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The impact of applying internal corporate governance mechanisms on financial performance -An applied study of a sample of companies listed on the Abu Dhabi Stock Exchange for the period (2014-2018)-

أثر تطبيق آليات حوكمة الشركات الداخلية على الأداء المالي – دراسة قياسية لعينة من الشركات المدرجة في سوق أبو ظبي للأوراق المالية للفترة (2014–2018)–

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Abstract

This study aimed to identify the impact of internal corporate governance mechanisms on financial performance. To achieve this objective, the study was applied to a sample of 25 companies listed on the Abu Dhabi Stock Exchange for the period 2014-2018, The study found that there is a positive moral effect of the internal governance mechanisms represented in: (the activity and independence of the board of directors, the activity and size of the audit committee, the activity and the independence of the nominations committee) on the financial performance represented in the return on shareholders' rights, We also recorded a significant inverse relationship between The size of the board and the performance of shareholder rights.

Keywords: internal governance mechanisms, financial performance, return on equity.

ملخص

هدفت هذه الدراسة إلى التعرف على أثر آليات حوكمة الشركات الداخلية على الأداء المالي ولتحقيق هذا الهدف تم تطبيق الدراسة على عينة من 25 شركة مدرجة في سوق أبوظبي للأوراق المالية للفترة الممتدة من 2014 إلى 2018، وقد توصلت الدراسة لوجود أثر معنوي موجب لآليات الحوكمة الداخلية ممثلة في: (نشاط واستقلالية مجلس الإدارة، نشاط وحجم لجنة التدقيق، نشاط واستقلالية لجنة الترشيحات) على الأداء المالي ممثلا في العائد على حقوق المساهمين، بينما سجلنا وجود علاقة عكسية معنوية بين حجم مجلس الإدارة والعائد على حقوق المساهمين.

الكلمات المفتاحية: آليات الحوكمة الداخلية، الأداء المالي، العائد على حقوق المساهمين.

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Introduction:

The financial collapses of major companies, as well as successive global financial crises, have made everyone search for a way out of these crises, and under these circumstances, interest in corporate governance has grown as a solution to avoid these crises and has become a subject of debate by academic researchers and businessmen.

In recent years, many studies have shown the positive impact of applying corporate governance on their financial performance, but this effect varies depending on the efficiency of the financial market.

The Abu Dhabi Stock Exchange is one of the most important Arab financial markets, and in terms of the application of the companies listed in the government, the Securities Commission is keen on it to ensure that all listed companies are committed to preparing government reports that guarantee the rights of shareholders and stakeholders, this allows attracting more investments.

The problematic:

In order to improve the financial performance of companies, many studies have been directed towards the concept of corporate governance, as corporate governance is considered one of the modern organizational methods that guarantee the continuity and growth of companies, and in light of the developments occurring at the level of the modern business world, it became necessary to apply governance mechanisms that are commensurate with the evolving needs of companies in order to improve their financial performance.

Taking into consideration what was mentioned before the following problematic can be raised:

To what extent does the application of internal governance mechanisms affect the financial performance of the study sample listed on the Abu Dhabi Stock Exchange?

The following sub-questions include:

- What is the impact of the board’s characteristic on the return on shareholders' equity of the sample study listed on the Abu Dhabi Stock Exchange?

- What is the impact of the audit committee's characteristics on the return on shareholders' equity of the sample study listed on the Abu Dhabi Stock Exchange?
- What is the impact of the characteristics of the Nominations and Rewards Committee on the return on shareholders' equity on the sample study listed on the Abu Dhabi Stock Exchange?

Study Hypotheses:

To answer the problematic and sub-questions, this study used the following hypotheses:

The main hypothesis:

The application of internal governance mechanisms has a positive impact on the financial performance of sample companies listed on the Abu Dhabi Stock Exchange.

Sub-hypotheses:

- Sub-hypothesis01: The characteristics of the Board of Directors positively affect the return on the shareholders' equity of the sample study companies listed on the Abu Dhabi Stock Exchange.

- Sub-hypothesis02: The characteristics of the audit committee positively affect the return on the shareholders' equity of the sample study listed on the Abu Dhabi Stock Exchange.

- Sub-hypothesis03: The characteristics of the Nominations and Remuneration Committee positively affect the return on shareholders' equity of the sample study companies listed on the Abu Dhabi Stock Exchange.

The study objectives:

Study objectives can be summarized in the following points:

- To identify the reality of applying internal governance mechanisms in companies listed on the Abu Dhabi Stock Exchange.
- Highlighting the relationship between governance mechanisms and the financial performance of listed companies on the Abu Dhabi Stock Exchange.

The importance of study:

The importance of the study appears in its approach to a modern contemporary issue under study by many researchers, as it is an attempt to shed light and know the effect of internal governance mechanisms on the financial performance of companies listed on the Abu Dhabi Securities Exchange.

The Study Approach:

In order to reach the objectives that the study aims to achieve, the descriptive approach was used, which is appropriate to describe the concepts of corporate governance and financial performance, and in order to financial determine the impact of the application of governance mechanisms on the performance of the sample companies study the method of standard analysis was used.

Previous studies:

The study (Megbaru, 2019), **entitled:** The Effect of Corporate Governance Mechanisms on Firms' Financial Performance: Evidence from Selected Commercial Banks in Ethiopia

This study aimed to examine the impact of corporate governance mechanisms on the financial performance of companies, where the study took a sample of 6 commercial banks and the study was extended from 2003 to 2009. This study used return on assets, return on equity and operating profit margin as variables to measure the financial performance of commercial banks while taking the size of the board, board independence, number of meetings, duplication of the CEO, audit committee and board ownership as independent variables to express corporate governance mechanisms. In addition, the size of the company, leverage, and the company's growth rate has been relied upon as controlled variables. The study found that there was a negative relationship between the size of the board of directors, the audit committee and the financial performance. The study also found that there is a positive relationship between the independence of the Board of Directors, the duality of the executive director, the ownership of the board of directors and financial performance. It also found that there was no relationship between the number of board meetings and financial performance.

The study (Alsamhi, Tabash, Farhan, & Al-ahdal, 2020), **entitled:** The impact of corporate governance on financial performance of Indian and GCC listed firms: An empirical investigation

This study sought to address the corporate governance mechanisms applied in the GCC and India, the corporate legal system and the surveillance policies established by the Indian and GCC governments. The study also aimed to test the impact of corporate governance mechanisms on the financial performance of listed companies. The study used a sample of 53 companies listed in India and 53 companies listed in the GCC in 2009-2016. The study found that the Board of Directors and the Audit Committee have a weak impact on financial performance, and the study also found that disclosure and transparency have a weak negative impact on the performance of companies.

Structure of the study:

To complete this study, the study was divided into three sections as follows:

1- Corporate governance.

2- Financial performance and its relationship to internal corporate governance mechanisms.

3- Applied Study.

1. Corporate governance

In the beginning, it should be noted that the term “corporate governance” is a term that imposed itself recently, due to the bankruptcy of major companies in addition to the successive financial crises that have shaken the world.

1.1. Corporate governance definition

There are several definitions of corporate governance, according to the articles and writings of researchers, and the reports of various bodies and organizations. (Ghadban, 2015, p. 17) This multiplicity is due to the different views adopted by researchers.

Frank Knight was the first to draw attention to corporate governance through his study entitled "Risk, Uncertainty, and Profit" published in 1929 (Ben ZOUAI, 2016, p. 13) As defined by the Organization for Economic Cooperation and Development (OECD): "As a set of relationships between the company's management, its board of directors, shareholders and other interested parties within the company, including the structure of the goals set by the company and the means to achieve those goals with specific and continuous monitoring of performance." (Al Djamal, 2014, p. 491) Corporate governance is also defined from a legal perspective as measures that ensure compliance with all applicable rules, laws, regulations and standards. (Rezaee, 2018, p. 2)

1.2.The importance of corporate governance

Corporate governance has an important role in establishing values of democracy, fairness, accountability, responsibility and transparency in companies, and guarantees the integrity of transactions; thus strengthening the rule of law against corruption. Also, it sets the boundaries between private rights and public interests and prevents abuse of power, and thus corporate governance allows controlling the relationship between investors, the board of directors, managers, shareholders and others. Moreover, it aims to maximize shareholders' investment in the long term by improving the performance of companies, and this requires providing incentives and procedures that serve the interests of shareholders and respect the rest of the stakeholders within the company. (Ben ZOUAI, 2014-2015, p. 31)

1.3. Corporate governance mechanisms

Corporate governance is implemented through a set of mechanisms that are imposed on the company or that the company intentionally chooses to implement them. corporate governance includes imposing surveillance and controlling the behavior of managers to protect the interest of shareholders.

Moreover, most of the literature agrees to distinguish between two groups of governance mechanisms: **external mechanisms** imposed by the external environment of the company such as external auditing and laws, ethics and community values, the stock market and others, and **internal mechanisms** that have been set up by the company to ensure that the contractual relationship between stakeholders within it is respected. (Ben ZOUAI, 2014-2015, p. 40)

2. Financial performance and its relationship to internal corporate governance mechanisms

In this part of the study, we try to find the relationship between the internal mechanisms of corporate governance and financial performance.

2.1. Financial performance

Financial performance is a set of data that express the financial situation of the institution, which is transferred to its users through financial reports.

2.1-1. The concept of financial performance

"Financial performance represents the narrow concept of corporate performance as it focuses on using financial indicators to measure the extent of achieving goals. The financial performance reflects the performance of the company, since it represents the main supporter for the various businesses practiced by the company. Also, contributes in providing financial resources and providing the company with investment opportunities in various performance fields that helps to fulfil the needs of stakeholders and achieve their goals. " (Al-Khatib, 2010, p. 45)

2.1.2. The importance of financial performance

The importance of financial performance is represented in evaluating the performance of companies from different angles and in a way that serves the users of financial reports, who have financial interests in the company, to determine the strengths and weaknesses. Furthermore, to benefit from the data provided by the financial performance, in order to make rational decisions. Its importance also stems when monitoring the company's business, conditions, and evaluating its performance levels. (Zubeidi, 2016-2017, p. 139)

2.2. The relationship of the internal mechanisms of corporate governance with financial performance

All companies strive to improve their performance and maximize the profits of their shareholders, and most studies indicate a positive effect of applying governance mechanisms on the financial performance of companies.

2. 2.1. The impact of the Board of Directors mechanism on the financial performance of companies

The board of directors is considered as one of the most important internal mechanisms of corporate governance. Its members are elected by the shareholders, and the latter represents them. Among its tasks is the selection of the chief executive officers, to whom the authority is entrusted with the daily management of the company's business. (Noy, 2016-2017, p. 64). The board of directors can have an impact on the financial performance, and we explain this as follows:

2. 2.1.1. The impact of the size of the board of directors on the financial performance of the companies

The agency's theory states that the enlargement of the board creates a conflict of interest, which makes it difficult to make decisions. M.C.Jense believes that although the size of the board allows better oversight, it increases costs and weakens communication between members. (Score, 2016-2017, p. 128)

2.2.1.2.The impact of the independence of a member of the Board of Directors on the financial performance of the companies

An independent member is every member who has no relationship with the corporation or any employee of the executive management of the company or any affiliate institution or with the auditor of the company or any relationship other than that related to his contribution in the company. Most of the studies have reached to prove a positive relationship between the existence of an independent member within the board of directors and the financial performance of companies, where the latter is neutral, his mission, accompanied by other members and executive management, requires preserving the rights of shareholders, and the presence of the latter is considered a deterrent to financial fraud. (Score, 2016-2017, p. 128)

2.2.1.3. The impact of the number of Board of Directors meetings on the financial performance of companies

The agency theory believes that agency costs can be reduced by intensifying the control activities of the board of directors through increasing the number of meetings, this would enhance the performance of companies. Also, the supervision theory believes that the intensity of the board's activity, measured by the number of meetings, will likely lead to superior performance. Board meetingscan be taken as a measure of the efficiency and effectiveness of supervision. (Chaib Ainou, 2019, p. 277)

2.2.1.4. The effect of duplicating the position of Chairman and CEO

According to the theories, we find that the theory of agency is with separation since it is considered to be a necessity to protect the interests of shareholders, as the CEO mainly tends to opportunism therefore will seize opportunities to achieve his interests at the expense of the shareholders' interests. This is in contrast to what is stipulated in the supervisory theory that supports the dual position of CEO and chairman that is based on social psychology, as it considers that managers are far from selfish and individualism. (Chaib Ainou, 2019, p. 277)

2.2.2. The impact of the audit committee on the financial performance of companies

The Audit Committee is considered a sub-committee of the Board of Directors and consists of non-executive Board members, who have experience in the field of accounting and finance. The audit committee's role aims to ensure that the system is working properly as well as to verify the validity of the reports. The audit committee has a significant role in any company, through its ability to ensure the proper use of its available resources to achieve its established objectives, which would positively affect its financial performance. (From, 2017, p. 142)

2.2.3. The impact of the wage system and incentives on the financial performance of companies:

The system of wages, incentives and rewards is one of the most important conditions for good corporate governance, as we find that the Basel Committee emphasized in the principles issued in 2015 the need for a system of incentives and wages with the necessity of disclosure and transparency. (Basel Committee, 2015, p. 30). In the same context, the principles issued by the OECD in 2015 in its sixth principle mentioned that among the tasks of the Board of Directors is to set a policy for rewards and wages. (OECD, 2015, p. 48) Wages are an incentive tool for managers to do their job well in the interests of shareholders. Through this system, the performance level of the managers is raised because the rewards and incentives obtained are linked to the company's performance. (Noy, 2016-2017, p. 127)

3. The practical part

3.1. Study sample and data collection

The study population is represented in all the companies listed on the Abu Dhabi Securities Exchange during (2014-2018) and their number is estimated with 68 companies distributed into nine sectors. A sample of 25 companies was taken and distributed over a number of different sectors around which all the necessary information for the study are available.

Firms with a financial status, such as insurance companies and banks, were excluded due to what is being raised by some researchers that the insurance and banking sector requires a certain level of governance standards that differs from other sectors. The rest of the companies were excluded due to the lack of the necessary reports. Financial reports and governance reports published on the Abu Dhabi Securities Exchange website or on the companies' websites were relied on for data collection. The following table shows the study population and sample:

Table 1. the study population and sample

Sector	Listed companies	Companies excluded	The study sample
The insurance sector	17	17	00
Service sector	06	02	04
Banking sector	12	12	00
Energy sector	02	00	02
Industry sector	11	03	08
Consumable goods sector	03	01	02
Real estate sector	05	02	03
Investment and services sector	09	04	05
Telecom sector	03	02	01
Total	**68**	**43**	**25**

Source: Prepared by researchers based on the Abu Dhabi Securities Exchange website https://www.adx.ae

3.2. Study sample

The proposed model studies the relationship between the dependent variable, represented in financial performance referred to as the return on shareholders' equity, and the independent variables represented in the internal mechanisms of corporate governance represented in the board of directors, the audit committee and the Nomination and Remuneration Committee.

3.3. Study variables

In order to study the impact of applying internal governance mechanisms on the financial performance of companies listed on the Abu Dhabi Securities Exchange; the study variables and their measurement method were chosen based on previous studies, and in accordance with what was disclosed on the Abu Dhabi Stock Exchange.

Table 2. Study variables and methods of their measurement

Dependent variable	**Code**	**Measurement**
The return on Shareholder's equity	ROE	Net Profit / Total Shareholder's Equity
independent variable	**Code**	**Measurement**
1-Board of Directors Index		
The size of Board of directors	Size	The number of board members
Board of directors activity	BA	The number of board meetings during the year.
Independence of the Board of Directors.	IBA	The number of independent members of the Board of Directors.
2. Audit Committee Index		
The size of Audit Committee	SAC	The number of Audit Committee members
Audit Committee activity	AAC	The number of Audit Committee meetings during the year
Independence of the Audit Committee	IAC	The number of independent members of Audit Committee
3. The Nomination and Remuneration Committee Index		
The size of Nomination and Remuneration Committee	SNC	The number of Nomination and Remuneration Committee members
The Nomination and Remuneration Committee activity	NCA	The number of Nomination and Remuneration Committee meetings during the year
The Independence of Nomination and Remuneration Committee	NMI	The number of independent members of Nomination and Remuneration Committee

Source: Prepared by researchers

3. 4. descriptive analysis of variables

In order to give a first look at the data approved in the study through the statistical characteristics of these data, the results of the descriptive analysis can be presented in the following table:

Table 3. descriptive statics of the study variables

Variable	Medium	Maximum	Minimum	Standard deviation
ROE	0.103692	1.082100	0.000100	0.100638
SAC	3.406897	5.000000	2.000000	0.661402
SIZE	8.206897	12.00000	5.000000	1.657879
SNC	3.213793	5.000000	2.000000	0.502580

AAC	4.648276	9.000000	2.000000	1.488526
BA	5.558621	11.00000	3.000000	1.353370
IAC	3.062069	5.000000	1.000000	0.738059
IBA	6.213793	11.00000	2.000000	2.303940
NCA	2.862069	27.00000	0.000000	3.420974
NMI	2.765517	4.000000	1.000000	0.645646

Source: Prepared by researchers based on EVIEWS 10 program outputs

The previous table shows some of the statistical properties of the model. Also, it is noticed that most of the standard deviation values of the variables are low, which indicates the homogeneity of the sample data and the absence of significant big differences between the observations. Furthermore, there is no standard deviation for any variable greater than its arithmetic mean.

3.5. presentation and analysis of the results of estimating the study models

Due to the importance and comprehensiveness of the topic, 9 models were estimated for all indicators of governance mechanisms and their impact on the financial performance of companies. The study sample listed on the Abu Dhabi Securities Exchange during (2014-2018), where three Panel models were estimated (pooled regression model PRM, fixed effects model FEM, random effects model REM), for each set of independent variables each indicator determines the effect of these independent variables from a different angle on financial performance. Through this part, the three models of Panel data PRM, FEM and REM were estimated, using The appropriate method for estimating, with the help of 10Eviews program. after entering the data and performing the estimation operations, the results were as following:

Table 4. shows the estimation of the study model parameters using the three models

N=*25*, T=*5*, N*T=125 Impact of the Board of Directors on ROE		FIRST MODEL		
		PRM	**FEM**	**REM**
C	∝	**0.155265	**0.178900	**0.155265
SIZE	β_1	**-0,01627	-0,079589	**-0,02222
BA	β_2	**0,039083	**0,025867	**0,039083

IBA	β_3	**0,022223	**0,007224	**0,016278
The coefficient of determination R^2		0.91	0.95	0.91
Fisher's method		0.00	0.00	0.00
Estimation method		OLS	OLS	GLS
Impact of the Audit Committee on ROE		**SECOND MODEL**		
		PRM	**FEM**	**REM**
C	$\propto$	0.067043	0.129104	0.067043
IAC	β_1	-0.017278	-0.001070	-0.017278
AAC	β_2	**0.013154	**0.062084	0.003154
SAC	β_3	0.050589	**0.099901	**0.039589
The coefficient of determination R^2		0.52	0.77	0.51
Fisher's method		0.0000	0.004	0.0848
Estimation method		OLS	OLS	GLS
Impact of the Nominations Committee on ROE		**THIRD MODEL**		
		PRM	**FEM**	**REM**
C	$\propto$	0.053105	0.070180	0.053105
SNC	β_1	**0,043036	**0.061742	**0.045304
NMI	β_2	**0,051594	**0.051731	-0.021594
NCA	β_3	-0,004501	-0.005330	0.004901
The coefficient of determination R^2		0.62	0.75	0.62
Fisher's method		0.03	0.009	0.04
Estimation method		OLS	OLS	GLS
Significant at the level of significance 5%				

Source: Prepared by researchers based on Eviews10

Regarding all the models for indicators measuring the three mechanisms of applying governance mechanisms, it is clear that the partial and total probability of the three Panel models for each of the indicators of the mechanisms of governance implementation the pooled regression model PRM, the fixed effects model (FEM) and the random effects model (REM) less than 0.05%. Of these, the three models are statistically acceptable, and in order to determine which of the Panel models is the most appropriate for the analysis process, differentiation tests will be performed for each indicator separately.

3.6. The results of the differentiation test between the sample study models

It is considered to be the most important step in the economic measurement of longitudinal data models (cross-sectional time-series data), through which the most appropriate model for the analysis process is determined, based on a set of statistical tests, which can be summarized as follows: **LM Breusch-Pagan test and Hausman test.**

3.6. 1. Lagrange multiplier test LM Breusch-Pagan based on the R-STODIO program .

The test was performed based on the following hypotheses:

Hypothesis for the Lagrange test

Pooled regression Model is the appropriate .... H_0

Fixed or random effects model is the appropriate .... H_1

This test is used to compare between the pooled regression model and the fixed effects and random effects model

3. 6. 2. Hausman test

To confirm the most appropriate model corresponds to the data used in this study, after making sure that the fixed or random effects model is the appropriate based on the (PB) test, a final judgment will be made based on Hausman test.

Hausman test hypothesis:

The random effects Model is the appropriate .... H_0

The fixed effects model is the appropriate .... H_1

The results of the two tests for all the study models are in the following table:

Table 5. shows the results of the LM test and the Hausman test

Indicator	Test	Test value	P- value
1- Board of Directors	LMBreusch-Pagan test	21.15594	0.0000
	Hausman test	12.496976	0.0016
2- Audit Committee	LMBreusch-Pagan test	11.32508	0.0026
	Hausman test	8.625362	0.0357
3- the Nominations Committee	LMBreusch-Pagan test	74.94484	0.0000
	Hausman test	45.60101	0.0000

Source: Prepared by researchers based on Stata 14 program

The table above shows that the result of the LM test was (21.15, 11.32,74.94) for each differentiation test between the pooled regression model and the effects model (fixed or random) for each indicator of the mechanisms of implementing governance separately, with a probability of (0.0000) in the three casesand it is below the level of significance 0.05 Therefore, the results of this test leads us to reject the null hypothesis which states that the aggregate regression model is appropriate, and accept the alternative hypothesis, meaning that the fixed or random effects model is the appropriate model for the study.

As the results obtained from the above table shows, the Hausman test that follows the chi-squared distribution, whose value was estimated with (12.49, 8.62,45.60), considering the three indicators as described above, has a probability of (0.00, 0.00,0 .03), which is less than 5% Therefore, rejecting the null hypothesis, the random effects model is appropriate, and accepting the alternative hypothesis that the fixed effects model is appropriate in the models for the three indicators of governance implementation mechanisms (the nomination committee, audit committee and the board of directors).

3.7. Analyzing the results of evaluating the models included in the study

After confirming the preferred models for the analysis process based on the previous differentiation tests, we will analyze the results of estimating these models.

3.7.1. Model of the Board of Directors 'Impact on the Financial Performance of the Study Sample

In this model, Fisher's test showed that the whole model is statistically significant, as the statistical values of Fisher reached (139.49), which is greater than the tabulated value at the level of significance 5%.and this can be inferred through the critical value equal to (0.0000), which is less than the level of significance 0.05. On the other hand, the explanatory ability of the model reached R^2 = 0.95, meaning that the independent variables, and it relates to the activities of the board of directors, the number of independent members and the size of the board of directors explains 95% of the changes in financial performance, while the remaining percentage are unincluded factors in the model.

Concerning the partial significance, the Student tests showed that all the parameters associated with the independent variables are statistically significant, given the fact that the critical values of these tests are less than the significance level of 5%, which confirms the acceptance of the model from a statistical standpoint.

The negative sign associated with the board of director's size variable indicates the adverse effect of this variable on the financial performance, because an increase in the size of the board of directors by one person leads to a decrease in the financial return by 7%, which can be explained by the fact that the expansion of the size of the board leads to the creation of a conflict of interests, doubles the costs and weakens the communication Among the members, as a result it reflects negatively on the financial performance.

As for the reference to the variable related to the activity of the board of directors, it had a positive effect on the financial performance of the institutions under study. Since, the increase in the activity of the Board of Directors will contribute to raising and improving the financial return by 2%, that is, increasing the annual meeting rate contributes to creating new strategies and exchanging views in a way that serves the interests of the company in all fields.

Also, the parameter related to the number of independent members in the board of directors was a positive sign, because independent members enjoy great independence which makes them more efficient, in addition to that most of the members are directors of former companies, which makes them experts enough to object as well as question dubious decisions, and thus exercise more effective oversight.

3.7.2. The model of the impact of the audit committee indicator on the financial performance of the study sample

According to Table (3), it was found that the fixed effects model, which measures the impact of the audit committee index referred to as the variables (size of the audit committee SAC, the activity of the audit committee AAC, the independence of the audit committee IAC) on the financial performance is significant from a statistical point of view, where the statistical critical value (Prop- $Fisher_{stat} = 0.004$) which is less than 0.05, and the explanatory ability of the model $R^2 = 0.77$, that is the independent variables (IAC, AAC, SAC) explain changes in financial performance by 77%.

As for the remaining percentage, it is other factors that were not included in the model, and this percentage is also high and indicates the essential impact of the audit committee in determining the financial performance of the sample of the companies under study. Because its critical probability values are less than 0.05, and the parameter associated with the number of independent members was not statistically significant as the critical probability value of the estimated parameter reached ($Prop\text{-}T_{stat}$ = 0.95), so the model is statistically acceptable.

With regard to the direction of impact, increasing the size of the audit committee by one unit will improve financial performance by 9%. The increase in the number of members ensures greater accuracy in the control process and thus increases the quality of performance, while increasing the activity of the audit committee by one meeting would raise the financial performance by 6%. since the increase in the activities of the committee will allow an exchange of views and transfer of knowledge, in addition to ensuring full transparency, which is required to improve financial performance.

3.7.3. Model of the Impact of the Nomination and Remuneration Committee indicator on return of shareholders' equity for the study sample:

According to Table (3), it was found that the first model, which measures the impact of the Nomination and Remuneration Committee indicator, and referred to as variables, (the size of the Nominations Committee SNC, the Nominations Committee activity NCA, the number of independent members NMI) on the return on shareholders' equity is significant in terms of statistical terms, as it reached the critical value The statistic ($Prop\text{-}Ficher_{stat}$ = 0.0000), which is less than 0.05, on the other hand, the explanatory power of the model R^2= 0.75, that is, the independent variables (SNC, NCA, NMI) explain changes in financial performance by 75%.

As for the remaining percentage, it is other factors that were not included in the model, and this high percentage shows the fundamental effect that these variables play in determining the financial performance of the study sample. With regard to the partial significance, it appears that both the parameter related to the committee's activity and the number of independent members were statistically significant because its critical probability values are less than 0.05, and the parameter related to the size of the Nominations and Remuneration Committee was not statistically significant, and what can be concluded from the above is that the model is statistically acceptable.

With regard to the direction of impact, increasing the number of members of the Nomination and Remuneration Committee by one person will improve the financial performance by 5%, while increasing the activity of the Nomination and Remuneration Committee by one meeting would raise the financial performance by 6%, which is the main role played by this committee. Via ensuring constantly the independence of the independent members, in addition to identifying the company's needs for competencies at the level of executive management, and preparing a policy for granting appropriate rewards, benefits, incentives and salaries that allow for an increase in performance.

Conclusion

Despite the novelty of the concept of corporate governance in the UAE, it is noticed that there is a serious move by the state for the optimal implementation of the governance system. Also, the Abu Dhabi Securities Exchange in turn obliges listed companies to prepare governance reports and presents them to all stakeholders in order to preserve their rights and increase transparency, therefore, it reflects positively on the companies and the stock market as a whole.

The study also found:

- The existence of a positive impact between the activity of the board of directors and the number of independent members on the financial performance of the sample companies listed on the Abu Dhabi Securities Exchange, while there is an inverse relationship between the number of board members and financial performance
- The existence of a positive impact on the activity and the size of the audit committee on the financial performance, while there is no significant relationship between the number of independent members and the financial

performance of the study sample companies listed on the Abu Dhabi Securities Exchange.

- The existence of a positive impact of the activity of the nomination committee and the number of independent members on the financial performance, while there is no significant relationship between the size of the nomination and remuneration committee and the financial performance of the study sample companies listed on the Abu Dhabi Securities Exchange.

Suggestions:

Within the framework of the results that have been reached, a set of recommendations can be presented, which we list as follows:

- The need to ensure the full implementation of the principles and mechanisms of governance at the level of all companies.
- All companies should be required to facilitate access to the company's financial statements and annual reports.
- Work on the necessity to circulate the establishment of a committee specialized in governance affairs that will work to supervise the progress of the implementation process of governance within the company.

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