"The relationship between corporate governance mechanisms and financial performance: The case of listed industrial companies in Oman"

| AUTHORS | Alina Raboshuk (iD)
Dmytro Zakharov (iD)
R
Serhii Lehenchuk (iD)
R
Oksana Morgulets (iD)
R
Olena Hryhorevska (iD)
R |

NUMBER OF REFERENCES	NUMBER OF FIGURES	NUMBER OF TABLES
33	0	5

BUSINESS PERSPECTIVES

BUSINESS PERSPECTIVES

Alina Raboshuk, Ph.D., Associate
Professor, Faculty of Business, Sohar
University, Sultanate of Oman.

Dmytro Zakharov, Ph.D., Associated
Professor of the Department of
Information Systems in Management
and Accounting, Zhytomyr Polytechnic
State University, Ukraine.

Serhii Lehenchuk, Doctor of
Economics, Professor, Head of the
Department of Information Systems
in Management and Accounting,
Zhytomyr Polytechnic State University,
Ukraine. (Corresponding author)

Oksana Morgulets, Doctor of
Economics, Professor, Professor of the
Department of Tourism, Hotel and
Restaurant Business, Kyiv National
University of Technologies and Design,
Ukraine.

Olena Hryhorevska, Ph.D.
(Economics), Associate Professor,
Associate Professor of the Department
of Finance and Business Consulting,
Kyiv National University of
Technologies and Design, Ukraine.

Alina Raboshuk (Sultanate of Oman), **Dmytro Zakharov** (Ukraine),
Serhii Lehenchuk (Ukraine), **Oksana Morgulets** (Ukraine), **Olena Hryhorevska** (Ukraine)

THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE MECHANISMS AND FINANCIAL PERFORMANCE: THE CASE OF LISTED INDUSTRIAL COMPANIES IN OMAN

Abstract

The purpose of the study is to examine the impact of corporate governance mechanisms on the financial performance of listed industrial companies in Oman. As the main research method, panel data regression analysis was used to analyze data from 36 Omani industrial companies, listed on the Muscat Stock Exchange for the period 2017–2021. Three regression models were developed using three dependent variables (Return on Assets, Return on Equity, Return on Sales), seven independent variables (Board Size, Independent and Non-executive Board Members, Board Meeting, Chief Executive Officer, Dummy variable for Board Change, Dummy variable for the Secretary on the Board, Dummy variable for Internal Auditor), and two control variables (Leverage, Size of the company). According to the research results, a negative influence of the Board Size and Dummy variable for the presence of the Secretary on the Board on the Return on Assets indicator at 10% and 5% significance level was found; moreover, there is a positive influence of Leverage and Size of the company at the 1% and 5% significance level on Return of Assets. Although, none of the independent variables used has a significant impact on the Return on Equity indicator. Return on Sales is significantly affected only by two control variables, i.e., a negative impact of Leverage at the 10% significance level and a positive impact of the Size of the company at the 10% significance level. The results obtained in the study indicate the imperfection of the corporate governance mechanisms implemented by Omani industrial companies in the field of ensuring financial efficiency.

Keywords	corporate governance, financial performance, industrial companies, Oman, Gulf Cooperation Council
JEL Classification	C23, G34, L25

INTRODUCTION

Corporate governance plays an essential role in ensuring the sustainable and efficient functioning of companies, ensuring the protection of stakeholders' interests. Good corporate governance practices and mechanisms promote accountability and responsibility of management, increase transparency, improve the quality of disclosure of relevant information, both financial and non-financial, and ensure compliance with legal and regulatory requirements. The corporate governance system is known to be crucial for enhancing the reputation and credibility of a company, reducing its costs of raising capital, acquiring unique competitive advantages in the market to attract investors, employing and retaining the most talented human resources, and building customer loyalty.

Corporate governance policy does not have specific principles and norms that must be followed, as it is rather referred to as a set of dynamic recommendations that are developed taking into consideration the peculiarities of the environment in which a company operates. At the same time, at the state level, specific regulatory institutions are to develop the general principles for building corporate governance systems, as well as to monitor their practical implementation.

Recently, the issues of corporate governance have increasingly become an emerging area of significance worldwide, and the GCC countries, noticeably. It is an interesting phenomenon how a necessity for enhancing the management performance, strengthening a control over the business activities of companies, and meeting the informational needs of stakeholders are becoming meaningful in the Sultanate of Oman in particular.

In the case of Oman, the conceptualization of general principles, development and monitoring of the implementation of corporate governance practices are carried out by several authorities such as the Capital Market Authority, the Muscat Securities Market, the Ministry of Commerce, and the Central Bank of Oman. The Code of Corporate Governance for Public Listed Companies (2016) is referred to as the main regulatory document on corporate governance in Oman, the primary purpose of which is to ensure compliance with the specific rules through defined corporate governance policies, processes, and procedures. The system of institutional regulation is aimed at improving the quality of corporate governance, provided that the transparent and effective rules lead to establishing a framework for the activities of companies.

Effective corporate governance practices and mechanisms are of particular importance for ensuring success of companies in the long term due to an increased accountability, transparency, and ethical behavior by management.

In this regard, scientists pay considerable attention to studying the extent to which the effectiveness of certain corporate governance practices and mechanisms has been proven, e.g., the role of independence of the board of directors, the quality of audit committees, the effectiveness of operational management, etc. (Al-Matari et al., 2014b; Elghuweel et al., 2017; Baatwah et al., 2018; Pasko et al., 2022; Tuan, 2022; Filatova et al., 2023; Al-Yazidi et al., 2023).

Accordingly, there is an urgent need to study the role of individual practices and mechanisms of corporate governance in ensuring the financial efficiency of the Omani industrial companies; the impact of corporate governance on attaining the goals defined for enterprises to provide their sustainable and effective functioning, as well as to protect stakeholders' interests in the context of peculiar cultural traditions and the unique business environment of the Sultanate of Oman.

1. LITERATURE REVIEW

Effective corporate governance practices help to ensure that companies operate transparently and ethically and that management is accountable to its stakeholders and maximizes long-term shareholder value. Corporate governance is a means of protecting the interests of shareholders and transparency of business activities (Garcia et al., 2016; Govender & Hassen-Bootha, 2022), generally contributing to its financial efficiency.

A bibliometric analysis of Scopus and Web of Science databases shows the importance of the studied topic and relationship of corporate governance and financial performance, taking into account the number of publications in the field of research presented in Table 1.

Based on the bibliometric analysis of Scopus and Web of Science databases, it was found that the most problematic aspects studied by the scientists are related to investigating the impact of key elements of corporate governance, e.g., efficiency

Table 1. Scientific papers on the research topic and their citations in the academic literature for the period 2018–2022

Source: Compiled by the authors using Scopus and Web of Science databases.

Author keywords	Results obtained		Citations	
	Scopus	**Web of Science**	**Scopus**	**Web of Science**
"Corporate governance" and "Financial Performance"	665	1286	4948	7779

of the board of directors, efficiency of operational management and CEO, role of the board independence, role of the frequency of annual board meetings etc., on the financial performance of companies. Furthermore, the influence of individual elements of corporate governance on financial performance measures was studied, for example, the impact of various characteristics of the corporate board and audit committee was analyzed. In recent studies, the problems of applying innovative methods of corporate governance, building a system of sustainable corporate governance and sustainable finance have been investigated.

A bibliometric analysis of studies also showed an increase in the number of studies on the impact of corporate governance on financial performance in the GCC countries. It was found that studies on the particularities of developing and implementing a corporate governance system in GCC countries often highlight the impact of family business on the independence of the board of directors and the efficiency of companies, mostly in a negative context.

In 2015, the Oman Centre for Governance and Sustainability (OCGS) was established as part of the Capital Market Authority with a purpose of implementing the program for achieving the 2030 Sustainable Development Goals. The key task of the OMGS is the development of corporate governance, statutes, and social responsibility system. Thus, the continuous improvement of regulatory and institutional support for corporate governance in Oman emphasizes the need to address the problem of improving its quality and efficiency of implementation at a company level.

The quality of corporate governance and the efficiency of companies in the GCC countries is also of great interest for researchers. The study revealed that the quality of the board of directors and the audit committee have an insignificant effect on ROA (Al-Ahdal et al., 2020; Al-Jalahma, 2022; Jati et al., 2023). On the other hand, transparency and the level of information disclosure have an insignificant negative impact on the financial performance of companies.

The findings of the study by Pillai et al. (2018) also confirmed that the components of corporate governance, i.e., audit quality, size of the board of directors, corporate social responsibility, have an impact on the financial performance of most companies in the GCC countries.

As stated in some previous research, the development of corporate governance in the Sultanate of Oman has been significantly influenced by the adoption of IAS/IFRS (Ramady, 2012). Accounting practices under international standards are an important and relevant tool for ensuring good corporate governance, in view of the fact that the standards provide a useful mechanism for restructuring core corporate values (Shankaraiah & Rao, 2002).

The impact of IAS/IFRS on the changes in the institutional and legal conditions was also studied by Al-Enzy et al. (2022), who revealed the support and willingness of companies to switch to IAS/IFRS, seeing that this leads to an improved quality of financial reporting, increased comparability of financial information, and makes it easier to attract foreign investment.

The board of directors is normally considered to be one of the key corporate governance mechanisms, which is responsible for overseeing a company's management, setting strategic objectives, and ensuring compliance with legal and regulatory requirements. Therefore, its impact on financial performance has been investigated in many studies. Al-Ebel (2013) concluded that the smaller board of directors simplifies communication and coordination, boosts the quality of information, and improves its disclosure. According to Freire et al. (2020), independence of corporate governance also has an impact on the business activity and solvency factors.

Having studied 116 Omani companies listed on the local stock exchange from 2001 to 2011, Elghuweel et al. (2017) did not find any confirmation that the size of the board of directors, the conduct of audits, the presence of a corporate governance committee, and the gender diversity of the board of directors have a significant relationship with the indicators of a company's financial results.

Interestingly, completely opposite results were obtained by Bawazir et al. (2021) for non-financial companies registered on the Muscat Stock Exchange from 2007 to 2017. The researchers found a positive effect of the presence of women on the board, the size of the audit committee, leverage, and company size on firm performance (ROA, ROE, P/E).

Zeitun (2014), in the study of the factors influencing the effectiveness of corporate governance, concluded that the GCC countries are generally characterized by the positive influence of the state ownership on a company's ROA indicators, while neither foreign nor institutional ownership have a similar significant impact.

Al-Matari et al. (2014a) studied the influence of the audit committee characteristics, i.e., size, independence, and meeting, on ROA of non-financial companies listed on the Muscat Stock Exchange in 2011–2012. The authors concluded that there is no significant impact of the mentioned characteristics on the ROA indicator. Furthermore, 8 core elements of corporate governance that can have an impact on a company's financial performance were identified (Al-Matari et al., 2014b). The relationship between board size, board meeting frequency, CEO tenure, board turnover, and the presence of legal counsel with ROA is proven to be positive but insignificant. In addition, it was found that the indicators of the remuneration of the CEO and the productivity of a company are significantly and positively interrelated.

In the case of Oman, the analysis of the quality of corporate governance at local enterprises indicated that corporate governance mechanisms are not as effective as in more developed countries (Baatwah et al., 2015). The quality of corporate governance at Omani companies di-

rectly depends on the components as follows: the board of directors, a high-quality audit and accounting system, and effective operational management. Rehman (2022) also came to a similar conclusion regarding the importance of ensuring the quality work of the audit committee, as it contributes to the sustainable corporate governance.

Yilmaz (2018) considered the data from 61 listed Omani companies for the period 2013–2016 and revealed the following: there is a significant negative impact of corporate governance on ROA, Board Independence on NPM, Block Ownership on NPM and on EBIT margin; a weak negative impact of Number of Meetings on ROA; a positive impact of institutional ownership on EBIT margin and on ROA.

The process of managing the activities of Omani companies is characterized by a significant dependence on family ties. The findings of an empirical study by Amrah and Obaid (2019) show that the effect of corporate governance on the financial performance is positive and significant for non-family companies, while this relationship becomes weak for family-owned businesses, which supports the hypothesis about the negative role such a specific feature of the corporate governance system of Omani companies plays in ensuring their financial efficiency.

Another study of the corporate governance system of 50 Omani non-financial firms for the fiscal year 2018 (Ahmed et al., 2020) established that the size of a company negatively affects its financial performance indicators, and the share of managerial ownership has an adverse and significant effect on firm performance measures (ROA, ROE).

Literature review in the area of corporate governance revealed a lack of the unified approach regarding the role corporate governance mechanisms play in increasing the financial performance of Omani companies. Strength and direction of such a relationship varies according to the availability of the specific mechanisms of corporate governance applied, industry specifics, company size, ownership structure, as well as transparency and level of the financial

information disclosure, its compliance with IAS/IFRS requirements. Therefore, an empirical study of the impact of corporate governance mechanisms on financial performance of companies will improve the corporate governance system in accordance with the needs of industrial companies in Oman. The purpose of the paper is to examine the impact of corporate governance mechanisms on financial performance of listed industrial companies in Oman.

2. METHODS

The business activity of 36 industrial companies listed on the Muscat Stock Exchange for the period 2017-2021 was analyzed. Panel data comprised the information derived from the annual financial statements of Omani companies, notes to the financial statements, corporate governance reports, and independent auditor's reports. Two out of the 38 companies in the industrial sector that are on listing did not disclose the relevant information for the years 2020–2021, and therefore they were excluded from the study sample.

For the purpose of this study, Return on Assets, Return on Equity and Return on Sales were defined as the dependent variables characterizing the financial performance of companies, the indicators, which are most often used by the scientists for the empirical analysis of the impact of corporate governance on financial performance (Yilmaz, 2018; Al-Ahdal et al., 2020; Ahmed et al., 2020; Bawazir et al., 2021).

It was decided to analyze the direct influence of corporate governance mechanisms on the financial performance of Omani industrial companies using the independent variables, i.e., size of the board, independent and non-executive board members, a number of annual board meetings, chief executive officer (CEO) experience, dummy variable for the Secretary on the board, dummy variable for the internal auditor.

The choice of the independent variables was justified by the information capacity of available reports on the corporate governance system of locally listed Omani industrial companies, as well as considering the previous findings in the area of

research (Al-Matari et al., 2014b; Elghuweel et al., 2017; Yilmaz, 2018; Al-Ahdal et al., 2020; Ahmed et al., 2020; Bawazir et al., 2021).

To control for a significant effect of variables along with the main independent variables, i.e., corporate governance mechanisms indicators, two control variables such as Leverage and Size of the company were added, which were widely used in the analysis of panel data in previous studies (Kasych & Vochozka, 2019; Ievdokymov et al., 2020; Ahmed et al., 2020; Bawazir et al., 2021; Serpeninova et al., 2022; Hamed & Bohari, 2022). Applying this approach, the Size of the company variable was defined using the logarithm of a company's total assets.

A general description of the dependent and independent variables used in this study, as well as their calculation, are shown in Table 2.

Table 2. Research variables (definitions, calculation and abbreviations)

Source: Compiled by the authors.

Variable	Calculation Method	Abbreviation
Dependent Variables		
Return on Assets	Net income / Average total assets	ROA
Return on Equity	Net profit / Total equity	ROE
Return on Sales	Earnings before interest and taxes / Net sales	ROS
Independent Variables (corporate governance mechanisms indicators)		
Board Size	The total number of directors on the company's board	BS
Independent and Non-executive Board Members	Number of independent (external) board members	INBM
Board Meeting	Number of annual board meetings	BM
Chief Executive Officer	Number of years of experience of Chief Executive Officer	CEO
Dummy variable for Board Change	1 if the board has a new appointment during a year and 0 others	DVBCH
Dummy variable for the Secretary on the Board	1 for the presence of the secretary on the board, 0 for its absence	DVSB
Dummy variable for Internal Auditor	1 for the presence of an internal auditor, 0 for its absence	DVIA
Control Variables		
Leverage	(Long-term Debts + Short-term Debts) / Total Assets	LEV
Size of the company	Logarithm of Total Assets	l_SIZE

To analyze the impact of corporate governance mechanisms on the financial performance of Omani industrial companies, this study examined three models. The functional representation of the models applied is given below:

$$ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 INBM_{it} +$$
$$+\beta_3 BM_{it} + \beta_4 CEO_{it} + \beta_5 DVBCH_{it} + \quad (1)$$
$$+\beta_6 DVSB_{it} + \beta_7 DVIA_{it} + \beta_8 LEV_{it} +$$
$$+\beta_9 l\_SIZE_{it} + \varepsilon_{it},$$

$$ROE_{it} = \alpha + \beta_1 BS_{it} + \beta_2 INBM_{it} +$$
$$+\beta_3 BM_{it} + \beta_4 CEO_{it} + \beta_5 DVBCH_{it} + \quad (2)$$
$$+\beta_6 DVSB_{it} + \beta_7 DVIA_{it} + \beta_8 LEV_{it} +$$
$$+\beta_9 l\_SIZE_{it} + \varepsilon_{it},$$

$$ROS_{it} = \alpha + \beta_1 BS_{it} + \beta_2 INBM_{it} +$$
$$+\beta_3 BM_{it} + \beta_4 CEO_{it} + \beta_5 DVBCH_{it} + \quad (3)$$
$$+\beta_6 DVSB_{it} + \beta_7 DVIA_{it} + \beta_8 LEV_{it} +$$
$$+\beta_9 l\_SIZE_{it} + \varepsilon_{it},$$

where *ROA*, *ROE*, and *ROS* are dependent variables, *i* – entity, and *t* – time; α – identifier; β – regression coefficient; *BS*, *INBM*, *BM*, *CEO*, *DVSB*, *DVIA* – independent variables, *LEV* and *l_SIZE* – control variables, where *i* – entity and *t* – time; ε_{it} – error term.

3. RESULTS

Panel data regression analysis was applied to analyze the sample, which was chosen as a suitable statistical approach in this study.

Furthermore, the results of descriptive statistics and correlation analysis are shown in Table 3 and Table 4 that enabled to summarize a given data set representative of the population and to display the correlation coefficients for different variables.

Table 3 shows the descriptive statistics (observation, mean, median, standard deviation, minimum, maximum) of all variables.

Descriptive statistics data for 36 industrial enterprises for the period 2017–2021 (Table 3) made it possible to draw some conclusions to characterize the studied sample. The absence of a significant difference between the minimum and maximum values of ROS show that the indicator of financial efficiency of the studied companies are quite close, which cannot be stated about the indicators of ROA and ROE, with a range of variation of 9.25 and 9.36, and have a high value of standard deviations (0.523 and 0.649 accordingly). This indicates a large spread of values from the average value, which means the presence of strong volatility of a number of values. Furthermore, the CEO indicator has a very high value of standard deviations (6.57), which means that the studied sample includes enterprises with both high and low CEO length of work experience.

As far as the variables BS, INBM, BM, CEO and l_SIZE are concerned, the mean value is greater than the standard deviation value, indicating that the data related to these variables have a small distribution. For all three dependent variables, i.e., ROA, ROE, ROS, the value of the standard deviation is higher than their mean, which indicates the existence of a large set of ratios that characterize the normal distribution curve and will not be exceptional.

Table 3. Descriptive statistics of variables (based on observations 1:1 - 36:5)

Source: Calculated using the Gretl software package.

Variables	Mean	Median	St. Dev.	Minimum	Maximum
ROA	0.136	0.129	0.523	−5.61	3.64
ROE	0.0708	0.0400	0.649	−1.35	8.01
ROS	0.0205	0.0233	0.228	−1.56	1.45
BS	7.51	7.00	1.63	5.00	13.0
INBM	0.709	0.710	0.245	0.270	1.00
BM	6.06	6.00	2.02	1.00	15.0
CEO	27.0	26.0	6.57	2.00	42.0
LEV	0.589	0.447	0.758	0.00	6.96
l_SIZE	16.3	16.4	1.97	8.05	19.4

Table 4. Correlation coefficients (based on observations 1:1 – 36:5)

	BS	INBM	BM	CEO	LEV	l_SIZE
BS	1.0000	−0.0804	0.2375	−0.1715	0.0602	0.0136
INBM		1.0000	−0.0191	0.1548	−0.0164	−0.1604
BM			1.0000	−0.1593	0.0759	0.0559
CEO				1.0000	0.1000	0.1764
LEV					1.0000	−0.0679
l_SIZE						1.0000

Relatively close mean and median values for ROA (0.136 and 0.129), ROS (0.0205 and 0.0233), INBM (0.709 and 0.710), BM (6.06 and 6.00), and l_SIZE (16.3 and 16.4) indicate a high level of symmetry in the distribution range values. The analysis of the correlation coefficients of dependent variables, i.e., ROA, ROE and ROS, and independent variables, with the exception of dummy variables DVBCH, DVSB and DVIA (Table 4), revealed the absence of the multicollinearity problem within the two groups of variables used, since the correlation coefficient is less than 0.5(-0.5).

Based on the application of the F-statistics test, the Breusch-Pagan test and the Hausman test, the possibility of using panel data estimate parameters was analyzed for each of the used models 1-3 (ROA, ROE, ROS). It was determined that for Model 1 (ROA) and for Model 2 (ROE), it is appropriate to use Pooled OLS, since the p-value, according to the F-statistics test, is greater than 0.5 (0.126608; 0.0723097).

The application of Pooled OLS assumes that the measurement set lacks unique attributes that char-acterize its elements, and also lacks universal effects that may manifest in different time elements of the panel. For Model 3 (ROS), based on the p-value values according to the F-statistics test (0.00097016), the Breusch-Pagan test (0.00097016) and the Hausman test (0.348657), it is advisable to use the Random effects method (REM), which provides for detecting the influence regressors on the dependent variable (ROE), taking into account the influence of omitted or unobservable variables characterizing the unique characteristics of the studied population elements.

Table 5 shows the results of the regression analysis of panel data on the example of all three models 1-3 (ROA, ROE, ROS). Thus, the p-value and significance level for each of the models, which were calculated using the Pooled OLS and REM estimation parameters, are given below.

The data in Table 5 made it possible to determine the strength, level of significance and direction of influence of regressors on independent variables, i.e., ROA, ROE, and ROS. Model 1 can be interpreted in detail using the following equation:

Table 5. Models 1-3 (ROA, ROE, and ROS). Pooled OLS, REM using the observations 1-180

Variable / Indicator	Model 1 (ROA). Pooled OLS		Model 2 (ROE). Pooled OLS		Model 3 (ROS). REM	
	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value
Const	−0.284750	0.5700	0.261887	0.6951	−0.207597	0.4570
BS	−0.0429707	0.0867*	−0.00773904	0.8162	0.00931669	0.4749
INBM	−0.0551725	0.7329	0.0846950	0.6944	−0.0413140	0.6475
BM	0.0176297	0.3787	−0.0269065	0.3138	0.00456856	0.6372
CEO	−0.00367726	0.5494	−0.00586354	0.4741	−0.00240485	0.4658
DVBCH	0.0608154	0.4391	0.106804	0.3084	−0.0377787	0.2640
DVSB	−0.170568	0.0359**	−0.113724	0.2916	−0.0307378	0.5323
DVIA	8.41925e−05	0.9996	0.0338926	0.8930	0.0146315	0.8628
LEV	0.222238	2.40e−05***	0.0599982	0.3801	−0.0448232	0.0616*
l_SIZE	0.0494196	0.0183**	0.00428601	0.8770	0.0205922	0.0906*
R-squared	0.149071		0.024424		−	

Note: * Significant at the 10 % level; ** Significant at the 5 % level; and *** Significant at the 1 % level.

$$ROA_{it} = -0.284750 - 0.0429707BS_{it} -$$
$$-0.0551725INBM_{it} + 0.0176297BM_{it} -$$
$$-0.00367726CEO_{it} + 0.0608154DVBCH_{it} -$$
$$-0.170568DVSB_{it} + 8.41925e - \quad (4)$$
$$-05DVIA_{it} + 0.222238LEV_{it} +$$
$$+0.04941969\,l\_SIZE_{it} + \varepsilon_{it}.$$

The results of the analysis showed that LEV (p-value = 2.40e-05) is the most significant regressor for ROA with significance at the level of 1%, which justifies about the dependence of the corporate governance system of Omani enterprises on the level of use of the borrowed capital. With the significance at 5% and 10% levels, ROA is also affected by BS, DVSB and l_SIZE. Noteworthy, BS and DVSB have an inverse effect on ROA, that is, an increase in the number of directors and the presence of a secretary on the board have a negative impact on ROA.

The positive impact of l_SIZE on ROA indicates that expanding the activities of Omani companies is reasonable for ensuring their better financial efficiency. The obtained R-squared value showed that only 14.9% of the variation of the ROA can be explained by the variation of the selected independent variables, i.e., BS, INBM, BM, CEO, DVBCH, DVSB, DVIA, and control variables LEV and l_SIZE, and the rest is explained with other variables that are not examined in this study.

The analysis of the dependence of ROE on corporate governance mechanism indicators did not reveal a significant relationship between them. Model 3 can be interpreted through the following equation:

$$ROS_{it} = -0.207597 + 0.00931669BS_{it} -$$
$$-0.0413140INBM_{it} + 0.00456856BM_{it} -$$
$$-0.00240485CEO_{it} - 0.0377787DVBCH_{it} - \quad (5)$$
$$-0.0307378DVSB_{it} + 0.0146315DVIA_{it} -$$
$$-0.0448232LEV_{it} + 0.0205922\,l\_SIZE_{it} + \varepsilon_{it}.$$

In the case of Model 3, only the independent variables, LEV and l_SIZE, are statistically significant at the 1% level. It was found that LEV has a positive effect on ROE, proving the positive role of capital raising for increasing financial efficiency. On the

contrary, l_SIZE has a negative effect, proving the impracticality of increasing the volume of Omani industrial enterprises for ROE growth.

Summarizing the results of the study, it can be stated that the indicators of corporate governance mechanisms, i.e., INBM, BM, CEO, DVBCH, DVIA, do not have a significant impact on any of the financial performance measures of Omani industrial companies, i.e., ROA, ROE, and ROS investigated in this study.

4. DISCUSSION

The findings of the study partly confirm the results of other empirical studies conducted to analyze the influence of corporate governance mechanisms on the financial performance of Omani companies. Thus, the found significant impact of BS, DVSB, LEV and l_SIZE on ROA confirms the findings of Al-Matari et al. (2014b) regarding the board size factor, and Bawazir et al. (2021) related to the leverage and enterprise size factor. The negative impact of BS on ROA is viewed as evidence that increasing the number of directors on a company's board is not an effective measure to improve the monitoring of financial management and protect the financial interests of the stakeholders of Omani industrial companies.

The negative impact of DVSB on ROA found in this study does not confirm the general statements of agency theory regarding the expediency of distributing control mechanisms in the corporate governance system between the chairman of the board and its secretary, which is believed to ensure the protection and improvement of shareholders' rights. This, in its turn, leads to the necessity of carrying out further in-depth research to identify possible causes of moral hazard and adverse selection in corporate governance systems of Omani industrial companies. The findings of the positive impact of l_SIZE on ROA and ROS contradict the research results formulated by Ahmed et al. (2020), where the negative impact of enterprise size on financial performance was highlighted.

The revealed absence of a significant influence of the regressors INBM, BM, CEO, DVBCH, DVIA on ROA, as well as the existence of a negative in-

fluence of BS and DVSB on ROA, confirm the conclusions of the studies by Al-Matari et al. (2014a), Al-Matari et al. (2014b), and Elghuweel et al. (2017), where the availability of a unique investment environment that has developed in Oman, and which encourages local and foreign investors to invest without preconditions was emphasized. However, such an environment in general, is not relevant to the implementation of effective corporate governance practices and mechanisms, which, according to the authors, are imperfect.

At the same, the results obtained also contradict the findings by other authors who concluded about the positive impact of individual corporate governance mechanisms, e.g., frequency of board meetings, CEO tenure (Al-Matari et al., 2014b), board size, board changes (Pillai et al., 2018), size of audit committee and quality of the board (Al-ahdal et al., 2020, Rehman, 2022, Bawazir et al., 2021), as well as those authors who noted the availability of a weak negative impact of the number of meetings on ROA (Yilmaz, 2018).

The lack of a positive impact of INBM, BM, CEO, DVBCH, and DVIA on financial performance measures identified in this study is generally consistent with the position of Baatwah et al. (2015) regarding the statement that corporate governance mechanisms in the Middle East are not as effective as in more developed countries. Family ties between participants in the corporate governance system, which contribute to weakening the financial performance of companies by taking strategically important decisions in companies based on family interests, rather than on their economic efficiency and the achievement of companies' sustainable development goals, has been identified as one of the reasons for this situation (Amrah & Obaid, 2019; Aswar et al., 2022). The results of the study generally confirm the recommendations of the researchers that corporate governance mechanisms and practices of Omani industrial companies need to be improved by eliminating the "family influence", enhancing the quality of the audit committee and developing the system of information support for corporate governance.

It is worth mentioning that the implementation of effective corporate governance practices and mechanisms in the Sultanate of Oman is hampered by a number of problems that need to be addressed as follows: 1) insufficient awareness and understanding of the importance of corporate governance; 2) limited regulatory framework; 3) lack of qualified specialists capable of facilitating the implementation of the effective corporate governance mechanisms; 4) dominance of family businesses, which concentrate ownership and control over the activities of companies; 5) the negative impact of traditions and cultural environment developed on personal relationships and mutual trust.

CONCLUSION

The purpose of the study is to investigate the impact of corporate governance mechanisms on financial performance of Omani listed industrial companies for the period 2017–2021. The main research method used was the regression analysis of panel data.

The results of the study revealed a significant influence of the indicators of corporate governance mechanisms on financial performance of Omani industrial companies. In particular, the Return on Assets is significantly negatively affected by Board Size and the presence of the Secretary on the Board, and positively affected by Leverage and Size of a company. Although, none of the regressors used has a significant impact on the ROE indicator. Only control variables have a significant impact on the Return on Sales indicator, i.e., Leverage has a negative effect, and Size of the company is found to have a positive impact on the ROS indicator.

The results of the study determine the need and directions for the implementation of more effective corporate governance practices and mechanisms for Omani industrial companies, which will ensure the protection of the rights and interests of stakeholders, will help to increase the effectiveness of con-

trol over the work of financial managers, and improve the financial performance of companies. When introducing such practices and mechanisms, the peculiarities of the functioning of Omani industrial companies should be taken into account, e.g., lack of necessary legislation, knowledge and experience of corporate management, "family ties", traditions and cultural customs.

The study has certain limitations that must be taken into account when using its results. First, to formulate more in-depth tendencies in the relationship between corporate governance mechanisms and financial performance, a longer period than the one for which the data was analyzed in the study can be used. Second, the most common financial performance measures, such as ROA, ROE, and ROS, were investigated in this study. The list of the indicators of financial performance can be further expanded according to the scope of research, e.g., analysis of NPM, EBIT margin, etc. Third, the set of the indicators of corporate governance mechanisms used as regressors was formed on the basis of information available in the reports published by Omani industrial companies, which can also be expanded via additional observations (transparency and quality of corporate information disclosure, results of transition towards IAS/IFRS use, etc.).

AUTHOR CONTRIBUTIONS

Conceptualization: Alina Raboshuk, Dmytro Zakharov, Serhii Lehenchuk.
Data curation: Dmytro Zakharov, Oksana Morgulets, Olena Hryhorevska.
Formal analysis: Serhii Lehenchuk, Olena Hryhorevska.
Funding acquisition: Alina Raboshuk, Oksana Morgulets, Olena Hryhorevska.
Investigation: Dmytro Zakharov, Serhii Lehenchuk, Oksana Morgulets, Olena Hryhorevska.
Methodology: Dmytro Zakharov, Serhii Lehenchuk.
Project administration: Alina Raboshuk, Dmytro Zakharov, Serhii Lehenchuk.
Resources: Alina Raboshuk, Dmytro Zakharov, Oksana Morgulets.
Software: Alina Raboshuk, Dmytro Zakharov, Olena Hryhorevska.
Supervision: Alina Raboshuk, Serhii Lehenchuk.
Validation: Serhii Lehenchuk, Oksana Morgulets.
Visualization: Dmytro Zakharov, Olena Hryhorevska.
Writing – original draft: Dmytro Zakharov, Serhii Lehenchuk, Oksana Morgulets, Olena Hryhorevska.
Writing – review & editing: Alina Raboshuk, Serhii Lehenchuk.

REFERENCES

1. Ahmed, E. R., Alabdullah, T. T. Y., Thottoli, M. M., & Maryanti, E. (2020). Does Corporate Governance Predict Firm Profitability? An Empirical Study in Oman. *The International Journal of Accounting and Business Society, 28*(1), 161-177. https://doi.org/10.21776/ub.ijabs.2020.28.1.7

2. Al-Ahdal, W. M., Alsamhi, M. H., Tabash, M. I., & Farhan, N. H. S. (2020). The impact of corporate governance on financial performance of Indian and GCC listed firms: An empirical investigation. *Research in International Business and Finance, 51*. 101083, https://doi.org/10.1016/j.ribaf.2019.101083

3. Al-Ebel, A. M. S. (2013). *Board of director and audit committee effectiveness, ownership structure and intellectual capital disclosure of listed banks in GCC countries* (Doctoral dissertation). Universiti Utara Malaysia.

4. Al-Enzy, N. S. K., Monem, R., & Nahar, S. (2022). IFRS experience and earnings quality in the GCC region, *International Journal of Managerial Finance, ahead-of-print.* https://doi.org/10.1108/IJMF-09-2021-0410

5. Al-Jalahma, A. (2022). Impact of audit committee characteristics on firm performance: Evidence from Bahrain. *Problems and Perspectives in Management, 20*(1), 247-261. https://doi.org/10.21511/ppm.20(1).2022.21

6. Al-Matari, E. M., Al-Swidi, A. K., & Fadzil, F. H. B. (2014a). Audit committee characteristics and executive committee characteristics and firm performance in Oman: Empirical study. *Asian Social Science, 10*(12), 98-113. https://doi.org/10.5539/ass.v10n12p98

7. Al-Matari, E. M., Al-Swidi, A. K., & Fadzil, F. H. B. (2014b). The effect of the relationship between board of directors characteristics

on firm performance in Oman: empirical study. *Middle-East Journal of Scientific Research, 21*(3), 556-574. Retrieved from https://www.idosi.org/mejsr/mejsr21(3)14/22.pdf

8. Al-Yazidi, A. M., Alhebri, A., Al-Matari, E. M., Abdullah, M. F., & Alkebsee, R. H. (2023). Role of quality determinants of the internal audit function in corporate governance effectiveness. Senior management support as moderator: Evidence from Yemeni commercial banks. *Banks and Bank Systems, 18*(2), 48-62. https://doi.org/10.21511/bbs.18(2).2023.05

9. Amrah, M. R., & Obaid, M. M. (2019). Effective Corporate Governance Mechanisms, Ownership Structure and Financial Reporting Quality: Evidence From Oman. *Asia-Pacific Management Accounting Journal, 14*(3), 121-154. Retrieved from https://www.semantic-scholar.org/paper/EFFECTIVE-CORPORATE-GOVERNANCE-MECHANISMS%2C-AND-FROM-Amrah-Obaid/6cfc0cde818304a799499d5250b167771804d9aa

10. Aswar, K., Fanany, A.Y., Sumardjo, M., Wiguna, M. and Hariyani, E. (2022). Determinant factors on the disclosure level of local government's financial statements in Indonesia. *Public and Municipal Finance, 11*(1), 1-9. https://doi.org/10.21511/pmf.11(1).2022.01

11. Baatwah, S. R., Salleh, Z., & Ahmad, N. (2015). Corporate governance mechanisms and audit report timeliness: Empirical evidence from Oman. *International Journal of Accounting, Auditing and Performance Evaluation, 11*(3-4), 312-337. https://doi.org/10.1504/IJAAPE.2015.071580

12. Baatwah, S. R., Salleh, Z., & Ahmad, N. (2018). High-quality auditors vs. high-quality audit: the reality in Oman. *Afro-Asian Journal of Finance and Accounting, 8*(3), 209-236. https://doi.org/10.1504/aajfa.2018.10014354

13. Bawazir, H., Khayati, A., & AbdulMajeed, F. (2021). Corporate governance and the performance of non-financial firms: the case of Oman. *Entrepreneurship and Sustainability Issues, 8*(4), 595-609. https://doi.org/10.9770/jesi.2021.8.4(36)

14. Baydoun, N., Maguire, W., Ryan, N., & Willett, R. (2013). Corporate governance in five Arabian Gulf countries. *Managerial Auditing Journal, 28*(1), 7-22. https://doi.org/10.1108/02686901311282470

15. Capital Market Authority. Sultanate of Oman. (2016). *Code of Corporate Governance for Public Listed Companies.*Retrieved from https://e.cma.gov.om/Content/PDF/CorporateGovernanceCharterEn.pdf

16. Elghuweel, M. I., Ntim, C., Opong, K. K., & Avison, L. (2017). Corporate governance, Islamic governance and earnings management in Oman: A new empirical insights from a behavioural theoretical framework. *Journal of Accounting in Emerging Economies, 7*(2), 190-224. https://doi.org/10.1108/jaee-09-2015-0064

17. Filatova, H., Vasylieva, T., Vynnychenko, N., Ballova, M., & Gedeon, M. (2023). Accounting support for sustainability reporting: theoretical foundations and bibliometric analysis. *Accounting and Financial Control, 4*(1), 1-13. https://doi.org/10.21511/afc.04(1).2023.01

18. Freire, C., Carrera, F., Auquilla, P., & Hurtado, G. (2020). Independence of corporate governance and its relation to financial performance. *Problems and Perspectives in Management, 18*(3), 150-159. https://doi.org/10.21511/ppm.18(3).2020.13

19. Garcia, N. T., Fernandez, B. F., & Cuesta, M. I. (2016). Board of director's effectiveness and the stakeholder perspective of corporate governance: Do effective boards promote the interests of shareholders and stakeholders? *BRQ Business Research Quarterly, 19*(4), 246-260. https://doi.org/10.1016/j.brq.2016.06.001

20. Govender, K. K., & Hassen-Bootha, R. (2022). Enterprise risk management and company ethics: The case of a short-term insurer in South Africa. *Insurance Markets and Companies, 13*(1), 1-10. https://doi.org/10.21511/ins.13(1).2022.01

21. Hamed, A., & Bohari, A. M. (2022). Adoption of big data analytics in medium-large supply chain firms in Saudi Arabia. *Knowledge and Performance Management, 6*(1), 62-74. https://doi.org/10.21511/kpm.06(1).2022.06

22. Ievdokymov, V., Ostapchuk, T., Lehenchuk, S., Grytsyshen, D., & Marchuk, G. (2020). Analysis of the impact of intangible assets on the companies market value. *Naukovyi Visnyk Natsionalnoho Hirnychoho Universytetu, 3,* 164-170. https://doi.org/10.33271/nvngu/2020-3/164

23. Jati, K. W., Agustina, L., Deviani, Ulupui, I. G. K. A., & Respati, D. K. (2023). The effect of environmental performance on sustainability reporting: A case of Indonesia. *Environmental Economics, 14*(1), 36-46. https://doi.org/10.21511/ee.14(1).2023.04

24. Kasych, A. O., & Vochozka, M. (2019). The choice of methodological approaches to the estimation of enterprise value in terms of management system goals. *Quality - Access to Success, 20*(169), 3-9.

25. Pasko, O., Lagodiienko, N., Kudlaieva, N., Riabenko, L., & Gerasymenko, N. (2022). Does corporate governance moderate the effect of corporate social responsibility on a firm's financial performance? *Problems and Perspectives in Management, 20*(4), 588-601. https://doi.org/10.21511/ppm.20(4).2022.44

26. Pillai, R., & Al-Malkawi, H.A.N. (2018). On the relationship between corporate governance and firm performance: Evidence from GCC countries. *Research in International Business and Finance, 44*, 394-410. https://doi.org/10.1016/j.ribaf.2017.07.110

27. Ramady, M.A. (2012). *The GCC economies: stepping up to future*

challenges. New York: Springer Science Business Media.

28. Rehman, A. (2022). Organizational Corruption Prevention, Internal Audit, and Sustainable Corporate Governance: Evidence from Omani Public Listed Companies. *International Journal of Social Sciences and Economic Review, 4*(2), 10-20. https://doi.org/10.36923/ijsser.v4i2.159

29. Serpeninova, Yu., Lehenchuk, S., Mateášová M., Ostapchuk T., & Polishchuk I. (2022). Impact of intellectual capital on profitability: Evidence from software development companies in the Slovak Republic. *Problems and Perspectives in Management, 20*(2), 411-425. https://doi.org/10.21511/ppm.20(2).2022.34

30. Shankaraiah, K., & Rao, D. N. (2002). Corporate Governance and Accounting Standards in Oman: An Empirical Study on Practices. *SSRN Electronic Journal.* http://dx.doi.org/10.2139/ssrn.480522

31. Tuan, D. A. (2022). Impact of corporate governance on earnings management – Experimental evidence on listed commercial banks in Vietnam. *Banks and Bank Systems, 17*(4), 189-197. https://doi.org/10.21511/bbs.17(4).2022.16

32. Yilmaz, I. (2018). Corporate governance and financial performance relationship: case for Oman companies. *Journal of Accounting, Finance and Auditing Studies, 4*(4), 84-106. https://doi.org/10.32602/jafas.2018.006

33. Zeitun, R. (2014). Corporate Governance, Capital Structure and Corporate Performance: Evidence from GCC Countries. *Review of Middle East Economics and Finance, 10*(1), 75-96. https://doi.org/10.1515/rmeef-2012-0028