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Corporate governance and foreign ownership in the Islamic capital market of Kuwait

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ABSTRACT

This paper aims to explain the corporate governance factors of foreign ownership in the Islamic capital market in Kuwait. A triangulated lens of agency, stewardship, and resource dependence is used to collect data from 58 listed firms on Boursa Kuwait. The findings suggest that board size; risk management; Chief Executive Officer (CEO) duality; environmental, social, and governance (ESG) practices; and debt to equity are significant determinants of attracting foreign capital. Board independence, firm size, and return on assets are significant factors, though there are narratives to the contrary in the literature. These results are important as the Kuwaiti market has demonstrated evidence for unifying the three theoretical perspectives of resource dependence (board size, risk management), agency (CEO duality), and stewardship (ESG practices and capital structure). This unification will contribute to further development of the corporate governance theory and policy in the future in terms of inclusion and exclusion of corporate governance frameworks.

Contribution/Originality: This study provides a new context of the Islamic capital market in Kuwait to investigate the impact of corporate governance factors on the ownership of foreign capital. This new context and fresh data add to the overall debates on international investments and long-term capital movements.

1. INTRODUCTION

Corporate governance is gaining significant attention throughout the world (Albuquerque, Brandão-Marques, Ferreira, & Matos, 2019), particularly in Arab countries and how it can lead to attracting foreign capital (Alfraih & Almutawa, 2017). Conceptually, corporate governance (CG) is a mechanism that provides assurance that the achievement of wealth maximization, which is the key shareholder objective, is not achieved by sacrificing stakeholders' costs. The governance structure of a corporation is usually based on the vague principles of CG, though there are no universal principles that can be deployed for the structure of a board (Armstrong, Blouin, Jagolinzer, & Larcker, 2015) and, therefore, practices are highly contextualized.

Various regions and countries have introduced laws and regulations, along with the related enforcement mechanisms, to enable contextualized corporate governance structures (Wu & Bies, 2019). For example, in Kuwait, the state ownership of companies is predominant along with family businesses, thus governance concentrates on local government bodies or families. Armstrong et al. (2015) found the concentration of ownership to be an essential criterion in the corporate ownership structure, which Kuwait and different countries in the Gulf Co-operation Council (GCC) shares with the corporate governance code (Ceicdata, 2019). However, the legal infrastructure of the Kuwaiti

capital market is still seen as inefficient and, therefore, the corporate governance regulations and rules for Kuwaiti banks were amended in September 2019. These amendments were made in connection with the Kuwait Companies Law 2016 to create provisions for an independent board of directors, which is inspired from the experiences in the implementation of the existing governance policies (CBK, 2019).

Changes in CG are motivated by two immediate pressures. The first is Kuwait's investment diversification plan for 2035, and the second is the growing competition with GCC in foreign investment development (Agyemang, Gbettey, Gatsi, & Acquah, 2019; CPI Financial, 2019). More generically, however, there are numerous studies which have identified several other factors that motivate CG changes to attract foreign investors in different countries. For instance, it was found that labor skills (Francois, Panel, & Weill, 2020), labor tax (Hassan, Islam, & Rashid, 2018), transport and infrastructure (Deena, 2018), commodities (Iamsiraroj, 2016), size of the economy, potential for growth, and exchange rate are among the significant factors that drive and attract foreign investment into a country and therefore motivates necessary changes in CG. However, limited studies focus on the importance of corporate governance structure and policies for enabling foreign investment (Alfraih & Almutawa, 2017), specifically in Kuwait's context. This research, therefore, aims to pave the way for policymakers in the Kuwaiti government and members of the Kuwaiti parliament to adopt and amend regulations that support better corporate governance and enable shareholders' protection, which can incentivize investors to invest in Kuwaiti-listed firms and enhance confidence in the stock market. At the international level, this research will contribute to the enhancement of the corporate governance policies and legal infrastructure that will enable clearer and more transparent accountability in the overall management of companies. This paper next presents theoretical perspectives of corporate governance and foreign investment, before presenting the methodology and the results of the study.

2. LITERATURE REVIEW

The notion of CG has been informed mainly by three theories, namely the Agency Theory, the Stewardship Theory, and the Resource Dependence Theory, and their relevance to corporate governance structures. First, agency theory conceptualizes the relationships of shareholders and management as principals and agents, respectively (Panda & Leepsa, 2017), and the focus is on the agents who are mandated to protect the principals' interests and take decisions accordingly (Voorn, Van Genugten, & Van Thiel, 2019). The theory raises both concerns and interests among shareholders and company directors (Gerged, 2021). Second, the stewardship theory protects and maximizes the shareholders' wealth through the company's performance (Yusoff & Alhaji, 2012). The theory is more output-centric, where significant flexibility and autonomy is granted and, therefore the stewards, who are the managers, are satisfied when they achieve the objectives over which they have authority (Madhani, 2017). Agency theory is more about how the principal and agent maintain an aligned relationship, whereas the stewardship theory emerges from the organizational psychology and sociology and emphasizes the psychological satisfaction of taking autonomous decision-making and the feeling of achievement when aligned objectives are met (Mäntysaari, 2011). This happens because the person feels authoritative when a steward secures and amplifies investors' abundance through firm execution on the grounds that the steward's utility capacities are boosted (Clarke, 2016; Yusoff & Alhaji, 2012). In this regard, impactful stewardship emerge when autonomy, self-governance, and hard work combine to promote actions and achievements with social realization and self-actualization (McClelland, 1961).Shareholders trust stewards and in return they protect and maximize their wealth, provided intrinsic and extrinsic motivations exist. Thomsen and Conyon (2012) stated that the steward protects and takes care of the needs of others. Third, resource dependence theory is based on governance and firm performance. It argues that a firm's performance may be improved by the board of director playing their role not only by supervision, but also by providing support and advice to the top management or executives, which help them in their decision-making (Hillman, Cannella, & Paetzold, 2000). The study by Hillman and Dalziel (2003) recommends that the board of directors should take strategic and tactical roles

by guiding the firm and supporting the management or executives in different areas, such as financial, legal, and human resources.

These three theories bring different perspectives to CG and how it relates to attracting foreign capital. For example, Eissa and Elgammal (2020) focused on foreign investment determinants and found them to be ownership, location, and internalization. In contrast, Marandu and Ditshweu (2018) emphasized comparative advantages, which they say shift from one nation to another with the maturity of products. Governments also play a role in contributing to ensure the existence of regulatory legislation for ownership and private sector growth. The government of Kuwait encourages privatization and leveraging in financial markets to complement economic growth and attract foreign investment. This would, however, require more tax, regulatory reforms and compliance (Merz, Overesch, & Wamser, 2017). In addition, Muhammad, Islam, and Marashdeh (2016) examined capital market development in the GCC countries and found that financial reforms, supervision, regulations, and monitoring will ensure more economic growth and attract foreign ownership, which will boost economic growth. Dkhili and Dhiab (2018) also found a relationship between economic freedom and foreign ownership with evidence from GCC countries and concluded that economic freedom facilitates foreign ownership and economic growth. These CG factors are also claimed to be emerging differently in developed and developing countries (Paul, Ali, Ali, & Khawar, 2018) primarily because of different financial and ownership structures. Simpler and easier to follow ownership and financial structures are important for companies to attract foreign investment in the country (Alrgaibat, 2019). In addition, Alrgaibat (2019) mentioned that in attracting foreign private finance, the state needs to display that shareholder's rights are highly valued and that the enforcement of the law is successful, applicable, and effective throughout the country.

Kuwait is progressing as its foreign ownership shows rising inflows for the last three years and seem lucrative among the GCC countries, competing closely with Saudi Arabia and Qatar. Kuwait welcomes foreign ownership inflows for the purpose of diversifying away from hydrocarbons and taking the lead among its Gulf peers. MSCI Inc., an American finance company, anticipated the promotion of Kuwait into its main index as an emerging market in June 2020 (Pacheco, 2019). The government reforms facilitate foreign ownership through legislative changes in foreign ownership, and investors are entitled to enjoy more incentives, specifically tax holidays of up to 10 years and customs exemptions (Fingar, 2018). In addition, macroeconomic policies continued to strengthen fiscal accounts for adequate saving and limiting financial dependence. The government is focused on increasing non-oil revenue through diversification of the economy and improving fiscal policy framework while incorporating corporate governance to secure capital (International Monetary Fund, 2019).

The Islamic capital market in Kuwait comprises of banks (Islamic banks), financial institutions (Shariah-compliant firms), as well as investments. The banking sector makes up 89% of the total Kuwaiti finance market, with USD$221 billion in capitalization, and where the Commercial Bank of Kuwait (CBK) regulates 23 local and foreign banks. The Ministry of Commerce and Industry and the Capital Market Authority (CMA) regulate insurance, exchange, mutual funds, and other investment companies. Capacity building, compliance with anti-money laundering regulations, skills development and training are the concerns identified in the banking sector's strategic outlook (International Banking Conference, 2019). Kuwait's banking sector is predicted to grow through actively collaborating in infrastructure projects, public–private partnerships, enhancing credit facilities and new corporate offers (Pacheco, 2019). The capital market in Kuwait is also actively attracting investors through widening bond markets where the state issued USD$8 billion in five- and ten-year bonds in 2017. The new legislation allows issuance of 30-year bonds, which will raise the debt ceiling from 10 billion to 25 billion Kuwaiti dinars (Domat, 2020). Kuwait's foreign ownership expanded quarterly, as evidenced by CBK recording USD$714.1 million in September 2019 compared to the previous quarter (Ceicdata, 2019).

According to Girma, Gong, Gorg, and Lancheros (2015), in countries whose economies have liberalization of foreign ownership regimes, and developed equipment, good policies and funds, there is increasing interest in foreign investment and its benefits. To improve the efficiency of the host country, foreign ownership is considered important

as it supports human capital development, technology transfer and enhanced competitiveness of the business environment, and international trade, which contributes significantly to the more comprehensive legal developments.

2.1. Conceptual Framework

Figure 1 depicts the relationships of CG variables with the foreign ownership. The CG variables include board size, board independence, CEO duality, risk management, and ESG, which have been used to measure the impact of corporate governance on foreign ownership.

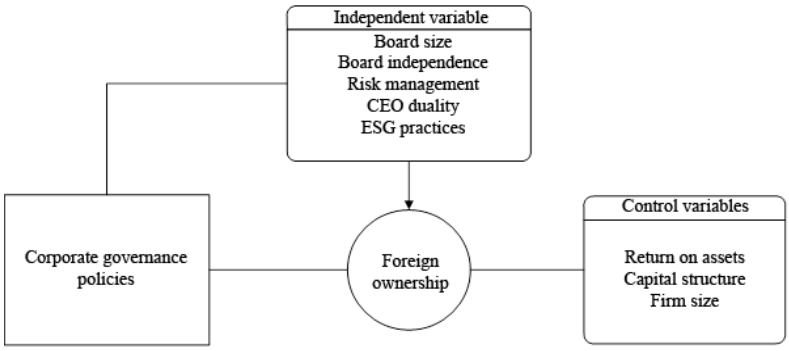

Figure 1. Conceptual framework.

The conceptual framework represents the relationship between corporate governance policies and foreign ownership and foreign investment in Kuwait. Risk management, shareholders' returns, ESG, and foreign ownership are some of the practices that have been used to measure corporate governance policies. The graphical representation makes it easy for the target audience to understand the research structure and variables, and it describes the concept that the research aims to evaluate.

3. METHODOLOGY

The research uses secondary data from annual reports of publicly listed Kuwaiti banks and Shariah-compliant firms as part of the Islamic Capital Market (ICM) on Boursa Kuwait. The rationale of collecting data from public banks or companies is because these entities are strictly regulated and have moderate levels of political interference in the governance. The secondary data collected spans from 2016 to 2020; the timeframe of five years is adequate for conducting an evaluation of the industry (Alsmady, 2018). The current study examines the sample companies listed on Boursa Kuwait, specifically the Kuwaiti Islamic capital market. The current research project specifically focuses on the 58 ICM firms in Kuwait, as shown in Table 1.

Table 1. Sample of the study.

Composition of sample
Sample size
58 listed firms on Boursa Kuwait: • 5 banks • 14 real estate firms • 18 oil, industrial and petrochemical firms • 2 telecommunication firms • 7 transport and logistic firms • 1 healthcare firm • 7 holdings • 1 electrical industry firm • 2 consumer discretionary firms • 1 financial services firm

Cohen, Manion, and Morrison (2013) asserted that purposive sampling enables a researcher to utilize different cases that provide vital information regarding the study objectives. The State of Kuwait utilizes the principles of CG and recognizes it as substantially related to foreign ownership. This research is longitudinal, to repeatedly evaluate individuals to detect any changes that occurred over the specific study period. It can be perceived as correlation research that is expensive and requires resources and commitment (Creswell, 2013). The period of five years, from 2016 to 2020, is adequate because of dataset limitations in the Kuwait Stock Exchange (Boursa), as data prior to 2015 is not available, especially data on ownership, as the Minister of Commerce and Industry stated in Decision No. 694 of 2018 allowing non-Kuwaiti investors to own and trade shares on the Kuwait Stock Exchange. Furthermore, some studies, such as Geraldina, Rossieta, and Wardhani (2021), which looked at investors' responses on liquidity risk disclosure in the Indonesian capital market, also used a five-year dataset. The same was done by Geraldina, Rossieta, and Wardhani (2017), who utilized a two-year dataset for the study on the effect of risk disclosure quality on shares' liquidity in the Indonesian capital market. Moreover, Al-Saidi and Al-Shammari (2013) studied board composition and bank performance in Kuwait within a five-year time frame from 2006 to 2010. Panel data is also referred to as longitudinal data, micro panel data, and event history data by some researchers (Baltagi, 2008; Greene, 2012). It is a type of data that is collected by observing particular variables over time at regular intervals. This type of data can be useful for establishing trends and providing further insights into the variables.

The sample data were summarized in the form of the descriptive statistics, which was subsequently followed by testing of assumption required to run the panel data analysis. The assumptions that were considered in the study include normality, outliers, and multicollinearity testing using the variance inflation factor (VIF). Tests for heteroskedasticity were also performed using the Breusch–Pagan/Cook–Weisberg and White's tests. The relationship among the variables was examined using three types of regression, namely the fixed effects model (FEM), random effects model (REM) and ordinary least squares (OLS), with and without heteroskedastic conditions. Finally, comparisons among the models were made using the pool ability test to compare between the OLS and FEM, the Breusch–Pagan test to compare between the OLS and REM, and the Hausman test to compare between the FEM and REM.

3.1. Research Hypotheses

The following hypotheses are used to answer to the research questions:

H_1: There is a significant impact of board size on foreign ownership in Kuwait.

H_2: There is a significant impact of board independence on foreign ownership in Kuwait.

H_3: There is a significant impact of risk management on foreign ownership in Kuwait.

H_4: There is a significant impact of CEO duality on foreign ownership in Kuwait.

H_5: There is a significant impact of environmental, social and governance practices (ESG) on foreign ownership in Kuwait.

H_6: There is a significant impact of firm size on foreign ownership in Kuwait.

H_7: There is a significant impact of return on assets on foreign ownership in Kuwait.

H_8: There is a significant impact of debt to equity on foreign ownership in Kuwait.

3.2. The Regression Equation

$$FO = \beta_0 + \beta_1\,(\text{Board Size}) + \beta_2\,(\text{Board Ind.}) + \beta_3\,(\text{Risk Management}) + \beta_4\,(\text{CEO Duality}) + \beta_5\,(\text{ESG}) + \beta_6\,(\text{Firm Size}) + \beta_7\,(\text{Return on Assets}) + \beta_8\,(\text{Debt to Equity}) + \beta_9(\text{Crisis}) + e_i$$

Where, FO represents foreign ownership (dependent variable); β0, β1,…… β9 are intercepts; ei is the error term; β is the regression coefficient; and α is the constant. The independent variables are board size, board independence, risk management, CEO duality, and ESG. A control is established through firm size, return on assets, debt to equity, and crisis (2020). The purpose of the multiple regression tests is to determine the relationship between the dependent and independent variables (Chu, 2015). The multiple regression is used to predict the dependent variable value based

on the independent variable values. Multiple regression tests will provide the value for the R coefficient of multiple correlations, coefficient of determination, analysis of variance and regression coefficients.

4. RESULTS AND ANALYSIS

The descriptive statistics are presented in Table 2. The observations for board size, board independence, risk management, CEO duality, ESG, firm size, return on assets, debt to equity and foreign ownership had averages of 6.79 ± 2.05, 20.31 ± 7.72, 47.91 ± 14.59, 0.43 ± 0.50, 0.56 ± 0.50, 7.19 ±1.72, 0.22 ± 0.53, 1.58 ± 2.38, 0.17 ± 0.37 and 0.03 ± 0.14, respectively. The median, standard error of mean, skewness and kurtosis values for these variables are also shown. When the skewness is greater than 2 in absolute value, the variable is considered to be asymmetrical about its mean. When the kurtosis is greater than or equal to 3, then the variable's distribution is markedly different than a normal distribution in its tendency to produce outliers (Westfall & Henning, 2013).

Table 2. Summary statistics table for interval and ratio variables.

Study variable	Mean	Median	SD	SEM	Min.	Max.	Skewness	Kurtosis
Board size	6.79	6.00	2.05	0.11	4.0	12.00	0.86	-0.35
Board independence	20.31	20.0	7.72	0.41	10.0	42.86	1.41	1.76
Risk management	47.91	50.0	14.59	0.84	14.29	80.0	-0.28	-0.74
CEO duality	0.43	0.00	0.50	0.03	0.00	1.00	0.29	-1.93
ESG	0.56	1.00	0.50	0.03	0.00	1.00	-0.22	-1.96
Firm size	7.19	7.60	1.72	0.09	1.32	8.98	-2.35	4.82
Return on assets	0.22	0.04	0.53	0.03	-0.51	7.92	9.24	128.79
Debt to equity	1.58	0.61	2.38	0.13	0.00	12.58	2.25	4.39
Crisis	0.17	0.00	0.37	0.02	0.00	1.00	1.80	1.24
Foreign ownership	0.03	0.00	0.14	0.01	0.00	1.00	6.19	0.44

Note: SEM = standard error of mean.

This study utilizes four models to analyze the dataset, i.e., the pooled ordinary least squares (OLS), the fixed effects model, the random effects model, and heteroskedastic regression. To check the best model among these four models, poolability, Breusch–Pagan and Hausman tests were conducted. A comparison between the FEM with the OLS was done by using F test, while the comparison of REM with the OLS was done by Breusch and Pagan's Lagrange multiplier (LM) test. To examine the best model between the REM and FEM, the Hausman test was utilized. Before conducting the panel data analysis, the required assumptions of normality, homoscedasticity, multicollinearity, and outliers were examined.

4.1. Diagnostic Tests (OLS)

Normality: A Shapiro–Wilk test was conducted to determine whether the model residuals could have been produced by a normal distribution (Razali & Wah, 2011). The results of the Shapiro–Wilk test were significant based on an alpha value of 0.05, $W = 0.63$, $p < 0.001$. This result suggests that the residuals of the model are unlikely to have been produced by a normal distribution, indicating that the normality assumption is violated. But as per the Central Limit Theorem (CLT), if the sample size is sufficiently large (> 200), the data can be assumed to be normally distributed (Statistics Solutions, 2013).

Homoscedasticity: Homoscedasticity was evaluated by plotting the residuals against the predicted values (Bates, Mächler, Bolker, & Walker, 2015; Field, 2017; Osborne & Waters, 2002). The assumption of homoscedasticity is met if the points appear randomly distributed with a mean of zero and no apparent curvature. Figure 2 presents a scatterplot of the predicted values and model residuals.

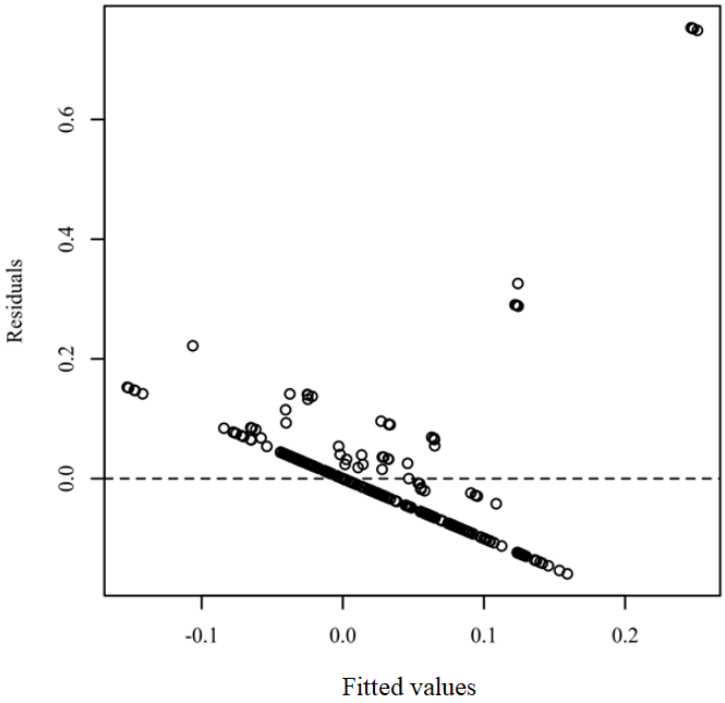

Figure 2. Residuals scatterplot to test homoscedasticity.

Multicollinearity: The variance inflation factors (VIFs) were calculated to detect the presence of multicollinearity between predictors. High VIFs indicate increased effects of multicollinearity in the model. VIFs greater than 5 are a cause for concern, whereas VIFs of 10 should be considered the maximum upper limit (Menard, 2009). All predictors in the regression model have VIFs less than 10. Table 3 presents the VIF for each predictor in the model (board size, board independence.

Table 3. Variance inflation factors.

Variable	VIF
Board size	4.74
Board independence	1.20
Risk	3.95
CEO duality	1.22
ESG	1.33
Firm size	1.10
Return on assets	1.14
Debt to equity	1.69
Crisis	1.01

Outliers: To identify influential points, studentized residuals were calculated, and the absolute values were plotted against the observation numbers (Field, 2017; Pituch & Stevens, 2015). Studentized residuals are calculated by dividing the model residuals by the estimated residual standard deviation. An observation with a studentized residual greater than 3.11 in absolute value, the 0.999 quantile of a t distribution with 347 degrees of freedom was considered to have considerable influence on the results of the model. Figure 3 presents the studentized residuals plot of the observations. The observation numbers are specified next to each point with a studentized residual greater than 3.11.

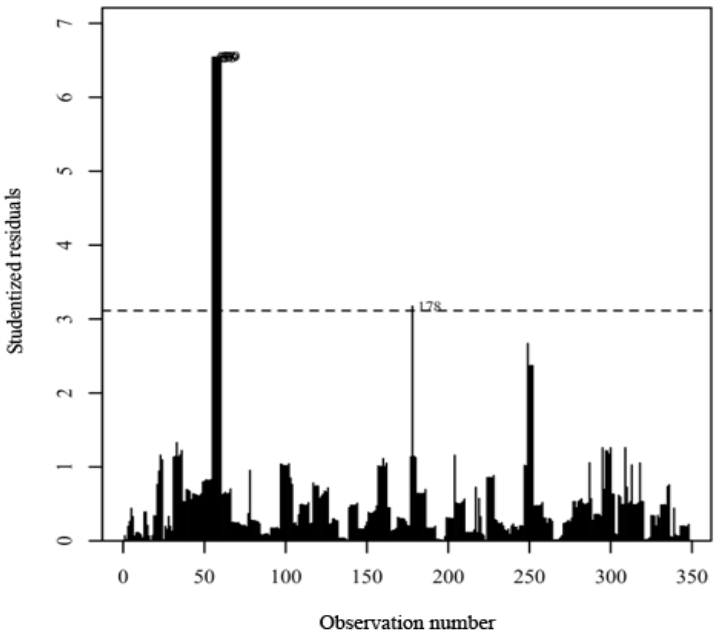

Figure 3. Studentized residuals plot for outlier detection.

Autocorrelation: A Durbin–Watson (DW) test was conducted to assess the degree of autocorrelation among the residuals. The results were significant, $DW = 0.46$, $p < 0.001$, suggesting that they may be influenced by autocorrelation among the residuals.

4.2. Pearson Correlation

A Pearson correlation analysis was conducted among foreign ownership, board size, board independence, risk management, CEO duality, ESG, return on assets, firm size, and debt to equity. Cohen's standard was used to evaluate the strength of the relationships, where coefficients between .10 and .29 represent a small effect, coefficients between .30 and .49 represent a moderate effect, and coefficients above 0.50 indicate a large effect (Cohen, 1988). The results of the correlations were examined based on an alpha value of 0.05. A significant negative correlation of foreign ownership was observed with board size ($r = -0.10$, $p < 0.05$). This indicates that as the board size increases, foreign ownership tends to decrease. A significant positive correlation of foreign ownership was observed with CEO duality ($r = 0.15$, $p < 0.001$) and ESG ($r = 0.20$, $p < 0.001$), which indicates that as CEO duality or ESG increases, foreign ownership will also increase. The association of foreign ownership with board size, board independence, risk management, return on assets, firm size, debt to equity and crisis was not statistically significant ($p > 0.05$). Table 4 presents the results of the correlations analysis.

Table 4. Pearson correlation results between foreign ownership, board independence, risk management, return on assets, firm size, debt to equity, board size, CEO duality, ESG, and crisis.

Variable	Foreign ownership	Board size	Board independence	Risk	CEO duality	ESG	Return on assets	Firm size	Debt to equity	Crisis
FO	-									
Board size	-0.10*	-								
Board Ind./Board size	-0.03	-0.32***	-							
Risk management	-0.06	-0.84***	0.29***	-						
CEO duality	0.15***	0.02	0.06	-0.10*	-					
ESG	0.20***	0.12**	-0.10*	0.05	-0.28***	-				
Return on assets	0.03	-0.03	-0.06	0.08	-0.06	0.31***	-			
Firm size	0.05	0.02	-0.21***	-0.10*	0.06	0.03	0.11**	-		
Debt to equity	-0.02	0.54***	-0.12**	-0.38***	-0.28***	0.27***	-0.01	0.04	-	
Crisis	0.02	-0.00	0.00	0.00	0.00	0.01	-0.06	0.01	0.07	-

Note: * $p < .05$, ** $p < .01$, *** $p < .001$.

4.3. Linear Regression Analysis

The normal OLS regression analysis was conducted to assess whether board size, board independence, risk management, CEO duality, ESG, firm size, return on assets, debt to equity and crisis significantly predicted foreign ownership.

$$FO = \beta_0 + \beta_1 (\text{Board size}) + \beta_2 (\text{Board Independence}) + \beta_3 (\text{Risk}) + \beta_4 (\text{CEO Duality}) + \beta_5 (\text{ESG}) + \beta_6 (\text{Firm Size}) + \beta_7 (\text{Return on Assets}) + \beta_8 (\text{Debt to Equity}) + \beta_9 (\text{Crisis})$$

The results of the linear regression model were significant, $F(9,338) = 10.29$, $p < 0.001$, $R^2 = 0.22$, indicating that approximately 22% of the variance in foreign ownership is explainable by board size, board independence, risk management, CEO duality, ESG, firm size, return on assets, debt to equity and crisis.

Table 5. Linear regression results for board size, board independence, risk management, CEO duality, ESG, firm size, return on assets, debt to equity, and crisis predicting foreign ownership.

Variable	B	SE	90.00% CI	β	t	p
Intercept	0.62	0.10	[0.46, 0.78]	0.00	6.29	< 0.001
Board size	-0.05	0.007	[-0.06, -0.04]	-0.76	-7.26	< 0.001
Board independence	-0.001	0.0009	[-0.003, 0.0005]	-0.06	-1.16	0.246
Risk management	-0.006	0.0009	[-0.008, -0.005]	-0.64	-6.64	< 0.001
CEO duality	0.07	0.01	[0.04, 0.09]	0.24	4.44	< 0.001
ESG	0.10	0.02	[0.08, 0.13]	0.37	6.58	<0 .001
Firm size	-0.003	0.004	[-0.010, 0.004]	-0.04	-0.76	0.450
Return on assets	-0.01	0.01	[-0.03, 0.01]	-0.04	-0.84	0.401
Debt to equity	0.006	0.004	[0.0004, 0.01]	0.11	1.75	0.080
Crisis	0.003	0.02	[-0.03, 0.03]	0.007	0.15	0.881

Note: Results: $F(9,338) = 10.29$, $p < 0.001$, $R^2 = 0.22$.

Table 5 summarizes the results of the regression model. Board size ($B = -0.05$, $t(338) = -7.26$, $p < 0.001$); risk management ($B = -0.006$, $t(338) = -6.64$, $p < 0.001$); CEO duality ($B = 0.07$, $t(338) = 4.44$, $p < 0.001$); and ESG ($B = 0.10$, $t(338) = 6.58$, $p < 0.001$) significantly predicted foreign ownership. Results indicate that, on average, a one-unit increase in board size and risk management will decrease the value of foreign ownership by 0.05 and 0.006 units, respectively, while a one-unit increase in CEO duality and ESG will increase the value of foreign ownership by 0.07 and 0.10 units, respectively. Moreover, board independence, firm size, return on assets, debt to equity, and crisis did not significantly predict foreign ownership ($p > 0.05$). Based on this sample, a one-unit increase in board independence, firm size, return on assets, debt to equity, and crisis does not have a significant effect on foreign ownership.

4.4. Heteroscedastic Regression Analysis

A heteroscedastic linear regression analysis was conducted to assess the impact of board size, board independence, risk management, CEO duality, ESG, firm size, return on assets, debt to equity, and crisis on foreign ownership. Before conducting the heteroscedastic linear regression, Breusch–Pagan and White's tests were conducted to detect any form of heteroscedasticity in the dataset. The results of both tests confirmed the presence of heteroscedasticity as $p < 0.05$. The results of the heteroscedastic linear regression (as seen in Table 6) indicate that risk management ($B = -0.01$, $z = -6.74$, $p = 0.000$), CEO duality ($B = 0.07$, $z = 4.51$, $p = 0.000$) and ESG ($B = 0.10$, $z = 6.68$, $p = 0.000$) were significant predictors of foreign ownership, while the effects of rest of the variables included in the study were not statistically significant ($p > 0.05$).

Breusch–Pagan/Cook–Weisberg test for heteroscedasticity

Ho: Constant variance, variables: fitted values of r chi2(1) = 352.74 Prob > chi2 = 0.0000

White's test

Ho: Homoskedasticity

Against Ha: unrestricted heteroscedasticity

Chi2(51) = 331.61

Prob > chi2 = 0.0000

Table 6. Heteroscedastic linear regression with board size, board independence, risk management, CEO duality, ESG, firm size, return on assets, debt to equity, and crisis predicting foreign ownership.

Variable	Coeff.	Std. err.	Z	P > z	[95% Conf. interval]	
FO						
Board size	-0.051	0.007	-7.370	0.000	-0.065	-0.038
Board independence	-0.001	0.001	-1.180	0.239	-0.003	0.001
Risk management	-0.006	0.001	-6.740	0.000	-0.008	-0.004
CEO duality	0.066	0.015	4.510	0.000	0.037	0.095
ESG	0.102	0.015	6.680	0.000	0.072	0.132
Return on assets	-0.011	0.013	-0.850	0.393	-0.037	0.015
Firm size	-0.003	0.004	-0.770	0.443	-0.011	0.005
Debt to equity	0.006	0.004	1.780	0.075	-0.001	0.013
Crisis	0.003	0.018	0.150	0.879	-0.032	0.037
_cons	0.621	0.097	6.380	0.000	0.430	0.811
lnsigma2						
_cons	-4.199	0.076	-55.380	0.000	-4.347	-4.050

Note: Comparisons between pooled OLS, REM and FEM.

A series of tests was conducted to determine the best model among the pooled OLS, REM and FEM. The results of the F test that was used to compare the FEM with the pooled OLS indicated that the FEM is better (F (9, 338) = 7.64; p-value = 0.00). Furthermore, the results of the Breusch–Pagan LM test that was used to compare the REM with the pooled OLS indicated that the REM is able to deal with heterogeneity better than the pooled OLS (χ^2 = 7.64; p-value = 0.000). Finally, a Hausman test was utilized to compare the FEM with the REM and the results showed that the FEM estimation is the more appropriate compared to the REM estimation (χ^2 = 15.39; p-value = 0.0313).

Table 7 presents the results of the estimates corresponding to the four models and heteroscedastic regression. Columns (1), (2), (3) and (4) report the results of the parameter estimates and standard errors under these models, respectively. The FEM shows that the only firm size was a significant predictor of foreign ownership. However, based on the value of R^2, the pooled OLS model discovered the maximum variation (21%) in the dependent variable compared to rest of the models. The results of the pooled OLS regression show that board size, risk management, CEO duality, ESG and debt to equity were significant predictors of foreign ownership.

Poolability Test (pooled OLS and FEM)

F test that all ui = 0: F(9, 338) = 7.64

Prob > F = 0.0000

(Suggests that FEM is preferred over the pooled OLS)

Breusch–Pagan LM Test (pooled OLS and REM)

Test: Var(u) = 0

chibar2(01) = 7.64

Prob > chibar2 = 0.0000

(Suggests that REM is preferred over the pooled OLS)

Hausman Test (FEM and REM)

Test: Ho: difference in coefficients is not systematic

chi2(7) = (b-B)'[(Vb-VB)^(-1)](b-B) = 15.39

Prob>chi2 = 0.0313

(Suggests that FEM is preferred over REM)

Table 7. Results for linear regression, fixed effects model (FEM), random effects model (REM) and heteroscedastic regression with board size, board independence, risk management, CEO duality, ESG, return on assets, firm size, debt to equity, and crisis predicting foreign ownership.

Variables	(1)	(2)	(3)	(4)
	Pooled OLS	FEM	REM	Hetero reg.
Board size	-0.051***	0.0051	-0.030**	-0.051***
	(0.007)	(0.029)	(0.015)	(0.006)
Board independence	-0.001		-0.000	-0.001
	(0.000)		(0.002)	(0.000)
Risk management	-0.006***		-0.004*	-0.006***
	(0.000)		(0.002)	(0.000)
CEO duality	0.066***	-0.002	0.002	0.066***
	(0.014)	(0.010)	(0.010)	(0.014)
ESG	0.102***	0.011	0.022	0.102***
	(0.015)	(0.021)	(0.018)	(0.015)
Return on assets	-0.011	0.007	0.006	-0.011
	(0.013)	(0.005)	(0.005)	(0.013)
Firm size	-0.003	0.047***	0.015*	-0.003
	(0.004)	(0.014)	(0.008)	(0.004)
Debt to equity	0.006*	-0.0016	-0.000	0.006*
	(0.003)	(0.002)	(0.002)	(0.003)
Crisis year	0.002	0.008	0.008	0.002
	(0.018)	(0.004)	(0.005)	(0.017)
Board independence		-		
Risk %		-		
Constant	0.621***	-0.349	0.321	0.621***
	(0.098)	(0.226)	(0.226)	(0.097)
Observations	348	348	348	348
R-squared	0.215	0.051	0.040	
Number of companies	58	58	58	58

Note: * p < .05, ** p < .01, *** p < .001.

4.5. Hypothesis Results

Table 8 shows the summary results based on the pooled OLS regression model; a higher R-squared value indicates that it is more significant.

Table 8. Hypothesis results of the study.

Research hypothesis	Findings	Supporting theory
H1 = There is a significant impact of board size on foreign ownership in Kuwait	Accepted	Resource dependence theory
H2 = There is a significant impact of board independence on foreign ownership in Kuwait	Rejected	
H3 = There is a significant impact of risk management on foreign ownership in Kuwait	Accepted	Resource dependence theory
H4 = There is a significant impact of CEO duality on foreign ownership in Kuwait	Accepted	Agency theory
H5 = There is a significant impact of ESG practices on foreign ownership in Kuwait	Accepted	Resource dependence Theory/Stewardship theory
H6 = There is a significant impact of firm size on foreign ownership in Kuwait	Rejected	
H7 = There is a significant impact of return on assets on foreign ownership in Kuwait	Rejected	
H8 = There is a significant impact of debt to equity on foreign ownership in Kuwait	Accepted	Stewardship theory

5. DISCUSSION

The focal point of this research is the evaluation of CG practices on foreign ownership in Kuwait. In last decade, Kuwait showed incredible and fast-paced economic growth. Despite the natural and geographical environments in

Kuwait, the country has become well-developed and attractive to foreign investors. This context provides important insights in terms of the organizations' intent to embrace foreign investments to reach more customers and increase profitability. Moreover, the strategic location of Kuwait between the West and the East has gained the country trust among local and international investors. Kuwait is known as one of the significant producers of natural oil and gas. Most of the positive performance in the Kuwaiti economy currently is due to the positive measures it has taken toward the diversification of its economy.

The prosperity of the country and its prompt transformation are based on oil export revenue, and this natural resource has a vital contribution to its economic growth. At the same time, investments have become a dominant macro-economic pillar. A 'new' Kuwait, or Kuwait 2035, is a new concept, a strategic vision proposed the by the government to move ahead and navigate the country's economy toward other sources of funds to reduce dependence on the oil and petrochemical industries.

The study suggests that the Board of Directors (Board) of a company is of the most vital components of CG and a factor that may affect foreign ownership. There is, however, a big debate regarding the supervisory role of the Board between the different theories, such as the Agency Theory, Stewardship Theory and the Resource Dependence Theory. Moreover, we can refer to studies, such as Belinga and Segrestin (2018), which state that better decisions are taken by the Board when the Board size is smaller. This confirms the findings of this research based on the results of the pooled OLS regression. In the same vein, Oehmichen (2018) found that the Board significantly affects a company's foreign ownership, and that it is a critical factor to consider in any measurement.

In the Jordanian capital market between 2011 to 2015, Alsmady (2018) examined the Board of Directors and foreign ownership and found the impact to be positive when the board has more than eight members and negative when it has fewer than eight members. This result, if compared with the current study, may change as it may differ from one market to another. Kao, Hodgkinson, and Jaafar (2019) agree with this study's findings, which indicate that there is a negative relationship between board size and foreign ownership. The positioning of GCC countries has a vital role in attracting foreign investment. This is consistent with the results of Agyemang et al. (2019), which reveal that foreign investors are willing to invest in well-governed organizations.

The independence of the Risk and Audit Committee positively affects foreign investors. The presence of an independent Risk and Audit Committee can improve the confidence of foreign investors in management decisions. CG is currently one of the key concerns for investors and many countries are encouraging their business fraternity to adopt mechanisms of CG to enhance organizational monitoring to drive economic growth. Pettinger (2019) highlighted risk management as a critical element of foreign investment and stated that countries with political instability are at a higher risk of foreign investment outflow. However, this study has discovered a new finding according to the POLS regression; the higher the number of members in a Risk Management Committee, the less foreign ownership is observed.

Bouresli and Aldeehani (2017) criticized that the usefulness of the same individual holding the position of chairman and CEO is contingent to the performance and power of the CEO. Foreign investors prefer separation in the role of chairman and CEO. The influential role of a CEO on the Board can enhance the probability of deviant behavior. Most foreign investors prefer non-duality in the role of CEO. Alves (2021) found that CEO duality and its relation to earnings quality as a main component of governance showed that earnings were reduced in his samples which have CEO duality. The study linked this finding to the agency cost theory.

On the other hand, Alfraih and Almutawa (2017) showed that the non-separation between the CEO and chairman roles leads to better performance and attracts foreign ownership since it encourages better decision-making and centralization of authority with the CEO. This argument supports the current study's findings from the pooled OLS regression, which shows a significant and positive relation between CEO duality and foreign ownership. The argument is that CEO duality can boost firm performance as this non-separation of roles helps in cost reduction and leads to better performance. CEO duality can thus enhance the overall decision-making and authority.

ESG has become one of the latest trends across the in globe, especially with the increased awareness of the United Nations Sustainable Development Goals (Alrgaibat, 2019). Findings show that there is a positive relation between ESG practices and foreign ownership. Arayssi and Jizi (2019) reached the same conclusion based on 24 capital market firms from the Middle East/North Africa (MENA) region (which is considered an emerging market) and is being informed by the Agency and Stewardship Theory. Caccia, Baleix, and Paniagua (2019), however, suggest that ESG practices work well in the presence of rule of law and lack of corruption. This is because ESG practices boost foreign ownership as the study focused on the preservation of natural resources and sustainable data management to attract foreign investors. ESG behavior has become an important aspect of the business world, and in making foreign investment decisions, investors cannot afford to avoid this consideration. With ESG becoming a rising trend, companies purposefully adopt ESG practices to promote their positive image as a sustainable, environmentally friendly and well-governed business, and take advantage of this intentional socially responsible positioning. Companies set their own rules to follow to gain a competitive advantage. Socially responsible behavior and ESG practices can attract customers and maximize their corporate returns. Hence, countries that promote and maintain ESG position themselves as an attractive place for foreign investment. Khan (2019) found in a study of MSCI (Morgan Stanley Capital International) scores over several years that ESG is positively related to foreign ownership and international investment. Alareeni and Hamdan (2020) also concluded their study by supporting ESG as being positively related to foreign ownership. All previous research supports the findings of this current study based on the pooled OLS regression, which shows that there is a positive relationship between ESG practices and foreign ownership.

Garas, Tessema, and Tee (2017) studied the effect of the financial leverage and debt to equity on firm performance and foreign ownership, and their findings concluded that there is a positive relationship between debt to equity and foreign ownership. Maswadeh (2018) used debt to equity as a control variable to measure the impact on foreign ownership. Based on his data from Jordanian listed firms over a five-year period, he concluded that there is a positive relation between debt to equity and foreign ownership. We can thus say that previous studies agree with the findings of this current study, which used pooled OLS regression to show the positive and significant relation between debt to equity and foreign ownership. The pooled OLS regression model was chosen for the purpose of this study, and using this model, the results for the remaining variables were not significant. Thus, it can be concluded that they are not significantly related to foreign ownership.

6. CONCLUSION

The excessive demand for petroleum products has led to countries, such as Kuwait, attracting foreign capital. These investments are aimed at lucrative returns on investments. The study has implications for the governance structure in these investments. Firstly, the study shows that CEO duality should be applied in listed companies to encourage foreign ownership and recommends that the CEO should be on the Board of Directors. The CEO's presence will allow the Board to better understand the company's vision and facilitate making decisions that can support the views of the company's top executives. Secondly, the research supports environmental issues and practices to raise the bar on ESG and positive company positioning to attract foreign investors. This should lead to the creation of a culture that supports these activities, not only in the company but also through social campaigns (i.e., green days and laws regarding carbon emissions, as well as pollution awareness and climate change events, seminars and workshops). Thirdly, companies should increase their governance standards and regulations in their policies and procedures to develop a strong governance culture and organizational environment. Fourthly, the government should offer incentives to foreign investors to promote investments in larger companies. This should be one of the elements in the plan to attract foreign investors as its impact on foreign investment is significant as evidenced in this research. Regulators and policy makers may help to attract foreign ownership in Kuwait as there should be a focus on issuing laws to attract investment authorities that present appealing foreign investment strategies, such as encouraging

investments in large Kuwaiti companies. Also, the Capital Market Authority (CMA) may focus on issuing circulars and instructions intended to raise the levels of environmental, socially responsible, and good governance practices in companies, which are to be disclosed in annual reports, presented in annual general meetings, and disclosed on the Boursa Kuwait. Regulatory bodies should consider and promote CEO duality as a crucial factor to be applied in companies as a part of the country's foreign investment strategy, where, for example, CEOs are to be made a vice chair or member of the Board.

Studying more specific periods in future research will help to uncover more insights into corporate governance, focusing on areas such as corporate governance in a crisis, tracking the performance of Boards, establishing CG according to guidelines during those periods, and comparing their performance with other time periods could better clarify Board dynamics. Similarly, future research could employ detailed qualitative methods on the same topic, with techniques such as focus groups and interviews to engage with those working in ICM in Kuwait to understand the in-depth details of foreign investments in capital market firms.

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