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The Effect of Corporate Governance on Firm's Profitability: Evidence from London Stock EX-CHANGE

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Abstract---*Corporate governance mechanisms are one of most important factors affecting firms' performance because of conflicts of interest among managers and shareholders. The aim of this paper is to determine to what extent corporate governance mechanisms affect firms' profitability. To this purpose, data was collected from the largest 156 publicly-traded companies from manufacturing (40 companies) and non-manufacturing (116 companies) in England and Wales for the year 2018. Tobin's Q ratio and Return on Assets (ROA) have been selected as dependent variables which are widely used as measurements of firms' performance. Corporate governance mechanism is the independent variable composed of eight dimensions namely Chief Executive Officer Tenure, Meetings of the Audit Committee, Firm Size, Board Size, the percentage of Non-executive directors in board committee and Industrial Classification. After using cross-sectional analysis and employing regression analysis in SPSS 22, it has been found that CEO Tenure has a very small influence on firm performance. However, CEO Tenure has no effect on firm profitability. In addition, Audit Committee Meetings, Board Size and percentage of Non-executive directors in board committee have positive impacts on firm performance, even if using Tobin's Q ratio or ROA as a measurement of firm performance. This study proved that increasing the number of directors will increase the firm's profitability and accurate regulations of Britain's financial system have reduced the imposition of personal interest on the public interest.*

Keywords--- *firm performance, agency theory, stewardship theory, corporate governance, England and Wales companies.*

I. INTRODUCTION

Corporate governance has become a very important issue during the last few decades among academics and governments, especially after the disclosures regarding the corruption of some companies such as WorldCom and Enron in 2002. Corporate governance mechanisms are one of most important factors which have effects on the firm performance because the managers have their own interests which are sometimes different from shareholders' interests. Corporate governance systems aim to achieve economic efficiency, with a strong emphasis on increasing sharehold-

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ers' wealth. Corporate governance seeks to balance the interests of stakeholders [35]. Corporate governance can be defined as the set of regulations and managerial practices directing and controlling a board of directors as well as balancing both directors' and shareholders' interests [13,26].

In recent decades, corporate governance has started to become one of the most important issues in several countries around the world, in both developed and developing countries, especially after 2002. Corporate governance mechanisms are one of most important factors affecting firm performance because of conflicts of interest: managers have their own interests which sometimes differ from those of those of shareholders [1]. Corporate governance of firms depends on the ownership structure of the company, on whether the company is owned by a single individual or by a group of people. The existence of corporate governance systems aims to achieve economic efficiency, with a strong emphasis on increasing shareholders' wealth. Corporate governance exists to balance the interests of stakeholders [35]. Furthermore, a good quality of corporate governance can lead to using the company's resources optimally [3]. This study was focus on corporate governance mechanisms as part of the factors which have an effect on firm performance. The data collected for this study has been publicly published in relation to the year 2018. The data includes several variables, which have been selected to investigate the influence of corporate governance on company's performance. Board Size, CEO Tenure, Insider Shareholding, Firm Age, Independent Directors, Industrial Classification, Audit Committee Meetings, Firm Size and Firm Leverage are variables which are widely used in several academic papers to test the impact of corporate governance on firm performance; for instance, some of those variables have been used by AlMatari et al. (2012), Xie et al. (2003) [37] and Aldamen et al. (2012) [2]. This study will test those variables mentioned above for the top 156 Welsh and English companies for the year ended 2018 to find out to what extent the corporate governance mechanism of those companies affect their performance. The data chosen for this study will contain: Tobin's Q ratio, Return on Assets, Chief Executive Officer Tenure, Board size, Industrial Classification Codes, the Number of Audit Committee Meetings, Independent Directors and Company Leverage. Finally, the method of this study is similar to that used by Haniffa and Hudaib (2006) [18], Agrawal and Knoeber (1996) and Kyereboah-Coleman (2007) [23], but this study will make slight changes to the variables used by them, as well as testing those variables in different times and different locations.

II. LITERATURE REVIEW

A. Measuring firm profitability

There are several different approaches to measuring firms' performance and choosing some accounting measurements as indicators of profitability or as dependent variables. Some studies have used return on capital employed as a measure of firm performance and others have used net profit as an indicator of the profitability. However, firstly I selected a market based measurement (Tobin's Q) as a dependent variable. James Tobin is an economist who won a Nobel Prize in 1981 for discovering the Q Ratio in 1969 and he assumed that the market value of a firm on the stock market should be similar or the same as their replacement value. Tobin's Q is calculated by dividing the market value of the firm by the book value of its total assets. Secondly, I chose an accounting measurement (ROA) as a dependent variable to find out to what extant corporate governance mechanisms have an impact on profitability. ROA brings to light the extent to which the firm is efficient and can generate profit from its core operating activities

or by using its assets to obtain revenue. ROA is the percentage which is calculated by dividing the firm's annual net income by its total assets. These two dependent variables (Tobin's Q and ROA) are very commonly used in a lot of academic papers, especially when they want to test the effects of corporate governance mechanisms on company performance. Firstly, I chose Tobin's Q as the dependent variable, which is used as the market-based measurement of the company's performance; this has been used by Weir et al. (2002) [36]; Yermack (1996) [38] and Bai et al. (2004) as a dependent variable to examine the 27 effects of corporate governance on firm performance. Furthermore, a lot of empirical studies used ROA (Return on Assets) and ROE (Return on Equity) as independent variables to measure firm performance, such as McKee et al. (1989) [30] and Waddock& Graves (1997). But in this paper I just use ROA because ROA is a better accounting measurement for firm performance than ROE [29]. Moreover, I will use both Tobin's Q and ROA as dependent variables to measure firm performance and the effects of the corporate governance mechanisms on profitability. Finally, this technique of using both dependent variables above has been used by Klapper and Love (2004) [22] as well as by Bhagat and Bolton (2008) [7]. The following is an explanation of the approach for calculating the dependent variables:

1. Tobin's Q Tobin's Q is the percentage which is calculated by dividing the market value of the firm by the book value of firms' total assets. The equation of Tobin's Q Ratio is as follows:

$$\mathbf{Tobin's Q Ratio} = \mathbf{Total Market Value of Firm} / \mathbf{Total Asset Value of Firm} \times \mathbf{100}$$

2. Return on Assets (ROA) is the percentage which is calculated by dividing the firm's net profit by firm's total assets. The following is the formula for ROA:

$$\mathbf{ROA} = \mathbf{Net profit} / \mathbf{Total Assets} \times \mathbf{100}$$

B. Independent variables

Independent variables which are widely used in a large number of empirical academic papers, as corporate mechanisms; especially in testing the impact of corporate governance on firms' profitability. The corporate governance mechanisms which will be used in this paper are: Chief Executive Officer Tenure, Audit Committee Meeting, Firm Size, Board Size, Board Composition, Industrial Classification (MANU), and Firm Age and Company Leverage.

Chief Executive Officer Tenure (CEO Tenure)

The CEO Tenure is the period which the Chief Executive Officer spends in his or her position in the company. The CEO Tenure differs among firms and also throughout the history of the markets as well as being different between industries. According to the report of the Conference Board (2018), the average CEO Tenure was 10 years in 2000 and then declined to approximately 8 years, while according to that report, nowadays the CEO Tenure should be between 10 and 9 years. Furthermore, some scholars argue that long periods of CEO Tenure have positive impacts and some others have suggested the opposite. Finally, calculation of the CEO Tenure is as follows: The CEO Tenure = the period which he or she spent in the firm as CEO.

Audit Committee Meetings

Audit committee meetings have a significant role in monitoring firm activities as well as protecting shareholders' rights from directors' behaviours. After the US passing a new law (the Sarbanes-Oxley Act), the role of audit committees has been considered an important factor for reducing the rapacity of some irresponsible managers. Xie et al. (2003) found that more active audit committees will lead to reduced levels of management earnings as well as more honesty 29 in disclosing financial information. They emphasized that audit committee meetings will increase firm performance in the market. Furthermore, the audit committees has been played an important role in monitoring directors' activities in the company and so increasing the number of meetings of the audit committee will lead to increases in the company's performance [4, 14]. The positive relationship between firm performance and audit committee meetings is due to the activities of audit committees in monitoring accountants' reports and regular meetings will lead them to understand the risks that affect shareholders' interests in order to reduce or eliminate those risks [11,5]. The audit committee meetings are measured as follows:

Audit committee meetings = the number of meetings of the audit committee during a year.

Firm Size

Several studies have mentioned that firm size has a significant impact on firm performance as well as being associated with various characteristics of the company. Firm size, in this paper, is used as an independent variable to find out to what extent firm size is associated with board structure as well as with firm performance. According to Al-kake and Dler, (2019), firm size plays an important role in determining the board structure, while they also argue that firm size is associated with growth opportunities for the company in the market. The measurement of firm size in this study will be the same as that used by Al-Matari et al. (2012) and Eisenberg et al. (1998) [15]. They used the natural logarithm of a firm's total assets as the measurement of the firm's size as well as using firm size as a controlling variable. However, in this study firm size will be used as a normal independent variable because at the end, even if it is used as a control variable, it will be put in the equation as a normal independent variable.

Firm Size = the logarithm of a company's total assets.

Board Size

Several empirical academic papers have used board size to test the influence of corporate governance on firm performance as well as board size refers to the directors number which comprise a company's board committee. There are various views about the influence of board size on the performance of companies. The most important view states that increasing the number of directors will increase the firm's performance. This is because the decisions made by a larger number of management experts will be more useful and more effective to increase the firm performance [25,12]. The following shows a definition of the board size variable:

Board Size = the total number of directors on a board of directors.

Board Composition

There are wide debates about the effect of board composition on firm performance because it is used as a monitoring mechanism to assist the board executives in becoming more efficient. Independent directors are sometimes

known as Non-executive directors and are not part of the executive management group as well as not being categorised as among the firm's employees. They play an important role in the monitoring processes within the company [8,32]. Although non-executive directors do not participate in the daily running of the business, they monitor the executive directors, especially when they want to make strategic decisions. Board composition is measured by dividing the number of non-executives by the total number of directors and then multiplying the result by 100 as follows:

$$\mathbf{Boardcomposition = Thenumberofnon-executivedirectors / Thetotalboarddirectors \times 100}$$

Industrial Classification (MANU)

Industrial Classification (MANU) has been used to classify economic activities which help to identify the role of businesses in the national economy. In the United Kingdom, throughout history there have been several systems to classify firms' activities. For example, in 2003 4 digit numbers known as SIC codes were used and in 2007 these became 5 digit numbers. Several studies have found that the industry form has a significant effect on firm performance. The market consists of exchanging processes among various industries and each industry has its own characteristics, which differ from the others. Hawawini et al. (2003) [19] tested a sample of 562 American companies across 55 different industry classifications for the period from 1987 to 1996 and they asked whether the same strategies of top performing companies can be applied to other industries. They found that internal factors have more impact on leading firms than external factors. However, in this study industrial classification has been divided into two types; Manufacturing and Non- Manufacturing. In order to measure industrial classification, the number 1 has been used as an indicator for manufacturing companies while the number 0 has been used as an indicator of Non-Manufacturing companies. This dummy variable is identified by the label 'MANU'.

MANU = Manufacturing or Non-Manufacturing company.

Firm Age

Firm age is another independent variable which has been used in this study and there are two views about measuring firm age. The first group suggest that calculating firm age from the date on which it was listed on the stock market, such as put forward by Shumway (2001) [33] and Fama and French (2004) [17], because they thought that such a listing will influence the ownership structure and increase growth opportunities. The second group suggests measuring the firms' age from the date of incorporation; the proponents of this view include Loderer and Waelchli (2010) [28], because they thought that the firm age refers to the legal entities and the experience of the firm in the market. This author is in agreement with the second view and so the present study uses the same measurement to measure the firm's age, which is the number of years from the company's incorporation date until 2018. However, it will use the natural logarithm of firm age and this kind of measurement has been used by Brown and Caylor (2006) [9]; they also used firm age as a control variable. The following is this study's definition of firm age:

Firm Age = the time from the company's incorporation to the year 2018.

Company Leverage

Firm leverage has been used in many academic papers to test the relationship between corporate governance and firm performance. Furthermore, some academic studies have used leverage as a control variable, such as Al-Matari

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et al. (2012). However, some other academic studies have used firm leverage as a normal independent variable, such as Bhagat and Bolton (2008). This study will use leverage as a normal independent variable, because as has been mentioned before, all independent variables at the end will be put in the same model without mentioning any control variable. The measurement of firm leverage will be as follows:

$$\textbf{Firmleverage} = \textbf{TotalFirmAssetsTotalEquity}$$

III. RESEARCH METHODOLOGY

This study examined the role of corporate governance in firms' profitability by testing some financial variables to determine the role of managers in increasing firms' profitability. The data that have been collected in this study have been publicly published in 2018 and the type of data is secondary data. Two data collection processes have been used for obtaining necessary variables related to corporate governance or firm performance; first, the dataset was obtained from the Fame and Mergent online databases. Secondly, as some variables were not available in accessible online databases, companies' annual reports were used to obtain the other necessary variables. To achieve the objects of this study, a sample of the top 156 firms listed on the London Stock Exchange were taken for the year ending 2018 and the method of cluster sampling was used in the data collection process. The data was further analysed using the statistics software IBM SPSS version. This paper was focus on two dependent variables (Tobin's Q ratio and ROA) as well as several independent variables: Chief Executive Officer Tenure, Audit Committee Meeting, Firm Size, Board Size, Board Composition, Industrial Classification (MANU), Firm Age and Company Leverage, utilising cross-sectional data. Panel data could reveal changes in the relationships between variables over time, however, due to time constraints, and as a specific period of time (2014) is focussed upon for collecting data, cross-sectional data will be sufficient for this study, as suggested by Deaton (1985) and Solnik and Roulet (2000). Several academic researchers have used the same approach (cross sectional); Al-Matari et al. (2012), Huselid and Becker (1996), Thompson et al. (1998), Moffitt (1993) and Froot (1989). Furthermore, this study uses the statistics software IBM SPSS version.

IV. FINDINGS AND DISCUSSION

A. The frequency and the percentage of Industrial Classification (MANU)

Table 1: The Frequency and Percentage of Each Category of Industrial Classification

Type of Industry	*Code*	*Frequency*	*Percentage*
Manufacturing firms	1	40	25.6
Non- Manufacturing firms	0	116	74.4
Total		**156**	**100%**

Table 1, above, has been drawn in order to show the frequency for the industrial classification variable; the dummy variable labeled 'MANU'. The frequency of the two categories of industry has been shown in table 1above,

where 0 refers to manufacturing companies and 1 refers to non-manufacturing companies. The sample that has been selected for this study contains the 156 largest companies in England and Wales, as well as being divided into two types of industries. Manufacturing companies constitute 25.6% of the total sample, of which there are 40 firms. The share of Non-manufacturing companies comprises 74.4% of the total selected sample and it contains 116 companies. This kind of classification is important for this study to find out which type of industry is more affected by corporate governance mechanisms and which type is more successful.

B. Correlation Coefficient Analysis

Table 2, below, shows the correlations among CEO Tenure, audit committee meetings, firm size, board size, board composition, industrial classification (MANU), firm age and company leverage with the variable Tobin's Q as the first measurement of firm performance and ROA as second measurement of the firm performance.

Table 2: Correlation of Variables

Variables	Tobin's Q	ROA	CEO Tenure	Audit committee Meetings	Firm Size	Board Size	Board Composition	Industrial Classification (MANU)	Firm Age	Firm leverage
Tobin's Q	1	0.193 *	0.045	- 0.137 *	- 0.333 *	- 0.047	- 0.075	0.006	- 0.084	-0.224 **
ROA	0.193 *	1	0.104	- 0.004	- 0.128	- 0.057	-0.038	- 0.070	- 0.045	- 0.046
CEO Tenure			1	- 0.075	- 0.153 *	- 0.096	- 0.152 *	- 0.089	0.037	- 0.042
Audit committee Meetings				1	0.569 **	0.464 **	0.325 **	0.111	0.040	0.408 **
Firm Size					1	0.679 **	0.478 **	0.107	0.034	0.460 **
Board Size						1	0.413 **	- 0.194**	-0.033	0.244 **
Board Composition							1	0.162*	0.080	- 0.003
Industrial Classification (MA-								1	0.097	- 0.128

NU)										
Firm Age									1	- 0.110
Firm leve-rage										1

*. Correlation is significant at the 0.05 level.

**. Correlation is significant at the 0.01 level.

The first row in table 2, above, clarifies the correlation among the dependent and independent variables. Firstly, it shows that Tobin's Q is positively correlated with ROA at value 0.193, but this correlated is insignificant. Secondly, it shows that Tobin's Q is positively correlated with CEO Tenure as well as with Industrial Classification (MANU), with values of 0.045 and 0.006, respectively, but the correlation coefficient with both variables is not significant, at 0.05. Then, there is a negative correlation between Tobin's Q and board size and board composition, with the values - 0.047 and - 0.075 respectively, but not significant at the 0.05 level. There is a correlation between Tobin's Q and firm size, as well as firm leverage, with the values -0.333 and - 0.244; their correlation being significant at the 0.01 level. There is a negative correlation between Tobin's Q and audit committee meetings, with the value - 0.137 and this is not a significant correlation, at $p<0.05$. These correlations show the relationship between Tobin's Q and some independent variables which are: audit committee meetings, firm size, board size, board composition, firm age and company leverage. These relationships among variables have a negative influence on Tobin's Q and this suggests that increases in those variables will lead to decreases in the Tobin's Q ratio. However, the same correlations illustrate the positive relationship between Tobin's Q and CEO Tenure as well as with IC, this indicating that increasing CEO Tenure and IC will lead to increases in the Tobin's Q ratio.

The second row in table 2 above presents the correlations among ROA and the independent variables. First, it shows that ROA is positively correlated with CEO Tenure, with the value 0.104, but this association is not significant. There is a negative correlation between ROA and audit committee meetings, with the value - 0.004, this is not a significant correlation, at $p<0.05$. Furthermore, ROA is negatively correlated with firm size, with the value - 0.128; however, this correlation coefficient is not significant at the $p<0.05$ level. A negative correlation can be seen between ROA and board size, with the value - 0.057, yet this correlation is not significant at $p<0.05$. Similarly, there is a negative correlation coefficient between ROA and board composition, with the value - 0.038; also this correlation is not significant at $p<0.05$. Moreover, ROA is positively correlated with the industrial classification (MANU) variable, with the value 0.070; however, this correlation coefficient is not significant at $p<0.05$. The correlation coefficient between ROA and firm leverage shows the value - 0.046; this correlation is also not considered as significant at $p<0.05$. In sum, the correlation analysis shows the negative relations between ROA and most independent variables such as audit committee meetings, firm size, board size, board composition, firm age and company leverage. This correlation has a negative impact on ROA; this suggests that increases in those independent variables will lead

to decreases in ROA. However, the positive correlation between ROA and CEO Tenure and IC indicates that increasing CEO Tenure and IC will lead to increases in ROA, as this has been supported by the correlation analysis.

C. Multiple Linear Regression Analysis

In this study, Tobin's Q and ROA have been employed as independent variables, and so two regression models have been used in this paper; this kind of approach has been used by Elsayed (2007) [16] and by Klapper and Love (2004) to test the effect of corporate governance on firm performance. Furthermore, to show multiple regression analysis results, two tables have been drawn; first, when Tobin's Q has been taken as the dependent variable and second when ROA has been taken as the dependent variable.

Table 3, below, has been drawn in order to show the results of testing the effect of all independent variables (CEO Tenure, Audit Committee Meetings, Firm Size, Board Size, Board Composition, Industrial Classification (MANU), Firm Age and Company leverage) on the Tobin's Q variable.

Table 3: Tobin's Q Multiple Regression results

Variables	*Coefficients*		*T value*
	Unstandardized (std error)	*Standardized*	
(Constant)	6.431*** (1.142)	------	5.631
CEO Tenure (years)	- 0.000158 (0.020)	- 0.001	- 0.008
Audit Committee Meetings	0.040 (0.066)	0.058	0.612
Firm Size (log)	- 1.086*** (0.241)	- 0.561	- 4.496
Board Size	0.171* (0.060)	0.300	2.846
Board Composition (%)	0.642 (1.001)	0.058	0.642
Industrial Classification (MANU)	- 0.032 (0.250)	- 0.010	- 0.126

Firm Age (years)	- 0.003 (0.003)	- 0.069	- 0.908
Company leverage	- 0.016 (0.021)	- 0.072	- 0.775
Dependent variable: Tobin's Q (%)			
F value	4.106		
significance	0.000192		
R2	0.183		
*:p<10%; **:p<5%; ***:p<1%			

According to the findings in table 3 above, CEO Tenure has a negative impact on Tobin's Q as a measurement of firm performance (B = - 0.001, t = - 0.008). But the effect of CEO Tenure can be seen as a non-effect because its t-statistic is close to zero. This means that if a CEO spends one more year in her/ his job will lead to a decline in Tobin's Q by - 0.000158. It has also been illustrated that audit committee meetings have a positive impact on firm performance (B = 0.058, t = 0.612), but this impact is not significant at p<10%. This implies that when the number of audit committee meetings increases by one meeting, will lead to growth in Tobin's Q by 0.040. Similarly, Board Size has a positive significant effect on firm performance (B = 0.300, t = 2.846). This indicates that when firms increase the number of directors, this will lead to an increase in the Tobin's Q ratio. In the same way, Board Composition have a positive effect on firm performance (B = 0.058, t = 0.642), but this impact is not significant. This means that when firms increase the number of non-executive director will lead to growth the ratio of Tobin's Q. In contrast, it has been illustrated that firm size, industrial classification (MANU), firm age and company leverage have negative impacts on firm performance (B = -0.561, t = - 4.496, B = - 0.010, t = - 0.126, B = - 0.069, t = - 0.908 and B = - 0.072, t = - 0.775 respectively). This means that when there is an increase in those independent variables (firm size, industrial classification (MANU), firm age and company leverage), it will lead to a decrease in Tobin's Q by - 1.086, - 0.032, - 0.003 and - 0.016 respectively. The majority of those effects are insignificant; only firm size and board size are significant at p<1%.

Finally, it has been seen that the F value = 4.106; this indicates that the whole regression equation is significant. Another important spot which has been illustrated in table 3, above, is R square. Based on the regression analysis results, company performance can be partly estimated by the regression formula.

Table 4 below displays the second results of testing the impact of the independent variables (CEO Tenure, Audit Committee Meetings, Firm Size, Board Size, Board Composition, Industrial Classification (MANU), Firm Age and Company leverage) on firm performance (ROA).

Table 4: Second Multiple Regression Analysis results

Variables	*Coefficients*		*T value*
	Unstandardized	*Standardized*	
(Constant)	0.698 (0.410)	------	1.702
CEO Tenure (years)	0.007 (0.007)	0.085	1.029
Audit Committee Meetings	0.023 (0.024)	0.102	0.987
Firm Size (log)	- 0.132 (0.087)	-0.206	- 1.517
Board Size	0.008 (0.022)	0.042	0.370
Board Composition (%)	0.134 (0.359)	0.037	0.373
Industrial Classification (MANU)	- 0.067 (0.090)	- 0.063	- 0.748
Firm Age (years)	0.001 (0.001)	- 0.042	- 0.502
Company leverage	- 0.001 (0.007)	- 0.012	- 0.119
Dependent variable: ROA (%)			
F value	0.723		
significance	0.671		
R2	0.038		
*:p<10%; **:p<5%; ***:p<1%			

Based on the outcomes in table 4 above, firstly, it can be seen that CEO Tenure has a positive influence on firm performance (at the value B = 0.085, t = 1.029). This implies that when a CEO spends one more year in her/his job that will lead to growth in ROA by 0.007. Similarly, it can be observed that audit committee meetings are positively associated with firm performance (B = 0.102, t = 0.987) and this relationship is insignificant. This indicates that in-

creases in the number of audit committee meetings by one meeting per year will lead to a rise in ROA by 0.023. Furthermore, it should be noted that board size also has a positive impact on firm performance (B = 0.042, t = 0.370); this signifies that increasing the number of directors on the board by one member will cause an increase in the percentage ROA by 0.008. Similarly, it has been found that firm performance and board composition are positively associated with each other (at B = 0.037, t = 0.373); this relationship is also insignificant. This means that when firms increase the number of non-executive directors on board, this will cause growth in ROA by approximately 1.3%.

On the other hand, it can be seen that Firm Size and Industrial Classification (MANU) have a negative relationship with firm performance (B = - 0.206, t = - 1.517 and B = - 0.063, t = - 0.748 respectively). This implies that when firms increase their total assets and IC, this will lead to a decrease in the percentage of ROA by - 0.132 and by - 0.067 respectively. Similarly, it can be noted that Firm Age and Company leverage in this study are negatively associated with firm performance (B = - 0.042, t = - 0.502 and B = - 0.012, t = - 0.119 respectively). This indicates that when firm age increases by one year, this will lead to a decline in ROA by - 0.001, while when the firm increases its leverage this will lead to a fall in ROA by - 0.001. The last part of table 4, above, shows the F value as = 0.723, which indicates that some variables in the regression equation are significant. An important point which has been raised in table 4, above, is R square, which is equal to 0.038, and this value is not so high. This means that about 60% of variables are different in ROA. This can be explained by some other independent variables which are not included in this study. Also, this implies that these variables together could have more influence on the profitability than when they are measured individually. Based on the regression analysis outcomes, firm performance can, to an extent, be predicted by the regression equation.

The main purpose of this paper was to test the impacts of corporate governance mechanisms on company performance. This test has been conducted for the top 156 companies in England and Wales. After corruption within some big companies such as Lacayo and Amanda in 2002 [24], corporate governance has become one of the most important areas in many countries around the world. Several studies have tested the effects of corporate governance on firm performance and they obtained various results. These conflicting findings could be because of differences in legal systems, economic systems, the studies' time period and the culture among countries. This suggests that there are no decisive results that corroborate the effect of corporate governance on firm performance; due to that, some studies have taken Tobin's Q and ROA as measurements of firm performance in their tests. The same reason inspired me to choose Tobin's Q ratio (market-based) and ROA (accounting-based) as dependent variables to examine the influence of corporate governance on firm performance in two ways to obtain more accurate predictions.

The findings of this study show that CEO Tenure has two kinds of impact; the first is its small negative effect on the Tobin's Q; at the same time, it has a small positive impact on the ROA. In contrast, this indicates that CEO Tenure has no impact on firm performance because in both regressions it is close to zero. Al-Matari et al. (2012), found in their study using 2009 data for 136 Kuwaiti companies, that CEO Tenure has a negative influence on firm performance. However, Walters et al. (2007 found in their study that CEO Tenure has a positive impact on firm per-

formance at the beginning of a CEO's life in the firm as well as at moderate levels of CEO Tenures. This suggests that it will be better for companies in England and Wales to select a new CEO after each 5 or 6 year period of the CEO's Tenure. In term of audit committee meetings, the outcomes of this study illustrate that audit committee meetings have a significant positive effect on firm performance, whether using Tobin's Q or ROA as a measurement of that performance. This result is similar to those of Christensen et al. (2010), who found, in their study of approximately nine hundred firms from the period 2004 to 2006, that there is a positive relationship between firm performance and audit committee meetings. Similar results have been obtained by Aldamen et al. (2012) and Xie et al. (2003). This indicates that if UK firms want to increase their performance, they should increase the number of audit committee meetings.

Board size was another independent variable which was selected as a corporate governance mechanism. The outcomes of the study illustrate that board size has a significant positive impact on firm performance. This result is similar to that of Sparrow (1993) [34] and Larmou and Vafeas (2010). This indicates that firms in England and Wales followed the recommendations of the Cadbury Committee, issued in 1992. In contrast, some other scholars found different outcomes; for instance, Jensen (1993) [21] noted that large numbers of board members led to less control over the firm; he says that when the board size is large, this may raise some problems. He also argued that firms which are managed by smaller boards will be more responsible because individual directors have greater accountability. Similarly, Eisenberg et al. (1998) found in their study of a sample of small and medium companies that board size has a negative impact on firm performance. Cheng (2008) [10] notes that a large board size has a negative effect on firm performance, and he found that increasing the board size will lead to a decline in Tobin’s Q and ROA. But, these results may be different because those studies tested different samples in different time periods.

Board composition is another independent variable which has been selected as the last corporate governance mechanism. This study shows that board composition has a significant positive impact on firm performance. The outcome of this study is similar to the result of Millstein and MacAvoy (1998) [31]. They found, in their study on a sample from the period 1991 to 1995, that outside independent directors have a significant positive effect on firm performance. Similarly, Bonn et al. (2004) noted that independent directors have a positive impact on firm performance. In contrast, other studies found that increasing the number of non-executive directors will harm firm performance; for example. Al-Matari et al. (2012) found that independent directors have a negative impact on firm performance. Furthermore, Hermalin and Weisbach (1991) [20] found out that it was impossible to prove the relationship between firm performance and board composition. The same result was obtained by Bhagat and Black (2001) [6], and by Lawrence and Stapledon (1999) [27]. This study confirms that firms in England and Wales followed the recommendations of the UK corporate governance code in 2013, which recommended firms to have non-executive directors comprising at least half of their board committee.

V. CONCLUSION

The effect of corporate governance on firm performance has been tested in this study. Tobin's Q ratio has been selected as a market measurement of firm performance and ROA as an accounting measurement of company per-

formance, while the independent variables which have been selected as corporate governance mechanisms are: CEO Tenure, Audit Committee Meetings, Board Size, Board Composition, Industrial Classification (MANU) and Company Leverage. This study was based on a sample of 156 top England and Wales companies in 2018. First, Microsoft Excel was used to perform some calculations such as finding ROA by dividing net income by total assets as well as finding the logarithm of the total assets to calculate firm size. Then, IBM SPSS statistic 22 was used to perform the regression analysis. The outcomes of this study are varied; firstly, it has been shown that CEO Tenure has a non-effect on firm performance, because it has a small negative impact on the Tobin's Q while at the same time it has a small positive impact on ROA. In general this implies that it does not matter if the period of a CEOs life in the company is long or short because at the end the firm's value does not increase due to the CEO Tenure. This indicates that CEO Tenure does not affect firm performance.

In addition, this study found that audit committee meetings have a positive impact on firm's performance, whether ROA or Tobin's Q is used as a measurement of firm performance. This implies that increasing the number of audit committee meetings will lead to increases in the profitability of a company. In the same way, and based on the outcomes of testing the sample for this study, it has been found out that board size has a positively significant effect on firm performance. This indicates that when a firm increases the number of directors, this will lead to an increase in the Tobin's Q and ROA. Similarly, the findings of this study show that board composition has a positively significant impact on firm's performance. This implies that increasing the number of non-executive directors on a board will cause growth in the profitability of the company. Furthermore, other independent variables (firm size, firm age and firm leverage) are accounting variables and they show a negative relationship with firm performance in this study.

VI. RECOMMENDATIONS

Some advice would be suggested for future studies in this area; first, accurate result will be obtained if the study is based on a longer period of time; at least five years would be recommended. Second, more accurate findings will be acquired if the study involves some other corporate governance mechanisms such as board committee meetings, the salary of directors, the audit committee size, the system for nominating directors, multiple directorships and standard policies. Third, it will be more useful if the study uses various methods which have fewer drawbacks than a multi regression analysis. Finally, more accurate and reliable results could be obtained if the study utilised panel data; if it was built on a series of time periods rather than just one, and this would overcome the limitations identified by Penman (2010).

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