

Corporate Governance and Performance of Islamic Banks in GCC Countries

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Abstract : This paper investigates the impact of the internal corporate governance on bank performance by constructing a corporate governance index (CGI) for 27 Islamic banks operating in five Arab Gulf countries. Using content analysis on the banks' annual reports for 3 years (2011-2013), the index construction uses information on six important corporate governance mechanisms, namely board structure, risk management, transparency and disclosure, audit committee, Sharia supervisory board and investment account holders. The results demonstrate that Islamic banks adhere to 54% of the attributes addressed in the CGI. The most frequently reported and disclosed elements are Sharia supervisory board followed by board structure and risk management. The findings related to countries revealed that only two countries, the United Arab Emirates and Bahrain, possess a higher level of CGI. Our regression results provide evidence that Islamic banks with higher levels of corporate governance report high operating performance measured by return on assets and net interest margin. Finally, as of the effect of internal and external factors, we identified four variables that were associated with bank performance, namely size, equity, risk and concentration.

Keywords : governance mechanisms, corporate governance index, bank performance, Islamic banks, GCC countries

Conference Title : ICIF 2016 : International Conference on Islamic Finance

Conference Location : Zurich, Switzerland

Conference Dates : July 21-22, 2016