THE IMPACT OF CORPORATE GOVERNANCE ON BANKING FINANCIAL PERFORMANCE IN GULF COOPERATION COUNCIL (GCC): THE MEDIATING ROLE OF LIQUIDITY

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by

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LIST OF SYMBOLS

β	Beta Coefficient (regression coefficient indicating the strength and direction of a relationship)
t	t-Statistic (used to determine the significance of regression coefficients)
R^2	Coefficient of Determination (represents the proportion of the variance for a dependent variable that's explained by an independent variable or variables in a regression model)
Q^2	Predictive Relevance (used in PLS-SEM to assess the predictive accuracy of the model)
F^2	Effect Size (measures the impact of a specific predictor variable on the dependent variable in a model)

LIST OF ABBREVIATIONS

BI	Board Independence
BS	Board Size
BD	Board diversity
BM	Board Meeting Frequency
ROE	Return on Equity
ROA	Return on Assets
LDR	loans to Total Deposits Ratio
SIZE	Total Assets
AGE	Bank Age
INF	Inflation
GDP	Gross Domestic Product
GC	Corporate Governance
FB	Financial Performance

IMPAK TADBIR URUS KORPORAT TERHADAP PRESTASI KEWANGAN PERBANKAN DI MAJLIS KERJASAMA NEGARA - NEGARA ARAB TELUK: PERANAN PERANTARAAN KECAIRAN

ABSTRAK

Kajian ini menyelidiki kesan tadbir urus korporat terhadap prestasi kewangan sektor perbankan di negara-negara Majlis Kerjasama Teluk (GCC), dengan penekanan terhadap peranan pengantara kecairan. Kajian ini menggunakan reka bentuk penyelidikan kuantitatif, dengan mengumpul data dari tahun 2014 hingga 2021 melibatkan 55 bank di rantau GCC. Pemodelan Persamaan Struktur dengan Kuasa Dua Terkecil Separa (PLS-SEM) telah digunakan. Penunjuk utama tadbir urus korporat seperti saiz lembaga pengarah, kebebasan lembaga, kepelbagaian lembaga, dan kekerapan mesyuarat lembaga dianalisis untuk menentukan kesannya terhadap ukuran prestasi kewangan, khususnya pulangan atas aset (ROA) dan pulangan atas ekuiti (ROE). Kajian ini turut diperkuatkan dengan empat pemboleh ubah kawalan iaitu jumlah aset, umur bank, KDNK, dan kadar inflasi. Hasil kajian menunjukkan hubungan negatif yang signifikan secara statistik antara kepelbagaian lembaga dengan prestasi kewangan, khususnya ROA dan ROE. Berhubung dengan kekerapan mesyuarat lembaga, kajian mendapati tiada kesan signifikan terhadap ROA, menunjukkan bahawa bilangan mesyuarat semata-mata tidak mempengaruhi pulangan aset. Walau bagaimanapun, terdapat hubungan positif signifikan dengan ROE. Sebaliknya, hasil menunjukkan bahawa saiz lembaga tidak memberi kesan signifikan sama ada terhadap ROA mahupun ROE. Begitu juga, hubungan antara kebebasan lembaga dengan ROA dan ROE didapati tidak signifikan, menunjukkan bahawa kehadiran pengarah bebas sahaja tidak mencukupi untuk meningkatkan prestasi kewangan. Selain itu, kajian ini menyerlahkan hubungan negatif signifikan antara kecairan dengan ROA dan

ROE. Ini menunjukkan bahawa tahap kecairan yang lebih tinggi, walaupun umumnya dianggap baik untuk kestabilan kewangan, mungkin menyebabkan pulangan aset dan ekuiti yang lebih rendah. Mengenai hubungan antara tadbir urus korporat dengan kecairan, kajian ini mendapati terdapat hubungan negatif signifikan antara saiz lembaga dengan kecairan, hubungan positif signifikan antara kebebasan lembaga dengan kecairan, manakala kepelbagaian lembaga tidak menunjukkan hubungan signifikan secara statistik dengan kecairan. Sebaliknya, terdapat hubungan positif signifikan antara kekerapan mesyuarat lembaga dengan kecairan. Seterusnya, kajian mendapati bahawa kecairan mempunyai kesan pengantaraan signifikan dalam beberapa kes. Untuk kebebasan lembaga, kecairan berfungsi sebagai pengantara penuh dalam hubungan dengan ROA dan ROE, menjadikan hubungan yang asalnya tidak signifikan menjadi signifikan secara negatif. Bagi kekerapan mesyuarat lembaga, kecairan juga menunjukkan kesan pengantaraan penuh dengan menjadikan hubungan yang asalnya tidak signifikan dengan ROA dan sebahagian dengan ROE menjadi negatif dan signifikan. Namun, bagi kepelbagaian lembaga, kecairan tidak memainkan peranan pengantaraan yang signifikan antara kepelbagaian lembaga dengan ROA atau ROE, dan tiada kesan pengantaraan kecairan antara saiz lembaga dengan ROA dan ROE kerana hubungan tersebut sama ada kekal tidak signifikan atau tidak berubah dari segi signifikannya.

THE IMPACT OF CORPORATE GOVERNANCE ON BANKING FINANCIAL PERFORMANCE IN GULF COOPERATION COUNCIL (GCC): THE MEDIATING ROLE OF LIQUIDITY

ABSTRACT

This study investigates the impact of corporate governance on the financial performance of the banking sector in the Gulf Cooperation Council (GCC) countries, emphasising the mediating role of liquidity. The study employs a quantitative research design, collecting data from 2014 to 2021 across 55 banks in the GCC region. Partial Least Squares Structural Equation Modelling (PLS-SEM) was utilised. Key corporate governance indicators, including board size, board independence, board diversity, and board meeting frequency, were analysed to determine their impact on financial performance measures such as return on assets (ROA) and return on equity (ROE) and, the study also strengthened by four control variables, such as total assets, bank age, GDP and Inflation rate. The study indicates a statistically significant negative relationship between board diversity and financial performance, specifically with (ROA) and (ROE). Regarding board meeting frequency, the study found no significant effect on ROA, indicating that the number of meetings alone does not influence asset returns. However, there was a significant positive relationship with ROE. On the other hand, the results showed that board size does not significantly affect either ROA or ROE. Similarly, the relationship between board independence and both ROA and ROE were found to be non-significant, indicating that the presence of independent directors alone is insufficient to drive improved financial performance. Furthermore, the study highlights a significant negative relationship between liquidity and both ROA and ROE. This suggests that higher

liquidity levels, while generally perceived as beneficial for financial stability, may result in lower returns on assets and equity. Also about the relation between corporate governance and liquidity this study founded Significant negative correlation between board size and the liquidity positive correlation between board independence and Liquidity board diversity does not exhibit a statistically significant relationship with Liquidity significant positive correlation between board meetings and Liquidity. Next, the study found that liquidity has a significant mediating effect in several cases. For board independence, liquidity full mediates the relationship with ROA and ROE, turning initially non-significant relationships into significant negative ones. For board meeting frequency, liquidity also shows a full mediation effect by making the initially non-significant relationship with ROA and partial with ROE negative and significant. However, for board diversity, liquidity does not play a significant mediating role between board diversity and ROA or ROE, and there is no mediating effect of liquidity between board size, ROA and ROE as the relationships either remain non-significant or do not change in significance.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter offers a comprehensive overview of corporate governance and provides a focused examination of its development within the context of the Gulf Cooperation Council (GCC) countries, where this study is centred. The chapter is organized into several key sections to ensure a structured exploration of the topic. The first section delves into the background of the study, shedding light on the significance of corporate governance in contemporary financial and organizational settings, while also highlighting the specific mechanisms for the evolution and implementation of corporate governance in the GCC region. This section lays the groundwork for understanding how corporate governance has emerged as a crucial factor in shaping financial performance within these countries. The second section presents the problem statement, outlining the core issues and gaps in the existing body of knowledge that the study aims to address. It provides a clear articulation of the challenges and areas of concern in the current practices of corporate governance within the GCC banking sector, offering a justification for why this investigation is necessary. Subsequent sections detail the research objectives and questions, which are designed to guide the inquiry. The objectives set the overarching goals of the study, while the research questions pinpoint specific areas of focus, aimed at understanding the relationship between corporate governance and financial performance, with liquidity playing a mediating role. The chapter also discusses the importance of the study from both practical and theoretical perspectives. Practically, it highlights the potential benefits of the findings for policymakers, regulators, and industry practitioners in the GCC banking sector. Theoretically, it aims to contribute to the broader academic discourse on corporate governance and its financial implications. Following this, the key definitions relevant to the study are provided, ensuring that readers are familiar with the terminology and concepts used throughout the research. This section ensures clarity and consistency in the usage of terms such as corporate governance, financial performance, and liquidity. Finally, the chapter concludes with an outline of the structure of the study, providing a roadmap for the remaining chapters. This organizational overview ensures that readers have a clear understanding of how the study will proceed and what to expect in subsequent chapters.

1.2 Background of The Study

Over the past two centuries, the financial market economy has seen a significant expansion, and this growth is closely linked to the expansion of the financial sector, which includes the banking system. The expansion of the banking sector has aided in the growth and reinforcement of economic movements as a result of the expansion of the banking sector. Both theoretically and practically, the financial system and its activities are crucial (El-Chaarani et al., 2022). The main job of the banks is to act as intermediaries between excess finances from economic units (the corporate sector, the government, and individuals and households) and deficit economic units (individual and institution borrowers), and the provision of liquidity to the economy is the second function. Globalisation contributed to the rise in risk for banks. Therefore, banks may have a greater influence on the economy than any other corporation because of their bankruptcy and lack of liquidity, which may affect debtors, shareholders, deponents, and other organisations borrowing (Islami et al.,2020). However, several alarming signs suggest that the primary traits of the financial system are linked to the recurring volatility of the market. The global financial crisis resulted in the collapse of large financial institutions, highlighted the weaknesses of the global financial system, and sparked concerns about the need for a comprehensive banking sector overhaul (Oinio & Itan,2018).

The performance of banks and the banking industry will continue to be the focus of analyses because it reflects the circumstances and movement patterns in the industry. Also, relationships between specific factors have the biggest effects on the banks' overall performance Adam, (2014). Making logical management choices and preserving stability in the banks and the financial system is made possible by studies of Financial indicators and the performance of banks and industry. For the economy and especially for those who are directly involved in the banking system as deponents, shareholders, potential investors, and regulatory agencies, the performance of a particular bank and the industry must be evaluated (Adigwe et al.,2016).

Financial assessments, including analyses of the financial statements and financial indicators of profitability and risk, are the basis for determining the profitability of banking institutions (Manini & Abdillahib, 2015). However, when assessing the performance of banks, supervisory authorities consider the quantitative indicators in addition to the qualitative elements of the bank's operations.

Analysing performance and the factors influencing the banking sector's performance is crucial, given the significance and implications that the financial and banking sectors have on the health of the economy (Olokoyo et al., 2021).

Kyere and Ausloos (2021) stated that efficiency, stability, and sustainability are particularly important for modern businesses. These businesses are characterised by frantic turbulence amid the shattering speed of globalisation and technology, hyper-competition, the disturbing pace of financial innovations, and a revived wave of international acquisitions and mergers. Regulators throughout the world are rushing to understand the developments and control the turmoil. To prosper in open settings, nations and businesses require robust systems with solid governance and procedures.

The primary goal of the corporation is to enhance well-being and maximise ownership or shareholder wealth by raising the company's value. To benefit shareholders, the corporation must pursue profits, which will indirectly raise the company's worth. According to Subramanyam (2010), the capacity of a firm to fulfil its objectives—namely, to maximise shareholder wealth by delivering additional value from the invested capital—can be used to determine if it is creating company value.

According to Islami, Setiawan, and Mai (2020), Good Corporate Governance (GCG) is necessary to improve business value, and management must ensure that the firm functions well in addition to ensuring that the management process is efficient. GCG is a theory that highlights the significance of shareholders' rights to timely, accurate, and precise information, as well as full disclosure of all financial performance information for both public and private firms to increase corporate performance and value.

One of the most popular debated topics in the contemporary business world is corporate governance. It has become a major problem because of notable business collapses such as those of Baring Bank, WorldCom, Polly Peck International, and the Bank of Credit and Commerce International (BCCI). Various governments and regulatory bodies are working to enact strict governance regimes to ensure the smooth operation of corporate organisations and avoid such failures (Oinio & Itan, 2018).

Strong corporate governance is seen as essential. The necessity of market discipline is recognised by investors and other financial market participants (Ramsay, 2001). Regulators in many countries have implemented corporate governance reforms, such as in the United States with the passage of the 2002 Sarbanes-Oxley Act, which stipulates that to ensure long-term success, organisations must implement corporate governance that ensures a firm’s direction becomes professional, accountable, and transparent. In other countries, such as in the United Kingdom (UK), corporate governance codes known as the Comprehensive Corporate Governance Code are best practice principles with indirect legislative elements operating through the relevant listing rules. In the banking sector, Basel I, II, and more recently, Basel III have been widely adopted in developing and emerging economies to improve corporate governance norms.

A corporate governance system is described as a framework of legal, institutional, and cultural elements that is country-specific and shapes the patterns of shareholder (or stakeholder) impact on management decision-making. The techniques used to address corporate governance issues at the business level are known as corporate governance procedures Gulzar et al., (2021). Corporate governance is generally understood to refer to the procedures, rules, and policies that regulatory organisations provide to deal with the day-to-day operations of the business Khalifa et al., (2020). Stability in the banking industry is closely linked to good corporate governance.

Corporate governance is implemented by directors who see themselves as managers of the company (Donaldson & Davis, 1991). These are managerial actions that increase a company's assets. Measures include:(1) a large board of directors that encourages diverse perspectives, (2) independent directors on the board who objectively evaluate management, (3) large shareholder, institutional, and foreign ownership to reduce agency conflicts, (4) performance-based pay, (5) political ownership concentration (big shareholders with ties to politicians), and (6) political management relations.

According to Bushman (2016), disclosure in banking is defined as "the availability of relevant, trustworthy information on the periodic performance, financial position, business model, governance, and risks of banks to external stakeholders." Depositors, investors, borrowers, regulators, policymakers, and rivals are identified in the definition as external stakeholders. However, the design of corporate governance structures differs from nation to nation based on the economic, political, and social backdrop of the respective nation (Almatari et al., 2014; Dabor et al., 2015).

Provision for civil or criminal prosecution of individuals who do unethical or unlawful activities in the name of the company is a critical element of an effective corporate governance framework (Adigwe et al., 2016). In this approach, corporate governance serves to defend the interests of shareholders, both individually and collectively (Kyere & Ausloos, 2021). Additionally, corporate governance is also accountable for the risks that cause financial crises; its efficient and effective operations are meant to cut costs and guide the company toward the development of the capital market (Handa, 2018).

Moreover, as crucial as effective financial performance is corporate governance. It is believed that almost 80% of investors would pay extra for a firm with a good governance culture since this component ensures business operations, which increases the safety of investment. The higher the transparency and availability of information, the more confident investors feel in the market (Azeez, 2015).

Financial performance refers to a company's ability to implement strategies and make key decisions to meet its goals and generate substantial returns. Within the financial system, responsible economic institutions play a vital role in national development. Consequently, the financial performance of banks is essential, as it also enhances the living standards of the population. Numerous studies have examined the effectiveness of financial institutions, particularly banks, revealing diverse outcomes in global financial performance (Kioko & Ochieng, 2019).

According to Imeri, Sucubasi, and Merdzan (2020), there is a particular interest in examining the macroeconomic environment (which establishes the necessary conditions for effective functioning) and the organisational factors — the two main determinant groups crucial to the performance of the banking sector.

Unemployment and inflation are two macroeconomic factors that may encourage or enhance the extent of financial misconduct in the banking industry. Unemployment may drive people to commit crimes. Similarly, excessive levels of inflation lower the value of money while raising the cost of living, encouraging bank employees to commit fraud and other financial malpractices. According to Toprak and Talu (2015), relevant authorities can step up efforts to reduce and stabilise the economy's inflation rate. The following Figure 1.1 shows the GDP for the six GCC countries over the period 2014–2023 (Source: World Bank).

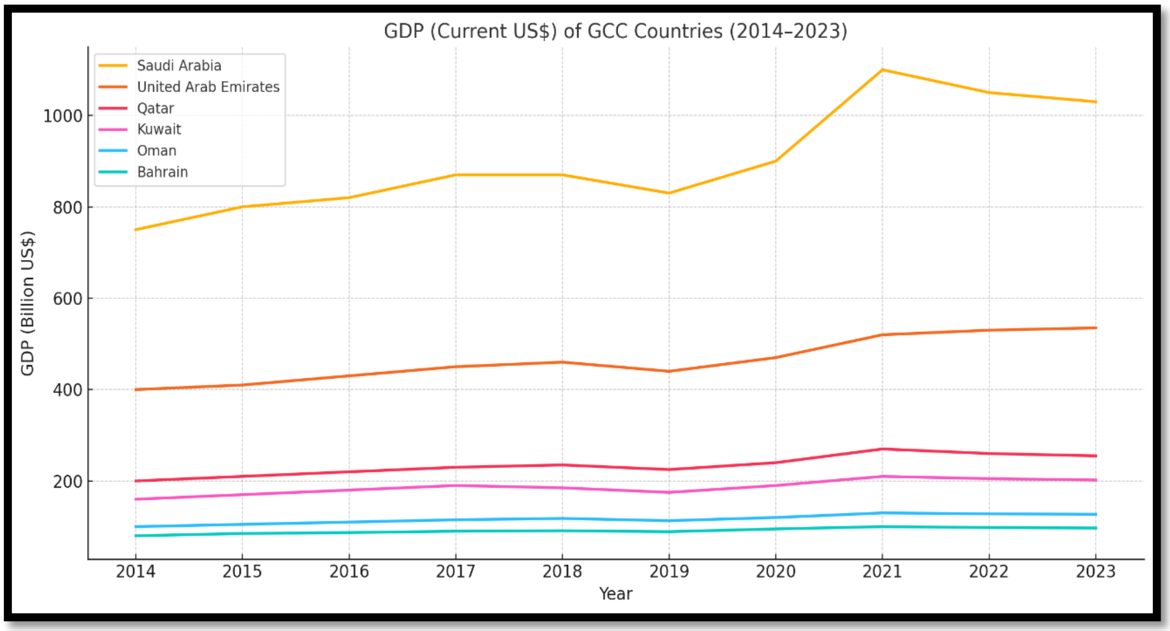


Figure 1.1GDP of Six GCC Countries over the Period 2014-2023

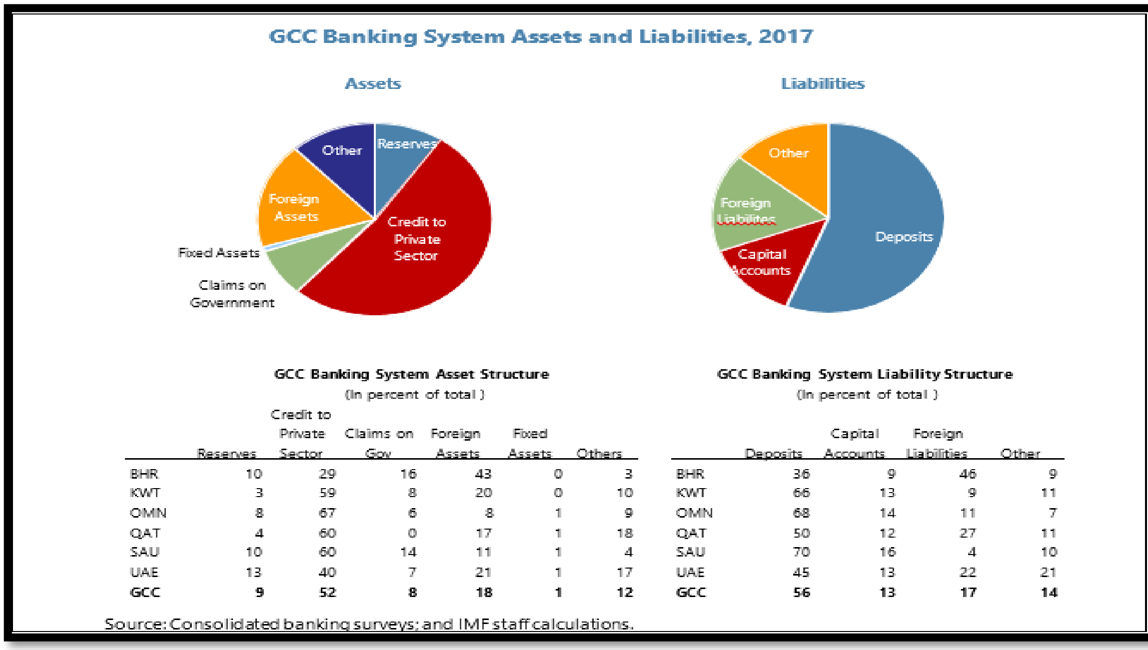
Banking Sectors contribute to the stability of their countries' financial systems as the institutions that can withstand economic shocks and are the most capable of directing available savings and funds to areas where liquidity deficits and demand for these savings are created through the practice of credit activity (Bessis, 2010).

Moreover, Gulf banks are essential to their countries' economies and control the financial system. Despite volatility in some Arab countries, confidence in the Gulf countries' financial systems remains strong due to qualities that attract global investments. Recently, the sector has been characterised by significant systematic liquidity, as well as general investor and depositor confidence and trust. The protection of depositors' cash is achieved by strong banking secrecy, which is strengthened under the supervision of the central bank, serving as the regulatory body (Dwivedi et al., 2021). Dadepo and Afolabi (2020) investigated the effect of liquidity management on the financial performance of ten manufacturing firms over a five-year period (2012–2016). The study utilized secondary data derived from the annual reports and financial statements of the selected companies. Employing descriptive statistics, correlation, and regression analyses, the researchers assessed the relationship between liquidity indicators and firm performance. The findings revealed a statistically significant negative relationship between the current ratio and profitability, as measured by return on assets (ROA), thereby supporting the trade-off theory.

This outcome is consistent with the findings of Abuzar and Eljelly (2004), who identified a similar inverse relationship between profitability and liquidity among Saudi Arabian joint-stock companies. The trade-off theory underscores the necessity of maintaining an optimal level of liquidity, balancing the associated costs and benefits of holding cash reserves. Frank and Goyal (2005) argue that this theory involves the strategic evaluation of capital structure alternatives, aiming to minimize financial costs while ensuring sufficient liquidity.

Furthermore, the study highlights that a rise in the loan-to-deposit ratio may signal increased risk for financial institutions. A higher ratio suggests greater reliance on loan portfolios as primary revenue sources, thereby elevating the potential for loan defaults in comparison to more secure investments such as government bonds or other liquid assets.

The following Figure 1.2 shows the Gulf Cooperation Council Countries' Banking System Assets and Liabilities (2017) (Source: Consolidated banking surveys and IMF staff calculations).



GCC Banking System Asset Structure
(In percent of total)

	Reserves	Credit to Private Sector	Claims on Gov	Foreign Assets	Fixed Assets	Others
BHR	10	29	16	43	0	3
KWT	3	59	8	20	0	10
OMN	8	67	6	8	1	9
QAT	4	60	0	17	1	18
SAU	10	60	14	11	1	4
UAE	13	40	7	21	1	17
GCC	**9**	**52**	**8**	**18**	**1**	**12**

GCC Banking System Liability Structure
(In percent of total)

	Deposits	Capital Accounts	Foreign Liabilities	Other
BHR	36	9	46	9
KWT	66	13	9	11
OMN	68	14	11	7
QAT	50	12	27	11
SAU	70	16	4	10
UAE	45	13	22	21
GCC	**56**	**13**	**17**	**14**

Source: Consolidated banking surveys; and IMF staff calculations.

Figure 1.2 GCC Banking System Assets and Liabilities, 2017

Gulf banks are seeing rapid expansion and balance-sheet activity. The banks are well-funded and provide strong profits. In their existence, banks play an important role as job creators and as contributors to economic growth and municipal development. The International Monetary Fund (IMF) has acknowledged the importance of the banking industry by stating that Gulf banks are a key barometer of the Gulf financial system's viability (Bebas & Fali, 2020). Banks dominate the GCC financial system, which has risen dramatically during the previous two decades. Figure 1.3: GCC Commercial Bank Assets (source: Country authorities; and IMF staff calculations).

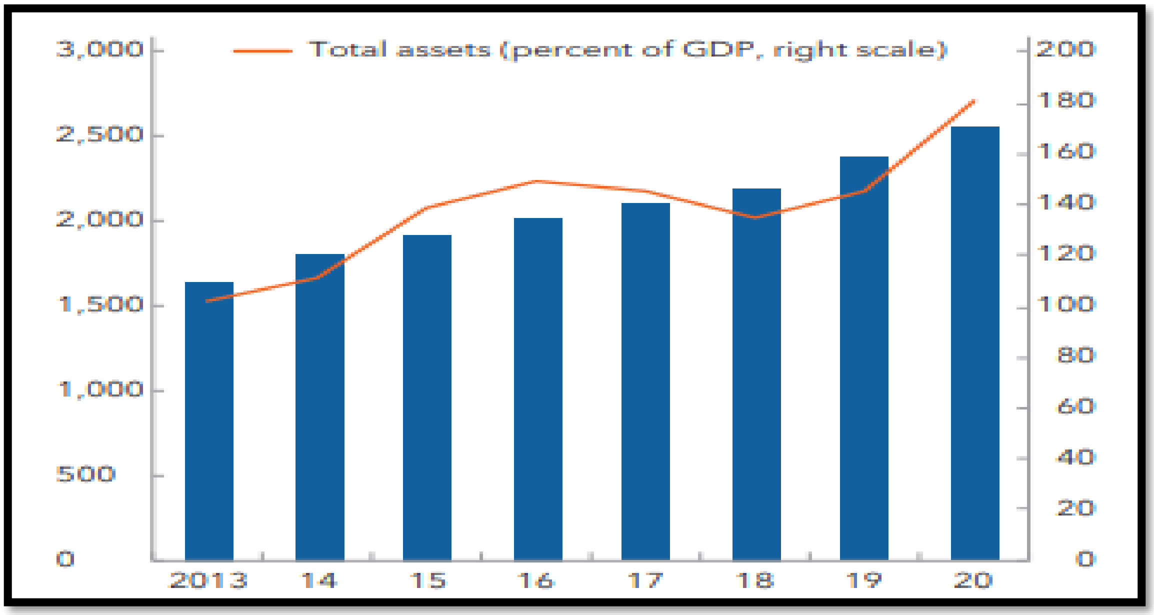


Figure 1.3 GCC Commercial Bank Assets

Based on the previous discussion, it is important to analyse Gulf Cooperation Council (GCC) countries to assess how governance influences this performance. In this context, liquidity serves as a mediating variable, significantly contributing to a favourable environment for both investors and the banking industry. Therefore, this study aims to explore the mediating role of liquidity in the relationship between corporate governance and the financial performance of banks in the Arab Gulf region.

1.3 Corporate Governance in Gulf Region

According to Salman and Nobanee (2019), the Gulf Cooperation Council (GCC) was established in 1981 as a regional organization comprising six member states: the

Kingdom of Saudi Arabia (KSA), the United Arab Emirates (UAE), Oman, Bahrain, Kuwait, and Qatar. These countries exhibit several common features, including a shared religion (Islam), ethnic composition (Arab), political system (monarchy), and an economic structure that is predominantly reliant on oil exports as a primary source of fiscal revenue. Additionally, they maintain closely aligned cultural traditions and social norms. Despite these overarching similarities, notable differences exist among the member states in terms of population size, levels of oil production, economic scale, and degrees of dependency on oil revenues. These variations present a unique opportunity to investigate the impact of corporate governance on financial performance within a relatively homogeneous yet economically diverse regional context.

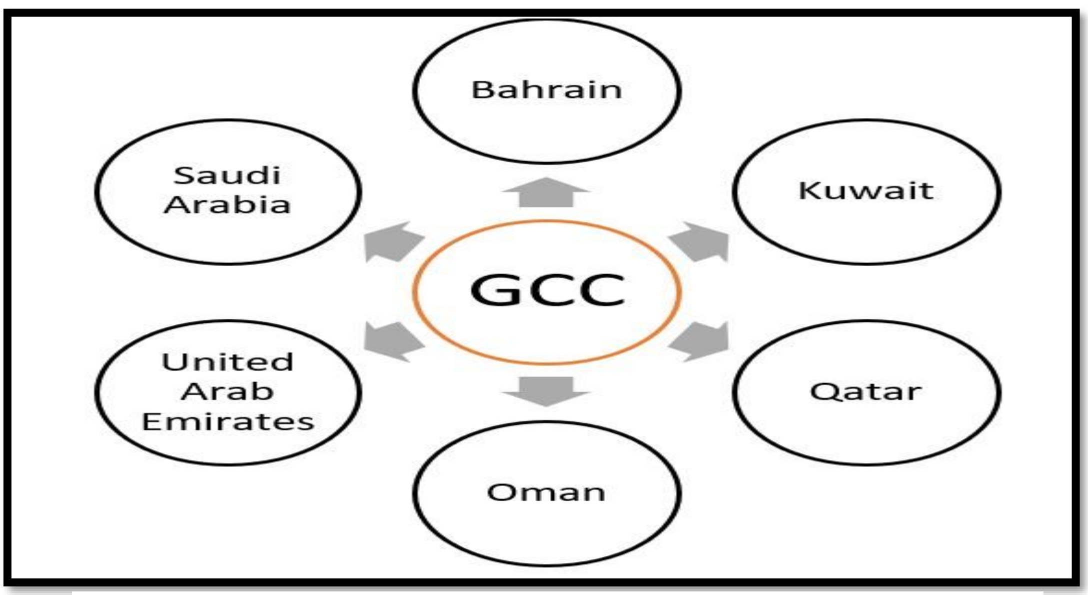


Figure1.4Gulf Corporation Countries

The GCC corporate community is made up of "national" family-owned enterprises, Gulf-invited branches of large international organisations, and a range of joint ventures involving domestic GCC firms and foreign firms. Compared to the Western (Anglo-Saxon) economic context, where ownership is held by numerous shareholders, corporate ownership in the GCC tends to be predominately non-diffused family/government holdings. Martini et al (2016). The purpose of any system is to simultaneously increase company performance and accountability as a method of attracting the finest available financial and human resources and preventing business collapse Al-hadal et al., (2020).

The region's financial market regulators, along with International independent institutions such as the International Finance Corporation (IFC) also Organization for Economic Cooperation and Development, have been active in promoting investor protection and a culture of good governance in the region for nearly two decades, resulting in GCC countries have drafted governance guidelines since 2002, starting with Oman and ending with Bahrain in 2010 and Kuwait in 2013 Abdallah and Ismail., (2017). To improve the business environments such as FDI inflows and access to capital markets with low finance costs, the five (5) GCC states have amended their Corporate Governance (CG) regulations to be commensurate with recent advancements in CG internationally. These updated codes are not only in accordance with the reforms, but they are also in response to criticism of CG in public joint stock companies in the GCC states, which is primarily attributable to the absence of effective independent boards, weak transparency, disclosure practices, and a lack of oversight and scrutiny of significant enterprise risks Fitch Ratings (2014) and S&P (2017).

Strong economies are bolstered by well-regulated financial systems, which encompass banks and other financial service providers. Numerous developed nations are working to boost their economies by offering efficient financial services overseen by different regulatory bodies to ensure proper operation (Sooloo, 2014). In recent years, Islamic banking (IB) in the Gulf Cooperation Council (GCC) countries has shown consistent growth, with the growth rate of Islamic banks expected to surpass that of conventional banks (CBs). It is also suggested that the operating environment for IBs in the region is highly supportive (John, 2013). During the 2009 financial crisis, significant weaknesses in the accounting and corporate governance (CG) standards of banks, particularly those issuing loans without adequately monitoring their customers, became evident. Merely complying with existing standards proved insufficient to regulate these banks. Additionally, the executive and compensation committees of these institutions raised concerns during the crisis (Kirkpatrick, 2009). According to Kirkpatrick (2009), the financial crisis can largely be traced back to failures and deficiencies in corporate governance mechanisms (p. 2). Given the heightened focus on CG in light of recent developments, it can be understood as a tool for guiding an organization by establishing rules to balance the interests of various stakeholders within it (Investopedia, 2014).

The Corporate Governance Institute was founded in 2005 with the aim of assisting the MENA region in narrowing the governance gap by creating and applying robust corporate governance systems across countries and companies in the region. In 2011, Hawkamah introduced the first Environment, Social, and Governance (ESG) Index for the Middle East and North Africa (MENA) in partnership with S&P Dow Jones Indices and with backing from the International Finance Corporation (IFC). The S&P/Hawkamah

ESG Pan Arab Index evaluates the performance of the 50 leading stocks in the MENA region based on ESG criteria. A 2006 report, co-authored by Hawkamah and the Institute of International Finance (IIF), on the establishment of corporate governance norms in the Gulf Cooperation Council (GCC), was deemed important for four reasons (Hawkamah-IIF, 2006): 1) stock market regulators seized the opportunity presented by recent corrections in GCC markets to modernise the corporate governance framework; 2) the growing involvement of GCC companies in international markets raised the bar for private sector standards, aligning them with global best practices; 3) the banking sector in the GCC made a key contribution following central bank commitments to Basel I and II standards; and 4) the opening of GCC stock markets to foreign investors is anticipated to elevate the standards of listed companies, as these investors generally demand higher levels of performance.

The World Bank and the OECD established the Global GC Forum. Moreover, it contributes to the advancement of corporate governance guidelines in the GCC region. In 2006, the Forum released a toolkit aimed at creating, developing, and implementing these guidelines, which is available in Arabic (IFC, 2008). The subsequent paragraphs will explore the evolution of corporate governance codes across the six GCC countries.

1.3.1 Corporate Governance in Saudi Arabia

The corporate governance framework in Saudi Arabia is shaped by a combination of factors that reflect both economic ambitions and regulatory goals. One of the primary motivations for policymakers is the desire to present Saudi Arabia as a modern, globally competitive economy, capable of attracting foreign direct investment (FDI) and supporting diverse ownership structures. Strengthening the accountability and transparency of publicly listed companies is a key part of this effort, aiming to increase investor confidence. A major underlying driver is the Kingdom's Vision 2030 plan, which seeks to diversify and expand the economy beyond its traditional dependence on oil. To achieve this, the development of the capital market is essential, as it is intended to serve as a significant source of funding for non-oil sectors of the economy (Al-Faryan, 2020). Corporate governance, in this context, refers to the system of rules, practices, and processes that define the rights and responsibilities of key stakeholders in a company such as managers, the board of directors, shareholders, and other interested parties. By setting out these relationships, corporate governance helps ensure that companies operate in a manner that is transparent, accountable, and aligned with the interests of their stakeholders. The Corporate Governance Index (CGI) is an important tool in assessing the governance standards of publicly listed firms in Saudi Arabia. It measures how well these companies comply with national regulations and international best practices in corporate governance, thus providing a benchmark for governance quality. As the largest economy in the Gulf Cooperation Council (GCC) and a member of the G20, Saudi Arabia plays a pivotal role in the region's economic development. The Saudi Arabian Capital Market Authority (SACMA) introduced the Saudi Corporate Governance Rules in 2006, making it the second country in the GCC to implement a corporate governance code, following Oman (Salman & Nobanee, 2019). These rules aim to establish a clear governance framework to promote market confidence, protect investors, and ensure fair and efficient financial markets. Over time, these regulations have evolved to better align with international standards and adapt to the changing needs of Saudi Arabia's growing economy. In summary, Saudi Arabia’s corporate governance framework is driven by the dual objectives of modernizing the economy and enhancing corporate accountability. By implementing and refining governance regulations, Saudi Arabia is positioning itself as a more attractive destination for global investors, while also fostering sustainable economic growth that is less reliant on oil revenues.

In line with Saudi Arabia's ongoing efforts to diversify its economic resources and encourage foreign direct investment, SACMA has issued updated and detailed Corporate Governance Guidelines in line with the new 2015 Company Law applicable to public joint stock companies listed on the market. The new Corporate Governance Code replaces the previous Corporate Governance Code. It entered into force on April 22, 2017, and the regulations requiring companies to develop and publish corporate governance policies entered into force on December 31, 2017. The new guidelines take into account Saudi Arabia's membership in the G20, its participation in GC developments in the G20/OECD, and international developments and global best practices in the GC field. The impact of the new code is expected to be very significant, especially compared to the former CG Infrastructure (Dechert, 2017).

1.3.2 Corporate Governance in UAE

Efforts to develop a code of The history of corporate governance in the UAE date back to 2004, when the Abu Dhabi Securities Market published a draft, and it was revised in 2005 (Foster, 2007); in 2006, the UAE Securities and Commodities Authority (SCA) developed a corporate governance code, which was officially published in 2007 Foster, (2007). This code, which requires mandatory compliance with associated penalties, came into effect on April 30, 2010. In other words, companies were given three years (2007-2010) to adapt to the new regulations (Foster, 2007). Foster (2007) argues that a foundation of compliance and penalties is needed to strengthen transparency and shareholder rights. The Corporate Governance Framework in the United Arab Emirates establishes the principles for firm responsibility to all shareholders and stakeholders. It requires the board to define strategy, conduct oversight, and lead and regulate the administration. The United Arab Emirates has introduced a new corporate governance code to boost the investing environment and make the UAE's financial markets appear safe Qasim & Al Barghouthi, (2019).

According to Nobanee et al. (2021), Saudi Arabia has the largest economy in the Gulf Cooperation Council (GCC) region, while the United Arab Emirates is the second largest. The UAE has expanded economic activity into non-oil industries since the 1970s despite its reputation as an oil-dependent economy. In the 1980s, real estate development in the UAE was mostly in response to the demands of the expanding tourism sector and related activities. The UAE government has been working to develop infrastructure for long-term economic benefits, including the development of new commercial and industrial facilities, the development of new housing, and the expansion of the UAE's oil sector. The UAE government has invested oil in infrastructure development in order to reap long-term economic benefits. The government's creation of a favourable business environment, a flexible legal environment allowing 100% foreign ownership in free trade zones, a pegged currency to the US dollar, the development of cultural diversity, and the potential for a high standard of living all contributed to the UAE's economic growth. The Central Bank of the UAE also published the Corporate Governance Guidelines for directors of UAE banks in June 2009. The new 2009 corporate governance guidelines are binding, meaning listed companies can be penalised if they do not comply. The scope of punishment includes issuing a warning to the company, correcting the reasons for the violation, delisting the company, delisting the company, delisting the company or paying a fine Shehata, N., (2015).

The Code of Corporate Governance for SMEs was issued in 2011 by the Mohammed bin Rashid SME Development Authority ("Dubai SME Development Authority"). The Code is recommended for all SMEs in Dubai. It contains nine corporate governance principles (Hawkamah, 2011). Adopt a formal corporate governance framework that defines the roles of key institutions, including partners, shareholders, board of directors, and management. Implement a succession planning process; establish a timely, open, and transparent flow of information with shareholders; strive to form a formal board of directors as the firm grows; establish clear responsibilities for the board to oversee the firm's operating performance and evaluate and improve business strategies; keep reliable accounting records and Conducting an annual audit by an external auditor. Establish an internal control framework and conduct periodic risk reviews.

1.3.3 Corporate Governance in Oman

Oman is one of the groups of oil-producing and exporting countries and enjoys great importance in several respects, especially because it is part of the Gulf Cooperation Council. In Oman, corporate governance is a relatively recent notion. 2016, corporate governance codes were released, whereas the prior standards were issued in 2002 Yılmaz, (2018). The regulator, which in the case of Oman is the Capital Market Authority, is also responsible for gauging the governance maturity of firms, allowing them to go beyond contextual concerns of corporate governance and instead concentrate on the maturity characteristics of the organization (O'Connell, 2016). Like other GCC nations, Oman has taken several governance-related actions. However, its general civil law has poor investor protection, an inefficient financial industry, and a high concentration of insider ownership Al-Malkawi et al., (2014).

Queiri et al. (2024) investigate the influence of various board characteristics—specifically board size, the frequency of board meetings, the presence of multiple directors, and board independence—on capital structure decisions in emerging markets, with a particular focus on Oman. The study examines a sample of 14 non-financial firms listed on the MSM30 index over a seven-year period (2009-2015). To address the indigeneity between interconnected variables such as dividend and debt ratio, indigeneity tests were conducted. Given that dividend per share is considered an endogenous variable, the two-step least squares (2SLS) method was used for data analysis. The findings of the study reveal a positive correlation between the debt ratio and board size, board independence, and the presence of directors serving on multiple boards, but a negative correlation with the frequency of board meetings. Board independence aligns with the active monitoring hypothesis, where debt is utilized as a complementary tool to address agency problems. Additionally, directors serving on multiple boards tend to increase the use of debt as a disciplinary mechanism to compensate for the potential drawbacks of their busy schedules. Conversely, the frequency of board meetings shows a negative association with debt ratios. The results are robust when alternative measures of leverage and indigeneity are considered. However, the study focuses on a limited set of factors related to board composition, suggesting that the use of debt as a substitute mechanism for corporate governance indicates that governance practices in these firms remain relatively weak. The findings highlight the potential need for further reforms to strengthen corporate governance practices in Oman.

1.3.4 Corporate Governance in Qatar

Qatar is considered one of the important countries in exporting natural gas to many countries in the world, and it is a prominent member of the Gulf Cooperation Council. According to Awadallah E (2020), Qatar’s oil and natural gas revenues have made it one of the nations with the greatest per capita income and the fastest-rising economy. The current economic strategy focuses on exploring Qatar's non-associated natural gas reserves and boosting private and international investment in non-energy industries. However, oil and gas continue to account for almost half of GDP. Moreover, the development of the Qatar Financial Centre and the evolution of business, capital markets, and tax regulations during the past several years are obvious indications of the deliberate effort to attract investors to Qatar across all industries.

According to a Hawkamah-IIF report,2006 work on the Qatar Corporate Governance Code began in 2006 and was scheduled to be implemented in 2007. However, the Corporate Governance Code for the Listed Companies Market was prescribed by the Qatar Capital Markets Authority, which was announced in 2009. The Code, developed by the Qatar Capital Markets Authority, applies to listed companies in accordance with the “Comply/Explain” principle. The Code consists of 31 articles divided into 10 paragraphs: preamble, definitions and scope, corporate governance compliance, management, internal controls, external examiners, disclosure, shareholder rights, stakeholder rights, corporate governance reporting, and application of the Code. Qatar revised the Qatar Corporate Governance Code in 2009 to adequately address growing concerns about corporate governance in developing countries, and several versions have been issued since (Pillai & Al-Malkaw, 2016).2008, the Central Bank of Qatar issued the Corporate Governance Guidelines for Banks and Financial Institutions. The guidelines have 11 sections: introduction, definitions, guideline principles, shareholders, board of directors, management, internal audit, external audit, stakeholders, transparency and disclosure, and conclusions (Shehata, N, 2015).

Al-Emadi, E. A. N. (2023) asserts that the economy serves as the fundamental basis of a nation, with robust institutions enabling a country to extend its influence beyond its borders and contribute to regional and international security. To foster a stable economy and create a conducive environment for business, it is essential for a nation to establish a strong legal framework. While regulations governing business practices are vital, it is crucial to strike an appropriate balance between fulfilling essential social objectives and enabling businesses to conduct legitimate operations without undue constraints. The consequences of insufficient regulation became apparent in the early 1990s with the collapse of the Bank for Credit and Commerce International (BCCI), which not only impacted Pakistan, where BCCI was headquartered, but also destabilized financial markets in the United States, Europe, and the Middle East. This event underscored the need for regulators to implement principles, rules, and guidelines to govern companies listed on stock exchanges in order to mitigate risks associated with corporate activities. The Enron scandal of 2001, followed by the collapse of Arthur

Andersen LLP, then the largest auditing firm in the world, further exemplified the necessity of corporate governance regulations. In light of these historical events, the paper analyses the effectiveness of corporate governance regulations in Qatar, particularly those pertaining to publicly listed companies. It examines the impact of the introduction of these governance regulations on listed firms, assessing both the strengths and weaknesses of Qatar's Corporate Governance Code.

1.3.5 Corporate Governance in Bahrain

Due to its strategic location among the GCC countries, Bahrain has achieved strong development in the field of infrastructure in several fields. It is now recognised as a major pillar for expanding the size of the economy and providing employment opportunities. Kingdom of Bahrain belongs to the GCC region in the Arabian Gulf, and CG is still under development (Maskati & Hamdan, 2017). Bahrain is a dynamic, well-established global economy; thus, a CG system must be adopted to oversee the financial sector and build legislation to meet future difficulties to sustain the country's financial level (Shehata, 2016); Maskati & Hamdan, 2017). Thus, the governance system must be implemented in the Kingdom of Bahrain, where the Governance Guide was published in 2010. The development of CG in all Bahraini organisations is advised, particularly in the banking industry, which would benefit from the adoption of best practices and thereby contribute to the country's economy (Al et al., 2021).

Alqashar, K., & Sanad, Z. (2024) conducted a study aimed at empirically exploring the role of corporate boards in advancing the Sustainable Development Goals (SDGs) in Bahrain, as well as examining how SDG disclosures are influenced by board characteristics, activities, and the presence of corporate social responsibility (CSR) committees. The research sample included publicly listed Bahraini companies from 2022. Data was gathered from corporate annual reports, and a checklist was used to align SDGs with sustainability disclosures based on the Global Reporting Initiative (GRI) framework. Multiple regression analysis was employed to examine the data. The findings showed that three specific board characteristics had a positive and significant impact on SDG achievement: board independence, the proportion of female board members, and the education level of board members. Research on the SDGs in Bahrain remains underdeveloped, and a more comprehensive study is necessary to understand the unique cultural and economic factors of Bahrain and how corporate boards contribute to the country's 2030 economic vision. This study addresses existing research gaps and offers valuable insights into the ways in which specific corporate board attributes can drive SDG achievement. Moreover, the study’s findings will offer policy makers and stakeholders a clearer perspective on corporate governance, sustainability practices, and sustainability regulations.

Megahed, N., & Al-Ramidhi, A. (2023) highlight that Bahrain's Economic Vision 2030 identifies University-Industry Partnerships (UIPs) as a key form of research collaboration, aiming to foster sustainability and support the development of a knowledge-based economy. Despite numerous empirical studies examining the effectiveness of UIPs, none have focused on the corporate governance factors required for the success of UIPs, particularly in the GCC region. This quantitative study aims to empirically assess the impact of corporate governance factors on the effectiveness of UIPs in Bahrain. A preliminary conceptual framework was developed using a Delphi protocol with a sample