

THE IMPACT OF INSTITUTIONAL FACTORS ON THE RELATIONSHIP BETWEEN GOVERNANCE MECHANISMS AND CORPORATE FINANCIAL PERFORMANCE

O IMPACTO DOS FATORES INSTITUCIONAIS NA RELAÇÃO ENTRE OS MECANISMOS DE GOVERNANÇA E O DESEMPENHO FINANCEIRO DAS EMPRESAS

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Abstract

The research aimed to evaluate the impact of governance mechanisms (board size, meetings, and ownership concentration) on financial performance (return on assets and return on equity), as well as to demonstrate the impact of institutional factors (laws and regulations) on the relationship between governance mechanisms and the financial performance of UAE companies. It was applied to a sample of 7 industrial companies listed on the UAE stock market. Therefore, data were collected from the annual reports of these companies for the period from 2016 to 2024. After conducting the analysis and testing the hypotheses using statistical programs (PLS, Path Analysis, SPSS), the results showed that board meetings and ownership concentration had a direct positive impact on financial performance indicators (ROA, ROE), while board size did not prove to have a positive impact on performance. The results also indicated that institutional factors represented by laws and regulations have a positive mediating role in explaining the relationship between governance mechanisms and the financial performance of UAE companies, which indicates the companies' commitment to the laws and regulations in force in the country.

Keywords: Corporate Governance. Institutional Factors. Financial Performance.

Resumo

A pesquisa teve como objetivo avaliar o impacto dos mecanismos de governança (tamanho do conselho, reuniões e concentração de propriedade) no desempenho financeiro (retorno sobre os ativos e retorno sobre o patrimônio líquido), bem como demonstrar o impacto de fatores institucionais (leis e regulamentações) na relação entre os mecanismos de governança e o desempenho financeiro das empresas dos Emirados Árabes Unidos. O estudo foi aplicado a uma amostra de 7 empresas industriais listadas na bolsa de valores dos Emirados Árabes Unidos. Portanto, os dados foram coletados a partir dos relatórios anuais dessas empresas para o período de 2016 a 2024. Após realizar a análise e testar as hipóteses utilizando programas estatísticos (PLS, Análise de Caminhos, SPSS), os resultados mostraram que as reuniões do conselho e a concentração de propriedade tiveram um impacto positivo direto nos indicadores de desempenho financeiro (ROA, ROE), enquanto o tamanho do conselho não demonstrou ter um impacto positivo no desempenho. Os resultados também indicaram que os fatores institucionais representados por leis e regulamentos têm um papel mediador positivo na explicação da relação entre os mecanismos de governança e o desempenho financeiro das empresas dos Emirados Árabes Unidos, o que indica o compromisso das empresas com as leis e regulamentos em vigor no país.



Palavras-chave: Governança Corporativa. Fatores Institucionais. Desempenho Financeiro.

1 INTRODUCTION

Over the past few decades, the global economy has witnessed a significant increase in interest in corporate governance, a direct result of successive financial crises and management scandals that have shaken investor confidence in major institutions. Corporate governance is viewed as a reform framework and a new operational mechanism aimed at enhancing transparency, accountability, and integrity in financial transactions by regulating the relationship between executive management, the board of directors, shareholders, and other stakeholders (Ahmed & Adhariani, 2017; Burak *et al.*, 2017). Theoretically, the application of effective governance mechanisms is expected to improve companies' financial performance and increase their operational efficiency (Farooq *et al.*, 2023 ; Jalal *et al.*, 2022).

However, applied studies on this relationship often yield conflicting or inconclusive results, not always demonstrating a positive and statistically significant correlation between governance mechanisms and financial performance (Randi *et al.*, 2019; Akhtar, 2022a). These discrepancies are attributed to the neglect by many studies of contextual variables that influence governance effectiveness, known as "institutional factors." These factors, whether formal (such as laws and regulations) or informal (such as culture and customs), shape the environment in which companies operate and directly affect how governance mechanisms are implemented and their outcomes (Bouzlifa, 2014; Akhtar, 2022b). This research aims to provide an in-depth analysis of the role of institutional factors in influencing the relationship between governance mechanisms and corporate financial performance, with a particular focus on the industrial sector. The importance of this sector lies in its role as the backbone of modern economies and its vital contribution to natural resource consumption and employment, making it in dire need of sound governance that extends beyond mere commercial profitability to encompass the achievement of social and environmental sustainability. This research aims to analyze

this complex relationship, draw key conclusions, and provide necessary recommendations.

2 THEORETICAL FRAMEWORK AND PREVIOUS STUDIES

2.1 Corporate governance theories

Understanding corporate governance relies on a range of theoretical frameworks that explain the nature of the relationship between its various stakeholders (Nour *et al.*, 2022b). Agency theory is a cornerstone of this field, positing an inherent conflict of interest between principals (shareholders) and agents (executive managers). This conflict arises from the "information asymmetry problem," where managers possess insider information unavailable to shareholders, potentially leading them to make decisions that serve their own interests at the expense of the owners'. In this context, governance mechanisms act as checks and balances to mitigate agency problems and guide management behavior toward maximizing shareholder wealth (Jensen&Meckling, 2019). In contrast, patronage theory offers a different perspective, suggesting that executives are "patrons" or "guardians" acting in the best interests of owners and stakeholders, and that their motivations may be intrinsic, such as professional achievement or reputation, rather than solely driven by self-interest. According to this theory, the role of the board of directors extends beyond mere strict oversight to providing support and empowerment to management to achieve optimal performance (Khurshid *et al.*, 2018). Institutional theory, on the other hand, provides the most suitable analytical framework for understanding the problem addressed in this research. It posits that institutions do not operate in isolation but are influenced by various institutional pressures, such as laws and regulations, social norms, and societal expectations (Al-Saidi, 2021). From this perspective, the adoption of governance practices by companies is explained not only as a means of increasing efficiency but also as a response to environmental pressures aimed at achieving legitimacy and building trust. This theory offers a fundamental explanation for the significant variation in governance effectiveness across different countries. Governance effectiveness in an environment with a strong rule of law and a societal culture that

supports transparency will be considerably greater than in an environment lacking these factors (Nour, 2022a).

2.2 Literature review

studies has confirmed a direct positive relationship between corporate governance implementation and financial performance. For example, a study by Ahmed *et al.* (2020) in Oman on the impact of governance mechanisms on the financial performance of a group of listed Omani companies concluded that the size and independence of the board of directors positively impacted financial performance, specifically return on equity. The study also found that the size of the audit committee and the size and independence of the board of directors did not significantly affect return on assets. Furthermore, a negative relationship was found between board meetings and the companies' financial performance, specifically return on equity. In their study on the impact of governance mechanisms on the financial performance of oil and gas companies in Nigeria, from 2013 to 2022, (Garba *et al.*, 2024) found that the size and independence of the board of directors had a significant positive impact on financial performance, while foreign ownership was of negative importance. In contrast, the study found that ownership concentration had no significant relationship with financial performance. Meanwhile, (Buallay *et al.*, 2017) examined governance mechanisms and company performance in a case study of the Compass 100 indicators, which examined the impact of the size of the board of directors and the frequency of its meetings on the negative impact of company performance, while managerial ownership had a negative impact on performance, and corporate ownership had no impact on company performance. BAZHAIR (2021) presented a study on governance mechanisms and corporate performance in Saudi Arabia, conducted between 2010 and 2019 on a sample of equipment and healthcare companies. The results revealed a positive correlation between board size and corporate financial performance, specifically return on assets and return on equity. Similarly, a study by Erena *et al.* (2020), which focused on governance mechanisms and the performance of medium and large-sized manufacturing companies in Ethiopia, found a significant positive relationship between board independence and corporate performance, while the efficiency of board size had a negative impact on corporate performance. Furthermore, a study by Al-Talawla

et al. (2024), which examined the impact of corporate governance structure on the performance of companies listed on the Palestine Stock Exchange between 2016 and 2023, applied to 46 financial and non-financial companies, concluded that return on equity was positively affected by gender diversity on the board of directors. In contrast, board independence, dual CEO roles, management ownership, and foreign ownership had a moderate impact on company performance. Additionally, board size and family ownership had a negative impact on the performance of industrial companies. A separate study by (Olawale *et al.*, 2023), which explored the impact of corporate governance in the institutional context of three countries—Brazil, the United Kingdom, and the Netherlands—aimed to investigate the role of institutional factors in shaping corporate governance in those countries. The results concluded that institutional factors do indeed influence how corporate governance is formed and structured. A study by Lowrance *et al.* (2022) investigated the relationship between governance mechanisms and the performance of 76 non-financial companies listed on the Nigerian stock exchange between 2005 and 2020. The results revealed that board size and meetings, institutional ownership, foreign ownership, and company size have a significant positive impact on company performance. Conversely, board independence, company age, financial leverage, loss ratio, and gender diversity on the board have a negative impact. Managerial ownership, however, did not have a significant impact. Similarly, a study by Al-Kuwaiti (2019) examined corporate governance, the institutional framework, and the performance of 92 companies listed on the Abu Dhabi and Dubai stock exchanges. The results indicated that board independence, female board membership, concentrated ownership, dual CEOs, and family ownership have a positive impact on company performance. In contrast, joint ownership and government ownership negatively affect the financial performance of companies in the UAE. United. A study by (Tanc & Cetinel, 2024) on corporate governance and the financial performance of 179 manufacturing companies listed on the Turkish market, from which data were collected during 2018, revealed a positive relationship between board characteristics, ownership concentration and the financial performance of companies, while it proved that there was no statistically significant relationship between CEO duality and company performance.

Based on previous studies, the following hypotheses can be developed:

- H1; There is no statistically significant effect between ownership mechanisms and corporate financial performance;
- H1a: There is no statistically significant effect of board size on corporate performance;
- H1b: There is no statistically significant effect of board meetings on corporate performance;
- H1c: There is no statistically significant effect of ownership concentration on corporate performance;
- H2: There is a relationship between organizational mechanisms and financial performance related to institutional factors (laws and regulations);
- Key research concepts;

2.3 Corporate governance mechanisms

Corporate governance is defined as a set of rules and principles used to regulate and guide the operations of companies, and to organize the relationship between the board of directors, executive management, shareholders, and stakeholders (AL-ahdal *et al*,2020). These mechanisms are classified into two main categories:

Internal mechanisms: These are the frameworks that operate within the company to ensure effective performance and accountability. Among the most important is the board of directors, which serves as a key instrument for monitoring management conduct. Its effectiveness is influenced by its size and independence. Audit committees are also pivotal mechanisms, formed by a resolution of the general assembly, and ensure the accuracy of financial reports and oversight of management. Disclosure and transparency are also among the most prominent internal principles, enabling shareholders to obtain accurate and up-to-date information, thus enhancing their confidence in the company (Shahar *et al*,2020).

2.4 The impact of institutional factors on the relationship

The institutional environment is the governing framework that determines the effectiveness of governance mechanisms. These factors can be categorized as formal and informal, each with a moderating effect on the relationship between governance and performance.

Formal Institutional Factors Legislative and Legal Environment: Binding laws and regulations are key determinants of effective governance. In developed countries, social norms and market culture may be sufficient to ensure adherence to governance principles. However, in developing and emerging economies, these informal factors are often weak, making opportunistic practices by management more common (Escobar-Perez *et al.*, 2025). Consequently, binding legislation becomes a crucial tool for protecting investors and building market confidence. For example, a study (Anis *et al.*, 2017) showed that governance did not have a statistically significant positive impact on investor confidence before the mandatory application of regulations, but its positive impact became evident afterward.

* **Political Stability and Government Effectiveness:** Political stability is fundamental to good governance, as it reduces the likelihood of conflicts and disputes and creates a favorable investment environment (Arayssi *et al.*, 2020). The presence of effective political will that supports institutional reforms and applies the principles of transparency and accountability at the national and institutional levels facilitates the adoption of governance mechanisms by companies. This stability enhances the confidence of local and foreign investors, leading to increased direct investment and improved overall economic performance.

Informal Institutional Factors Community Culture and Corruption: Financial and administrative corruption is one of the most serious problems facing companies, representing a financial burden that affects their efficiency and competitiveness. Corruption is a manifestation of opportunistic managerial behavior. Governance mechanisms, such as independent audit committees, internal and external audits, and full disclosure, work to uncover this corruption and hold those responsible accountable. Moreover, adopting governance fosters an internal organizational culture based on

integrity and accountability, thus reducing the likelihood of corruption occurring in the first place (Annuar , 2015).

* **Social Norms and Informal Practices:** Informal organizations within companies, such as pressure groups or informal leaders, can influence the effectiveness of formal structures, and their objectives may conflict with those of the organization. In this context, non-judicial dispute resolution mechanisms, such as mediation, play a positive moderating role. Disputes between shareholders or board members are inevitable (Setiany *et al.*, 2023), and resorting to formal litigation is costly and damaging to the company's reputation. Mediation offers an effective and rapid solution that preserves business relationships and protects the added value for shareholders.

2.5 Financial performance

Financial performance is a fundamental concept in financial management and accounting. It refers to a company's or organization's ability to achieve its economic and financial objectives by efficiently and effectively utilizing its available resources. It reflects the results of the operational, investment, and financing activities undertaken by the entity during a specific period. Financial performance represents the extent to which a company succeeds in generating profits, increasing the value of its assets, and fulfilling its financial obligations. It is a tool for measuring a company's financial health, sustainability, and ability to remain competitive. Financial performance is measured using a set of financial indicators, the most important of which are: Return on Assets (ROA): This measures the efficiency with which assets are used to generate profits. Return on Equity (ROE): This measures the return generated for shareholders on their investments (Bhagat,&Bolton, 2019 : Ciftci *et al*,2019).

3 RESEARCH METHODOLOGY

The researcher adopted a scientific approach (combining deductive and inductive reasoning) in formulating the theoretical framework and deriving hypotheses. The researcher employed the deductive method by studying and analyzing previous Arabic and international studies in the fields of governance, institutional theory (institutional

factors), and corporate financial performance. The researcher also used the inductive method by conducting an empirical study on a sample of Emirati industrial companies to arrive at conclusions by testing the study hypotheses and presenting appropriate and generalizable inferences. Data were collected from the quarterly reports of seven industrial companies, totaling 216 observations.

3.1 Statistical analysis and discussion of results

3.1.1 First: descriptive data for UAE companies

Table (1). Descriptive Data for the Study Sample of UAE Companies

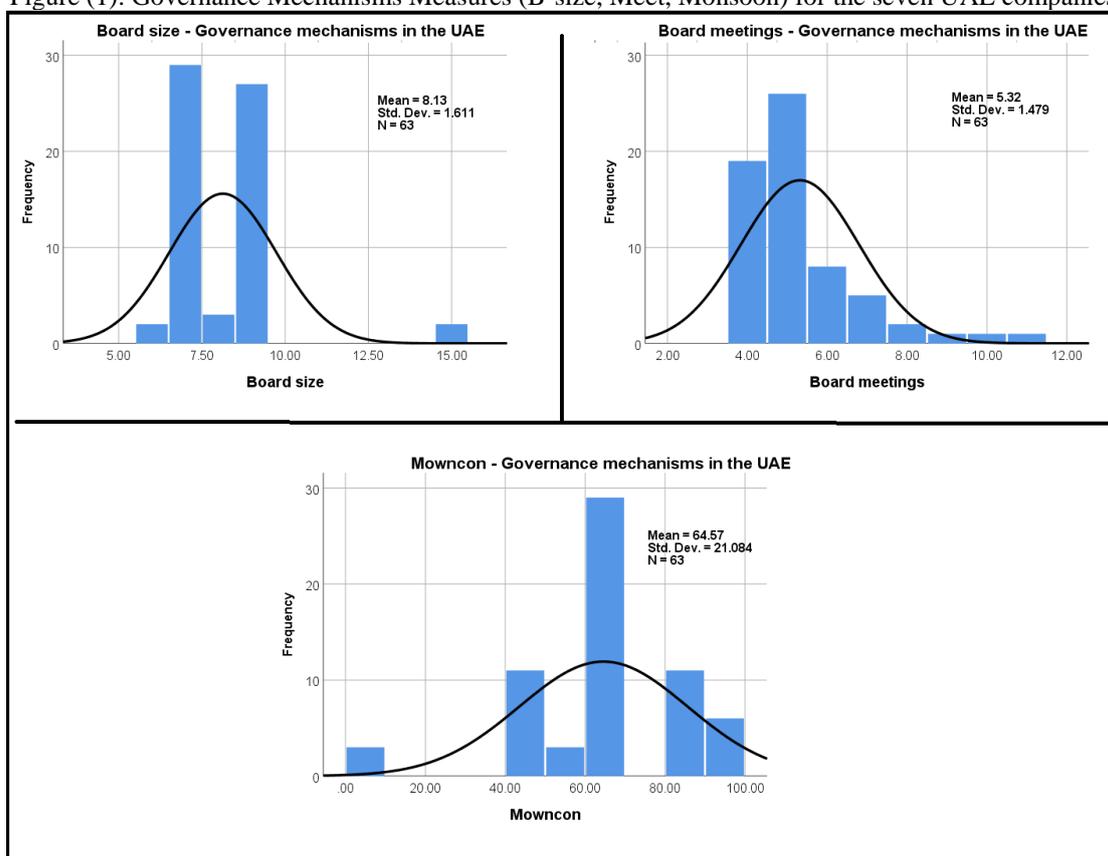
GOV-Mec-AUE			Law	Fin-tools-AUE		Statistic
B_Size	Meet	Mowncon		ROA	ROE	
63	63	63	N	63	63	N
8.127	5.317	64.573	Mean	0.641	0.825	Mean
8.000	5.000	62.900	Median	2.200	2.600	Median
7.000	5.000	87.480	Mode	1.100	1.70 ^a	Mode
1.611	1.479	21.084	Std. Deviation	8.873	14.985	Std. Deviation
2.415	1.836	-0.997	Skewness	-1.917	-1.458	Skewness
8.884	3.940	2.186	Kurtosis	5.821	5.177	Kurtosis
6.000	4.000	0.610	Minimum	-38.500	-59.100	Minimum
15.000	11.000	99.700	Maximum	15.100	32.600	Maximum
0.198	0.278	0.327	C.V	13.837	18.154	C.V

Sources: Authors.

Table (1) shows that the size of the board of directors in the seven UAE companies ranged between 6 and 15 members, with a mean of 8.127, a standard deviation of 1.611, a median of 8, and a mode of 7 members. The closeness of the three values of central tendency indicates stability and convergence among the boards of directors in terms of the number of members, which implies a positively skewed distribution with a skewness coefficient of $2.415 > 0$. The distribution was also sloppy with a skewness coefficient of $8.884 > 3$, as shown in Figure (1). Similarly, the number of board meetings in the seven UAE companies ranged between 4 and 11 meetings, with a mean of 5.317, a standard deviation of 1.479, a median of 5 meetings, and a mode of 5 meetings. The closeness of the three values of central tendency indicates stability and convergence among the number of board meetings in the quarter for the seven UAE companies, which resulted in a positively skewed distribution. With a skewness coefficient of $1.836 > 0$, the distribution

was sloppy with a kurtosis coefficient of $3.94 > 3$, as shown in Figure (1). The concentration of financial ownership in the seven UAE companies is confined between 0.61 and 99.7, with a mean of 64.573, a standard deviation of 21.084, a median of 62.9, and a mode of 87.48. The lack of convergence between the three values of central tendency for the financial concentration of the companies means that there are radical differences between the seven commercial institutions and an instability of the financial ownership concentration index among the UAE companies in the study sample. This resulted in a distribution with a negative skewness coefficient of $-0.997 < 0$, and the distribution was pointed with a kurtosis coefficient of $2.186 < 3$, as shown in Figure (1).

Figure (1). Governance Mechanisms Measures (B-size, Meet, Monsoon) for the seven UAE companies.

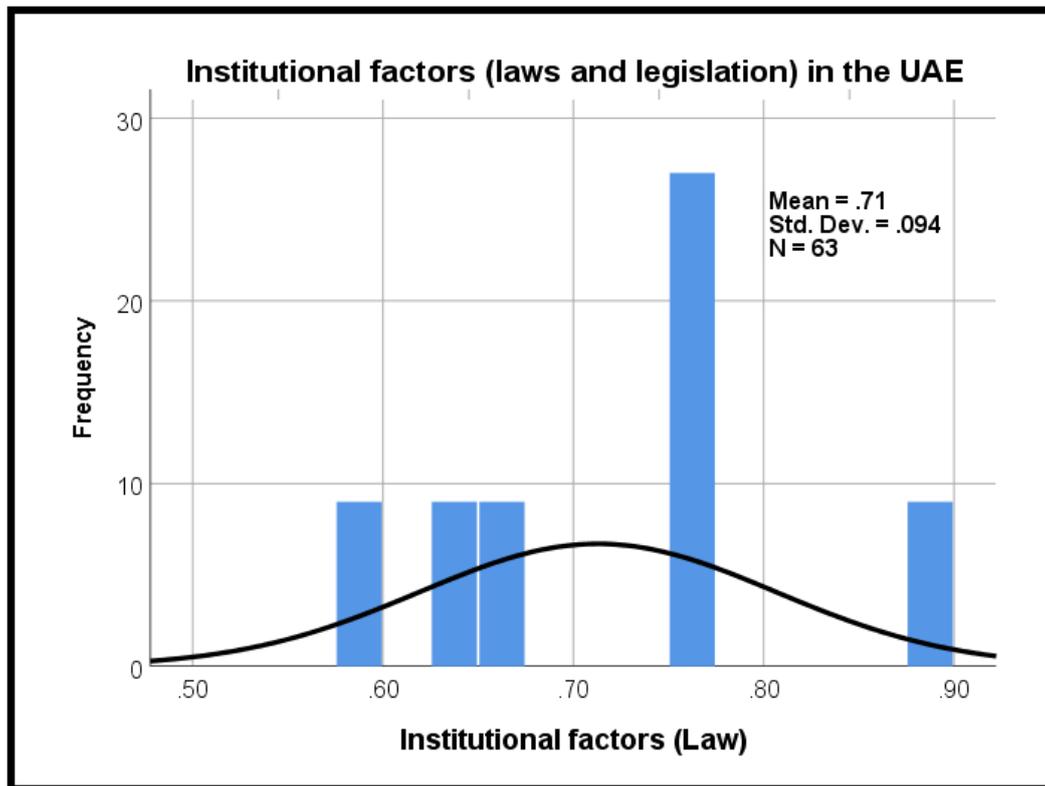


Sources: Authors.

As for institutional factors (laws and legislation), the impact of institutional factors in the seven UAE companies is limited to between 0.58 and 0.88, with an average of 0.713, a standard deviation of 0.094, a median of 0.75, and the mode was also 0.75. This extreme convergence between the values of the three central tendency of the institutional

factors for the companies means stability of the institutional factors index among the UAE companies in the study sample, which resulted in a distribution with weak positive skewness with a skewness coefficient of $0.302 > 0$. The distribution was also pointed with a kurtosis coefficient of $-0.748 < 3$, as shown in Figure (2).

Figure (2). Institutional Factors Scale (Law) for the seven UAE companies.

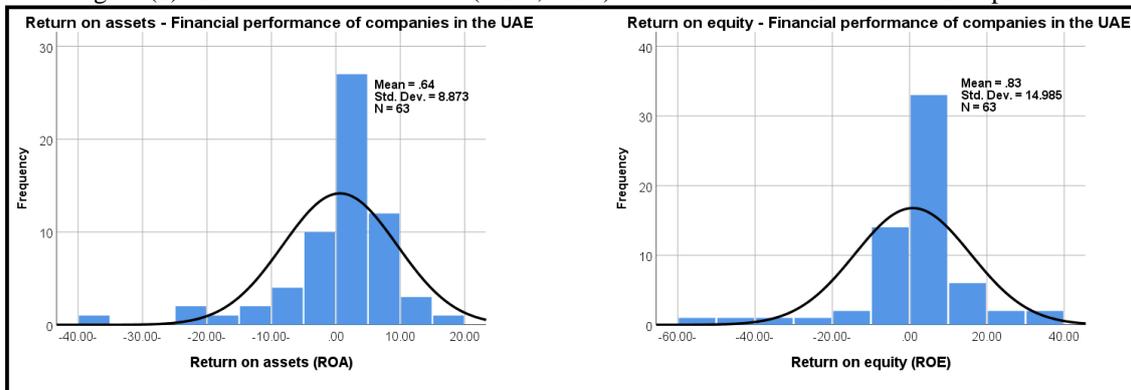


Sources: Authors.

Table (1) reveals the financial performance indicators. The financial return on assets (ROA) for the seven UAE companies ranges between -38.5 and 15.1, with a mean of 0.641, a standard deviation of 8.837, a median of 2.2, and a mode of 1.1. The lack of convergence in the measures of central tendency and the high standard deviation reflect the instability of this indicator. The data also show a negatively skewed distribution with a skewness coefficient of $-1.917 < 0$, and a kurtosis with a kurtosis coefficient of $5.821 > 3$, as illustrated in Figure (3). Similarly, the financial return on equity (ROE) for the seven UAE companies ranges between -59.1 and 32, with a mean of 0.825, a standard deviation of 14.985, a median of 2.6, and a mode of 1.7. The lack of convergence in the measures of central tendency and the high standard deviation reflect the instability of this indicator.

It has a negative skew distribution with a skewness coefficient of $-1.458 < 0$, and the distribution was kurtotic with a kurtosis coefficient of $5.177 > 3$, as shown in Figure (3).

Figure (3). Governance Mechanisms (ROA, ROE) Measures for the Seven UAE Companies.



Sources: Authors.

3.1.2 The study hypotheses

The Smartpls software was used to test the statistical hypotheses, as it is the best for modeling:

- Multiple linear regression: which was used to test the first main hypothesis;
- Simple linear regression: which was used to test the sub-hypotheses of the first main hypothesis;
- Mediation analysis, which will be used to test the second and third main hypotheses and the sub-hypotheses.

First hypothesis:

H1: There is no statistically significant relationship between governance mechanisms and the financial performance of Emirati companies.

Mathematical model:

$$Fin - per = \beta_0 + \beta_1 \cdot B_{size} + \beta_2 \cdot Meet + \beta_3 \cdot Mowncon + \varepsilon \quad (1)$$

where:

Fin-per: Represents the financial performance measure, which is the weighted average between ROA and ROE according to the PLS model.

B_size: Represents the size of the board of directors, measured by the number of members on the board.

Meet: Represents the number of board meetings held during the year.

Mowncon: Represents the concentration of managerial ownership, representing the percentage of directors who own 5% or more of the company's shares.

$\beta_0, \beta_1, \beta_2, \beta_3$: Represent the model's regression coefficients.

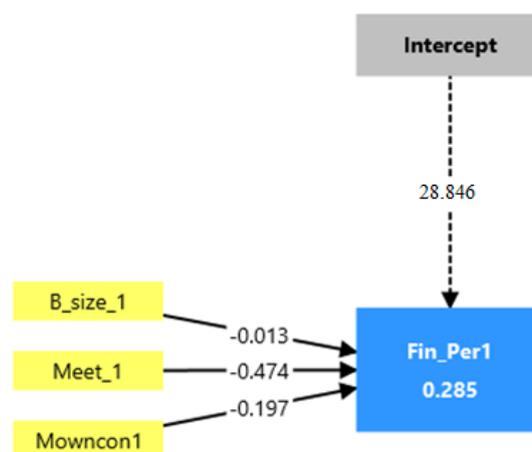
ε : Represents the model's random error variable.

Table (2). Linear regression analysis data between governance mechanisms and financial performance of UAE companies

Summary coefficients					
P value	T value	SE	Standardized coefficients	Unstandardized coefficients	
0.866	0.169	0.513	-0.013	-0.087	B_size_1
0.000	6.051	0.561	-0.474	-3.396	Meet_1
0.012	2.552	0.039	-0.197	-0.099	Mowncon1
0.000	4.921	5.252	0.000	25.846	Intercept
Summary ANOVA					
P value	F	Mean square	df	Sum square	
0.000	0.000	0.000	125	6950.778	Total
0.000	0.000	40.734	122	4969.551	Error
0.000	16.213	660.409	3	1981.228	Regression

Sources: Authors.

Figure (4). Multiple linear regression model between governance mechanisms factors and the financial performance variable of UAE companies.



Sources: Authors.

- There is statistical significance to the regression equation as shown in Table (2), where ($F = 16.213$, $p = 0.000 < 0.05$), and this was supported by the value of the coefficient of determination ($R^2 = 0.285$) as shown in Figure (4), meaning that governance mechanisms succeeded in explaining the change in the financial performance of Emirati companies by 28.5%, which means that the main hypothesis was not achieved;
- The regression coefficient for the number of board meetings was statistically significant ($t = 6.051$, $p = 0.000$), meaning that the number of board meetings for UAE companies significantly affected financial performance measures ($\alpha = 0.05$);
- The regression coefficient for financial performance concentration was statistically significant ($t = 2.552$, $p = 0.012$), meaning that the financial performance concentration factor of UAE companies was statistically significant on financial performance measures ($\alpha = 0.05$);
- From the data in Table (2), we conclude that there is no statistically significant effect of the size of the board of directors on the financial performance of Emirati companies, where ($t = 0.169$, $p = 0.866 > 0.05$).

From the previous results, we conclude that the factors of the number of board meetings and the concentration of financial performance of Emirati companies have a significant impact on financial performance, while the size of the board of directors does not have a significant impact on financial performance. Therefore, the second and third hypotheses (H1b, H1c) can be rejected, and the null hypothesis, which states that there is an impact of board meetings and ownership concentration on the financial performance of Emirati companies, can be accepted, while the first sub-hypothesis, H1a, which states that there is no impact of the size of the board of directors on the financial performance of Emirati companies, can be accepted.

Second Hypothesis

H2: There is no statistically significant effect of institutional factors (laws and regulations) as a mediating variable on the relationship between governance mechanisms (independent variable) and the financial performance of companies (dependent variable).

Mathematical Model:

$$\text{Law} = \beta_0 + \beta_1 \cdot B_{\text{size}} + \beta_2 \cdot \text{Meet} + \beta_3 \cdot \text{Mowncon} + \varepsilon_3 \quad (2)$$

$$\text{Fin - per} = \gamma_0 + \gamma_1 \cdot \text{Law} + \varepsilon_4 \quad (3)$$

$$\text{Fin - per} = \gamma_0 + \gamma_1(\beta_0 + \beta_1 \cdot \text{B_size} + \beta_2 \cdot \text{Meet} + \beta_3 \cdot \text{Mowncon}) + \varepsilon$$

where:

Fin-per: Represents a measure of financial performance, namely return on assets and return on equity.

B_size: Represents the size of the board of directors, which is the number of board members.

Meet: Represents the number of board meetings held during the year.

Mowncon: Represents the concentration of managerial ownership, and represents the percentage of directors who own 5% or more of the company's shares.

Law: Represents a measure of institutional factors (legislation and regulations). It is a dummy variable that assigns a value of 1 to companies that comply with and disclose laws and regulations, and 0 to others.

$\gamma_0, \gamma_1, \beta_0, \beta_1, \beta_2, \beta_3$: Represent the model's regression coefficients.

$\varepsilon_3, \varepsilon_4, \varepsilon$: Represents the model's random error variable.

First: The External Model

The results shown in Table (3) proved the following:

- External Loadings:
 - The financial performance coefficients shown in Figure (11) for both ROA (0.95) and ROE (0.89) were excellent, indicating that the financial performance indicators strongly measure the dimension;
 - Board meetings (Meet = 0.927) were very good;
 - Board size (B_size = -0.381) was weak and negative, indicating that this indicator does not accurately reflect the dimension and may require further review or interpretation;
 - Ownership concentration (Mowncon = 0.38) was very weak, which weakens the validity of the dimension;
- Outer Weights: These confirm that ROA is the largest contributor to financial performance (0.64), followed by ROE (0.432).

Therefore, the financial performance indicators are strong, while some governance indicators (particularly board size and ownership concentration) are weak and may need adjustment or interpretation.

Secondly: The Internal Model

The results shown in Table (3) proved the following:

- Path Analysis
 - Path 1 (Impact of Governance on Laws): $\beta = -0.626$ (Strong inverse relationship);
 - Path 2 (Impact of Laws on Financial Performance): $\beta = -0.262$ (Inverse relationship).

Mediation Effect = $(-0.626) \times (-0.262) = 0.164$.

- Demonstration of the Indirect Effect

Indirect Effect (Gov-Mec \rightarrow Law \rightarrow Fin-tools): Its value is $0.164 \neq 0$.

Since this value is not zero, this means that laws and regulations (Law) actually act as mediators and transmit a portion of the governance effect to financial performance.

- Type of mediation:
 - Direct effect (without the mediator): Value -0.201 (negative);
 - Indirect effect (through the mediator): Value $+0.164$ (positive);
- Since the sign of the direct effect differs from the sign of the indirect effect, this is statistically called "competitive mediation."

Therefore, it can be argued that governance mechanisms alone may have a negative impact on performance (perhaps due to administrative costs), but when institutional factors (laws) are introduced as a mediating variable, they act as a corrective mechanism, transforming that pressure into a positive effect that improves financial performance.

This means rejecting the hypothesis that there is no statistically significant mediating effect of institutional factors (laws) on the relationship between governance mechanisms and financial performance, and accepting the alternative hypothesis that institutional factors do have an effect on the relationship between governance mechanisms and companies' financial performance. It was found that this mediation is of the competitive type, where laws and regulations contributed to mitigating the direct

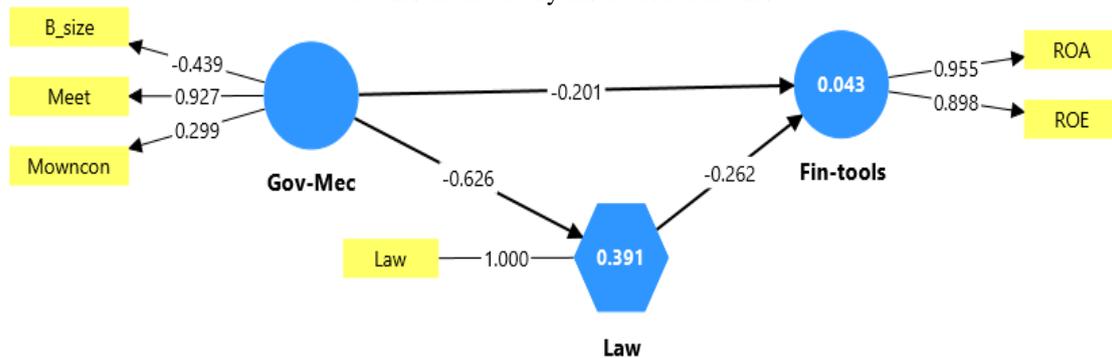
negative impact of governance on financial performance, transforming it into an indirect positive effect with a value of (0.164).

Table (3). PLS analysis data on corporate governance mechanisms and financial performance factors mediated by institutional factors

			Path coefficients	
			-0.201	Gov-Mec -> Fin-tools
			-0.626	Gov-Mec -> Law
			-0.262	Law ->Fin-tools
Specific indirect effects			Total indirect effects	
0.164	Gov-Mec -> Law -> Fin-tools		0.164	Gov-Mec -> Fin-tools
			Total effects	
			Total effects	
			-0.037	Gov-Mec -> Fin-tools
			-0.626	Gov-Mec -> Law
			-0.262	Law ->Fin-tools
Outer weights			Outer loadings	
-0.381	B_size <- Gov-Mec		-0.439	B_size <- Gov-Mec
1.000	Law <- Law		1.000	Law <- Law
0.886	Meet <- Gov-Mec		0.927	Meet <- Gov-Mec
0.038	Mowncon <- Gov-Mec		0.299	Mowncon <- Gov-Mec
0.640	ROA <- Fin-tools		0.955	ROA <- Fin-tools
0.432	ROE <- Fin-tools		0.898	ROE <- Fin-tools
			Correlations	
	Law	Gov-Mec	Fin-tools	
	-0.136	-0.037	1.000	Fin-tools
	-0.626	1.000	-0.037	Gov-Mec
	1.000	-0.626	-0.136	Law

Sources: Authors.

Figure (5). Multiple linear regression model between governance mechanisms and financial performance factors mediated by institutional factors.



Sources: Authors.

4 CONCLUSIONS AND RECOMMENDATIONS

This research aimed to evaluate the impact of governance mechanisms, namely board size, board meetings, and ownership concentration, on the financial performance of companies, specifically return on assets (ROA) and return on equity (ROE). It also assessed the impact of institutional factors (laws and regulations) on the relationship between governance mechanisms and financial performance. The results revealed that board size does not have a direct impact on financial performance indicators. However, board meetings and ownership concentration demonstrated a significant and strong positive impact on the financial performance indicators of UAE companies. Furthermore, the results showed that institutional factors play an effective mediating role in the relationship between governance mechanisms and financial performance (ROA, ROE), indicating the mediation role of laws and regulations. This means that governance mechanisms have a negative impact on financial performance without laws, but with laws acting as a mediating variable, they function as a corrective tool, transforming this pressure into a positive effect that improves financial performance. Based on these findings, the research recommends testing the direct impacts of other governance mechanisms to further demonstrate their effectiveness. Its morality, in addition to that, after the mediation of laws and legislations succeeded, it is necessary to test its role as a moderating variable, i.e., whether Law changes the strength or effect of the direct relationship between governance mechanisms and performance instead of transferring the effect.

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Authors' Contribution

All authors contributed equally to the development of this article.

Data availability

All datasets relevant to this study's findings are fully available within the article.

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