceoown, Ceotenure, Chairnal and Chairtenure, with only Ceonal remaining unchanged. Furthermore, these results change the results for some of the tested hypotheses. Leadership structure is more important to non-financial firms than it is to financial firms and confirms that Ceoown enhances firm performance. The results show that, contrary to the case of the chair of foreign

nationals, the nationality of the CEO enhances firm performance. Furthermore, the results show that a longer chair tenure is detrimental. Drawing on the above, the results confirm that board of directors composition significantly impacts the effects of share ownership and leadership. The results support hypothesis H3Q.

Looking at the impact of board composition on firm performance, the results reveal that size of the board of directors (Bodsize), the presence of owners on the board of directors (OwnBod) and the presence of female board members are all insignificant across all panels, thus rejecting hypotheses H3a, H3b2 and H3c. The insignificant relationship between Bodsize and firm performance supports Bhagat and Black (2001), Chen *et al.* (2005), Black, Jang and Kim (2006), Fooladi (2012) and Ghabayen's (2012) findings of no statistically significant relationship between firm performance and board size. Despite the fact that Moroccan law requires all board members to be shareholders (Cigna & Meziou, 2016), the insignificant relationship between Ownbod and firm performance rejects Vance (1964) and Kesner's (1987) findings that insider directors can be firm performance enhancers. The results also challenge claims that insider managers bring potential benefits to the enterprise (e.g. Baysinger & Hoskisson, 1990; Baysinger, Kosnik & Turk, 1991; Hoskisson, Johnson & Moesel, 1994). The results regarding the relationship between gender and firm performance reveal that board gender diversity is insignificant in Moroccan firms. The results are similar to findings of Manner (2010), Dezsö & Ross (2012), Zhang, Zhu and Ding (2013) and Jia and Zhang (2013).

The results show that the presence of independent board members (Indbod) is significantly positively associated with LRI across all industries panels, and insignificant in all excluding financial firms' panels. This suggests that Indbod is of great importance for financial firms, and also that financial firms have stringent codes. This is confirmed in Cigna and Meziou (2016). Although the The Moroccan Code of Good Corporate Governance Practices calls for independence, Moroccan law<sup>20</sup> does not require companies (except banks) to have independent board members; it only requires them to have a majority of non-executive members.

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<sup>20</sup> The primary pieces of governance legislation in Morocco are the Commercial Code; the Investment Charter; the Law on Partnerships, Limited Partnerships, Limited Partnership by Shares, Limited Liability Companies and Joint Ventures; and the Law on Public Limited Companies (Cigna & Meziou, 2016).

The results partially confirm hypothesis H3b1. The positive effect of board independence on firm performance has been supported by recent studies that have been undertaken in countries which resemble Morocco inasmuch as its banking code stresses the importance of: Kiel and Nicholson (2003), Cho and Kim (2007), Coles, Daniel and Naveen (2008), Cornett, Marcus and Tehranian (2008), Knyazeva, Knyazeva and Masulis (2013) and Chen, Cheng and Wang (2015). The insignificant relationship between Indbod and firm performance in non-financial firms supports Zahra and Pearce (1989), Prevost, Rao and Hossain (2002), Connelly and Limpaphayom (2004) and Turki and Sedrine's (2012) findings of no statistically significant relationship between board independence and firm performance.

The presence of executive board members (Execbod) on the board of directors is significantly negatively associated with ROE in the main panel all industries. And respectively negatively correlated with ROE and LRI in family excluding foreign and foreign excluding family all industries panels. Execbod is negatively significant in relation to LRI across all excluding financial firms panels. The results reject hypothesis H3b3. The results suggest that Excbod is not beneficial to firm performance, despite a preference for staffing emerging-country boards with executive board members (e.g. in Malaysia) (Shakir, 2008), and regardless of executive board members' roles of safeguarding contractual relations between the firm and the board and the firm and the shareholders (Williamson, 1985), not to mention bringing expertise and relevant information onto the board (Fama & Jensen, 1983a; Klein, 1998). Thus all Moroccan firms would be advised to prefer more independent board members, beyond owners and executives. The presence of foreign board members is significantly negatively associated with ROA and ROE across all panels. The results reject hypothesis H3d. This seems to imply the negative impact of cultural disconnection.

The results suggest that, for Moroccan firms, board size, and the presence of owners and females on the board, are insignificant, whereas the presence of foreign nationals and executive board members are negatively associated to performance. However, the presence of independent board members is significantly linked to increased performance. As such, Moroccan firms would be



advised to put less emphasis on populating their boards with family, foreign nationals, owners or women, and more emphasis on independent board members.

#### 5.3.2.2. Concentrated ownership: the impact on firm performance of board composition

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Table 5.24 summarises the results of the impact on performance of ownership, leadership and board composition in concentrated-ownership Moroccan family firms.

**Table 5. 24. Summary table: Family ownership–leadership–board of directors concentrated ownership results**

VAR	Full Ffamily Panel>=30%					Full Ffamily Panel>=30% excluding financial				
	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI
Fflot	26.7286	1.2178	-0.1036*	-20.6474	-3.1005	-0.0969*	-0.0226	-0.0213	-0.6000	-0.0206**
Ffamily	26.7878	1.2500	-0.0342	-20.5562	-3.0918	-0.0496	0.0127	0.0853	-0.5348	-0.0162
Foreign	26.8205	1.2731	0.1281**	-20.3673	-3.0900	0.0026	0.0455*	0.2846	-0.2221	-0.0118
Instit	26.7297	1.2215	-0.0739	-20.4952	-3.0999	-0.1229**	-0.0134	0.1307	-0.2969	-0.0244**
Inflcrossh	26.6791	1.2385	-0.3790***	-21.2800	-3.1117	-0.1239	0.0029	-0.2003	-1.1348	-0.0276
Infl	26.8026	1.2462	-0.1135	-20.2837	-3.0924					
Singledual	2.5200*	1.7722***	12.9351***	14.7514*	0.3020	2.1453	2.8648***	14.9727***	14.3133*	-0.0088
Ceown	1.4072*	0.2046	-0.3684	3.6627	-0.0057	1.3733*	0.1577	1.4721	9.0094	0.0247
Ceotenure	-0.0308	0.0066	0.0627	-0.2327	-0.0089**	-0.0395	0.0202	0.0254	-0.2745	-0.0096*
Ceonal	-0.3575	0.2999*	1.8281	-0.9890	0.0434	-0.3629	-0.0162	0.5831	-2.8561	0.0886
Chairtenure	-0.0312	-0.0397***	-0.0950	0.1242	0.0061	-0.0312	-0.0530***	-0.1218*	0.0449	0.0064
Chairnal	-2.1267**	-0.9933***	-12.5243***	-24.5797***	-0.4573	-1.9634*	-1.6328***	-13.8934***	-24.0868***	-0.1619
Bodsize	0.0996	-0.0996	0.7370	2.3876	-0.0227	0.0765	0.0241	1.3066	4.1765	-0.0437
Ownbod	-0.0768	0.0432	-0.5990	-2.2624	0.0015	-0.0790	-0.0835	-1.3626	-4.1655	0.0187
Indbod	-0.1561	0.1064	-0.7614	-3.2642	0.0113	-0.1142	-0.0469	-1.6560	-4.9702	0.0624
Fembod	0.0495	0.1258	0.4487	0.2950	-0.0583	0.0159	0.2147***	1.0259*	0.0054	-0.0955**
Execbod	-0.0921	-0.0307	-1.1475**	-2.8215*	-0.0481*	-0.0978	0.0145	-0.8531	-2.3318	-0.0617*
Frnbnod	0.0907	-0.0343	-0.6962**	-0.6638	0.0139	0.0533	0.0325	-0.3584	-0.4083	-0.0026
Age	-0.0091	-0.0024	-0.0584**	-0.1531***	0.0181	-0.0041	-0.0030	-0.0572***	-0.1215*	0.0336**
Indcl	-0.1606	-0.2145***	-1.7872***	-2.1952**	-0.1416					
Lmk	0.6813***	0.2743***	0.7623**	2.0171*	0.8807***	0.7247***	0.2550***	1.0193***	2.6665***	0.8915***
Tdta	-0.0148	-0.0021	-0.1092***	-0.1958*	-0.0030	-0.0104	-0.0073*	-0.1287***	-0.2301*	-0.0018
2010.Year	0.2262	-0.0066	-0.8102	0.8123	0.0386	0.3678	0.0042	-0.9294	0.2156	0.0260
2011.Year	-0.3083	-0.0740	-2.0315**	-2.9891	0.0259	-0.1855	-0.0912	-2.5514**	-3.4003	0.0133
2012.Year	-0.6630***	-0.2079	-1.2656	-2.6413	0.0194	-0.5647**	-0.2985*	-1.6715	-2.4681	-0.0043
2013.Year	-0.7386***	-0.4155***	-1.2478*	-2.0479	0.0290	-0.6607**	-0.5631***	-1.5692*	-1.6182	-0.0174
O_ Cons			0.0000							
O.Indcl						-	-	-	-	-
O.Infl						-	-	-	-	-
Constant	-2,681.0495	-126.4574		2,067.0695	308.1019	2.1537	-3.8216	-16.8293	52.7401	-0.1522
Obser	150	150	150	148	150	121	121	121	120	121
N of firms	31	31	31	31	31	25	25	25	25	25
r2_o	0.401	0.676	0.696	0.518	0.284	0.536	0.830	0.752	0.637	0.357

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Source: compiled by the author

As with dispersed ownership, when board composition is considered alongside board leadership characteristics and ownership, the impacts of ownership and leadership attributes are significantly reshaped. First, only foreign ownership becomes significant in the Ffamily panels: foreign ownership is positively associated with ROA in the Ffamily full panel, and positively significant with regard to Tobin's q in the Ffamily excluding financial. Fflot and Inflcrossh remain negatively associated with ROA in the Ffamily full panel. Fflot remains negatively associated with MTBV and LRI in the Ffamily excluding financial firms. Instit becomes negatively significant with regard to MTBV and LRI in the Ffamily excluding financial firms. The results confirm hypothesis H1a2 and reconfirm that foreign ownership performs better than family ownership (Heugens, Van Essen & van Oosterhout, 2009). The results challenge Attig, Ghouli and Guedhami (2009), Maury and Pajuste (2005) and Yasser and Mamun's (2017) findings that multiple ownership enhances firm performance. The results reveal that family concentration is negatively associated to Moroccan firms as per H1a1, H1a3, H1a4, H1a5 and H1a6. Thus, H3Q is partially confirmed.

Second, the results following the introduction of board of directors composition reconfirm that separation of ownership enhances the performance of concentrated Moroccan family firms. The results confirm Rechner and Dalton (1991) and Al-Ghamdi and Rhodes's (2015) findings. Singledual is positively associated with Tobin's q, ROA and ROE across all Ffamily panels, positively significant with regard to MTBV in the Ffamily full panel, thus confirming hypothesis H2a. The results reconfirm that Ceoown enhances firm performance as CEO remains positively associated with MTBV across all panels, thus confirming hypothesis H2b. The results confirm that a family CEO is linked to enhanced firm performance (Maury, 2006; Al-Ghamdi & Rhodes, 2015). The results establish that a long CEO tenure damages firm performance, as Ceotenure becomes negatively associated with LRI across both Ffamily panels. The results reject H2c1 but confirm Hambrick and Fukutomi (1991) and Boling, Pieper and Covin's (2016) findings. The results reconfirm that a long chair tenure and having an international chair are both negatively associated to firm performance in Moroccan family firms, rejecting hypotheses H2c2 and H2d2. The results for the Chairtenure challenge Kakabadse and Kakabadse (2007) and McNulty et al.'s (2011) findings. Both Chairnal and Chairtenure remain negatively significant with regard to firm performance. This

partially confirms hypothesis H3Q. Table 5.25 presents a summary of the hypotheses following the introduction of leadership characteristics and board composition.

**Table 5. 25: Summary of the hypotheses on share ownership typologies and leadership characteristics following the introduction of board composition**

Ownership + leadership characteristics + board composition	Hypotheses	H1a1: Family	H1a2: Foreign	H1a3: Instit	H1a: Inflcrossh	H1a5: Infl	H1a6: Fflot
	<b>Ffamily full panel</b>	Insignificant	Accept	Insignificant	Reject	Insignificant	Reject
	<b>Ffamily excluding financial</b>	Insignificant	Accept	Reject	Insignificant	omitted	Reject
	<b>Results</b>	<b>Reject</b>	<b>Accept</b>	<b>Reject</b>	<b>Reject</b>	<b>Reject</b>	<b>Reject</b>

Ownership + leadership characteristics + board composition	Hypotheses	H2a: Singledual	H2b: Ceoown	H2c1: Ceotenure	H2c2: Chairtenure	H2d1: Ceonal	H2d2: Chairnal
	<b>Ffamily full panel</b>	Accept	Accept	Reject	Reject	Accept	Reject
	<b>Ffamily excluding financial</b>	Accept	Accept	Reject	Reject	Insignificant	Reject
	<b>Results</b>	<b>Accept</b>	<b>Accept</b>	<b>Reject</b>	<b>Reject</b>	<b>Partially Accept</b>	<b>Reject</b>

Source: compiled by the author

Table 5.25 shows that the introduction of board of directors composition alongside board characteristics and share ownership typology significantly shapes the impact of share ownership and further shapes the impact of Ceotenure and Ceonal in leadership characteristics. This partially confirms H3Q.

As with dispersed panels, the results for the Ffamily concentrated panel reveals that that board size (Bodsize) and the presence of owners on the board (Ownbod) are insignificant across Ffamily panels. Unlike in the dispersed panel, the results show that the presence of Indbod is insignificant across Ffamily panels. Execbod and Frgnbod are both negatively significant with regard to firm performance. Only Fembod is positively associated with Tobin's q and ROA in the Ffamily excluding financial panel. However, Fembod is negatively significant with regard to LRI in the Ffamily excluding financial firms.

#### 5.3.1.3. Summary findings: ownership–leadership–board of directors composition

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Table 5.26 summarises the findings on the association between share ownership typology, leadership characteristics, board of directors' composition and firm performance as discussed in Section 5.3.2.

**Table 5. 26: Summary of the hypotheses testing the association between share ownership typology/ concentrated ownership, leadership characteristics, board of directors' composition and firm performance**

Research sub-questions	Research hypothesis Dispersed ownership	Research hypothesis Dispersed ownership
<b>Q3: Is there an association between board of directors' composition and firm performance?</b>	<p><b>H3a: Rejected</b> Larger Bodsize is insignificant for Moroccan firms.</p> <p><b>H3b1: Partially accepted</b> Indbod is positively associated with increased LRI in all industries panels and is insignificant for the all excluding financial panels.</p> <p><b>H3b2: Rejected</b> The presence of owners on the board of directors is insignificant across all industries and regardless of whether firms have foreign owners' representatives on the board.</p> <p><b>H3b3: Rejected</b> Excbod negatively impacts firm performance across all panels.</p>	<p><b>H3a: Rejected</b> Larger Bodsize insignificant for Moroccan family firms.</p> <p><b>H3b1: Rejected</b> Indbod is insignificant in the Ffamily panels.</p> <p><b>H3b2: Rejected</b> The presence of owners on the board of directors is insignificant across both Ffamily panels.</p> <p><b>H3b3: Rejected</b> Excbod negatively impacts firm performance across both Ffamily panels.</p> <p><b>H3c: Partially accepted</b></p>

	<p><b>H3c: Rejected</b></p> <p>Female board membership is insignificant across all panels.</p> <p><b>H3d: Rejected</b></p> <p>International diversity, as measured by the number of foreigners on the board (Frgrnbod), is negatively associated to the firm performance for all Moroccan firms.</p> <p><b>H3Q: Confirmed</b></p> <p>The results show that a consideration of board of directors' composition greatly mitigates the impact of leadership as well share ownership typology on firm performance.</p>	<p>Female board membership generates mixed results: insignificant in the Ffamily panel and mixed for the Ffamily panel excluding financial firms.</p> <p><b>H3d: Rejected</b></p> <p>International diversity as measured by the number of foreigners on the board (Frgrnbod) is negatively associated to the firm performance for all Moroccan family firms</p> <p><b>H3Q: Confirmed</b></p> <p>The results show that a consideration of board of directors' composition greatly mitigates the impact of share ownership typology on firm performance. However, the introduction of board composition only impacts Ceotenure and Ceonal among the leadership characteristics.</p>
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Source: compiled by the author.

Table 5.26 shows that the introduction of leadership characteristics alongside share ownership typology in dispersed and concentrated panels significantly shapes the impact of share ownership typology on firm performance, and partially so with leadership characteristics. This further confirms the importance of investigating the impact on firm performance of the interdependencies of corporate governance mechanisms (Aguilera *et al.*, 2008; Tosi, 2008; Filatotchev & Boyd, 2009; Walls, Berrone & Phan, 2012; Misangyi & Acharya, 2014).

The results show that size of board and presence of owners is insignificant among Moroccan firms. The results also show that having executive and foreign board members is disadvantageous for Moroccan family firms. The results show no conclusive significance as regards the presence of independent board members in Moroccan firms. This highlights a need to revisit the results following a consideration of the impact of board of directors' composition on firm performance and board of management/TMT in Section 5.4.

## **5.4. The impact on firm performance of board of management composition**

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### **5.4.1. Dispersed ownership: the impact on firm performance of the board of management**

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This section reviews the impact on firm performance of board of management/TMT composition. It investigates the effect of board leadership on firm performance by testing a set of hypotheses developed from the range of literature. The hypotheses are summarised as follows:

H4a: A larger board of management (Bomsize) negatively impacts firm performance.

H4b: The presence of owners/founders (or their representatives) on the board of management (Ownbom) is likely to enhance firm performance.

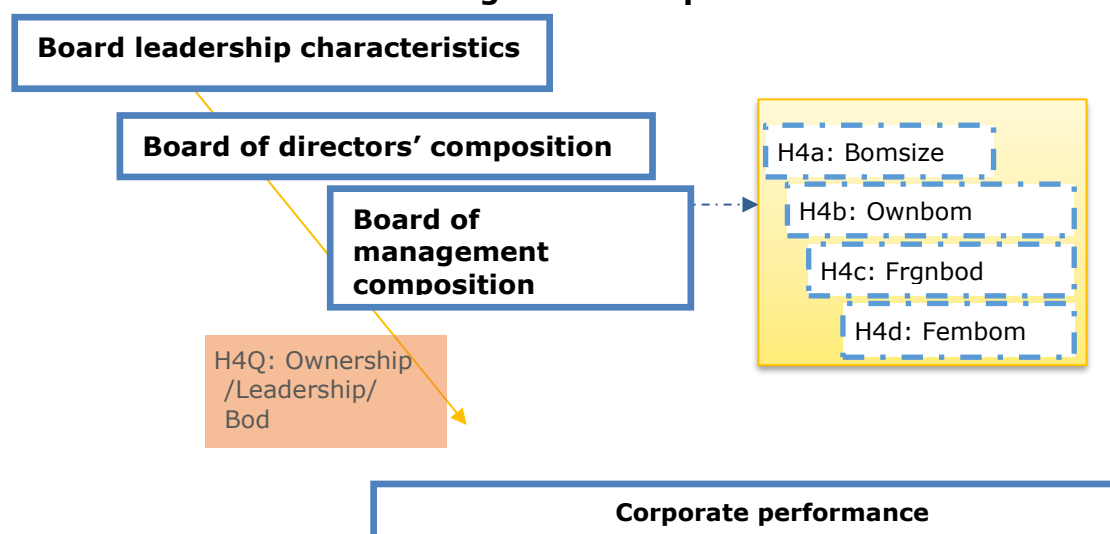
H4c: The presence of foreigners on the board of management (Frgrnbom) is likely to enhance firm performance.

H4d: Female participation in the board of management (Fembom) is associated with increased firm performance.



Figure 5.9 graphically illustrates the hypotheses tested within this section.

**Figure 5. 9: Model (3). Impact on firm performance of board of management composition**



Source: compiled by the author.

— Refers to a direct relationship between corporate governance determinants and corporate performance.

- - - Refers to the effect of additional corporate governance determinants in shaping the relationship between previously investigated governance components and corporate performance (e.g. the presence of shareholders in the board leadership influences the impact of ownership on firm performance).

This research acknowledges the importance of investigating the impact on firm performance of the interdependencies of corporate governance mechanisms (Aguilera *et al.*, 2008; Tosi, 2008; Filatotchev & Boyd, 2009; Walls, Berrone & Phan, 2012; Misangyi & Acharya, 2014). Moreover, it recognises that leadership characteristics cannot be considered independently. Therefore this study considers the effect of leadership alongside ownership. In addition to those stated above, this study tests the following hypothesis:

HQ4: Board of management/TMT composition shapes the impact on firm performance of share ownership typology, leadership characteristics and board of directors composition.

The equations for these hypotheses are as follows:

$$MTBV_{it} = \beta_1 Fflot_{it} + \beta_2 Family_{it} + \beta_3 Foreign_{it} + \beta_4 Instit_{it} + \beta_5 Inflcrossh_{it} + \beta_6 Infl_{it} + \beta_7 Singledual_{it} + \beta_8 Ceoown_{it} + \beta_9 Ceotenure_{it} + \beta_{10} Ceonal_{it} + \beta_{11} Chairtenure_{it} + \beta_{12} Chairnal_{it} + \beta_{13} Bodsize_{it} + \beta_{14} Ownbod_{it} + \beta_{15} Indbod_{it} +$$

$$\beta_{16} \text{Fembod}_{it} + \beta_{17} \text{Execbod}_{it} + \beta_{18} \text{Frgrnbod}_{it} + \beta_{19} \text{Bomsize}_{it} + \beta_{20} \text{Ownbom}_{it} + \beta_{21} \text{Fembom}_{it} + \beta_{22} \text{Frgrnbom}_{it} + \beta_{23} \text{Age}_{it} + \beta_{24} \text{Indlc}_{it} + \beta_{25} \text{LMK}_{it} + \beta_{26} \text{TDTA}_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 36)}$$

$$\text{Tobinq}_{it} = \beta_1 \text{Fflot}_{it} + \beta_2 \text{family}_{it} + \beta_3 \text{Foreign}_{it} + \beta_4 \text{Instit}_{it} + \beta_5 \text{Inflcrossh}_{it} + \beta_6 \text{Infl}_{it} + \beta_7 \text{Singedual}_{it} + \beta_8 \text{Ceoown}_{it} + \beta_9 \text{Ceotenure}_{it} + \beta_{10} \text{Ceonal}_{it} + \beta_{11} \text{Chairtenure}_{it} + \beta_{12} \text{Chairnal}_{it} + \beta_{13} \text{Bodsize}_{it} + \beta_{14} \text{Ownbod}_{it} + \beta_{15} \text{Indbod}_{it} + \beta_{16} \text{Fembod}_{it} + \beta_{17} \text{Execbod}_{it} + \beta_{18} \text{Frgrnbod}_{it} + \beta_{19} \text{Bomsize}_{it} + \beta_{20} \text{Ownbom}_{it} + \beta_{21} \text{Fembom}_{it} + \beta_{22} \text{Frgrnbom}_{it} + \beta_{23} \text{Age}_{it} + \beta_{24} \text{Indlc}_{it} + \beta_{25} \text{LMK}_{it} + \beta_{26} \text{TDTA}_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 37)}$$

$$\text{ROA}_{it} = \beta_1 \text{Fflot}_{it} + \beta_2 \text{Family}_{it} + \beta_3 \text{Foreign}_{it} + \beta_4 \text{Instit}_{it} + \beta_5 \text{Inflcrossh}_{it} + \beta_6 \text{Infl}_{it} + \beta_7 \text{Singedual}_{it} + \beta_8 \text{Ceoown}_{it} + \beta_9 \text{Ceotenure}_{it} + \beta_{10} \text{Ceonal}_{it} + \beta_{11} \text{Chairtenure}_{it} + \beta_{12} \text{Chairnal}_{it} + \beta_{13} \text{Bodsize}_{it} + \beta_{14} \text{Ownbod}_{it} + \beta_{15} \text{Indbod}_{it} + \beta_{16} \text{Fembod}_{it} + \beta_{17} \text{Execbod}_{it} + \beta_{18} \text{Frgrnbod}_{it} + \beta_{19} \text{Bomsize}_{it} + \beta_{20} \text{Ownbom}_{it} + \beta_{21} \text{Fembom}_{it} + \beta_{22} \text{Frgrnbom}_{it} + \beta_{23} \text{Age}_{it} + \beta_{24} \text{Indlc}_{it} + \beta_{25} \text{LMK}_{it} + \beta_{26} \text{TDTA}_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 38)}$$

$$\text{ROE}_{it} = \beta_1 \text{Fflot}_{it} + \beta_2 \text{Family}_{it} + \beta_3 \text{Foreign}_{it} + \beta_4 \text{Instit}_{it} + \beta_5 \text{Inflcrossh}_{it} + \beta_6 \text{Infl}_{it} + \beta_7 \text{Singedual}_{it} + \beta_8 \text{Ceoown}_{it} + \beta_9 \text{Ceotenure}_{it} + \beta_{10} \text{Ceonal}_{it} + \beta_{11} \text{Chairtenure}_{it} + \beta_{12} \text{Chairnal}_{it} + \beta_{13} \text{Bodsize}_{it} + \beta_{14} \text{Ownbod}_{it} + \beta_{15} \text{Indbod}_{it} + \beta_{16} \text{Fembod}_{it} + \beta_{17} \text{Execbod}_{it} + \beta_{18} \text{Frgrnbod}_{it} + \beta_{19} \text{Bomsize}_{it} + \beta_{20} \text{Ownbom}_{it} + \beta_{21} \text{Fembom}_{it} + \beta_{22} \text{Frgrnbom}_{it} + \beta_{23} \text{Age}_{it} + \beta_{24} \text{Indlc}_{it} + \beta_{25} \text{LMK}_{it} + \beta_{26} \text{TDTA}_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 39)}$$

$$\text{LRI}_{it} = \beta_1 \text{Fflot}_{it} + \beta_2 \text{Family}_{it} + \beta_3 \text{Foreign}_{it} + \beta_4 \text{Instit}_{it} + \beta_5 \text{Inflcrossh}_{it} + \beta_6 \text{Infl}_{it} + \beta_7 \text{Singedual}_{it} + \beta_8 \text{Ceoown}_{it} + \beta_9 \text{Ceotenure}_{it} + \beta_{10} \text{Ceonal}_{it} + \beta_{11} \text{Chairtenure}_{it} + \beta_{12} \text{Chairnal}_{it} + \beta_{13} \text{Bodsize}_{it} + \beta_{14} \text{Ownbod}_{it} + \beta_{15} \text{Indbod}_{it} + \beta_{16} \text{Fembod}_{it} + \beta_{17} \text{Execbod}_{it} + \beta_{18} \text{Frgrnbod}_{it} + \beta_{19} \text{Bomsize}_{it} + \beta_{20} \text{Ownbom}_{it} + \beta_{21} \text{Fembom}_{it} + \beta_{22} \text{Frgrnbom}_{it} + \beta_{23} \text{Age}_{it} + \beta_{24} \text{Indlc}_{it} + \beta_{25} \text{LMK}_{it} + \beta_{26} \text{TDTA}_{it} + \alpha + u_{it} + \varepsilon \text{ (Model 40)}$$

Note: Ffamily substitutes for Family in the results for concentrated panels.

The results from this section will allow us to answer the following sub-question:

Q4: Is there an association between top management team composition and firm performance ?

Table 5.27 summarises the results of the impact on Moroccan firm performance of ownership, leadership, board composition and board of management.

**Table 5. 27: Summary table: dispersed ownership–leadership–board of directors–board of management results**

	Main panel					Family excluding foreign panel					Foreign excluding family panel				
VAR	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI
fflot	21.1215*	-0.8148	19.9455	-100.6429	3.4749	-0.0494**	-0.0304***	-0.0716	-0.0656	-0.0084**	-0.0424**	-0.0268***	0.0114	0.1499	-0.0059
family	21.1637*	-0.7880	19.9338	-100.7927	3.4807	-0.0069	-0.0036	-0.0830***	-0.2155***	-0.0026					
Foreign	21.1707*	-0.7844	20.0171	-100.5770	3.4833						0.0069	0.0036	0.0830***	0.2155***	0.0026
instit	21.1523*	-0.7929	19.9144	-100.8258	3.4703	-0.0188	-0.0085	-0.1026***	-0.2478***	-0.0132***	-0.0119	-0.0050	-0.0196	-0.0323	-0.0106***
inflcrossh	21.0747*	-0.8280	19.5593	-101.1182	3.4670	-0.0956*	-0.0435**	-0.4575***	-0.5417	-0.0161	-0.0886	-0.0400**	-0.3745**	-0.3263	-0.0135
infl	21.1640*	-0.7799	20.0103	-100.4667	3.4801	-0.0065	0.0045	-0.0066	0.1082	-0.0033	0.0004	0.0080	0.0764	0.3237*	-0.0007
singledual	-0.3154	0.1516	1.1073	-2.8512	-0.0878	-0.3080	0.1499	1.1161	-2.8520	-0.0833	-0.3080	0.1499	1.1160	-2.8520	-0.0834
ceoown	1.8976***	0.4234**	-0.0963	2.9851	0.0547	1.9258***	0.4238**	-0.0838	2.9133	0.0628	1.9258***	0.4238**	-0.0838	2.9131	0.0628
ceotenure	-0.0778***	-0.0093	0.0975	-0.0178	-0.0032	-0.0780***	-0.0094	0.0976	-0.0177	-0.0032	-0.0781***	-0.0094	0.0976	-0.0177	-0.0032
ceonal	-0.3149*	0.2621**	0.1814	-1.9431	0.0348	-0.3018*	0.2619**	0.1910	-1.9926	0.0379	-0.3018*	0.2619**	0.1910	-1.9927	0.0379
chairtenure	-0.0217	-0.0122	-0.0140	-0.0718	0.0032	-0.0238	-0.0121	-0.0152	-0.0649	0.0027	-0.0238	-0.0121	-0.0152	-0.0649	0.0027
chairnal	0.0338	-0.0479	-1.6072	-3.1437	0.0788	0.0312	-0.0466	-1.6065	-3.1318	0.0777	0.0312	-0.0466	-1.6065	-3.1318	0.0777
bodsize	0.0430	-0.0301	0.3383	0.9577	-0.0208	0.0419	-0.0300	0.3392	0.9591	-0.0213	0.0419	-0.0300	0.3392	0.9591	-0.0213
ownbod	-0.1264	0.0321	0.0244	-0.5061	0.0057	-0.1234	0.0319	0.0252	-0.5154	0.0066	-0.1234	0.0319	0.0252	-0.5154	0.0066
indbod	-0.0078	0.0147	-0.3055	-0.9748	0.0149*	-0.0070	0.0146	-0.3051	-0.9780	0.0151*	-0.0070	0.0146	-0.3051	-0.9780	0.0151*
fembod	0.0330	0.0111	-0.8593	-1.7864	-0.0089	0.0199	0.0112	-0.8696	-1.7437	-0.0120	0.0199	0.0112	-0.8695	-1.7436	-0.0120
execbod	-0.0864	-0.0317	-0.4727	-2.1685**	-0.0350*	-0.0974	-0.0315	-0.4786	-2.1387**	-0.0382*	-0.0974	-0.0315	-0.4786	-2.1386**	-0.0382*
frgnbod	0.1124	-0.0559	-0.7660***	-1.3460**	0.0104	0.1109	-0.0558	-0.7671***	-1.3367**	0.0101	0.1109	-0.0558	-0.7671***	-1.3366**	0.0101
bomsize	-0.0078	0.0134	0.1566	0.1249	-0.0017	-0.0083	0.0134	0.1562	0.1238	-0.0018	-0.0083	0.0134	0.1562	0.1238	-0.0018
ownbom	0.0189	-0.0114	-0.2836	-0.4116	-0.0118	0.0183	-0.0112	-0.2821	-0.4124	-0.0125	0.0183	-0.0112	-0.2821	-0.4124	-0.0125
fembom	0.1728	-0.0411	0.2898	1.9010***	-0.0195	0.1721	-0.0412	0.2899	1.9073***	-0.0194	0.1721	-0.0412	0.2899	1.9073***	-0.0194
frgnbom	0.0777	-0.0379	-0.2096	-0.4699	-0.0063	0.0805	-0.0380	-0.2089	-0.4778	-0.0053	0.0805	-0.0380	-0.2089	-0.4778	-0.0053
age	-0.0176*	-0.0084*	-0.0380	-0.1080	0.0105	-0.0175*	-0.0084*	-0.0379	-0.1082	0.0106	-0.0175*	-0.0084*	-0.0379	-0.1082	0.0106
indcl	-0.2027	-0.2486***	-1.4303***	-0.9576	0.0254	-0.2017	-0.2485***	-1.4300***	-0.9580	0.0262	-0.2017	-0.2485***	-1.4300***	-0.9580	0.0262
lmk	0.8425***	0.2999***	0.4113	1.3622	0.8843***	0.8447***	0.3004***	0.4122	1.3669	0.8854***	0.8447***	0.3004***	0.4122	1.3669	0.8854***
tdta	-0.0024	-0.0018	-0.0706***	-0.1305**	-0.0030***	-0.0025	-0.0018	-0.0705***	-0.1299**	-0.0030***	-0.0025	-0.0018	-0.0705***	-0.1299**	-0.0030***
2010.year	0.0716	0.0190	-0.4897	1.0645	0.0376**	0.0818	0.0186	-0.4803	1.0144	0.0391**	0.0818	0.0186	-0.4803	1.0143	0.0391**
2011.year	-0.3873**	-0.0865	-1.7660**	-2.4931	0.0254	-0.3694**	-0.0871	-1.7512**	-2.5745	0.0285	-0.3694**	-0.0871	-1.7513**	-2.5746	0.0285
2012.year	-0.5903***	-0.1890	-1.7208**	-3.3183*	0.0287	-0.5709***	-0.1895	-1.7051**	-3.4037*	0.0321	-0.5709***	-0.1895	-1.7052**	-3.4039*	0.0321
2013.year	-0.5670***	-0.2707**	-1.6913**	-3.6167*	0.0447	-0.5517***	-0.2710**	-1.6797**	-3.6836**	0.0472	-0.5517***	-0.2710**	-1.6798**	-3.6837**	0.0472
Constant	-2,116.9733*	78.7632	-1,987.8840	10,096.4610	-349.3759	0.0629	0.3202	13.7649**	38.7786**	-1.0622	-0.6297	-0.0348	5.4662	17.2293	-1.3202
	(1,229.0242)	(588.4853)	(4,618.0499)	(11,407.0800)	(304.7426)	(2.1559)	(0.7650)	(5.8558)	(16.0606)	(0.8616)	(1.7391)	(0.7082)	(5.4861)	(13.8189)	(0.8173)
Obser	224	224	224	222	224	224	224	224	222	224	224	224	224	222	224
N of firms	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45
r2_o	0.388	0.501	0.472	0.448	0.267	0.390	0.501	0.471	0.446	0.268	0.390	0.501	0.471	0.446	0.268

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Source: compiled by the author

Table 5.27 (continued)

	Main panel excluding financial					Family excluding foreign and financial panel					Foreign excluding family and financial panel				
VAR	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI
fflot	-0.0718**	-0.0307**	-0.0756	-0.2839	0.0014	-0.0632***	-0.0399***	-0.1058*	-0.0386	-0.0100**	-0.0464***	-0.0344***	0.0074	0.2111	-0.0068*
family	-0.0254	0.0037	-0.0831	-0.4950	0.0082	-0.0169	-0.0056	-0.1132***	-0.2497***	-0.0032*					
Foreign	-0.0085	0.0093	0.0301	-0.2453	0.0114						0.0169	0.0056	0.1132***	0.2497***	0.0032*
instit	-0.0498	-0.0054	-0.1506	-0.5979*	-0.0014	-0.0413*	-0.0147	-0.1808***	-0.3525***	-0.0128**	-0.0244	-0.0091	-0.0675**	-0.1029	-0.0096**
inflcrossh	-0.1136	-0.0404*	-0.4519***	-0.7960*	-0.0079	-0.1051	-0.0497**	-0.4821***	-0.5507	-0.0193	-0.0882	-0.0441**	-0.3688***	-0.3010	-0.0160
infl						0.0085	-0.0093	-0.0301	0.2453	-0.0114	0.0254	-0.0037	0.0831	0.4950	-0.0082
singledual	-0.4924	0.6068*	2.8020	-4.7283	-0.1976	-0.4924	0.6068*	2.8020	-4.7283	-0.1976	-0.4924	0.6068*	2.8020	-4.7283	-0.1976
ceown	2.1224***	0.5232**	1.2541	7.4210*	0.1084	2.1224***	0.5232**	1.2541	7.4210*	0.1084	2.1224***	0.5232**	1.2541	7.4210*	0.1084
ceotenure	-0.1073***	-0.0096	0.0018	-0.3347	-0.0072	-0.1073***	-0.0096	0.0018	-0.3347	-0.0072	-0.1073***	-0.0096	0.0018	-0.3347	-0.0072
ceonal	-0.2006	0.2820***	1.6221	1.1397	0.0767	-0.2006	0.2820***	1.6221	1.1397	0.0767	-0.2006	0.2820***	1.6221	1.1397	0.0767
chairtenure	-0.0288	-0.0165	-0.0939	-0.2292	0.0019	-0.0288	-0.0165	-0.0939	-0.2292	0.0019	-0.0288	-0.0165	-0.0939	-0.2292	0.0019
chairnal	0.0383	-0.3274*	-3.0700*	-2.7189	0.1376	0.0383	-0.3274*	-3.0700*	-2.7189	0.1376	0.0383	-0.3274*	-3.0700*	-2.7189	0.1376
bodsize	0.0048	0.0032	0.9454	3.2097	-0.0228	0.0048	0.0032	0.9454	3.2097	-0.0228	0.0048	0.0032	0.9454	3.2097	-0.0228
ownbod	-0.1004	-0.0009	-0.7531	-3.1279	0.0109	-0.1004	-0.0009	-0.7531	-3.1279	0.0109	-0.1004	-0.0009	-0.7531	-3.1279	0.0109
indbod	0.1018	0.0337	-1.2012	-3.3193	0.0100	0.1018	0.0337	-1.2012	-3.3193	0.0100	0.1018	0.0337	-1.2012	-3.3193	0.0100
fembod	0.0775	0.1277	-0.2176	-1.6112	-0.0255	0.0775	0.1277	-0.2176	-1.6112	-0.0255	0.0775	0.1277	-0.2176	-1.6112	-0.0255
execbod	-0.0761	0.0143	-0.1141	-1.4290	-0.0470	-0.0761	0.0143	-0.1141	-1.4290	-0.0470	-0.0761	0.0143	-0.1141	-1.4290	-0.0470
frgnbod	0.0997	-0.0305	-0.6611**	-1.1897*	-0.0008	0.0997	-0.0305	-0.6611**	-1.1897*	-0.0008	0.0997	-0.0305	-0.6611**	-1.1897*	-0.0008
bomsize	0.0512	0.0142	0.3118**	0.6954	-0.0000	0.0512	0.0142	0.3118**	0.6954	-0.0000	0.0512	0.0142	0.3118**	0.6954	-0.0000
ownbom	0.0476	0.0120	-0.1691	-0.1834	-0.0197	0.0476	0.0120	-0.1691	-0.1834	-0.0197	0.0476	0.0120	-0.1691	-0.1834	-0.0197
fembom	0.2562**	-0.0051	0.2435	1.9654**	-0.0187	0.2562**	-0.0051	0.2435	1.9654**	-0.0187	0.2562**	-0.0051	0.2435	1.9654**	-0.0187
frgnbom	-0.0002	-0.0824	-0.6402	-1.4975	-0.0059	-0.0002	-0.0824	-0.6402	-1.4975	-0.0059	-0.0002	-0.0824	-0.6402	-1.4975	-0.0059
age	-0.0148	-0.0053	-0.0355	-0.1291	0.0233*	-0.0148	-0.0053	-0.0355	-0.1291	0.0233*	-0.0148	-0.0053	-0.0355	-0.1291	0.0233*
indcl	-0.4430	0.0424	0.9773	3.9113	0.1928	-0.4430	0.0424	0.9773	3.9113	0.1928	-0.4430	0.0424	0.9773	3.9113	0.1928
lmk	0.9244***	0.3539***	0.9046***	2.4410**	0.8888***	0.9244***	0.3539***	0.9046***	2.4410**	0.8888***	0.9244***	0.3539***	0.9046***	2.4410**	0.8888***
tdta	-0.0070	-0.0088	-0.1385***	-0.2378**	-0.0039*	-0.0070	-0.0088	-0.1385***	-0.2378**	-0.0039*	-0.0070	-0.0088	-0.1385***	-0.2378**	-0.0039*
2010.year	0.2064	0.0523	-0.1663	1.8411	0.0301	0.2064	0.0523	-0.1663	1.8411	0.0301	0.2064	0.0523	-0.1663	1.8411	0.0301
2011.year	-0.2790	-0.0774	-1.7245*	-1.7430	0.0190	-0.2790	-0.0774	-1.7245*	-1.7430	0.0190	-0.2790	-0.0774	-1.7245*	-1.7430	0.0190
2012.year	-0.5141***	-0.2358	-1.4167	-1.7243	0.0143	-0.5141***	-0.2358	-1.4167	-1.7243	0.0143	-0.5141***	-0.2358	-1.4167	-1.7243	0.0143
2013.year	-0.4886***	-0.3355**	-1.2578	-1.4321	0.0183	-0.4886***	-0.3355**	-1.2578	-1.4321	0.0183	-0.4886***	-0.3355**	-1.2578	-1.4321	0.0183
o.infl	-	-	-	-	-										
Constant	1.2263	-1.7792	4.4503	49.1088	-2.6504	0.3744	-0.8519	7.4645	24.5742	-1.5098	-1.3142	-1.4092*	-3.8572	-0.3943	-1.8337
Obser	165	165	165	164	165	165	165	165	164	165	165	165	165	164	165
N of firms	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33
r2_o	0.566	0.671	0.649	0.611	0.309	0.566	0.671	0.649	0.611	0.309	0.566	0.671	0.649	0.611	0.309

\*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

Source: compiled by the author

The introduction of board of management or TMT composition substantially shapes the impact on firm performance of leadership characteristics. This is not the case for of share ownership typology, and board of directors composition.

First, in the main panel, all share ownership typologies remain positively associated. Free float (Ffloat) remains unchanged across most panels. The results partially confirm hypothesis H1c6. Family ownership remains insignificant in the main panel excluding financial firms, and positively significant with regard to MTBV in the main panel all industries. Family remains negatively significant with regard to ROA, and ROE in both family excluding foreign panels, and becomes positively negative with regard to LRI in family excluding foreign. The results partially confirm hypothesis H1a1 and challenge Wagner *et al.*'s (2015) findings that family firms show higher performance than non-family firms. The results suggest that, unless family ownership is monitored by a rival dominant owner, and adheres to stringent codes, family firms are likely to underperform. The results partially support Pérez-González (2006) and Bloom and Van Reenen's (2007) negative family-firm performance relationship, regarding which these authors posit that family altruism and nepotism has a negative impact on family firms.

Holding its positive relationship with firm performance, foreign ownership remains positively associated with MTBV in the main panel of all industries. Foreign ownership remains insignificant in the main panel excluding financial firms. Foreign ownership remains positively significant with regard to ROA and ROE across both foreign excluding family panels and becomes positively significant with regard to LRI in foreign excluding family and financial firms. The results partially confirm hypothesis H1a2.

Except for the main panel where institutional ownership (Instit) and influential cross-holding (Inflcrossh) are positively associated with MTBV, Instit and Inflcrossh are negatively associated with the different firm performance measures across all panels. Inflcrossh and Instit are more negatively associated with firm performance in family excluding foreign and in foreign excluding family ownership, thus suggest that the effectiveness of institutional and influential cross-holding ownership is contingent on the joint impact of family and foreign as well as the

stringent requirements of the financial firms' codes. The results partially confirm hypotheses H1a3 and H1a4, as both Instit and Inflcrossh enhance firm performance only in the main panel. The results reveal that institutional ownership is an effective external corporate governance mechanism only in firms with multiple shareholders. The Instit results confirm Farooq and El Jai's (2012) negative relationship between institutional ownership and earnings management among Moroccan listed firms.

Influential ownership (Infl) remains positively associated with MTBV in the main panel all industries and ROE in the foreign excluding family ownership all industries panel. Infl remains insignificant across the rest of the panels. The results partially confirm H1a5. Table 5.28 presents a summary of the ownership hypotheses following the introduction of leadership characteristics, board of directors composition and board of management composition.

**Table 5. 28: Summary of the ownership hypotheses following the introduction of leadership characteristics, board of directors composition and board of management composition**

	Hypotheses	H1a1: Family	H1a2: Foreign	H1a3: Instit	H1a4: Inflcrossh	H1a5: Infl	H1a6: Fflot
Ownership + leadership characteristics + board of directors composition + board of management composition	Main panel	Accept	Accept	Accept	Accept	Accept	Accept
	Main panel excluding finical	Insignificant	Insignificant	Reject	Reject	Omitted	Reject
	Family excluding foreign, all industries	Reject	----	Reject	Reject	Insignificant	Reject
	Family excluding foreign and financial	Reject	----	Reject	Reject	Insignificant	Reject
	Foreign excluding family, all industries	----	Accept	Reject	Reject	Accept	Reject
	Family excluding foreign and financial	----	Accept	Reject	Reject	Insignificant	Reject
	<b>Results</b>	<b>Partially Accept</b>	<b>Partially Accept</b>	<b>Partially Accept</b>	<b>Partially Accept</b>	<b>Partially Accept</b>	<b>Partially Accept</b>

Source: compiled by the author

The results partially confirm H4Q, as the introduction of board of management/TMT composition alongside board leadership, board of directors

composition to a limited extent changes the impact of share ownership typology on the performance of the Moroccan listed firms. The results show that, although the tested hypothesis remains unchanged (Table 5.28), the relationship between share ownership typologies and firm performance changes across most panels. This suggests that leadership attributes slightly moderate the impact of share ownership typology on firm performance across all panels. Consistent with previous empirical findings, the results denote that the presence of multiple large owners (family, foreign and institutional) is associated with better performance for financial firms (Attig, Ghouli & Guedhami, 2009; Maury & Pajuste, 2005; Yasser & Mamun, 2017). The results suggest that all share ownership typologies struggle to maintain positive relationships with firm performance in non-financial firms. The negative institutional ownership–firm performance relationship confirms Farooq and El Jai's (2012) negative relationship between institutional ownership and earnings management among Moroccan listed firms. This calls into question the extent of institutional owners' involvement in decision-making (Ivanova, 2017), whether they hold a significant stake in the business (Shleifer & Vishny, 1986) and whether that stake is held by an individual mutual fund or a block of institutions/mutual funds (Edmans & Manso, 2010). This is not the case for Moroccan institutional investors as they do not act collectively. This highlights the need for a code for institutional investors in Morocco.

Second, the introduction of board of management composition to some extent shapes the effect of leadership on the performance of Moroccan listed firms. Singledual remains insignificant across all industries panels and remains positively significant only with regard to Tobin's q across all excluding financial firms panels. The results confirm Al-Ghamdi and Rhodes's (2015) positive relationship between CEO/chair separation and firm performance for non-financial firms and reject Turki and Sedrine's (2012) findings of a negative relation between CEO/chair separation and MTBV. The results partially confirm hypothesis H2a.

Ceoown remains positively associated with MTBV and Tobin's q across all panels and becomes positively significant with regard to ROE across all excluding financial firms panels. The results confirm hypothesis H2b and confirm that Ceoown, which is usually a family CEO, is linked to enhanced firm performance (Maury, 2006; Al-Ghamdi & Rhodes, 2015). Ceotenure remains significantly



negatively associated only with MTBV across all panels; the results partially reject hypothesis H2c1. The results suggest that a longer CEO tenure (with the median being nine years in office) is negatively associated to Moroccan firms' performance, as a CEO's success tends to wane after a certain point and continues to decrease thereafter, thus confirming Hambrick and Fukutomi (1991) and Boling, Pieper and Covin's (2016) findings. Moroccan firms should therefore take the issue of CEO rotation seriously. Non-Moroccan CEO (Ceonal) remains positively associated with Tobin's q across all panels but becomes negatively associated with MTBV across all industries panels. The results partially confirm hypothesis H2d1. This suggests that recruitment of foreign nationals can improve non-financial Moroccan firms' performance as measured by Tobin's q. This confirms Gong (2003), Hsu, Chen and Cheng (2013) and Le and Kroll's (2017) findings. However, the results are mixed for financial firms. Drawing on Gong's (2003) findings that, regardless of nationality, the effectiveness of a CEO of a multinational subsidiary contributes to positive firm performance only when coupled with a competent top management team, the above suggests that Moroccan banks, insurance and other financial firms should avoid staffing their boards of management with foreign nationals. Further details can be found later in this section.

Chairtenure becomes insignificant across all panel; the results reject hypothesis H2c2 and challenge Kakabadse and Kakabadse (2007) and McNulty et al.'s (2011) findings that a long chair tenure can enhance firm performance. Chairnal remains insignificant across all industries panels and negatively associated with Tobin's q and ROA across all excluding financial firms' panels. The results reject hypothesis H2d2 and partially confirm Ziadi, Zouaoui and Rhouma's (2017) findings that, among other attributes, the chair's nationality has no effect on firm performance within the CAC40 top French listed companies for the period 2010–14. However, the negative significance in Moroccan non-financial firms suggests that a foreign chair in these firms is not beneficial.

Drawing on the above and the summary results in Table 5.29 of leadership hypotheses following the introduction of composition of board of directors and board of management, we see that board leadership characteristics are impacted,

namely: Singledual, Ceotenure, Chairtenure and Ceonal. Thus, the results partially confirm H3Q.

**Table 5. 29: Summary of the leadership hypotheses following the introduction of composition of board of directors and board of management**

	Hypotheses	H2a: Singledual	H2b: Ceoown	H2c1: Ceotenure	H2c2: Chairtenure	H2d1: Ceonal	H2d2: Chairnal
Ownership + leadership characteristics + board of directors composition + board of management composition	Main panel	Insignificant	Accept	Reject	Insignificant	Mixed	Insignificant
	Main panel excluding financial	Accept	Accept	Reject	Insignificant	Accept	Reject
	Family excluding foreign, all industries	Insignificant	Accept	Reject	Insignificant	Mixed	Insignificant
	Family excluding foreign and financial	Accept	Accept	Reject	Insignificant	Accept	Reject
	Foreign excluding family, all industries	Insignificant	Accept	Reject	Insignificant	Mixed	Insignificant
	Family excluding foreign and financial	Accept	Accept	Reject	Insignificant	Accept	Reject
	<b>Results</b>	<b>Partially Accept</b>	<b>Accept</b>	<b>Reject</b>	<b>Reject</b>	<b>Partially Accept</b>	Partially Reject

Source: compiled by the author

Third, the results for the impact on firm performance of board composition show little change after the introduction of the board of management alongside ownership, leadership and board of directors composition. The results reveal that the size of the board of directors (Bodsize), the presence of owners on the boards of directors (OwnBod) and the presence of female board members (Fembod) remain insignificant across all panels, thus reconfirming the rejection of hypotheses H3a, H3b2 and H3c. The insignificance of the relationship between board gender diversity and firm performance recalls the findings of Manner (2010), Dezsö and Ross (2012), Zhang, Zhu and Ding (2013) and Jia and Zhang (2013). Despite the fact that Moroccan law requires all board members to be shareholders (Cigna & Meziou, 2016), the insignificant Ownbod–firm performance

relationship rejects Vance (1964) and Kesner's (1987) findings that insider directors are also firm performance enhancers. The results also challenge the notion that insider firm managers bring potential benefits to the enterprise (e.g. Baysinger & Hoskisson, 1990; Baysinger, Kosnik & Turk, 1991; Hoskisson, Johnson & Moesel, 1994). The insignificant Bodsiz-firm performance relationship supports Bhagat and Black (2001), Chen *et al.* (2005), Black, Jang and Kim (2006), Fooladi (2012) and Ghabayen (2012) who all find no statistically significant relationship between firm performance and size of board.

The results show that the presence of independent board members (Indbod) remains significantly positively associated with LRI across all industries panels, which suggests that Indbod is of great importance for financial firms, and also posits that financial firms have stringent codes, which is confirmed by Cigna and Meziou (2016). Although the Moroccan Code of Good Corporate Governance Practices calls for independence, Moroccan law does not require companies (except banks) to have independent board members: it only requires them to have a majority of non-executive members. The results partially confirm hypothesis H3b1. The positive effect on firm performance of board independence is supported by Kiel and Nicholson (2003), Cho and Kim (2007), Coles, Daniel and Naveen (2008), Cornett, Marcus and Tehranian (2008), Knyazeva, Knyazeva and Masulis (2013) and Chen, Cheng and Wang (2015), whose studies were undertaken in countries where codes stress the importance of independence (like the Moroccan corporate governance code for banks). The insignificant Indbod-firm performance relationship in non-financial firms supports Zahra and Pearce (1989), Prevost, Rao and Hossain (2002), Connelly and Limpaphayom (2004) and Turki and Sedrine's (2012) findings of no statistically significant relationship between board independence and firm performance.

The presence of executive board members (Execbod) on the board of directors remains significantly negatively associated with, respectively, ROE and LRI across all industries panels and becomes insignificant in all excluding financial firms panel; the results reject hypothesis H3b3. The results suggest that Excbod is not beneficial to firm performance, despite a preference for staffing boards in emerging countries (e.g. Malaysia) with executive members (Shakir, 2008), and

regardless of the Execbod role in safeguarding contractual relations between the firm and the board and the firm and the shareholders (Williamson, 1985) and bringing firm expertise and pertinent information onto the board (Fama & Jensen, 1983a; Klein, 1998). Thus all Moroccan firms would be advised to opt for a greater number of independent board members, beyond Ownbod and Execbod. The presence of foreign members (Frgrnbod) on the board of directors remains significantly negatively associated with ROA and ROE across all panels. The results reject hypothesis H3d and contend that a staffing a board with foreign nationals has a negative impact on Moroccan firms' performance. Table 5.30 summarises the impact on firm performance of introducing board of management attributes into the impact of board of directors' composition.

**Table 5. 30: Summary of the board composition hypotheses following the introduction of board of management**

	Hypotheses	H3a: Bodsize	H3b1: Indbod	H3b2: Onwbod	H3b3: Execbod	H3c: Fembod	H3d: Frgrnbod
Ownership + leadership characteristics + board of directors composition + board of management composition	Main panel	Insignificant	Accept	Insignificant	Reject	Insignificant	Reject
	Main panel excluding financial	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant	Reject
	Family excluding foreign, all industries	Insignificant	Accept	Insignificant	Reject	Insignificant	Reject
	Family excluding foreign and financial	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant	Reject
	Foreign excluding family, all industries	Insignificant	Accept	Insignificant	Reject	Insignificant	Reject
	Family excluding foreign and financial	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant	Reject
	<b>Results</b>	Reject	Partially Accept	Reject	Partially Reject	Reject	Reject

Source: compiled by the author.

Unlike leadership characteristics, which is significantly impacted by the introduction of board of management composition, as regards board of directors' composition introducing board of management composition impacts only the presence of executives. Thus, the results partially confirm H3Q, suggesting that

board size and the presence of owners and female members are insignificant for Moroccan firms, and that the presence of executive board members is detrimental. However, the presence of independent board members in financial firms can add value. Thus, Moroccan firms would be advised to consider staffing boards less with family, foreign nationals and owners and more with independent members.

From the above, it can be seen that the introduction of board of management shapes slightly ownership, as well as a few board leadership characteristics, namely: Ceotenure, Chairtenure, Ceonal and few board of directors' composition attributes such as Execbod. Thus, hypothesis H3Q is confirmed.

The results for board of management shows that board of management size (Bomsize) is insignificant across all industries and positively linked to ROA across all excluding financial firms' panels. The results for the excluding financial firms' panels are similar to Nielsen and Nielsen (2013), who found that TMT size slightly enhances firm performance as measured by ROA. The results confirm hypothesis H4a, and contend that larger board of management size is more critical for non-financial firms.

The presence of owners on the board of management/TMT (Ownbom) is insignificant across all panels. The results reject hypothesis H4b, suggesting that the presence of owners on the board of management (Bodown) is insignificant for Moroccan firms, even though it can lead to conflicts of interest (Jensen & Meckling, 1976; Fama & Jensen, 1983a,b; Schulze *et al.*, 2001) and the free-rider problem (Bartholomeusz & Tanewski, 2006), and can make for a shared strategic consensus (Ensley & Pearson, 2005).

The presence of foreign members on the board of management/TMT (Frgrnbom) is insignificant across all panels. The results reject hypothesis H4c, and also reject Nielsen and Nielsen (2013), who found that, among other variables, foreign TMT national members enhances firm performance as measured by ROA.

The presence of female board members on the board of management/TMT (Fembom) is positively associated with, respectively, ROE across all panels and ROE and MTBV across the all excluding financial firms' panels. The results support

hypothesis H4d, and also support Smith, Smith and Verner (2006), Joy, Carter and Wagner (2007) and Wu, Yao and Muhammad's (2017) findings that female involvement in TMTs enhances Moroccan firm performance.

#### 5.4.2. Concentrated ownership: the impact on firm performance of the board of management

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Table 5.31 summarises the results of the impacts on Moroccan firm performance of ownership, leadership, board composition and board of management.

**Table 5. 31: Summary table: Family ownership–leadership–board of directors–board of management results**

	Full Ffamily Panel>=30%					Full Ffamily Panel>=30% excluding financial				
VAR	MTBV	TOBINQ	ROA	ROE	LRI	MTBV	TOBINQ	ROA	ROE	LRI
Ffлот	34.7008	1.3758	-0.1047*	-198.3378	-1.2009	-0.0232	-0.0366	0.0809	0.1116	0.0785**
Ffamily	34.7479	1.4080	-0.0180	-198.2511	-1.1928	-0.0136	-0.0014	0.1985	0.0646	0.1674***
Foreign	34.7582	1.4210	0.1556***	-198.1345	-1.1916	0.0669	0.0216	0.4506**	0.6748*	0.2027***
Instit	34.6998	1.3848	-0.0493	-198.1527	-1.1998	-0.0937	-0.0253	0.2081	0.1507	0.1030**
Inflcrossh	34.5865	1.3881	-0.4223***	-198.8531	-1.2155	-0.0408	-0.0220	-0.1130	-0.3434	0.2115***
Infl	34.7856	1.4133	-0.1181	-198.0024	-1.1896					
Singledual	1.6903	1.5945***	12.1469***	12.3910	0.2239	0.4277	2.9619***	14.9006***	4.8190	-0.3581
Ceown	1.6409***	0.1555	0.8322	3.2281	-0.0411	1.2945*	0.1004	2.0462*	15.2496***	3.1470***
Ceotenure	-0.0722**	-0.0010	-0.0051	-0.2893	-0.0100**	-0.0348	0.0142	-0.0147	-0.4572	-0.1157***
Ceonal	0.1897	0.3230*	0.5481	-3.9284	0.0785	-1.0696**	-0.0513	1.6817	-3.2555	0.1335
Chairtenure	-0.0348*	-0.0310***	-0.0901	0.2138	0.0071**	-0.0256	-0.0501***	-0.1782***	-0.1188	-0.0476**
Chairnal	-1.9817**	-1.0240***	-11.9733***	-21.3773**	-0.4380	-1.0886	-1.8115***	-13.2230***	-17.8839**	0.3521
Bodsize	0.1351	-0.0704	0.6525	2.5498	-0.0232	0.6116**	0.1237	1.1476*	5.2145**	0.2714
Ownbod	-0.0014	0.0529	-0.4587	-2.4143*	0.0031	-0.7225*	-0.1606	-1.4561*	-5.4430**	-0.3642
Indbod	-0.1379	0.0762	-0.4717	-2.4962	0.0057	-0.9880**	-0.1688	-1.7104	-6.8612**	-0.3454
Fembod	-0.2007	0.1539	0.1198	-1.0243	-0.0430	0.3092*	0.2775***	1.1665**	-0.2519	0.4366**
Execbod	0.1218	-0.0616	-1.6618**	-3.8042**	-0.0357	0.1327	-0.0396	-0.3434	-1.1501	-0.1780
Frngbod	0.1097	-0.0464	-0.8516***	-0.7013	0.0130	0.0694	0.0399	-0.2735	-0.5235	0.1157
Bomsize	0.0391	0.0101	0.1647	-0.5915	0.0019	0.1053	0.0115	0.3453***	0.7873*	0.1384***
Ownbom	-0.2544	-0.0017	0.5967	2.7326	-0.0052	-0.4402**	-0.0296	-0.4298	-0.9845	0.1168
Fembom	0.1688	-0.0609	-0.0001	2.0034	-0.0287	0.1587	-0.0325	0.2012	1.7368	-0.0473
Frngbom	-0.1670	-0.0295	0.6027	1.1507	-0.0218	0.1860	0.0345	-0.2009	-0.1908	-0.2843
Age	-0.0294**	-0.0085	-0.0630*	-0.0673	0.0109	-0.0183*	-0.0098**	-0.0828**	-0.1307	0.0101
Indcl	-0.2893	-0.2233***	-1.6884***	-2.3830**	-0.1056					
Lmk	0.7711***	0.2846***	0.6228*	2.7403**	0.8873***	0.4804***	0.2398***	0.6813**	2.2220**	0.6089***
Tdta	-0.0117	-0.0027	-0.1033**	-0.1457	-0.0032*	-0.0103	-0.0083*	-0.1421***	-0.2164**	-0.0437***
2010.Year	0.1783	0.0260	-0.7448	1.0111	0.0415*	0.2935	0.0663	-0.8028	0.5603	0.0475
2011.Year	-0.1741	-0.0543	-2.1549***	-3.3308*	0.0436	-0.0646	-0.0549	-2.4627**	-3.2232	0.2198
2012.Year	-0.5147***	-0.1302	-1.2753	-2.9875	0.0477	-0.6264*	-0.2199	-1.5690	-2.7487	0.2805
2013.Year	-0.4518**	-0.2985**	-1.1387	-2.5476	0.0709	-0.5504*	-0.4461***	-1.2884	-0.8965	0.3396
O_ Cons			0.0000							
O.Indcl						-	-	-	-	-
O.Infl						-	-	-	-	-
Constant	-3,477.1835	-141.9741		19,831.6618	118.3745	2.0984	-2.0610	-27.0548	-6.2398	-14.5784***
Obser	145	145	145	143	145	116	116	116	115	116
N of firms	30	30	30	30	30	24	24	24	24	24
r2_o	0.338	0.661	0.686	0.418	0.316	0.747	0.806	0.762	0.719	0.876

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Source: compiled by the author

Table 5.31 shows that introducing board of management changes the impact of share ownership typology on firm performance, mainly in the Ffamily excluding financial panel. The results show that Fflot, Family, Instit and Inflcrossh become positively significant with LRI in the Ffamily excluding financial firms, foreign ownership becomes more positively significant in the Ffamily excluding financial firms, becoming positively associated with ROA and ROE and remaining positively associated with LRI. This suggests that consideration of the board management is of great importance to non-financial Moroccan concentrated-ownership family firms. The results affirm family firms' long-term orientation (Miller & Le Breton-Miller, 2005; Wang, 2006; Audretsch, Hülsbeck & Lehmann, 2013) and its positive impact on firm performance (Wagner *et al.*, 2015). From the above, multiple owners in family firms are seen to be focused on long-term profit generation, thus supporting stakeholder theory, combining an Islamic (Beekun & Badawi, 2005) and a Western stakeholder approach (Freeman, 1984, 2015, 2017; Freeman, Wicks, & Parmar, 2004; Freeman *et al.*, 2010) to business practice. However, this is not the case for financial firms. Foreign ownership is the only ownership type in the Ffamily full panel positively associated with firm performance as measured by ROA. Fflot and Inflcrossh remain negatively associated with ROA in the Ffamily full panel. The results partially confirm H4Q.

The introduction of the board of management further reconfirms H2a, in that separation of chair and CEO roles enhances Moroccan firms' performance, as Singledual remains positive with regard to Tobin's q and ROA. The results confirm Rechner and Dalton (1991) and Al-Ghamdi and Rhodes's (2015) findings. The results also reconfirm H2b: that Ceoown enhances the value of Moroccan concentrated-ownership family firms. As well as remaining positively significant with regard to MTBV across Ffamily panels, Ceoown becomes significant with regard to ROA, ROE and LRI in Ffamily excluding financial firms. The results confirm that a family CEO is linked to enhanced firm performance (Maury, 2006; Al-Ghamdi & Rhodes, 2015). Similarly, the results reconfirm hypothesis H2c1: that a long CEO tenure is negatively associated to the performance of Moroccan concentrated-ownership family firms. As well as remaining negatively significant with regard to LRI in the Ffamily excluding financial firms, Ceotenure becomes negatively associated with MTBV in the Ffamily full panel, thus confirming Hambrick and Fukutomi (1991) and Boling, Pieper and Covin's (2016) findings.



The results become inconclusive for the relationship between Ceonal and firm performance, with Ceonal remaining positively associated with Tobin's q in the Ffamily full panel but becoming negatively significant with regard to MTBV in the Ffamily excluding financial. The results for the long tenure of the chair become inconclusive with Chairtenure becoming positively significant with regard to LRI for the Ffamily full panel and remaining negatively significant with regard to, respectively, Tobin's q across both Ffamily panels and negatively associated with ROA in Ffamily excluding financial. Chairtenure becomes negatively significant with regard to MTBV in the Ffamily full panel. Chairtenure's positive significance with regard to firm performance in the Ffamily full panel suggests that, although long chair tenure is not beneficial to firm performance as measured by Tobin's q and MTBV, a long-tenured chair can add long-term value to a firm as measured by LRI, thus partially confirming Kakabadse and Kakabadse (2007) and McNulty et al.'s (2011) findings. The results reconfirm that having an international chair is negative for Moroccan firms, as it remains negatively associated with MTBV, Tobin's q, ROA and ROE across both Ffamily panels.

Unlike dispersed ownership panels, the introduction of the board of management composition in the Ffamily concentrated panel reveals that board size (Bodsize), presence of owners on the board of directors (Ownbod), and female boards members (Fembod), are significant to the firm performance of Moroccan family concentrated firms. Bodsize is positively significant to MTBV, ROA and ROE in the Ffamily excluding financial firms. Bodsize is insignificant in the Ffamily full panel. The results contend that the Bodsize is of great importance to non-financial Moroccan family firms. The results support, Pfeffer (1972), Pearce & Zahra (1992), Mak & Li (2001), Kiel & Nicholson (2003); Bonn, Yoshikawa & Phan (2004), Adams & Mehran (2005), Al-ghamdi & Rhodes (2015), Ghabayen, Mohamad & Ahmad (2016), and Tulung & Ramdani (2018) findings of positive board size impact on firm performance. The results reject Hypothesis 3a.

The results also show that Bodown is negatively associated with ROE in the Ffamily full panel and negatively significant with regard to MTBV, ROA and ROE in the Ffamily excluding financial firms. This suggests that having owners on the board of management of Moroccan concentrated-ownership family firms is deleterious to performance. This supports the premise that dominant families or investors influence the structure of the board (Anderson & Reeb, 2004); however,

the latter are likely lacking knowledge and simply have a seat on the board because of their ownership: the law requires all board members to be shareholders, and it is “an observed common practice” (Cigna & Meziou, 2016) for legal entities to serve on boards. Or it may simply be that there are conflicts of interest between members of the same family. The results reject hypothesis H3b2.

The results also show that the presence of independent board members (Indbod) decreases performance of non-financial Moroccan family firms, as measured by MTBV and Tobin’s q. The negative effect of board independence rejects Kiel and Nicholson (2003), Cho and Kim (2007), Coles, Daniel and Naveen (2008), Cornett, Marcus and Tehranian (2008), Knyazeva, Knyazeva and Masulis (2013) and Chen, Cheng and Wang’s (2015) findings. The insignificant relationship between Indbod and firm performance in the Ffamily full panel supports Zahra and Pearce (1989), Prevost, Rao and Hossain (2002), Connelly and Limpaphayom (2004) and Turki and Sedrine’s (2012) findings of no statistically significant relationship between board independence and firm performance. The results reject hypothesis H3b1.

The introduction of board of management establishes that Fembod can enhance Moroccan family firms’ performance as measured by MTBV, Tobin’s q, ROA and LRI. The results confirm hypothesis H3c and Krishnan and Park (2005), Ren and Wang (2011), Mahadeo, Soobaroyen and Hanuman (2012), Lückerath-Rovers (2013) and Hoobler *et al.*’s (2018) findings. The results show that Execbod and Frgnbod remain negative with regard to ROA, ROE and ROA respectively in the Ffamily full panel. The results reveal that Execbod and Frgnbod are irrelevant with regard to non-financial firms’ performance. The results reject hypotheses H3b3 and H3d and suggest that Excbod is not beneficial to firm performance, again despite the likelihood of executive directors appearing on boards in emerging countries and the positive benefits they are supposed to bring (as mentioned above). Thus all Moroccan firms would be advised to opt for a greater number of independent board members, beyond Ownbod and Execbod. However, interestingly, the results do not support a relationship between foreign directors and firm performance (Miletkov, Poulsen & Wintoki, 2012).

Table 5.32 presents a summary of the hypotheses following the introduction of leadership characteristics, board composition and board of management.

**Table 5. 32: Summary of the family, share ownership typology, leadership characteristics and board of directors hypotheses following the introduction of board composition**

	Hypotheses	H1a1: Family	H1a2: Foreign	H1a3: Instit	H1a4: Inflcrossh	H1a5: Infl	H1a6: Fflot
Ownership + leadership characteristic s + board composition+ board of management	<b>Ffamily full panel</b>	Insignificant	Accept	Insignificant	Reject	Insignificant	Reject
	<b>Ffamily excluding financial</b>	Accept	Accept	Accept	Accept	Omitted	Accept
	<b>Results</b>	Partially accept	Accept	Partially accept	Partially accept	Reject	Partially accept

	Hypotheses	H2a: Singledual	H2b: Ceoown	H2c1: Ceotenure	H2c2: Chairtenure	H2d1: Ceonal	H2d2: Chairnal
Ownership + leadership characteristic + board composition+ board of management	<b>Ffamily full panel</b>	Accept	Accept	Reject	Reject	Accept	Reject
	<b>Ffamily excluding financial</b>	Accept	Accept	Reject	Reject	Reject	Reject
	<b>Results</b>	<b>Accept</b>	<b>Accept</b>	<b>Reject</b>	<b>Reject</b>	<b>Partially accept</b>	<b>Reject</b>

	Hypotheses	H3a: Bodsize	H3b1: Indbod	H3b2: Onwbod	H3b3: Execbod	H3c: Fembod	H3d: Frgrnbod
Ownership + leadership characteristic s + board composition+ board of management	<b>Ffamily full panel</b>	Insignificant	Insignificant	Reject	Reject	Insignificant	Reject
	<b>Ffamily excluding financial</b>	Reject	Reject	Reject	Insignificant	Accept	Insignificant
	<b>Results</b>	<b>Reject</b>	<b>Reject</b>	<b>Reject</b>	<b>Reject</b>	<b>Partially Accept</b>	<b>Reject</b>

Source: compiled by the author.

Table 5.32 shows that the introduction of board of directors' composition alongside board characteristics and share ownership typology greatly shapes the impact of share ownership and board of directors' composition. Ceonal is the only leadership variable that is affected by the introduction of board of management. This partially confirms H4Q.

The results in Table 5.31 further support the findings from the dispersed panels, showing that Bomsizes is positively associated with ROA, ROE and LRI in non-financial family firms. The results for the excluding financial firms' panels are similar to Nielsen and Nielsen (2013), who found that TMT size slightly enhances firm performance as measured by ROA. The results confirm hypothesis H4a, and contend that the larger size of the board of management is more important to non-financial firms.

The results also indicate that Ownbom is deleterious to the performance of non-financial Moroccan firms being negatively significant with regard to MTBV. The results partially confirm hypothesis H4b, suggesting that the presence of family owners on the board of management is unlikely to tackle conflicts of interest (Jensen & Meckling, 1976; Fama & Jensen, 1983a,b; Schulze *et al.*, 2001) or a free-rider problem (Bartholomeusz & Tanewski, 2006), nor will it lead to achieve shared strategic consensus (Ensley & Pearson, 2005) as members of the same family are more likely to have conflicts of interest.

The presence of female members on the board of management/TMT (Fembom) is insignificant in both Ffamily panels. The results reject hypothesis H4d, and also reject Smith, Smith and Verner (2006), Joy, Carter and Wagner (2007) and Wu, Yao and Muhammad's (2017) findings that female involvement in a TMT enhances Moroccan firm performance.

The presence of foreigners on the board of management/TMT (Frgrnbom) is insignificant across all panels. The results reject hypothesis H4c.

#### 5.4.3. Summary of the board of management results

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Table 5.33 summarises the findings on the association between share ownership typology, leadership characteristics, board of directors' composition, board of management and firm performance, as discussed in Section 5.4.

**Table 5. 33: Summary of the hypotheses testing the association between share ownership typology/concentrated ownership, leadership characteristics, board of directors' composition, board of management and firm performance**

Research sub-questions	Research hypothesis <b>Dispersed ownership</b>	Research hypothesis <b>Dispersed ownership</b>
<b>Q4: Is there an association between top management team composition and firm performance?</b>	<p>Board of management composition partially increases the performance of Moroccan firms. The results show a positive and negative association, but what is certain is that board of management composition is more important for non-financial Moroccan firms.</p> <p><b>H4a: Partially rejected</b></p> <p>A larger size of the board of management is insignificant for all industries panels but significantly positive across all non-financial firms.</p> <p><b>H4b: Rejected</b></p> <p>The presence of business owners and/or founders or family representatives in management is insignificant for all panels.</p> <p><b>H4c: Rejected</b></p> <p>International diversity of the board of management is insignificant.</p> <p><b>H4d: Accepted</b></p> <p>Female leadership is positively associated with increased firm performance</p>	<p>Apart from board size, which is positively related to firm performance for Ffamily excluding financial, and Ownbom, which is negatively associated to firm performance for non-financial firms, the remaining management composition attributes are insignificant.</p> <p><b>H4a: Partially rejected</b></p> <p>A larger size of the board of management is negatively significant for the Ffamily full panel but significantly positive in Ffamily excluding financial.</p> <p><b>H4b: Partially rejected</b></p> <p>The presence of business owners and/or founders or family representatives in management is negatively associated to firm performance for non-financial family firms.</p> <p><b>H4c: Rejected</b></p> <p>International diversity of the board of management is insignificant.</p>

**H3Q: Partially accepted**

The results show a different perspective as regards the outcomes for the impact of leadership on firm performance, which is more significant than that of ownership and the board of directors. This indicates the potential for the board of management to influence the impact of governance on firm performance.

**H4d: Rejected**

Female leadership is insignificant across both Ffamily panels.

**H3Q: Partially accepted**

The results show a different perspective as regards the outcomes for the impact of ownership and the board of directors on firm performance, which is more significant than leadership. This indicates the potential for the board of management to influence the impact of governance on Moroccan family firm performance.

Source: compiled by the author.

Table 5.33 shows that the introduction of board of management alongside share ownership typology, leadership characteristics and board of directors varies depend on the panels. In dispersed panels, it can be seen that the introduction of board of management shapes slightly ownership, as well as a few board leadership characteristics, namely: Ceotenure, Chairtenure, Ceonal and few board of directors' composition attributes such as Execbod. Thus, hypothesis H3Q is confirmed. In concentrated panels, it is found that it significantly shapes the impact on firm performance of share ownership typology, board of directors' composition, and, partially, leadership characteristics. This further confirms the importance of investigating the impact on firm performance of the interdependencies of corporate governance mechanisms (Aguilera *et al.*, 2008; Tosi, 2008; Filatotchev & Boyd, 2009; Walls, Berrone & Phan, 2012; Misangyi & Acharya, 2014).

The results show that having executives and foreign members on the board is insignificant for Moroccan firms, but that the size of the board and the presence of owners is significant for non-financial firms. The significance of the presence of women on the board of management is inconclusive, the results showing that it adds firm performance in dispersed panels but not for family firms. The results from family excluding financial show that a family board (Ownbom) member is negatively associated to firm performance as measured by MTBV. However, Ownbom is insignificant across all dispersed panels.

## Chapter 5 summary

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The results show that the introduction of leadership characteristics, board of directors composition and board of management alongside share ownership typology in dispersed and concentrated panels is of great importance in investigating the impact of corporate governance on firm performance. This confirms the importance of investigating the impact on firm performance of the interdependencies of corporate governance mechanisms (Aguilera *et al.*, 2008; Tosi, 2008; Filatotchev & Boyd, 2009; Walls, Berrone & Phan, 2012; Misangyi & Acharya, 2014).

The results for family non-financial firms show Fflot, Family, Instit and Inflcrossh to be significant with regard to LRI. This suggests that consideration of the board of management is of great importance to Moroccan non-financial concentrated-ownership family firms. The results affirm family firms' long-term orientation (Miller & Le Breton-Miller, 2005; Wang, 2006; Audretsch, Hülsbeck & Lehmann, 2013) and its positive impact on performance (Wagner *et al.*, 2015). From the above, it can be seen that multiple owners in family firms are focused on long-term profit generation, which supports stakeholder theory, combining an Islamic (Beekun & Badawi, 2005) and a Western stakeholder approach (Freeman, 1984, 2015, 2017; Freeman, Wicks & Parmar, 2004; Freeman *et al.*, 2010) to business practice. However, this is not the case for financial firms. Foreign ownership is the only ownership type in the Ffamily full panel positively associated with firm performance as measured by ROA. The above reconfirms that foreign ownership performs better than domestic ownership in financial firms. Drawing on the above, Instit is seen to act as an effective external corporate governance mechanism only in the context of Moroccan non-financial firms.

The results show that the separation of CEO and chair roles enhances Moroccan firms' performance. The results confirm Rechner & Dalton (1991) and Al-Ghamdi & Rhodes's (2015) findings and also demonstrate that the presence of CEO-owners enhances firm performance across all panels (Maury, 2006; Al-Ghamdi & Rhodes, 2015). The results also show that having a foreign national as chair and having a long-tenured chair are both deleterious for Moroccan firms.



Unlike in dispersed panels, where Bodsize, Ownbod and Fembod are insignificant, family excluding financial firms reveals that Bodsize and Fembod enhance performance. Also, Ownbod is negatively associated to Moroccan firm performance. Whereas Indbod is seen to be significant with regard to the performance of financial firms across the dispersed panels, it is negatively significant with regard to firm performance for non-financial family firms. The presence of Frgnbod and Execbod is deleterious for Moroccan firms, as is Frgnbom.

Bomsize matters only for non-financial firms across dispersed owned and family firms. While Ownbom is insignificant for dispersed owned firms, Ownbom damages the performance of non-financial family firms. Unlike Fembod, Fembom is an effective mechanism for enhancing the performance of dispersed owned Moroccan firms.

The results for the control variables across all panels show a similar trend. The log of market capitalisation (LMK) is positively associated with Tobin's  $q$ , MTBV and LRI across all industries dispersed panels and positively associated with all performance across all non-financial dispersed panels. LMK is also positively significant with regard to all performance measures in the Ffamily panels. This suggests that high performance is rewarded by higher market capitalisation across all industries. Total debt to total assets (TDTA) is negatively linked to the accounting-based measures ROA and ROE, and LRI, for all dispersed and Ffamily panels. This suggests that a firm's reliance on debt for financing (TDTA) negatively affects performance (ROA and ROE) and growth (LRI). Moroccan firms should opt for more equity financing as the market capitalisation (LMK) shows more positive. The industry (Indcl) shows a negative relationship with Tobin's  $q$  and ROA across all industries in dispersed panels, and Indcl is negatively associated with Tobin's  $q$ , ROE and ROA in the Ffamily full panels. Indcl shows no correlation with the excluding financial firms dispersed and concentrated panels, thus suggesting a negative impact of financial industries on firm performance.

The age of the firm contributes solely to increasing the log of return index (LRI) for the excluding financial panels in dispersed panels. The results confirm Braun and Sharma's (2007) findings that a firm's age and shareholder returns are significantly positively related. The results also support Matemilola *et al.*'s (2017)

findings that the age of the firm contributes positively to stock returns. The results support the premise that the age of the firm is more important among non-financial firms in increasing firm performance over the long term for family- as well as foreign-owned firms. This supports stakeholder theory and responsible capitalism, as a firm that survives over a long period must have a long-term relationship with all its stakeholders. However, this is not the case for financial firms in dispersed and family panels, where age is negatively linked to firm performance.

# Chapter 6

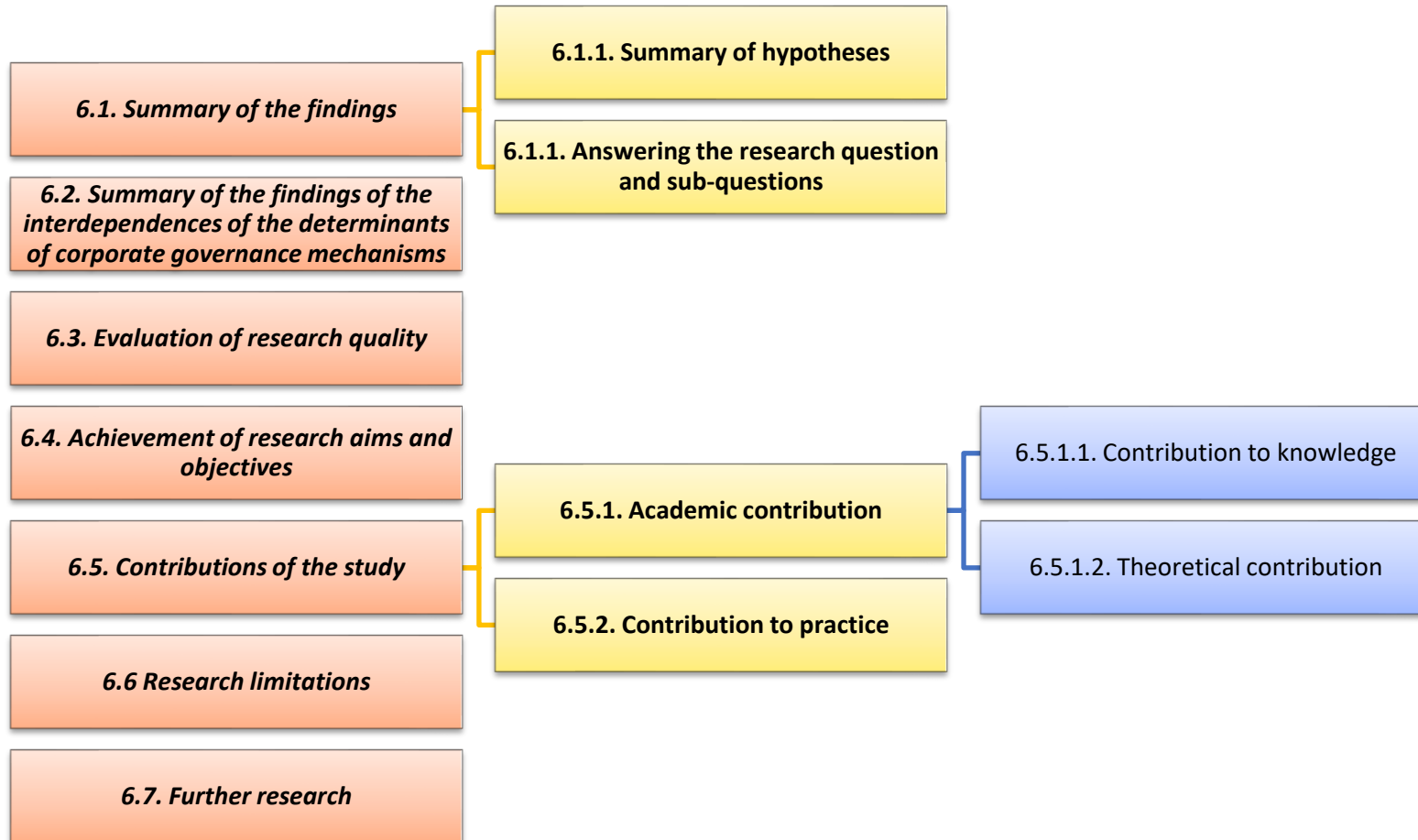
## Conclusion

### Synopsis

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A comprehensive summary of the findings of this study is presented in Sections 6.1 and 6.2. An evaluation of the research and a consideration of the achievements of its aims and objectives are presented in Sections 6.3 and 6.4 respectively. Section 6.5 offers a summary of the academic and practical contributions. Section 6.6 and 6.7 discuss, respectively, the research's limitations and recommendations for future research. The chapter concludes with a personal reflection in Section 6.8. Figure 6.1 presents a graphical representation of this chapter.

**Figure 6. 1: Structure of Chapter 6**



Source: compiled by the author

## 6.1. Summary of the findings

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The following paragraphs comprise a summary of the findings as well as answering the research question and sub-questions.

### 6.1.1. Summary of hypotheses

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Table 6.1 presents a summary of the findings for all the research sub-questions and hypotheses tested within this study, following a consideration of the determinants, viz. share ownership typology, leadership characteristics, and board of directors and board of management composition.

**Table 6. 1: Summary of hypotheses**

Research sub-questions	Research hypothesis	Dispersed ownership	Concentrated ownership
<b>Q 1: Is there an association between 1) dispersed and 2) concentrated share ownership and firm performance?</b>	<b>H1a1:</b> Family ownership (Family) in dispersed ownership structures is associated with increased firm performance.	<b>H1a1: Partially accepted</b> Family ownership is significantly positively associated with the MTBV in the all industries panel when considered in networks of ownership. However, family ownership is negatively associated with ROA and ROE in both family excluding foreign panels, and is negatively significant with regard to LRI in the family excluding foreign and financial firms. Family ownership is insignificant in the main panel excluding financial.	
	<b>H1a2:</b> Foreign ownership (Frng) in dispersed ownership structures increases firm performance	<b>H1a2: Partially accepted</b> Foreign ownership is positively associated with MTBV in main panel all industries, insignificant in the main panel excluding financial firms, and positively significant with regard to ROA and ROE both foreign excluding family ownership panels. Foreign ownership is positively significant with regard to LRI in the foreign excluding family and financial firms panel.	
	<b>H1a3:</b> Institutional ownership (Instit) in dispersed ownership structures is associated with enhanced firm performance	<b>H1a3: Partially accepted</b> Except for the main all industries panel, where it is positively associated with MTBV, Instit is negatively associated with ROE in the main panel excluding financial firms panel, and negatively associated with ROA, ROE and LRI in both family excluding foreign. Instit is also negatively associated with MTBV in family excluding foreign ownership and financial firms. Instit is negatively associated with LRI in foreign excluding family all industries panel, and negatively associated with ROA and LRI in foreign excluding family and financial firms.	

**H1a4:** Influential cross-holding ownership (Infcrossh) in dispersed ownership structures is associated with increased firm performance.

**H1a4: Partially accepted**

Infcrossh is negatively associated with Tobin's q and ROA across all panels, except for the main all industries panel where it is positively associated with MTBV. Infcrossh is also negatively associated with ROE in the main panel excluding financial firms and negatively significant with regard to MTBV in family excluding foreign ownership.

**H1a5:** Influential ownership (Infl) in dispersed ownership structures is associated with increased firm performance.

**H1a5: Partially accepted**

Infl is positively significant with regard to MTBV in the main panel all industries and is also positively associated with ROE in the foreign excluding family all industries panel. Influential ownership is insignificant in both family excluding foreign ownership panels, and in foreign excluding family and financial firms.

**H1a6:** Free-float ownership (Fflot) in dispersed ownership structures increases firm performance.

**H1a6: Partially accepted**

Fflot is positively associated with MTBV in the main panel all industries. It is negatively associated with MTBV and Tobin's q across all panels. Fflot is also negatively associated with LRI in both family excluding foreign ownership and in foreign excluding family and financial firms. Fflot is negatively significant with regard to ROA in family excluding foreign and financial firms.

<p><b>Q2: Is there an association between board leadership characteristics and firm performance?</b></p>	<p><b>H1b1:</b> Family ownership concentration (<math>C_{family} \geq 50\%</math>)/ (<math>F_{family} \geq 30\%</math>) decreases firm performance.</p>		<p><b>H1b1: Partially accepted</b> Concentrated family ownership is insignificant at the 30%+ ownership threshold (<math>F_{family}</math>) in the full <math>F_{family}</math> panel. When considered in a network of dispersed ownership and the contrasting dominant ownership in the <math>F_{family}</math> panel excluding financial firms, <math>F_{family}</math> is positively associated with firm performance.</p>
	<p><b>H1b3:</b> Minority shareholding (<math>Instit</math>)/ (<math>F_{flot}</math>)/(<math>Inflcrossh</math>)/ (<math>Infl</math>) negatively related to firm performance in concentrated panels.</p>		<p><b>H1b3: Partially rejected</b> Except for <math>Infl</math>, which is insignificant, <math>Instit</math> and minority ownerships <math>F_{flot}</math> and <math>Inflcrossh</math>, as well as foreign ownership, are all positively associated with LRI in <math>F_{family}</math> concentrated panels excluding financial firms. Foreign ownership is positively significant with regard to ROA in the full <math>F_{family}</math> panel. <math>Inflcrossh</math> and <math>F_{flot}</math> are negatively significant with regard to ROA in the full <math>F_{family}</math> panel.</p>
<p><b>Q2: Is there an association between board leadership characteristics and firm performance?</b></p>	<p><b>H2a:</b> Leadership structure (<math>Singledual</math>) is associated with increased firm performance.</p>	<p><b>H2a: Partially accepted</b> The governance leadership structure <math>Singledual</math> is associated with increased performance for the non-financial firms. The separation of CEO and chair roles is insignificant for all industries panels.</p>	<p><b>H2a: Accepted</b> The governance leadership structure <math>Singledual</math> is associated with increased performance as measured by ROA and ROE across <math>F_{family}</math> panels.</p>
	<p><b>H2b:</b> The presence of owners (or their representatives) as CEOs (<math>Ceoown</math>) increases firm performance.</p>	<p><b>H2b: Accepted</b> Having owners as CEOs (<math>Ceoown</math>) is positively associated with increased firm performance across all panels.</p>	<p><b>H2b: Accepted</b> Having owners as CEOs (<math>Ceoown</math>) is significantly associated with increased performance (<math>MTBV</math>) across both <math>F_{family}</math> panels.</p>
	<p><b>H2c1:</b> The long-term tenure of the CEO (<math>Ceotenure</math>) is likely to enhance firm performance.</p>	<p><b>H2c1: Rejected</b></p>	<p><b>H2c1: Rejected</b></p>



<p><b>H2c2:</b> The long-term tenure of the chairperson (Chairtenure) is likely to enhance firm performance</p>	<p>A long CEO tenure (Ceotenure) is negatively associated with MTBV across all panels.</p>	<p>A long CEO tenure (Ceotenure) is negatively associated with firm performance across both Ffamily panels.</p>
<p><b>H2d1:</b> The presence of non-Moroccan CEO (Ceonal) is associated with increased firm performance</p>	<p><b>H2c2: Rejected</b> A long chairperson tenure (Chairtenure) is insignificant across all panels.</p>	<p><b>H2c2: Partially rejected</b> A long chairperson tenure (Chairtenure) is negatively associated to firm performance. However, chair tenure is positively significant with regard to LRI in the Ffamily full panel.</p>
<p><b>H2d2:</b> The presence of non-Moroccan chairperson (Chairnal) is associated with increased firm performance</p>	<p><b>H2d1: Partially accepted</b> Having non-Moroccan Ceonal generates mixed results across all industries panels (negative with regard to MTBV, positive with regard to Tobin's q) and is positively significant with regard to Tobin's q across all excluding financial firms panels.</p>	<p><b>H2d1: Partially accepted</b> Having non-Moroccan Ceonal generates mixed results: positive with regard to Tobin's q in the Ffamily full panel, and negatively significant with regard to MTBV in the Ffamily excluding financial firms.</p>
	<p><b>H2d2: Partially rejected</b> (Chairnal) is insignificant across all industries panels, and is negatively associated with Tobin's q and ROA across all excluding financial firms panels.</p>	<p><b>H2d2: Rejected</b> Having non-Moroccan (Chairnal) is negatively associated with firm performance across both Ffamily panels.</p>

<b>Q3: Is there an association between board of directors' composition and firm performance?</b>	<b>H3a:</b> A larger board of directors (Bodsize) negatively impacts firm performance.	<b>H3a: Rejected</b> Larger Bodsize is insignificant for Moroccan firms.	<b>H3a: Partially rejected</b> Larger Bodsize is insignificant in the Ffamily full panel and positively associated with MTBV, ROA and ROE in the Ffamily excluding financial firms panel.
	<b>H3b1:</b> The presence of independent board members (Indbod) is likely to enhance firm performance.	<b>H3b1: Partially accepted</b> Indbod is positively associated with increased LRI in all industries panels, and is insignificant for all excluding financial panels.	<b>H3b1: Partially rejected</b> Indbod is insignificant in the Ffamily full panel and negatively associated with MTBV, ROA and ROE in the Ffamily excluding financial firms panel.
	<b>H3b2:</b> The presence of owners on the board (Ownbod) is likely to enhance firm performance.	<b>H3b2: Rejected</b> The presence of owners on the board of directors is insignificant across all panels.	<b>H3b2: Rejected</b> The presence of owners on the board of directors is negatively significant with regard to firm performance across both Ffamily panels.
	<b>H3b3:</b> The presence of executive directors (Excbo) on the board is likely to enhance firm performance.	<b>H3b3: Partially rejected</b> Excbo negatively impacts firm performance (ROE and LRI) and is insignificant across all excluding financial firms.	<b>H3b3: Partially rejected</b> Excbo negatively impacts firm performance in the Ffamily full panel, and is insignificant in the Ffamily excluding financial firms panel.
	<b>H3c:</b> The presence of women on the board (Fembod) is likely to enhance firm performance.	<b>H3c: Rejected</b> The presence of female board members is insignificant across all panels.	<b>H3c: Partially accepted</b> Female board membership generated mixed result insignificant in the Ffamily full panel and positively significant with regard to MTBV, Tobin's q, ROA and LRI in the Ffamily excluding financial firms panel.
	<b>H3d:</b> The presence of foreigners on the board of directors (Frngbod) is likely to enhance firm performance.	<b>H3d: Rejected</b> The international diversity of the board as measured by the number of foreigners on the board (Frngbod) is negative to ROA and ROE in all Moroccan firms.	<b>H3d: Partially rejected</b> Frngbod is negatively significant with regard to ROA in the Ffamily full panel and insignificant in the Ffamily excluding financial firms.

<b>Q4: Is there an association between top management team composition and firm performance ?</b>	<b>H4a:</b> A larger board of management (Bomsize) negatively impacts firm performance.	<b>H4a: Partially rejected</b> The size of the board of management is insignificant for all industries panels but significantly positive across all non-financial firms.	<b>H4a: Partially rejected</b> A large board of management is negatively significant for the Ffamily full panel but significantly positive with regard to Ffamily excluding financials.
	<b>H4b:</b> The presence of owners/founders (or their representatives) on the board of management (Ownbom) is likely to enhance firm performance.	<b>H4b: Rejected</b> The presence of owners/and or founders or family representatives in management is insignificant for all panels.	<b>H4b: Partially rejected</b> The presence of owners and/or founders or family representatives in management is negatively associated to firm performance for non-financial family firms.
	<b>H4c:</b> The presence of foreigners on the board of management (Frngbom) is likely to enhance firm performance.	<b>H4c: Rejected</b> The international diversity of the board of management is insignificant.	<b>H4c: Rejected</b> The international diversity of the board of management of Moroccan family firms is insignificant.
	<b>H4d:</b> Female participation the board of management (Fembom) is associated with increased firm performance.	<b>H4d: Accepted</b> Female leadership is positively associated with increased firm performance.	<b>H4d: Rejected</b> Female leadership is insignificant across both Ffamily panels.

Source: compiled by the author

### 6.1.1. Answering the research question and sub-questions

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This section answers the main research and sub-questions for this study:

***Research question (RQ): How do corporate governance determinants impact the performance of Moroccan firms?***

The findings in Table 6.1 contend that the determinants of leadership characteristics, board of directors and board of management composition, and share ownership typology have a significant impact on firm performance, depending on the industry and the panels. Results for sub-questions Q1, Q2, Q3 and Q4 summarise the findings for the related hypotheses. A summary of the interdependences of the determinants of corporate governance mechanisms is given in Section 6.2.

**Q 1: Is there an association between 1) dispersed and 2) concentrated share ownership and firm performance?**

The results in Table 6.1. **partially confirm H1a1, H1a2, H1a3, H1a4, H1a5 and H1a6.** They reveal that firm performance in dispersed panels depends on share ownership typology and industry. All share ownership typologies are associated with increased firm performance, as measured by MTBV, for financial firms in dispersed panels. The results confirm all hypotheses H1a1–H1a6. Consistent with previous empirical findings (Attig, Ghouli & Guedhami, 2009; Maury & Pajuste, 2005; Yasser & Mamun, 2017), they show that multiple large owners (family, foreign and institutional) are associated with higher corporate value for financial firms.

The results suggest that all shareowner typologies struggle to maintain positive relationships with firm performance in non-financial firms, rejecting hypotheses H1a1, H1a3, H1a4 and H1a6. Except for Infl and Frgn, which are associated with, respectively, increased firm performance in foreign excluding family all industries, and in foreign excluding family ownership, and except for the all industries panel,

all share ownership typologies are negatively significant with regard to firm performance in the dispersed panel. The results partially confirm hypotheses H1a2 and H1a5. From the above, we can see that foreign firms perform better than domestic firms (Heugens, Van Essen & van Oosterhout, 2009). The negative institutional–firm performance relationship confirms Farooq and El Jai’s (2012) negative relationship between institutional ownership and earning management earnings among Moroccan listed firms. This questions the extent of institutional owners’ involvement in decision-making (Ivanova, 2017), whether they hold a significant stake in the business (Shleifer & Vishny, 1986), and whether that stake is held by individual mutual funds or a block of institutions/mutual funds (Edmans & Manso, 2010). The latter cannot be the case for Moroccan institutional investors as they do not act collectively. **As such, a need is identified for a code for institutional investors in Morocco.**

The results for concentrated-ownership family firms confirm the long-term orientation of non-financial family firms (Miller & Le Breton-Miller, 2005; Wang, 2006; Audretsch, Hülsbeck & Lehmann, 2013) and their positive firm performance (Wagner *et al.*, 2015). We can see that, apart from Infl, multiple owners in non-financial family firms are focused on long-term profit generation, thus supporting stakeholder theory combining an Islamic (Beekun & Badawi, 2005) and a Western stakeholder approach (Freeman, 1984; Freeman, 2015, 2017; Freeman, Wicks, & Parmar, 2004; Freeman *et al.*, 2010) to business practice. However, this is not the case for financial firms. Foreign ownership is the only ownership type in the Ffamily full panel positively associated with firm performance as measured by ROA. This reconfirms the fact that foreign ownership performs better than domestic ownership in financial firms. Drawing on the above, Instit acts as an effective external corporate governance mechanism in financial and non-financial concentrated-ownership family firms. The results partially confirm hypotheses H1b1 and H1b3.

## **Q2: Is there an association between board leadership characteristics and firm performance?**

Table 6.1 shows that a separation of CEO and chair roles enhances the performance of non-financial and family concentrated-ownership Moroccan firms.

The results confirm Rechner and Dalton (1991) and Al-Ghamdi and Rhodes's (2015) findings and partially confirm hypothesis H2a for dispersed panels and H2a for the concentrated family panel. This suggests that stringent regulations for financial firms offset the effect of the separation of CEO and chair roles. The results confirm that the presence of CEO-owners enhances firm performance across all panels (Maury, 2006; Al-Hhamdi & Rhodes, 2015). This confirms hypothesis H2b. The results suggest that a longer CEO tenure (the median being nine years in office) is negatively associated to Moroccan firms' performance as a CEO's success tends to wane after a certain point and continues to decrease thereafter, confirming Hambrick and Fukutomi (1991) and Boling, Pieper and Covin's (2016) findings. Thus, **Moroccan firms would be advised to consider regular CEO rotation**. The results therefore reject hypothesis H2c1.

The results reveal that a long chair tenure is insignificant for all dispersed panels, with mixed results generated for the Ffamily full panel, partially rejecting hypothesis H2c2. The results challenge Kakabadse and Kakabadse (2007) and McNulty et al (2011) findings that a long chair tenure can enhance firm performance: a long chair tenure is associated with enhanced long-term performance (LRI) in the family full panel. Aside from Chairnal's negative association with firm performance across both Ffamily panels, having foreign nationals as either chair or CEO generates mixed results, which partially confirms hypothesis H2d1 and partially rejects hypothesis H2d2. The results challenge Ziadi, Zouaoui and Rhouma's (2017) findings that, among other attributes, a chairperson's nationality does not affect firm performance within the CAC40 top French listed companies for the period 2010–14. The positive association of Ceonal with firm performance partially supports Hsu, Chen and Cheng (2013) and Le and Kroll's (2017) findings that an internationally experienced CEO in a foreign multinational firm is associated with increased firm performance.

From the above, it can be seen that the separation of CEO and chair roles influences the performance of family and non-financial Moroccan firms. The presence of CEO-owners enhances the performance of all Moroccan firms, and a long CEO tenure is negatively associated firm performance in all Moroccan firms.

### **Q3: Is there an association between board of directors composition and firm performance?**

Table 6.1 shows that the impact of board composition on firm performance is more significant for concentrated family firms than for dispersed ones. The results reveal that in Ffamily excluding financial firms larger board size (Bodsize) and the presence of women on the board (Fembod) enhance firm performance, unlike in dispersed panels where Bodsize, the presence of owners on the board (Ownbod) and Fembod are insignificant. Thus, the results partially reject hypothesis H3a, reject hypothesis H3b2 and partially confirm hypothesis H3c. It is contended that Bodsize is of great importance to non-financial concentrated-ownership Moroccan family firms. The results support Pfeffer (1972), Pearce and Zahra (1992), Mak and Li (2001), Kiel and Nicholson (2003), Bonn, Yoshikawa and Phan (2004), Adams and Mehran (2005), Al-Ghamdi and Rhodes (2015), Ghabayen, Mohamad and Ahmad (2016) and Tulung and Ramdani's (2018) findings of board size's positive impact on firm performance. Furthermore, the results show that Fembod can enhance Moroccan concentrated-ownership family firms' performance as measured by MTBV, Tobin's q, ROA and LRI. The results confirm hypothesis H3c and support Krishnan and Park (2005), Ren and Wang (2011), Mahadeo, Soobaroyen and Hanuman (2012), Lückerath-Rovers (2013) and Hoobler *et al.*'s (2018) findings.

However, the findings show that Ownbod is negatively associated to Moroccan concentrated-ownership family firm performance. This supports the contention that dominant families or investors influence the structure of the board (Anderson & Reeb, 2004), although the latter likely lack know-how and are simply sitting on the board on account of ownership: the law requires all board members to be shareholders, and legal entities may serve on boards, which is "an observed common practice" (Cigna & Meziou, 2016). Or it may simply be that there are conflicts of interest between members of the same family. The results reject hypothesis H3b2 for concentrated-ownership family firms. **Moroccan codes should consider introducing legislation to increase board independence.**

Whereas Indbod reveals a significant positive association with firm performance for financial firms across the dispersed panels, it is negatively significant with

regard to firm performance for non-financial family firms. This partially confirms hypothesis H3b1. It suggests that Indbod is of great importance for Moroccan financial firms, and also implies that these firms have stringent codes – which is confirmed in Cigna and Meziou (2016). Although the Moroccan code calls for independence, Moroccan law does not require companies (except banks) to have independent board members; it only requires them to have a majority of non-executive members. The results confirm partially hypothesis H3b1. The positive effect of board independence on firm performance is supported in Kiel and Nicholson (2003), Cho and Kim (2007), Coles, Daniel and Naveen (2008), Cornett, Marcus and Tehranian (2008), Knyazeva, Knyazeva and Masulis (2013) and Chen, Cheng and Wang's (2015) studies, which took place in countries in which codes stress the importance of independence (like the Moroccan code of corporate governance for banks). The negative effect of board independence on firm performance rejects Kiel and Nicholson (2003), Cho and Kim (2007), Coles, Daniel and Naveen (2008), Cornett, Marcus and Tehranian (2008), Knyazeva, Knyazeva and Masulis (2013) and Chen, Cheng and Wang's (2015) findings. The insignificant relationship between Indbod and firm performance in the Ffamily full panel supports Zahra and Pearce (1989), Prevost *et al.* (2002), Connelly and Limpaphayom (2004) and Turki and Sedrine's (2012) findings of no statistically significant relationship between board independence and firm performance. The results question the real independence of board members in non-financial firms and family firms, which is likely to share the characteristics of an old boys' club, with positions filled by family friends or owners' friends. **This reinforces the need to introduce code provisions to increase independence. The code should also provide a clear definition of independence.**

Staffing the board of directors with foreign nationals (Frngbod) and executive directors (Execbod) is in both cases largely negatively associated to Moroccan firms performance. The results reject hypotheses H3b3 and H3d.

Execbod is significantly negatively associated with ROE and LRI across all industries dispersed, and with ROE and ROA in Ffamily full panels. Execbod is insignificant across all excluding financial firms dispersed and concentrated panels. The results partially reject hypothesis H3b3.



The results suggest that Excbod is not beneficial to the performance of Moroccan financial firms, despite a preference for executive directors in emerging-country boards (e.g. in Malaysia) (Shakir, 2008), and regardless of their role in safeguarding contractual relations between a firm and its board and a firm and its shareholders (Williamson, 1985) and in bringing in expertise and relevant knowhow to the board (Fama & Jensen, 1983a; Klein, 1998). As such, **all Moroccan firms would be advised to opt for a greater number of independent board members, beyond Ownbod and Execbod.**

The results show that Frngbod is negatively significant with regard to ROA and ROE across all dispersed panels and to ROA in the Ffamily full panel. It is insignificant in Ffamily excluding financial firms. The results reject hypothesis H3d for dispersed panels and partially reject hypothesis H3d for Ffamily panels. The implication is that the foreign board members lack knowledge of the Moroccan market. The results extend Miletkov, Poulsen, and Wintoki (2012) findings to a Moroccan context.

#### **Q4: Is there an association between top management team composition and firm performance ?**

The summary findings in Table 6.1 (based on Tables 5.27 and 5.31 in Chapter 5) reveal that the larger size of the board of management/TMT (Bomsize) is of great importance to non-financial Moroccan firms. The findings for the excluding financial firms' panels are similar to those of Nielsen and Nielsen (2013), who found that TMT size slightly enhances firm performance as measured by ROA. However, the Bomsize results remain insignificant for non-financial firms. The results partially confirm hypothesis H4a.

Unlike in dispersed panels, where the presence of owners on the board of management (Ownbom) is insignificant, Ownbom is negatively significant with regard to non-financial family Moroccan firms as measured by MTBV. Ownbom is insignificant with regard to the Ffamily full panel. The results reject hypothesis H4b for the dispersed panels and partially reject hypothesis H4d for the Ffamily panels. This suggests that the presence of family owners on the board of management of Moroccan firms is likely to lead to conflicts of interest (Jensen &

Meckling, 1976; Fama & Jensen, 1983a,b; Schulze *et al.*, 2001) or a free-rider problem (Bartholomeusz & Tanewski, 2006), where reaching shared strategic consensus becomes impossible (Ensley & Pearson, 2005) as the same family members are likely to have more conflicts of interest.

The presence of foreigners on the board of management (Frgnbom) is insignificant across all panels. The results reject hypothesis H4c and also Nielsen and Nielsen (2013), who found that, among other variables, the foreign nationality of TMT members enhances firm performance as measured by ROA.

The presence of women on the board of management (Fembom) is insignificant in both Ffamily panels. The results reject hypothesis H4d for concentrated-ownership family firms. However, Fembom is positively associated with increased performance across all dispersed panels. The results confirm hypothesis H4d for dispersed panels and also support Smith, Smith and Verner (2006), Joy, Carter and Wagner (2007) and Wu, Yao and Muhammad's (2017) findings that female involvement in top management teams enhances firm performance. **The results reveal that female involvement in top management teams is highly important in increasing the performance of Moroccan non-financial family firms, and also contributes to the performance of dispersed-ownership firms.**

## 6.2. Summary of the findings of the interdependences of the determinants of corporate governance mechanisms

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Tables 6.2.1–4 and Tables 6.2.2–4 present summaries of the findings following a consideration of additional corporate governance metrics for dispersed and concentrated panels, respectively. Table 6.2.1 presents a summary of the ownership hypotheses for the dispersed panels prior to the consideration of additional corporate governance mechanism determinants.

**Table 6.2 .1 Summary of ownership hypotheses for the dispersed panels**

Ownership	Hypotheses	H1a1- Family	H1a2- Foreign	H1a3- Instit	H1a4- Inflcrossh	H1a5- Infl	H1a6- Fflot
	Main panel	Accept	Accept	Accept	Accept	Accept	Accept
	Main panel excluding finical	Insignificant	Accept	Reject	Reject	Omitted	Reject
	Family excluding foreign all industries	Reject	----	Reject	Reject	Reject	Reject
	Family excluding foreign and financial	Reject	----	Reject	Reject	Reject	Reject
	Foreign excluding family all industries	----	Accept	Reject	Reject	Insignificant	Reject
	Family excluding foreign and financial	----	Accept	Reject	Reject	Insignificant	Reject
	<b>Results</b>	<b>Partially accept</b>	<b>Accept</b>	<b>Partially accept</b>	<b>Partially accept</b>	<b>Partially accept</b>	<b>Partially accept</b>

Source: compiled by the author

Table 6.2.2 presents a summary of the ownership hypotheses following the introduction of leadership characteristics for dispersed panels.

**Table 6.2.2: Summary of the ownership hypotheses following the introduction of leadership characteristics for dispersed panels**

Ownership+ leadership	Hypotheses	H1a1- Family	H1a2- Foreign	H1a3- Instit	H1a4- Inflcrossh	H1a5- Infl	H1a6- Fflot	H2a - Singledual	H2b- Ceown	H2c1- Ceotenure	H2c2- Chairtenure	H2d1- Ceonal	H2d2- Chairnal
	Main panel	Accept	Accept	Accept	Accept	Accept	Accept	Accept	Accept	Mixed	Insignificant	Accept	Reject
	Main panel excluding finical	Insignificant	Accept	Reject	Reject	Omitted	Reject	Accept	Accept	Reject	Reject	Accept	Reject
	Family excluding foreign all industries	Reject	----	Reject	Reject	Insignificant	Reject	Accept	Accept	Mixed	Reject	Accept	Reject
	Family excluding foreign and financial	Reject	----	Reject	Reject	Reject	Reject	Accept	Accept	Reject	Reject	Accept	Reject
	Foreign excluding family all industries	----	Accept	Reject	Reject	Insignificant	Reject	Accept	Accept	Mixed	Reject	Accept	Reject
	Family excluding foreign and financial	----	Accept	Reject	Reject	Insignificant	Reject	Accept	Accept	Reject	Reject	Accept	Reject
	<b>Results</b>	<b>Partially accept</b>	<b>Accept</b>	<b>Partially accept</b>	<b>Partially accept</b>	<b>Partially accept</b>	<b>Partially accept</b>	<b>Accept</b>	<b>Accept</b>	<b>Partial reject</b>	<b>Partial reject</b>	<b>Accept</b>	<b>Reject</b>

Source: compiled by the author

Table 6.2.3 presents a summary of the ownership and the leadership hypotheses following the introduction of board of directors composition determinants for dispersed panels.

**Table 6.2.3: Summary of share ownership typology and leadership characteristics hypotheses following the introduction of board composition determinants for dispersed panels**

Ownership + leadership characteristics + board of directors' composition	Hypotheses	H1a1- Family	H1a2- Foreign	H1a3- Instit	H1a4- Inflcrossh	H1a5- Infl	H1a6- Fflot	H2a - Singledual	H2b- Ceown	H2c1- Ceotenure	H2c2- Chairtenure	H2d1- Ceonal	H2d2- Chairnal	H3a- Bodsize	H3b1- Indbod	H3b2- Onwbod	H3b3- Execbod	H3c- Fembod	H3d- Frgrnbod
	Main panel	Accept	Accept	Accept	Accept	Accept	Accept	Insignificant	Accept	Mixed	Reject	Accept	Insignificant	Insignificant	Accept	Insignificant	Reject	Insignificant	Reject
	Main panel excluding financial	Insignificant	Insignificant	Reject	Reject	Omitted	Reject	Accept	Accept	Mixed	Reject	Accept	Reject	Insignificant	Insignificant	Insignificant	Reject	Insignificant	Reject
	Family excluding foreign all industries	Reject	----	Reject	Reject	Insignificant	Reject	Insignificant	Accept	Mixed	Reject	Accept	Insignificant	Insignificant	Accept	Insignificant	Reject	Insignificant	Reject
	Family excluding foreign and financial	Reject	----	Reject	Reject	Insignificant	Reject	Accept	Accept	Mixed	Reject	Accept	Reject	Insignificant	Insignificant	Insignificant	Reject	Insignificant	Reject
	Foreign excluding family all industries	----	Accept	Reject	Reject	Accept	Reject	Insignificant	Accept	Mixed	Reject	Accept	Insignificant	Insignificant	Accept	Insignificant	Reject	Insignificant	Reject
	Family excluding foreign and financial	----	Accept	Reject	Reject	Insignificant	Reject	Accept	Accept	Mixed	Reject	Accept	Reject	Insignificant	Insignificant	Insignificant	Reject	Insignificant	Reject
	Results	Partially accept	Partially accept	Partially accept	Partially accept	Partially accept	Partially accept	Partially Accept	Accept	Partial reject	Reject	Accept	Partially Reject	Reject	Partially accept	Reject	Reject	Reject	Reject

Source: compiled by the author

Table 6.2.4 presents a summary of ownership, leadership characteristics and board of directors composition hypotheses following the introduction of the board of management composition determinants for dispersed panels.

**Table 6.2.4: Summary of share ownership typology, leadership characteristics and board composition hypotheses following the introduction of board of management composition determinants for dispersed panels**

Ownership + leadership characteristics + board of directors' composition + board of management composition	Hypotheses	H1a1- Family	H1a2- Foreign	H1a3- Instit	H1a4- Inflcrossh	H1a5- Infl	H1a6- Fflot	H2a - Singledual	H2b- Ceown	H2c1- Ceotenure	H2c2- Chairtenure	H2d1- Ceonal	H2d2- Chairnal	H3a- Bodsize	H3b1- Indbod	H3b2- Onwbod	H3b3- Execbod	H3c- Fembod	H3d- Fgrnbod	H4a- Bomsiz	H4b- Ownbom	H4c- Frgrnbom	H4d- Fembom
	Main panel	Accept	Accept	Accept	Accept	Accept	Accept	Insignificant	Accept	Reject	Insignificant	Mixed	Insignificant	Insignificant	Accept	Insignificant	Reject	Insignificant	Reject	Insignificant	Insignificant	Insignificant	Accept
	Main panel excluding financial	Insignificant	Insignificant	Reject	Reject	Omitted	Reject	Accept	Accept	Reject	Insignificant	Accept	Reject	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant	Reject	Accept	Insignificant	Insignificant	Accept
	Family excluding foreign all industries	Reject	----	Reject	Reject	Insignificant	Reject	Insignificant	Accept	Reject	Insignificant	Mixed	Insignificant	Insignificant	Accept	Insignificant	Reject	Insignificant	Reject	Insignificant	Insignificant	Insignificant	Accept
	Family excluding foreign and financial	Reject	----	Reject	Reject	Insignificant	Reject	Accept	Accept	Reject	Insignificant	Accept	Reject	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant	Reject	Accept	Insignificant	Insignificant	Accept
	Foreign excluding family all industries	----	Accept	Reject	Reject	Accept	Reject	Insignificant	Accept	Reject	Insignificant	Mixed	Insignificant	Insignificant	Accept	Insignificant	Reject	Insignificant	Reject	Insignificant	Insignificant	Insignificant	Accept
	Family excluding foreign and financial	----	Accept	Reject	Reject	Insignificant	Reject	Accept	Accept	Reject	Insignificant	Accept	Reject	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant	Reject	Accept	Insignificant	Insignificant	Accept
	Results	Partially accept	Partially accept	Partially accept	Partially accept	Partially accept	Partially accept	Reject	Accept	Reject	Reject	Partially Accept	Partially Reject	Reject	Partially accept	Reject	Partially Reject	Reject	Reject	Partially accept	Reject	Reject	Accept

Source: compiled by the author

Table 6.3.1 presents a summary of ownership hypotheses prior to the consideration of additional corporate governance mechanism determinants for concentrated family firms.

**Table 6.3.1: Summary of ownership hypotheses for concentrated family firms**

	Hypotheses	H1a1-Family	H1a2-Foreign	H1a3-Instit	H1a4-Inflcrossh	H1a5- Infl	H1a6-Fflot
<b>Ownership</b>	<b>Ffamily full panel</b>	Accept	Accept	Accept	Accept	Accept	Accept
	<b>Ffamily excluding financial</b>	Reject	Insignificant	Reject	Reject	Omitted	Reject
	<b>Results</b>	Partially accept	Partially Accept	Partially Accept	Partially Accept	Partially Accept	Partially Accept

Source: compiled by the author

Table 6.3.2 presents a summary of ownership hypotheses following the introduction of leadership characteristics for concentrated family firms.

**Table 6.3.2: Summary of ownership hypotheses following the introduction of leadership characteristics for concentrated family firms**

	Hypotheses	H1a1-Family	H1a2-Foreign	H1a3-Instit	H1a4-Inflcrossh	H1a5-Infl	H1a6-Fflot	H2a - Singledual	H2b-Ceown	H2c1-Ceotenure	H2c2-Chairtenure	H2d1-Ceonal	H2d2-Chairnal
<b>Ownership + leadership characteristics</b>	<b>Ffamily full panel</b>	Accept	Accept	Accept	Mixed	Accept	Mixed	Accept	Accept	Insignificant	Reject	Mixed	Reject
	<b>Ffamily excluding financial</b>	Insignificant	Insignificant	Reject	Reject	Omitted	Reject	Accept	Accept	Insignificant	Reject	Insignificant	Reject
	<b>Results</b>	Partially accept	Partially accept	Partially accept	Partially accept	Partially Accept	Partially Accept	Accept	Accept	Reject	Reject	Partial accept	Reject

Source: compiled by the author

Table 6.3.3 presents a summary of ownership hypotheses and leadership characteristics following the introduction of board of directors composition determinants for concentrated family firms.

**Table 6.3.3 Summary of share ownership typology and leadership characteristics hypotheses following the introduction of board composition determinants for concentrated family firms**

	Hypotheses	H1a1- Family	H1a2- Foreign	H1a3- Instit	H1a4- Inflcross h	H1a5- Infl	H1a6- Fflot	H2a - Singledual	H2b- Ceown	H2c1- Ceotenure	H2c2- Chairtenure	H2d1- Ceonal	H2d2- Chairnal	H3a- Bodsize	H3b1- Indbod	H3b2- Onwbod	H3b3- Execbod	H3c- Fembod	H3d- Frgrnbod
<b>Ownership + leadership characteristics+board's composition</b>	<b>Ffamily full panel</b>	Insignificant	Accept	Insignificant	Reject	Insignificant	Reject	Accept	Accept	Reject	Reject	Accept	Reject	Insignificant	Insignificant	Insignificant	Reject	Insignificant	Reject
	<b>Ffamily excluding financial</b>	Insignificant	Accept	Reject	Insignificant	omited	Reject	Accept	Accept	Reject	Reject	Insignificant	Reject	Insignificant	Insignificant	Insignificant	Reject	mixed	Insignificant
	<b>Results</b>	Reject	Accept	Reject	Reject	Reject	Reject	Accept	Accept	Reject	Reject	Partially accept	Reject	Reject	Reject	Reject	Reject	Partially accept	reject

Source: compiled by the author

Table 6.3.4 presents a summary of ownership, leadership characteristics and board of directors composition hypotheses following the introduction of board of management composition determinants for concentrated family firms.

**Table 6.3.4: Summary of share ownership typology, leadership characteristics and board composition hypotheses following the introduction of board of management composition determinants for concentrated family firms**

	Hypotheses	H1b1- Family	H1a2- Foreign	H1a3- Instit	H1a4- Inflcross h	H1a5- Infl	H1a6- Fflot	H2a - Singledual	H2b- Ceown	H2c1- Ceotenure	H2c2- Chairtenure	H2d1- Ceonal	H2d2- Chairnal	H3a- Bodsize	H3b1- Indbod	H3b2- Onwbod	H3b3- Execbod	H3c- Fembod	H3d- Frgrnbod	H4a- Bomsize	H4b- Ownbom	H4c- Frgrnbom	H4d- Fembom
<b>Ownership + leadership characteristics+board's composition+ board of management</b>	<b>Ffamily full panel</b>	Insignificant	Accept	Insignificant	Reject	Insignificant	Reject	Accept	Accept	Reject	Mixed	Accept	Reject	Insignificant	Insignificant	Reject	Reject	Insignificant	Reject	Insignificant	Insignificant	Insignificant	Insignificant
	<b>excluding financial</b>	Accept	Accept	Accept	Accept	Omitted	Accept	Accept	Accept	Reject	Reject	Reject	Reject	Reject	Reject	Reject	Insignificant	Accept	Insignificant	Accept	Reject	Insignificant	Insignificant
	<b>Results</b>	Partially accept	Accept	Partially accept	Partially accept	Reject	Partially accept	Accept	Accept	Reject	Partially Reject	Partially accept	Reject	Partially Reject	Partially Reject	Reject	Partially Reject	Partially accept	Reject	Partially accept	Partially reejct	Reject	Reject

Source: compiled by the author

From the above findings (Table 6.3) we can see that the introduction of leadership characteristics and board of directors and board of management composition alongside share ownership typology in dispersed and concentrated ownerships is of major importance in investigating the impact of corporate governance on firm performance. This confirms the importance of investigating the effects on firm performance of the interdependences of corporate governance mechanisms (Aguilera *et al.*, 2008; Tosi, 2008; Filatotchev & Boyd, 2009; Walls, Berrone & Phan, 2012; Misangyi & Acharya, 2014) when examining the impact of corporate governance in Morocco.

The findings tell us there an association between corporate governance practices and the performance of Moroccan firms (research question). This association depends not only on the impact of individual internal governance mechanism determinants (see Section 6.1 for further details), but the interdependences further shape the relationship between determinants of internal corporate governance mechanisms, namely: ownership (e.g. family, foreign), leadership characteristics (e.g. separate or joint CEO and chair, CEO-owners), board of directors structure (e.g. independence of members) and the structure of boards of management/top management team (e.g. size of TMT). This study finds that the determinants of external corporate governance mechanisms, as measured by the percentage of institutional share ownership (Instit), only have impact in the main panel all industries (financial firms) and in non-financial family firms.

**Table 6.4: Summary of the interdependence hypotheses**

Research hypothesis	Dispersed ownership	Concentrated ownership
<b>HQ2: Board leadership characteristics change the impact of share ownership typology on firm performance</b>	<b>HQ2: Partially accepted</b> Tables 6.2.1 and 6.2.2 show that leadership attributes influence some of the impacts of the share ownership typology–firm performance relationship for non-financial firms and family excluding foreign and foreign excluding family panels. However, there are no changes to the outcomes of the hypothesis.	<b>HQ2: Partially accepted</b> Tables 6.3.1 and 6.3.2 show that leadership attributes influence the impact on firm performance of ownership for the Ffamily full panel, without changing the outcomes of the hypothesis.
<b>HQ3: Board of directors composition changes the impact on firm performance of share ownership typology and leadership characteristics</b>	<b>HQ2: Confirmed</b> Tables 6.2.2 and 6.2.3 show that a consideration of board of directors' composition greatly mitigates the impact of leadership as well share ownership typology on firm performance. Board of directors' composition changes the outcome of hypothesis H1a2 – impact of foreign ownership on firm performance – as well as changing the outcomes of the Singledual, Chairtenure and Chairnal hypotheses on firm performance.	<b>HQ2: Confirmed</b> Unlike in dispersed ownership, Tables 6.3.2 and 6.3.3 show that a consideration of board of directors' composition significantly influences the impact on firm performance of share ownership typology. However, the introduction of board composition only impacts Ceotenure and Ceonal among the leadership characteristics, without changing the outcomes for leadership hypotheses.
<b>HQ4: Board of management/TMT composition shapes the impact on firm performance of share ownership typology, leadership characteristics and board of directors composition</b>	<b>HQ4: Partially accepted</b> The results in Tables 6.2.3 and 6.2.4 indicate changes to the outcomes for the impact on firm performance of leadership, to a greater degree than board of directors and share ownership typology. This indicates the board of management's potential to influence the impact of governance on firm performance.	<b>HQ4: Partially accepted</b> Unlike in dispersed panels, the results in Tables 6.3.3 and 6.3.4 show that the introduction of the board of management determinants changes considerably the outcomes of the hypothesis related to the impact of ownership and board of directors composition on firm performance. The results suggest little change to the hypotheses related to the impact of leadership on firm performance. The results reveal the potential of the board of management in influencing the impact of governance on Moroccan family firm performance

Source: compiled by the author



### 6.3. Evaluation of research quality

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This researcher combined a variety of sources of data to gain a sufficient number of firms (sample size) to optimise the efficacy of the research and to ensure the reliability and validity of chosen measures and variables (Bryman & Bell, 2015). In addition, the study used a kernel density plot, QQ plot and histogram with normal curve plot. Any detected residuals were traced back to the data source to ensure they were genuine. Some evidence of residual was acceptable. To check the robustness of the results, all equations were tested across different sub-panels. As outlined in Chapter 4, this study tests the hypotheses for 8 panels: 6 dispersed and 2 concentrated family panels. To increase the robustness and validity of the results and inferences, the research used all industries and non-financial industries in investigating the relationship between corporate governance and firm performance. Furthermore, the analyses use the robust command to control for autocorrelation, multicollinearity, outliers and normality of distribution (Hoechle, 2007; Wooldridge, 2010, 2015). Finally, this research also controls for year effects.

### 6.4. Achievement of research aims and objectives

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As set out in Chapter 1, this study investigates the current state of corporate governance practices and its effects on the performance of Moroccan listed firms. The general research question addressed within this thesis is: How do corporate governance determinants impact the performance of Moroccan firms? To answer this question, the following sub-questions are addressed in Chapter 5 and Chapter 6, Sections 6.1 and 6.2:

Q 1: Is there an association between 1) dispersed and 2) concentrated share ownership and firm performance?

Q2: Is there an association between board leadership characteristics and firm performance?

Q3: Is there an association between board of directors' composition and firm performance?

Q4: Is there an association between top management team composition and firm performance?

To achieve the aim of this study, this thesis **developed a model for measuring corporate governance by exploring governance metrics in Morocco**. Figure 1.1, "Corporate governance model", p.25 presents the model developed and tested within this study. The design of this model is guided by an extensive review of the literature and pilot study findings.

To achieve this aim – a model of corporate governance – the study achieved these objectives:

- A review of extant literature and corporate governance practices with a focus on Morocco. (objective1)
- A test model (i.e. a set of hypotheses) developed from the range of corporate governance literature. (objective2)
- Proposal of a model for effective evaluation of corporate governance practices in Morocco (objective3)

To achieve objective1, this study undertook an extensive literature review to outline the research gap and develop hypotheses for this study. As set out in Chapters 1–3, this thesis primarily addresses three gaps in the literature. First, the evidence from the Middle East and North Africa (MENA) region is limited on the contribution of corporate governance to firm performance (Khamis, Hamdan & Elali, 2015; Soliman, 2013; Turki & Sedrine, 2012; Omran, Bolbol & Fatheldin, 2008; Naceur, Ghazouani, & Omran, 2007; Khanchel El Mehdi, 2007). Thus there is a need for more evidence from emerging markets, especially from the MENA countries (ElGammal, El-Kassar & Canaan Messarra, 2018) and in particular Morocco. Second, there is a need to look beyond the Anglo-American context and beyond agency theory in examining the impact of the determinants of corporate governance. Third, there is a need to consider the practice of governance in its totality as opposed to just the most commonly studied governance mechanisms and their impact on firm performance. More comprehensive governance research is required in which the interdependences of corporate governance mechanisms are considered in order to understand their effectiveness (Aguilera et al., 2008; Tosi, 2008; Filatotchev & Boyd, 2009; Walls, Berrone & Phan, 2012; Misangyi & Acharya, 2014). There are two strands of literature behind this study: Chapter 2 includes an overview of the concept, the purpose of the firm and related theories,

as well as an overview of corporate governance models and codes, with a particular focus on the MENA region and Morocco; Chapter 3 presents an overview of the tested hypotheses – the literature review guided the development of the hypotheses tested within this study.

The test model (i.e. a set of hypotheses) developed from the range of corporate governance literature (objective2) has been achieved in Chapters 3, 4 and 5. Chapter 4 presents an overview of research methods and methodology including the research design: the rationale for data collection and sample as well as the statistical model used for this study. Chapter 5 presents an overview of the results and findings, and a discussion of the hypotheses developed in Chapter 3. The findings from Chapter 5 – along with the summary findings in this chapter – allow the main questions, as well as the four sub-questions, of this thesis to be answered.

The proposal of a model for the effective evaluation of corporate governance practices in Morocco (objective3) has been achieved in Chapters 3, 4 and 5. The ultimate purpose of this study is to fill the gaps described above and develop a model for measuring corporate governance by exploring governance determinants in Morocco. As set out in Chapters 3 and 4, the corporate governance model developed investigates the impact on firm performance of the determinants of internal corporate governance mechanisms, namely: share ownership typology (e.g. family or foreign), leadership characteristics (e.g. CEO and chair duality, CEO tenure), board of directors composition (e.g. percentage of independent directors, size of board) and the structure of the board of management/top management team (e.g. size, involvement of owners). The model also considers the determinants of external corporate governance mechanisms by considering the percentage of institutional share ownership as part of the investigation of the impact of share ownership typology on firm performance.

Chapter 5 provides an overview of the hypotheses behind this model and provides evidence on the impact of share ownership typology, leadership characteristics, board of directors composition and board of management composition on firm performance. Chapter 6, Sections 6.1 and 6.2, summarise the findings of the hypotheses and answer this thesis's research question and sub-

questions. The developed model allows us to understand the impact of the effectiveness of corporate governance determinants on Moroccan firm performance.

## **6.5. Contributions of the study**

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The results summarised in Sections 6.1 and 6.2 offer a unique contribution to academic knowledge and practice.

### **6.5.1. Academic contribution**

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This section describes the study's contribution to academic knowledge and theory.

#### **6.5.1.1. Contribution to knowledge**

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This study fills the large gap in the literature on corporate governance practices in Moroccan listed firms. The main contribution of this study is the investigation of the impact of corporate governance among Moroccan listed firms. This investigation will not only contribute to knowledge in Morocco, and the MENA region as a whole, but also to other developing countries. This study has several contributions to make.

First, this research is the first of its kind to explore the impact of corporate governance practices on the performance of Moroccan listed firms.

Second, it represents an important contribution to governance literature in Morocco and the MENA region in general, as there is a paucity of studies investigating the relationship between governance practices and firm performance within emerging countries and in MENA in particular. Most research has focused on developed countries.

Third, this research makes a significant theoretical contribution to the existing debate on the appropriate theoretical model for understanding governance in emerging countries and MENA countries in particular. This study suggests that

stakeholder theory is more appropriate for MENA countries such as Morocco; this is discussed in Chapters 2 and 6. The research contributes to stakeholder theory by exploring its applicability in understanding and measuring the impact on firm performance of corporate governance determinants within Morocco. Given the increasing importance of business morality and the role of corporate governance in enhancing firm performance, such insights will be highly valuable for Moroccan domestic businesses in particular and foreign investors in general.

Fourth, the research develops a model for measuring the impact on firm performance of corporate governance. The model allows us to measure the effect of corporate governance on firm performance taking into consideration the interdependences between market-based corporate governance mechanisms as opposed to considering the impact of a single mechanism or the most commonly studied mechanisms.

Fifth, the developed model will allow us to assess governance practices in MENA countries and countries with similar cultural backgrounds and characteristics. The model will be a useful tool for strengthening business practices within Morocco.

Sixth, this study is the first of its kind in the MENA region and one of the very few studies in corporate governance to consider the composition of the board of management as an important internal corporate governance mechanism shaping the impact of corporate governance in Morocco.

Seventh, this study is the first of its kind to include 100% ownership in its exploration of the impact of share ownership typology on firm performance.

Eighth, this study allows owners of different typologies, according to the nature of their share ownership, to understand which corporate governance mechanisms they should be focusing on to enhance their firm's performance.

Finally, the research will have important implications for different business players within the Moroccan economy and will hopefully provide useful information for future corporate governance studies in Morocco and the MENA region in general.

#### 6.5.1.2. Theoretical contribution

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This study contributes to stakeholder theory by extending its applicability to Moroccan culture and the MENA region more broadly. This research suggests that Islamic stakeholder theory is more appropriate for MENA countries such as Morocco (as discussed in Chapters 2 and 6). It contributes to Islamic stakeholder theory by exploring its applicability in understanding and measuring the impact on firm performance of corporate governance determinants within Morocco. The applicability of this was tested for this study. The concept of Islamic stakeholder theory was supported by the teleology of the sustainable purpose of the firm (Dsouli & Kakabadse, 2012), which was developed by the author and her supervisor as part of this thesis. Furthermore, the study tests the applicability of the G20/OECD concept of corporate governance. Table 6.5 provides a summary of contribution to theory, the purpose of the firm and the G20/OECD (2015) concept of corporate governance.

**Table 6.5: Summary of the theoretical contribution**

Guiding approach	Adopted concept	Contribution	Extent of contribution
Guiding theory: Islamic stakeholder	<p>Morocco combines an Islamic (Beekun &amp; Badawi, 2005) and a Western stakeholder (Freeman, 1984, 2015, 2017; Freeman, Wicks &amp; Parmar, 2004; Freeman et al., 2010) approach to business practice.</p> <p>Islamic stakeholder theory sees morality in acquiring wealth. Thus, Morocco adopts responsible capitalism (Freeman, 2015, 2017) based on spiritual values (Dsouli, Khan &amp; Kakabadse, 2012).</p>	<p>The importance of considering all stakeholders: internal (owners, leaders, board of directors, board of management) and institutional external investors and independent board members.</p> <p>The above supports the Islamic stakeholder theory classification proposed in Chapter 2. This posits three stakeholder layers: primary/internal stakeholders (owners/financiers and employees [including management]), upper secondary (suppliers and customers) and lower secondary (to include all external parties)</p>	<p>The study <u>confirms and extends</u> scholarly understanding of the relevance of stakeholder theory in the MENA region.</p> <p>The results support the proposition that all share ownership typologies are associated with increasing long-term returns in non-financial concentrated family firms. This is also achieved in Ceoown, Fembod and Ownbod.</p> <p>The results show that Indbod enhances LRI in dispersed-ownership financial firms.</p>
Purpose of the firm: the teleology of the sustainable purpose of the firm (Dsouli and Kakabadse, 2012)	The “teleology of the sustainable purpose of the firm” (Dsouli and Kakabadse, 2012) is based on the sustainable evolutionary growth process of the firm. This purpose puts growth at the heart of the firm’s priorities, and permits the firm to achieve shared value “profit” while also allowing it to protect the interests of all its stakeholders in a fast-changing environment with limited resources by means of contracts.	Enhancing long-term firm performance (LRI) for all shareholder typologies in concentrated-ownership family firms.	The study <u>adds new insights</u> to the existing literature on firm performance.
CG concept: G20/OECD (2015) CG definition	The G20/OECD Principles of Corporate Governance (2015, p. 9): “Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.”	Interdependence between share ownership typology, leadership characteristics, board of directors’ composition and board of management composition in impacting the performance of Moroccan firms	The study <u>confirms and extends</u> the understanding of the complex dynamics and distinctions of this interdependence and how it impacts on firm performance (see Section 6.2).

Source: compiled by the author

Table 6.5 shows that the major contribution of this study is the confirmation that Islamic stakeholder theory and the teleology of the sustainable purpose of the firm are applicable to Moroccan firms. Moreover, this applies more specifically to non-financial concentrated-ownership family firms where internal (Family, Frgn) and external (Instit, FFlot) ownership typologies thrive and enhance long-term firm performance as measured by LRI. Also, the findings of the study confirm the argument for Islamic stakeholder theory, which suggests that maintaining a good relationship between internal stakeholders (management, leaders, board of directors) and external stakeholders (institutional investors) positively influences firm performance in listed companies. This research is the first in developed or developing countries to employ Islamic stakeholder theory in investigating the relationship between the determinants of corporate governance mechanisms and firm performance.

Furthermore, this study contends that the G20/OECD (2015) concept of corporate governance applies in the Moroccan context. It demonstrates the importance of considering the interdependence between share ownership typology, leadership characteristics, board of directors' composition and board of management composition in their impact on the performance of Moroccan firms.

### 6.5.2. Contribution to practice

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The findings of this research contribute significantly to the understanding of the current state of corporate governance practices and issues within Moroccan listed firms. These findings will be of great importance to many stakeholders, including:

- Regulators, policy-makers, academics and investors
- The Moroccan stock exchange authority, the Casablanca Stock Exchange
- The national corporate governance commission, the Commission Nationale de Gouvernance d'Entreprise
- The Moroccan association of enterprises, the Confédération des Grandes Entreprises Marocaines (CGEM)



- The Moroccan market capital authority, the Autorité Marocaine du Marché des Capitaux (AMMC) ex Conseil Déontologique des Valeurs Mobilières (CDVM)
- Listed companies on the Casablanca Stock Exchange
- Policy-makers in neighbouring Maghrib and MENA countries with similar economic environments

Based on the study's findings, this research has some important recommendations for the Moroccan code of corporate governance with regard to policy-makers and all parties cited above. The first suggestion is the introduction of a special annexe within the Moroccan code for institutional owners; this could be similar to the UK stewardship for institutional investors. The purpose of this annexe should be mainly to encourage collective action by institutional investors, to promote greater transparency and reducing wealth expropriation, especially in light of the fact that institutional ownership comprises the largest type of share ownership in Morocco. The second recommendation is the inclusion of a provision in the code for the rotation of CEOs; this is mainly because long CEO tenure has been found to be negatively associated to Moroccan firms' performance. The third suggestion, similar to the annexe for banks, is a new code provision to be introduced to enhance board independence. It is recommended that such guidelines include a clear definition of independence. It is recommended to begin with a minimum required level of 20% independence, which is to be increased to 40% within the next decade. This will promote independence and reduce the numbers of owners on boards, something else found to be detrimental, especially to family firms. The fourth recommendation, because of the high proportion of family ownership in Moroccan firms, is to raise awareness and facilitate support from regulators for understanding and complying to Corporate Governance for small to medium enterprises and family firms (2008). Finally, and most importantly, it is suggested that Moroccan regulators pursue code compliance.

The developed corporate governance model presents a useful tool for assessing the impact on firm performance of corporate governance practice within MENA countries, and in Morocco in particular. The model will be useful for practitioners, consultants, academics, local and foreign investors, as well as all parties cited above. The study has highlighted some examples of good corporate governance

practice within Morocco. For instance, the presence of CEO-owners enhances firm performance. Also, the presence of a female on the board of management enhances performance for Moroccan listed firms. However, this study has also revealed some bad practice: for example, Moroccan listed firms should avoid appointing foreign nationals as CEO, chair or board members; also, they should consider staffing the board with independent members and avoid appointing owners and executives to the board. The findings also highlight the importance of considering board of management composition as an effective governance mechanism in Morocco.

The current study is potentially of much use to researchers and academics investigating the implications of corporate governance mechanisms in improving firm performance, especially considering that it is the first of its kind to examine the effects of corporate governance on Moroccan firms. Furthermore, this research is the first of its kind to examine the impact of corporate governance practices on firm performance in Morocco. It also represents one of a limited number of studies on governance in the MENA countries.

In general, this research study offers practitioners a comprehensive illustration of corporate governance practices within Morocco, presenting a clear view of the relationship between corporate governance mechanisms and firm performance. It therefore provides new insights and important primary evidence about a country that is considered representative of the MENA and Maghrib region.

## **6.6 Research limitations**

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There are a number of limitations to this research. The first concerns the period studied, which is relatively limited: a five-year period from 2009 to 2013.

The second limitation concerns the validity and consistency of data. Although secondary data has an advantage over primary – cost, time, quality and validity (Bryman & Bill, 2011, 2015) – its disadvantages consist of a possible risk of being unfamiliar with the data and the quality of the data (Bryman & Bill, 2011, 2015).

Thus, the more complex the data, the more time required for its collection – which is the case for this study.

Considering the scope of this study, and the sensitivity of the information, progress was considerably impaired by the limited availability of data and extremely limited access; it took almost two-years to collect. Following several negotiations with the ICMA Centre, Reading University to gain access to their databases – Wharton Research Data Services through the Bloomberg database, Thomson One Banker by Thomson Reuters – it was found that their resources did not serve the purpose of the study. As such access offered only a year's worth of data and a limited subscription to the relevant database for the data collection for this study, resources were ultimately limited, which resulted in considerable delays in data collection.

In addition, quality was an issue, as the data from the database was neither updated nor highly regulated; and high-quality research requires highly reliable and regularly updated information. To overcome the limited access and to ensure the quality and reliability of data, this research combined multiple sources of information: annual reports, Osiris, AMMC (Ex CDVM) reports, Bourse de Casablanca, companies' official websites, and Moroccan newspapers and web pages. (Further details on data origins are to be found in Section 4.5.2.)

A third concern is a result of the second, and it concerns the size of the sample, which is limited to 46 listed firms.

A fourth limitation is beyond the researcher's control, and it concerns the quality and lack of relevance regarding Moroccan firms' disclosure of information (Belkahia, 2005). This puts the role of the the Autorité Marocaine du Marché des Capitaux (AMMC) ex Conseil Déontologique des Valeurs Mobilières (CDVM) under scrutiny (Farooq & El Ouaabani, 2008).

A fifth limitation concerns the validity of the accounting-based measures: managers can manipulate these to undervalue assets and create distortions regarding depreciation, chosen policies, stock valuation, and accounting for

revenue and expenditure (Hambrick & Finkelstein, 1995). In addition, these measures can be subject to different consolidation methods (Chakravarthy, 1986).

Given that the sample is a multi-industry one, the sixth and final limitation concerns the difficulties inherent in interpreting and comparing financial accounting data across industries (Nayyar, 1992). On account of the last two limitations, the research has proposed the inclusion of market-based performance indicators such as market capitalisation to compensate for management manipulation (Hambrick & Finkelstein, 1995; Belkahia, 2005; Farooq & El Ouaabani, 2008) and to reflect the risk-adjusted performance for having a multi-industry sample; all industries panels (Nayyar, 1992). The research also splits the main panel into sub-panels to control for differences in financial and non-financial sectors as well as for concentration of ownership. Further details can be found in Chapter 4.

## **6.7. Further research**

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This study makes a significant contribution to the exploration of corporate governance practices in Morocco and to the role of corporate governance in influencing firm performance in Moroccan listed companies. However, there is a significant amount of potentially useful empirical research within Morocco and other developing countries that has not been covered by this study.

One possible avenue for future research is to examine a more extended period to try to gain a deeper understanding of the relationship between corporate governance practices and firm performance.

Future studies could also extend the developed model to the MENA region more broadly and to other emerging countries with similar characteristics to Morocco. Also, the application of the developed model could be extended for a comparative study of corporate governance practices among listed companies in the MENA region.

It is further especially recommended that future studies investigate the influence of boards' and leaders' demographics on firm performance: for instance, skills, age and education. Also, in exploring the impact of ownership on firm performance, future studies could consider 100% ownership rather than focusing on the highest percentage of ownership. In the same vein, studies could consider the introduction of the 30% and 50% threshold.

Additionally, future studies could consider focusing on non-listed firms. A survey could be conducted to examine non-listed firms' perceptions of governance. Future research could also explore the relationships between: 1) corporate governance and corporate social responsibility performance in Moroccan listed firms; and 2) corporate governance and transparency and accountability. The latter could be measured by the extent of disclosure among Moroccan listed firms and by adherence to good practice, viz. board committees (remuneration, audit and nomination).

Finally, future studies could use new methodologies for data analyses such as fuzz analysis and GMM model.

## Chapter 6 summary

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This study has been able to achieve its aim and objectives, as well as answering the main research question and sub-questions. More specifically, this research has comprehensively investigated the current state of corporate governance practices within Morocco. Also, it has outlined possible corporate governance barriers to, and enablers of, firm performance within Morocco. As described in Chapter 3, this study essentially used empirical models to examine the relationship between firm performance and four corporate governance mechanisms, namely: share ownership typology, leadership characteristics, board of directors' composition and board of management composition. Also, the data collection technique, the method of analysis and the development of a new corporate governance model are new to the field of corporate governance in Morocco and the MENA countries

The findings of this study are in line with the literature from various developing countries. Islamic stakeholder theory has proven its applicability to the Moroccan context. The results of the panel regression analysis indicate the effect of corporate governance on firm performance. This study supports the argument for the positive relationship between different determinants of corporate governance mechanisms and firm performance among listed companies. This study has also proved the importance of considering the interdependences among several governance mechanisms. This study is the first of its kind in Morocco to investigate the impact of corporate governance practices on firm performance and one of the few studies in the context of the MENA region.

Consequently, this research will contribute to the development of corporate governance in Morocco. With policy implications regarding the corporate governance code of best practice, as well as the new model, this research will also extend the literature on corporate governance practices from a MENA and emerging-market perspective. It is hoped that future researchers will be able to investigate further the issues highlighted by this study, implement the developed model of corporate governance and explore the avenues that this study has opened up. This thesis was concluded by a discussion on the limitations of the study, possibilities for future research and a reflection on the author's personal journey in conducting this research.

# Appendices

## Appendix 1- Corporate governance studies in Morocco

Research subject	Study	Sample size	Years studied	Key findings	Theory used for explaining the findings
The association between ownership concentration, the appointment of auditors and firm performance	Farooq and El kacemi (2011)	392 –MENA region listed firms Cross –MENA region study Countries include Morocco, Saudi Arabia, Bahrain, Kuwait, United Arab of Emirates, Egypt, Jordan, and Qatar.	2004 -2008	<ul style="list-style-type: none"> <li>- Concentrated ownership firms tend to appoint one of the big of firms of auditors to signal reliable information disclosure</li> <li>- the appointment of the big four firms of auditors by firms with concentrated ownership contribute to increases firm performance ;</li> </ul>	Agency theory
Earnings management behaviour of the IPO firms during pre-IPO, IPO, and post-IPO years: Evidence from the Casablanca Stock Exchange	Farooq and Benali (2011)	53 non listed financial firms within the Casablanca stock exchange	2007 -2008	<ul style="list-style-type: none"> <li>- There is a tendency in increasing management earnings during the IPO year and pre IPO period and lower incentives to manage earnings in the post IPO as there are fewer requirements for capital in the immediate future.</li> </ul>	Not mentioned
Can Individual/Naive Investors Infer Valuable Information from Institutional Investors' Trades?	Farooq and El Attari (2009)	All Listed firms within the Casablanca stock exchange	2002 -2006	There is disproportionality in information distribution between foreign institutions and financial institutions. Foreign institutions have the least information buy trades relative to other institutions	Not mentioned
Dividend Policy as a signalling Mechanism under Different Market Conditions	Farooq, Saoud and Agnaou (2011)	All Listed firms within the Casablanca stock exchange	2003 -2007	There is a positive correlation between dividend pay-out ratio and stock price volatility during all period growth and stable economy	Agency theory

Notice: Apart from Farooq and El Attari (2009) and Farooq and El Kacemi (2011) studies which were published, the other articles have been collected directly from the author, following a special email request.

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