

Article

Corporate Governance and Firm Performance: The Moderating Role of Economic Growth

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Abstract

This study examines the effect of corporate governance on firm performance and investigates whether economic growth moderates this relationship in GCC countries. Using a balanced panel of 133 listed non-financial firms from 2016 to 2023, the study employs the two-step System GMM estimator to address endogeneity, unobserved heterogeneity, and dynamic panel bias. Firm performance is measured using return on assets (ROA) and Tobin's Q, while corporate governance is proxied by board size, CEO duality, and board independence. The results reveal that economic growth plays a selective moderating role in the governance–performance relationship. Specifically, the interaction between board size and economic growth is positive and statistically significant, indicating that larger boards contribute more effectively to firm valuation during periods of economic expansion. In contrast, the interaction effects of CEO duality and board independence are statistically insignificant, suggesting that the effectiveness of these governance mechanisms is less sensitive to macroeconomic conditions. The findings indicate that economic growth enhances the effectiveness of resource-oriented governance structures while exerting limited influence on monitoring-oriented mechanisms. The study extends the corporate governance literature by highlighting the contingent role of macroeconomic conditions in shaping governance effectiveness and offers practical implications for policymakers and regulators seeking to strengthen governance frameworks, promote sustainable economic growth, and enhance long-term value creation.

Keywords: corporate governance; firm performance; GCC; economic growth; agency theory

1. Introduction

Corporate Governance has emerged as a key concern for companies and stakeholders in today's global economy. The Cadbury (1992) defined corporate governance as the system by which companies are directed and controlled. It establishes a framework for companies to balance and manage the interests of diverse stakeholders in a transparent, accountable, and ethical manner. More broadly, corporate governance encompasses the mechanisms and processes that ensure providers of finance—such as shareholders and creditors—can effectively monitor managerial actions and safeguard their investments to achieve sustainable returns (Shleifer & Vishny, 1997). According to the Organization for Economic Cooperation and Development (OECD), principles of corporate governance refer to the framework through which an organization establishes its objectives, develops strategies, and determines the mechanisms required to achieve them. It encompasses the



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processes, policies, regulations, and legal structures designed by regulatory bodies to safeguard stakeholder interests and support organizational goals. Corporate governance also aims to maintain a balance between shareholders' interests and those of other stakeholders within the firm (OECD, 2004). Furthermore, corporate governance establishes objectives for the company, monitors its performance, and ensures that managers' actions align with the interests of all stakeholders. In addition, it includes how a company's shareholders, board of directors, executive management, and other key stakeholders interact. Moreover, corporate governance is a key means of improving organizational discipline and trust by fostering accountability, fairness, and openness. This means it establishes relationships with stakeholders and outlines the strategic goals companies aim to achieve. A sound governance structure encourages ethical business practices and more efficient use of resources. The results can lower capital costs, improve company performance, and help shareholders create long-term value (Çelik & Isaksson, 2014; Tawfik et al., 2022).

Corporate governance has emerged as a cornerstone of modern corporate management, serving as a fundamental mechanism for enhancing transparency, accountability, and organizational sustainability while safeguarding shareholders' interests. Effective governance structures are expected to mitigate agency conflicts, improve strategic decision-making, strengthen monitoring functions, and ultimately enhance firm performance. Consequently, governments, regulators, and investors have increasingly emphasized adopting sound corporate governance practices to improve organizational efficiency and long-term value creation. Despite its theoretical importance and widespread adoption, empirical evidence on the relationship between corporate governance and firm performance remains inconclusive. While numerous studies report that effective governance mechanisms enhance both accounting- and market-based performance, others document insignificant or even adverse effects, reflecting substantial heterogeneity across countries, governance systems, and institutional environments (Affes & Jarboui, 2023; Bui & Krajcsák, 2024; Kyere & Ausloos, 2021). These conflicting findings suggest that the effectiveness of corporate governance is not universal but depends on the context in which firms operate (Zattoni et al., 2020). Such inconsistency raises the possibility that external environmental factors, particularly macroeconomic conditions, may influence the extent to which corporate governance mechanisms translate into superior firm performance, thus providing a strong motivation for further investigation.

Firms do not operate in isolation but within dynamic macroeconomic environments that shape investment opportunities, financing conditions, consumer demand, business confidence, and strategic decision-making (Donaldson, 2001; North, 1990). Therefore, the effectiveness of internal governance mechanisms may vary depending on the prevailing economic environment in which firms operate. Periods of economic expansion generally stimulate investment, improve access to external finance, and create favorable conditions for business growth, whereas economic downturns are characterized by heightened uncertainty, reduced market demand, and tighter financial constraints that may limit firms' ability to realize the benefits of effective governance (Claessens & Yurtoglu, 2013). From a theoretical perspective, this argument is consistent with contingency theory, which posits that the effectiveness of organizational structures and governance mechanisms depends on their alignment with the external environment (Donaldson, 2001).

In the Gulf Cooperation Council (GCC), awareness of corporate governance emerged as a significant and debated issue only at the beginning of the twenty-first century. Gulf authorities began implementing governance reforms with support from international institutions, including the International Finance Corporation (IFC), the Organization for Economic Co-operation and Development (OECD), and other global regulatory bodies. The issuance of Oman's corporate governance code in 2002 marked the first wave of formal gov-

ernance reforms in the region, followed by the United Arab Emirates in 2004, Saudi Arabia in 2006, Qatar in 2009, Bahrain in 2010, and Kuwait in 2013 (Salman & Nobanee, 2019).

Oil earnings have been the primary source of income for the Gulf Cooperation Council (GCC) countries in the past. This revenue stream has led to rapid growth and wealth accumulation in the region. Nevertheless, fluctuations in oil revenues have exposed weaknesses in the system, making it more difficult to govern and maintain economic stability. Population growth and income-based social contracts exacerbate these problems. In response, the governments of the GCC are actively developing strategies to diversify their economies, reduce reliance on hydrocarbons, and increase private-sector participation. National development plans emphasize the necessity for more open economies, the expansion of knowledge-based industries, and a transition to more sustainable growth models. Key efforts to diversify are increasingly focused on high-productivity sectors such as information technology, financial services, and tourism, as these can create jobs and generate long-term economic value. A strategic shift toward clean energy and renewable investments that align with broader sustainability goals also benefits these projects. GCC countries have also introduced legal and regulatory changes, streamlined administrative processes, and established specialized investment agencies to make their countries more appealing to foreign investors and improve the overall business climate (Hkimi & Ftouhi, 2025).

Therefore, these changes show that the GCC's economic model has fundamentally shifted and that the region is more committed than ever to long-term economic resilience, sustainable development, and stronger corporate governance (Buallay et al., 2020). This shift underscores a growing commitment to corporate governance, institutional transparency, and knowledge-driven development across the GCC. In this context, effective governance mechanisms are critical to enabling firms to allocate resources efficiently, attract long-term investment, and respond strategically to economic transformation initiatives. As the economies of the GCC move toward more diverse, innovation-focused growth, the ability of corporate governance structures to translate these changes into better company performance increasingly depends on the broader economy (IMF, 2023).

Despite these regulatory advancements, corporate ownership in the GCC remains highly concentrated, with a strong presence of family-controlled and state-owned enterprises, which can intensify agency conflicts and limit the effectiveness of governance mechanisms. Moreover, variations in regulatory enforcement and market maturity across GCC countries suggest that governance practices may not translate uniformly into improved firm performance (Abdallah & Ismail, 2017). These institutional characteristics indicate that the impact of corporate governance on firm performance in the GCC is not uniform but contingent on the prevailing macroeconomic environment. This issue is particularly significant in emerging economies such as the Gulf Cooperation Council countries, where institutional environments can influence the effectiveness of governance practices.

Additionally, the GCC region offers an important empirical context for examining these relationships, as corporate governance reforms have been increasingly implemented across member states. However, the level of enforcement and effectiveness often varies across institutional and regulatory settings. To examine this relationship, the GCC region offers a distinctive context characterized by rapid financial growth, structural economic reforms, and fluctuating macroeconomic conditions, which influence how governance mechanisms translate into firm performance. Hence, macroeconomic growth is a critical contextual factor in determining the strength of the governance–performance relationship. Their effectiveness often depends on the quality of management. In theory, good macroeconomic conditions can improve the effectiveness of governance mechanisms by giving managers more investment options, making it easier for them to secure external financing, and making the market more disciplined. Therefore, macroeconomic conditions significantly

influence the effectiveness of corporate governance mechanisms. Economic growth creates favorable business environments characterized by rising demand, improved cash flows, and greater access to capital, enabling well-governed firms to capitalize on profitable investment opportunities more effectively. Under such conditions, strong governance structures support better strategic decision-making, mitigate agency conflicts, and improve the efficiency of resource allocation, thereby improving firm performance. In contrast, periods of economic slowdown are often associated with declining demand, tighter credit markets, and increased uncertainty, which constrain managerial flexibility and reduce the effectiveness of governance mechanisms. Consequently, macroeconomic growth not only affects firm performance directly but also shapes the strength of the relationship between corporate governance and organizational outcomes (Chow et al., 2018).

Moreover, the absence of sound corporate governance can have serious consequences not only for individual firms but also for broader economic stability, particularly under unfavorable macroeconomic conditions. During periods of economic contraction, rising uncertainty, and financial volatility, weak governance structures limit managerial accountability, intensify agency problems, and impair strategic decision-making. Consequently, companies are more likely to face economic problems, waste resources, and make bad investments. In contrast, strong corporate governance mechanisms help firms adapt to macroeconomic shocks by enhancing transparency, strengthening monitoring, and promoting prudent risk management. Thus, governance quality plays a critical role in determining how firms respond to macroeconomic pressures and how effectively they contribute to national economic resilience (Johnson et al., 2000).

Based on the previous explanation, corporate governance systems and macroeconomic conditions significantly influence firm behavior and performance; however, the impact of the broader economic environment on the efficacy of governance mechanisms is insufficiently examined, especially in emerging markets. Changes in the economy, whether good or bad, affect how businesses raise capital, invest, and take risks, which, in turn, shape how governance structures shape financial and operational results. During periods of economic growth, companies with strong governance are better able to capitalize on favorable market conditions. However, during economic downturns, external factors and uncertainty may make it harder for strong governance to improve performance. There is growing recognition that governance does not operate in isolation; however, empirical evidence on the moderating influence of macroeconomic conditions on the governance–performance relationship remains scarce, particularly in the GCC context. Therefore, economic growth should not be viewed merely as a macroeconomic indicator but as an important contextual factor that may shape the effectiveness of corporate governance mechanisms, providing a strong rationale for examining its moderating role in the corporate governance–firm performance relationship. Despite this theoretical proposition, empirical evidence on the moderating role of economic growth remains limited, particularly for GCC-listed firms, highlighting an important gap in the existing literature. This study investigates whether economic growth influences the effect of corporate governance on firm performance in the GCC. In addition, we examine the interaction effects between macroeconomic conditions (GDP growth) and corporate governance mechanisms on firm performance. Specifically, we seek to identify the effect of corporate governance mechanisms on firm performance while accounting for the conditioning role of the broader economic environment. To the best of the authors’ knowledge, this study is among the first to examine the moderating role of economic growth in the relationship between board-level corporate governance mechanisms and firm performance in GCC-listed firms using a dynamic two-step System GMM approach, thereby extending the existing corporate governance literature by integrating macroeconomic conditions into the governance–performance framework.

2. Literature Review and Hypothesis Development

2.1. Theoretical Framework

This study employs a multi-theoretical framework that integrates agency theory, resource dependence theory, institutional theory, and Contingency Theory to explain both the direct relationship between corporate governance and firm performance and the moderating role of economic growth to examine the impact of corporate governance on firm performance in the Gulf Cooperation Council (GCC) region, with particular emphasis on the conditioning role of macroeconomic growth. This multifaceted approach provides a comprehensive understanding of how governance practices influence firm outcomes within the GCC's unique institutional and economic environment.

Agency theory provides a fundamental framework for understanding the relationship between corporate governance and firm performance. It posits that conflicts arise between principals (shareholders) and agents (managers) due to divergent interests and information asymmetry (Jensen & Meckling, 1976). In the GCC region, where ownership structures are often highly concentrated, and a significant proportion of firms are family- or state-controlled, agency problems may be particularly pronounced. In such cases, effective governance mechanisms are critical to constraining managerial discretion and reducing information asymmetry (Bawuah, 2024). However, weak or ineffective governance mechanisms can lead to inefficiencies, managerial opportunism, and suboptimal decision-making, ultimately resulting in diminished firm performance (Fama & Jensen, 1983). Effective corporate governance practices, such as the presence of independent board members and strong board oversight, help mitigate agency problems by aligning managerial interests with those of shareholders. By strengthening monitoring and strategic guidance, these mechanisms reduce opportunistic behavior and promote more efficient decision-making, thereby improving firm performance (Bin Khidmat et al., 2024). While traditional Agency Theory focuses on conflicts between managers and shareholders (principal–agent conflict) (Jensen & Meckling, 1976), this perspective may not fully capture governance challenges in GCC countries, where ownership is often highly concentrated. In such contexts, conflicts may arise between controlling and minority shareholders (principal–principal conflict) (Young et al., 2008). Therefore, effective corporate governance mechanisms play a crucial role in protecting minority shareholders and mitigating these conflicts, providing a more comprehensive explanation of the governance–performance relationship in the GCC context.

Resource dependence theory illustrates the importance of external resources and interorganizational relationships in shaping organizational behavior and performance. It argues that firms rely on external stakeholders to secure critical resources necessary for survival and growth (Pfeffer & Salancik, 1978). In the Gulf Cooperation Council (GCC) region, firms often depend on external stakeholders, including government agencies, financial institutions, strategic partners, and international investors, for essential resources such as capital, information, expertise, and legitimacy. Good corporate governance, especially with knowledgeable and well-connected boards, helps companies handle their reliance on others, lower risks from their surroundings, and improve access to important resources, which in turn boosts their performance (Ojeka et al., 2019). The theory emphasizes the strategic role of corporate governance in navigating the external environment and effectively leveraging critical resources to enhance organizational performance.

Institutional theory offers essential perspectives on how the broader institutional context shapes corporate governance practices and firm performance. In the Gulf Cooperation Council (GCC) region, the quality of institutions—such as legal systems, regulatory frameworks, enforcement mechanisms, and cultural norms—plays a critical role in determining how governance structures are designed and implemented. Stronger institutional

environments encourage firms to adopt effective governance mechanisms that enhance accountability and managerial discipline, ultimately improving firm performance (North, 1990; DiMaggio & Powell, 1983).

Contingency theory posits there is no single best organizational structure or governance mechanism because organizational effectiveness depends on the fit between an organization's internal characteristics and the external environment in which it operates. Overall, effectiveness refers to performance (Donaldson, 2001). Thus, corporate governance approaches should not be expected to produce the same results under all economic environments. Their effectiveness is likely to depend on prevailing macroeconomic conditions that affect firms' strategic choices, investment opportunities, access to capital, and resource availability. Healthy marketplaces and favorable business conditions during periods of vigorous economic growth offer well-run companies more opportunities to use resources efficiently, capitalize on investment opportunities, and improve shareholder value. Periods of slow economic growth, conversely, are characterized by increased uncertainty, constrained financing, and lower market demand, thereby preventing governance mechanisms from achieving better business results. Therefore, Contingency Theory suggests that economic growth does not directly determine firm performance but rather influences the effectiveness of corporate governance mechanisms, providing a strong theoretical justification for examining economic growth as a moderating variable in the relationship between corporate governance and firm performance.

On the other hand, firms operating in weaker institutional environments often encounter governance challenges that limit their ability to translate formal governance mechanisms into superior performance. Weak legal enforcement, regulatory inefficiencies, and inconsistent policy frameworks can undermine board effectiveness, reduce investor protection, and increase information asymmetry. As a result, managers may engage in opportunistic behavior, and external stakeholders may lack the confidence or tools to monitor firm activities effectively. By emphasizing the role of institutional quality, institutional theory highlights the importance of the broader socio-economic and political context in shaping corporate governance outcomes. Thus, governance mechanisms do not operate in isolation; rather, their effectiveness depends on the strength of the surrounding institutional framework. Accordingly, differences in institutional environments help explain why similar governance structures may produce varying performance outcomes across countries and regions (La Porta et al., 2000). This study integrates agency theory, resource dependence theory, institutional theory, and contingency theory to provide a comprehensive understanding of how corporate governance and economic growth interact to influence firm performance in the Gulf Cooperation Council (GCC) region. This multi-theoretical framework highlights the importance of both internal governance mechanisms and external economic and institutional conditions in shaping corporate outcomes.

2.2. Corporate Governance and Firm Performance

According to the existing literature, effective corporate governance practices can support efficient firm management, attract investment, lower debt costs, strengthen competitive advantage, and enhance overall firm performance. In addition, strong governance practices contribute to long-term economic development by protecting investors' rights and promoting confidence in financial markets. Furthermore, effective governance is widely regarded as an essential requirement by various stakeholders (Sarhan et al., 2019). A substantial body of empirical research has examined the impact of corporate governance quality on shareholder value and firm performance. To capture governance quality, researchers commonly construct composite governance indices that aggregate multiple governance attributes, including board independence, ownership structure, board activity, and shareholder rights.

These indices provide a comprehensive picture of how well a company's governance framework performs.

Empirical evidence from both developed and emerging markets consistently shows a statistically significant relationship between corporate governance quality and firm performance, using both accounting-based indicators (such as return on assets and return on equity) and market-based indicators (such as Tobin's Q). However, research suggests that strong governance mechanisms enhance managerial accountability, limit opportunistic behavior, and improve strategic decision-making, thereby reducing agency costs and increasing firm efficiency. Moreover, these studies have shown a strong positive link between corporate governance and a company's performance, supporting the traditional agency theory view that good governance helps reduce conflicts and increase a company's value (Akhter & Hassan, 2024; Kyere & Ausloos, 2021; Tuo et al., 2021). Furthermore, early influential research by Claessens et al. (2002) and Shleifer and Vishny (1997) established the importance of corporate governance in explaining firm performance. Their work consistently shows that firms with stronger governance structures achieve superior performance, confirming governance as a central driver of firm value. Firms with superior governance quality tend to enjoy greater access to external finance, lower capital costs, and stronger investor confidence, as transparent and well-monitored firms are perceived as less risky by capital market participants. Over time, these benefits translate into improved operational performance and sustainable value creation, reinforcing the central role of corporate governance in driving firm success.

However, the empirical evidence on the corporate governance–firm performance relationship remains mixed. A significant body of studies supports agency theory's predictions; however, other research indicates weak or negligible effects. For example, Wang et al. (2020) found no statistically significant association between corporate governance and firm performance, and Farhan et al. (2017) similarly document a negative impact of governance mechanisms on firm outcomes. On the other hand, Bagh et al. (2025) found a positive impact of corporate governance on firm performance. From an economic perspective, the board of directors serves as a key governance mechanism, monitoring management and guiding strategic decisions. Shareholders are primarily concerned with whether the board of directors can effectively monitor and control managerial behavior to ensure management acts in the best interests of the owners (Fama & Jensen, 1983).

The corporate governance literature has widely debated the relationship between board size and firm performance. Larger boards are argued to enhance firm performance by providing a broader range of expertise, experience, and monitoring capacity, thereby improving strategic oversight and managerial discipline. Therefore, larger boards are believed to offer a broader range of specialized competencies, thereby strengthening governance effectiveness and positively influencing firm performance (Anderson & Reeb, 2004). On the other hand, other researchers contend that smaller boards are more effective, as reduced board size facilitates better communication, quicker decision-making, and stronger coordination among directors (Jensen, 1993; Yermack, 1996). Some scholars, for example, Lipton and Lorsch (1992), suggest that the number of board members should not exceed ten to maintain effective communication and decision-making. These contrasting perspectives suggest that the impact of board size on firm performance is not uniform and may depend on firm-specific and contextual factors.

Likewise, we consider the role of board composition in influencing firm performance. As stated by agency theory, the board of directors is more effective in monitoring managerial behavior when its members are independent from management (Fama & Jensen, 1983; Jensen & Meckling, 1976). Greater independence strengthens oversight, reduces agency conflicts, and limits managerial opportunism, thereby enhancing firm performance. In

these contexts, it is argued that outside directors have strong reputational incentives to safeguard their professional standing, which motivates them to exercise effective oversight and decisional control. At the same time, it is suggested that the inclusion of non-executive directors on the board minimizes the possibility of financial statement fraud by increasing independent scrutiny and monitoring (Beasley, 1996). On the other hand, some believe that inside directors can boost a company's performance by effectively managing its resources and leveraging their deeper understanding of the company to reduce information gaps (Nicholson & Kiel, 2007). These competing perspectives indicate that the effect of board composition on firm performance is heterogeneous and may vary by firm-specific and institutional contexts.

Corporate governance guidelines caution that such CEO duality can lead to excessive concentration of power and weaken board independence. One primary concern is that managerial dominance over the board may compromise effective oversight, as the CEO–chair can influence the board's agenda and control the flow of information. In such situations, information presented to the board may be selectively filtered to serve managerial interests. Therefore, executives may prioritize their own interests over those of shareholders in the absence of robust governance and monitoring systems (Fama & Jensen, 1983). At the same time, CEO duality is widely viewed as a constraint on board independence, thereby weakening the effectiveness of governance oversight mechanisms. Conversely, several studies report that separating the roles of CEO and board chair is associated with improved firm performance, as it strengthens board monitoring and reduces the concentration of managerial power. Prior research indicates that separating the roles of CEO and board chair is associated with superior firm performance compared to firms that maintain CEO duality (Rechner & Dalton, 1991).

Recent evidence further demonstrates that the relationship between corporate governance and firm performance is highly context-dependent. For example, Angsoyiri et al. (2026) in a study of Ghanaian listed firms, found that board and audit committee independence were negatively associated with firm value, whereas institutional and managerial ownership were positively associated with firm value. The authors argue that governance mechanisms may exist as formal structures yet fail to function effectively in practice, particularly in weak institutional environments. These findings suggest that the effectiveness of corporate governance depends on the surrounding institutional and economic context rather than being universally constant, reinforcing the need to examine contextual factors such as economic growth. These inconsistent findings suggest that the relationship between corporate governance and firm performance is not universal but instead depends on contextual factors. Differences in institutional settings, economic conditions, ownership structures, regulatory enforcement, and market development may influence the effectiveness of governance mechanisms across environments. Such contextual factors are often difficult to observe directly or quantify in empirical research, which may contribute to variation in reported findings. Therefore, the impact of corporate governance on firm performance may vary with macroeconomic and institutional conditions rather than being constant across settings. This highlights the importance of incorporating broader macroeconomic and institutional factors into analyses of the governance–performance relationship.

This research acknowledges the mixed and conflicting findings in the existing literature on the relationship between corporate governance and firm performance. It seeks to provide a clearer explanation of these inconsistencies. Drawing on Agency Theory, the study argues that corporate governance is systematically associated with firm performance through mechanisms that reduce agency conflicts. Agency theory identifies the separation between ownership and managerial control as a primary source of opportunistic managerial behavior. Effective governance structures constrain self-interested actions, discipline

managers, and align managerial objectives with shareholder interests. Through these mechanisms, strong governance practices improve operational efficiency and financial performance, thereby creating value for both shareholders and managers. Accordingly, the following hypothesis is proposed:

H1. *Corporate governance is positively associated with firm performance in the GCC markets.*

2.3. Corporate Governance, Economic Growth, and Firm Performance

A growing body of literature recognizes that corporate governance operates within a broader macroeconomic and institutional context that fundamentally shapes firm behavior and performance (Aguilera et al., 2015; Claessens & Yurtoglu, 2013). Macroeconomic conditions influence firms' access to capital markets, financing costs, growth opportunities, and exposure to systematic risk, all of which determine the extent to which governance mechanisms can generate value. During periods of economic expansion, improved market liquidity, stronger investor confidence, and greater availability of profitable investment opportunities enable well-governed firms to convert governance structures into superior performance more effectively. In contrast, during economic contractions, heightened uncertainty, constrained credit markets, and declining demand may limit managerial discretion and restrict the performance-enhancing role of governance, even in firms with strong internal control systems (Bloom, 2014; Pástor & Veronesi, 2013).

In this context, because the economic environment plays a crucial role in shaping the relationship between corporate governance and firm performance, many researchers recommend examining the relationship between corporate governance and firm performance while considering the moderating role of economic conditions, such as economic growth, inflation, and market uncertainty (Claessens & Yurtoglu, 2013). Recent research by Dorothy and Endri (2024) emphasized the importance of moderating variables in governance-related studies, suggesting that the effects of governance mechanisms on firm performance may depend on contextual conditions rather than being universally constant. Extending this perspective, the present study examines whether economic growth, as a macroeconomic contextual factor, moderates the relationship between corporate governance and firm performance. While theory widely acknowledges these dynamics, empirical studies rarely explicitly model economic growth as a conditioning variable in the governance–performance relationship. As a result, existing studies may overlook important variations in governance effectiveness across different phases of the business cycle, underscoring the need to examine economic growth as a moderating factor rather than as a simple control variable. Given that the effectiveness of corporate governance varies across different macroeconomic environments, it is reasonable to expect that economic growth conditions the governance–performance relationship. When economic growth is strong, firms face greater investment opportunities, improved access to capital, and stronger market discipline, allowing governance mechanisms to translate more effectively into superior performance. Conversely, during periods of slower growth, constrained resources and heightened uncertainty may weaken this relationship. The introduction of moderation variables into models is becoming more prevalent in the social sciences to improve understanding of the causal relationship between variables (Wu & Zumbo, 2008). Accordingly, we propose the following hypothesis:

H2. *Economic growth moderates the relationship between corporate governance and firm performance in the GCC.*

3. Data and Research Design

3.1. Data

The research employs data from non-financial companies in the Gulf Cooperation Council countries. Financial institutions were excluded because they are governed by unique regulatory and supervisory frameworks. In line with previous studies, including [Anderson and Reeb \(2004\)](#) and [Maury \(2006\)](#), firms in this industry are governed by a distinct set of guidelines and laws. This research includes five GCC members: Saudi Arabia, United Arab Emirates, Kuwait, Oman, and Qatar. The justification for selecting these stock exchanges lies in the similarity of these nations' economic frameworks, the development of their capital markets, and ongoing improvements in corporate governance. These nations exhibit traits such as elevated ownership concentration, state- or family-owned enterprises, and stock markets that are progressively conforming to global regulatory standards. Likewise, their shared regional context and enforcement levels make them appropriate for analyzing the corporate governance–performance link. All five nations have implemented or improved corporate governance frameworks in accordance with OECD norms. The data were aggregated from many databases. Financial statements of corporations were obtained from three main sources: the official websites of their individual stock exchanges, the Thomson Reuters Eikon database (Refinitiv), and the annual reports of GCC enterprises. Corporate governance statistics were manually obtained from corporations' corporate governance and annual reports. The macroeconomic data are gathered from reliable sources, primarily the IMF's International Financial Statistics (IFS) and country-specific sources. The sampling duration spans 8 years, from 2016 to 2023. The initial sample consisted of 259 listed non-financial firms across GCC stock markets. However, several firms were excluded due to insufficient financial or corporate governance data, cross-listing on more than one GCC stock exchange, or suspension from trading during the study period. To avoid duplicate observations, cross-listed firms were retained only once using data from their primary listing exchange. After applying these inclusion and exclusion criteria, the final sample comprised 133 non-financial listed firms, resulting in 1064 firm-year observations for the period 2016–2023. The study period has been carefully selected to reflect a phase of significant corporate governance reforms and macroeconomic transitions across GCC countries. This enables an in-depth examination of how evolving regulatory frameworks and economic fluctuations have shaped firm performance dynamics throughout the region.

3.2. Variables

Firm performance may be assessed using multiple operational and financial metrics, each reflecting distinct aspects of a firm's results. Return on equity, operating margins, and cash flow ratios are prevalent metrics utilized in the literature to assess performance. This study uses Return on Assets (ROA) and Tobin's Q as the primary indicators for assessing corporate performance. Return on Assets (ROA) is a favorable indicator of operational success, as it demonstrates the efficiency with which a firm uses its assets to generate profit. Tobin's Q assesses market performance by balancing a company's market value with its assets. Collectively, these two measurements provide a comprehensive perspective that connects accounting-based and market-based dimensions.

In terms of corporate governance (CG), we consider utilizing several board-level characteristics—specifically, CEO duality, board size, and board independence—as indicators of governance quality. Consistent with the corporate governance literature, all these indicators have been used in previous governance research to assess management responsibility and monitor effectiveness. To determine how governance mechanisms affect the profitability of a company ([Al-ahdal et al., 2020](#); [Kyerem & Ausloos, 2021](#)). These variables

capture fundamental dimensions of board effectiveness, including monitoring capacity, board independence, and leadership structure, which are central to Agency Theory and Resource Dependence Theory. Therefore, the analysis focuses on these core governance mechanisms to provide a parsimonious and theoretically grounded examination of the relationship between corporate governance and firm performance.

To capture the conditioning role of the macroeconomic environment, economic growth—measured by the annual percentage change in real GDP—is introduced as a moderating variable. A widely used proxy for the macroeconomic environment that influences firms' investment opportunities, financing conditions, and overall performance (Claessens & Yurtoglu, 2013; Levine, 2004). The study examines whether economic growth moderates the relationship between corporate governance and firm performance by incorporating an interaction term between corporate governance variables and GDP growth in the regression model. This approach allows for testing whether the impact of corporate governance on firm performance varies across different macroeconomic growth conditions. Following the literature, we employed several control variables that may affect business performance, including firm size, firm age, and sales growth, as these factors may independently influence firm performance. Table 1 provides details on how these variables were measured.

Table 1. Variable definitions.

Variable Code	Variable Name	Variable Description
BD_SIZE	Board size	Number of board directors, including a chairperson and independent directors.
BD_IND	Board independence	The ratio of the number of independent directors to the number of all directors.
CEO_DUAL	CEO duality	CEO duality is a dummy variable that equals one if the CEO is also the board chair and zero otherwise.
ROA	Return on assets	The ratio of earnings before interest and taxes to total assets.
Tobin Q	Tobin's Q	The ratio of the market value of equity.
GDP	Gross domestic product	The annual change in GDP.
lnFage	Firm age	The natural logarithm of the number of years since the firm's listing.
lnFsize	Firm size	The natural logarithm of total assets.
lnSG	Sales Growth	$\text{Sales } t - \text{Sales } t - 1 / \text{Sales } t - 1$
Year dummies	Year dummies	An eight-year dummy for each of the years from 2016 to 2023.

By the authors.

3.3. Research Methodology

This study employs a two-step dynamic System Generalized Method of Moments (System GMM) estimator to examine the impact of corporate governance on firm performance and to assess the moderating role of macroeconomic conditions, proxied by GDP growth, in this relationship. The analysis is based on a balanced panel dataset of 133 firms observed over the period 2016–2023. Despite the panel's balance, the dynamic nature of company performance and the possible endogeneity of corporate governance variables drive the adoption of the System GMM estimator. Prior performance may endogenously drive governance systems, and firm performance is likely to persist over time. Furthermore, the absence of firm-specific features and the potential for reverse causation between governance and performance could bias traditional panel estimators. The two-step System GMM approach is adopted to address potential endogeneity concerns arising from measurement errors, omitted variable bias, and possible reverse causality between corporate governance and firm performance. By incorporating lagged dependent variables and internal instruments, this methodology provides consistent and efficient parameter estimates in a dynamic panel setting. Consistent with this approach, board size, board independence, and CEO duality are treated as distinct board-level governance mechanisms representing different dimensions of corporate governance rather than a single latent construct. Therefore, these variables are included simultaneously in the empirical model to estimate their

independent effects while controlling for the influence of other governance characteristics (Wintoki et al., 2012).

In addition, the two-step System Generalized Method of Moments (System GMM) estimator is based on the dynamic panel data framework developed by Arellano and Bond (1991) and later extended by Blundell and Bond (1998). The System Generalized Method of Moments (System GMM) estimator is well-suited for estimating dynamic panel data models. This approach uses lagged levels and lagged differences of the variables as internal instruments to mitigate simultaneity bias, control for unobserved firm-specific heterogeneity, and address potential endogeneity. The two-step estimation procedure further improves efficiency by accounting for heteroskedasticity and serial correlation in the error structure while generating robust standard errors. By employing this methodology, the study ensures reliable and consistent estimates of the relationship between corporate governance and firm performance while appropriately capturing the moderating role of macroeconomic conditions, proxied by GDP growth.

3.4. Model Estimation

The following panel data model is estimated to test the hypotheses developed in this study. The empirical analysis is conducted in two stages. In the first stage, we examine the direct effect of corporate governance on firm performance, controlling for firm-specific characteristics that may influence performance. This baseline specification allows us to isolate the independent effect of corporate governance on firm performance. Accordingly, the baseline model is specified as follows:

$$\begin{aligned} ROA_{it} &= \alpha_0 + \alpha_1 ROA_{it-1} + \beta_2 \ln Bsize_{it} + \beta_3 Ceo_{it} + \beta_4 Ind_{it} + \beta_5 \ln Fsize_{it} + \beta_6 \ln SG_{it} + \beta_7 \ln Fage_{it} + year\ dummies + \eta_t + \epsilon_{it} \\ Tobin\ Q_{it} &= \alpha_0 + \alpha_1 Tobin\ Q_{it-1} + \beta_2 \ln Bsize_{it} + \beta_3 Ceo_{it} + \beta_4 Ind_{it} + \beta_5 \ln Fsize_{it} + \beta_6 \ln SG_{it} + \beta_7 \ln Fage_{it} + year\ dummies + \eta_t + \epsilon_{it} \end{aligned} \quad (1)$$

In the second specification, we extend the baseline model by incorporating macroeconomic conditions, proxied by GDP growth, as a moderating variable to examine whether the broader economic environment conditions affect the relationship between corporate governance mechanisms and firm performance. This is achieved by introducing interaction terms between GDP growth and each corporate governance variable. The extended model is specified as follows:

$$\begin{aligned} ROA_{it} &= \alpha_0 + \alpha_1 ROA_{it-1} + \beta_2 \ln Bsize_{it} + \beta_3 Ceo_{it} + \beta_4 Ind_{it} + \gamma_1 Macro_{it} + \delta_1 (Cgit \times Macro_{it}) + \beta_5 \ln Fsize_{it} + \beta_6 \ln SG_{it} + \beta_7 \ln Fage_{it} + year\ dummies + \eta_t + \epsilon_{it} \\ Tobin\ Q_{it} &= \alpha_0 + \alpha_1 Tobin\ Q_{it-1} + \beta_2 \ln Bsize_{it} + \beta_3 Ceo_{it} + \beta_4 Ind_{it} + \gamma_1 Macro_{it} + \delta_1 (Cgit \times Macro_{it}) + \beta_5 \ln Fsize_{it} + \beta_6 \ln SG_{it} + \beta_7 \ln Fage_{it} + year\ dummies + \eta_t + \epsilon_{it} \end{aligned} \quad (2)$$

4. Empirical Results and Discussions

4.1. Descriptive Statistics

Table 2 presents descriptive statistics for the variables examined in the study, based on a sample of 1064 firm-year observations across GCC countries. The mean Return on Assets (ROA) is 0.063, indicating that, on average, companies in the sample generated a 6.3% return on their total assets during the study period. This suggests effective use of company resources to generate earnings, reflecting efficient operational performance and overall financial health. The mean value of Tobin's Q is 1.326, indicating that, on average, firms are valued highly by the market relative to their total assets. This suggests that investors

may perceive the sampled firms as having favorable growth opportunities and future profitability prospects. The higher market valuation may also reflect investor confidence in managerial effectiveness and in the quality of corporate governance. The average CEO is 0.065, indicating that the CEO chairs the board of 6.5% of companies. According to best governance practices, this comparatively low proportion suggests that most of the sample companies maintain a separation between executive and board leadership roles, which is generally favored to enhance board independence and reduce potential conflicts of interest. The average board size (BSIZE) is eight members, which aligns with corporate governance best practices that recommend boards sufficiently large to provide a diverse set of skills and perspectives yet small enough to facilitate effective coordination and decision-making. Moreover, on average, 42.5% of board members are independent directors, as indicated by the mean score of 42.529. This reflects a moderately independent board structure across the firms in the sample. Such a composition is generally associated with enhanced oversight, reduced managerial entrenchment, and stronger corporate governance practices. Independent directors can provide objective judgment and are less likely to be influenced by management, thus improving the board's ability to act in the best interests of shareholders. The average firm age is 30.5 years, indicating that most firms in the sample are well-established and mature. This longevity may reflect organizational stability, accumulated experience, and potentially more conservative, strategic decision-making. The average firm size is 14.305, suggesting that most companies in the sample are relatively large-scale enterprises. This implies a well-established operational base, potentially greater access to resources, and stronger market positioning than that of smaller firms. The average sales increase is 12.8%, indicating that firms generate substantial annual revenue, although there is a variation within the sample. The average GDP growth rate in the sample is 1.58%, indicating modest economic expansion during the study period. However, the standard deviation indicates substantial variation in economic conditions across years and countries. This variability reflects periods of both economic contraction and growth, which could influence firm performance and governance dynamics.

Table 2. Descriptive statistics of the study variables.

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	1064	0.062	0.076	−0.423	0.515
Tobin Q	1064	1.326	1.068	−0.074	13.587
GDP	1064	1.58	3.289	−5.274	7.850
CEOD	1064	0.065	0.246	0	1
IND	1064	42.529	24.106	0	100
BSIZE	1064	8.001	2.247	1	25
Fsize	1064	14.305	1.437	9.298	18.709
Fage	1064	3.053	0.611	0	4.189
Sg	1064	0.128	1.156	−0.98	35.121

Note: This table presents a summary of the descriptive statistics for the research key variables in their original form.

4.2. Correlation Analysis

Table 3 shows the correlation matrix, which illustrates the correlations among all variables. There is a significant positive correlation between ROA and Tobin's Q, suggesting that firms with higher accounting profitability are also more highly valued by the market. This correlation supports the construct validity of using both indicators of firm performance. There is no significant relationship between board size and ROA, indicating that larger boards are not directly associated with higher profitability. However, there is a positive and significant correlation between board size and Tobin's Q, implying that larger boards may enhance market valuation. Furthermore, there is a significant negative

correlation between CEO duality and ROA, suggesting that combining the roles of CEO and chair is associated with lower firm profitability. There is also a significant negative relationship between CEO duality and Tobin's Q, indicating that firms with dual leadership structures are less favorably valued by investors. On the other hand, there is a positive and significant correlation between board independence and ROA, indicating that greater board independence is associated with better accounting performance. There is also a positive and significant correlation between GDP growth and both ROA and Tobin's Q, indicating that firms perform better during periods of favorable macroeconomic conditions. There is a significant negative correlation between firm size and both ROA and Tobin's Q, suggesting that larger firms tend to exhibit lower profitability and market valuation. There is a significant negative relationship between firm age and firm performance, indicating that older firms may experience declining performance. Also, there is no significant relationship between sales growth and ROA, but a positive relationship with Tobin's Q, suggesting that growth opportunities are more strongly reflected in market valuation. These patterns are broadly consistent with theoretical expectations and provide preliminary evidence of the interconnections among the study variables.

Table 3. Correlation matrix.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) ROA	1.000								
(2) Tobin Q	0.516 *** (0.000)	1.000							
(3) BSIZE	0.039 (0.203)	0.129 *** (0.000)	1.000						
(4) CEOD	−0.084 *** (0.006)	−0.189 *** (0.000)	−0.186 *** (0.000)	1.000					
(5) IND	0.056 * (0.070)	−0.024 (0.442)	0.127 *** (0.000)	−0.073 ** (0.017)	1.000				
(6) Fsize	−0.091 *** (0.003)	−0.191 *** (0.000)	0.313 *** (0.000)	−0.046 (0.137)	0.068 ** (0.027)	1.000			
(7) Fage	−0.062 ** (0.043)	−0.061 ** (0.048)	0.093 *** (0.002)	0.057 * (0.065)	−0.068 ** (0.027)	0.051 * (0.095)	1.000		
(8) Sg	−0.012 (0.687)	0.058* (0.059)	−0.024 (0.434)	−0.015 (0.624)	0.033 (0.278)	0.007 (0.815)	0.002 (0.946)	1.000	
(9) GDP	0.073 ** (0.017)	0.108 *** (0.000)	0.048 (0.119)	−0.050 * (0.106)	0.119 *** (0.000)	0.027 (0.383)	0.018 (0.569)	0.105 *** (0.001)	1.000

Note: This table presents the correlation matrix. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

We use standard diagnostic procedures to determine the robustness of System Generalized Method of Moments (System GMM) estimations. The Arellano–Bond test for first-order autocorrelation, AR (1), is statistically significant, as predicted; however, the test for second-order autocorrelation, AR (2), is not significant, showing the lack of serial correlation in the different residuals. These findings support the model's moment conditions. Furthermore, the Hansen J-test for overidentifying restrictions is not statistically significant, indicating that the instruments are reliable and uncorrelated with the error term. Taken together, these diagnostics indicate that the GMM estimators are appropriately specified and that the instrument set is suitable for addressing endogeneity in panel data. Furthermore, to mitigate the influence of outliers, all financial variables were winsorized at the 1% level.

4.3. Effect of Corporate Governance on Firm Performance

The empirical findings are interpreted considering Agency Theory, Resource Dependence Theory, Institutional Theory, and Contingency Theory to provide a comprehensive

explanation of the relationship between corporate governance, economic growth, and firm performance.

Table 4 presents the findings from dynamic panel regressions examining the influence of corporate governance on firm performance in GCC countries, using ROA and Tobin's Q as performance indicators. Both models reveal strong, statistically significant persistence in firm performance and valuation over time, as indicated by the positive, highly significant coefficients on the lagged dependent variables (ROA: $\beta = 0.704$, $p < 0.01$; Tobin's Q: $\beta = 0.670$, $p < 0.01$). This suggests that past firm performance and market valuation play important roles in shaping current outcomes, thereby confirming the dynamic nature of firm performance.

Table 4. Effect of Corporate Governance on Firm Performance: Two-Step System GMM Results.

ROA	ROA	Tobin Q
L.ROA/Tobin Q	0.704 *** (0.130)	0.670 *** (0.117)
BSIZE	−0.001 (0.005)	0.137 ** (0.059)
CEOD	−0.013 ** (0.005)	−0.143 ** (0.068)
IND	0.000 (0.000)	0.000 (0.000)
lnFSIZE	0.015 (0.021)	−0.662 ** (0.266)
lnFAGE	−0.000 (0.008)	−0.006 (0.071)
lnSG	0.001 (0.001)	−0.009 (0.012)
Constant	0.054 (0.063)	1.481 ** (0.679)
Year dummies	Yes	Yes
No. of Observations	1064	1064
No. of Firms	133	133
Hansen Prob > Chi Sq.	0.247	0.199
AR (1): <i>p</i> -value	0.000	0.000
AR (2): <i>p</i> -value	0.914	0.756

Note: This table reports empirical results from estimating Equation (1). Figures in Gulf cooperation council: Economic prospects and policy challenges for the Gthe parentheses are standard errors. Asterisks indicate significance at *, $p < 0.1$; **, $p < 0.05$; ***, $p < 0.01$.

CEO duality consistently exhibits a negative and statistically significant effect on firm performance and valuation (ROA: $\beta = -0.0118$, $p < 0.05$; Tobin's Q: $\beta = -0.143$, $p < 0.05$), indicating that firms with combined CEO–chair roles tend to perform worse and be less valued by the market. This finding provides strong empirical support for agency theory, which posits that the concentration of managerial power weakens the effectiveness of board monitoring. The negative impact of CEO duality is consistent with agency theory, and in contrast, the result does not support Stewardship Theory, which suggests that CEO duality enhances organizational leadership and decision-making through unified authority, implying that separation improves governance effectiveness (Fama & Jensen, 1983; Jensen & Meckling, 1976). This is consistent with the findings of Duru et al. (2016) and Hsu et al. (2021). In the GCC context, the adverse effect of CEO duality may reflect the importance of maintaining effective board oversight and independent governance structures, particularly in firms characterized by concentrated ownership and potential principal–principal agency conflicts.

Moreover, the positive and statistically significant relationship between board size and Tobin's Q ($\beta = 0.137$, $p < 0.05$) suggests that firms with larger boards tend to enjoy higher market valuation. This implies that while board size does not significantly enhance accounting-based performance, investors may perceive larger boards as signaling stronger governance quality and broader strategic expertise. Larger boards are more likely to include directors with diverse professional backgrounds, industry knowledge, and external networks, thereby enhancing the firm's advisory capacity, legitimacy, and access to critical resources. From a market perspective, these attributes may reduce perceived risk and enhance investor confidence, thereby increasing the firm's valuation (Lippi & Galavotti, 2024; Omenihu & Nwafor, 2025). This finding is consistent with Resource Dependence Theory, which posits that larger boards provide firms with greater access to diverse expertise, external networks, and strategic resources that enhance organizational legitimacy and long-term value creation. Larger boards are more likely to include directors with varied professional backgrounds and industry experience, thereby strengthening the firm's advisory capacity and strategic decision-making. Consequently, investors may perceive larger boards as a signal of stronger governance quality and enhanced resource availability, leading to higher market valuations (Pfeffer & Salancik, 1978). The finding is also consistent with Agency Theory, which argues that larger boards can improve monitoring and oversight, thereby reducing agency conflicts and increasing investor confidence (Fama & Jensen, 1983; Jensen & Meckling, 1976).

However, board independence has no statistically significant effect on either model, indicating that the proportion of independent directors does not directly influence accounting-based or market-based firm performance in the sample. This finding suggests that the mere presence of independent directors may be insufficient to enhance firm outcomes, particularly when independent board members lack meaningful decision-making authority, firm-specific knowledge, or the ability to challenge management effectively. This finding aligns with the research suggesting that board effectiveness is determined not solely by structural independence but also by directors' expertise, engagement, and the broader institutional context that enables effective monitoring (Hermalin & Weisbach, 2003; Nicholson & Kiel, 2007). This finding can be explained by both Agency Theory and Institutional Theory. While Agency Theory suggests that independent directors strengthen monitoring and reduce agency conflicts (Fama & Jensen, 1983; Jensen & Meckling, 1976), Institutional Theory argues that board independence may reflect compliance with governance regulations rather than effective oversight (DiMaggio & Powell, 1983). Consequently, formal board independence alone may not be sufficient to improve firm performance.

4.4. The Moderating Effect of Economic Growth on the Relationship Between Corporate Governance and Firm Performance

Table 5 presents the findings on the moderating effect of economic growth on the relationship between corporate governance and firm performance. We examine the moderating role of macroeconomic conditions on the relationship between corporate governance and firm performance by introducing an interaction term between GDP growth and corporate governance mechanisms. The coefficient of the interaction term Board Size $\times$ GDP in Table 5 is positive and statistically significant at the 5 percent level, supporting H2. This indicates that macroeconomic growth strengthens the positive effect of board size on firm valuation. The findings support Contingency Theory, which argues that the effectiveness of governance mechanisms depends on external environmental conditions (Donaldson, 2001). The result suggests that larger boards become more effective in enhancing firm value during periods of stronger economic growth.

Table 5. Moderating Effect of Economic Growth on the Corporate Governance–Firm Performance Relationship: Two-Step System GMM Results

	ROA	ROA	Tobin Q
L.ROA/Tobin Q	0.985 *** (0.283)		0.581 *** (0.147)
BSIZE $\times$ GDP	−0.000 (0.000)		0.123 ** (0.005)
CEOD $\times$ GDP	0.001 (0.001)		0.010 (0.009)
IND $\times$ GDP	0.000 (0.000)		−0.000 (0.000)
lnFSIZE	0.013 (0.024)		−0.731 ** (0.285)
lnFAGE	0.005 (0.006)		−0.051 (0.076)
lnSG	0.001 * (0.001)		−0.008 (0.012)
Constant	−0.042 (0.072)		1.785 ** (0.740)
Year dummies	Yes		Yes
No. of Observations	1064		1064
No. of Firms	133		133
Hansen Prob > Chi Sq.	0.904		0.118
AR (1): <i>p</i> -value	0.000		0.001
AR (2): <i>p</i> -value	0.987		0.761

Note: This table reports empirical results from estimating Equation (2). Figures in the parentheses are standard errors. Asterisks indicate significance at *, $p < 0.1$; **, $p < 0.05$; ***, $p < 0.01$.

Moreover, the overall effect of board size on firm performance under favorable macroeconomic conditions is significantly positive, suggesting that firms with larger boards benefit more from economic expansion in terms of market valuation. As a result, larger boards are better able to capitalize on growth opportunities, make more informed strategic decisions, and leverage external resources when the economy is strong. Thus, through their greater expertise and external networks, this finding supports contingency theory, which argues that the effectiveness of corporate governance mechanisms is contingent on external environmental conditions, such that favorable economic growth enhances the ability of larger boards to contribute to firm value (Donaldson, 2001).

However, this is not the case with the interaction terms for CEO Duality $\times$ GDP and Board Independence $\times$ GDP, which are not statistically significant, indicating that macroeconomic conditions do not moderate the relationship between these governance mechanisms and firm performance. This suggests that while economic growth enhances the effectiveness of resource-oriented governance structures, such as board size, it does not mitigate the adverse effects of leadership concentration or strengthen the impact of board independence. The insignificant interaction effects are consistent with contingency theory, suggesting that not all corporate governance mechanisms respond equally to changes in the external environment (Donaldson, 2001). While the effectiveness of resource-oriented governance structures may be contingent on macroeconomic conditions, monitoring and leadership structures, such as board independence and CEO duality, appear to be less sensitive to economic growth.

Overall, the evidence suggests that macroeconomic conditions play a selective moderating role in the governance–performance relationship, operating primarily through governance mechanisms that enhance firms' strategic and resource-based capabilities. This finding is consistent with contingency theory, which posits that the effectiveness of gover-

nance mechanisms depends on the external environment, and resource dependence theory, which suggests that boards with greater expertise and external networks are better positioned to exploit opportunities arising from favorable economic conditions. This finding also complements existing evidence emphasizing the importance of corporate governance in mitigating firm-level risks during adverse macroeconomic conditions. Prior studies suggest that firms with stronger governance structures are better equipped to withstand economic shocks and respond more effectively to macroeconomic volatility (Claessens & Yurtoglu, 2013; Erkens et al., 2012; Vohra, 2017). In the GCC context, periods of declining GDP growth largely driven by oil price volatility and global financial disruptions have exposed the heightened vulnerability of firms with weak governance systems. These episodes demonstrate that deficiencies in board oversight and concentrated leadership structures can significantly amplify firms' exposure to macroeconomic risks. As a result, GCC countries have made significant changes to strengthen corporate governance, including updating governance codes, increasing transparency requirements, and enforcing stricter regulations to align with international standards. Overall, these findings suggest that sound corporate governance plays a critical role in enhancing firms' resilience and sustaining performance during periods of macroeconomic uncertainty.

5. Conclusions

There is growing interest in examining corporate governance and its impact on firm performance in emerging economies. The level of institutional development in each country shapes corporate governance mechanisms, which often differ across nations (Judge et al., 2008). The current study contributes to the existing literature by emphasizing the importance of macroeconomic conditions in the relationship between corporate governance and firm performance. Using a panel data set of 133 non-financial firms, the study investigates how economic growth moderates the relationship between corporate governance mechanisms and firm performance in GCC countries. Using a robust two-step System GMM estimation on panel data, empirical results show that economic growth enhances the effectiveness of certain governance mechanisms, particularly board size, by strengthening their positive impact on firm performance. Specifically, firms with larger boards tend to benefit more from periods of economic expansion, likely due to broader expertise, greater access to resources, and improved strategic oversight. However, we find that the moderating effects of economic growth on CEO duality and board independence are statistically insignificant. This suggests that while resource-based governance structures can capitalize on macroeconomic improvements, leadership structures and independence alone may not yield performance gains without further institutional support or regulatory enforcement.

5.1. Theoretical Implications

This study makes several important theoretical contributions to the corporate governance literature. First, it extends the traditional understanding of the corporate governance–firm performance relationship by demonstrating that the effectiveness of governance mechanisms is contingent upon the broader macroeconomic environment. While Agency Theory and Resource Dependence Theory explain how governance mechanisms enhance firm performance through improved monitoring, resource provision, and strategic oversight, the findings suggest that these effects are not universally constant but depend on prevailing economic conditions.

Second, by incorporating economic growth as a moderating variable, this study contributes to the emerging literature that emphasizes the role of contextual factors in shaping governance outcomes. Consistent with contingency theory, the results indicate that the effectiveness of corporate governance mechanisms varies with the external economic envi-

ronment, offering a more comprehensive explanation for the inconsistent findings reported in previous studies.

Third, this study enriches the limited evidence from GCC countries by integrating firm-level governance mechanisms with macroeconomic conditions within a dynamic panel framework. By examining how economic growth influences the governance–performance relationship, the study offers a broader theoretical perspective that links internal governance structures with external economic factors, thereby advancing the understanding of corporate governance effectiveness in emerging markets.

5.2. Practical Implications

The findings of this study provide several practical implications for corporate managers, investors, and policymakers. For corporate managers, the results suggest that the effectiveness of corporate governance mechanisms is influenced by the prevailing macroeconomic environment. Therefore, firms should not only strengthen their governance structures but also adapt their governance practices to changing economic conditions to maximize organizational performance. During periods of strong economic growth, effective governance mechanisms can better support strategic decision-making, resource allocation, and the exploitation of investment opportunities.

For investors, the findings highlight the importance of evaluating both corporate governance quality and macroeconomic conditions when assessing firm performance and investment decisions. Governance mechanisms that are effective during periods of economic expansion may generate different outcomes under weaker economic conditions, suggesting that investment decisions should consider the broader economic environment alongside firm-specific governance characteristics.

For policymakers and regulators, the findings suggest that sustainable economic growth not only improves the business environment but also enhances the effectiveness of corporate governance mechanisms, particularly board size, in creating firm value. Consequently, policies that foster macroeconomic stability, encourage investment, support private sector development, and accelerate economic diversification can strengthen firms' ability to leverage governance structures more effectively. In parallel, regulators should continue to strengthen governance frameworks, improve board effectiveness, and enhance institutional quality to ensure that firms are well-positioned to capitalize on growth opportunities and translate favorable economic conditions into long-term value creation. These implications are particularly important for GCC countries, where ongoing governance reforms and economic diversification strategies play a central role in enhancing corporate competitiveness, attracting investment, and supporting sustainable economic development.

5.3. Limitations and Suggestions for Future Research

Despite its contributions, this study has several limitations. First, the analysis focuses exclusively on non-financial listed firms in GCC countries; therefore, the findings may not be generalizable to financial institutions or firms operating in other regions with different institutional and regulatory environments. Second, economic growth is the only macroeconomic variable considered as a moderating factor. Other macroeconomic indicators, such as inflation, interest rates, oil prices, and economic policy uncertainty, may also influence the effectiveness of corporate governance mechanisms. Third, the study examines only selected board-level governance mechanisms, namely board size, board independence, and CEO duality, while other important governance characteristics, including ownership structure, board diversity, and audit committee attributes, are not considered. In addition, the analysis focuses primarily on financial performance and does

not consider broader dimensions of corporate sustainability performance, particularly Environmental, Social, and Governance (ESG) factors.

Future research could extend this study by examining additional macroeconomic and institutional factors that may moderate the relationship between corporate governance and firm performance, including inflation, interest rates, oil price volatility, and institutional quality. Researchers may also consider broader governance dimensions, such as ownership concentration, board diversity, audit committee characteristics, and ESG factors, to provide a more comprehensive understanding of governance effectiveness and corporate sustainability performance. Furthermore, future studies may explore more specific moderating variables, such as digital transformation, innovation capability, and business environment conditions, to better understand the circumstances under which corporate governance mechanisms influence firm performance. Comparative studies across developed and emerging economies or across different industries could also offer valuable insights into how institutional and economic contexts shape the governance–performance relationship.

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