Correlation between Corporate Governance and Financial Performance

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BUS642

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Keith,

Thank you for the work that you have done regarding this research assessment. Your study shows definite progression. Thank you for helping us to understand what is your choice of competition and how you are going about it in order to bring additional value and purpose not only to the assignment but also to the overall study. Learning to bring out the best in all people can require integration of both approaches. Thank you for what you have done here

**( 3.00 / 3.00) Includes a Revised Version of the Introduction, Research Question, Background Research, Hypothesis, Research Design, and Sampling Plan**

Distinguished - Includes all suggested revisions of the introduction, research question, background research, hypothesis research design, and sampling plan.

**( 2.00 / 2.00) Describes the Possible Types of Secondary Data Used for Hypothesis Testing, Including a Discussion of Whether or Not One or More Types of Secondary Data Could Be Used to Test the Hypothesis, and Why This Secondary Data Would or Would Not Be Useful**

Distinguished - Thoroughly describes the possible types of secondary data used for hypothesis testing, including a comprehensive discussion of whether or not one or more types of secondary data could be used to test your hypothesis, and why this secondary data would or would not be useful.

**( 1.76 / 2.00) Describes the Possible Measurement Benchmarks and Scales Used for Hypothesis Testing, Including a Discussion of Whether or Not the Survey Should Include Measurement Benchmarks and Scales to Test the Hypothesis, and Why These Measurement Benchmarks and Scales Would or Would Not Be Useful**

Proficient - Describes the possible measurement benchmarks and scales     used for hypothesis testing, including a discussion of whether or not your survey should include measurement benchmarks and scales to test your hypothesis, and why these measurement benchmarks and scales would or would not be useful. The description or discussion is slightly underdeveloped.

**( 0.09 / 0.10) Critical Thinking: Explanation of Issues**

Proficient - Clearly explains the issue to be considered, delivering enough relevant information for an adequate understanding.

**( 0.09 / 0.10) Critical Thinking: Evidence**

Proficient - Employs applicable information from credible sources to develop an analysis of the topic.

**( 0.20 / 0.20) Written Communication: Control of Syntax and Mechanics**

Distinguished - Displays meticulous comprehension and organization of syntax and mechanics, such as spelling and grammar. Written work contains no errors and is very easy to understand.

**( 0.20 / 0.20) Written Communication: APA Formatting**

Distinguished - Accurately uses APA formatting consistently throughout the paper, title page, and reference page.

**( 0.20 / 0.20) Written Communication: Page Requirement**

Distinguished - The length of the paper is equivalent to the required number of correctly formatted pages.

**( 0.20 / 0.20) Written Communication: Resource Requirement**

Distinguished - Uses more than the required number of scholarly sources, providing compelling evidence to support ideas. All sources on the reference page are used and cited correctly within the body of the assignment.

**Overall Score: 7.74 / 8.00**

**Overall Grade: 7.74**

**Background Information**

The importance of corporate governance in today’s competitive world cannot be overlooked. According to Cadbury (1992), corporate governance system is critical in directing and controlling all fundamental aspects of a company. All relationships involving stakeholders in firms are streamlined by the presence of an effective system of leadership through the development of principles, standards, and procedures.

Al-Baidhani (2013) asserts that corporate governance is a core issue in today’s business environment. The absence of effective governance systems saw the failure of some leading corporates like Polly Peck International and Enron (p. 3). Consequently, the authorities started embracing strategies that would ensure the corporates have effective systems of governance.

**Problem Statement**

Many studies have established that the problem of agency in the corporate world is triggered by the separation of ownership from the management (Jensen & Meckling, 1976), and the majority of issues related to poor performance are substantially attributed to this problem (Fallatah & Dickins, 2012). There is, however, an observation that implementing a befitting governance structure could help alleviating the problem and elevating the performance of firms to new standards (Naushad and Malik, 2015).

The memories of the 2008 financial crisis are still fresh among the key players in the corporate world, and there is a fierce debate on the correlation between corporate governance and performance of institutions such as banks. Whereas it is a critical topic, very limited research has been conducted on it, in particular, on banks in the Gulf Cooperation Council regions (Naushad & Malik, 2015). The purpose of the current study is founded on this debate. It seeks to examine the influence of different variables of corporate governance on the financial performance of banks. Several banks (at least 50) operating in the GCC are selected for the study.

**The Research Question and Hypothesis**

The GCC region does not have substantial research on the relationship between corporate governance and the performance of banks. The studies that have been conducted on this topic in other regions show mixed results. The present study is informed by this deficiency and entails the use of the Return on Total Assets variable in the measurement of bank performances. At the same time, the performance of other financial aspects of the bank will also be measured. The focus will be placed on the correlation between the current cost of replacing the assets of a company (bank) and the market value of these assets. The basic question will thus be the impact of proper implementation of corporate governance on an organization’s financial performance and market value. The following are the research questions that this study seeks answers to:

RQ1: Is there a significant correlation between corporate governance mechanisms and financial performance for banks in the GCC region?

RQ2: Is there a significant correlation between the management and bank performance in GCC region?

RQ3: Is there a significant correlation between board structure or size of the GCC banks and their performance?

RQ4: Is there a significant correlation between the concentration of power and performance of Banks in GCC?

RQ5: Is there a significant correlation between audit function and financial performance of banks in the GCC region?

RQ6: Is there a significant correlation between the government regulations and performance of banks in GCC?

The traditional finance literature focuses on some factors that help in solving corporate governance challenges including management, Board structure/size, Concentration of power, Audit Function, Governance Regulations among others (Jensen and Meckling, 1976). The measurement of a company’s performance based on these factors informs this study’s hypotheses as follows:

H1: Different corporate governance mechanisms have a significant influence the performance of banks in the GCC region.

H2: Management significantly influences bank performance in GCC region.

H3: There is a positive relationship between the board structure or size and the performance of banks in GCC.

H4: There is a negative relationship between the concentration of power and performance of GCC Banks.

H5: Audit function positively affects the financial performance of banks in GCC.

H6: There is a positive relationship between government regulations and performance of banks in the GCC region.

**Literature Review**

Previous studies on the operation of banks in the GCC region show that they have a system where the roles and responsibilities of the managers and owners are separated. However, the relationship that comes from this interaction paves the way for conflict of interest as the two parties have competing priorities (Safiullah, 2016). This is supported by Al-Baidhani (2013) in his argument that the management systems and structures are accountable to the legitimate stakeholders of a given bank.

In his research, Al-Rashed (2010) observes a different impact of corporate governance on the performance of companies, different from what (Safiullah, 2016; Al-Baidhani, 2013) found out. To him, there are no results of an existing relationship between corporate governance and performance of corporates. Fallatah and Dickins (2012) support this by arguing against the existence of a significant relationship between corporate governance and firm performance based on the ROA measurement, but measurement of the performance based on the equity in the market reveals a positive relationship.

Kapopoulos and Lazaretou (2007) find that many firms in the US. Indicate ‘a strong relationship of their corporate governance and performance. Any frim that is weak in governance perform poorly regarding profitability and dividends compared to those with better governance (Naushad & Malik, 2015).

**Ethical concerns I might encounter while doing the research**

Several ethical concerns may emerge in the course of the current research. First, collecting information from the topmost management levels brings about the issue of respect for anonymity and confidentiality. The subjects may be ready to provide the help needed for the study as they may feel threatened by the very nature of the topic as it may have far-reaching implications. Further, the finance departments are always skeptical when it comes to sharing their private information with external parties as it may be used by competitors. As a result, a lot of explanations will have to be provided for the departments to grant access to their data.

The second ethical issue, informed consent, is closely related to the first one as the research will face situation where the subjects being studied are expected to have a clear understanding of the risks and benefits that it may bring to them or their institutions. The recruitment of participants may thus be faced with severe challenges and the information obtained may also be unreliable as some may resort to deception.

Third, the skills of the researchers may raise some ethical concerns when it comes to the examination of the financial aspects of the corporate world. In the event of any deficiency regarding skills, the effectiveness of the study may be compromised and lead to inconclusive findings. It is thus important for the researcher to state their competencies before the onset of the study for any intervention from the other members of the team.

**Preliminary Thoughts about the Research Design**

The descriptive research design would be the best option for this study. This design will help in providing answers to the question of how, when, where to and who and how they are related to corporate governance and financial performance. Descriptive research design would greatly help in getting all information concerning the Correlation between corporate governance and financial performance. It will also assist in creating the relationship between the variable in the situation.

Both quantitative and qualitative data will be effectively utilized in coming up with results that are comprehensive (Creswell, 2013). This would mean that different variable would be subjected to different measures; some quantitatively and others qualitatively. The process of data collection will require being conducted more flexibly, and this will call for the utilization of a flexible research design.

**Ideas about Sampling Data**

The study must include a clear definition of the target population. The target population can be of any size, but it is often too large to have all subjects included in the study. In that case, it is preferable to have a carefully selected sample.

The current study will rely on a stratified sampling approach for the collection of data. According to Cochran (2007), stratified sampling technique reduces sampling error and biases whereby a stratum is a subset of a population which share some common characteristics. The examples of stratums that will be used include males and females, age brackets, and managers and non-managers. For the different strata, the simple probability sampling technique will be applied.

The stratified method is good as there will be the presence of all different subgroups needed in the final sample. Further, it will be possible to representatively sample even those subgroups that are hard to access and the rare extremes. The statistical precision with regards to the relationship between the corporate governance and financial performance will be significantly higher. The reason is that there is always a lower variability within subgroups.

**Secondary Sources of Data**

To facilitate the extensive analysis of the banking sector in the GCC region, a descriptive framework will be embraced in the current study. Secondary data will be drawn from databases of organizations like the World Bank and the International Monetary Fund. Several publications like the Gulf Economic Monitor may offer indispensable information on the financial health of the banking institutions in the region.

While the World Bank may not avow the exactitude of the data provided, it will offer an invaluable opportunity for the researcher to obtain and analyze critical information that may affect the ultimate conclusions of the study. An exhaustive review of any other literature related to the current study will accompany this examination of secondary sources to come up with definitive findings on the topic. The internet will also play a pivotal role as a source of useful information on the topic.

**Possible Measurement and Measurement Scales**

The measurement scales to be used in the survey are determined by the nature of the data required, details of the scales, number of categories, and the reason for collecting the information. The current survey will rely on graphic rating and semantic differential scales. The benchmarks are important as they subjects will be offered the opportunity to respond to the survey question according to the level of conviction they have regarding their opinions.

The data from the measurement benchmarks and scales will play an integral role in the research as it will be easy to identify the loopholes that need to be closed in the pursuit of the most befitting interventions to the problem under study. The nominal, ordinal, and rational aspects of measurement will be embraced.

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