

EFFECT OF GOVERNANCE ON THE FINANCIAL PERFORMANCE OF BANKS IN QATAR

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ABSTRACT

This study attempts to measure the impact of Governance mechanisms on the financial performance of QATAR banks in period for 2011-2020. This is realized using a Panel regression model to determine the effect of the change on the independent variable, i.e. firm's corporate governance, which has been measured by the board size, Independence of the Board of Directors & The number of committees that make up the council , with controlled variable which has been measured by age of bank and total assets at the end of year on the dependent variable that is the financial performance, which is measured by the return on assets & return on equity. The study finds a significant strong, negative significance impact of governance variables on the performance of Qatar banks under study during the period specified.

Keywords: Governance Mechanisms, Financial Performance, Banks, Qatar.

JEL Classification: G21, G32, G34.

INTRODUCTION

The concept of governance is new in terms of use and old in terms of theory. By the way the emergence of the term corporate governance theoretically dates back to researchers Mains* and Wallace[†] in 1932, when they dealt with the theory of the separation of management from ownership. Then, in 1937, Ronald Coast[‡] discussed the method of reconciling the owners and managers of the company. In 1976, the agency theory appeared by economics researchers Jensen[§] and Meckling^{**}.

We have many definitions of governance: e.g.: the commotion of Cadbury defined it as the system by which companies are directed and controlled according to (Cadbury & Cadbury, 2002). This definition is specific because it speaks about processing of governance in companies. Bath *shleifer* and *visny* defined corporate governance as the way in which suppliers of finance assure themselves of getting a return on their investment (Thonsen & Conjon, 2012) this definition complex (Hatchea, 2013).

In general we can define governance, as a complex process meant to ensure accountability, transparency, rule of law...ex. Corporate Governance is a very general concept because it's used in all sciences and we have many types of it: e.g.: banking governance, local governance, global governance (Al-Manaseer et al., 2012).

* **Means Russell:** he's American economist, he borne in 10/11/1939 and died in 22/10/2012.

† **Adolph Berle:** he's American economist, he borne in 29/01/1895 and died in 1971.

‡ **Ronald Coast:** he's britches economist , he borne in 29/12/1910 and he Recipient of the Nobel Prize in 1991

§ **Michael Cole Jensen :** he's American economist, he borne in 30/11/1939 and he Recipient of the Nobel Prize in 1990

** **William H. Meckling:** he borne in 1922 and he died in 15/5/1998.

The corporate governance is very importance for banking system because it is the basis of the economy of any country, by the way (Malik, 2005). The Qatari banking sector is the third largest banking sector in the Middle East, and so the interest about the corporate governance in Qatar started early. Evidence for this is the set of laws and regulations issued by the Central Bank of Qatar and the Securities Authority in the field of governance, among which we mention:

1. The Central Bank of Qatar issued a Governance Guidebook for Financial Institutions in 2008
2. Governance Code for Companies & Legal Entities Listed on the Main Market: The QFMA's Board Decision No. (5) Of 2016.

Therefore, the aim of this study is empirically analyze the impact of governance on the bank's performance, (Amba, 2014) Qatari banks case study's carry out this research, we used a data set with for commercial banks or Qatar and the analysis period covers from 2011 to 2020. More specifically, we propose to analyze the following research questions (RQs):

1. **RQs1:** What is the effect of applying corporate governance on the return on assets (ROA) for the Qatari banks under study?
2. **RQs2:** What is the effect of applying corporate governance on the return on equity (ROE) for the Qatari banks under study?

LITERATURE REVIEW

There is a great theoretical debate among researchers regarding the impact of governance on the performance of banks. There are some studies that have proven the existence of a relationship between the mechanisms of corporate governance and the financial performance of banks represented in the return on assets and the return on equity. Thus, many researchers have examined this theme. For example Jamal Hayek (2016) examined the relationship between corporate governance and financial performance of managerial entities in the Middle East region, particularly in Lebanon.

Study of Shawky Ashour Bourqaba, Abdel Halim Ammar Gharbi this study aimed to study the relationship between corporate governance variables and the financial performance of Islamic banks. The study reached several results, including:

1. There is a positive relationship between the financial performance of Islamic banks (return on assets) and the governance variable, the composition of the board of directors (number of independent members).
2. There is a positive relationship between the financial performance of Islamic banks (return on assets) and the governance variable: the size of the board of directors (the number of managers).

Emesuanwu catherine, Gadi dung paut. The study aimed to analyze the impact of corporate governance on the financial performance of microfinance banks in Nigeria. The study reached several results, the most important of which is the lack of a significant relationship between the composition of the board of directors and board committees and the return on shares.

RESEARCH METHODS

Types of Research

In this study, the data used is secondary data, which is the financial report of the commercial banks in Qatar during 2011-2020.

Variables Operationalization

The following Table 1 operationalization variables in the study:

Variables	Measurement	Scale
return on assets (Y1)	NET INCOM / TOTAL ASSETS	Ratio
return on equity (Y2)	(NET Earning/ shareholder's equity)*100	Ratio
FSIZE(x1)	The natural logarithm of total assets at the end of the year	NUMBER
Age (x2)	Logarithm of age	NUMBER
NBM (x3)	The number of board members	NUMBER
NC (x4)	The number of committees that make up the council	NUMBER
InBD (x5)	Number of independent board members	NUMBER

Source: Author's computation.

Dependent Variable

Financial performance: ROA and ROE measures have been used by several authors to denote performance corporate finance.

Independent Variable

Governance: We used three variables, all of which are the governance variable they are:

1. The number of board members
2. The number of committees that make up the council
3. Number of independent board members

The control variable: These are the variables that control the model, which are the size and age of the bank.

Where many researchers used the logarithm for the totality of assets, such as (Almoneef & Samontaray, 2019; Al-Ghamdi & Rhodes, 2015; Brown & Caylor, 2006).

$$\text{FSIZE}(x1) = \log(\text{total of assets})$$

However they are many researchers used logarithm for the age, such as: (Almoneef & Samontaray, 2019; Al-Ghamdi & Rhodes, 2015; Brown & Caylor, 2006).

$$\text{DMA}(x2) = \log(\text{number of age})$$

Population Data Sample

The study population consisted of the total number of Qatari banks, which were 18 banks by the end of the year 2020. The study sample is made up of banks whose lists and annual reports are regularly available, with disclosures about governance during the study period set at 10 years, i.e. during 2011-2020, the banks list is given below:

1. Commercial bank

2. Q.S.C Doha Bank
3. Qatar Islamic bank QIB
4. Qatar National bank

Data Analysis Methods: Data analysis techniques in the study

1. The statistical analysis program Eviews was used to perform the statistical tests.
2. Descriptive statistical methods were used
3. The multiple regression models were relied upon to test the relationship between the independent variables and the dependent variable.

RESULTS AND DISCUSSION

Descriptive statistics: Table 2 presents summary statistics of the variables we use in our model.

	Y1_?	Y2_?	X1_?	X2_?	X3_?	X4_?	X5_?
Mean	0.017173	0.143470	2.66E+08	41.00000	8.800000	3.650000	3.975000
Median	0.017100	0.156000	1.33E+08	39.50000	9.000000	4.000000	4.500000
Maximum	0.028000	0.220000	1.07E+09	56.00000	10.00000	6.000000	6.000000
Minimum	0.004000	0.030000	52420292	29.00000	7.000000	1.000000	0.000000
Std. Dev.	0.005619	0.049202	2.95E+08	7.372854	0.911465	1.051251	1.731866
Skewness	-0.469074	-0.498337	1.574453	0.449014	-0.831276	-0.872394	-1.280896
Kurtosis	3.039299	2.354011	4.049246	2.208366	3.001372	3.813055	3.633487
Sum Sq. Dev.	0.001231	0.094411	3.39E+18	2120.000	32.40000	43.10000	116.9750
Observations	40	40	40	40	40	40	40
Cross sections	4	4	4	4	4	4	4

Source: Author's computation

This Table 2 presents summary statistics about four banks in Qatar for the period 2011-2020.

The Table 2 shows that the y1 (roa) ranges from a minimum of 0.4% to a maximum of 2.80% with an average of 1.71% for the overall sample. The y2 (roe) ranges from a minimum of 3% and maximum of 22% with average of 14.34% for the combined sample.

The x^1 (fsize) ranges from a minimum of 52420292 million Q.D to a maximum of 1.07E+09 million Q.D with an average of 2.66E+08for the overall sample.

The x^2 (age) ranges from a minimum of 29 year to a maximum of 56 year with an average of 41 year for the overall sample.

The x^3 (nbm) ranges from a minimum of 7number of board members to a maximum of 10 number of board members with an average of 8number of board members for the overall sample.

The x^4 (nc) ranges from a minimum of 1 number of committees that make up the council to a maximum of 6 number of committees that make up the council with an average of 3 The number of committees that make up the council for the overall sample.

The x^5 (InBD) ranges from a minimum of 0 Number of independent board members to a maximum of 6 Number of independent board members with an average of 4 Number of independent board members that make up the council for the overall sample.

Stability studies: the stability of time series is important because the relationship between unstable cross-sectional time series gives misleading results. There are several tests to determine the stability of time series, including the unit root, and the following Table 3 summarizes for us the degree of stability of series related to the study.

Table 3 STABILITY STUDIES	
Variable of degree 2	Variable of degree 1
X3, x4, x5	y1, y2, x1, x2,

Source: Author's computation.

Test the appropriate panel model: we have three models in Panel data analyses they are:

1. Pooled Regression Model
2. Fixed Effect Model
3. The fixed random model

The standard models used in the study depend on panel data according to the balanced panel and long panel data. For the purpose of testing the impact of corporate governance on both the return on assets and the return on equity of the Algerian banks under study, and for the purpose of testing the hypotheses of the study, the method of least squares (OLS) Ordinary Least Squares was used, where the standard study models were formulated according to the order of the main hypotheses in the study on as follows:

$$\text{ROA} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5$$

$$\text{ROE} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5$$

1- relation between y1 and x1,x2, x3,x4, x5: In order to measure the effect of corporate governance on the return on assets, we used the following models related to the following cross-sectional data:

Pooled Regression Model: This model is considered one of the simple models that is based on neglecting the effect of the time dimension, and the following Table 4 shows us the results obtained from the eviews9 program.

Table 4 POOLED REGRESSION MODEL				
Dependent Variable: Y1_?				
Method: Pooled Least Squares				
Sample: 2011 2020				
Included observations: 10				
Cross-sections include: 4				
Total pool (balanced) observations: 40				
Variable	Coefficient	Std. Error	t-Statistic	Prob
X1_?	-3.78E-12	4.42E-12	-0.85632	0.3976
X2_?	-0.000107	0.000208	-0.51092	0.6126
X3_?	0.002131	0.001115	1.910265	0.0643
X4_?	-0.000414	0.001236	-0.335138	0.7395
X5_?	0.001281	0.000627	2.044461	0.0485
R-squared	-0.091435	Mean dependent var		0.017173

Adjusted R-squared	-0.21617	S.D. dependent var	0.005619
S.E. of regression	0.006197	Akaike info criterion	-7.213097
Sum squared resid	0.001344	Schwarz criterion	-7.001987
Log likelihood	149.2619	Hannan-Quinn criter.	-7.136766
Durbin-Watson stat	0.462788		

Source: Author's computation.

Fixed Effect Model: Aims to show each section separately and the following Table 5 shows us the results reached.

Table 5				
FIXED EFFECT MODEL				
Dependent Variable: Y1_?				
Method: Pooled Least Squares				
Included observations: 10				
Cross-sections include: 4				
Total pool (balanced) observations: 40				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.07174	0.009742	7.364173	0
X1_?	-1.41E-12	3.74E-12	-0.377418	0.7084
X2_?	-0.001129	0.000288	-3.92106	0.0005
X3_?	-0.000582	0.001096	-0.53041	0.5996
X4_?	-0.002028	0.001579	-1.284186	0.2086
X5_?	0.001162	0.000402	2.888211	0.007
Fixed Effects (Cross)				
01--C	0.000137			
02--C	0.013928			
03--C	-0.009686			
04--C	-0.004378			
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.675456	Mean dependent var	0.017173	
Adjusted R-squared	0.591703	S.D. dependent var	0.005619	
S.E. of regression	0.003591	Akaike info criterion	-8.225924	
Sum squared resid	0.0004	Schwarz criterion	-7.845926	
Log likelihood	173.5185	Hannan-Quinn criter.	-8.088529	
F-statistic	8.064829	Durbin-Watson stat	1.333357	
Prob (F-statistic)	0.000008			

Source: Author's computation

Comparison between the two models: We compare the two models by conducting the Redundant Fixed Tests and the following Table 6 shows us the test results.

Table 6			
COMPARISON BETWEEN THE TWO MODELS			
Redundant Fixed Effects Tests			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	15.036684	(3,31)	0
Cross-section Chi-square	35.927726	3	0
Cross-section fixed effects test equation:			
Dependent Variable: Y1_?			
Method: Panel Least Squares			
Sample: 2011 2020			

Included observations: 10				
Cross-sections include: 4				
Total pool (balanced) observations: 40				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.042188	0.011899	3.545669	0.0012
X1_?	7.27E-12	4.94E-12	1.471998	0.1502
X2_?	-0.000342	0.000193	-1.775541	0.0848
X3_?	-0.002217	0.001562	-1.419449	0.1649
X4_?	0.001006	0.001144	0.879142	0.3855
X5_?	0.00073	0.000565	1.291435	0.2053
R-squared	0.203192	Mean dependent var		0.017173
Adjusted R-squared	0.086014	S.D. dependent var		0.005619
S.E. of regression	0.005372	Akaike info criterion		-7.477731
Sum squared resid	0.000981	Schwarz criterion		-7.224399
Log likelihood	155.5546	Hannan-Quinn criter.		-7.386134
F-statistic	1.734046	Durbin-Watson stat		0.745225
Prob(F-statistic)	0.153422			

Source: Author's computation

From the previous Table 6, we conclude that the fixed effects model is better than the pooled regression model. The model can be projected into the following equations:

$$\text{(Commercial bank) } Y1_01 = 0.000136571306949 + 0.0717397860679 - 1.41012605741e-12 * X1_01 - 0.00112913260085 * X2_01 - 0.0005815723009 * X3_01 - 0.00202755618919 * X4_01 + 0.00116238833916 * X5_01$$

$$\text{(Qatar National Bank) } Y1_02 = 0.013927819815 + 0.0717397860679 - 1.41012605741e-12 * X1_02 - 0.00112913260085 * X2_02 - 0.0005815723009 * X3_02 - 0.00202755618919 * X4_02 + 0.00116238833916 * X5_02$$

$$\text{(DOHA BANK) } Y1_03 = -0.00968637549276 + 0.0717397860679 - 1.41012605741e-12 * X1_03 - 0.00112913260085 * X2_03 - 0.0005815723009 * X3_03 - 0.00202755618919 * X4_03 + 0.00116238833916 * X5_03$$

$$\text{(Qatar Islamic bank) } Y1_04 = -0.00437801562916 + 0.0717397860679 - 1.41012605741e-12 * X1_04 - 0.00112913260085 * X2_04 - 0.0005815723009 * X3_04 - 0.00202755618919 * X4_04 + 0.00116238833916 * X5_04$$

2- Relation between y2 and x1, x2, x3, x4, x5; we followed the same method as before:

Pooled Regression Model: The following Table 7 shows us the results obtained from the eviews9 program.

Table 7 POOLED REGRESSION MODEL	
Dependent Variable: Y2_?	
Method: Pooled Least Squares	
Sample: 2011 2020	
Included observations: 10	
Cross-sections include: 4	
Total pool (balanced) observations: 40	

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1_?	2.68E-11	3.63E-11	0.737174	0.4659
X2_?	5.32E-05	0.001713	0.031067	0.9754
X3_?	0.014181	0.009166	1.547095	0.1308
X4_?	-0.008908	0.01016	-0.876818	0.3866
X5_?	0.010057	0.005148	1.953456	0.0588
R-squared	0.038767	Mean dependent var		0.14347
Adjusted R-squared	-0.071088	S.D. dependent var		0.049202
S.E. of regression	0.05092	Akaike info criterion		-3.000636
Sum squared resid	0.090751	Schwarz criterion		-2.789526
Log likelihood	65.01273	Hannan-Quinn criter.		-2.924306
Durbin-Watson stat	0.454629			

Source: Author's computation

Fixed Effect Model: Aims to show each section separately and the following Table 8 shows us the results reached.

Table 8				
FIXED EFFECT MODEL				
Dependent Variable: Y2_?				
Method: Pooled Least Squares				
Sample: 2011 2020				
Included observations: 10				
Cross-sections include: 4				
Total pool (balanced) observations: 40				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.405148	0.07754	5.225031	0
X1_?	3.51E-11	2.97E-11	1.180755	0.2467
X2_?	-0.000527	0.002292	-0.229891	0.8197
X3_?	-0.01927	0.008727	-2.207976	0.0348
X4_?	-0.031949	0.012567	-2.542268	0.0162
X5_?	0.009252	0.003203	2.888181	0.007
Fixed Effects (Cross)				
01--C	-0.028938			
02--C	0.047125			
03--C	-0.069147			
04--C	0.05096			
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.731816	Mean dependent var		0.14347
Adjusted R-squared	0.662607	S.D. dependent var		0.049202
S.E. of regression	0.028579	Akaike info criterion		-4.07718
Sum squared resid	0.02532	Schwarz criterion		-3.697182
Log likelihood	90.5436	Hannan-Quinn criter.		-3.939785
F-statistic	10.57404	Durbin-Watson stat		1.503311
Prob(F-statistic)	0.000001			

Source: Author's computation

Comparison between the two models: We compare the two models by conducting the Redundant Fixed Tests and the following Table 9 shows us the test results.

Table 9				
COMPARISON BETWEEN THE TWO MODELS				
Redundant Fixed Effects Tests				
Test cross-section fixed effects				
Effects Test	Statistic	d.f.	Prob.	
Cross-section F	14.843526	(3,31)	0	
Cross-section Chi-square	35.622014	3	0	
Cross-section fixed effects test equation				
Dependent Variable: Y2_?				
Method: Panel Least Squares				
Sample: 2011 2020				
Inclue observations: 10				
Cross-sections inclue: 4				
Total pool (balanced) observations: 40				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.377577	0.094345	4.002067	0.0003
X1_?	1.26E-10	3.92E-11	3.209701	0.0029
X2_?	-0.002053	0.001527	-1.344782	0.1876
X3_?	-0.024727	0.012382	-1.997088	0.0539
X4_?	0.003803	0.009073	0.419203	0.6777
X5_?	0.005123	0.00448	1.143594	0.2608
R-squared	0.346578	Mean dependent var		0.14347
Adjusted R-squared	0.250486	S.D. dependent var		0.049202
S.E. of regression	0.042596	Akaike info criterion		-3.33663
Sum squared resid	0.06169	Schwarz criterion		-3.083298
Log likelihood	72.73259	Hannan-Quinn criter.		-3.245033
F-statistic	3.606747	Durbin-Watson stat		0.864922
Prob(F-statistic)	0.010054			

Source: Author's computation

From the previous table, we conclude that the fixed effects model is better than the pooled regression model. The model can be projected into the following equations:

$$\text{(Commercial bank)Y2_01} = 0.028937978003 + 0.4051476209 + 3.511422711e-11 * X1_01 - 0.000526927566634 * X2_01 - 0.0192696991971 * X3_01 - 0.0319488001256 * X4_01 + 0.00925198782319 * X5_01$$

$$\text{(Qatar National Bank)Y1_02} = 0.0471250820834 + 0.4051476209 + 3.511422711e-11 * X1_02 - 0.000526927566634 * X2_02 - 0.0192696991971 * X3_02 - 0.0319488001256 * X4_02 + 0.00925198782319 * X5_02$$

$$\text{(DOHA BANK)Y1_03} = -0.0691471772036 + 0.4051476209 + 3.511422711e-11 * X1_03 - 0.000526927566634 * X2_03 - 0.0192696991971 * X3_03 - 0.0319488001256 * X4_03 + 0.00925198782319 * X5_03$$

$$\text{(Qatar Islamic bank)Y1_04} = 0.0509600731231 + 0.4051476209 + 3.511422711e-11 * X1_04 - 0.000526927566634 * X2_04 - 0.0192696991971 * X3_04 - 0.0319488001256 * X4_04 + 0.00925198782319 * X5_04$$

CONCLUSION

The State of Qatar has paid great attention to the issue of governance, as corporate governance has become the locomotive of economic progress. Evidence for this interest is the legislation and regulations issued by the Central Bank of Qatar and the Qatar Stock Exchange.

The study examined the impact of the corporate governance on ROA and ROE of banks in Qatar during 2011-2020. According to the panel data analysis, a number of results were reached, which are:

They aren't differences between a banks in this study about effect governance at ROA in general bath

1. They is a strong and negative relationship between ROA x3 and x4. These are the same results obtained by the study of both Sekhar Muni Amba, Sondos Shayeb Ainu.
2. They is a strong and negative relationship between ROA and x1, x2. .These are the same results obtained by the study of both Hussein and Darrar, Shawky Ashour Bourqaba & Abed el-Halim Ammar Gharbi.
3. They are a strong and positive relationship between ROA and x5. These are the same results obtained by the study of both Almanaseer.

They aren't differences between a banks in this study about effect governance at ROE in general bath:

1. They are a strong and positive relationship between ROE and x1 & x5.
2. They are a strong and negative relationship between ROE and x2, x3 & x4.

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