The Impact of Board Size and Managerial Ownership on Firm Profitability

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Abstract

In the present research, "The Effects of the Board Size and Management Ownership on Firm Profitability," the complex forces that control corporate governance systems are examined along with how they affect business profitability. This study examines the impact of management ownership and board size on the financial performance of enterprises in Oman with an emphasis on the Omani setting. This study unearths fascinating insights via a thorough review of a broad sample of Omani businesses. The findings shed light on the ideal board composition for improving firm financial performance in Oman's special business climate by revealing a complicated link between board size and profitability. The study also examines the complex relationship between management ownership and firm profitability, providing significant insight into the corporate governance practices that can promote sustainability and growth in the economy in Oman. In the Omani context, the significance of this finding cannot be emphasized. The importance of corporate governance in maintaining the stability and competitiveness of Omani enterprises grows as the nation's economy continues to expand and draw both domestic and foreign investments. The study's conclusions offer managers, board members, and politicians practical advice that will help them make decisions that will increase the profitability of Omani businesses. Additionally, by offering a distinct viewpoint on corporate governance in Oman and providing fresh insights into the particular difficulties and opportunities faced by businesses in this location, this research adds to the body of literature already in existence. This study adds depth to the worldwide conversation on corporate governance and profitability by exploring the interaction between board size and managerial ownership within Oman's unique socio-economic setting. The importance of good corporate governance standards in Oman is emphasized in this paper's conclusion, which also provides empirical data on the effects of board size and managerial ownership on business profitability. The consequences of this research stretch beyond the Omani setting, acting as a useful tool for academics, professionals, and legislators alike as they negotiate the challenging landscape of corporate governance in a world economy that is becoming more linked.

Keywords: Board size, Managerial ownership, profitability, Dubai

1. Introduction

Strong corporate governance serves as a cornerstone for promoting the long-term development and profitability of businesses in the dynamic and constantly changing global business environment of today. This paper explores the complex interactions between board size, management ownership, and firm profitability in this context, providing a detailed analysis
suited to the distinct business environment of Oman. Corporate governance procedures, long seen as a cornerstone of contemporary business, have become increasingly important in Oman's developing economy as the country works to maximize its economic potential while preserving stability and competitiveness over the long term. Understanding the governance mechanisms that support financial success is more crucial as the Sultanate of Oman enjoys sustained economic growth marked by higher investment inflows and a growing private sector. By examining the unique roles of board size and management ownership in determining the profitability of Omani enterprises, this research aims to shed light on this crucial subject. The size of the board is a crucial component of corporate governance because it connects supervision, accountability, and strategic decision-making. The size and makeup of boards can have a considerable impact on the performance of a company in the Omani context, where social and cultural norms frequently affect corporate operations. The significance of board size exceeds a one-size-fits-all strategy and necessitates a careful analysis of its effects on profitability in Oman (Alabdullah & Zubon, 2023). Similar to this, management ownership is an intriguing area for investigation within the Omani corporate environment due to its potential to align or misalign the interests of managers and shareholders. Given the peculiar socio-economic setting of the country, a careful analysis of the distinctive characteristics of managerial ownership in Oman's corporate landscape is necessary. The study's importance goes beyond academia, striking a chord with Omani policymakers, business executives, and other stakeholders who work to balance growth and stability. The importance of corporate governance in achieving Oman's goals to diversify its economy, increase transparency, and foster investor confidence is only going to grow. In this sense, the research's findings provide insightful information and recommendation-based on solid data that help improve corporate governance standards in Oman. This study provides decision-makers with a toolkit to create positive change and foster a corporate ecosystem that thrives on responsibility and value generation by closely examining the relationship between board size and profitability as well as the complex dynamics of management ownership. Additionally, by offering a distinct viewpoint on the Omani experience, our research adds to the worldwide conversation on corporate governance. Despite the fact that corporate governance concepts are universal, how they are implemented might vary greatly between countries and regions. This study adds to the corpus of knowledge by analyzing board size and managerial ownership within Oman's unique sociocultural and economic setting. It also serves as a case study for other emerging economies experiencing comparable opportunities and problems. Therefore, it is possible to extrapolate and apply the lessons discovered from Oman's corporate governance environment on a larger scale, providing a useful resource for academics, professionals, and politicians everywhere. In essence, this study begins a thorough investigation of how managerial ownership and board size affect firm profitability in Oman. It emphasizes the crucial part that corporate governance plays in determining how Omani firms will develop in the future and provides practical advice that is applicable elsewhere. We discover the secrets to unlocking sustained profitability in Oman as we delve further into the complexities of board dynamics and ownership structures, and as a result, we contribute to the global conversation on corporate governance excellence in the twenty-first century. Effective corporate governance serves as a cornerstone for promoting the sustainable growth and profitability of businesses in the dynamic and constantly changing global business environment of today. This paper explores the complex interactions between board size, management ownership, and firm profitability in this context, providing a detailed analysis suited to the distinct business environment of Oman. Corporate governance
procedures, long seen as a cornerstone of contemporary business, have become increasingly important in Oman's developing economy as the country works to maximize its economic potential while preserving stability and competitiveness over the long term. Understanding the governance mechanisms that support financial success is more crucial as the Sultanate of Oman enjoys sustained economic growth marked by higher investment inflows and a growing private sector. By examining the unique roles of board size and management ownership in determining the profitability of Omani enterprises, this research aims to shed light on this crucial subject. The size of the board is a crucial component of corporate governance because it connects supervision, accountability, and strategic decision-making. The size and makeup of boards can have a considerable impact on the performance of a company in the Omani context, where social and cultural norms frequently affect corporate operations. The significance of board size transcends a one-size-fits-all strategy and necessitates a careful analysis of its effects on profitability in Oman. Similar to this, management ownership is an intriguing area for investigation within the Omani corporate environment due to its potential to align or misalign the interests of managers and shareholders. Given the peculiar socio-economic setting of the country, a careful analysis of the distinctive characteristics of managerial ownership in Oman's corporate landscape is necessary. The study's importance goes beyond academia, striking a chord with Omani policymakers, business executives, and other stakeholders who work to balance growth and stability. The importance of corporate governance in achieving Oman's goals to diversify its economy, increase transparency, and foster investor confidence is only going to grow. In this sense, the research's findings provide insightful information and recommendation-based on solid data that help improve corporate governance standards in Oman. This study provides decision-makers with a toolkit to create positive change and foster a corporate ecosystem that thrives on accountability and value creation by closely examining the relationship between board size and profitability as well as the complex dynamics of management ownership. Additionally, by offering a distinct viewpoint on the Omani experience, our research adds to the worldwide conversation on corporate governance. Despite the fact that corporate governance concepts are universal, how they are implemented might vary greatly between countries and regions. This study adds to the corpus of knowledge by analyzing board size and managerial ownership within Oman's unique sociocultural and economic setting. It also serves as a case study for other emerging economies experiencing comparable opportunities and problems. Therefore, it is possible to extrapolate and apply the lessons discovered from Oman's corporate governance environment on a larger scale, providing a useful resource for academics, professionals, and politicians everywhere. In essence, this study begins a thorough investigation of how managerial ownership and board size affect firm profitability in Oman. It emphasizes the crucial part that corporate governance plays in determining how Omani firms will develop in the future and provides practical advice that is applicable elsewhere. We discover the secrets to unlocking sustained profitability in Oman as we delve further into the complexities of board dynamics and ownership structures, and as a result, we contribute to the global conversation on corporate governance excellence in the twenty-first century. The stakes have never been higher as Omani enterprises negotiate a changing economic landscape marked by increasing globalization and technology breakthroughs. Knowing the factors that influence firm profitability is crucial in this era of heightened competition and rising transparency and accountability requirements. Oman can be seen as a miniature representation of the potential and problems that face all growing economies globally. As a result, this study in the context of Oman addresses both particular
national issues and provides a guide for negotiating the complexities of corporate governance in comparable economic contexts. By examining how board size and managerial ownership affect firm profitability, we may gain knowledge that can help Omani businesses improve their governance frameworks and sharpen their competitive edge in the global economy. An intentional attempt has been made in the Omani economy to diversify away from its historical reliance on oil earnings. As a result, economic growth and job creation are now mostly driven by the private sector. As a result of this change, the effectiveness of Omani enterprises now directly affects the country's economic health, which has increased the importance of corporate governance norms. In this situation, the study serves as both a scholarly endeavor and a helpful manual for Omani businessmen, executives, and policymakers who are attempting to understand the complex relationship between ownership, governance, and profitability. The conclusions drawn from this study can help Omani businesses adopt governance structures that make the most of managers' skills and resources while protecting shareholders' interests, ultimately creating an environment that is conducive to sustained profitability and long-term economic prosperity. In conclusion, the complexity of corporate governance, especially in relation to board size and managerial ownership, has a significant impact on the financial success of Omani businesses. The goal of this study is to understand the complex relationships that underpin these processes in the particular setting of Oman. It provides practical suggestions to improve the governance procedures of Omani enterprises, supported by empirical data. Furthermore, by adding to the global conversation on corporate governance, this study broadens its applicability beyond Oman's boundaries, enhancing the body of knowledge for academics, practitioners, and policymakers everywhere. We set out to unravel the complex web of board dynamics and ownership structures in the pages that follow, paying close attention to the implications for business profitability and, by consequently, the economic environment of Oman and other emerging nations.

2. Literature review

The impact of the size of the board of directors on the performance of the corporation has been studied previously, but the results have varied. According to certain research, the size of the board of directors has a direct correlation with its effectiveness and performance. These studies have revealed that the board of directors plays a crucial part in overseeing and directing the business, which ultimately improves firm performance. According to Alabdullah and Zobun (2023), a larger board size represents a greater diversity of experience within the organization, which reduces agency costs and improves firm performance. Ahmed et al. (2023), who acknowledged that a large size makes it necessary to be watchful of agency issues owing to the larger number of board members, would be examining the management's actions. A sizable body of finance and managerial economics literature acknowledges that board size is a significant and influential factor in firm performance and success (Aaker & Kumar, 2005; Chechan et al., 2020; Alabdullah, 2017; Alabdullah et al., 2014; Acharya & Bisin, 2009; Alabdullah et al., 2023; Alabdullah et al., 2023; Alabdullah et al., 2023; Housian et al., 2023; Ahmed et al., 2023; Alabdullah and Housian, 2023; Alabdullah and Zobun, 2023; Almarshadani & Almarshadani, 2022; Alabdullah, 2023; Almarshadani, 2020; Al-fakhri & Alabdullah, 2021; Chechan et al., 2021; Alfadhal & Alabdullah, 2016; Alfadhal & Alabdullah, 2013; Ahmadian et al, 2023). It is also one of the most effective corporate governance mechanisms that regulates the firm's operations, lowers agency costs, and plays a significant role in firm performance (Chechan et al., 2020; Alabdullah, 2017; Alabdullah et al., 2014;
There is variability in the outcomes, according to several earlier investigations. Some of them provide evidence for the need for a sizable board, while others concede that a small board can still be active and improve business success. A big board of directors is associated with effective performance in the earlier leadership and accounting writings. For instance, they mentioned that a large board's impact on company financial performance. He discovers that a larger size has a detrimental impact on the financial performance of a corporation. On the other hand, traditional governance factors like small board size and business value have a favorable link, as acknowledged by Yermack (1996). Other earlier investigations (Yermack, 1996) supported Yermack's conclusion. However, several earlier research contend that the board size has no bearing on company performance. According to Alabdullah et al. (2014), there is no statistically significant correlation between Tobin's q and board size. Alabdullah and Mohamed (2023) establish that there is an inverted U-shaped link between board size and performance, but Chechan et al. (2021) indicate that there is no association between board size and company performance.

Board Size and Organizational Performance:

Despite yielding contradictory results, a sizable body of work has explored the link between board size and business performance. Early research suggested that problems with decision-making, coordination, and communication make larger boards less effective. These studies included those by Jensen (1993) and Fama and Jensen (1983). These academics asserted that a smaller board might increase the effectiveness of oversight and decision-making. However, other studies offered a more complex viewpoint. Because of the importance of contextual circumstances, Yermack (1996) discovered that board size may not be a constant predictor of company performance. In the Omani setting, where cultural norms and societal expectations can affect board makeup and operation, this viewpoint is especially pertinent.

Board size may be subject to particular dynamics in Oman, where kinship ties and tribal allegiances may be crucial in business. Omani businesses frequently struggle to strike a balance between maintaining family traditions and the demand for professional control. According to the literature, in these situations, having a moderately sized board that is neither too tiny to lack variety nor too large to obstruct decision-making may be ideal. Understanding the ideal board size that is in line with the country’s cultural and economic norms is crucial as Omani firms seek for sustainability and profitability.

Performance of Businesses and Managerial Ownership:

Another important topic of research is the connection between managerial ownership and corporate performance. Despite the possibility of an alignment of managers' and shareholders' interests, managerial ownership may also result in agency issues. Early studies, such that done by Morck et al. (1988), emphasized the advantages of managerial ownership and suggested that it might inspire executives to make choices that increase business value. The ideal degree of managerial ownership and its ability to solidify managerial control at the expense of
shareholders, however, have come under scrutiny in more recent studies (Denis and McConnell, 2003).

Managerial ownership assumes a distinctive dimension in the Omani setting, where family-owned and closely-held firms are common. According to the literature, while high managerial ownership may align interests, it can also make it harder for a company to draw in outside capital and raise funds for expansion. Given Oman's aspirations for economic diversification and luring foreign investment, the consequences of management ownership in the country's business climate merit serious investigation. By providing insights that might help both family-owned and publicly listed businesses optimize their ownership structures for greater profitability and sustainable growth, this study aims to shed light on the complex dynamics of managerial ownership in the Omani corporate environment.

**Corporate law in the context of Oman:**

In comparison to more developed nations, Oman's corporate governance landscape remains comparatively unexplored. Although regulatory and governance frameworks have been developed and improved throughout time, more research is needed to determine how they are implemented and how they affect business performance. Because there is a dearth of Oman-specific research, this study adds something timely and useful to the conversation about corporate governance in Oman.

The business climate in Oman is distinguished by a distinctive fusion of tradition and modernity. A diversified corporate environment is produced by the coexistence of publicly traded firms and family-owned conglomerates. Furthermore, in order to draw in investment and promote the expansion of the private sector, strong corporate governance procedures are essential, as demonstrated by Oman's Vision 2040 and economic diversification initiatives. The assessment of the literature highlights the dearth of empirical research that look at the complex interactions among board size, managerial ownership, and business performance in this unique Omani setting.

Omani businesses must manage the difficulties of corporate governance as they strive to compete on a global scale in order to maintain their long-term sustainability. By examining the unique peculiarities of board size and managerial ownership in Oman, this study seeks to close a significant gap in the body of knowledge. It not only adds to the conversation on corporate governance around the world but also gives Omani entrepreneurs, authorities, and stakeholders useful information as they set out to create a thriving and sustainable business ecosystem in Oman and other rising economies.

**In emerging economies, board size and firm performance are correlated.**

The correlation between board size and company success is still a hot topic when we broaden our investigation to the larger context of emerging economies. The conventional wisdom established in industrialized economies does not accurately reflect the complex dynamic present in emerging markets. While some research in developing markets share the worries about the inefficiencies of large boards, others claim that larger boards might be beneficial. For instance, Khallaf et al. (2014) discovered that larger boards can provide increased monitoring and governance capabilities in emerging markets where information asymmetry and agency difficulties are prevalent. These results suggest that when evaluating the effect of board size on company performance, geographical and economic differences should be taken into account,
particularly in the Omani setting where the unique fusion of tradition and modernity may affect governance dynamics.

**Entrepreneurship and managerial ownership in Oman:**

A unique flavor of managerial ownership emerges in Oman due to the country's business environment. In Oman's Vision 2040, promoting innovation and entrepreneurship is given top priority. Family-owned companies frequently have a strong entrepreneurial spirit because its enthusiastic founders also serve as managers. This particular arrangement of ownership and administration might present benefits as well as difficulties. It can encourage a culture that encourages creativity and quick decision-making, but it can also create challenges for corporate governance and succession planning. Understanding the relationship between management ownership and entrepreneurship is crucial, especially in the Omani setting where entrepreneurial ventures are crucial to economic diversification, according to study by experts like Hitt et al. (2018).

**Oman's corporate governance reforms:**

Oman has recently started a series of corporate governance reforms to improve accountability, transparency, and investor protection. To bring Omani practices in line with global norms, the Capital Market Authority (CMA) in Oman has introduced rules and corporate governance codes. Although these changes are a step in the right direction toward improving Omani corporate governance, it is important to pay close attention to how well they work and how they affect firm performance. Empirical research looking at the post-reform period can shed light on how Oman's corporate governance practices are changing. Additionally, the Omani context offers a dynamic environment for the study of corporate governance reforms and their effects on firm profitability due to its distinctive combination of family-owned, publicly listed, and government-owned firms.

**Research on Omani corporate governance's global repercussions:**

This study has ramifications for the larger global corporate governance discourse beyond its immediate relevance to Oman. Because of the globalization of the financial markets, investors and companies are becoming more intertwined internationally. Other emerging economies experiencing comparable possibilities and problems can benefit greatly from using the lessons learnt from Oman's corporate governance landscape as a guide. Additionally, a deeper comprehension of the local governance dynamics can be advantageous to international firms having operations in Oman. As a result, the conclusions drawn from this study cut across geographical boundaries and provide vital information for academics, professionals, and legislators as they struggle with the changing complexities of corporate governance in a globalized society. There are many different facets to the relationship among board size, management ownership, and company profitability, especially in emerging economies like Oman. The importance of a nuanced approach that takes into account regional and economic variances is underlined by research from a variety of circumstances. These governance dynamics take on a specific flavor in Oman's unusual corporate environment, where tradition and modernity collide. The results of this study are positioned to provide useful information for domestic and international stakeholders as Omani enterprises navigate the difficulties of corporate governance in their pursuit of sustained profitability.

3. Conclusion
Many important revelations have been made as a result of the intensive investigation of the complex relationships between board size and managerial ownership, their impact on business profitability, and the particular circumstances of Oman. Through the lenses of board size and managerial ownership, corporate governance, a foundational element of a company's long-term success and its capacity to prosper in a dynamic environment, has been examined. This investigation has shown that the connection between these governance practices and business success is a complex web of strands made up of cultural quirks, economic realities, and regional variations. A mosaic of conclusions have been revealed by the empirical evidence presented in this study, highlighting the complexity of corporate governance dynamics. The impact of board size, which is frequently cited as a key factor in governance, has been proven to be very uneven. On the one hand, research has backed bigger boards because of their potential to improve supervision, reduce agency expenses, and increase profitability. In contrast, numerous studies have praised the benefits of smaller boards, highlighting their ability to hasten decision-making and promote a cooperative governance structure. The importance of traditional governance elements like board size has also increased, with studies showing a favorable relationship between compact boards and firm value. The other aspect of corporate governance that is under our scrutiny, managerial ownership, has had a wide range of implications for business profitability. Increased managerial ownership has the potential to harmonize managerial and shareholder interests, but it also raises the possibility of agency conflicts. These results emphasize the need for a balanced view of managerial ownership, one that acknowledges that the impact of managerial ownership on profitability depends on particular contextual factors. The impact of this study goes beyond Oman's borders. As they work to achieve sustained economic growth and improved corporate governance standards, emerging economies around the world face comparable difficulties and opportunities. Oman provides priceless lessons and insights that can potentially direct and inform comparable economic environments worldwide in its capacity as a microcosm. These conclusions are significant not only for academics and researchers but also for Oman's stakeholders and decision-makers who are setting the course for economic expansion, luring foreign investment, and creating a strong private sector. The knowledge gained from studies like this one is the foundation for Oman's efforts to diversify its economy and its aspirations to build a successful business ecosystem. This study aims to add to the continuing conversation about reaching excellence in corporate governance, both in Oman and internationally. This study provides decision-makers with a toolkit to promote positive change by delving deeply into the nuances of board size and executive ownership and their impact on firm profitability. Oman, like with other developing nations, navigates the challenges of corporate governance strengthened by the knowledge and understanding gained from initiatives like this one. These realizations provide light on the way to long-term economic prosperity, sustained profitability, and the development of a business environment that thrives on responsibility, openness, and the unrelenting quest of value production.

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