

**THE MODERATING EFFECT OF OWNERSHIP STRUCTURE ON THE
RELATIONSHIP BETWEEN CORPORATE GOVERNANCE
EFFECTIVENESS AND COST OF DEBT:
THE CASE OF OMAN**

MUNEER RAJAB AWADH AOMRAH

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DEDICATION

I wish to honour the memory of my beloved father (Rajab) by dedicating this thesis to him. Even though I have lost him since 2013, his influence has been lifetime and has shaped my aspirations and goals. I also dedicate this thesis to my dear mother, wife, children, brothers and sister. Thank you all for your love and encouragement.

ABSTRACT

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MUNEER RAJAB AWADH AOMRAH

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Main supervisor: Associate Professor Hafiza Aishah Hashim, Ph.D.

Co-supervisor : Associate Professor Azlina Abd Aziz, Ph.D.

Co-supervisor : Nor Raihan Mohamad, Ph.D.

School : School of Maritime Business and Management (SMBM)

Cost of debt provides signals not only concerning how firms are financed but also pertaining to the ability of managers to improve firms' bottom line-income statement item. Research has shown that good corporate governance practice can lead to an optimum cost of debt. While there has been research examining corporate governance practices and cost of debt in other contexts, there is however a general lack of research that investigate this issue within the Arab or Middle East context, particularly in the setting of the Sultanate of Oman. This study contains four types of investigations. First it examines whether the cost of debt is influenced by the board of directors and audit committee effectiveness. Second, it investigates whether family ownership moderates the relationship between board of director and audit committee effectiveness and cost of debt. Third, it inspects whether government ownership moderates the relationship between the board of director and audit committee effectiveness and cost of debt. Fourth, it examines

whether institutional ownership moderates the relationship between board of director and audit committee effectiveness and cost of debt. Using a random effect panel data model, the empirical results of this study find that the effectiveness of board of director and audit committee has significant negative influence on the cost of debt. Based on hierarchical regression analysis of the moderating effect of family, government and institutional ownership on the relationship between board of director and audit committee effectiveness and cost of debt, the results show that the relationship between effectiveness of board of director and audit committee and cost of debt become weak when there is interaction with the family ownership. Additionally, the result reveals that government ownership weakly moderate the relationship between board of director effectiveness and cost of debt. However, this study shows that government ownership does not significantly moderate the relationship between audit committee effectiveness and cost of debt. Lastly, this study does not find any influence of institutional ownership on the relationship between board of director and audit committee effectiveness and cost of debt. The results of this study are useful to all stakeholders (including debtholders) by providing them with an important indicator regarding the kind of controlling shareholder on the board of directors and audit committee that will protect their interests, especially in an environment where the legal protection and law enforcement is low.

ABSTRAK

KESAN KESEDERHANAAN STRUKTUR PEMILIKAN KE ATAS HUBUNGAN ANTARA KEBERKESANAN TADBIR URUS KORPORAT DAN KOS HUTANG: KES OMAN

Mac 2015

MUNEER RAJAB AWADH AOMRAH

Penyelia Utama : Profesor Madya Hafiza Aishah Hashim, Ph.D.

Penyelia Bersama: Profesor Madya Azlina Abd Aziz, Ph.D.

Penyelia Bersama: Nor Raihan Mohamad, Ph.D.

Pusat Pengajian : Pusat Pengajian Perniagaan dan Pengurusan Maritim (PPPPM)

Kos hutang bukan sahaja menandakan bagaimana sesebuah firma dibiayai tetapi juga menunjukkan keupayaan seseorang pengurus untuk memperbaiki butiran yang tertakluk dalam penyata pendapatan bawah garisan firma. Kejian telah menunjukkan bahawa amalan tadbir urus korporat yang baik boleh membawa kepada pencapaian kos hutang yang optimum. Terdapat banyak penyelidikan yang mengkaji amalan-amalan tadbir urus korporat dan kos hutang dalam pelbagai konteks, namun, secara umumnya, penyelidikan yang menyiasat isu-isu tersebut dalam konteks di negara Arab atau kawasan Timur Tengah, terutamanya berlatarkan Kesultanan Oman masih agak kurang. Kajian ini terdiri daripada empat jenis siasatan. Pertama, ia meneliti sama ada kos hutang dipengaruhi oleh keberkesanan lembaga pengarah dan jawatankuasa audit. Kedua, ia menyiasat sama ada pemilikan keluarga menyederhanakan hubungan antara keberkesanan lembaga pengarah dan jawatankuasa audit dan kos hutang. Ketiga, ia memeriksa sama ada pemilikan kerajaan menyederhanakan hubungan antara keberkesanan lembaga pengarah dan

jawatankuasa audit dan kos hutang. Keempat, ia meneliti sama ada pemilikan institusi menyederhanakan hubungan antara keberkesanan lembaga pengarah dan jawatankuasa audit dan kos hutang. Dengan menggunakan model panel data kesan rawak, keputusan empirikal kajian menunjukkan bahawa keberkesanan lembaga pengarah dan jawatankuasa audit mempunyai pengaruh negatif ke atas kos hutang. Berdasarkan analisis regresi hierarki kesan sederhana oleh keluarga, kerajaan dan pemilikan institusi ke atas hubungan antara keberkesanan lembaga pengarah dan jawatankuasa audit dan kos hutang, keputusan menunjukkan bahawa hubungan antara keberkesanan lembaga pengarah dan jawatankuasa audit dan kos hutang adalah lemah apabila berinteraksi dengan pemilikan keluarga. Tambahan pula, keputusan menunjukkan pemilikan kerajaan menyederhanakan secara lemah hubungan antara keberkesanan lembaga pengarah dan kos hutang. Walau bagaimanapun, kajian ini menunjukkan bahawa pemilikan kerajaan tidak menyederhanakan secara signifikan hubungan antara keberkesanan jawatankuasa audit dan kos hutang. Akhir sekali, kajian ini tidak menunjukkan apa-apa pengaruh pemilikan institusi ke atas hubungan antara keberkesanan lembaga pengarah dan jawatankuasa audit dan kos hutang. Hasil keputusan ini amat berguna kepada semua pihak yang berkepentingan (termasuk pemegang hutang) dengan menyediakan kepada mereka petunjuk penting mengenai jenis pemegang saham yang mengawal dalam lembaga pengarah dan jawatankuasa audit yang akan melindungi kepentingan mereka, terutamanya dalam persekitaran di mana perlindungan undang-undang dan penguatkuasaan undang-undang adalah rendah.