**Background**

The purpose of this study, as stated in the first chapter, is to understand how tribal affiliations can affect corporate governance and overall firm performance. Based on this objective, this research investigates whether Type 1 agency costs are influenced by tribal affiliations among shareholders representatives and management. The research question of whether tribal affiliations among owners’ representatives and managers are associated with Type 1 agency costs can be addressed through three different hypotheses. They are:

**Old hypothesis**

H1: Tribal affiliations among **shareholders representatives** will be positively associated with **Type 1 agency costs**.

H2: Tribal affiliations among **managers** will be positively associated with **Type 1 agency costs**.

H3: Tribal affiliations between **shareholders representatives and managers** will be positively associated with **Type 1 agency costs**.

**Different measures of tribal ownership affiliations and tribal control affiliations**

This research investigates the impact and the extent of effect (i.e., degree) of tribal affiliation on a firm’s performance, using two alternative proxies for agency costs. Namely, the ratio of total sales to total assets (i.e., asset turnover) and free cash flow.

Asset turnover is the ratio of total sales or revenue to average assets. This metric helps shareholders or investors understand how effectively firms are leveraging their assets to generate sales. This ratio helps shareholders determine how well the firm’s BoD performs its control function by monitoring the affairs of the firm’s management. Also, investors use the asset turnover ratio to compare similar firms in the same sector or group.

Free positive cash flow signals a firm’s ability to pay its own debt, pay shareholders dividends, buy back stock, and facilitate the growth of the firm. This means a firm is generating more cash than is used to run the business and reinvesting to grow the business. Free cash flow provides better insight into both a firm’s business model and the organization’s financial health. It is a reliable measurement of how efficient a firm is at producing resources for investing. It helps determine BoD’s capacity to perform its function of generating resources (i.e., resource provision).

Independent variable for H1/H2/H3=cause=Board members/Total CEOs/Total board members

Dependent variable (first/second measure)=effect=Asset turnover/cashflow

Confounding variables=constant= employees, sector categorization, business model (group/non-group). It has direct impact on dependent variable and needs to be controlled in regression analysis.

Asset turnover

Model 1= ownership= board members

Model 2= control= total CEOs

Model 3= ownership and control= total board members

Cashflow

Model 1= ownership= board members

Model 2= control= total CEOs

Model 3= ownership and control= total board members

**New hypothesis**

H1: The highest proportion of board members affiliated to one tribe will be positively associated with Type 1 agency costs.

H2: Where the CEO belongs to dominant tribe will be positively associated with Type 1 agency costs.

H3: Interaction between proportion of dominant tribe and CEO membership of that group will be positively associated with Type 1 agency costs.