BOARD GOVERNANCE, RISK GOVERNANCE AND BANK PERFORMANCE: THE MODERATING ROLE OF COMPETITIVE INTENSITY ON BANKS IN KUWAIT

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by

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LIST OF ABBREVIATIONS

ABK	Al Ahli Bank Of Kuwait
AUB	Ahli United Bank (Almutahed)
BKME	Bank Of Kuwait And The Middle East
BOD	Board Of Directors
BOUBYAN	Boubyan Bank
BURG	Burgan Bank
CBK	Central Bank of Kuwait
CBOK	Commercial Bank Of Kuwait
CEO	Chief Executive Officer
CRO	Chief Risk Officer
FDI	Foreign Direct Investments
GBK	Kuwait Gulf Bank
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
KCC	Kuwait Clearing Company
KFH	Kuwait Finance House
KIB	Kuwait International Bank
KSE	Kuwait Stock Exchange
NBK	National Bank of Kuwait
NPL	Non-Performing Loan
RMC	Risk Management Committee
ROA	Return On Assets
ROE	Return On Equity
WB	Warba Bank

TADBIR URUS LEMBAGA PENGARAH, TADBIR URUS RISIKO DAN PRESTASI BANK: PERANAN PENYEDERHANAAN INTENSITI PERSAINGAN TERHADAP BANK-BANK DI KUWAIT

ABSTRAK

Topik tadbir urus korporat dan risiko telah mendapat perhatian pada tahun-tahun lepas disebabkan oleh kesan krisis kewangan yang berturut-turut. Tumpuan bank pusat dan institusi perundangan terhadap isu-isu ini telah mengambil bahagian yang besar untuk menyokong ekonomi dan meningkatkan keyakinan pelabur. Kajian ini memberi tumpuan kepada mengkaji kesan perundangan tadbir urus korporat yang baru yang dikeluarkan oleh Bank Negara Kuwait (CBK) pada tahun 2012, ke atas prestasi berasaskan perakaunan, diukur oleh pulangan ke atas aset (*ROA*) dan pulangan atas ekuiti (*ROE*) dan prestasi berasaskan pasaran, diukur oleh *Tobin's Q* dan pergerakan harga saham. Pemilihan sampel termasuk 10 bank tersenarai di bursa saham Kuwait (KSE) meliputi tempoh dari 2013 hingga 2019. Kajian ini memilih tiga pembolehubah tadbir urus lembaga iaitu saiz lembaga pengarah, kebebasan lembaga pengarah dan mesyuarat tahunan lembaga pengarah. Kajian itu juga memilih kehadiran ketua pegawai risiko (CRO), saiz jawatankuasa pengurusan risiko dan mesyuarat tahunan sebagai pembolehubah tadbir urus risiko manakala saiz bank dan leveraj bank digunakan sebagai pembolehubah kawalan. Kajian itu menonjolkan kepentingan intensiti daya saing dalam sektor perbankan, yang mana penyelidikan yang jarang dilakukan terhadap tadbir urus korporat sebelum ini, diukur dengan nisbah kepekatan bank (BCR) sebagai pembolehubah penyederhana yang boleh memberi kesan kepada hubungan. Kajian menggunakan analisis regresi data panel seperti *Fixed Effect Model (FEM), Random Effect Model (REM),* dan *Ordinary Least Square (OLS)*

untuk mengkaji perhubungan. Penemuan menunjukkan bahawa saiz lembaga pengarah mempunyai hubungan positif yang signifikan dengan *ROA* manakala terdapat hubungan negatif yang signifikan dengan *Tobin's Q*. Keputusan juga mendedahkan hubungan positif yang signifikan antara kehadiran ketua pegawai risiko dan prestasi berasaskan pasaran, manakala hubungan negatif yang signifikan antara saiz jawatankuasa pengurusan risiko dan *Tobin's Q* diperhatikan. Tambahan pula, penemuan intensiti persaingan sebagai moderator menunjukkan hubungan negatif antara mesyuarat lembaga pengarah dengan prestasi berasaskan perakaunan, saiz lembaga pengarah dengan Tobin's Q, dan saiz jawatankuasa pengurusan risiko dengan prestasi berasaskan pasaran. Hasilnya akan membantu Bank Pusat Kuwait dalam meneruskan pembangunannya dalam bidang ini dengan mengenal pasti pembolehubah penting untuk amalan tadbir urus korporat/risiko yang terbaik.

BOARD GOVERNANCE, RISK GOVERNANCE AND BANK PERFORMANCE: THE MODERATING ROLE OF COMPETITIVE INTENSITY ON BANKS IN KUWAIT

ABSTRACT

Corporate and risk governance topics have gotten attention in the past years due to the impact of the successive financial crises. The focus of central banks and legislative institutions on these issues has taken a large part in order to support economies and increase investor confidence. This study focuses on studying the impact of new corporate governance regulations that was issued by the Central Bank of Kuwait (CBK) in year 2012 on the accounting-based performance, measured by return on assets (ROA) and return on equity (ROE) and market based-performance, measured by Tobin's Q and stock price movement. The sample selection includes 10 listed banks in the Kuwait stock exchange (KSE) covering the period from 2013 until 2019. The study selects three board governance variables namely board of directors'size, board of directors' independence, and board of directors' yearly meetings. The study as well chooses chief risk officer (CRO) presence, risk management committee size and yearly meetings as risk governance variables while bank size and bank leverage are used as control variables. The study highlights the importance of competitive intensity in the banking sector, which scarce research has been done on corporate governance previously, measured by bank concentration ratio (BCR) as a moderating variable that could impact the relationship. the study applies panel data regression analysis such as fixed effect model (FEM), random effect model (REM), and ordinary least square (OLS) method to examine the relationships. The findings show that board of directors' size has significant positive relationship with

ROA while there is significant negative relationship with Tobin's Q. Results also reveal a significant positive relationship between chief risk officer presence and market-based performance, while a significant negative relationship between risk management committee size and Tobin's Q is noticed. Furthermore, the findings of competitive intensity as moderator shows a negative relationship between board of directors' meetings with accounting-based performance, board of directors' size with Tobin's Q, and risk management committee size with market-based performance. The results will assist Central Bank of Kuwait in continuing its development in this field by identifying the significant variables for the best corporate/risk governance practices.

CHAPTER 1

INTRODUCTION

1.1 Introduction

The importance and awareness of corporate governance and risk governance issues has increased after the global financial crisis. Countries around the world with the economic and financial authorities attach great attention to the issues of corporate governance and risk governance as they have a major impact on the development of the economy in any country. According to Gulzar and Wang (2010) a good corporate governance participates significantly in the sustainability of a business and contributes in maintaining economic growth. Furthermore, financial risk management has been developed significantly and received great attention globally in previous years (Bagh, Asif, & Razzaq, 2017; Erin, Bamigboye, & Arumona, 2020) . According to Njogo (2012), risk management in financial institutions has been a key in the global financial crisis in the past decade. Therefore, there is a continuous need to issue many rules, systems and regulations in order to protect the economy. A strong risk management within a bank assists in encountering the fluctuations in the sector and mitigating the risks (Agnese & Capuano , 2020).

One of these systems is the application of corporate governance principles and standards. Corporate governance has been defined as "the system by which companies are directed and controlled" (World Bank, 2016, para. 2). The International Monetary Fund (IMF, 2016) states that corporate governance includes internal rules and practices, "which help ensure that the suppliers of finance to companies get a return on their investment" (para. 3). Sar (2018) defines corporate governance as a set of processes for direction and control of companies, which may include internal rules and practices. The author also argues that corporate governance is aimed at balancing the expectations of various stakeholders. These definitions of corporate governance emphasize the importance of implementing principles in order to protect all stakeholders that have relationship with corporations as well as to ensure more transparency and supervision on organizational performances.

There are many ongoing events and factors that contribute to continuity in the study of corporate governance and risk governance perspective. The financial crisis that hit the world in 2008 and led to the creation of many financial and economic problems at the level of countries and companies was one of the reasons that forced to focus on corporate governance and risk governance issues. For example, the collapse of Lehman Brothers bank in 2008 is one of the strongest shocks to global markets due to the size of the bank and its status as a major market player. The lack of an assessment and monitoring of risks associated with mortgages in the U.S. market caused this collapse and bankruptcy of the bank. Another factor that increased the attention to corporate governance and risk governance issues is the scandals that some companies have done in previous years. These scandals have created a lack of trust and confidence from investors in marketplace in general. For instance, Enron company scandal is one of the most famous scandals that rocked the U.S. market and reflected its impact on other companies. Cuong (2011) mentions that weak corporate governance practices coupled with dishonest culture and unethical deeds by company boards and management are factors that led to the collapse of Enron. Moreover, the continued desire of economic and financial organizations to develop their business environment for the purpose of attracting capitals is an important factor in the continuous attention on the subjects of corporate governance and risk governance. These organizations, whether global or local, are regularly reviewing their systems and regulations in order to achieve a healthy and transparent competitive environment.

All these reasons have encouraged to study this case in the state of Kuwait. This thesis focuses on the impact of corporate governance and risk governance practices on the performance of Kuwaiti listed banks after the hit of global financial crisis in 2008. The results of this study may contribute to the enrichment and advancement of the economic work environment by assisting interested parties in this matter through increasing their knowledge and expertise.

1.2 Background of the Study

1.2.1 Kuwait Economy

The State of Kuwait, a member in the Gulf Cooperation Council (GCC), considered one of the countries with abundant financial wealth and a major market player in world oil market. Kuwait is one of the smallest countries in the world with a petroleum-based economy. Arslan, Bozgeyik and Al-Azaki (2019) report that around 50 percent to 60 percent of State of Kuwait's gross domestic product (GDP) is designated by oil revenues and that petrochemical and petroleum industries accompanied by financial services sectors continue to support the economic evolution and development in State of Kuwait (Hague, Patnaik, & Hashmi, 2017). A report released by the World Bank in 2016 identified Kuwait as one of the most successful in terms of gross domestic product (GDP) (Biygautane, Gerber, & Hodge, 2016).

The dependence on oil revenues clarifies the fluctuations in gross domestic product (GDP) throughout history of the State of Kuwait. For instance, Kuwait passed in a stages of continual developments and reforms in 2009 and the following years witnessed an increase in gross domestic product (GDP) (Almujamed, Tahat, Omran, & Dunne, 2017) with highest GDP of USD174.2 billion was recorded in the year 2013 (see Figure 1.1). However, the collapse of oil prices in year 2014 caused a decrease in GDP. As a result, Figure 1.1 shows that GDP reached a minimum of USD109.42 Billion in 2016 (Trading Economics, 2019c)

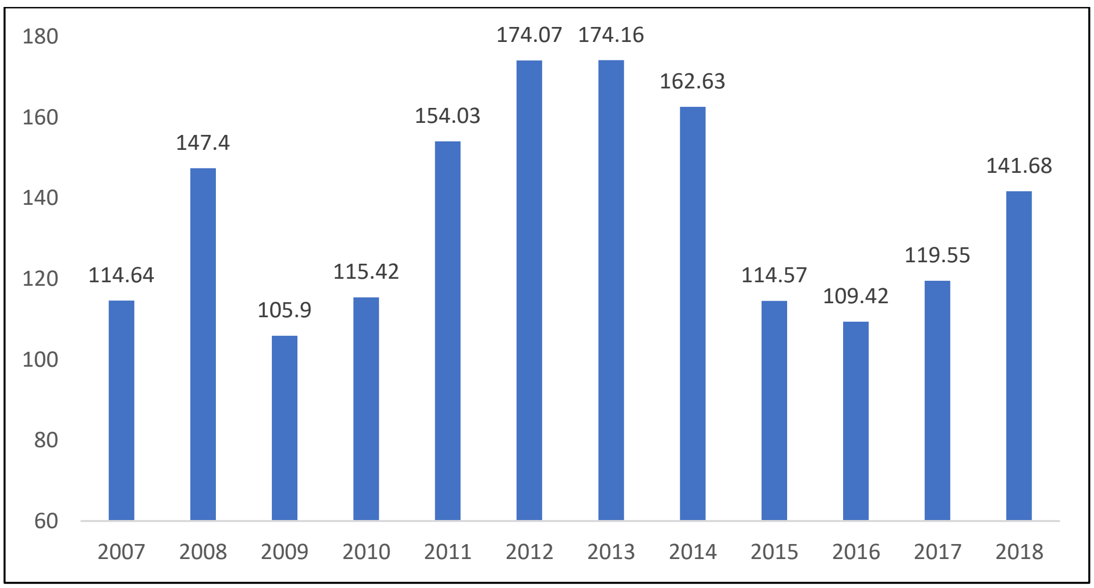

Figure 1.1: Kuwait's Gross Domestic Product (GDP) from 2007-2018

Source: Trading Economics 2019c

One of the outstanding aspects about the State of Kuwait is that it ensures that its currency, Kuwaiti Dinar, is not pegged to the USD. Instead, the Central Bank of Kuwait (CBK) links Kuwaiti dinar to a basket of currencies rather than to dollar alone (NBK Economic Research Department, 2019). This flexibility gives Central Bank of

Kuwait (CBK) the ability to respond to continuous economic surroundings changes and control the interest rate. As a result, Central Bank of Kuwait (CBK) manages to retain interest rates relatively at low and stable levels since it changed from 2.25 percent in 2015 to 3 percent in 2018 (NBK Economic Research Department, 2019). Figure 1.2 shows the changes in interest rates for State of Kuwait (Trading Economics, 2019e).

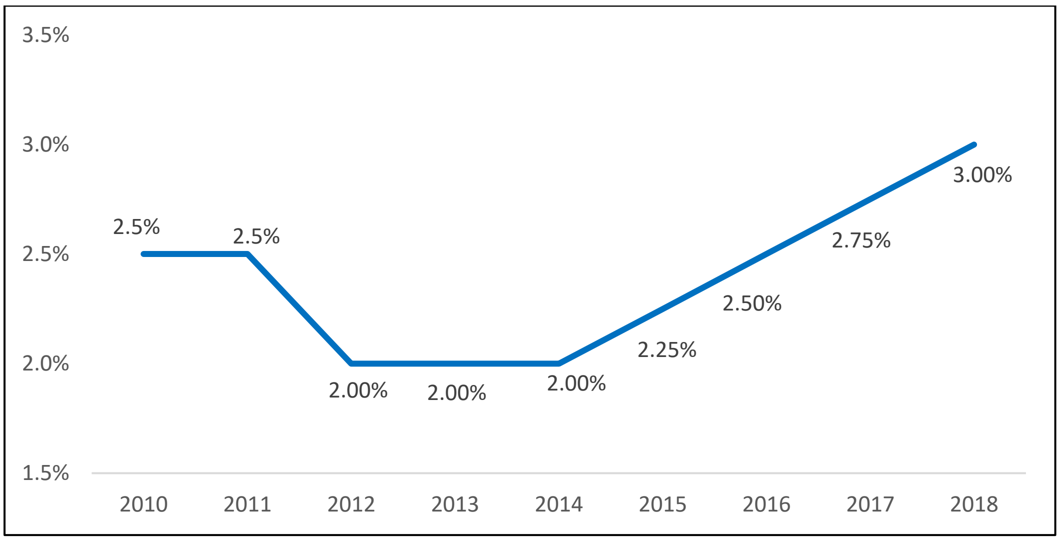

Figure 1.2: Kuwait's Interest rate

Source: Trading Economics 2019e

The control of the Central Bank of Kuwait (CBK) over interest rates levels has affected the inflation rates in the country. Since 2012, the State of Kuwait's inflation rate has remained quite low with the highest rate of 3.70 percent was recorded in the year 2015. The graph presented in Figure 1.3 gives a summary of the State of Kuwait inflation rate since 2012 (Trading Economics, 2019d).

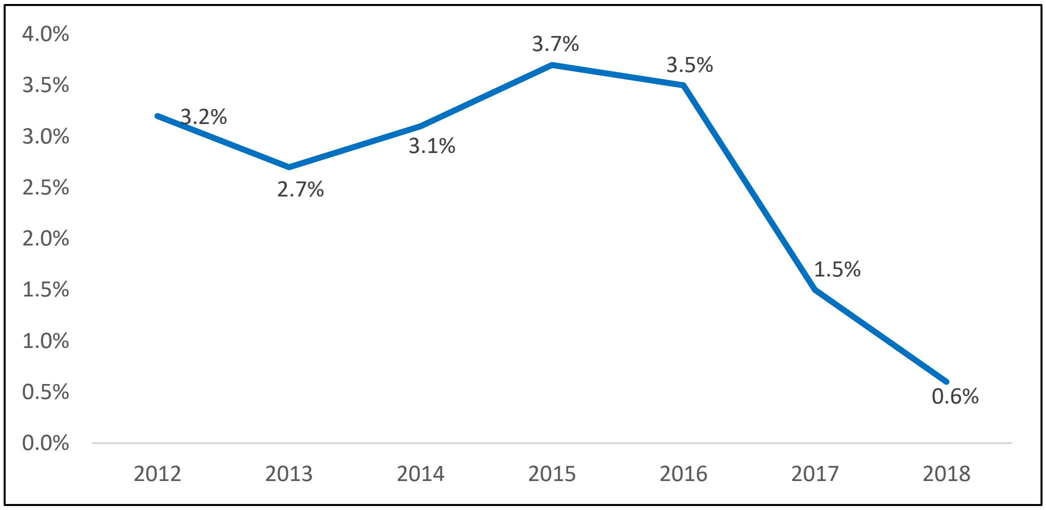

Figure 1.3: Kuwait's inflation rate

Source: Trading Economics 2019d

As mentioned earlier, the State of Kuwait has suffered from the fact that its economy is based mainly on oil revenues and any drop-in oil prices create difficulties for the country. The continuous fluctuation in oil prices affected the flow of foreign direct investments (FDI) into the State of Kuwait and it can change dramatically in a year (Trading Economics, 2019b). The highest foreign direct investments (FDI) registered was 721 Million dinars late 2012 (Trading Economics, 2019b) while the following years witnessed more average investments, which can be explained by uncertain oil prices (World Investment Report, 2015).

1.2.2 Kuwait Banking Sector

Despite the good macroeconomic indicators as mentioned previously, the economy of Kuwait faces significant risk factors. The fact that majority of the GDP is from oil and gas indicates that the economy would suffer in case of any disturbance in the energy sector or depletion of the oil wells. Therefore, strengthening of the private sector, such as starting from banking sector, is important in diversifying risks in the economy.

Supervised by the Central Bank of Kuwait with 10 commercial Kuwaiti listed banks, the banking sector in Kuwait is performing well (The International Trade Administration, 2017). The amendment of the Banking Law of 1968 allowed the operation of foreign banks in Kuwait, which has enabled foreign banks such as HSBC, Citigroup, and BNP-Paribas to open branches in Kuwait. However, the National Bank of Kuwait (NBK) remains the largest commercial bank in the country. The financial sector in Kuwait is still developing with the banking sector remaining well capitalized while non-performing loans declining (The Heritage Foundation, 2018). Atyeh, Yasin, and Khatib (2015) have also shared sentiments indicating that the banking sector in Kuwait has been growing considerably over the years and contributing greatly to the economy of the country. This is evident by the Central Bank of Kuwait (CBK) statistical publications that show a decrease in non-performing loan ratio (NPL) from its highest value of 11.5 percent in 2009 to 1.6 percent in 2018 while net profit margin improved from 17.2 percent in 2009 to 36.5 percent in 2018 indicating a better performance for Kuwaiti banks.

Despite the progressive growth, a significant decline in performance seen through declined profitability, return on equity (ROE), capital, as well as assets during the 2008 global financial crisis (Atyeh, Yasin, & Khatib, 2015). Stability in the Kuwait banking sector since the 2008 global financial crisis has been necessitated by a series of new rules developed by the Central Bank of Kuwait (CBK) and other regulatory authorities in the country (Oxford Business Group, 2018). In this regard, structural weaknesses, especially the dominant reliance on oil for government funding and GDP is the major challenge facing the banking sector because of the declining in oil prices, which threatens financial stability in the country (Oxford Business Group, 2018). Declining in oil prices will reduce government spending and capital expenditure in the country. Hence, the rate of funding provided by banks to companies that will enter the government tenders will decrease which will affect banks financial performance.

1.2.3 Corporate Governance in Kuwait Banking Sector

The 2008 global financial crisis indicated that poor corporate governance in the banking sector as well as other business sectors can be a major threat to the stability of the financial sector as well as the economy (Commercial Bank of Kuwait, 2016). As a result, central banks all over the world are adopting measures of improving corporate governance practices in their respective banking sectors and the Central Bank of Kuwait (CBK) is not exceptional. The issue of corporate governance is taken seriously in an attempt to ensure that the banking sector meets that targeted economic development objectives.

Regulatory authorities in Kuwait have been supporting and encouraging the idea of effective governance in all companies with the focus on banks to benefit from this practice. Since the 1960s, the Central Bank of Kuwait (CBK) has been reviewing and issuing updated instructions and regulations for the sake of strengthening the financial position of all Kuwaiti banks. The core cause for doing so is to make sure that the banking sector adheres to managerial and leadership practices that is based on evidence (Al-Shammari, 2014). The Central Bank of Kuwait (CBK) has also been focusing on international standards and control measures relevant to corporate governance in an attempt to increase the efficiency in banking sector. This initiative is vital since it can ensure that all banks are capable of supporting performance and ensuring that the targeted goals are reached. The Central Bank of Kuwait (CBK) also supervises the major practices undertaken in an attempt to promote good governance in banking institutions. For example, the Central Bank of Kuwait (CBK) request from all banks to develop procedures for identifying and assessing risks, fighting all shapes of money laundering, and applying satisfactory directives to monitor investment procedures (Belal & Hamat, 2016). These characteristics of organizational leadership in the Kuwaiti banking sector have delivered positive results that will help in supporting Kuwait economic sustainability and continuity.

With the increased interest in corporate governance field, researchers have been encouraged to study the concept of corporate governance and the researchers in Kuwait have started to study corporate governance implications in Kuwait banking sector. In a study to assess the association between board independence and bank performance in Kuwait, AlSaidi and AlShammari (2013) figure out that board size and proportion of non-executive members on the board negatively impact the performance. In another study to estimate the level of voluntary disclosure practices in the annual reports of Kuwait Stock Exchange (KSE) listed companies and investigate the link between corporate governance mechanism and voluntary disclosure practices, Alfraih and Almutawa (2017) discover that board size, role duality, as well cross directorship relates negatively to voluntary disclosure while government ownership relates positively to voluntary disclosure. Attributable to the development and increase in complexity of financial institutions coupled with the great interest of the Central Bank of Kuwait (CBK) in keeping pace with these developments, it is expected that there will be several researches in corporate and risk governance area in Kuwait banking sector in the future. In a recent study, Al-Saidi (2021) examine the influence of board of directors on the performance of 89 non-financial companies listed in Kuwait Stock Exchange (KSE). The study covers the period from 2017 until 2019 and results show that board size, diversity and independence significantly influence Tobin's Q.

1.2.4 Major Corporate Governance Amendments in Kuwait Banking Sector

To ensure compliance with the international banking supervision systems aimed at improving corporate governance standards in the banking sector, the Central Bank of Kuwait (CBK) replaced the April 2004 instructions on "Rules and Standards of Corporate Governance in Kuwait Banks" with a new set of instructions on June 20, 2012. The new instructions incorporated the lessons learned from the 2008 global financial crisis. Moreover, the new instructions are based on 9 pillars, namely "roles and responsibilities of board of directors, corporate values, group structure, and conflict of interest, executive management, risk management and internal controls, remuneration policies and systems, disclosure and transparency, complex corporate structures, protection of the rights of shareholders, as well as protection of the rights of stakeholders" (Commercial Bank of Kuwait, 2016, p. 3). The Central Bank of Kuwait (CBK) introduced the new policies and regulations in 2012 in an attempt to change for the better nature of corporate governance and ensure that all banks are able to compete and survive globally. According to the CBK's governor, the new directives were necessary since they were able to consolidate the trust in banking sector at both the local and international levels (Kassem, 2018). Many stakeholders support the new regulations since they are competent to enhance the nature of operating environments for Kuwaiti banks.

The new regulations issued by CBK in 2012 were mainly aimed at smoothing governance regulations and rules for all Kuwaiti banks. The first area of amendment was related to board of directors. The new regulations affirmed that all boards were needed to honor their obligations and support the performance of the targeted institutions. The new amendment redefined a number of aspects, including strategic goals (Bell & Dent, 2018). The board of directors should improve governance practices, be part of managerial practices, protect the interests of all stakeholders, and concentrate on the best approaches to manage risk. The board could also support internal management and monitor external auditing procedures. The second area focused on the independence of the board of directors. The major prerequisite for boards is to ensure that all decisions and subjects were addressed objectively. This practice would make sure that the rights of minority interest shareholders were not compromised (Zerban & Ateia, 2016).

The supervisory role of the board was expanded to include the active supervision of the executives. The new directives aimed to introduce new sub-committees derived from the board and managed by the board members. This strategy would streamline operations, minimize potential losses, concentrate on subjects related to each sub-committee, and eventually support banks economic performance.

Another issue captured under the new corporate government framework of 2012 was that of bonuses and allowances. The new role was for boards to assess bonuses and allowances in proportion to bank’s long-term and short-term risk management. Leaders of boards were also expected to boost transparency and enhance the announcement of data criteria (Zerban & Ateia, 2016). Such an initiative would promote effectiveness and eventually deliver positive results. Chief executive officers (CEOs) and board members were required to focus on critical values and ethics of governance. Such attributes were taken seriously in an attempt to maximize professionalism and improve performance. With these changes, the Central Bank of Kuwait (CBK) was keen to undertake new surveys and studies aimed at assessing the way in which certain financial institutions and banks followed such regulations (Kotnal, 2016).

1.2.5 Risk Governance in Kuwait Banking Sector

Kuwait's Stock Exchange (KSE) suffered from weak governance applications during the 2008 financial crisis, which led to significant losses for most banks and companies. Kuwait Gulf Bank (GBK) is the most famous example in Kuwait banking sector for not properly quantifying risks and applying good corporate governance. Kuwait Gulf Bank lost around USD1.2 billion due to losses in derivative contracts, investment portfolios, and loan portfolios (Gulf bank, 2009) and Kuwait government has been prompted to intervene and bailout Kuwait Gulf bank to prevent collapse of banking system.

According to Capital Standards (2009), the 2008 global financial crisis resulted in the development of a crippling portfolio of non-performing loans (p. 3). Therefore, banks and other financing institutions experienced customer defaults and bad loans among other risk factors that made it difficult to recover loans whether the principal or even the interest on loans. However, some banks such as the National Bank of

Kuwait (NBK) remained profitable throughout the global financial crisis (National Bank of Kuwait, 2018, p. 5). This does not mean there were no customer defaults or bad loans but risk management and governance practices had anticipated such occurrences and mitigation measures undertaken. Loan loss provisions increased greatly after the 2008 global financial crisis and have remained high. The increase in these provisions indicates that the banks are facing more uncertainties when providing loans.

Due to the importance of risk governance in banks, one of the most important amendments that the Central Bank of Kuwait (CBK) paid attention to in the new corporate governance regulations is related to the risks surrounding Kuwaiti banks. The new corporate governance amendments were directed at the formation of sub-committees emanating from the board of directors, including the risk management committee (RMC) which consist of 3 non-executive members including the chairman of the Committee. Having a dedicated risk management Sub-committee will increase the effectiveness of the control by bank board on the risks surrounding the bank. Moreover, the bank shall also have independent risk management department with an independent chief risk officer (CRO) responsible of banks risks. The chief shall also be entitled to direct contact with the chairman of the board of directors and chairman of the risk management committee (RMC) arising from the board of directors.

Risk governance in banking sector has been a hot and important topic for study in recent years. This was a reason for why the interest of the new corporate governance regulations by the Central Bank of Kuwait (CBK) focused on the risks related to the banks and considered it as one of its 9 corporate governance pillars. According to Ali and Naysary (2014), risk management in the banking sector is very important because of the key role the banking institutions play in the economy. After the 2008 global financial crisis, regulators and leaders in the financial sector have agreed on the need and necessity for adopting comprehensive risk management reforms (Safari, Shateri, Shateri Baghiabadi, & Hozhabrnejad, 2016). For that reason, studying risk governance in the banking sector will help in understanding the kind of reforms that regulators and leaders of financial institutions are undertaking to prevent a similar crisis in case it strikes again.

1.2.6 Competitive Intensity in Kuwait Banking Sector

Profitability of companies in any sector is determined on the basis of competition in that sector as competition forms the market structure of the sector; hence, the performance for each company. As competition intensifies in the banking sector, it will lead to better efficiency in allocating funds, stimulus on better prices and services quality (Abdul Majid & Sufian, 2007, Boyd & De Nicoló, 2005). Due to the importance of competition in shaping sectors and profitability of firms, studies have focused on this aspect. Khattak and Ali (2021) assert that there are abundantly studies concerning the impact of competition on performance; however, the results are varied which require further investigation.

Competition in Kuwait banking sectors is considered severe as there are many local and foreign market players competing in the sector. As stated in the Central Bank of Kuwait (CBK) report related to Kuwait banking sector, the profitability of banks in the State of Kuwait in the period from 2014 till 2018 shows a return on average assets (ROAA) ratio recorded at 11% in 2014 while in 2018 it reached 1.3% indicating an intensified and aggressive rivalry in the sector (Central Bank of Kuwait, 2019). The report also highlights that competition has enforced banks operating in the State of Kuwait to improve their operations and efficiency through providing better products and services to the customers which ultimately enhanced the profitability of banks. Moreover, Khattak and Ali (2021) study the influence of competition on bank's profitability in a dual banking system, sharia' a compliant and conventional banking system, for sample of six countries in Gulf Cooperation Council (GCC) economies including State of Kuwait. They figure out that that sharia' a compliant and conventional banks functions and operates similarly in the banking sector. This indicate that banks operating in the State of Kuwait are competing in the same scope and share the same clientele base which increase and intensify the competition in the sector.

Kuwait has adopted numerous reforms policies in previous years to develop the economy with the aim on its growth and prosperity. Among these reforms is to improve the competitive environment in various sectors operating in the country, including the banking sector. Therefore, it has become important to address and investigate the impact of competition in studies in its various fields. Moreover, as there are a limited number and scarcity of studies that deal with this matter, it has become important to have more research related to this field of study since it provides guidelines on knowing the extent of this relationship and thus benefiting from the results in improving and enhancing the business environment further. In this study, the impact of competitive intensity on the relationship between corporate governance and risk governance on Kuwait banks performance will be addressed.

1.3 Research problem

The recurrence of financial crises in Kuwait, whether due to local reasons or because of global financial crises have affected Kuwait economy severely. Kuwait has passed through many financial crises in the past decades that shocked the economy and financial system. The Kuwait Stock Exchange (KSE) has confronted many challenges and substantial crisis in 1977, 1982, and 1997 along with the latest financial crisis in 2008. Accordingly, Kuwait was nearly the edge of the economic disaster because of these financial catastrophes. However, Kuwait, through its government, was forced to intervene to resolve those problems that have devastating consequences on Kuwaiti economy and assisted in retaining financial stability in the country.

The first financial crisis started in year 1977. Kuwaiti government issued a law organising the trading in financial of securities among shareholding firms in 1970. Afterward, the market started to grow quickly by the beginning of 1974 (Hassan, Al-Sultan, & Al-Saleem, 2003) caused by forward trading instruments, sponsored by brokers and investors, which was one of the key factors of the Kuwait stock market growth (Al-Yahya, 2013). Furthermore, this situation led to increase in real estate prices in 1975 and 1976. Such an active developing economy can only aggravate a financial bubble, which was anticipated to burst (Algharaballi & Goyen, 2012). Subsequently, trading in the Kuwaiti stock market weakened sharply in 1977 compelling the government of Kuwait to intervene through purchasing a stake in corporations and imposing regulations on market participants. As a result of this crisis, an authorised and official stock market was formed and standards on exchanging of financial securities and forward tools were adopted in April, 1977 (Oxford Business Group, 2015).

The second crisis was Al-Manakh Crisis in 1982, which is considered as the most disastrous incident for Kuwait's economy and had a harmful effect across the entire region (Odekon, 2015). This enormous market collapse led to approximately 90 billion dollars debt (Elimam, Girgis, & Kotob, 1997). One of the main reasons for this crisis was the fact that authorities did not regulate dealings and transactions on this market which encouraged the participation and circulation of trading of Gulf Cooperation Council (GCC) companies in the Al-Manakh market. Furthermore, a post-dated cheque system was used there, which led to the birth of an illegitimate, boundless credit market (Chalk, Fennell, Kireyev, Wilson, & El-Erian, 1997). Aside from that, almost all commercial banks in Kuwait went bankrupt (Oana & Cosmin, 2018) which forced Kuwait government to take urgent actions through establishing the Kuwait Clearing Company (KCC) in September, 1982 and passing new laws to preserve the stock market's operation and economic stability.

In 1997, the Kuwait Stock Market (KSE) rose actively due to the anticipation of significant expansions in the region , political and economic stability of the Kuwait , and Central Bank of Kuwait (CBK) verdict to permit margin trading also contributed to increase the demand on shares. Thus, banks and investors capitalised on this decision and high trading volume was provided. However, at the beginning of 1998, the market experienced a sharp drop due to the Central Bank's unexpected reinstatement of its decision, which was targeted at reducing excessive speculation on the stock market. As a result, traders start to transfer their money out of the Kuwait

Stock Exchange (KSE) to real estate investments which led to turmoil in the stock market.

The latest financial crisis that hit Kuwait is the global financial crisis in 2008. During the 2008 global financial crisis, a significant decline in Kuwait banks performance (Atyeh, Yasin, & Khatib, 2015). According to Capital Standards (2009), the 2008 global financial crisis resulted in the development of a crippling portfolio of non-performing loans, which led to increase in loan loss provisions. Kuwait government had to intervene, bailout for Gulf bank (GBK) due to massive losses in investment in derivatives, to support the banking industry and protect it from collapsing

Stability in the Kuwait banking sector specially after 2008 global financial crisis has been necessitated by a series of new rules by the Central Bank of Kuwait (CBK) and other regulatory authorities in the country (Oxford Business Group, 2018). Financial crises have encouraged Kuwait's legislators to pay attention to the development of the business environment in Kuwait to contribute in reducing the financial impact and consequences of these crises in the future. One of the most recent legislations that took place in Kuwait is the corporate governance law for Kuwaiti banks passed by the Central Bank of Kuwait (CBK) in 2012 to improve banks internal control and working environment. According to Alobaidi, Aloqab, and Raweh (2017), corporate governance reforms is playing a key role in enhancing economic stability in the banking sector.

To identify the impact of the new corporate governance law in Kuwait and the extent of its impact on the performance and development of Kuwaiti banks environment, this study examines the impact and relationship of board governance and risk governance on the performance of listed banks in the State of Kuwait post financial crisis. This study selects banking sector as banks have crucial role in the whole economic system of any country and considered to be the backbone of the economy. Banking sector has been studied in many literatures, and the importance of the banking sector in the development and growth of businesses has been condensed by previous studies (Fritzer ,2004).

1.4 Research Objectives

1. To examine the significant relationship between board governance characteristics and the performance of Kuwaiti banks.
2. To evaluate the significant relationship between risk governance characteristics and performance of Kuwaiti banks.
3. To investigate the interaction effect of banks competitive intensity on the relationship between board governance and performance of Kuwaiti banks.
4. To investigate the interaction effect of banks competitive intensity on the relationship between risk governance characteristics and performance of Kuwaiti banks.

1.5 Research Questions

1. Do board governance characteristics affect performance of Kuwaiti banks?
2. Do risk governance characteristics affect performance of Kuwaiti banks?
3. Does banks competitive intensity interact the relationship between board governance characteristics and performance of Kuwaiti banks?

4. Does banks competitive intensity interact the relationship between risk governance characteristics and performance of Kuwaiti banks?

The answers to these questions will lead to a clearer and more comprehensive understanding of the impact of board governance and risk governance on performance, particularly after the 2008 financial crisis and the amendments made by the Central Bank of Kuwait (CBK) in 2012 on corporate governance practices for banks in Kuwait.

1.6 Significance of the Study

There are many motives that contribute to the exploration and study of the relationship between board governance as well as risk governance with the performance of the banking sector. This type of studies helps to identify the most important factors and methods that can be used in the development of financial and economic field, especially with regard to banks as one of the most important engines in the economy of countries. The motives for this study can be divided into two perspectives. First is the contribution to knowledge, and second is to practical life.

1.6.1 Contribution to Knowledge (Theoretical Contribution)

One of the most important reasons is the lack of research and studies related to this field, especially in the State of Kuwait. Many researches show that there is little discussion on corporate governance and risk governance in emerging markets. In their study of corporate governance and risk management on Gulf Cooperation Council (GCC) banks, El-Masry, Abdelfattah, and Elbahar (2016) highlight that there have been few discussions on risk management and corporate governance in developing countries while the majority focused on banks in developed countries.

This study select Kuwait economy were very few studies have been done in this area. This study is dedicated specially to test the new corporate governance regulations imposed by Central bank of Kuwait on the performance. AlSaidi and AlShammari (2013) tested the impact of corporate governance on performance before the new regulations' implementation whereas Alfraih and Almutawa (2017) use corporate governance variable and it impact on voluntary disclosure . Al-Saidi (2021) examines corporate governance impact of performance for non-financial companies which is under supervision of Capital Market Authority (CMA). Hence this study is different from other studies conducted in Kuwait in that it tests the impact of corporate and risk governance (risk governance were not highlighted by other studies in Kuwait and in this study it has been introduced) for the period after the introduction of new regulations by central bank of Kuwait

Furthermore, while many studies have focused on the impact of corporate governance, as a comprehensive concept, and risk governance on banks' financial and accounting performance on developed economies. Thus, this study will reduce the literature gap by concentrating on studying the impact of board governance and risk governance on the performance of the Kuwaiti listed banks, a developing economy, for the period post the global financial crisis and the introduction of new corporate governance regulations in 2012. The study also introduces the moderating influence of competitive intensity in banking sector and how it impacts the relationship between board governance and risk governance with the performance. To my knowledge, there are scarcity in studies that focus on the effect of sector competition, as moderator, on profitability as the majority of researches in this field examine the direct relationship of corporate/risk governance with profitability. Hence, this study contributes in enriching the literature related to this area of study.

1.6.2 Practical Contribution

There are many parties that have a relationship with banks, whether this is a business, investment, or organizational relationship. Central banks considered to be one of the most important parties that has a regulatory relationship with banks in economic systems. Central banks, including the Central Bank of Kuwait (CBK), might benefit from the results of this study in the development and improvement of regulations and systems related to the subject of board governance and risk governance which will have a positive impact in enhancing the working environment of Kuwaiti banking sector.

Another party that will benefit from the results of this study is the management of the banks. The findings might contribute in providing a comprehensive guideline to the risk management officials who may use the information and results to focus on improving the bank's performance by knowing the impact of risk governance variables and thus allocating and distribution bank resources in a way that assist the banks in enhancing performance. Additionally, management of the bank will have a clear and better view of the effect of rivalry within the sector and how it interacts in the relationship between risk governance and performance then use it for the benefit of the bank.

Furthermore, banks' investors in Kuwait, both depositors or investors in the bank's shares, will also benefit from this study by identifying the most important corporate and risk governance variables for Kuwaiti banks and how banks deal with these variables and adhere to the rules of corporate governance set by the Central Bank of Kuwait (CBK). Adhering to high standards in corporate governance and risk governance practices will reflect investors' confidence in the professionalism and efficiency of the Kuwait banking sector which subsequently will encourage them in investing in Kuwaiti banks for the purpose of maximizing their wealth through achieving profitable financial returns.

1.7 Organization of the Thesis

The rest of the thesis is divided into the following chapters. Chapter 2 will present Kuwait banking sector. Chapter 3 will address corporate governance theories and literature review. Chapter 4 will discuss research methodology. Chapter 5 will present the analysis and findings of the study. Finally, Chapter 6 will demonstrate the discussion and conclusion part.

1.8 Definition of Key Terms

1.8.1 Corporate Governance:

Corporate governance refers to the processes establishing the responsibility of the board and the management, regulating disclosure and transparency, and ensuring the rights of shareholders (Sar, 2018). Good corporate governance is crucial in managing company's performance (Nugroho, 2021).

1.8.2 Risk Governance:

Van Asselt and Renn (2011) state that risk governance is an emanation from the main definitions and terminologies of corporate governance concept then applying it to risk related issues. They further add that it is the various methods used by individuals, institutions and companies in dealing with the risks threatening and surrounding them.

1.8.3 Company performance

Analysing past performance of the company (accounting-based performance) and comparing market value or stock price to company's fundamentals (market-based performance) is the most convenient category and classification of firm performance (Masa'deh, Tayeh, Al-Jarrah, & Tarhini, 2015).

1.8.4 Competitive Intensity

Competitive intensity is one of the influences that contribute in shaping business environment (Zahra & Covin, 1995) . Martin and Javalgi (2016) state that competitive intensity is the aggressiveness between market players due to the lack in growth opportunities. Competition in the market has several merits such as suitable allocation of resources and increase management efficiency (Liu, Qu, & Haman, 2018).

1.8.5 Board of Directors' Size

Board of directors' size represent number of board members that serve in the board. Members of board of directors assist in connecting the company with diverse resources that ultimately contribute in maximizing company value for owners (Reitz ,1979).

1.8.6 Board of Directors' Independence

Board of directors' size independence of board of directors designates the board structure in term of number of non-executive board members and number of executive members in the board. Marra, Mazzola, and Prencipe (2011) state that