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BINGOL UNIVERSITY

SOCIAL SCIENCES INSTITUTE

BUSINESS ADMINISTRATION DEPARTMENT

# IMPACT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE ACCORDING TO THE INTERNATIONAL FINANCE CORPORATION (IFC)

## A Study of Financial Banks in Erbil

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# ULUSLARARASI FİNANS KURUMUNA (IFC) GÖRE ŞİRKET YÖNETİMİNİN FİNANSAL PERFORMANS ÜZERİNDEKİ ETKİSİ

## Erbildeki (Irak) Finansal Bankalarla İlgili Bir Çalişma

Hazırlayan

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Yüksek Lisans tezi olarak hazırladığım [ULUSLARARASI FİNANS KURUMUNA (IFC) GÖRE ŞİRKET YÖNETİMİNİN FİNANSAL PERFORMANS ÜZERİNDEKİ ETKİSİ-Erbildeki (Irak) Finansal Bankalarla İlgili Bir Çalışma] adlı çalışmanın öneri aşamasından sonuçlanmasına kadar geçen süreçte bilimsel etiğe ve akademik kurallara özenle uyduğumu, tez içindeki tüm bilgileri bilimsel ahlak ve gelenek çerçevesinde elde ettiğimi, tez yazım kurallarına uygun olarak hazırladığım bu çalışmamda doğrudan veya dolaylı olarak yaptığım her alıntıya kaynak gösterdiğimi ve yararlandığım eserlerin kaynakçada gösterilenlerden oluştuğunu beyan ederim.

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**İmza**

**Mohammed Hasan AGHA**

# THESIS ACCEPTANCE AND APPROVAL

BİNGÖL UNIVERSITY
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This thesis entitled "IMPACT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE ACCORDING TO THE INTERNATIONAL FINANCE CORPORATION (IFC)-A Study of Financial Banks in Erbil." Prepared by Mohammed Hasan AGHA was found to be successful as a result of the thesis defense examination held on the date of [ / /2018] and accepted by our juror as the master degree in the department of business administration.

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CONFIRMATION

This thesis accepted by the jury determined in the, / /2018 session of the board of directors of the sciences institute of Bingöl University.

Director of the Institute
Doç. Dr. Yaşar BAŞ

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#### ÖZET

**ULUSLARARASI FİNANS KURUMUNA (IFC) GÖRE ŞİRKET YÖNETİMİNİN FİNANSAL PERFORMANS ÜZERİNDEKİ ETKİSİ**
**Erbildeki (Irak) Finansal Bankalarla İlgili Bir Çalışma**

Bu çalışmanın temel amacı, Erbildeki finansal bankaların yönetiminin finansal performans üzerindeki etkisini araştırmaktr. Çalışma özellikle, Erbildeki sirket yönetim boyutlarını ve finansal bankaların finansal performansını ele almaktadır.

Her ne kadar hem izahlı hem de parametrik istatistikler kullanılsa da veriler, korelasyon ve çoklu doğrusal regresyon modelleri kullanılarak analiz edilmiştir. Çalışmada Erbil'deki finansal bankaların finansal performansı ile şirket yönetimi arasında anlamlı bir ilişki bulunmuştur. Bununla birlikte adalet ve eşitliğin diğer boyutları ile finansal performans arasında zayıf bir ilişki olduğu halde sorumluluk ve hesap verilebilirlik, yönetim kurulunun bağımsızlığı ile bankaların finansal performansı arasında güçlü pozitif bir ilişki vardır.

Ayrıca, regresyon sonuçları istatistiksel olarak, şirket yönetiminin finansal performans üzerinde etkisinin olduğunu göstermektedir. Sorumluluk, hesap verilebilirlik ve yönetim kurulunun bağımsızlığı, finansal performans üzerinde en etkili değişkenler olduğu halde, adalet ve eşitliğin finansal performans üzerindeki etkisi bu üçüne göre en zayıftır. Dolayısıyla bu sonuçlar, şirket yönetiminin Erbil'deki finansal bankaların finansal performansı ve başarısı üzerinde güçlü bir etki oluşturduğunu göstermektedir.

**Anahtar Kelimeler**: Şirket Yönetimi, Finansal Performans, Adalet ve Eşitlik, Yönetim Kurulu, Sorumluluk ve Hesap Vermenin Finansal Boyutu, Müşteri Memnuniyeti.

# ABSTRACT

## IMPACT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE ACCORDING TO THE INTERNATIONAL FINANCE CORPORATION (IFC)

**A Study of Financial Banks in Erbil**

The primary objective of this study was to examine the effect of governance on the financial performance of financial banks in Erbil. Specifically, the study examined the corporate governance dimensions and the financial performance of financial banks in Erbil.

However, both descriptive and parametric statistics used, while the data were analyzed using correlation multiple linear regression models. The study found a significant relationship between corporate governance and financial performance of the financial banks in Erbil. However, responsibility and accountability, the board of directors, and independence have strong positive correlations with the bank's financial performance. While fairness and equity have a weak correlation with financial performance, compare to other dimensions.

Furthermore, the regression outcomes demonstrate that statistically, corporate governance has an impact on financial performance. While, responsibility and accountability, the board of directors, and independence achieved the most influential impacts on financial performance, and fairness and equity have the weakest impact on financial performance compared to the other three dimensions. Thus, these results indicated that indeed, corporate governance shows a powerful impact on the financial performance and prosperity of the financial banks in Erbil.

**Keywords:** Corporate Governance, Financial Performance, Fairness and Equity, Board of Directors, Responsibility and Financial Dimension, Customer Satisfaction.

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| ABBREVIATIONS | EXPLANATION |
|---|---|
| **BCCI** | Bank of Credit and Commerce International |
| **CEO** | Chief Executive Officer |
| **CG** | Corporate Governance |
| **BBAC** | BANK of Beirut and the Arab Countries |
| **FRC** | Financial Reporting Council |
| **ADIB** | Abu Dhabi Bank |
| **RFP** | Request for Proposals |
| **KSD** | Kurdistan Institute of Directors |
| **CBI** | Credit Bank of Iraq |
| **ADCCG** | Abu Dhabi Centre for Corporate Governance |
| **ROA** | Return on Assets |
| **ROE** | Return on Equity |
| **US** | United States |
| **UK** | United Kingdom |
| **BTB** | Al Baraka Turkish Bank |
| **PAR** | Performance and Accountability Reporting |
| **OECD** | The Organization for Economic Co-operation and Development |
| **BIS** | Bank for International Settlements |
| **SCA** | Sudden Cardiac Arrest |
| **UAE** | United Arab Emirates |

# CHAPTER ONE:
# INTRODUCTION TO THE STUDY

## 1.1. GENERAL INTRODUCTION

The purpose of this thesis study is to examine the impact of corporate governance on financial performance according to the international finance corporation (IFC) a study of financial banks in Erbil, although the corporate governance in the financial banking sector obtains interests of many banking organizations and countries worldwide. That includes Iraq and its northern region since it plays a critical role in the financial activity moreover increasing investments.

The rapid and comprehensive changes in the world, besides the openness to the outside world, led to the direction of the countries of the world towards a market economy. However, the financial crises and the sudden collapse of many international companies, which was triggered by financial corruption and manipulation of financial statements and the bad conduct of the decisions and decisions of these companies in addition to the lack of transparency paid. So, these conditions for the emergence of the term corporate governance, which has become the attention of all developed and developing countries. Besides has seen corporate governance as the only solution to overcome these crises, and has become a means to enhance confidence in the economy of any country and a pointer to the level of performance reached by the institutions.

While what led the investors to search for corporations that apply the concept of governance. The governance is an integrated system of financial and non-financial control through which the company is managed and supervised. It is based on rules and foundations capable of detecting cases of manipulation and corruption and ensuring control over performance, insofar as it leads to gaining market confidence and ensuring stability.

However, corporate governance reveals as one of the essential issues for all the local and international businesses generally and financial banks in particular. Hence, the financial and economic crises that the world experienced corporate governance guidelines, rules, regulations, and systems in the world emphasis on declining use of the managerial control away from the investors' interests and encourage the performance of the board of directors in these financial banks and firms in general.

Corporate governance is a useful and new implement aiming at joining the integrity of the financial entity. It arrangements controls that serve the public interest and the private rights of the shareholders. It reinforces inherent accuracy and monitors the application of the policies. As well as identifying the roles and terms of reference for each of the shareholders, stakeholders, executive board, and board of directors. All by approving the significance of board of directors, fairness and equity, responsibility and accountability, and independence.

As a result of this growing interest in corporate governance, this study aims to shed light on the impact of the exercise of corporate governance on the financial performance of financial banks. The current study also predicts the long-term stability or failure of these banks. The dimensions of corporate governance have become one of the standard stability used in all organizations, especially financial banks, as these banks are built on trust that reflects one of the most vital support for governance.

Moreover, financial performance analysis is one of the topics that have received many interests and research from the managers, especially in light of the transformations witnessed by the environment of economic institutions at the beginning of the last century, which led to the emergence of some fraud and deception and the collapse of many economic projects. The financial analysis came in its initial forms, simple financial ratios dealing with liquidity to help the concerned parties, especially economic institutions, to predict the future of economic projects preliminarily.

Thus, the significance of this study is to concentrate on the positive impacts of applying corporate governance besides its aspects in improving financial performance. Which in turn contributes to growing the market opportunities by improving investment standards and attracting foreign capital and local investment.

In addition to recovering the clients' and shareholders trust in the financial performance regarding accuracy and integrity of the information revealed by the economic unit management through financial statements and publish reports. To reach the current study's purpose, a sample of 100 managers who selected from financial banks in Erbil city, while they participated in a survey through responding the questionnaire statements which self-administered and distributed in those banks.

Consequently, for the methodology part, the researcher finds the problem of the study by several investigative questions concentrating on the nature of the impact and the correlation among corporate governance and the financial performance of financial banks operating in Erbil. Thus, a conceptual module designed for the study and several hypotheses formed. Hence, to ensure if the hypotheses are accepted or not, they are exposed to various tests statistics. So, the outcomes of the study contribute to the current literature by delivering the results on the relationship and impact among corporate governance and financial performance.

### 1.1.1. The Study Structure and Overview

The study contains four chapters; the first chapter is the introduction to this study. Its essential determination is to familiarize the reader to the topic, outlining the subjects of interest and amplification the focus of this piece of study.

The second chapter is a literature review, fact-based auditing means providing knowledge about the chosen topic. In this study, key issues include corporate governance and its impact on the financial performance of financial banks. Review literature based on ideas and opinions derived from literature, books, press articles, research, and other sources of information that are accessible.

The main non-partisan third chapter is to determine the methodology applied to this particular study. It describes the data collection approach, the data sources used, and the method of study. Chapter four then analyzes the data and results, presents findings, recommendations, practical implications and proposals for future studies.

### 1.1.2. The Motivation for The Study

The principles of corporate governance are based on restoring confidence in the financial system and the generated financial information, so the latter is of great importance because of its role in helping everyone to make appropriate economic decisions by clarifying the financial position and results of different institutions and delivery to shareholders and various dealers decisions. Moreover, the safety of the quality of information provided and this is provided by financial analysis through various indicators that contribute effectively to provide accounting and financial information appropriate for decision-making. While various of the corporate governance studies have done in developed nations of Europe (Joshi &Wakil, 2004: 832), only a few studies have concluded in developing countries of Africa, the evaluation of financial performance also is one of the main factors upon which the success of any administrative organization or any economic project depends on achieving high levels of productive efficiency. It aims to measure the success of the organization in achieving its financial objectives through optimal utilization of resources and possibilities available to it (Uddin and Choudhury, 2008: 1026).

According to Euro money, (2007:12), increasing interest in corporate governance in international business communities due to its role and impact on the course of international events that took place during the past two decades due to the transformation of most economies into an open market economy and the pursuit of economic liberalization policy especially in the financial sector. Adopting the concept of corporate governance and working to develop a useful general framework to avoid any new financial stumbling (Dahawy, 2009: 3).

In a study examining the qualifications of actual corporate governance in Nigeria, (Adegbite, 2012: 257) mentioned some indication to sustenance the view that a country’s peculiar institutional engagements affect its primary model and style of corporate governance guideline. However, Anca, (2012), argued that many studies dealt with the issue of corporate governance and the relationship with performance and its relation to the degree of practice of supervision and control and its impact on corporate governance, such as shareholder oversight, supervision of the board of directors, audit committee, nominations and remunerations, and supervision and oversight of the external auditor

Fawzy, (2003) points out that the implement of corporate governance rules is by the principles and standards of the organization for economic co-operation and development. The tasks of the board of directors are to ensure that there is a practical framework for corporate governance, preservation of the rights of all shareholders, and the role of stakeholders in the management practices of the company's management, disclosure, and transparency. As many previous studies indicate that the performance of companies is affected by a series of channels such as supervision and control by owners, the degree of concentration of ownership and independence of the board.

While, Both Azim, (2012), Klapper and Love, (2004: 703) investigated some of the institutional governance rules and standards, such as institutional investors and the functional characteristics of members the board of directors and audit committees has a positive impact on the financial and operating performance of the company and the performance of the shares. Such that the company's added market value and rate of return on its investments, net profit margin, operating return on assets.

In the same context, Jinarat, (2003) examined the correlation among the type of property and the degree of concentration and the financial performance of Japanese corporations listed in the financial market. The study included all economic sectors. The financial performance was measured by the return on investment and the standard deviation of the returns of companies. That the substantial contributions of banks did not help improve performance despite the special relations with banks, the study attributed this to the lack of interest in the minority shareholders in Japanese companies, the control of banks over corporate governance and weak corporate governance.

Al-Manaseer et al., (2012) analyzed the effect of governance on the performance of Jordanian banks, discussed the impact of corporate governance dimensions (size of the board of directors, the composition of the board of directors and separation between the positions of the chairman and CEO) on the performance of Jordanian banks. Data were collected from the sample of 62 banks during the period 5003-5007. The performance was measured in dimensions (return on assets, return on equity, marginal profit, return per share) while the study found that there is a negative relationship between the size of the board of directors and the separation between the role of the executive director and chairman of the board on the one hand and the performance of Jordanian banks on the other hand.

Plagued with the same defects as other prior studies, (Waweru, 2014: 464) investigated factors influencing quality corporate governance in South Africa. Despite using a shorter time observation of a five-year period, the study sample consisted of only the 50 largest companies listed on the JSE from 2006 to 2010.

Thus, his study cannot be generalized to smaller companies operating in South Africa. Further, the study also ignored other economic periods.

As Tshipa and Mokoaleli-Mokoteli, (2015) attempted to resolve the deficiencies of all previous studies such as small sample size and shorter time span, however, as with other previous research, their study also failed to acknowledge the following:

- Industry dynamics.
- Nuances between accounting-based and market-based performance proxies.
- An estimation method that was robust to endogeneity.

Also, the recent studies of Mans-Kemp and Viviers, (2015), Muchemwa et al., (2016) and Pamburai et al., (2015) were also no mindful of the effect of different economic periods on the relationship between corporate governance and company performance. The industry nuances as well as the lagged effects of past performance on the relationship between corporate governance and company performance. As a result, the motivation for this study is to fill the literature above the gap. The next section illustrates the contribution of the study to the body of knowledge.

### 1.1.3. Background of the Study

The Iraqi Kurdistan region has practiced a critical growth in the economy in the last decades in the several different economic sectors, mainly in banking sector a lot of commercial and financial banks opened their investment in the region. As a consequence of this financial banks growth, the need for corporate governance became essential, that capable of guiding the financial performance and contributing to the economic development in a region.

Indeed, almost all major developed countries have made efforts to reconsider how companies and banks should be organized by developing codes of good corporate governance (Macey & O'Hara, 2003: 98). In theory, compliance with the relevant code of corporate governance should reduce agency costs and improve corporate performance (Garanina & Kaikova, 2016:347). Durnev and Kim (2005:1461), Giannetti and Simonov (2006:1507). Klapper and Love (2004:703) and Shank et al. (2013:384), provide empirical evidence of good corporate governance being positively related to growth opportunities of companies and banks and countries alike and investors benefitting from good corporate governance.

Hence it is not surprising that countries have elevated corporate governance as a policy agenda. The pressure emanates from institutional investors who regard corporate governance as a primary consideration when selecting shares for investment (Abdioglu, Giannetti & Koskinen, 2010:160). With the implementation of Iraq`s National Development Plan (NDP), which aims to eliminate poverty and reduce inequality by 2030 the country needs to increase the mobilization of both domestic and foreign capital. Foreign capital is the key to creating the 0.5 million jobs that the NDP envisages by 2030.

While Chung et al., 2011; Tang, Wang, 2011, added in the field of corporate governance a set of links between institutional governance and the company's financial ratios. They pointed out that increasing the application of governance levels by 6% contributes to increasing the company's annual sales by (%), 6.5, which is reflected in the increase in the cash flow of the Company from operational activities and improves its liquidity and its ability to meet any future financial requirements (Khurshed & Stathopoulos, 2013:916).

**1.2. THE STUDY PROBLEM STATEMENT**

Despite the substantial development of corporate governance codes since 1978 and the empirical findings of a correspondingly large stream of research, good governance failed to prevent the recent global financial crisis (Siddiqui, 2015:218). Therefore, the question arises: does good governance benefit companies or is it just another cost of doing business in today’s global marketplace? The economic crisis on the South East Asian stock market in 1997, which saw some corporate failures, was purported to have emerged as a result of inadequate corporate governance mechanisms (Haniffa and Hudaib, 2006:1037). In the same vein, some partly attribute the collapse of big companies in developed countries such as Enron Corporation (Corp.), WorldCom Incorporated (Inc.). Besides Global Crossing Limited (Ltd) to weak corporate governance practices (Ntim et al, 2012:126).

Consequently, this study purposed to investigate the relationship and impact between corporate governance and financial performance which scaled regarding the combination of twenty questions under four dimensions namely: the financial dimension, internal processes of the financial services, client satisfaction, education, and development. However, the researcher reveals the study problems through the following questions:

1. Does corporate governance display crucial progressive dependability?
2. What are the essential dimensions of corporate governance particularly in financial banks?
3. Do corporate governance dimensions differ in their relative significance across financial banks in Erbil city?
4. Is corporate governance significantly correlated to banks' financial performance?
5. What is the influence of corporate governance on banks' financial performance?

### 1.2.1. Purposes of the Study

In this context, the study purposed to recognize the necessary rules and bases to launch an elaborate system for the demands of corporate governance, as well as present the role that the specific standards fulfill and their affairs to the implementation of corporate governance and monitoring financial performance. However, demonstrate the range of influence that independence in administering internal audit has on motivating corporate governance dimensions. Besides, identify the measures and systems of effective corporate governance and its role in stimulating financial performance. Also, to state the impact of corporate governance and their effects in controlling financial performance.

### 1.2.2. Importance of The Study

This study has its importance where investigate the impact of corporate governance on the financial performance of the financial banks in Erbil. Hence, the consequences of the current study may contribute to a better understanding of corporate governance practices in all region's banks. Besides, their thought of the ways they can implement governance rules to improve the companies' performance.

Accordingly, Iraqi and Kurdistan region corporations may find the study very valuable to their operations, as it proves that motivating corporate governance and introducing its principles will develop the financial performance of the financial banks' management through reflecting positively on the financial performance and growing capital flow on the long term. So, this will lead to decreasing the risks that the bank's encounter, mainly the recent experiences in the world indicated that decline corporate governance in the banking systems would remarkably lead to terminating the national economy. Hence, initiating corporate governance and introducing its principles in the banking system in Erbil city will improve the financial performance of the banking management which will reflect positively on the financial sector, and the movement of banknote market, and hence revival of the economy of the Kurdistan region.

### 1.2.3. The Study Conceptual Scheme

Based on the review of the literature interrelated to the study variables corporate governance and financial performance, a conceptual Scheme established for the study. Taking into account that the study aims to test the role of corporate governance in controlling the financial performance of financial banks, which provide a vision of leading models related to the subject matter of the study and the relations between them. Figure (1.1) illustrates the model of the theoretical study and the hypotheses that explain the relationship and influence between these study variables.

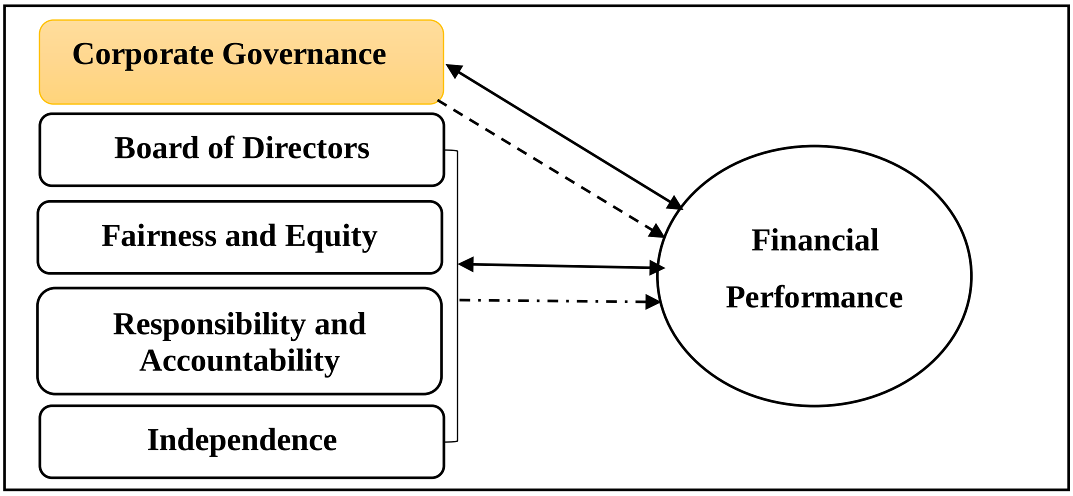


Figure 1.1: The Study Conceptual Model
**Source:** By the Researcher Based on the Literature Reviewed

### 1.2.4. The Study Hypotheses

In this context, the study effort in examining the following hypotheses based on the study problem and its purpose:

**$Ho._1$: There is no definite relationship between the corporate governance and financial performance of the financial banks in Erbil city:**

**$H_1$: There is a positive relationship between the corporate governance and financial performance of the financial banks in Erbil city:**

**$H_{1.1}$**: There is a positive relationship between corporate governance's board of directors and the financial performance of the financial banks in Erbil city.

**$H_{1.2}$**: There is a positive relationship between corporate governance's fairness and equity and financial performance of the financial banks in Erbil city.

**$H_{1.3}$:** There is a positive relationship between corporate governance's responsibility and accountability and financial performance of the financial banks in Erbil city.

**$H_{1.4}$:** There is a positive relationship between corporate governance's independence and financial performance of the financial banks in Erbil city.

**$Ho._2$: There is no significant impact of the corporate governance on the financial performance of the financial banks in Erbil city.**

**$H_2$: There is a significant impact of the corporate governance on the financial performance of the financial banks in Erbil city.**

***$H_{2.1}$**: There is a significant impact of the corporate governance's board of directors on the financial performance of the financial banks in Erbil city.*

***$H_{2.2}$**: There is a significant impact of corporate governance's fairness and equity on the financial performance of the financial banks in Erbil city.*

***$H_{2.3}$:** There is a significant impact of the corporate governance's responsibility and accountability on the financial performance of the financial banks in Erbil city.*

***$H_{2.4}$:** There is a significant impact of the corporate governance's independence on the financial performance of the financial banks in Erbil city.*

# CHAPTER TWO
# CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE

## 2.1. THE LITERATURE ON CORPORATE GOVERNANCE

The concept of corporate governance is one of the modern concepts that has become the subject of increasing interest by international organizations, governments, financial markets, and significant investors primarily in the late nineties and the beginning of this century, following the end of the economic besides financial crises witnessed by some countries in addition to the collapse of major American companies.

It can be said that the common denominator between the different concepts of corporate governance is attention to performance development, disclosure, transparency, discipline, fairness, clarity of authority and responsibility — many studies, such as Gompers et al., (2003), Caylor, (2004); Eugene and Jensen, (2009) business as a whole and between staff, management, and the board specifically (Shil, 2008).

According to Paul et al., (2015:153), corporate governance is about creating reliability, verifying accountability and transparency while keeping a lively channel for information disclosure that inspires perfect establishment performance. Thus, corporate governance proposed to paradigm belief and sustained sureness amongst the numerous groups that require access to information about the business. However, good governance would advantage appropriate and sound incentives for the board and administration of the bank. So, this aims to achieve the objectives of the banks and the shareholders. Also, it should facilitate the process of effective control (OECD, 2004).

In this section, it is evident that context particular recognized financial banks support corporate governance. These influences are crucial since they shape inherent capability to translate knowledge into economic wealth through a complex set of statements and shared codes and practices. Spatial variations in the excellence of such elements may determine a geographically uneven potential for corporate governance across regions leading to growing divergence among excellence locations. Therefore, local corporate strategies should include measures to address institutional weaknesses.

So, this is positively not an easy task for policymakers for some reasons ranging since the lack of consensus on optimal recognized arrangements to the fact that organizations strongly surrounded into specific as well as extremely path dependent and particularly resilient to change backgrounds. Consequently, this, for instance, makes it difficult to replicate successful recognized forms of one region in excellence contexts as well as to intervene on institutional breakdowns in the short period. Nevertheless, acknowledging that corporate governance and financial performance grows are mostly regional phenomena and that instinctive sized social and recognized banks and companies are crucial for them leads to considering the mesa-level perspective in both philosophy and policy as the relevant target for examination.

### 2.1.1. International Finance Corporation (IFC) Governance

Like the OECD, (2004) defined, the concept of corporate governance refers to rules and standards that define the relationship between the management of a company on the one hand and shareholders, stakeholders or parties associated with the company from bondholders, workers, creditors and consumers on the other hand.

The poor quality of information leads to the granting of supervision and control and promotes the spread of corruption and mistrust. The principles and mechanisms of corporate governance lead to the creation of means to combat corruption and mismanagement and to promote transparency in economic life (Mangunyi, 2011). Corporate governance has become an essential subject for all regional and international companies and organizations after various financial crises that have occurred in many companies, especially in the United States and the countries of East Asia.

As defined by the World Bank, corporate governance also includes a set of relationships between the management of the company, its board of directors, its shareholders and other stakeholders. Corporate governance also provides the structure by which the objectives of the company are defined, the means of achieving those objectives and the performance control. In this regard, corporate governance is the synonym of optimism, which seeks to answer the various criticisms directed at countries and companies that question structural reforms in a top-down way from top to bottom (OECD, 2004).

Corporate governance is a good tool to enable the society to ensure the good management of companies, and scientifically and practically that leads to the provision of general frameworks to protect the funds of investors and lenders and to achieve and maintain a fair and transparent data and information system, while providing a useful tool for judging the performance, accountability, and evaluation of corporate boards of directors (Clarke, 2004:120).

It believes that the term governance is a popular concept in the social, political and management literature. It should be applied to all levels and elements of the state and effective administrative institutions to manage the affairs of society in its various public, private, and social groups. Allows a rational delegation of authority and practice by those procedures that can be seen at the level of all State institutions and shareholders' associations of companies and economic units through their exercise of control and responsibilities and duties of disclosure obligation Service for transparency.

### 2.1.2. The Concept and Definition of the Corporate Governance

The most commonly used definition is the OECD definition, which states that corporate governance is the order and direction of the business. While the corporate governance arrangement classifies the distribution of rights and responsibilities among the various shareholders of the bank (entity), such as the board of directors, managers, shareholders, and other stakeholders, and clarifies the rules and procedures for corporate decision making (OECD, 1999: 76).

However, corporate governance is a structure through which businesses directed and controlled, however, corporate governance is about building integrity, accountability and confirming transparency while preserving an active station of data disclosure. So corporate governance used to inspire belief and achieve sureness among the numerous groups that make up an organization (Paul et al. 2015:154).

Indeed, part of corporate governance is to build long-term value for stockholders and decrease agency cost with the focus on both boards of directors' and senior executives' managerial purposes and monitoring accountability (Dharmastuti and Wahyudi, 2013: 133).

While, Keasey et al., (2005:251) define corporate governance as a set of instruments, institutional or market-based, that motivate those who control the interests of companies that make decisions about how to operate the company or the bank to make decisions that maximize the value of the company. Owners. Improve the relationship between the company and all stakeholders such as customers, lenders, managers, employees, suppliers and the surrounding community. Build and rule the culture of good governance in the city. The Department aims to achieve transparency and fairness. Documenters take account of the interests of workers and workers and reduce abuse of power in the public interest.

The importance of corporate governance in order to achieve confidence in the financial information contained in the published financial statements in order to protect the users of the financial statements and to ensure the integrity of the management therein as well as the fulfillment of commitments and commitments, related to activating the role of the general assemblies of shareholders to carry out their responsibilities. Moreover, to exercise their role in supervising and supervising the performance of the board of directors and the executive managers of these companies, thus leading to the interests of all parties (Baek et al., 2004: 278).

### 2.1.3. Theories of Corporate Governance

The researchers and writers within the management field mentioned that the agency, stewardship and stakeholder theories indicate opposing understandings on conflict of interest in exercise stewardship delegated to management by shareholders. While corporate governance supports more towards the agency theory recognizing the significance of checks and balances to guarantee that commercial bank's assets are healthy protected by the board on behalf of the shareholders.

#### 2.1.3.1. Agency Theory

This theory shows a critical role to clarify the tasks of the board of directors of corporation (bank) performance (Vo and Nguyen, 2014). So, this view is supported by (Zahra and Pearce, 1983: 301) argued that the agency method between the most known in a study on the contribution of boards. It argues that shareholders lost control when the size of the company grew, and professional managers with specialized knowledge of the company's operations would control.

Two proxies for board incentives mentioned by (Hillman and Dalziel, 2003) they feel bored with independence and compensate the manager. They stress that boards of directors, which consist mainly of insiders or outsiders who are not completely independent of the influence of management, have less incentive to oversee management because of the reliance on the CEO. It is believed that these managers will not stand in favor of shareholders when their interests are in conflict with the interests of the administration. Hence, councils are primarily composed of outsiders, and independent managers are thought to be watching better because of their motivation.

However, (Davis et al., 1997) also indicates that the agency's perspective points to the conflicting interests that occur between the manager as the owner and the agent as managers. The researchers point out that while clients run companies for their own interests, bosses plan to maximize shareholder interests in the long term.

Moreover, due to the separation of corporate ownership, managers would have significant freedom and powers to pursue their objectives (Muth and Donaldson, 1998). As a result, the board of directors becomes the representatives of shareholders' interests and acts as a mechanism to control the firm (Zahra and Pearce, 1989; Muth and Donaldson, 1998). The core problem with corporate governance is the lack of separation between ownership and management. Most of the global economies in which corporate governance often tries to move as much as possible into creating a so-called family business.

Zahra and Pearce (1989: 301) stated four significant features of the board, which contain configuration, characteristics, decision-making process and structure. The agency's theory attaches great importance to the council's decision-making process with respect to the board's performance and oversight functions in reducing agency costs, but it places minimal participation of the Councils in the strategic contribution.

#### 2.1.3.2. Stewardship Theory

According to (Muth et al., 1998) the stewardship theory discusses the agency theory as it proposes that managerial opportunism is irrelevant. So, this theory usually represents the below summary as vital to certify active corporate governance practices in a company:

a) This theory proposes a constricted relation between the accomplishment of the economic entity and the satisfaction of the steward. Thus, a principal would overpower the transaction by taking into consideration that aiming towards executive and organizational goals meets his personal needs.
b) Stewardship researchers observe that surviving by corporate governance tools is in parallel with this approach.

Therefore, (Davis et al., 1997:26) argues that the corporate governance controls contribute to the steward's inattention reduce and to observe organizational goals. Although, experimental academics are divided on whether to accept executives to be considered as agents or stewards. It is through this that researchers attempt to find the most efficient approach to applying corporate governance. Hence, authors psychological mechanisms and discuss situational primary the two models of man: agent and steward.

However, financial income is undoubtedly not the only incentive for executive performance. Moreover, executives need a level of discretion to effectively lead the company towards its objective for the interest of the investors (Clarke, 2004). Stewardship theory points out that the drive for managers to excel at their job is the interest to prolong their careers by refraining from acting against the interest of the investors. Thus, agency charges could comparatively minimize (Donaldson et al., 1994).

While stewardship theory suggests that concern for their characters and career evolution constrains agents from acting against the interests of shareholders, thus agency costs should inherently minimize (Donaldson and Davis, 1994:155). The contribution to the firm performance of stewards relates to the perspective regarding socio-cultural and psychological factors (Clarke, 2004:120).

#### 2.1.3.3. Stakeholder Theory

According to (Freeman, and Reed, 1983:89) stakeholders could identify which groups or individuals affect or are affected by the corporation's ability to achieve its own objectives. Therefore, this concept holds, in a profound way, all the factors that interact with the company. The stakeholder theory also emphasizes that the management's decision should be balanced with the interests of all parties involved.

The Stockholders could define in the economic unit as a group of persons who care about the performance and the success of the company such as the customers, the owners, the staff of the corporation, the suppliers, creditors, and the federations. Moreover, generally, there are two kinds of the stockholders: those with a capital invested in the company, and those who have invested, not in the form of capital but rather it is an interest in the company (Clarke, 2004:120). While, (Gibson, 2000:251) trusts that the stakeholders' theory is relevant and commonly used when analyzing business ethics.

The framework of corporate governance essential to include recognition of the moralities of the stakeholders as recognized by law. Thus, it should also inspire collaboration among stakeholders and corporations in making wealth, jobs and sustainability of existing plans on the utterly commercial basis (Clarke, 2004:120).

a) The context of corporate governance safeguards respecting the rights of the stakeholders secures by the law.
b) Whenever the law defends the rights of the non-owner stakeholders, those should have an opportunity to receive compensations in situations of desecration of their rights.
c) The framework of corporate governance should allow the existence of mechanisms for the participation of stakeholders in improving performance levels.
d) When stakeholders participate in the process of corporate governance, we must ensure that they have access to information relating to this.

The corporate governance context would identify the rights of stakeholders set forth in the law or mutual agreements and encourage active collaboration between corporations and stakeholders in wealth creation, employment, and sustained disclosure and transparency of financially sound projects. The governance context would ensure accurate and timely disclosure of all matters, including the financial position, performance, ownership, management, and governance of the corporation (Azim, 2012: 491).

### 2.1.4. Basel Committee on Standards Committee Basel controlled Banks

In the same context, (Yusuf, 2007:45) mentioned that a good practice of corporate governance principals, in general, to support the safety of the banking system through standards set by the Basel committee for the control of banks, regulate and control the banking industry, the most notably:

1) Stimulating the strategic goals according to of the banking system, and regulate the responsibility of the bank's management.
2) To safeguard the productivity of the board of directors' members and the full awareness of the concept of corporate governance, and the absence of deliberate errors by top management.
3) To assure the efficiency of the role of observers, aware of the importance of their oversight role .
4) The need to provide transparency and full disclosure of the financial activities of the Bank and its management alike.

### 2.1.5. The Components of Corporate Governance

#### 2.1.5.1. Board of Directors

According to (Fama and Jensen, 1983:318) boards of directors often have some committees devoted to specific decision-making processes. For instance, the reward committee constructs the executive compensation packages and takes them before the full board for a vote; the audit committee assesses and hires the corporation's auditors after transporting its study and decision before the full board, and the finance committee evaluates merger bids or possible sources of capital.

Board of directors, with its legal right to employ, increase and reward senior management and protect the invested capital. Board meetings allow the organization to identify, discuss and avoid potential problems (Nmai and Delle, 2014:211).

While (Aguilera and Cazurra, 2009:380) argued that the theory of reliance on resources is considered a cooperative mechanism with the role of calibrating the company with external environmental requirements. In this list, the agency's 2009 theory relies on a more fundamental understanding of human nature in contract agreements, and agent agents have a more important role in the company's performance.

Banks or organizations differ from non-financial organizations in several domains. First, their failure may have more severe consequences because of their unique position in financial intermediation and the payment system. Thus, excessive risk on the part of banks can create large external factors and systemic risks, one reason why the financial sector is more structured than non-financial sectors. (Flannery, 1998:277). The independence of the board is related to the entry of aliens into the council. The literature recommended that a portion of the external directors of the board of directors would increase the performance of strong growth as they are more effective in controlling managers. (Adams and Mehran, 2003:131).

#### 2.1.5.2. Fairness and Equity

According to (Oliver et al., 2014) concentrating on the justice at corporate governance, it aspires mutual respect and recognition of the rights of all parties of interest by equality. Including the interests of the minority shareholders in the companies. Justice and fairness refer to the impartiality and integrity in treating all the parties with a common interest.

Santiago-Castro investigates the relations between the expropriation of another shareholders' rights and strong presentation in Latin American markets. He catches that an absence of investor protection in emerging markets cause expropriation of minority shareholders' rights (Santiago-Castro et al. 2011:439). Most theories of human performance in social sciences trust the hypothesis that we are essentially related to maximum personal gain. So, this is what is known as selfish selfishness, or a homo model of human economy (Henrich et al., 2004). In this volume, we examine the concepts of justice, equity and justice from a multidisciplinary perspective.

#### 2.1.5.3. Responsibility and Accountability

The first principle of the Organization for Economic Co-operation and Development (OECD) for corporate governance indicates the following:

It is a must in the corporate governance framework to be compatible with the law and to sharply separate the responsibilities of the different authorities: executive, supervisory and regulatory. The framework of corporate governance must contain strategic route and guidance for the company. It should also include accountability of the board of directors on their responsibilities before the company and shareholders (OECD, 2004). The concept of responsibility associated with the concept of accountability. Which necessitates the accountability of those who make decisions as well as those executing the tasks of the company, they must be responsible for the consequences of their actions and the results of them (Khoury, 2003).

Therefore, corporate governance is recognized on a customary of facets to improve accountability of the different parties in the economic entity (Keasey et al. 2005). Also, this achieved by creating mechanisms to control management processes. All to confirm that the firm decisions shaped by the laws and regulations and the decision makers would answer to the stakeholders on the logic behind taking them (Tricker, 1994). Accountability defines by many researchers as the mechanism designed to guarantee to direct the works of the organization towards achieving its goals specified in advance while keeping the interests of business beneficiaries in mind. All while knowing who made what to be able to hold him/her accountable in case of wrong decisions (Khoury, 2003). Accountability has three main trends for interest owners: knowledge, compliance, and performance.

Corporate governance has identified with takeovers, financial restructuring, and institutional investors' activism Ross, Shleifer and Vishny (1973) defining corporate governance through arguing that it deals with how the providers of funding ensure that the companies themselves receive a return on their investments. Corporate governance mechanisms ensure that corporate investors receive sufficient returns on their investments (Shleifer and Vishny, 1997).

#### 2.1.5.4. Independence

Independence is self-determination from situations that threaten the ability of internal audit procedures to carry out internal audit responsibilities in a neutral and impartial manner. To achieve the degree of independence necessary to effectively discharge the responsibilities of the internal audit activity, the audit manager (the person responsible) of the audit body has direct and unrestricted access to senior management and the board. So, independence confirms that the board should form a checking committee of at smallest three of the non-executive managers. Moreover, they should be independent of the administration so the committee is given autonomy to check and monitor. So, this gives the committee a healthy relationship with the board (Cadbury, 1992).

Independence can also be presented from an opposite point of view. For example, factors that may threaten the independence of the audit body. Some of the threats to independence are detailed in the Annex. The level of risk that an internal auditor will have to rely on a settlement will be determined by reference to the importance of these threats, either individually or in society. When the audit, recruitment, experience, programming or audit funding depends on an entity that may affect the audit results, the independence of the audit body may be compromised. If the entity is able to introduce bias or integrity in the audit, it may affect the objectivity of the audit results (OECD, 2004).

### 2.1.6. The Essential Parties in Corporate Governance

There are some necessary parties in corporate governance are pretentious by and affect the proper implementing of the corporate governance and regulates in no small degree how success or failure in implementing the good corporate governance, these parties are:

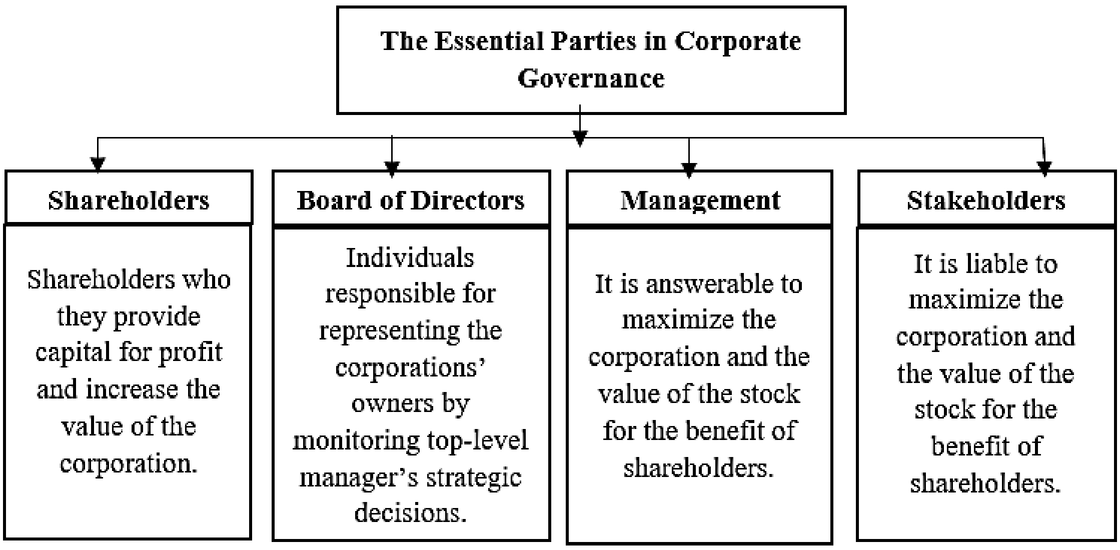


Figure 2.1: The Essential Parties in Corporate Governance

**Source:** Ghallab. F. (2011). "The role of the audit function in the area of corporate governance to reflect the principles and criteria for sustainable development: a study of some industrial enterprises, master thesis, Economics, and strategic business management for sustainable development, University of Ferhat Abbas, p1.

#### 2.1.6.1. Shareholders

The shareholders are those who deliver investment for the corporation by their tenure of shares and to maximize the value of the corporation in the long run. Which determines the extent of continuity in return for adequate profits for their investments and they have the right to choose the members of the board of directors the right to protect their rights, (Hussein, 2005:32).

The importance of governance management for shareholders that helps to ensure the rights of all shareholders such as the right to vote, the right to participate in decisions of any fundamental changes that may affect the performance of the company in the future Full disclosure of the company's performance and the financial situation and key decisions taken by senior management helps shareholders identify the risks of investment in these corporations (Ghallab, 2011).

#### 2.1.6.2. The Board of Directors

The board of directors who represent the shareholders, the Board is the one who selects executives as well as control over their performance and policy-making for the corporation and how to maintain shareholders' equity (Sheikh, 2012:56).

According to (Wheelen & Hunger, 2014:45) therefore, the board needs to provide all decisions that affect the company's long-term performance. Thus, this means that the institution is governed primarily by the board of directors which supervises the senior management, with the consent of the shareholder. Corporate governance refers to the relationship between these three groups in determining the direction and performance of the company.

#### 2.1.6.3. Management

Management is responsible for reporting on the effective performance of the Board of Directors. Management is also responsible for increasing the Bank's profits and increasing the added value to its responsibility towards the disclosure and transparency of information published by shareholders. Moreover, management is the link between the board of directors and other parties that deal with the company, (Suleiman, 2006:122).

The responsibilities of senior management, particularly the responsibilities of the CEO, include the achievement of things through and with others to achieve the company's objectives. The task of senior management is therefore multidimensional and oriented towards the well-being of the entire organization. The tasks of senior management are different from one company to another and develop from the analysis of the mission, objectives, strategies, key activities of the company (Hitt et al., 2007:329).

#### 2.1.6.4. Stakeholders

Stakeholders a group of parties' interests within the corporation (the bank) such as creditors, suppliers, and employees, the interests of these parties may be different and sometimes contradictory. Corporate governance concept is influenced heavily by the relationships between these parties (Ali and Shehata, 2007:88).

There are the positive and essential relation and the link between the parties mentioned above and stakeholders. The shareholders are the genuine owners of the company and have their rights and duties, which will address later. The shareholders empower the Board of Directors to watch the performance of the managers who will also impose the management of the company affairs on their behalf. The shareholders would also elect members of (the board of directors) to watch over the managers (executives). There are other parties related to the company, who is responsible for ensuring the abidance of the company to governance regulations and rules to reassure their rights on the one hand and to decrease defects in their investment in the company on the other hand.

### 2.1.7. The Objectives and Benefits of Corporate Governance

There is an increasing interest in corporate governance in the current years by researchers and persons interested in international organizations. Some workshops, conferences, and seminars held on the subject of corporate governance in developed countries. Whereas in the developing countries, there is still an apparent failure in this direction. The researchers and studies carried out through OECD emphasized the role of corporate governance towards improving efficiency in emerging markets in the world (OECD, 2004).

- Corporate governance encourages institutions to the typical utilization of its resources
- Corporate governance helps the company to achieve sustainable development and encourage productivity.
- Corporate governance decreases capital expenses to the company since banks grant lower benefit rates on loans to companies that apply governance compared to other companies that do not.
- Corporate governance facilitates the audit and supervision of the corporate performance through specifying internal auditing framework and establishing specialized committees, application of transparency and disclosure.
- Corporate governance contributes to attracting external investment because foreign investors tend to invest more in corporate shares that apply governance systems; they are considered integral and transparent corporate. The corporate would also have less inefficiency compared to other companies.
- Corporate governance works on the stability of money markets.

Regarding the objectives of corporate governance, there are many concepts used to express the objectives of governance, benefits, and benefits, but they all fall within the objectives and benefits, which can be explained as follows: Improving the competitiveness and value of economic units. Ensuring effective control over the performance of economic units and strengthening accounting accountability. 3. Ensuring review of the operational, financial and monetary performance of the economic unit. Deepen and enhance confidence in adherence to agreed laws, principles and standards. And maximizing the value of the enterprise economic investor in the financial markets to support the investment citizen. Obtain necessary and appropriate funding and forecast anticipated risks (Kafi, 2013: 215).

### 2.1.8. Corporate Governance Regulations

There is an accord that the suitable corporate governance for companies depends on the availability and quality of two sets of regulations: external and internal regulations (OECD, 2004).

#### 2.1.8.1. External Regulations

General economic and business environment in the country external regulations refers to the general environment of investment in the country which includes, for instance: regulating economic activities regulations for the labor market. Companies, organizing competition and prevention of monopoly and bankruptcy, proficiency of the financial sector (banks and stake market) to provide sufficient funds for the projects. The level of competition for assets and production factors, efficiency of tools and monitoring boards (board of finance and stoke market) to facilitate the corporate audit, in addition to independent institutions like law firms and insurance classification companies, financial and investment consultation corporate (OECD, 2004).

The importance of external regulations goes back to the implication that their existence reassures guarantees the application of laws and rules that lead to better company administration which in turn reduces the clash between social and individual profits and earnings.

#### 2.1.8.2. Internal Regulations

Internal regulations refer to the basics and regulations that organize decision-making mechanism and procedures, along with jurisdiction demarcation and limitation between the General Board, Board of Directors, and Managers. The availability and application of these regulations reduce conflict of interest between the three parties (OECD, 2004).

### 2.1.9. Corporate Governance Rules (Basics)

Through the growing interest in the concept of corporate governance, many organizations purpose to study and analyze the concept and develop dimensions of the application. The most protuberant of these institutes are the (OECD) and the

Bank for International Settlements (BIS) in Basel, together with the International Finance Corporation (IFC), which is relevant to the World Bank.

a) Organization for Economic and Co-operation Development set and identified principles for the corporates of the general contributions in 2004. These principles are considered the ultimate reference for companies around the globe. It is worth mentioning that the organization is currently working on modifications to the governance rules and regulations, as a result of the global financial crisis that overtook the economics of the world since late 2008.
b) Bank of International Settlements – Basel Committee: The committee related to the World Bank organized the work of the banks around the world by preparing regulations and measurements to arrange banks. They took these steps to decrease the risks facing the banks, and to protect them from economic shakes and hits. The governance rules set by the Basel committee regarded as the primary reference for all the international banks.
c) National Fund organization: the organization has established specific laws and regulations for the governance of the general contributions companies, their duties are close to the principles of the governance prepared by the Organization for Economic and Co-operation Development. The institution executes several initiatives to settle down the governance rules and train the company managers in the best ways to apply governance.

The institutions mentioned above are considered the ultimate references for governance around the world. However, each state/country has a national reference that all corporates and firms need to abide by its regulations and guidelines for governance. For instance, Securities and Commodities Authority (SCA) in the United Arab Emirates (UAE) regarded as the observatory party for the governance in all the registered corporates in the state markets. The central bank, on the hand, is considered as the observatory party on the banks to ensure their observance to the various governance regulations which are set by the central bank. In this booklet, we shed light on the principles set by the (OECD), as they are the most popular model internationally.

Governance Principles according to Organization for Economic and Co-operation Development (OECD, 2004). The organization summarized governance in six basic principles. The first one is considered a general framework and a necessity for the application of the other five principles. Below is a summary of these principles:

1. **Guaranteeing a practical framework for corporate governance**: One of the components of any state or country is the guarantee for a practical application of the governance rules. It necessitates a practical framework of laws, legislation and financial markets, delimitations of capital transfer, and a systematized policy which reassures the legislation and application of demanded superstructures. The framework needs to be active on the overall economic performance and market integrity, and encourage transparent and effective markets and trades.
2. **Guaranteeing of shareholders' rights**: The most important focus of the governance regulations and laws are on the shareholders' rights. The most prominent of these rights are:
   - Reassuring a guaranteed way for registering share possessions.
   - The possibility of share possession transfer.
   - Gaining adequate information about the corporate in a suitable time and through standardized procedures.
   - Participation in and the right of voting in the general board of the corporate.
   - Sharing corporate profits.

The shareholders should be able to receive enough information about any decisions regarding necessary changes and modification in the corporate, such as:

- Modifications in the central system and establishment contract (Memorandum of Association).
- Possessing additional shares.
- Any extraordinary missions as asset sales of the corporate.

3. **Equitable Treatment of Shareholders**: The framework of the governance rules needs to guarantee equitable treatment of all the shareholders including the minority and foreign ones. Each shareholder (share) has to have the same

rights, in a specified category of shares (shareholders). Additionally, the shareholders have to receive appropriate compensations when their rights violated. Finally, the minority shareholders need to safeguard from power misuse and exploitation of the majority shareholders (owners of controlling shares).

4. **Role of stakeholders**: As mentioned above, stakeholders of a corporation are the shareholders, board of directors and managers (executives). They are the primary stakeholders. The framework needs to acknowledge the rights of the stakeholders by law and boost active cooperation between corporates and stakeholders to increase profits and job opportunities, and guarantee enterprise and facility sustainability.
5. **Disclosure and transparency**: The framework of the corporate governance must guarantee a safe and healthy disclosure of all the significant and relevant information about the corporate in time, including the financial center of the

## 2.2. FINANCIAL PERFORMANCE

### 2.2.1. Definitions of Financial Performance

Financial performance is the narrow concept of corporate performance. It concentrates on the use of financial indicators to measure the achievement of objectives. The financial performance reflects the performance of companies as it is the main supporter of the various activities practiced by the company, contributes to the availability of financial resources and provides the company with investment opportunities in the fields of performance Which help to meet the needs of stakeholders and achieve their goals (Adams, 2003).

The financial performance of an economic institution is the specific area for its success. It is used as a basic approach not only to achieve the financial objectives of the organization but also to the general and strategic objectives. There are those who focus on the objectives as a reflection of the company's ability and ability to achieve this definition is a broad definition, i.e., it links financial performance to the general objectives of the institution. There are those who know it in terms of the result, regardless of the means used and defines it as 'the final result of the activity of the institution (Al-Khatib, 2010: 45).

The financial performance of the organization provides the necessary financial resources for exploiting suitable opportunities for investment. It also helps to meet the needs of investors and shareholders and to achieve their objectives. Despite many definitions of the term financial performance as a result of its continuous use and application, there is a common denominator that combines all of them the ability of the economic institution to achieve its financial objectives and the optimal use of resources (Abdulghani, 2006: 42).

Performance may be defined as a consideration of the way in which the bank's resources are used in the form permitted to achieve its purposes. However, according to (Heremans, 2007: 6) commercial banks, financial performance is the employment of financial indicators to measure the extent of educational achievement, contribute to the provision of financial resources and support the bank with investment opportunities. While (Rutagi,1997) determines the financial performance of the organization's performance. Other researchers know the financial performance of an organization or bank to the extent that business is doing the desired result (Namisi, 2002:44).

### 2.2.2. The Measurements of Financial Performance

Researches has conducted on the bank's financial performance measures, particularly commercial banks, and has recognized increased interest over the past years. Accordingly, there has also been a large number of empirical studies on the financial performance of commercial banks worldwide; despite the fact, there is little work on the financial performance of financial banks in Iraq and the Kurdistan Region, particularly Erbil. Given that this current study seeks to examine the role of corporate governance in controlling the financial performance, there is a need for measures that can be used to compare commercial bank’s financial performance across banking sector and over time.

The diagnosis of financial performance is carried out by examining the economic profitability of the institution and the rate of profit growth. Also, some believe that the financial performance reflects the extent to which the economic institution can optimize the utilization of its financial resources in short use and long-term development of wealth.

In this regard, performance states to the completion of a obtain task dignified against preset standards of accuracy, fullness, cost, and speed. It also refers to the amount to which achievement is being or has accomplished. In this regard, (Kothra, 2001:155) performance is a general term applied to a part or all of the operations of an organization over a period of time that is often related to past or expected cost efficiency, accountability of management, responsibility or the like. Therefore, not only the presentation, but the quality of the results achieved indicates performance. The financial performance used to indicate the company's success, terms and compliance. Hence, after Jaworski and Kohli (1996: 128), Eberl and Schwaiger (2005: 850), financial performance was measured, as a result, the same three measures of financial performance were used. Of the three metrics, return on assets (ROA) and return on equity (ROE) provide accounting performance measures (Hammond and Slocum, 1996). While PER reflects the expected future profits because it represents the amount that the investor wants to pay now for one dollar of profits in the future.

However, the cash flow statement is a combination of the income statement and the balance sheet. Although the statement of cash flows is the most important financial statement because it provides an understanding of net income and cash flows, analysts can understand how much the company spends on share repurchases, payments and capital expenditures. It also provides the source and uses for cash flows from operations, investment and financing.

The statement of income offers a summary of operations for the full year. The income statement begins with sales or revenues and ends with net income. The statement of income is also referred to as the profit margin, in addition to the cost of goods sold, as well as the profit margin and net profit margin. It also provides a summary of the number of shares outstanding as well as comparing the performance of the previous year (Eberl and Schwaiger, 2005: 851).

### 2.2.3. The Dimensions of Financial Performance

#### 2.2.3.1. Financial Dimension

The financial dimensions page to create financial scopes that can be used as calculation sections for explanatory charts. However, there are two financial dimensions: custom dimensions and enterprise-supported dimensions. Custom dimensions are shared across legal entities, and values are entered and maintained by users. For entity-supported dimensions, values are defined elsewhere in the system, such as customers or store entities. Some entity-supported components are shared across legal entities, while other entity-supported dimensions are specific to each company. To create a user-defined financial dimension, in the use values from field, select custom dimension. The researchers can also specify an account mask to limit the amount and type of information that can enter for dimension values (Hasina, 2015:54).

However, for the financial success of the organization to achieve, it must determine with what skillful precision it must to do to achieve this goal and how it can achieve its objectives. The critical point is how the organization can measure non-financial aspects which are the future performance engines of the organization. However, they incorporate these measures and retain them as they are necessary for the current and prospective investor (Eberl and Schwaiger, 2005:850).

After creating the economic dimensions, use the financial dimension values page to assign additional properties to each financial dimension. It can use financial dimensions to represent legal entities to create the legal entities in Microsoft dynamics 365 for finance and operations. However, financial dimensions are not designed to address the operational or business requirements of legal entities. The internet accounting functionality in Finance and Operations is designed to address only the accounting entries that are created by each transaction. Before setting up financial dimensions as legal entities, evaluate business processes in the following areas to determine whether this setup will work for the organization:

- Inventory
- Sales and purchases between financial dimensions and legal entities
- Sales tax calculation and reporting

- Operational reporting
- Here are some of the limitations:
- Use sales tax functionality only with legal entities, not with financial dimensions.
- Some reports do not include financial dimensions. Therefore, to report by financial dimension, might have to modify the reports.

#### 2.2.3.2. Customer Satisfaction

Despite intensive researches in the years Cardozo (1965) in a typical article, researchers have not yet established a consensual definition of consumer satisfaction. Oliver (1997: 13) argued this issue of definition by rephrasing the literature of emotion, noting that 'everyone knows what consent to ask him to provide a definition. Then it seems, no one knows. So, this feature classifies the target market segments and measures the organization's success in these sectors to control growth targets. Organizations use measures such as market share, some new customers, and customer satisfaction, and these are very important because they lead to the organization's survival as long as there are customers who deal with them and earn profits and profits (Hasina, 2015:55).

More precisely, consumer satisfaction definitions have either stressed an evaluation process (Fornell 1992) or a response to an evaluation process (Halstead, Hartman, and Schmidt 1994). Since a broad definition perspective, process definitions are problematic in that there is little reliability in the satisfaction process. From an operational perspective, process definitions beleaguered by originator constructs comprised in the vague definition; therefore, there is an intersection between the domains of the determinative process constructs and the consumer satisfaction construct. But, there is a difference regarding the nature of this summary concept. Researchers portray consumer satisfaction as either a cognitive response (Bolton and Drew 1991). Furthermore, operational definitions may include a behavioral dimension of satisfaction.

These terms use somewhat inter-changeably, with partial, if any, the justification for the use of any particular term. The lack of a consent definition for customer satisfaction creates three severe problems for consumer satisfaction study: selecting a suitable definition for a given study; operationalizing the definition, and understanding and relating practical consequences. These three problems affect the necessary arrangement and results of marketing research and theory testing. The proposed framework ensures that the context-specific definition captures the complete domain of satisfaction and is consistent with the conceptual domain of other researchers. Specifically, we will:

1) Suggest a definitional framework of consumer satisfaction based on commonalities in the literature and the views of consumers.
2) Discuss how this framework can be used to develop a definition of satisfaction to accommodate different contextual settings.
3) Ensure that our definitions of satisfaction are consistent with consumers' views. So, this is critical since, ultimately, we must understand consumers' meanings of satisfaction and consumers must understand what we mean when we use the term, satisfaction.

#### 2.2.3.3. Internal Processes of the Financial Services

The substance of internal processes of the financial service is an important issue that is of interest to much financial banking or any organizations due to its close association with employee performance, presence and absence, and more importantly, their productivity and financial performance of the banks. So, this reflects on the performance of the organization and its relation to the external environment (Hartman and Schmidt, 1994).

In regard, the organization and the employees' relationship, the objectives, operations, and activities of the institution are financial performance, so If the regulatory environment is stable, it is logical to ensure the sound financial performance of the organization, the good picture of financial activity and thus financial performance (Al-Khatib, 2010).

Internal factors the main internal factors influencing financial performance are summarized in the following points: Organizational structure, the organizational structure affects financial performance by dividing the functions and responsibilities related to the financial function, thus identifying the activities and allocating the necessary resources, and their suitability to the financial objectives established, and the extent to which they correct the nature of the existing deviations (Eberl and Schwaiger, 2005:851).

This dimension assesses the degree of success of the organization and its ability to meet the requirements of customers. As it measures the degree of skills of employees and the way of service delivery, productivity and others to measure the internal performance of the organization, and also focuses on innovation processes, as well as services provided to the client (Hasina, 2015:54).

While, according to Abdulghani, (2006) the size of the organization and its rating may adversely affect financial performance. The size of the organization is an obstacle to financial performance, because in this case the management becomes more complex and interrelated, and may positively affect the size of the institution, which requires a large number of financial analysts contribute to raising the quality of financial performance and this situation is the most realistic.

#### 2.2.3.4. Staffs Education and Skills Growth

The shift from failure to success requires the expertise and human minds capable of innovation. However, is characterized by unique mental skills capable of generating many profits and benefits to the bank or institution through improvement continuous productivity and evaluation of innovative products and services that meet the changing needs of customers (Eberl and Schwaiger, 2005:852).

While, techniques and modern skills that serve the desired objectives, such as technology of production on demand, technology of continuous improvement, etc., so the economic institution to pay close attention to the technology used and must be consistent with the main objectives of the adapting to its new developments in order to harmonize technology and financial performance, which makes it imperative to develop the latter to suit the technology used (Abdulghani, 2006).

However, this dimension aims at guiding individuals towards the continuous improvement and development necessary to survive. It defines the capacities in which the organization must grow to achieve high-level internal processes that create value for clients. This aspect focuses on measuring members' abilities, level of skills and satisfaction with work, and also measures the capabilities of the information system, reward system, and incentives (Hasina, 2015:54).

## 2.3. THE THEORETICAL RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE

The relationship between the mechanisms of corporate governance and financial performance indicators the use of ratios and financial indicators for the purposes of measuring and evaluating the performance of business organizations has become so widespread that it can be said that it is inconceivable that any data on the performance of organizations and their financial implications Without using ratios and financial indicators in one form or another, we will discuss the types of indicators of financial balance and financial ratios and the impact of financial analysis indicators on the principles of corporate governance (Wanjiru, 2013).

In the context of corporate governance and financial performance (Khatab et al., 2011) mentioned that the role of the board of directors in improving financial performance the board of directors supervises its oversight functions and powers in decision-making through the formation of committees of its members, in which members of executive management may participate. the most important of these committees is the audit committee which consists of a number of independent non-with expertise in accounting, auditing, and finance. They have the will, authority, and resources to provide good oversight of the financial reporting process. The committee shall select the external auditor, assess the performance of the internal auditor and approve the auditors' fees. The mechanism and depth of consideration is the most important description, it plays a key role in supervision and financial control and reporting and works to increase public confidence in the company.

However, in this regard, s study conducted by (Abu-Tapanjeh, 2006:111), so, in the study analyzed the connection between corporate governance and financial performance. Through employing multiple regression models with panel data set based on 39 industrial companies listed in Amman Stock Exchange of Jordan, from 1992 to 2004. The results showed that the proportion of outside directors, general manager duality and firm size positively and significantly influences firms' performance both operating and financial. Moreover, gear ratio had a significant positive influence on operating performance but insignificant in case of financial performance. On the other hand, family members on board have not significant effect on firms' operating as well as financial performance.

While, (Shah et al., 2011) argues that boards are mostly composed of executives and non-executives. Executive directors refer to dependent directors and non-executive directors to independent directors. At least one-third of the independent directors preferred to work for the Council's useful work and impartial monitoring. Accredited managers are also relevant because they have internal knowledge of the organization that is not available to external managers, but they can abuse this knowledge by transferring the wealth of other shareholders to themselves. According to Wanjiru, (2013), corporate governance and financial performance, Tricker (2000) and Parum (2005) have the same logic and conclusion that studies on corporate governance have not been static, empirical, systematic or even theoretical. As such, many theoretical frameworks emerging from economics, finance, management, or even sociology have emerged as a basis for researchers in their analysis of corporate governance.

# CHAPTER THREE
# THE STUDY MATERIALS AND METHOD

## 3.1. DATA ANALYSIS

For analyzing survey data, statistical tests conducted to check the study hypotheses. Subsequently, the scale reliability checked through the Cronbach's alpha. More, factor analysis also used to find the essential analysts of the manager's views at the financial banks in Erbil toward the corporate governance and financial performance.

While the descriptive statistics method employed for the study variables and to state the variable's dimensions significantly, however, correlation coefficient tests applied to classify the significant relationships between variables. Thus, the Spearman correlation applied when two variables and their scopes related.

Subsequently, the regression analysis implemented to reveal the significance of the planned model. Then to clarify, the significance of the factors comprises in the model. Moreover, to states, the impact of the corporate governance on the financial performance, although the procedures conducted by detecting the influence of some specific variables. The SPSS V-24 software used for tests and analyze the outcomes that presented in tables and figures.

### 3.1.1. The Study Limitations

This study limited to the managers of the financial banks in Erbil city in the. While, the real limits, this study also concentrated on the relationship between corporate governance such as; board of directors, fairness and equity, responsibility and accountability, independence and the financial performance of the financial banks in Erbil city Iraq. However, time limits, this field study applied in the second semester of the academic year 2017-2018.

### 3.1.2. Study Population and Sample

As reveals in a table (3.1) the population of this study consists of six financial banks operating in Erbil. So, banks selected as the study population, while they are likely to well recall corporate governance and financial performance, as their managers have knowledge and information on the governance and the bank's financial performance. However, the banks are the decent directed population size, where the study pursues to determine their bank governance considerations on their financial performance. Consequently, the study sample procedure revealed as well as the sampling process. While, the determination of sampling procedures is, by creating a range of processes. To narrow down a study population to classify the proper sample. Accordingly, (100) bank's managers within six financial banks operating in Erbil selected, besides they contributed to the survey through answering to the survey statements which is self-administered and distributed in the bank departments, as showed in the table (3.1)

Table 3.1: Study Population and Sample

| Population | | Sample | |
|---|---|---|---|
| **S** | **Bank's Name** | **Participated Managers** | **valid responses** |
| **1** | **BANK of Beirut and the Arab countries (BBAC)** | **12** | **10** |
| **2** | **Abu Dhabi Bank (ADIB)** | **11** | **10** |
| **3** | **Credit Bank of Iraq** | **22** | **20** |
| **4** | **Al Baraka Turkish Bank** | **21** | **20** |
| **5** | **Asia Bank** | **15** | **15** |
| **6** | **Cihan Bank** | **25** | **25** |
| | | **106** | **100** |
| | **Total Survey Sample** | **100** | |

### 3.1.3. Reliability and Validity of the Scale

#### 3.1.3.1. The Reliability

Researchers argued that survey reliability means that values or scores from a data collection instrument established and consistent. Hence, the scores should be nearly the same when researchers manage the instrument various times to the same contributors. However, one of the highest used reliability procedures in the researches is Cronbach's alpha test for survey reliability. The loading values for overall the corporate governance statements is (0.885>0.60), further values of its dimensions that comprised of a board of directors, fairness and equity, responsibility and accountability, and independence are (0.615, 0.871, 0.820, and 0.815>0.60) respectively.

However, the Cronbach's alpha loading values of bank's financial performance indicators are (0.920>0.60), while scores of its dimensions: the financial dimension, internal processes of the financial services, client satisfaction, and education and development are (0.868, 0.754, 0.758, and 0.868) respectively. However, the results indicated that the values for the survey questionnaire are (0.940), which specified a high level of survey reliability in the whole set of the survey questionnaire. Consequently, the questionnaire used to collect could consider highly reliable, as shown in a table (3.2).

Table 3.2: Reliability Test

| Variables | Cronbach's Alpha | No. of Items | N | % |
|---|---|---|---|---|
| **Corporate Governance** | **0.885** | **24** | **100** | **100.0** |
| Board of Directors | 0.615 | 4 | 100 | 100.0 |
| Fairness and Equity | 0.871 | 6 | 100 | 100.0 |
| Responsibility and Accountability | 0.820 | 7 | 100 | 100.0 |
| Independence | 0.815 | 6 | 100 | 100.0 |
| **Bank’s Financial Performance** | **0.920** | **20** | **100** | **100.0** |
| Financial Dimension | 0.868 | 6 | 100 | 100.0 |
| Internal Processes of the Financial Services | 0.754 | **5** | 100 | 100.0 |
| Client Satisfaction | 0.758 | **5** | 100 | 100.0 |
| Education and Development | 0.868 | **4** | 100 | 100.0 |
| **Overall** | **0.940** | **44** | **100** | **100.0** |

### 3.1.3.2. The Scale Validity

According to researchers the scale validity states to the marks from a survey are accurate indicators of the variables measured and facilitate the researcher to obtain reasonable justifications (Plano and Creswell, 2015: 242). Therefore, the validity of the survey questionnaire checked through a variety of ways. So, it is worth clarifying that approximately all of the questionnaire indicators modified from similar studies that already validity checked. However, since some of the indicators reformed or readjusted the researcher tested the validity of the questionnaire through making it checked and evaluated by experts so-called face validity, appendix (2) demonstrate the experts who evaluate the survey indicators.

## 3.2. FACTOR ANALYSIS

From the statistical perspective and researchers within management field, factor analysis is a statistical procedure that applied to determine a minor established of overlooked variables, which can clarify for the covariance between a more comprehensive set of observed variables also called noticeable variables. Nevertheless, a factor is a hidden variable that expected to have pragmatic impact variables. Although, factor analysis is the components decrease technique that forms accounts to several variables, their scopes, and evaluates them into different factors, known as factors that make evaluating.

Subsequently, corporate governance has 24 indicators under four dimensions: board of directors, fairness and equity, responsibility and accountability, and independence. Likewise, the bank’s financial performance has an overall 20 indicators, while, compound into four dimensions. Moreover, to make the further remark and make the tests easier the factor analysis used and the consequences shown in the parts. While the following steps were taken in using factor analysis:

- Step one: Estimate a *k* by *k* Inter-correlation ground to estimate or determine the factorability of the matrix.
- Step two: Extract an initial explanation.
- Step three: From the initial explanation, decide the appropriate number of factors to be extracted in the final explanation.
- Step four: If required, factor rotates for the components to illuminate the factored form to construe the nature of the factors better to conduct.
- Step fine: Upon consequent desires, compute a factor mark for each subject on each factor.

### 3.2.1. The KMO and Bartlett's Test for Corporate Governance

In this context, the Kaiser-Meyer- Olkin measure of sampling adequacy used to test the loading of factor analysis. Although according to this test the higher loading values between (1.0 to 0.5). Therefore, those values identify that the factor analysis is accurate and suitable for the test.

Then, the loaded scores or values less than (>05), it means that the factor analysis may not be accurate and on appropriate for the test. So, the KMO outcome of this study survey is (0.749) hence the survey presented high loading value and significant at (p0.000<0.05). However, Bartlett's Test of Sphericity (Approx. Chi-Square) is (1847.185) *df* (276). Therefore, applying factor analysis for study independent variable appropriate as exposed in a table below (3.3).

Table 3.3: The KMO and Bartlett's Test for the Corporate Governance

| KMO and Bartlett's Test | |
|---|---|
| | **Corporate Governance** |
| **Kaiser-Meyer-Olkin Measure of Sampling Adequacy.** | **0.749** |
| Bartlett's Test of Sphericity (Approx. Chi-Square) | **1847.185** |
| **Df** | **276** |
| **Sig.** | **0.000** |

### 3.2.2. Factor Rotation Matrix for Corporate Governance

As a table (3.4) summarizes that the components rotated matrix for corporate governance dimensions as an independent variable conducted; hence, the components rotation required when extraction procedure aims two or more factors. Nevertheless, the rotation of components or factors measured to obtain an indication of how the factors primarily extracted vary from each other and to issue a reasonable clarification of which component loads on which factor.

Table 3.4: Component Rotation Matrix for Corporate Governance

| Items | Factors | | | |
|---|---|---|---|---|
| | 1 | 2 | 3 | 4 |
| Q3 | 22.305 | | | |
| Q18 | 15.779 | | | |
| Q17 | 14.598 | | | |
| Q20 | 14.477 | | | |
| Q4 | 14.441 | | | |
| Q1 | 14.175 | | | |
| Q2 | 12.742 | | | |
| Q19 | 10.429 | | | |
| Q6 | | 21.278 | | |
| Q8 | | 19.574 | | |
| Q7 | | 18.525 | | |
| Q5 | | 18.280 | | |
| Q10 | | 16.414 | | |
| Q9 | | 14.974 | | |
| Q12 | | 10.765 | | |
| Q23 | | | 21.424 | |
| Q24 | | | 20.223 | |
| Q22 | | | 16.032 | |
| Q21 | | | 13.059 | |
| Q11 | | | | 27.999 |
| Q16 | | | | 17.375 |
| Q14 | | | | 14.745 |
| Q13 | | | | 11.287 |
| Q15 | | | | 9.623 |
| Extraction Method: Principal Component Analysis. | | | | |

However, the overall variable has the factor taking value the lower value of indicator fifteen regarding "the board members and members of the executive management committee substantially different such that the board is seen to be playing a primarily supervisory as opposed to an executive role." is 9.623. Also, the higher value of indicator eleven “the bank has a known record of taking effective measures in the event of mismanagement.” is 27.999.

### 3.2.3. Total Variance Explained for the Corporate Governance

As presented in a table (3.5) and figure (3.1) that the percentage of eigenvalues taking as one and the outcome of corporate factor four factors determined, though the percentage of variance explanations of the corporate governance of the four factors is (69.49%). However, the variance amounts they established were (28.98%, 19.54%, 12.80%, and 8.15%) respectively. Accordingly, the shared variance achieved at the close of factor analysis, however, the higher rate is, the stronger the factor structure of the scale and very high factors one of corporate governance.

Table 3.5: Total Variance Explained for the Corporate Governance

| **Factors** | **Initial Eigenvalues of [a]** | | | **Rotation Sums of Squared Loadings** | | |
|---|---|---|---|---|---|---|
| | **Total** | **% of Variance** | **Cumulative %** | **Total** | **% of Variance** | **Cumulative %** |
| Raw **1** | 4139.341 | 28.988 | **28.988** | 2303.002 | 16.128 | 16.128 |
| **2** | 2790.385 | 19.541 | **48.530** | 2343.285 | 16.410 | 32.538 |
| **3** | 1828.900 | 12.808 | **61.338** | 1438.427 | 10.073 | 42.612 |
| **4** | 1164.938 | 8.158 | **69.496** | 1893.287 | 13.259 | 55.871 |
| **-** | - | - | - | - | | |
| **24** | - | - | **100.000** | | | |

Extraction Method: Principal Component Analysis.

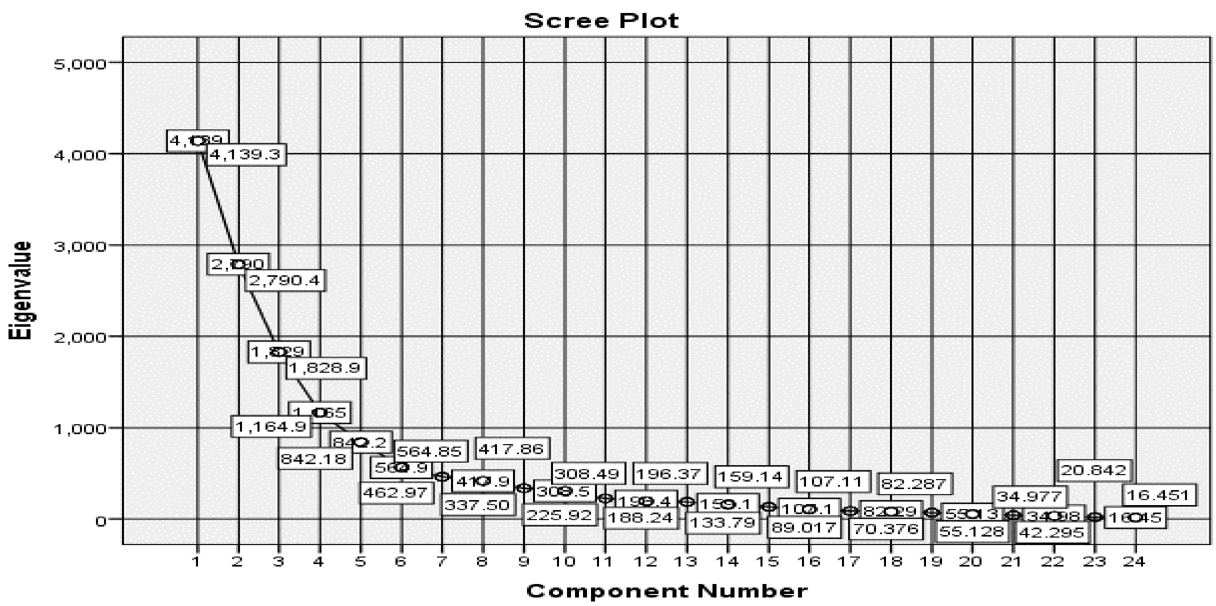


Figure 3.1: Load Graph for the Component Numbers of Corporate Governance

### 3.2.4. Corporate Governance Indicators and Factor Loads

As publicized in the table (3.6), all four factors of corporate governance are positive. While, the first (A) factor, involved eight statements or question indicators (Q3,18,17,20,4, 1, 2, and Q19), besides factor loadings are (22.305, 15.779, 14.598, 14.477, 14.441, 14.175, 12.742, and, 10.429) respectively. Likewise, all questions have higher loading on it. So, the second factor contain seven questions (Q6,8,7,5,10,9, and Q12) with factor loadings are (21.278, 19.574, 18.525, 18.280, 16.414, 14.974, 10.765) respectively.

Besides, total indicators have higher loadings on it. The third factor contained four questions (Q23,24,22, and Q21) with factor loading values are (21.424, 20.223, 16.032, and 13.059) respectively; they also have high loadings on it. The fourth factor included five questions as (Q11,16,14,13, and Q15) respectively. While. their factor value loadings are (27.999, 17.375, 14.745, 11.287, and 9.623) equally all questions have high loadings on it

Table 3.6: Corporate Governance Indicators and Factor Loads

| *Items* | | Factor Loads |
|---|---|---|
| | *A First Factor* | |
| *Q3* | The board of directors exerts sufficient care to preserve the interests of the bank and shareholders' equity through the disclosure of information. | **22.305** |
| *Q18* | The audit committee supervises internal audit and accounting procedures. | **15.779** |
| *Q17* | The audit committee nominates and conducts a proper review of the work of external auditors. | **14.598** |
| *Q20* | The bank has an executive or management committee that makes most of the executive decisions. | **14.477** |
| *Q4* | Board of directors enjoys independence from the executive management. | **14.441** |
| *Q1* | Board of directors provides the appropriate information to stakeholders through active and active communication channels. | **14.175** |
| *Q2* | The commitment of the board of director’s members not to their interest’s conflict with the interests of the bank's financial performance. | **12.742** |
| *Q19* | The bank’s chairman an independent, nonexecutive director. | **10.429** |
| | *A Second Factor* | |
| *Q6* | The voting methods easily accessible. | **21.278** |
| *Q8* | Senior management unquestionably sees as trying to ensure fair value reflected in the market price of the stock. | **19.574** |
| *Q7* | The necessary information for general meetings made available before the general meeting. | **18.525** |
| *Q5* | All equity holders have the right to call general meetings | **18.280** |
| *Q10* | There has been no questions or perceived controversy over whether the company has issued depositary receipts that benefited primarily significant shareholders. | **16.414** |
| *Q9* | The head of Investor relations reports to either the CEO or a board of director members. | **14.974** |
| *Q12* | The bank has a known record of taking adequate measures in the event of mismanagement. | **10.765** |
| | *A Third Factor* | |
| *Q23* | The external auditors of the bank in other aspects seem to be utterly unrelated to the bank. | **21.424** |
| *Q24* | The board includes no direct representatives of banks and other large creditors of the company. | **20.223** |
| *Q22* | The bank has a nominating committee and chaired by a perceived genuine independent director. | **16.032** |
| *Q21* | The bank has an audit committee and chaired by a perceived genuine independent director. | **13.059** |
| | *A Fourth Factor* | |
| *Q11* | All equity holders have the right to call general meetings | **27.999** |

| | | |
|---|---|---|
| *Q16* | There are foreign nationals on the Board who seen as providing added credibility to the Board's independence. | **17.375** |
| *Q14* | There are mechanisms to allow retribution of the executive management committee in the event of mismanagement as far as the analyst can tell for sure. | **14.745** |
| *Q13* | There are controversy or questions over whether the Board and or senior management take measures to safeguard the interests of all and not just the dominant shareholders. | **11.287** |
| *Q15* | The board members and members of the executive management committee substantially different such that the Board is seen to be playing a primarily supervisory as opposed to an executive role. | **9.623** |

### 3.2.5. The KMO and Bartlett's Test for Financial Performance

In the same context, table (3.7) reveals the Kaiser-Meyer-Olkin (KMO) measure of sample adequacy used to test the significance of factor analysis. The KMO test outcome is (0.696) while the loading value is between (1.0 to 0.5). Therefore, those values identify that the factor analysis is accurate and suitable for the test. Accordingly, it means that financial performance as a study's dependent variable deliver high value and significant at (p0.000<0.05). Although Bartlett's Test of Sphericity (Approx. Chi-Square) is (1772.529) *df* (190), therefore factor analysis is appropriate for administrative creativity.

Table 3.7: The KMO and Bartlett's Test of the Financial Performance

| **KMO and Bartlett's Test** | |
|---|---|
| | **Financial Performance** |
| **Kaiser-Meyer-Olkin Measure of Sampling Adequacy.** | **0.696** |
| Bartlett's Test of Sphericity (Approx. Chi-Square) | **1772.529** |
| Df | **190** |
| Sig. | **.000** |

### 3.2.6. Rotated Component Matrix for Financial Performance

As summarized in a table (3.8) the components rotated matrix for the bank's financial performance dimensions as a dependent variable conducted; so, the components rotation required when extraction procedure aims two or more factors. However, the rotation of components or factors measured to obtain an indication of how the factors primarily extracted vary from each other and to issue a reasonable clarification of which component loads on which factor.

Conversely, the overall variable has the factor taking value the lower value of indicator six about "the banks' profit margin from operations exceeds the competitive banks." is 9.706. Besides the higher value of indicator eleven of the financial performance “the bank promotes outstanding scientific research conducted by its departments, where the value loaded is 21.707.

Table 3.8: Component Rotation Matrix for Financial Performance

| Items | Factors | | | |
|---|---|---|---|---|
| | 1 | 2 | 3 | 4 |
| Q14 | 19.620 | | | |
| Q2 | 16.635 | | | |
| Q3 | 16.193 | | | |
| Q13 | 15.688 | | | |
| Q9 | 14.884 | | | |
| Q8 | 13.375 | | | |
| Q10 | 13.125 | | | |
| Q7 | 11.883 | | | |
| Q1 | 11.491 | | | |
| Q12 | 9.830 | | | |
| Q18 | | 21.127 | | |
| Q19 | | 20.387 | | |
| Q17 | | 17.189 | | |
| Q20 | | 10.925 | | |
| Q11 | | | 21.707 | |
| Q15 | | | 19.733 | |
| Q16 | | | 19.133 | |
| Q5 | | | | 19.672 |
| Q4 | | | | 11.508 |
| Q6 | | | | 9.706 |
| Extraction Method: Principal Component Analysis. | | | | |

### 3.2.7. Total Variance Explained for the Financial Performance

As publicized in a table (3.9) and figure (3.2) that the total variance explained for the financial performance taking as one and the outcome of standard factor four factors determined, though the percentage of variance explanations of the financial performance of the four factors is (72.95%).

The variance amounts they established were (41.13%, 16.04%, 8.84%, and 6.92%) respectively. Consequently, the standard variance achieved at the end of factor analysis, however, the higher rate is, the stronger the factor structure of the scale and very high factors one of financial performance at the rate of 41.13%.

Table 3.9: Total Variance Explained for the Financial Performance

| Factors | | Initial Eigenvalues of [a] | | | Rotation Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|---|
| | | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| Raw | 1 | 3774.291 | 41.131 | **41.131** | 2583.382 | 28.153 | 28.153 |
| | 2 | 1472.290 | 16.044 | **57.175** | 1685.106 | 18.364 | 46.516 |
| | 3 | 811.685 | 8.845 | **66.021** | 1441.149 | 15.705 | 62.222 |
| | 4 | 635.798 | 6.929 | **72.950** | 984.428 | 10.728 | 72.950 |
| | - | - | - | - | | | |
| | 20 | 13.650 | .149 | 100.000 | | | |

Extraction Method: Principal Component Analysis.
a. When analyzing a covariance matrix, the initial eigenvalues are the same across the raw and rescaled solution.

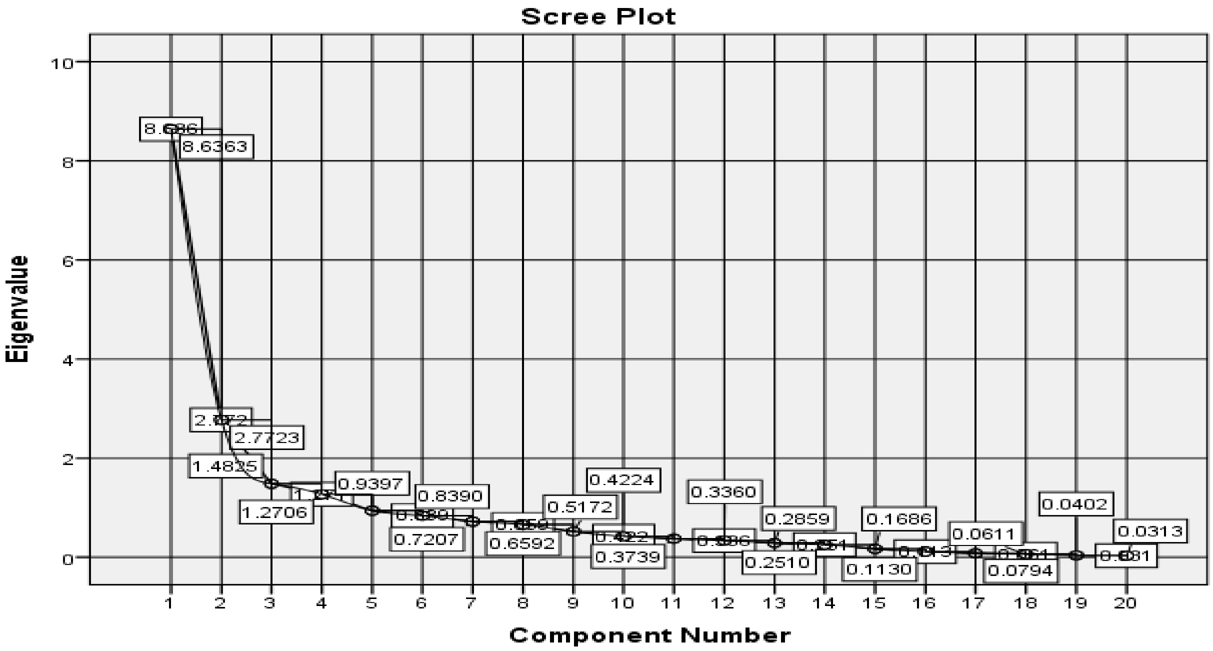


Figure 3.2: Load Graph for the Component Numbers of Financial Performance

### 3.2.8. Financial Performance Indicators and Factor Loads

As exposed in the table below (3.10), all four factors of financial performance are positive. Whereas, the first (B) factor, involved nine statements as (Q14,2,3,13,9,8,10,7,1, and Q12), besides factor loadings are (19.620, 16.635, 16.193, 15.688, 14.884, 13.375, 13.125, 11.883, 11.491, and 9.830) respectively, likewise all questions have higher loading on it. So, the second factor contains four questions (Q18,19,17, and Q20) with factor loadings are (21.127, 20.387, 17.189, and 10.925) respectively.

Besides, whole indicators have higher loadings on it. The third factor comprise three questions (Q11,15, and Q16) with factor loading values are (21.707, 19.733, and 19.133) respectively; they also have high loadings on it. While, the fourth factor included three questions as (Q5,4, and Q6) respectively. Although. Their factor value loadings are (19.672, 11.508, and 9.706) equally all questions have high loadings on it.

Table 3.10: Financial Performance Indicators and Factor Loads

| *Items* | | Factor Loads |
|---|---|---|
| | *A First Factor* | |
| *Q14* | The bank will develop integrated scheduling for all sections to avoid congestion and overcrowding among clients. | **19.620** |
| *Q2* | The bank seeks to reduce unnecessary operational costs that do not contribute to improving the quality of service provided to its clients. | **16.635** |
| *Q3* | The bank is increasing the efficiency of the financial services provided to improve its revenues. | **16.193** |
| *Q13* | The bank’s management is trying to simplify the financial procedures to satisfy its clients. | **15.688** |
| *Q9* | The bank quickly responds to changes that occur in the internal work environment. | **14.884** |
| *Q8* | The bank provides the various information needed to accomplish the financial service. | **13.375** |
| *Q10* | The bank is paying attention to its department proposals to develop and update the commercial work. | **13.125** |
| *Q7* | The bank simplifying and facilitating the financial services offered to clients. | **11.883** |
| *Q1* | The bank strives to fulfill its commitment to the community by providing services aimed at spreading financial awareness and knowledge. | **11.491** |
| *Q12* | The bank’s management is keen to develop its financial services to the community in line with its social responsibility. | **9.830** |
| | *A Second Factor* | |
| *Q18* | The bank provides an enormous amount of data and information to guide the efforts of staffs. | **21.127** |
| *Q19* | The bank encourages creators and builds their creative ideas. | **20.387** |
| *Q17* | The bank is creating an organizational environment beneficial to the clients. | **17.189** |
| *Q20* | The bank relies on different training programs within and outside the region to enable them to improve financial performance levels | **10.925** |
| | *A Third Factor* | |
| *Q11* | The bank promotes outstanding scientific research conducted by its departments. | **21.707** |
| *Q15* | The bank provides practical consultation and research that benefits the clients. | **19.733** |
| *Q16* | The bank seeks to develop a field survey from time to time to measure the extent of the client's satisfaction with its financial services. | **19.133** |
| | *A Fourth Factor* | |
| *Q5* | The return on investment exceeds the competitive banks. | **19.672** |
| *Q4* | The bank is working on developing continuous financial plans to increase the investment of funds in the service of clients. | **11.508** |
| *Q6* | Banks’ Profit margin from operations exceed the competitive banks. | **9.706** |

# CHAPTER FOUR
# DATA PRESENTATION AND ANALYSES

This chapter aims to determine the primary variables, and sub-variables adopted in the study model and examine its hypotheses so, to realize this; the variables were coded and categorized into different groups. However, to begin with, primary analysis of the data associated to the study variables using the frequency distributions, the relative distributions, statistical means, and the standard deviations of each of the dimensions of the corporate governance and financial performance of the financial banks operating in Erbil. Furthermore, to upkeep, promote and analyze the study variables with quantitative method indicators obtained from the records and reports of the financial banks in questions or statements.

## 4.1. THE STUDY DEMOGRAPHIC DATA

In the same context, the following demographic data and information collected from managers of the financial banks operating in Erbil namely; gender, age, level of education, overall job experience, and scientific specialization. In search of the survey samplings and to obtain further information relevant to the study purpose, consequently, the study applied descriptive analysis to achieve this aim:

As exposed in a table (4.1) the 56% or 56 managers of the complete survey sample who readily participated by answering the scale's questions are male, although the female managers came at the rate 44% contributors. So, the percentage and frequency of participators age groups, 64% of the survey sample aged below 30 years. Whereas 30% of overall survey contributors aged between 30-39, nevertheless, 6% of the total survey sample aged between 40-49.

As summarized in the table (4.1) the percentage of the survey contributors' level of education, 78% or (78) managers are bachelor degree holders. However, 13% or (13) managers who participated in the survey hold master degrees. Furthermore, the higher diploma degrees came at the rate of 9%. It clarifies that all survey sample were university certificates holders.

From the same table below, it cleared that most survey participates' overall job experience in the banking sector is less than five years, at the rate of 58%, or (58) managers of the overall survey sample. Also, between 5-10 years came at the rate of

29% or (29) managers. Furthermore, 13% of complete study sample experienced start from 11years to 15 years. While, the percentage and frequency of participators scientific specialization, 27% of the survey sample specialized in finance and banking. Whereas 25% in accounting, nevertheless, 20% of the total survey sample are specialized in other scientific fields than indicated in demographic data. However, the financial bank's managers who specialize in management and economic came at the rates of 19% and 9% respectively.

Table 4.1: Frequencies of the Study Demographic Data

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| **Gender** | | | | | |
| **Valid** | **Male** | **56** | **56.0** | **56.0** | **56.0** |
| | **Female** | **44** | **44.0** | **44.0** | **100.0** |
| | **Total** | **100** | **100.0** | **100.0** | |
| **Age** | | | | | |
| **Valid** | **Below 30 Years** | **64** | **64.0** | **64.0** | **64.0** |
| | **30-39** | **30** | **30.0** | **30.0** | **94.0** |
| | **40-49** | **6** | **6.0** | **6.0** | **100.0** |
| | **Total** | **100** | **100.0** | **100.0** | |
| **Level of Education** | | | | | |
| **Valid** | **Bachelor** | **78** | **78.0** | **78.0** | **78.0** |
| | **Higher Diploma** | **9** | **9.0** | **9.0** | **87.0** |
| | **Master** | **13** | **13.0** | **13.0** | **100.0** |
| | **Total** | **100** | **100.0** | **100.0** | |
| **Overall job experience in the banking sector** | | | | | |
| **Valid** | **Less than 5 years** | **58** | **58.0** | **58.0** | **58.0** |
| | **From 5- 10 years** | **29** | **29.0** | **29.0** | **87.0** |
| | **From 11- 15 years** | **13** | **13.0** | **13.0** | **100.0** |
| | **Total** | **100** | **100.0** | **100.0** | |
| **Scientific Specialization** | | | | | |
| **Valid** | **Management** | **19** | **19.0** | **19.0** | **19.0** |
| | **Accounting** | **25** | **25.0** | **25.0** | **44.0** |
| | **Finance and banking** | **27** | **27.0** | **27.0** | **71.0** |
| | **Economic** | **9** | **9.0** | **9.0** | **80.0** |
| | **Other** | **20** | **20.0** | **20.0** | **100.0** |
| | **Total** | **100** | **100.0** | **100.0** | |

## 4.2. DESCRIPTIVE STATISTICS

This section analyzes the study variables and their dimensions, based on the nature of dependency in financial banks in Erbil, while, these established on contributors' responses, were asked to rate the significance of the corporate governance and financial performance dimensions based on eleven-point scale. Consequently, descriptive statistics were used to calculate the statistical mean and standard deviation values of each dimension of the variable.

### 4.2.1. Variables Descriptive Statistics

#### 4.2.1.1. Analysis of the Corporate Governance and its Dimensions from the Perspective of Financial Bank’s Managers

As exposed in a table (4.2) the statistical means, and standard deviations of variable independent ($X_1$-$X_{24}$), which organized through symbols of the corporate governance dimensions. So, when we look at the table below, we can realize that the descriptive statistics outcomes, in particular, mean and standard deviation values of the corporate governance as s study independent variable are (73.06, and 0.1277) respectively. It means 73% of the overall financial banks’ managers replies counted that these banks in Erbil city adopted the corporate governance dimensions in their investment in banking service sector at a reasonable rate of agreement.

The statistical mean values of the board of directors, fairness and equity, responsibility and accountability, independence are (75.97, 68.68, 74.25, and 74.83) respectively, and standard deviations of the same dimensions are (0.1867, 0.1960, 0.1347, and 0.1534) respectively. While (75.9%, 68.6%, 74.2%, and 74.8%) respectively of the total responses indicated that the corporate governance board of directors, responsibility and accountability, and independence essential for financial banks and banks shareholders.

The outcomes show that ($X_2$ and $X_3$) reserves the corporate governance board of directors which states that the commitment of the board of director’s members not to their interest’s conflict with the interests of the bank's financial performance. Moreover, “the board of directors exerts sufficient care to preserve the interests of the bank and shareholders' equity through the disclosure of information. Besides, ($X_9$ and $X_5$) riches the corporate governance fairness and equity which states that the head of investor relations reports to either the CEO or a board of director members. Likewise, all equity holders have the right to call general meetings.

Furthermore, the outcome specifies that ($X_{12}$ and $X_{17}$) riches the corporate governance responsibility and accountability, regarding the bank has a known record of taking adequate measures in the event of mismanagement. Besides, the audit committee nominates and conducts a proper review of the work of external auditors. While the maximum frequencies of corporate governance independence are ($X_{19}$) and ($X_{21}$) about the bank’s chairman an independent, nonexecutive director as well as the bank has an audit committee and chaired by a perceived genuine.

Table 4.2: The Outcomes of Descriptive Statistics of Corporate Governance

| Variables | Descriptive Statistics | | | | | |
|---|---|---|---|---|---|---|
| | **N** | **Minimum** | **Maximum** | **Mean** | **Std. Deviation** | **The rate of Agreement** |
| **Corporate Governance** | 100 | 40.83 | 100.00 | 73.06 | 0.1277 | **73%** |
| **Board of Directors** | 100 | .00 | 100.00 | 75.97 | 0.1867 | **75.9%** |
| **Fairness and Equity** | 100 | 12.86 | 100.00 | 68.68 | 0.1960 | **68.6%** |
| **Responsibility and Accountability** | 100 | 48.57 | 100.00 | 74.25 | 0.1347 | **74.2%** |
| **Independence** | 100 | 40.00 | 100.00 | 74.83 | 0.1534 | **74.8%** |

| Variables | Descriptive Statistics | | | |
|---|---|---|---|---|
| | **Questions** | **Mean** | **Std. Deviation** | **Rate of Agreement** |
| **Higher Values** | | | | |
| **Board of Directors** | ***X2*** | 77.10 | 0.1940 | **77.1%** |
| | ***X3*** | 76.20 | 0.1902 | **76.2%** |
| **Fairness and Equity** | ***X9*** | 74.30 | 0.2114 | **74.3%** |
| | ***X5*** | 70.70 | 0.2187 | **70.7%** |
| **Responsibility and Accountability** | ***X12*** | 76.60 | 0.1902 | **76.6%** |
| | ***X17*** | 75.60 | 0.1765 | **75.6%** |
| **Independence** | ***X19*** | 78.60 | 0.1651 | **78.6%** |
| | ***X21*** | 77.90 | 0.1799 | **77.9%** |

#### 4.2.1.2. Analysis of the Banks' Financial Performance and its Dimensions from the Perspective of Financial Bank's Managers

As publicized in a table (4.3) the frequency distributions, the weighted statistical means and the standard deviations of the banks' financial performance and its dimensions from the perspective of financial bank's managers calculated. While, the descriptive statistics consequences the inclusive weighted means and standard deviation values of the banks' financial performance as s study dependent variable are (78.06, and 0.1360) respectively. So, means that 78% of the complete responses computed that financial banks in Erbil city achieved effective banking services performed at a high rate of agreement.

While, the statistical means of the bank's financial performance namely: the financial dimension, internal processes of the financial services, client satisfaction, and education and development of the bank staffs are (76.88, 79.04, 79.02, and 77.42) respectively. Besides, standard deviations of the same dimensions are (0.1593, 0.1426, 0.1622, and 0.1910) respectively. Although (76.8%, 79%, 79%, and 77.4%) respectively of the total responses indicated that the financial performance internal processes of the financial services, client satisfaction, education and development of bank's staffs are essential for financial banks to achieve effective banking services performance.

Table 4.3: The Outcomes of Descriptive Statistics of Financial Performance

| Variables | Descriptive Statistics | | | | | |
|---|---|---|---|---|---|---|
| | N | Minimum | Maximum | Mean | Std. Deviation | The rate of Agreement |
| **Financial Performance** | 100 | 50.50 | 99.00 | 78.06 | 0.1360 | **78%** |
| **Financial Dimension** | 100 | 36.67 | 98.33 | 76.88 | 0.1593 | **76.8%** |
| **Internal Processes of the Financial Services** | 100 | 50.00 | 100.00 | 79.04 | 0.1426 | **79%** |
| **Client Satisfaction** | 100 | 40.00 | 100.00 | 79.02 | 0.1622 | **79%** |
| **Education and Development** | 100 | .00 | 100.00 | 77.42 | 0.1910 | **77.4%** |

| Variables | Questions | Descriptive Statistics | | |
|---|---|---|---|---|
| | | Mean | Std. Deviation | Rate of Agreement |
| **Higher Values** | | | | |
| **Financial Dimension** | **Y4** | **80.80** | **0.1599** | **80.8%** |
| | **Y3** | **79.90** | **0.2271** | **79.9%** |
| **Internal Processes of the Financial Services** | **Y8** | **81.30** | **0.1889** | **81.3%** |
| | **Y9** | **79.90** | **0.1930** | **79.9%** |
| **Client Satisfaction** | **Y12** | **82.10** | **0.1776** | **82.1%** |
| | **Y13** | **81.30** | **0.2038** | **81.3%** |
| **Education and Development** | **Y20** | **79.60** | **0.2145** | **79.6%** |
| | **Y18** | **77.20** | **0.2378** | **77.2%** |

However, the outcomes show that ($Y_4$ and $Y_3$) reserves the performance financial dimension which states that the bank is working on developing continuous financial plans to increase the investment of funds in the service of clients. As well as the bank is increasing the efficiency of the financial services provided to improve its revenues. Besides, ($Y_8$ and $Y_9$) riches the internal processes of the financial services which state that the bank provides the various information needed to accomplish the financial service. Also, the bank quickly responds to changes that occur in the internal work environment.

Furthermore, the outcome specifies that ($Y_{12}$ and $Y_{13}$) riches client satisfaction, regarding the bank's management is keen to develop its financial services to the community in line with its social responsibility. Besides, the bank's management is trying to simplify the financial procedures to satisfy its clients. While the maximum frequencies of education and development of the bank staffs are ($Y_{20}$) and ($Y_{18}$) about the bank relies on different training programs within and outside the region to enable them to improve financial performance levels. As well as the bank provides an enormous amount of data and information to guide the efforts of staffs.

### 4.2.2. ANOVA and T-test of Variance Analysis

As shown in a table (4.4) ANOVA and t-test of variance analysis used to reveal the variance among survey sample responses, according to demographic data namely: gender, age, level of education, overall job experience, and scientific specialization. Although, the variance analysis results clarify that for all demographic data in regards the corporate governance as a study independent variable (Sig>0.05), therefore, there isn't variance in the values among male and female, whereas, Levene's test for equality of variances *F*= (1.821; Sig0.180> 0.05).

Though, for age groups *F*=(0.302; Sig0.740>0.05), where educational level *F*= (0.453; Sig0.637>0.05), however, overall job experience *F*= (2.792; Sig0.066>0.05). However, scientific specialization F= (0.389; Sig0.816>0.05). Therefore, there is no variance between surveyed financial banks in Erbil city in the implementation of the dimensions of corporate governance according to demographic data.

Table 4.4: ANOVA Test Results According to the Demographic Data for Corporate Governance

| Corporate Governance | Sum of Squares | DF | Mean Square | *F or T* | Sig. |
|---|---|---|---|---|---|
| ***By Gender*** | | | | | |
| **Equal variances assumed** | ***Levene's Test for Equality of Variances*** | | | | |
| | | | | ***1.821*** | ***0.180*** |
| ***By Age Groups*** | | | | | |
| **Between Groups**<br>**Within Groups**<br>**Total** | 100.009<br>16061.927<br>16161.936 | 2<br>97<br>99 | 50.004<br>165.587 | ***0.302*** | ***0.740*** |
| ***By Educational Level*** | | | | | |
| **Between Groups**<br>**Within Groups**<br>**Total** | 149.709<br>16012.227<br>16161.936 | 2<br>97<br>99 | 74.854<br>165.075 | ***0.453*** | ***0.637*** |
| ***By Overall Job Experience*** | | | | | |
| **Between Groups**<br>**Within Groups**<br>**Total** | 879.770<br>15282.165<br>16161.936 | 2<br>97<br>99 | 439.885<br>157.548 | ***2.792*** | ***0.066*** |
| ***By Scientific Specialization*** | | | | | |
| **Between Groups**<br>**Within Groups**<br>**Total** | 260.412<br>15901.523<br>16161.936 | 4<br>95<br>99 | 65.103<br>167.384 | ***0.389*** | ***0.816*** |

As displayed in a table (4.5) the variance analysis consequences of the ANOVA and t-test illuminate that for all demographic data in regards the financial performance as a study dependent variable (Sig>0.05). Consequently, there isn't variance in the values among male and female, while, Levene's test for equality of variances *F*= (0.125; Sig0.725> 0.05).

However, for age groups *F*=(0.706; Sig0.496>0.05). Also, educational level *F*= (0.292; Sig0.748>0.05), Yet, overall job experience *F*= (1.860; Sig0.161>0.05). Nevertheless, scientific specialization *F*= (0.810; Sig0.522>0.05). Therefore, there is no variance between surveyed financial banks in Erbil city in the implementation of the dimensions of financial performance according to demographic data.

Table 4.5: ANOVA Test Results According to the Demographic Data for Financial Performance

| Financial Performance | Sum of Squares | DF | Mean Square | F or T | Sig. |
|---|---|---|---|---|---|
| ***By Gender*** | | | | | |
| **Equal variances assumed** | ***Levene's Test for Equality of Variances*** | | | | |
| | | | | ***0.125*** | ***0.725*** |
| ***By Age Groups*** | | | | | |
| **Between Groups** | 262.906 | 2 | 131.453 | ***0.706*** | ***0.496*** |
| **Within Groups** | 18053.421 | 97 | 186.118 | | |
| **Total** | 18316.328 | 99 | | | |
| ***By Educational Level*** | | | | | |
| **Between Groups** | 109.490 | 2 | 54.745 | ***0.292*** | ***0.748*** |
| **Within Groups** | 18206.838 | 97 | 187.699 | | |
| **Total** | 18316.328 | 99 | | | |
| ***By Overall Job Experience*** | | | | | |
| **Between Groups** | 676.400 | 2 | 338.200 | ***1.860*** | ***0.161*** |
| **Within Groups** | 17639.927 | 97 | 181.855 | | |
| **Total** | 18316.328 | 99 | | | |
| ***By Scientific Specialization*** | | | | | |
| **Between Groups** | 604.305 | 4 | 151.076 | ***0.810*** | ***0.522*** |
| **Within Groups** | 17712.022 | 95 | 186.442 | | |
| **Total** | 18316.328 | 99 | | | |

## 4.3. CORRELATION ANALYSIS

The table below (4.6) reveals the result of the correlation matrix between variables that carried out to test the correlation hypotheses which indicated that there is a definite relationship between corporate governance and financial performance. However, to test the relationship between these variables; Spearman's (R=0.721**) correlation calculated. The correlation coefficient for the data presented that the variables tested were positively and significantly correlated; the p-value is (0.000) being less than (0.05). Therefore, the null hypotheses (***Ho.$_1$***) rejected, **and alternative hypotheses (*H$_1$*) accepted.**

Table 4.6: Correlations of Corporate Governance and the Financial Performance

| | | | Corporate Governance | Financial Performance |
|---|---|---|---|---|
| Spearman's rho | **Corporate Governance** | Correlation Coefficient | 1.000 | .721** |
| | | Sig. (2-tailed) | . | .000 |
| | | N | 100 | 100 |
| | **Financial Performance** | Correlation Coefficient | .721** | 1.000 |
| | | Sig. (2-tailed) | .000 | . |
| | | N | 100 | 100 |
| **. Correlation is significant at the 0.01 level (2-tailed). | | | | |

Also, the governance dimensions namely: board of directors, fairness and equity, responsibility and accountability, and independence positively correlated with the financial performance of the financial banks in Erbil city.

Furthermore, table (4.7) explains that responsibility and accountability, the board of directors, and independence, through (r=0.711**, 0.662**, and 0.629**) respectively, have strong positive correlations with bank's financial performance, where a p-value of (0.000, 0.000, 0.000 and 0.000) respectively. While fairness and equity have a weak correlation with financial performance, compare to other dimensions. Hence, all the null hypotheses (*Ho.*$_{1.1}$, *Ho.*$_{1.2}$, *Ho.*$_{1.3}$, *and Ho.*$_{1.4}$) rejected, **and alternative hypotheses (*H*$_{1.1}$, *H*$_{1.2}$, *H*$_{1.3}$, *and* *H*$_{1.4}$) accepted.**

Table 4.7: Correlation of Corporate Governance Dimensions and the Financial Performance

| | | Board of Directors | Fairness and Equity | Responsibility and Accountability | Independence | Financial Performance |
|---|---|---|---|---|---|---|
| **Board of Directors** | Correlation Coefficient | 1.000 | .403** | .723** | .556** | **.662**** |
| | Sig. (2-tailed) | . | .000 | .000 | .000 | **.000** |
| | N | 100 | 100 | 100 | 100 | **100** |
| **Fairness and Equity** | Correlation Coefficient | | 1.000 | .539** | .470** | **.590**** |
| | Sig. (2-tailed) | | . | .000 | .000 | **.000** |
| | N | | 100 | 100 | 100 | **100** |
| **Responsibility and Accountability** | Correlation Coefficient | | | 1.000 | .719** | **.711**** |
| | Sig. (2-tailed) | | | . | .000 | **.000** |
| | N | | | 100 | 100 | **100** |
| **Independence** | Correlation Coefficient | | | | 1.000 | **.629**** |
| | Sig. (2-tailed) | | | | . | **.000** |
| | N | | | | 100 | **100** |
| **. Correlation is significant at the 0.01 level (2-tailed). | | | | | | |

## 4.4. REGRESSION ANALYSIS

As specified in a table (4.8) the regression analysis tested to examine the impact of the corporate governance on the bank's financial performance. Consequently, the model summary exposed in the table below that the coefficient of determination R Square is (0.537) which demonstrates that the variation clarified dependent variable due to independent variables. Thus, this classifies the corporate governance board of directors, fairness and equity, responsibility and accountability, and independence analyses for 53.7% of the financial banks in Erbil city. The same table below reveals F-test of significance, where F (113.502) explains that a significant (p0.00< 0.05) appropriateness of the proposed model, hence, the model has it is statistical significance in valuing how the strategic planning impact on organizational performance. **Hence, null hypotheses (*Ho.*$_2$) rejected, so, the alternative hypotheses (*H*$_2$) accepted.**

Table 4.8: Regression Analysis Model Summary and F-Test

| **Model** | | **R** | **R Square** | **Adjusted R Square** | **Std. The error of the Estimate** | |
|---|---|---|---|---|---|---|
| 1 | | **.733a** | **.537** | **.532** | **9.30598** | |
| **Model** | | **Sum of Squares** | **df** | **Mean Square** | **F-test of Significance** | **Sig.** |
| 1 | Regression | 9829.400 | 1 | 9829.400 | **113.502** | **.000b** |
| | Residual | 8486.928 | 98 | 86.601 | | |
| | Total | 18316.328 | 99 | | | |

a. Dependent Variable: Corporate Governance
b. Predictors: (Constant), Financial Performance

As the regression coefficient of the corporate governance dimensions revealed in a table (4.9) identifies that there are significant impacts of corporate governance and its dimensions namely; board of directors, fairness and equity, responsibility and accountability, and independence. As showed by the coefficients (0.733, 0.456, 0.496, 0.725, and 0.588) respectively, while the p-values (0.000, 0.000, 0.000, 0.000 and 0.000<0.05) respectively, besides as revealed the t-test values are (7.375, 3.708, 3.308, 3.458, 5.471, and 5.784) respectively. Besides, the t-test = (10.654; p<0.05) for corporate governance as an independent variable, it means significant and support the results. So, the t= (5.077, 5.649, 10.428, and 7.192) respectively, the board of directors, fairness and equity, responsibility and accountability, and independence, and ($p<0.05$) for all four dimensions. **Then the hypotheses (*$H_{2.1}$, $H_{2.2}$, $H_{2.3}$, and $H_{2.4}$*) accepted.**

Table 4.9: Regression Coefficients

| Model | | Unstandardized Coefficients B | Unstandardized Coefficients Std. Error | Standardized Coefficients Beta | t | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 21.086 | 5.429 | | **3.884** | **.000** |
| | **Corporate Governance** | 0.780 | 0.073 | **0.733** | **10.654** | **.000** |
| | **Board of Directors** | 0.332 | 0.065 | **0.456** | **5.077** | **.000** |
| | **Fairness and Equity** | 0.344 | 0.061 | **0.496** | **5.649** | **.000** |
| | **Responsibility and Accountability** | 0.732 | 0.070 | **0.725** | **10.428** | **.000** |
| | **Independence** | 0.521 | 0.072 | **0.588** | **7.192** | **.000** |

a. Dependent Variable: Financial Performance

Furthermore, as shown in a figure below (4.1) the normality test used and the result exposed that there is normality distribution in study contributions responses regards the impacts of corporate governance and its dimensions on the financial performance.

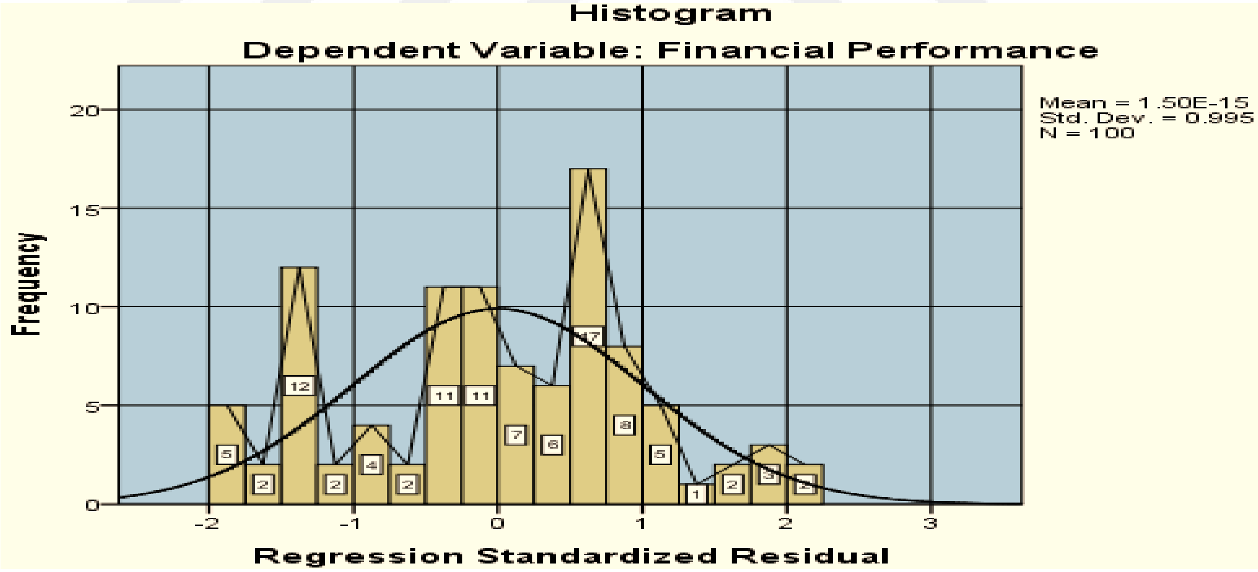


Figure 4.1: Normality Test

Additionally, the figure (4.2) demonstrates the linearity test and the outcomes specify that there is linearity relationship between corporate governance and the financial performance of the financial banks in Erbil city.

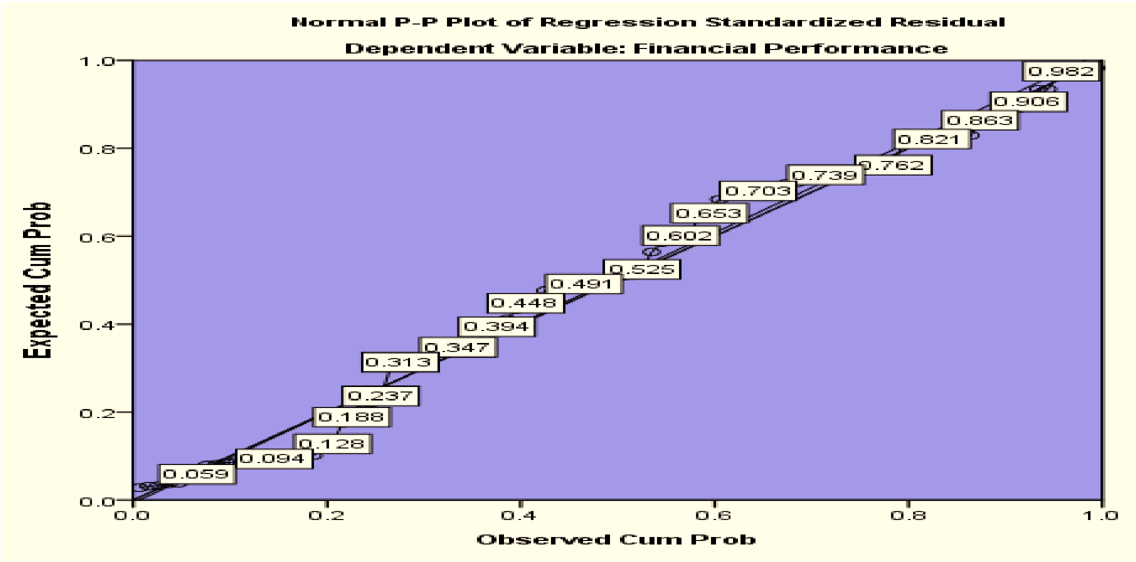


Figure 4.2: Linearity Test

### 4.5. THE RESULT OF HYPOTHESES TESTING

As exposed in the table below (4.10) the results appraised of the planned hypotheses that all the hypotheses in regards to relationships between the corporate governance and its dimensions namely; board of directors, fairness and equity, responsibility and accountability, and independence the financial performance and the impacts of independent variables on dependent variable accepted.

Table 4.10: Result of Hypothesis

| | Hypotheses | Result |
|---|---|---|
| ***$H_1$*** | **There is a positive relationship between corporate governance and the financial performance of the financial banks in Erbil city.** | **Accepted** |
| ***$H_{1.1}$*** | There is a positive relationship between corporate governance board of directors and the financial performance. | **Accepted** |
| ***$H_{1.2}$*** | There is a positive relationship between corporate governance board of directors and the financial performance. | **Accepted** |
| ***$H_{1.3}$*** | There is a positive relationship between corporate governance responsibility and accountability and financial performance. | **Accepted** |
| ***$H_{1.4}$*** | There is a positive relationship between corporate governance independence and financial performance. | **Accepted** |
| ***$H_2$*** | There is a statistically significant impact the of corporate governance on the financial performance of the financial banks in Erbil city. | **Accepted** |
| ***$H_{2.1}$*** | There is a statistically significant impact the of corporate governance board of directors on the financial performance. | **Accepted** |
| ***$H_{2.2}$*** | There is a statistically significant impact the of corporate governance fairness and equity on the financial performance. | **Accepted** |
| ***$H_{2.3}$*** | There is a statistically significant impact the of corporate governance responsibility and accountability on the financial p erformance. | **Accepted** |
| ***$H_{2.4}$*** | There is a statistically significant impact the of corporate governance independence on the financial performance. | **Accepted** |

# CONCLUSIONS AND RECOMMENDATIONS

## 1. Conclusions

The purpose of this thesis study is to investigate the impact of governance on financial performance according to the international finance corporation (IFC) a study of financial banks in Erbil.

However, to achieve this purpose, the study tested the relationship between corporate governance and financial performance according to the international finance corporation (IFC) through taking perspectives from selected six financial banks in Erbil, besides, the study tested the impact of corporate governance on the financial performance.

The study results indicate that governance has a significant impact on the financial performance of surveyed banks. According to the survey sample contributors, the highest agreement was on the board of directors, independence, and responsibility and accountability, that confirms there is a higher rate of agreement on the significance of these governance dimensions. However, the study found that factor analysis was appropriate and loaded higher values on all factors.

The ANOVA and t-test results proved that for all demographic data regards the corporate governance and financial performance there is no difference in the means between the demographic variables of the bank managers.

Moreover, the study found a significant relationship between corporate governance and financial performance of the financial banks in Erbil. However, responsibility and accountability, the board of directors, and independence have strong positive correlations with the bank’s financial performance. While fairness and equity have a weak correlation with financial performance, compare to other dimensions.

Furthermore, the regression outcomes demonstrate that statistically, corporate governance has an impact on financial performance. While, responsibility and accountability, the board of directors, and independence achieved the most substantial impacts on financial performance, and fairness and equity have the weakest impact on financial performance compared to the other three dimensions. Thus, these results indicated that indeed, corporate governance shows an actual impact on the financial performance and prosperity of the financial banks in Erbil.

## 2. Recommendations

The effect of this study comprises the increasing of the ground of the relationship between corporate governance and financial performance of the banks. Further, retaining and increasing the impact of this relational impact to achieve high financial performance. Therefore, this confirms can further the appreciative of financial banks of corporate governance and its relations to their financial performance in the broad context northern region and Iraqi businesses. Likewise, this study contributes to corporate governance literature in evolving countries, definitely a country like Iraq.

However, for the surveyed financial banks operating in Erbil to have a maintainable business growing and financial stability, they must hold best performs of corporate governance that will confirm shareholders' prosperity looked after in the best way possible. In this context, the researcher recommends that banks in Erbil must develop and invest the responsibility and accountability, the board of directors, and independence dimensions based on their significant impact on financial performance. Through, taking adequate measures in the event of mismanagement. As well as debating or questions over whether the board and or senior management take measures to safeguard the interests of all and not just the dominant shareholders.

However, more practices of each of fairness and equity, by providing necessary information for general meetings made available before the general meeting. Besides, the head of investor relations reports to either the CEO or a board of director members. Also, offer to all equity holders have the right to call general meetings. The study also endorses that financial banks in Erbil are legitimately employing the OECD corporate governance principles within their procedures and measures.

While the study implication contains a distribution of the nature of the relationship between corporate governance and financial performance of financial banks in Erbil, accordingly, this information can be new financial institutions or banking organizations cooperative the corporate governance and financial performance relationship in the framework of publicly Iraqi businesses. Furthermore, this study will contribute to corporate governance literature in developing countries; precisely country likes Iraq and its Kurdistan region.

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# APPENDICES

## Appendix 1: Questionnaire Form

**T.C**
**BİNGÖL UNIVERSITY**
**GRADUATE SCHOOL OF SOCIAL SCIENCE**
**BUSINESS ADMINISTRATION DEPARTMENT**

Dear Respondent

This questionnaire form is a part of the thesis study titled **“Impact of Corporate Governance on Financial Performance According to the International Finance Corporation (IFC) A Study of Financial Banks in Erbil”** in Partial Fulfillment of the Requirements for the Degree of Master in Management Science.

Kindly take the time to participate in the study by answering the study survey questions as it would have a positive impact in outputting this study at the required level.

Please mark one choice for each of the following statements by mark (√) in the appropriate place interpreting your views and thoughts. Results will aggregate by categories and reported only by statistical summaries. Information about individual banks will not identify.

Thanks in advance for your time and cooperation

**Supervisor**
Prof. Dr. Muammer ERDOĞAN

**Researcher**
Mohammed Hasan Agha
Master Student

## First: General Information

1. **Gender:** Male (      ) Female (      )
2. **Age:** Below30 (     ), 30-39 **(     ),**40–49 **(      ),** 50- 59 (     ), 60 and above (      )
1. **Your level of education:** Bachelor (   ), Higher Diploma (   ), Master Degree (     ), PHD (    )
2. **Overall Job Experience:** Less than 5 years **(     ),** 5-10 (   ), 11-15**(   ),** 16-20 (       ), More than 20 years (    )
3. **Scientific Specialization:** Management **(       ),** Accounting (      ), Finance and banking (       ), Economic ( )**,** Other (please specify)…………………

## Second Section: The Scale of Corporate Governance

This part of the scale based on an extensive scale that includes a combination of four components namely: **Board of Directors, Fairness and Equity, Responsibility and accountability, and Independence**.

**Board of Directors:** The Banks' board of directors is the elements that contribute to the implementation of corporate governance through:

| S | Agreed By / Statements | 100% | 90% | 80% | 70% | 60% | 50% | 40% | 30% | 20% | 10% | 0% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Board of directors provides the appropriate information to stakeholders through active and active communication channels. | | | | | | | | | | | |
| 2 | The commitment of the board of director's members not to their interest's conflict with the interests of the bank's financial performance. | | | | | | | | | | | |
| 3 | The board of directors exerts sufficient care to preserve the interests of the bank and shareholders' equity through the disclosure of information. | | | | | | | | | | | |
| 4 | Board of directors enjoys independence from the executive management. | | | | | | | | | | | |

**Fairness and Equity:** The Banks' fairness and equity is the essentials that contribute to the implementation of corporate governance through:

| S | Agreed By / Statements | 100% | 90% | 80% | 70% | 60% | 50% | 40% | 30% | 20% | 10% | 0% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 5 | All fairness holders have the right to call general meetings | | | | | | | | | | | |
| 6 | The voting methods easily accessible. | | | | | | | | | | | |
| 7 | The essential information for broad meetings made available before the general meeting. | | | | | | | | | | | |
| 8 | The senior administration indisputably realizes as trying to ensure fair value reflected in the market price of the stock. | | | | | | | | | | | |
| 9 | The investor relations head reports to either the CEO or a board of director members. | | | | | | | | | | | |
| 10 | There has no queries or apparent controversy over whether the corporation has issued depositary receipts that benefited mainly significant shareholders. | | | | | | | | | | | |
| 11 | All fairness containers have the right to call general meetings | | | | | | | | | | | |

**Responsibility and Accountability:** The Banks' responsibility and accountability is the basics that promote to the implementation of corporate governance through:

| S | Agreed By / Statements | 100% | 90% | 80% | 70% | 60% | 50% | 40% | 30% | 20% | 10% | 0% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 12 | The bank has a identified record of taking effective measures in the event of mismanagement. | | | | | | | | | | | |
| 13 | There are queries over whether the Board and or senior management take actions to safeguard the benefits of all and not just the dominant shareholders. | | | | | | | | | | | |
| 14 | There are instruments to permit retribution of the executive management committee in the event of mismanagement as far as the analyst can tell for sure. | | | | | | | | | | | |
| 15 | The board members and members of the executive management committee substantially different such that the Board is seen to be | | | | | | | | | | | |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | playing a primarily supervisory as opposed to an executive role. | | | | | | | | | | | |
| **16** | There are foreign nationals on the Board who seen as providing added credibility to the Board's independence. | | | | | | | | | | | |
| **17** | The committee of audit nominates and ways a proper review of the work of external auditors. | | | | | | | | | | | |
| **18** | The committee of audit manages internal audit and accounting procedures. | | | | | | | | | | | |

**Independence:** The Banks' Independence is the necessities that support the implementation of corporate governance through:

| **S** | **Agreed By** / **Statements** | **100%** | **90%** | **80%** | **70%** | **60%** | **50%** | **40%** | **30%** | **20%** | **10%** | **0%** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **19** | The bank's chairman an independent, nonexecutive director. | | | | | | | | | | | |
| **20** | The bank has an executive or management committee that makes most of the executive decisions. | | | | | | | | | | | |
| **21** | The bank has an audit committee and chaired by a perceived genuine independent director. | | | | | | | | | | | |
| **22** | The bank has a nominating committee and chaired by a perceived genuine independent director. | | | | | | | | | | | |
| **23** | The external auditors of the corporation in other aspects appear to be utterly unrelated to the corporation. | | | | | | | | | | | |
| **24** | The board comprises no direct legislatures of banks and other large creditors of the corporation. | | | | | | | | | | | |

## Third Section: The Scale of Bank's Financial Performance

### First, Financial Dimension

| S | Agreed By / Statements | 100% | 90% | 80% | 70% | 60% | 50% | 40% | 30% | 20% | 10% | 0% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | The bank attempts to fulfill its promise to the community through providing services aimed at spreading financial awareness and knowledge. | | | | | | | | | | | |
| 2 | The bank pursues to decrease unnecessary operational costs that do not contribute to improving the quality of service provided to its clients. | | | | | | | | | | | |
| 3 | The bank is aggregate the efficiency of the financial services provided to develop its revenues. | | | | | | | | | | | |
| 4 | The bank is functioning on developing continuous financial plans to increase the investment of funds in the service of clients. | | | | | | | | | | | |
| 5 | The return on investment exceeds the competitive banks. | | | | | | | | | | | |
| 6 | Banks' Profit margin from operations exceed the competitive banks. | | | | | | | | | | | |

### Second, Internal Processes of the Financial Services

| S | Agreed By / Statements | 100% | 90% | 80% | 70% | 60% | 50% | 40% | 30% | 20% | 10% | 0% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 7 | The bank simplifying and facilitating the financial services offered to clients. | | | | | | | | | | | |
| 8 | The bank provides the various information needed to accomplish the financial service. | | | | | | | | | | | |
| 9 | The bank quickly responds to changes that occur in the internal work environment. | | | | | | | | | | | |
| 10 | The bank is paying attention to its department proposals to develop and update the financial work. | | | | | | | | | | | |
| 11 | The bank promotes outstanding scientific research conducted by its departments. | | | | | | | | | | | |

### Third, Client Satisfaction

| S | Agreed By / Statements | 100% | 90% | 80% | 70% | 60% | 50% | 40% | 30% | 20% | 10% | 0% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **12** | The bank's management is keen to develop its financial services to the community in line with its social responsibility. | | | | | | | | | | | |
| **13** | The bank's management is trying to simplify the financial procedures to satisfy its clients. | | | | | | | | | | | |
| **14** | The bank will develop integrated scheduling for all sections to avoid congestion and overcrowding among clients. | | | | | | | | | | | |
| **15** | The bank provides practical consultation and research that benefits the clients. | | | | | | | | | | | |
| **16** | The bank pursues to advance a ground survey from time to time to measure the extent of the client's satisfaction with its financial services. | | | | | | | | | | | |

## Fourth, Education and Development

| S | Agreed By / Statements | 100% | 90% | 80% | 70% | 60% | 50% | 40% | 30% | 20% | 10% | 0% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **17** | The bank is creating an organizational environment beneficial to the clients. | | | | | | | | | | | |
| **18** | The bank provides an enormous amount of data and information to guide the efforts of staffs. | | | | | | | | | | | |
| **19** | The bank encourages creators and builds their creative ideas. | | | | | | | | | | | |
| **20** | The bank relies on different training programs within and outside the region to enable them to improve financial performance levels | | | | | | | | | | | |

## Appendix 2: List of Questionnaire Arbitrators

| S | Name | Scientific Tile | Experts | Workplace |
|---|---|---|---|---|
| **1** | Dr. Darman Suleiman Alnmr | Professor | Marketing Strategy | Duhok University The College of Administration and Economics |
| **2** | Dr. Khalid Hama-Amin Mirkan | Professor | Strategic Management | Salahaddin University The College of Administration and Economics |
| **3** | Dr. Ahlam Ibrahim Wali | Assistant Professor | Strategic Management | Salahaddin University The College of Administration and Economics |
| **4** | Mrs. Mhabat Nuri Abdullah | Assistant Professor | Marketing Management | Salahaddin University The College of Administration and Economics |
| **5** | Mr. Mudafar Hamad Ali | Assistant Professor | Human Resource Management | Salahaddin University The College of Administration and Economics |

## Appendix 3: Curriculum Vitae

| PERSONAL INFORMATION | | | |
|---|---|---|---|
| **Name & Surname** | Mohammed Hasan AGHA | | |
| **Date of Birth** | August 17th, 1988 Iraq, Erbil, Brayati | | |
| **Nationality** | Iraqi | | |
| **Contact** | | | |
| **Place & Address** | Erbil – Iraqi Kurdistan | | |
| **E-mail** | mohammed1988h@gmail.com | | |
| **TELEFON** | 00964 (0) 750 465 36 65 | | |
| **Education Level** | | | |
| **Degree** | **Field** | **University** | **year** |
| **Undergraduate** | Banking and Finance Department | Salahaddin University-Erbil | 2012 |
| **Postgraduate** | Business Administration Department | Bingöl University | |

| Work Experience | | |
|---|---|---|
| **Work place** | Position | Year |
| **MEGAMALL** | | |

**AWARDS**

- **Active accounting manager award in MEGA MALL 2015**
- **Active deputy manager in MEGA MALL 2016**
- **Appreciation from DABIN GROUP company 2013**