

CORPORATE GOVERNANCE AND BANKS PERFORMANCE: EMPIRICAL EVIDENCE FROM GCC COUNTRIES

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ABSTRACT

This study aims to research the impact of corporate governance on banks performance of the Gulf Cooperation Council countries (GCC), through an econometric study, based on multiple regression analysis of Panel data, and the Generalized Method of Moments (GMM), for a sample of 24 commercial banks, during the period (2010-2021). We measured the corporate governance, through board characteristics indicators: board size (BS), executive members on the board (EXC), board independence (IND), number of board meeting (NBM), and we measured the banks performance, through two indicators : return on average assets (ROAA) and return on average equity (ROAE). The results concluded that there is a significant positive impact of BS, IND on ROAA- ROAE, and a significant negative impact of EXC, NBM on ROAA- ROAE, that what confirms all our hypotheses, in line with agency, and resource dependence theories. The results confirm that an effective board of directors promotes sound corporate governance and thus achieving good performance.

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KEY WORDS: Corporate governance, banks performance, GCC countries, GMM method.

JEL CLASSIFICATION: G34, L25, C58.

حوكمة الشركات وأداء البنوك: دليل تجريبي من دول مجلس التعاون الخليجي

ملخص

تهدف هذه الدراسة إلى البحث في تأثير حوكمة الشركات على أداء البنوك في دول مجلس التعاون الخليجي، من خلال دراسة قياسية، مبنية على تحليل الانحدار المتعدد لبيانات البنائ، وطريقة العزوم المعممة (GMM)، لعينة مكونة من 24 مصرفاً تجارياً خلال الفترة (2010-2021)، قمنا بقياس حوكمة الشركات من خلال مؤشرات خصائص مجلس الإدارة: حجم المجلس (BS)، عدد الأعضاء التنفيذيين في مجلس الإدارة (EXC)، استقلالية مجلس الإدارة (IND)، عدد اجتماعات مجلس الإدارة (NBM)، وقمنا بقياس أداء البنوك، من خلال مؤشرين: نسبة العائد على متوسط الأصول (ROAA) ونسبة العائد على متوسط حقوق الملكية (ROAE). خلصت النتائج إلى وجود تأثير معنوي وإيجابي لـ BS و IND على ROAA-ROAE، وتأثير معنوي وسليبي لـ EXC و NBM على ROAA-ROAE، هذا ما يؤكد جميع فرضياتنا، وما يتماشى مع نظرية الوكالة ونظرية الإعتماد على الموارد. تؤكد النتائج أن مجلس الإدارة الفعال يعزز الحوكمة السليمة للشركة وبالتالي تحقيق الأداء الجيد.

الكلمات المفتاحية: حوكمة الشركات، أداء البنوك، دول مجلس التعاون الخليجي،

طريقة GMM.

تصنيف جال: G34, L25, C58

GOVERNANCE D'ENTREPRISE ET PERFORMANCE BANCAIRE: UNE PREUVE EMPIRIQUE POUR LES PAYS DU GCC

RÉSUMÉ

Cette étude vise à rechercher l'impact de la gouvernance d'entreprise sur la performance des banques des pays du Conseil de Coopération du Golfe (CCG), à travers une étude économétrique, basée sur une analyse de régression multiple des données du Panel, et la Méthode Généralisée des Moments (GMM), pour un échantillon de 24 banques commerciales, au cours de la période (2010-2021). Nous avons mesuré la gouvernance d'entreprise, à travers des indicateurs de caractéristiques du conseil : taille du conseil (BS), membres exécutifs du conseil (EXC), indépendance du conseil (IND), nombre de réunions du conseil (NBM), et nous avons mesuré la performance des banques, à travers deux indicateurs : le rendement des actifs moyens (ROAA) et le rendement des fonds propres moyens (ROAE). Les résultats ont conclu qu'il y a un impact positif significatif de BS, IND sur ROAA-ROAE, et un impact négatif significatif de EXC, NBM sur ROAA-ROAE, ce qui confirme toutes nos hypothèses, conformément aux théories de l'agence et de la dépendance aux ressources. Les résultats confirment qu'un conseil d'administration efficace favorise une saine gouvernance d'entreprise, et donc obtenir une bonne performance.

Mots clés: Gouvernance d'entreprise, performance des banques, pays du CCG, méthode GMM.

Jel classification: G34, L25, C58

INTRODUCTION

Stemming from the debate opened by Berle and Means (1932), concerning the managerial firm, the financial model of governance is usually associated with agency theory. The latter is the one which

raised the issue of good governance practices established on the basis of an agency relationship between the principal who is the “shareholder” and the agent “the director”. This allows the principles of opportunism and information asymmetry to manifest themselves and impact governance practices (Toumi, 2016a).

The 1999 OECD Corporate Governance Principles required member countries to take some initial steps to develop an appropriate CG code. In 2001, the OECD has defined the corporate governance (CG) as: “ the private and public institutions, including laws, regulations and accepted business practices, which together govern the relationship, in a market economy, between corporate managers and entrepreneurs (corporate insiders) on the one hand, and those who invest resources in corporations, on the other” (OECD, 2001). In 2002, Cadbury defined the corporate governance as : “ the system of rules, practices and processes by that an organization is managed and controlled, primarily involves equalization the interests of a company's many stakeholders, like shareholders, management, financiers, suppliers, customers....(Rasel, 2017a).

Over few past decades, corporate governance code has been considered to be a significant instrument in each organization. Corporate governance is significant to establish the basis for the relationship between the directors, board of directors and shareholders which clarified the rights and obligations of each party to efficiently use the available resources and opportunities. In addition, good practices of cooperate governance ensure full disclosure of the financial position and economic performance (Buallay, 2019a)

The Basel Committee on Banking Supervision has paid attention to the need to study, understand, and improve corporate governance in banks, since good corporate governance increases monitoring efficiency and is necessary to guarantee a sound financial system and, consequently, a country’s economic development (García-Meca et al, 2015a).

The banking sector occupies a central position in the stability of the nation's economy. It plays vital roles on monetary policy implementation, fund mobilization, credit allocation, payment and settlement system. Management is expected to show good governance practices to ensure achievement of its objectives and avoid the consequences of failure leading to loss of confidence. So, a discussion on corporate governance of banks needs special attention (Rasel, 2017b).

To talk about banking governance, we must take into consideration the particular governance characteristics of this financial sector. Indeed, banks are not like other businesses, that is why they should be treated differently. Thus, the banking industry is characterized by several specificities which have a significant impact on their governance system such as the deposit insurance fund, the management of systematic and specific risks, the optimization of funds allocated to borrowers, the systems internal control and capital structure (Mkadmi & Halioui, 2013a).

Recent academic studies have confirmed that during the financial crisis of 2007/2008, weaknesses in bank governance played a critical role in limiting banks' performance. In the same line, OECD report indicated that the flaws in bank governance contributed in a strong way to the financial crisis. As a result, the governance of banks deserves special attention and it makes interesting to study its mechanisms, with the aim of mitigating opportunistic behaviors and reflecting the needs of shareholders, creditors and taxpayers, and its effects on the financial performance of banks (Leone et al, 2018a).

Although some researchers have focused their attention on corporate governance and firms performance, corporate governance of banks has received little attention. The studies differed in their dependence on the type of governance mechanisms, whether internal or external, but most of them focused on internal mechanisms with their various indicators, from the board characteristics to the committee's characteristics, the characteristics of the ownership

structure... There are also some studies based on one of the Gulf Cooperation Council (GCC) countries, including a few mechanisms, focused on financial or non-financial companies, the results were not empirically conclusive. Therefore, this lack of research and the perceived gap in the governance literature and bank governance in particular, in the GCC Countries, is the main motivation for conducting an original study that includes all six countries of GCC, with regard to examining the impact of internal governance mechanisms, especially the board characteristics, on the banks performance of GCC Countries

The remainder of the paper is presented as follows: The first section reviews the literature Review and hypothesis development, in the second section, we present the data and methodology, the third section lays out the finding and discussion, in the last section, we present our study conclusion.

1- LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

In prior literature, many corporate governance indices were developed; most of these indexes are based on developed countries. However, few studies were conducted in the developing and emerging markets, like GCC countries (Al-ahdal et al, 2020a).

1.1- Board size and banks performance

Board size is commonly used to measure corporate governance. From a sociological point view, a larger board of directors is beneficial and increases the collection of expertise and resources accessible to a firm, but it has several problems (Dalton et al, 1999). The theory of resource dependence indicates that the larger board provide more specialized knowledge in different fields and thus contribute to making better decisions.

Bouragba & Gharbi (2014); Munisi & Randoy (2013), document that there is a positive significant relationship between return on assets and board size. Rasel (2017) using a sample of 12 banks in Bangladesh, report that the board size has a significant positive impact on banks

performance, measured by return on assets, return on equity and without effect with earnings per share. García-Meca et al(2015), using a sample of 159 listed banks in nine countries (Canada, France, Germany, Italy, the Netherlands, Spain, Sweden, the United Kingdom, and the United States) shows a significant positive relationship between board size and banks performance measured by return on assets and market value of bank. Gafoor et al (2018) revealed, in their study of 36 commercial banks in India, that there is a significant positive effect between board size, when it is limited between 6 and 9, and banks performance measured by return on assets, bank profitability bank after tax, and not significant if it has more than 9 members. Similarly, Mertzanis et al (2019), using a sample of 225 listed companies in the MENA region, report a significant positive effect of board size with all performance measures: return on assets, return on equity and market value. Toumi (2016) found in his study of a sample of 13 French banks, 13 German banks, and 20 Japanese banks, that board size has a positive effect on performance of Japanese banks, measured by ROA, it has a negative effect in case of German banks, and no significant effect of French banks.

In contrast, much of the researches work considers board size has a negative impact on financial performance (Ghosh, 2018a; Kaoet al, 2019a; Leone et al., 2018b; Mkadmi & Halioui, 2013b; Pillai & Al-Malkawi, 2018; Zabriet al, 2016), as increasing board size can lead to problems with coordination, oversight and flexibility in decision-making and in granting excessive control to line managers. Agency theory recommends that board of directors be small enough to allow for as fast and broad decisions as possible to take advantage of the richness and diversity of skills and experiences of its members. For Jensen(1983), a medium-sized board (7 or 8 members) would be more efficient because it would allow decisions to be taken more quickly and agency costs be reduced through better coordination, and not be controlled by the CEO. While other studies have found that there is no significant effect between board size and financial performance, whether it is measured by return on assets, return on equity or any

other indicator (Assenga et al, 2018a; Dedu & Chitan, 2013a; Hajer & Anis, 2018). Based on resource dependence theory, we hypothesise :

H1: There is a significant positive impact of board size on banks performance.

1.2- Board executive members and banks performance

There are few studies that have adopted this indicator, so the results are minimal. Directors, who are responsible for an administrative task in the firm's daily routines, while being a board member, can be defined as executive board members. Previous studies emphasize the relative importance of executive directors, suggesting that they contribute to available expertise, and facilitate more open discussion within management (Donaldson, 1990a; Muth & Donaldson, 1998a). The stewardship theory holds that executives (managers) are not motivated by individual goals but rather they are stewards, whose motives are aligned with the objectives of their principals-shareholders (Davis et al, 1997a). They are satisfied and motivated when organizational success is achieved even at the expense of their personal goals (Abdullah & Valentine, 2009). Based on this theory, view agents as stewards who manage the firm responsibly to improve its performance (Donaldson & Davis, 1991; Muth & Donaldson, 1998b). This theory advocates that the autonomy reposed in managers minimizes the cost of monitoring and as a result, positively impacts performance. Sierra et al (2006) uncover a positive association between the proportion of inside directors and bank performance. Similar results are echoed in the international sample of European (Agorakiet al, 2010) and Thai banks(Pathan et al, 2007).

Kaymak and Bektas(2008) found in their study of Turkish banks, a positive relationship between executive board members and firm performance. (Davis et al., 1997b; Donaldson, 1990b; Kochhar & David, 1996) argue that based on the stewardship theory, executive directors have a positive impact on corporate research and development costs as well as better firm performance based on improved strategic innovation. On the other hand, Agency theory assumes that separation

of ownership and control can result in a conflict of interest between management and shareholders, as executives are self-interested and opportunist and have dissimilar objectives and risk preferences (Fama & Jensen, 1983a; Shleifer & Vishny, 1997a). Based on agency theory we consider the hypothesis 2:

H2: There is a significant negative impact of board executive members on banks performance.

1.3- Board independence and banks performance

Board independence is in fact a central theme in governance. Empirical evidence suggests more active and independent directors make better monitors. The agency theory conjectures that outside directors would carry out their tasks to monitor top management because they have incentives to develop reputations in Decision control (Fama & Jensen, 1983b), and therefore the probability of collusion and expropriation of shareholder wealth by top management might be lowered, which would then minimize the agency costs (Fama, 1980). Resource Dependence Theory asserts that independent boards may enhance the disclosure process by sending a signal to the external environment about the bank's performance, thus securing vital resources as well as legitimizing their operations and gaining public trust, and thus the independence of managers allows for better control and performance. Bouragba & Gherbi (2015) found in their study of a sample of 12 Islamic banks in the Gulf States region, and Bouragba & Gherbi (2014) for a sample of 10 Islamic banks in the Middle East countries, a positive significant relationship between board independence and financial performance measured by return on assets. Dedu & Chitan (2013) revealed in their study of set banks in Romania that there is positive impact of board independence on performance measured by return on assets, return on equity and insolvency risks. However, the researchers recommended the need for more independent members within board of directors, and to change practical behavior of shareholders to reduce exposure to risk. In this

context, we can also cite a study of Gafoor et al(2018), using a sample of 36 commercial banks in India, during the period: 2001-2014, report positive significant effect between board independence and performance measured by return on assets and profit after tax index. Kao et al(2019) argue that performance of companies listed on the Taiwan Stock Exchange, measured by return on assets, return on equity, and market value , improves significantly with a higher percentage of independent directors. García-Meca et al (2015), using a sample of 159 listed banks in nine countries (Canada, France, Germany, Italy, the Netherlands, Spain, Sweden, the United Kingdom, and the United States), report significant positive impact of board independence on bank performance measuring by return on assets and market value. Haddou(2018), using a sample of seven Tunisian banks, found that the presence of independent member certainly reduce the liquidity risks, because in this case the board of directors is more effective in performing its task of supervising executive managers. On the other hand, some studies found contradictory results and report negative relationship between board independence and firms performance (Aktan et al, 2018a; Mertzanis et al, 2019a), in line with the supervision theory that adopts opposite viewpoint with agency, resource dependence theory, which confirms that internal managers make better decisions than outsiders, and they maximize company profits because they have better business insights. Based on agency and resource dependence theory, we hypothesise:

H3: There is a significant positive impact of board independence on banks performance.

1.4- BOARD MEETINGS AND BANKS PERFORMANCE

The banking business needs a more active role of the board. Regular board meetings may be a sign of an active board. The more regular the meetings, the increased supervision of the top management, the more appropriate the advisory role, which might improve bank performance(Liang et al, 2013). Al- baidhani (2018) concluded that the increase in the number of board meetings annually may mean an

increase in monitoring, supervision and direction by the board of directors, which leads to facilitating the bank's operations and assisting the management in achieving the goals by taking the right decisions at the right time, thus, achieving the desired performance. an opposite view is that board meetings are not useful because the limited time the outside directors spend together is not used for the meaningful exchange of ideas among themselves or with management(Jensen, 1993a).

Toumi(2016), indicates that the number of meetings has a significant negative impact on the performance of banks measured by the return on assets ratio, in France, Germany and Japan, which indicates that the board of directors that meets frequently increases the difference in decisions and the inconsistency of information, and therefore, may performance impairs. Vafeas(1999), shows that regularity of board meetings is negatively related to performance, which may be the result of boards meeting more often to address poor performance. García-Meca et al (2015), found a significant negative relationship between board meetings and banks performance measured by return on assets. Aktan et al(2018), concluded that there is a negative relationship with return on assets, and no effect with return on equity. Based on these arguments and exposures, we consider the last hypothesis:

H4: There is a significant negative impact of number of board meetings on banks performance.

2- DATA AND METHODOLOGY

2.1- SAMPLE SELECTION AND DATA COLLECTION

Following recent cross-country studies (Elamer et al, 2020a; Gafoor et al., 2018a; Leone et al., 2018c; Rasel, 2017c; Toumi, 2016b), our sample comprises 24 commercial banks from 06 countries in the GCC countries – Bahrain, Kuwait, Saudi Arabia, UAE, Qatar, and Oman, as summarized in Table 1, with full data from 2010 to 2021. We chose this

period due to the lack of bank governance data prior to 2010. Hence, our final sample covers 24 banks over nine years, leading to a total of 288 bank-year observations for our regression analysis. This study uses data from distinct sources. First, corporate governance variables were gathered from annual reports and corporate governance reports, which were downloaded from banks' websites. Second, financial data were extracted from the Bankscope and Thomson Reuters Eikon Database.

Table1. Sample Characteristics

Country	Banks	Banks Obs	Percentage
Bahrain	5	60	20,83%
Kuwait	5	60	20,83%
Arabie Saoudite	4	48	16,67%
UAE	4	48	16,67%
Qatar	4	48	16,67%
Oman	2	24	8,33%
TOTAL	24	288	100%

2.2- VARIABLE DEFINITIONS AND MEASUREMENT

The variables used for the research are classified into three broad categories: performance variables, corporate governance variables and control variables. Performance variables are used as the proxy for dependent variables measured by return on average assets and return on average equity. Corporate governance variables as the proxy for independent variables measured by board characteristics. The control variables are used to control the potential effects on performance. As described in Table 2

Table2. Definition of Variable

Variable	Acronym	Measure
Dependent variable		
Return on average assets	ROAA	The net income /average total assets
Return on average equity	ROAE	The net income /average equity
Independent variables		
Board size	BS	The total number of Board members
Board executive members	EXC	The number of executive members/number of board members
Board independence	IND	The number of independent members /number of board members
Number of board meeting	NBM	Total number of Board meetings
Control variable		
Bank size	SIZE	The natural logarithm of total assets
Age of the bank	AGE	The number of years that bank has operated

2.3- MODEL SPECIFICATIONS

The current study uses panel data of 24 GCC commercial banks for a period of 12 years from 2010 to 2021. To find out the impact of corporate governance on GCC banks performance, we apply the Generalized Method of Moment (GMM), specifically the two-step difference GMM method, using the STATA 16 software. The GMM estimator controls endogeneity, autocorrelation and heteroskedasticity problems. This method is appropriate for conditions when N is greater than T (Roodman, 2009).

To achieve the study objectives, two regression models are developed:

$$ROAA_{i,t} = \alpha + b_1BS_{i,t} + b_2EXC_{i,t} + b_3IND_{i,t} + b_4NBM_{i,t} + b_5SIZE_{i,t} + b_6AGE_{i,t} + \varepsilon_{i,t}(1)$$

$$ROAE_{i,t} = \alpha + b_1BS_{i,t} + b_2EXC_{i,t} + b_3IND_{i,t} + b_4NBM_{i,t} + b_5SIZE_{i,t} + b_6AGE_{i,t} + \varepsilon_{i,t} \quad (2)$$

Where:

α : is the intercept,

$b_1 - b_6$: are the coefficient parameters

ε : is the error term of the model,

i and t correspond to bank and year,

3- FINDING AND DISCUSSION

3.1- Descriptive statistic

Table3 presents descriptive statistics for the variables. Average ROAA for our sample is 1.35%. Minimum and maximum ROAA for the sample are -4.14% and 8.68%, respectively, which are equal to ROAA of the Bangladesh and Indian banks (Gafoor et al., 2018b; Rasel, 2017d). Average percentage of ROAE is 9.99% .The minimum percentage is -21.55% and maximum is 25.64 %. Average board size in the sample is 9.22. Minimum number on the board of directors is 5 and maximum is 12, which are similar to (Dedu & Chitan, 2013b; Elamer et al., 2020b; Ghosh, 2018b). Average percentage of Executive directors in the sample is 7.07% .The minimum percentage is 0% and maximum is 66 %. Average percentage of independent directors in the sample is 68.77% which is similar to many international banks (Gafoor et al., 2018c; García-Meca et al., 2015b; Mkadmi & Halioui, 2013c). The minimum percentage of independent directors is 0% and maximum is 100%. On average, 8 board meetings are conducted in a year, Which are equal to French and Japanese banks (Toumi, 2016c). Two control variables were used in this model SIZE and AGE, their mean values are 10.26 and 41, respectively.

Table3. Descriptive Statistics

Variable	Obs	Mean	Std.Dev	Min	Max
ROAA	288	1.348563	1.096315	-4.14	8.68
ROAE	288	9.98993	6.742998	-21.55301	25.64
BS	288	9.229167	1.402928	5	12
EXC	288	0.0707639	0.1408663	0	0.66
IND	288	0.6877431	0.290226	0	1
NBM	288	7.777778	4.52703	0	31
SIZE	288	10.25992	0.9841043	7.74245	12.1
AGE	288	41.68403	12.64914	3	69

3.2- Correlation matrix

Correlation matrix is one of the econometric tools that examine the trend of association between the variables. It shows how significant the association between the variables of the study is and gives an indication regarding the absence and presence of multicollinearity (Al-ahdal et al., 2020b).

Table 4 reports the results of the correlation matrix of the various variables used in the analysis such as: ROAA has a significant positive association with EXC, SIZE, and significant negative association with IND. ROAE has a significant positive association with BS, SIZE, and significant negative association with IND. The results of the table show that the highest correlation coefficient between the independent variables was between IND and EXC: 0.5825, which is less than 0.8, which proves that there is no multicollinearity between the independent variables.

Table4. Correlation Matrix

	ROAA	BS	EXC	IND	NBM	SIZE	AGE
ROAA	1						
BS	0.1524**	1					
EXC	0.2549***	-0.3462***	1				
IND	-0.3456***	-0.2173***	-0.5866***	1			
NBM	-0.1269*	-0.0400	-0.2350***	0.3678***	1		
SIZE	0.2130***	0.3204***	-0.0573	-0.2830***	-0.1507**	1	
AGE	0.0236	0.3259***	-0.2468***	-0.0205	0.2719***	0.0568	1

*p-value<10%; **p-value< 5%; ***p-value< 1%.

3.3- REGRESSION ANALYSIS

Generalized Method of Moment (GMM) is used to investigate the impact of board characteristics on the banks performance of GCC countries. This study uses two standard diagnostic tests to identify the problems that might arise from the use of GMM estimation . These diagnostic tests are Sargan test and AR1-AR2, which are used to test validity of instruments, and autocorrelation of the residuals respectively. Sargan is used to test the validity of the instruments used. The null hypothesis of this test is that the instruments used are exogenous. Hence a large p-value is required. Arellano and Bond autocorrelation test (AR1-AR2) detects the autocorrelation at level 1-2 respectively. The null hypothesis for this test is that the error terms are not serially correlated at level 1-2 respectively. The higher p-value for AR1-AR2 test is required to accept the null hypothesis. The two additional assumptions for using GMM which were examined and met in this study are shown in Table 5.

Table 5 shows that Sargan test is insignificant and AR1-AR2 are insignificant, wich indicate that GMM model(1) and (2) are valid.

The empirical results show that board size (BS) has a significant positive impact on ROAA and ROAE ($P < 0.01$), which is consistent with previous studies(Aktan et al., 2018b; Gafoor et al., 2018d; Mertzanis et al., 2019b; Munisi & Randøy, 2013; Rasel, 2017e). This finding is in line

with resource dependent theory suggesting that larger boards provide more specialist knowledge from different fields and therefore contribute to better decision making. The results also support the proposition that the role of the board in monitoring and advising the management on various issues increases with increase of board size. One possible explanation for this positive Relationship of board size with performance is that a large board adds more expertise to the bank in decision-making. The results support our first hypothesis.

Regarding Executive members(EXC), it is clear from Table 5 that EXC has a significant negative impact on ROAA and ROAE ($P < 0.01$), which is consistent with previous studies (Fama & Jensen, 1983c; Shleifer & Vishny, 1997b). This results is in the line with Agency theory assumes that separation of ownership and control can result in a conflict of interest between management and shareholders, as executives are self-interested and opportunist and have dissimilar objectives and risk preferences. The results support our second hypothesis.

In terms of board independence (IND), the coefficient of IND is positive and statically significant in both models (ROAA- ROAE) ($P < 0.01$), This result provides further empirical support for agency, and resource dependence theories and previous studies(Fama & Jensen, 1983d; Gafoor et al., 2018e; García-Meca et al., 2015c; Kao et al., 2019b; Leone et al., 2018d), who argued that the independent directors are better monitors of the board. So, inducting more independent directors into the board improves the monitoring and advising role of the board. The finding supports our third hypothesis.

The regression results for number of board meeting (NBM) show a negative significant impact in both models (ROAA- ROAE) ($P < 0.01$) which is consistent with previous studies (Aktan et al., 2018c; García-Meca et al., 2015d; Jensen, 1993b),who support the idea that the board meetings are not useful because the limited time the outside directors spend together is not used for the meaningful exchange of ideas among themselves or with management. Furthermore, that regularity of board meetings is negatively related to performance, which may be the result

of boards meeting more often to address poor performance. Hence we accept H4.

Finally, regarding The control variables , the present study observe that bank size (SIZE) has a negative and significant impact on both ROAA- ROAE ($P < 0.01$),this results is consistent with the results of studies conducted by (Assenga et al., 2018b; Rasel, 2017f), who found that this negative relationship is due to bureaucratic problems and poor expenses management. bank size controls products and risk diversification which leads to a negative relationship and impact between bank size and performance since increased diversification leads to higher credit risk and consequently to lower returns. Meanwhile, larger amount of total assets reduces the ROA ratio to a great extent.

Bank age (AGE) has a positive and significant impact on both ROAA- ROAE ($P < 0.01$), due to the learning curve principle which makes a bank learn from its previous good and bad experience for correction, improvement and more development and due to the interaction between the bank age and the market share, as well as the longer tradition and good reputation that could have been built by the passage of time. This result is consistent with other studies (Buallay, 2019b; Buallay et al, 2017; Mertzanis et al., 2019c).

Table5. GMM estimates

VARIABLE	Model 1(ROAA)			Model 2(ROAE)		
	Coef	Std.err	p-value	Coef	Std.err	p-value
BS	0.5348114***	0.1218804	0.000	2.449451***	.4256557	0.000
EXC	-1.33329***	0.3489135	0.000	-4.129363***	1.35249	0.002
IND	0.7111633***	0.1986204	0.000	2.853399***	1.09229	0.009
NBM	-0.0324451***	0.0086784	0.000	-.196311***	.0476552	0.000
SIZE	-3.283466***	0.262478	0.000	-10.67944***	1.591872	0.000
AGE	0.0955049***	0.0161315	0.000	0.2684308***	.0743495	0.000
ROAA t-1	0.5387732***	0.0181348	0.000	--	--	--
ROAE t-1	--	--	--	0.5927621***	.0311703	0.000
N of Obs	288			288		
Wald chi2	2753.01			4897.40		
Prob> chi2	0.0000			0.0000		

AR1 test (p-value)	0.1907	0.1852
AR2 test (p-value)	0.5477	0.7303
Sargan test (p-value)	0.1066	0.3143

*p-value<10%; **p-value< 5%; ***p-value< 1%.

AR (1) and AR (2) are tests for first-order and second-order serial correlation in the first-differenced residuals, under the null hypothesis of no serial correlation.

The sargan test of over-identification is carried out under the null hypothesis that all instruments are valid.

CONCLUSION

Most of the corporate governance studies provide insights about the CG and financial performance relationship in developed countries, while there are very few insights regarding this relationship in emerging countries and, especially, in GCC countries.

This paper examines the impact of the corporate governance on the banks performance of GCC countries. This piece of research relies on data collected from different web sources and annual reports, covering the period from 2010 to 2021 for 24 GCC commercial banks

We measure the corporate governance by board characteristics, such as board size (BS), executive members on the board (EXC), board independence (IND), and number of board meeting (NBM). We measure the banks performance by a return on average assets ratio (ROAA) and a return on average equity ratio (ROAE).

The regression results showed a significant positive impact of board size, board independence on banks performance (ROAA-ROAE), this confirms a larger board of directors is beneficial and increases the collection of expertise and resources accessible to a firm. This also confirms the resource dependence theory point view, which indicates that the larger board provides more specialized knowledge in different fields and thus contribute to making better decisions.

The results of independency assert both the agency and the Resource Dependence theories point view, that more active and independent directors make better monitors, which would then minimize the agency costs. The independence of managers allows better control and performance.

In contrast , the regression results showed a significant negative impact of executive members, number of board meeting on both ROAA- ROAE. This confirms the Agency theory point view which assumes that separation of ownership and control can result in a conflict of interest between management and shareholders, as executives are self-interested and opportunist and have dissimilar objectives and risk preferences.

The results showed that regularity of board meetings is negatively related to performance, which may be the result of boards meeting more often to address poor performance. This confirms that the board of directors that meets frequently increases the difference in decisions and the inconsistency of information, and therefore, may performance impairs.

The study results confirm all our four hypotheses, in line with agency, and resource dependence theories.

The results confirm that the board of directors is considered the backbone of corporate governance, as an effective board enhances sound corporate governance and thus realizing good performance. The establishment of a good system of governance is a necessary condition to ensure financial stability, that is to say the establishment of effective control mechanisms in banks. Consequently, the stability of the banking system leads to ensuring the proper functioning of the financial system which in turn promotes economic growth and the stabilization of the country's economy.

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