Corporate Governance

A critical review of relationship between corporate governance and firm performance: GCC banking sector perspective

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Abstract

Purpose – *The purpose of this paper is to evaluate existing studies on the relationship of corporate governance with firm performance in different regions and address the need for similar analysis for the Gulf Coperation Council (GCC) sector. The banking sector comprises the conventional and Islamic banks in the GCC sector and is important due to their ability to bring stability to this region. Existing studies that measure the relationship of GCC sector conventional banks and firm performance are limited. This study proposes a need for future research on corporate governance in the GCC region.*

Design/methodology/approach – *This paper will review and analyze the different empirical and theoretical contributions in establishing the relationship between corporate governance and firm performance.*

Findings – *This paper will create a focus for future research of measuring the impact of corporate governance mechanism on firm performance. The regulators will be encouraged to focus on more research studies for the GCC sector development in the field of corporate governance of the banking sector.*

Research limitations/implications – *The existing studies are valid and practicable for the region under study, and the results need not be applicable for other business environments. In addition, the evolving business and economic environment have always brought about inconsistent conclusions; thus, the period of study can always give varied results.*

Practical implications – *The analysis undertaken in this paper will address the literature gaps for the GCC banking sector and play an instrumental role for future studies by theoreticians and regulators.*

Originality/value – *This paper identifies the literature gaps for the GCC region and analyses the most applicable existing studies that can be useful for the banking sector corporate governance improvement. This paper will create opportunities for the future researchers.*

Keywords *Financial performance, Corporate governance, Board of directors, Shareholders, Audit committees, Chairmen*

Paper type *Literature review*

Introduction

The global financial crisis of 2007 had created ripples in the faith of banking sector. The reason for this crisis was attributed to financial sectors self – interest behavior. According to Howard (1997), the term "tragedy of maximisation" was introduced when the firms act in their self-interest and eventually lead to misuse of shareholder funds. For free markets to work efficiently, it is important to have elements of accountability, ethics, responsibility and transparency (Friedman and Friedman, 2010).

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Corporate governance has received considerable attention over the past few decades to instil confidence in the stakeholders of organisations. But it is not enough to view corporate governance as a whole but at different levels of importance and applicability. For example, several authors suggest that corporate governance of financial sector is different than the non-financial sector because of its opaque nature and heavy regulation (Levine, 2004) .

Some important studies have been undertaken to measure the impact on the performance of banks during the financial crisis. For example, Qu *et al.* (2012) investigated empirically the performance of banks in the BRIC countries (comprising Brazil, Russia, India and China) during the financial crisis. The period under study was from 2003 to 2010, and it was found that, from 2007 to 2008, there was a significant decline in the banking efficiency due to the crisis. They suggested that in such countries, increase of competition and regulations would improve the banking efficiency. Similarly when Chan-Lau *et al.* (2012) studied the impact of the crisis on the European banks, it was suggested that a stronger capital base and reliance on deposits would help them cope with any major financial crisis.

Such studies have been the focus of many researchers in developed countries and many emerging countries as well, but the Gulf Coperation Council (GCC) financial sector has had inadequate attention. There has been a dearth of research in the GCC region for the corporate governance practices of financial and non-financial sector firms. This paper presents the need for future research of corporate governance mechanisms and its relationship with the firm performance of GCC incorporated banks.

The GCC comprises six countries: Bahrain, Kingdom of Saudi Arabia, Kuwait, Oman, Qatar and United Arab Emirates (UAE). The growth of this region has been predominantly from revenues generated through oil reserves. Over the past decade, this region has diversified its sources of revenue from construction, retail, manufacturing and tourism sectors. Accenture (2011) conducted a study of the GCC region that highlights some of its prominent features making it stand out in comparison to the other emerging and developed markets. The GCC region was able to emerge from the global financial crisis relatively unscathed due to its policies and regional development activities. It was noticed that the growth of the GCC region was at par with the other emerging nation over the past 10 years which is around 5-6 per cent. This growth has been faster than some of the advanced economies itself. The growth rates in this region is expected to get stimulus from the government incentives to diversify in the industrial base, infrastructure and housing investments, thus reducing dependencies on the revenues generated from the oil and gas sector. The demographic profile of this region is also an attractive point, as most of the population is very young. The Accenture group conducted a survey of 47 banks in the GCC region and found that there is an anticipation of more stricter regulations, more competitive markets and skills’ shortage by 2015. While the regulations are getting stricter around the world, the GCC banks are expecting to focus on liquidity management and compliance with the regulations set by their central banks. One of the most notable outcomes of this survey was the expectation of changing business models because of the requirement of stricter corporate governance and risk management requirements.

The GCC has six countries but seven stock exchanges. All countries have one stock exchange except for UAE that has two stock exchanges, Abu Dhabi Stock Exchange and Dubai Stock Exchange. For the second quarter results declared at the end of June 2012, it was found that Saudi Arabia and Qatar banks were dominating the growth in the region. Saudi Arabia banks accounted for 36 per cent and Qatar banks accounted for 20 per cent of the total GCC profit. Kuwait, Bahrain and Dubai witnessed a negative growth on a year-on-year basis. Thus, four markets witnessed a positive growth on a year-on-year basis. As future prospects of the region suggests that banks will have to expand beyond the region and is also showing signs of recovery from the crisis (Global Banking and Finance Review, 2013).

The banks of the GCC region have shown considerable resistance during the period of the crisis and have shown an overall improvement. There have been many reasons because of which the GCC banks have shown resilience during this period, but the role of corporate governance and its impact has not been investigated. First, the paper emphasizes the importance of corporate governance mechanisms. Second, there will be a review of the most recent research papers on the relationship between corporate governance mechanisms and firm performance around the world. Third, a review of the limited research on GCC sector corporate governance practices will be presented. Finally, the gaps in the existing literature are discussed to present a future course of focus in the GCC region corporate governance practices.

Importance of corporate governance mechanisms

Corporate governance is a regulatory activity that is enforced through different internal and external agencies to resolve the agency conflicts and protect the stakeholder interests of organisations. Corporate governance ensures that firms are run in a responsible and accountable manner that enhances the overall performance.

Becht *et al.* (2002) has suggested that the rising interest in corporate governance can be attributed to five reasons which are:

1. worldwide privatization wave;
2. reforms in pension fund and growth in private savings;
3. the 1980’s takeover wave;
4. deregulation and integration of the capital markets world-wide; and
5. crises.

But corporate governance is not viewed in the same light for financial firms or non-financial firms. Several studies suggest that because of the nature of financial firms, the corporate governance mechanisms have to be applied differently. According to Myers and Raghuram (1998), corporate governance of banks face challenges because of the features of banks such as tradable assets, changing risk profile of banks and structuring of assets in a way that conceal risks from outsiders. Kieff and Paredes (2010) discussed three major problems with the banking sector. First, banks have to maintain a deposit insurance system to protect the depositors because of the tendency of continuous lending. Second, banks face several risks such as credit risk, operational risk and market risk. Finally, the risk of the banks is not diversified but concentric in nature.

As the banks face unique risks and are different in their business models, the nature of corporate governance also needs to be customised at the micro and macro level. Because of the global financial crisis, the corporate governance mechanism such as executive compensation was a contributory factor to the banking crisis rather than a regulatory one. For example, according to Turner (2009), the financial crisis in the banking structures was because of the pay structures of the directors. The directors focussed more on short-term goals and overlooked the long-term impact of their decisions. Bebchuk and Spamann (2010) found that the option-based executive compensation inculcated a risk behaviour in the managers and thus had an unfavourable impact on the banks’ long-term goals and profitability.

The corporate governance mechanisms are classified into internal and external mechanisms (Bushman and Smith, 2001; Cremers and Nair, 2005). The internal mechanisms comprise ownership structure, board of directors, executive compensation, audit committees and financial disclosures. The external mechanisms comprise market for corporate control, managerial labour markets, proxy fights, product market competition and legal infrastructure. There are other classifications as well to the corporate governance mechanisms.

The importance of corporate governance mechanisms are addressed by various studies in different countries. It has always been a growing research interest to measure the corporate governance mechanism impact on firm performance. It was found that banks as the main blockholders of firms can actually enhance the market to book value of equity in Germany (Gorton and Schmid, 2000). Halioui and Jerbi (2012) investigated the impact of blockholders on earnings management practices in the frontier market of Tunisia. The study suggests that blockholders play a monitoring role and can also engage in practices to force managers in earnings management practices. Kang and Kim (2012) suggest that non-controlling large blockholders played an active role in corporate governance of the firms in China. They also helped to improve the market performance for state-owned enterprises. Laeven and Levine (2008) further suggest that firms with multiple large blockholders are found to have a higher Tobin Q ratio.

The board size is found to have a positive relationship with firm performance in large Australian companies (Kiel and Nicholson, 2003), whereas in Thailand, a negative relationship was found between the board size and banks firm performance measured by risk of equity (ROE) and return on assets (ROA) (Pathan *et al.*, 2008). Board expertise is another mechanism that is crucial for the effective firm performance. Christy *et al.* (2009) report that Australian firms have a lower market ROE when a higher percentage of directors have financial qualifications. Ozkan (2011) concluded that chief executive officer (CEO) pay is not effectively linked to firm performance in the UK in comparison to the US firms. But the larger firms in the UK were able to attract good talent by offering higher CEO compensation.

Thus, it is important to understand the impact of corporate governance mechanisms. The mechanism could work best for certain firms, or specific environment or even specific time periods. There should be a continuous review of how to strengthen the mechanisms to influence the self-interested managers for aligning with the stakeholder interests. Unless researchers do not take an investigative role, it is impossible to find the future suggestions that benefit and protect the stakeholders.

Existing studies of corporate governance around the world

There are several studies made around the world which are country-specific or cross-boarder to examine the impact of corporate governance on firm performance. These research studies make valuable contributions to the literature of corporate governance, as they given an insight on the impact of firm performance. It also encourages future developments in the topic of corporate governance and increases regulatory pressures on firms for successful compliance.

Kato and Kubo (2006) found a positive relationship between CEO compensation and firm performance measure of ROA in listed and non-listed firms of Japan.

Dahya *et al.* (2006) used the two measures of independent directors and dominant shareholders to examine its impact on firm values. The study included 799 firms from 22 countries. Firms from Finland, South Asia countries and USA showed that larger boards were associated with lower firm values. Countries that had high legal scores and dominant shareholders translated higher Tobin Q ratios for the firms.

Switzer and Tang (2009) investigated the impact of corporate governance mechanisms of small cap firm value in the USA. The sample consisted of 245 firms for a period of 2000-2004. A negative relationship was found as an impact of leverage and board size on the firm value. Whereas when the CEO compensation structures are linked to the performance, the firm performance increases.

Praptiningsih (2009) investigated the impact of corporate governance mechanisms of Asian banks (Indonesia, Thailand, Philippines and Malaysia) on firm performance. This study used data from 2003 to 2007. It was found that foreign ownership was negatively related to firm performance. The CEO duality mechanism was the only that explained the relationship better with firm performance.

Babatunde and Olaniran (2009) did an empirical investigation of the relationship between the corporate governance mechanisms and firm performance in Nigeria. The listed manufacturing firms were included in the data. It was found that the mechanisms of board size, block shareholders, leverage and firm size had a positive relationship with the firm performance indicator of Tobin Q.

Guo and Kumara (2012) studied the impact of corporate governance mechanisms on non-financial firms in Sri Lanka. There was a marginal negative relationship between board size and proportion of non executive directors on firm value. An insignificant impact on firm value was associated with directors' shareholding and CEO duality.

Existing studies of corporate governance for the GCC sector

There has been some research on corporate governance for the GCC sector which are analysed in this section. The research of corporate governance has either been done country-specific or cross-country. Both types of research have been useful to gain some insight on the practices of corporate governance in this region.

Research of corporate governance practices in Bahrain

Hussain and Mallin (2002) made important contributions to the literature of corporate governance in Bahrain. With the increase of importance of corporate governance practices in the developing countries, the progress of the same was being analysed in Bahrain. The research used a survey methodology, and feedback was collected from all companies listed on the Bahrain Stock Exchange Market. Companies were covered from the banking, investment, insurance, services, industrial and hotel and tourism sectors. Out of 33 companies that were approached for the questionnaire, 21 completed the responses for the same which was a 55 per cent response rate. It was found that certain good practices of international corporate governance were observed in Bahrain. The company boards were dominated by non-executive directors, and there exists a separation in the roles of CEO and Chair. The nominations of these directors were not transparent, and they are considered as more established. The companies were found to have risk management control and internal audit department in place.

Hussain and Mallin (2003) followed-up their research on corporate governance practices in Bahrain in the following year to analyse the board dynamics in the country. Data were collected through questionnaires in 2002 that was administered to 35 companies but received only 15 responses. The questionnaires response rate from was highest from the investment sector of 92 and 0 per cent from the industrial sector. The study also conducted interviews with few prominent boards of directors, Bahrain Monetary Agency and Ministry of Commerce and Industry in Bahrain. Overall analysis suggests that the non-executive directors are nominated for a term of three years if they have the relevant experience, skills and reputation. The companies do not have a nomination committee, so the non-executive directors are appointed by board of directors or by major shareholders. Most companies had an audit committee and remuneration committee in place. It is interesting to note that during the period of this study, Bahrain did not have a corporate governance code in place.

Research of corporate governance practices in Kuwait

Al-Shammari and Al-Sultan (2010) examined the relationship of voluntary disclosures and corporate governance characteristics in Kuwait. The study used univarite and multivariate regression analysis as the methodology for the data obtained from 170 listed companies on Kuwait Stock Exchange for the year 2007. The corporate governance characteristics used in the study included proportion of non-executive directors and family members in the total number of board of directors, role duality and voluntary audit committee. It was found that out of the four corporate governance characteristics, only voluntary audit committee had a significant and positive relation to voluntary disclosure.

Al Mutairi and Hassan (2011) investigated the effects of corporate governance, corporate financing strategy and ownership structure on firm performance. The study used data from 80 listed firms of Kuwait Stock Exchange over a period of 2000-2008. A panel-based regression methodology was used to measure the impact of the variables on firm performance. It was found that ownership structure does not play an important role as determinant of performance and value of firms measured. After a certain point, an increase in government ownership was found to have a negative impact on firm activities. An endogenous determination of ownership structure and large shareholders will lead to the capital structure having a negative and significant impact on firm value. The concentration of ownership is found to enhance corporate value.

Al-Wasmi (2011) investigated the corporate governance practices in Kuwait. The level of disclosures required by the Kuwait Stock Exchange was low and inefficient in comparison to the international standards. It was also found that the corporate governance practices do not ensure protection of minority shareholder in Kuwait.

Alfaraih *et al.* (2012) conducted an empirical study on the effects of institutional and government ownership on firm performance in Kuwait. The research used data for 134 listed firms on Kuwait Stock Exchange. Tobin Q, a market-based performance measure, and ROA, an accounting measure, were used as indicators of firm performance. The institutional shareholders and government ownership have positive and negative impacts, respectively, on firm performance.

Al-Saidi and Al-Shammari (2012) investigated the corporate governance practices in Kuwait from the stakeholder perspective. The study used semi-structure interviews to gather perceptions of stakeholders and used grounded theory to interpret them. It was found that corporate governance mechanisms were not organised in Kuwait, but the concepts are well-known. The current laws were found to be irrelevant, and steps needed to be taken to remove obstacles in improving them.

Research of corporate governance practices in Qatar

Hossain and Hammami (2009) did an empirical research to examine the determinants of voluntary disclosure in Qatar. The data used 25 listed firms at Doha Securities Market from the banking, insurance, service and industrial sectors. It was found that firm characteristics such as age, assets, complexity and assets-in place variables are significant in explaining the levels of voluntary disclosure, whereas profitability was insignificant as an explanation factor.

Sharar (2011) made a comparative study of compliance by Qatari companies to the Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance Code issued in 2004. It was encouraging to find that Qatar Financial Market Authority had issued a corporate governance code for listed joint stock companies which commensurate with the OECD principles. The corporate governance code in Qatar is also customised to the needs of its business environment and deficiencies.

Almudehki and Zeitun (2012) investigated the effects of ownership structure on firm performance measured by Tobin Q. The ownership structure was classified as board, institutional, concentrated and foreign stake. The data comprised 29 listed firms, and information of these firms were collected from 2006 to 2011. It was found that the board, concentrated and foreign ownership, had a significant and positive relationship with firm performance. The institutional ownership was linked to a negative impact on firm performance.

Research of corporate governance practices in Saudi Arabia

Al-Twaijry *et al.* (2003) examined the role of audit committees in Saudi Arabia through a series of research interviews. The virtues of audit committees such as independence and expertise were found to be questionable. The audit committees also failed to establish a link between the internal and external auditors in the firms of Saudi Arabia.

Al-Turki (2006) conducted an empirical investigation on the corporate governance practices in Saudi Arabia. It was found that shareholders were allowed to participate in the general meetings of the Saudi joint stock companies, but the minority shareholders were inadequately protected. There were violations with reference to the audit committees, adequate disclosures and transparency.

Al-Matari *et al.* (2012) did an overview of the corporate governance practices in Saudi Arabia. The study focussed on corporate governance mechanisms' (such as board composition, CEO duality, board size, audit committee independence, audit committee activities and audit committee size) impact on firm performance. The research concluded lack of relevant research available in the field of corporate governance in Saudi Arabia. The mechanisms such as audit committees and board of directors have been inefficient due to lack of independence and qualified members.

Fallatah and Dickins (2012) conducted an empirical investigation of corporate governance characteristics and its impact on Saudi Arabia firm performance and firm value. Tobin Q was used as a market-based measure and ROA as an accounting measure of firm value and firm performance. There was an insignificant relationship between corporate governance and firm performance but a positive relationship between corporate governance and firm value.

Alghamdi (2012) investigated the motivations and techniques of earnings management practices in Saudi Arabia. The study also investigated the impact of corporate governance and external audit on earnings management practices. The methodology used by the research involved questionnaires, semi-structured interviews and secondary data. The financial firms were excluded from the study and all other listed firms were included. The motivations that were found behind the earnings management practices were to increase remuneration, report profit or to avoid losses, obtain bank loans or to increase the share price. Internal corporate governance mechanisms such as independent directors, board size and board meetings are found to have a significant impact on earnings management.

Research of corporate governance practices in the UAE

ALJifri and Moustafa (2007) conducted an empirical analysis to measure the impact of internal and external governance mechanisms on the firm performance in UAE. The study included 51 listed firms with data of 2004. The firm performance was measured through the Tobin Q ratio. A significant relationship was found between the firm performance and corporate governance mechanisms of government ownership, debt ratio and the payout dividend ratio. Whereas the mechanisms of institutional ownership, board size, firm size and audit type had an insignificant impact on the firm performance.

Al-Tamimi (2012) analysed the perceptions of the impact of corporate governance practices on the firm performance of UAE national banks. A positive relationship was found between the corporate governance practices of banks and performance level. The UAE banks were also found to have awareness on the importance of corporate governance mechanisms of executive compensation, relationships with stakeholder, role of board of directors, disclosure and transparency.

Research of corporate governance practices in GCC region or other relevant comparative studies of some GCC countries

Oyelere *et al.* (2007) conducted a comparative study of corporate governance practices in Oman, UAE and Singapore. The study covered data from 2002 to 2004. The research concluded the importance of country-specific importance of corporate governance mechanism that affects firm performance. Corporate governance mechanism of ownership structure was not found to be an important determinant in Oman and Singapore. Firm size, performance and auditor status were important variables in Oman. The empirical analysis of corporate governance mechanism and firm performance in the UAE reflects a positive relationship with government ownership. The debt ratio and dividend ratio were found to have a negative relationship with firm performance.

Arouris *et al.* (2011) investigated the impact of corporate governance mechanisms on banks' performance in the GCC countries. The study included data of 27 listed banks for the year 2008. Kuwait was not included in the study due to unavailability of data from banks. Firm performance had a positive impact with foreign ownership, negative impact with concentrated ownership and no association with institutional ownership. CEO duality and board size had an insignificant impact on the banks performance.

Mujtaba and Williams (2011) studied the relationship between board composition and its impact on the independence in GCC, the UK, Europe and the USA. The top ten GCC banks under study did not have executive directors on their board of directors. The proportion of independent directors in the board of directors was higher in developed countries, whereas for the GCC countries, the term was found to be new. It was also found that many of the companies did not disclose which of their directors are independent.

Al-Janadi *et al.* (2012) made a comparative study of disclosure practices in Saudi Arabia and UAE. The data were analysed for the years 2006 and 2007. The UAE was found to have higher voluntary disclosures in comparison to Saudi Arabian companies.

Al-Musalli and Ismail (2012) studied the relationship between the characteristics of board of directors and intellectual capital performance. The study used a sample of 49 GCC banks for the period of 2008-2010. It was found that in comparison to the banks in the UK and Malaysia, the GCC banks' mean intellectual capital performance was much lower. GCC banks' mean intellectual capital performance was better than Australian banks. A negative association was found between the number of independent directors in the board and intellectual capital firm performance. The study proposes the need to restudy the composition of independent directors in GCC countries.

Critical analysis of the existing studies on corporate governance practices of GCC countries

Table I analyzes the existing studies of corporate governance practices in the GCC countries. It is found that most of the existing studies suffer from various limitations that suggest a need for a detailed empirical analysis. The GCC banks have very recently adopted the corporate governance practices over the past decade. Empirical studies in the field of corporate governance practices in the GCC region would support policymakers with suggestions on making improvements and increasing its compliance as well.

Conclusion

This paper is an attempt to identify the literature gaps in the study of corporate governance and its impact on firm performance of GCC financial sector. The existing research studies has reflected several limitations that accentuates the problem that

Table I Summary and critical analysis of previous literature on corporate governance practice of GCC countries

Authors	*Critical review*
Hussain and Mallin (2002)	The study administered a questionnaire to the listed companies only. The sample size under study was small and those companies not listed were not covered. The companies from financial and non-financial sector were studied in Bahrain. The outcome of the study was common for both types of firm. There was no investigation of corporate governance mechanism impact on firm performance
Hussain and Mallin (2003)	This was a second study on the board dynamics of listed companies in Bahrain. The response rate of the questionnaire administered was poor. The study was conducted in a time period when there was no corporate governance code in the country. There was no investigation of corporate governance mechanism impact on firm performance
Al-Shammari and Al-Sultan (2010)	This was an empirical study of relationship between voluntary disclosure and corporate governance characteristics of listed companies in Kuwait. The data under study were only for 2007 which do not give a meaningful interpretation. The impact on firm performance was not measured
Al Mutairi and Hassan (2011)	This was an empirical study to measure the effect ownership structure on firm performance. The data under study were for 80 listed firms and for a period of 2000-2008. The period under study gives a meaningful interpretation due to eight years of data, but it does not segregate the impact on financial and non-financial firms
Al-Wasmi (2011)	A general study to review the corporate governance practices in Kuwait. It does not measure the impact of these practices on firm performance
Alfaraih *et al.* (2012)	This study measured the effect of ownership structure on firm performance of 134 listed non-financial firms. The financial firms were excluded from study. The period under study was only for the data in 2010; thus, the results of the study lose its importance. The results of this research can be extended to non-financial firms
Al-Saidi and Al-Shammari (2012)	This study viewed the stakeholder perspectives of Kuwait's corporate governance practices. There was no measurement of impact on firm performance
Hossain and Hammami (2009)	This study used a limited number of financial and non-financial listed firms in Qatar. There was no measurement of impact on firm performance
Sharar (2011)	This was only a comparative study and no empirical investigation to measure the impact on firm performance
Almudehki and Zeitun (2012)	This was an empirical study to measure the effect of ownership structure on firm performance of 29 non-financial Qatar firms. The period under study was five years (2006-2011), thereby giving a meaningful interpretation. The study does not include non-listed firms, and the impact of other corporate governance mechanisms is not measured
Al-Twaijry *et al.* (2003)	The study only examined the role of audit committees in Saudi Arabia through interviews
Al-Turki (2006)	This study also investigated the corporate governance practices in Saudi Arabia but does not measure its impact on firm performance
Al-Matari *et al.* (2012)	Only concludes on the effectiveness of corporate governance practices but does not measure its impact on firm performance
Fallatah and Dickins (2012)	The study was an empirical investigation to measure the corporate governance characteristics' impact on firm performance and firm value. It was a useful study, as the period under study was from 2006 to 2009. The listed firms of Saudi Arabia were selected across 14 industry classifications and only insurance sector was excluded. Thus, the conclusions are not applicable to the financial or non-financial sector specific. Nevertheless, this is an important contribution, as most of the corporate governance mechanisms are considered in the study
Alghamdi (2012)	The study was considering only the motivations and techniques behind earnings management practices in Saudi Arabia. Corporate governance seeks to tackle the earnings management practices. The impact on firm performance is not measured
ALJIFRI and Moustafa (2007)	This study measured the impact of internal and external corporate governance mechanism of corporate governance on firm performance in the UAE. Fifty-one listed firms were included in the study, and only the data for 2004 were considered. A one-year study is a major limitation of this study. In addition, the listed firms are not classified into financial and non-financial firms; thus, the results are extended as general applicability which would not always be true
Al-Tamimi (2012)	The study measured the perceptions of the impact of corporate governance practices on performance and financial distress of the UAE national banks. A perception-based study that uses questionnaires. The conclusions are valid for perceptions only
Arouri *et al.* (2011)	An important study of corporate governance mechanisms' impact on firm performance of GCC banks. The period under study was for the year 2008, and Kuwait was excluded from the study. The limitation of the study is the period and limited sample data

Source: Own interpretation

relates to the regulatory setup, compliance and identification of any developments in the corporate governance practices. Because of the global financial crisis, it was identified that banks faced crisis because of option-based compensation (Bebchuk and Spamann, 2010). When the corporate governance practices were unable to protect the stakeholders of the financial sector during the crisis, there was an emerging need to improve the regulations. Subsequent to the crisis, the Basel Committee on Banking Supervision revisited the principles of corporate governance of banking sector and revised the principles in 2010. Thereby, regulations adjusted to consider the microprudential issues along with macroprudential issues as well.

As the previous studies in the GCC sector suggest that there are several limitations such as a single-period study, non-segregation of financial and non-financial firms, limited data or not specifically measuring the impact of corporate governance mechanisms on firm performance. Because of these limitations, the region cannot provide meaningful and relevant suggestions to the region for the development and protection of the banking sector. As frontier markets, the GCC sector needs to keep in line with the developments of the corporate governance practices in the developed and emerging markets. Yet they need to understand the impact of these practices within the uniqueness of the business environment, business models and organisational structure. This paper suggests that future research has to be undertaken for sector-specific investigation of corporate governance impact on firm performance in the GCC. The period under study should be a minimum of five years, and there should be a possibility of including non-listed firms in the study as well.

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