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The role of corporate governance in improving the banks Financial Performance empirical evidence from listed banks in the Saudi market

دور حوكمة الشركات في تحسين الأداء المالي للبنوك: دراسة عينة من البنوك المدرجة في السوق السعودي

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Abstract:
This study aims to determine the relationship between corporate governance and financial performance of a sample of 10 banks listed in the Saudi financial market during the period of 2008-2019.The study used Panel– Data model, where corporate governance is an independent variable and financial performance is a dependent variable, while the company's size and leverage were used as control variables .The study concluded that corporate governance has a remarkable impact on the financial performance of banks through the following dimensions: board size, board composition, board meetings, audit Committee, and Audit Committee meetings.
Keywords: financial performance, corporate governance, Saudi banks
JELClassificationCodes:G34, G32, G21, C23

ملخص:

تهدف هذه الدراسة إلى تحديد العلاقة بين حوكمة الشركات والأداء المالي لعينة من 10بنوك مدرجة في السوق المالية السعودية خلال الفترة 2008-2019 . استخدمت الدراسة نموذج *Panel-Data*، حيث تعتبر حوكمة الشركات متغيرا مستقلا والأداء المالي متغيرا تابعا ،بينما تم استخدام حجم الشركة ورافعتها كمتغيرات تحكم . خلصت الدراسة إلى أن حوكمة الشركات لها تأثير معنوي على الأداء المالي للبنوك من خلال الأبعاد التالية :حجم مجلس الإدارة ، تكوين مجلس الإدارة ،اجتماعات مجلس الإدارة ، لجنة المراجعة واجتماعات لجنة المراجعة .

كلمات مفتاحية: الأداء المالي،حوكمة الشركات ،السوق المالي السعودي .

تصنيفات JEL : G34, G32, G21, C23

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INTRODUCTION:

The subject of corporate governance has received great importance recently, especially after the financial crises and the spread of corruption in international companies, and many other illegal practices such as; cheating, lack of disclosure, transparency, and manipulation of companies' financial statements. These practices have led investors to lose confidence, trust in the companies, and prevent them to control well their companies. Thus, corporate governance principles have been developed in order to resolve these problems and help the public investors to control and manage well their companies.

In 2002, Sarbanas–Oxly law was issued, which focused on the role of corporate governance in preventing financial and administrative corruption in companies. The law advocates for activating the role of non-executive members in corporate boards of directors. It insisted on the necessity that the majority of board directors should be non-executive members and the necessity to define clearly the responsibilities of the members in the board of directors or other committees such as the audit committee (Al-Kassar, Al-Nadawi, Al-Mashhadani, 2014).

Governance plays an active role in the financial and management reform of the company and in ensuring the stability of its financial performance. The financial performance evaluation process is highly placed in the company regarding its role in identifying the real financial position and it is considering as a critical element of the company performance (Hacini , Dahou, 2016).

The importance of corporate governance is growing a day after day in developed and developing countries. Therefore, the regulators have reviewed laws and regulations governing the operation of public equity companies (Al-Najjar, Akl, 2016). In Saudi Arabia, the interest for corporate governance started in the 21st century. The Council of the Financial Market Authority enacted the Regulation on Corporate Governance by Decision No. 1-212-2006 of 12/11/2006 (Report of the Financial Market Authority 2006).

This study aims to determine the impact of corporate governance on the banks' financial performance in Saudi Arabia during 2008-2019. Therefore, the following problem is raised:

Does corporate governance affect the financial performance of banks in Saudi Arabia?

Previous Studies:

Many studies discussed the impact of corporate governance on the financial performance. Among them;

Abu Manser , Entebang, Yasser, (2011): The purpose of this study was to examine the relationship between corporate governance and the company's financial performance. The corporate governance was measured by the size of the Board of Directors, composition of the Board, duplication of the Chief Executive, and Scrutiny Commission. The financial performance is measured by the return on property rights and the profit margin. The study used a sample of 30 companies listed in the Pakistan Stock Exchange during the 2008-2009 period. The study found a strong positive relationship between the return on shareholders' rights and Executive Director, Board of Directors, the composition of the Board, and the Audit Committee .It found no relationship between the return on property rights and the profit margin, as measures of financial performance, and duplication of the Executive Chairman and Chairman of the Board.

Aggarwal study, (2013): The study aimed to examine the impact of corporate governance on the financial performance of 20 Indian non-financial companies included in CNX NIFLY50 index during 2010-20111. The study used multiple regression and correlation for testing the hypothesis. The study found that corporate governance has a positive impact on financial performance.

Wanyana, Olweny, (2013):The study aimed to study the effect of corporate governance on the financial performance of all insurance companies listed on the Kenya Stock Exchange, for the period 2007-2011 using the multiple linear regression model. The study found a negative relationship between the size of the board and the financial performance of insurance companies, and a positive relationship between the composition of the board of directors and the financial performance of insurance companies. The study also found that financial leverage has a positive impact on the financial performance of companies listed on the Kenya Stock Exchange.

Iqbal, Khan, Haider, (2015): This study aimed to determine the impact of corporate governance and financial performance in the Islamic banking sector in Pakistan during 2008-2012. The study found a strong relationship between board size and financial performance.

Paul study, (2015), aimed to study the impact of corporate governance on the financial performance of the Finance Bank in Nigeria. The study used data for 23 banks during the period of 2011-2013. The study found that the composition of the Board of Directors and the composition of the Board Committees have a significant correlation with stocks' profitability.

Al-Sha'i study, (2016): aimed to study the impact of corporate governance on the financial performance of Saudi-owned companies in 2016. The study involved 33 companies in the insurance sector. The study found that the size of the board, executive members, number of board meetings, number of members of the audit committee, number of audit committee meetings have a significant impact on the financial performance of Saudi insurance companies.

Mohammadi, Qureshi,(2016): This study aimed to measure the impact of corporate governance on the financial performance of companies in the amputation and chemical industry listed in the Saudi capital market in 2010-2015. The sample study included 10 companies. The study found that the independence of the board of directors has a positive impact on the performance of the company, and duplication of roles, size of the board of directors, and the activity of the audit committee have no effect on the company's financial performance.

It is clear that the majority of the previous studies found that corporate governance has an impact on the financial performance of companies. Moreover, most studies have agreed that the board of directors and its composition have a significant impact on the value and performance of the company.

1-Literature Reviews and Hypothesis' Development:

Corporate governance seeks to achieve several objectives, as it provides appropriate incentives to the board of directors to achieve the best interests of the institution and seeks to create an effective control process and thus help institutions to use their management resources. effectively, and seeks to streamline the practices of managers, board of directors, auditors, and investment decisions, thereby achieving optimal use of economic resources and increasing the rate of economic growth (Hamdan, Al-Sartawi , Jaber, 2013).

1-1 The Concept of Corporate governance: The definitions and concepts of corporate governance have differed, due to the overlap of this concept in many organizational, economic, financial and social matters.

Definition of the World Bank: It is synonymous with effective and optimal economic management, which seeks to answer various criticisms directed at countries and institutions that question the structural reforms, proceeding from the top to the down, and which led to an institutional vacuum instead of mobilizing the capacities and energies of society that abounds with it (Gholam, Azi, 2006). He also defined it as the way in which authority is exercised in managing and managing the state's economic and social resources for development (The World Bank, 1992).

Definition of the Organization for Economic Cooperation and Development (OECD): It is a set of relationships between those in charge of the company’s management, the board of directors, the shareholders, and other shareholders. It includes the structure through which the institution objectives are set and the tools by which those objectives are implemented and the method of performance monitoring is determined (Bureau du Surintendant des institutions financière Canada, 2013).

Definition of the International Finance Corporation (IFC): It is the system by which companies are managed and controlled in their business (Alamgir, 2007).

The Definition of PUND: the implementation of political, economic, and administrative authority in order to run a business (Rachid, 2004)**.**

Chan (2014) defined corporate governance as the system by which the company's business is monitored in an effective manner, working with transparency and responsibility, in order to achieve the desired goals **.**While Tim et al, (1999) defined it as the institutional structures, processes, responsibilities and traditions used by senior management in order to achieve the corporate mission.

1-1-1Characteristics of corporate governance: They are as follows (Khadra,2012)

Discipline: means correct and appropriate moral behavior, and it means discipline in everything, like discipline in performing every action.

Transparency: presenting a true picture of events, and the focus must be on credibility, clarity, disclosure and participation.

Independence: This requires the existence of a board chairman independent of general management, the existence of a supervisory board independent of the management board of directors, in addition to the existence of a review committee headed by an independent board member.

Accountability: evaluating the work of the Board of Directors and the Executive Management, as the governance management system allows the company to be held accountable to all shareholders and to give instructions to the Board of Directors.

Responsibility: Taking responsibility to all parties in the company, meaning that the company takes into account all the rights of interested parties, which are included in the regulations and laws.

Justice: respecting the rights of all parties in the company, that is, the company is committed to protecting the interests of shareholders and equal treatment of all.

Social responsibility: is for the company to assume its responsibility towards its internal company (workers, managers, shareholders) and the direction of its external community (customers, associations, local groups).

1.1.2 Corporate Governance Objectives: Corporate governance seeks to achieve several objectives, including (Al-Khudairi, 2007)

- Improving the mental image of institutions, thanks to the capacity of projects to achieve their objectives and leave a positive impression on them.
- Improving decision-making process through managers sense of responsibility and accountability
- Improving the corporate credibility through transparency and equal treatment of all parties interested in the company.
- Introducing ethical considerations by preventing the abuse of influence for unlawful gain.
- Improving the degree of transparency and clarity by evaluating the performance of senior management.

1.1.3 Principles of Corporate Governance: The principles of corporate governance are the backbone of the proper application of this concept, since many international organizations and bodies have developed principles and rules of corporate governance similar to the Committee for Economic Cooperation and Development, whose principles are the most accepted and concerned at the international level. Five principles of corporate governance were developed in 1999 and were revised and amended in 2004 by adding one principle to become six principles, which are summarized below:

- Ensure that an effective corporate governance framework is in place. The corporate governance framework must promote transparency, market efficiency, and the definition of responsibilities.
- Protecting the rights of shareholders, should provide protection for shareholders, facilitate them to exercise their rights, and give them the opportunity to actively participate and vote in the general meetings of shareholders (Abu Awad, Al-Kobaiji, 2014)
- Fair treatment of shareholders, including the minority, and foreign shareholders (Abu-Tapanjeh, 2009) .
- The role of stakeholders in corporate governance, so that the rights of stakeholders must be recognized by law or reciprocal agreements (Al-sa'eed, 2013)
- Disclosure and transparency, so that all matters related to the company must be disclosed in a timely and accurate manner and that disclosure includes information related to the financial and operational results (Gregory, Simms, 1999)
- Responsibilities of the board of directors, as the board of directors must be accountable to the company and shareholders, in addition to the fact that the board of directors is responsible for reviewing plans and gaps during implementation (Shanikat, Abbadi, 2011)

1-2 Financial Performance: The issue of financial performance is one of the most important subjects by researchers and writers because is of great importance in the institution as an important indicator in knowing its financial situation and knowing its strengths and weaknesses and its contribution to achieving the established goals. There are many and varied definitions of financial performance, we mention some of them

Financial performance is the institution's ability to survive and balance the satisfaction of shareholders and workers (Durker, 2007).

Financial performance is defined as the ability of managers to achieve their goals through the growth of the annual rate of sales and the achievement of certain financial ratios (Josée, Pierre, 1990).

Financial performance is defined as the extent to which the institution can optimally use its resources and resources in both the long and short term to create wealth (Dedan ,Camassi, 2005).

The financial performance of the institution is represented in the financial results that the institution seeks to achieve. As such, they represent the objectives that can be used as an indicator to measure the effectiveness of the successful financial plan, which positively affects the value of the institution (Duff, 1999).

1-2-1The importance of Financial Performance: It is as follows

Financial performance helps to assess a company's performance in several respects to identify its strengths and weaknesses, as well as to rationalize users' financial decisions by taking advantage of the data provided by financial performance, which in turn leads to making the right decisions to ensure stability and survival.(Al-Khatib, 2010)

In general, the importance of financial performance can be limited to shedding light on evaluating the position and activity of the company by evaluating its liquidity, profitability, debt, in addition to the dividends it makes.

1-2-2 Financial Performance Indicators: researchers use the following indicators to measure financial performance, (Abdel Nour, Muhammad, 2015) (Hacini , Dahou, 2018).

Return on Equity (ROE): It measures the profitability of a dollar invested by the owners of the company. high rate reflects the efficiency of the financial management in exploiting the money of owners' to achieve a satisfactory return. It is calculated by dividing the net income by the equity shareholders.

Return on Assets (ROA): it measures the ability of assets to generate profit and is calculated by dividing the net profit by the total assets.

1-3The Relationship between Corporate governance and Financial Performance:

1-3-1 Relationship between the Size of the Board of Directors and the Financial Performance: the size of the board can have a positive or negative impact on the performance of the company. (Jensen, 1983) and (Eisenberget,1998) indicated that the large size of the board of directors is difficult to communicate and coordinate, which allows the executive director to control the board, which creates the problem of the agency and reduces the performance of the company .On the other hand, the theory of resource dependence sees that the size of the board enables additional networks that allow the acquisition of more external resources (Salim, Arjounadi, Seufert, 2016)**.**Therefore, the study suggests the following hypothesis:

$H0_1$: Board Size has no effect on Financial Performance.

1-3-2 Relationship between Board independence and Financial Performance: Modern corporate governance focuses on the principle of the independence of the members of the board of directors .Therefore ,Board's members do not have any relationship that binds them to the company or with managers, which prevents them to perform their duties as required The independence of the board members plays an effective role in limiting the conflict

Interests between owners and managers, and reinforce the supervisory role which limits the behavior of managers according to what serves their own interests rather than the interests of the owners (Mohammadi,Qureshi,2016)**.** Therefore, the study suggests the following hypothesis:

$H0_2$: The independence of directors has no effect on financial performance

1-3-3 The Relationship between Board meetings and Financial Performance: Many studies have focused on the relationship between the number of board and financial performance. Some have asserted that the frequent meetings have improved the firm's performance because they allow to study various points raised related to the company situation .On the other hand, the meetings help to achieve oversight over the managers. However other studies confirmed that frequent meetings increase the costs incurred at the company level, which leads to a reduction in financial performance (Khalisa, Abdel Nasser, 2016)**.**Therefore, the study suggests the following hypothesis:

$H0_3$: The number of board meetings has no impact on financial performance.

1-3-4 Relationship of the Audit committee with Financial Performance: The Audit Committee plays an important role in improving the value of the company by applying the principles of corporate governance. The principles of Corporate Governance suggest that the Audit Committee should operate independently and perform its duties in an effective manner. The audit committee monitors mechanisms that improve the quality of information between shareholders and directors, which in turn contribute to reducing agency problems and improve corporate performance (Amarjit, Obradouiche,2012)**.** In a study conducted by (Ravivathani, Danoshana, 2013) they found that the audit committee has a positive effect on the performance of the company (Buallay, Hamdan, Zureigat, 2017)**.**Therefore, the study suggests the following hypothesis:

$H0_4$: The number of audit committee members has no effect on financial performance..

1-3-5 Relationship between the Non-Executive members and Financial Performance: Non-executive directors contribute to reducing conflicts of interest between directors, executive board members and shareholders. They can achieve this through monitoring and disciplinary action.

Several studies have reached a positive relationship between non-executive members and the performance of the company, (Bushman et al, 2001), (Hossain et al 2004), (Aggarwal et al, 2009).

On the other hand, other studies have found a negative relationship between non-executive board members and performance, (Yermack, 1996), (Bhagat, Black, 2002), and that the presence of non-executive members does not lead to improving efficiency. A non-executive board of directors can have a positive or negative impact on a company's financial performance (Salim, Arjomandi, Seufert, 2016)**.** Therefore, the study suggests the following hypothesis:

$H0_5$: There is no influence of the non-executive members of the board of directors on the financial performance.

1-3-6 The Relationship between the Executive members and the Financial Performance: The executive member is considered a member of the board of directors, as he occupies an executive position in the company such as the CEO or the managing director and the heads of the company sector. The executive members play an effective role in the company due to their knowledge of the company's conditions, the risks it faces and the investment opportunities available to it, which makes them give In addition to the company and influence its performance in a positive and effective manner (Jazar, 2016)**.** Therefore, the study suggests the following hypothesis:

$H0_6$: The executive members of the board of directors have no influence on the financial performance.

1-3-7 The Relationship between the Audit committee meetings and Financial Performance: One audit committee plays an important role in improving the value of the company through the application of corporate governance principles. The Audit Committee works independently and performs its duties with professional care. It meets several times a year to study the status of the company and control the mechanisms that improve the quality of information flow between shareholders and managers, which in turn help reduce agency problems and thus improve the performance of the institution (Gill, 2012)**.** Therefore, the study suggests the following hypothesis:

$H0_7$: Audit committee meetings have no effect on financial performance

1-3-8 The Relationship between the Size of the Company (the size of the assets) and the Financial Performance: On one hand, size is considered as one of the factors affecting the financial performance of the companies, either negatively or positively. The size may constitute a hindrance to the performance of companies as the increase in size constitutes a complication in the company's management process and thus becomes less effective, which negatively affects its performance. On the other hand, the greater the size of the company, the greater the number of financial analysts interested in the company and the more effective it becomes, thus increasing its performance.(Jalila, 2009) **.** Therefore, the study suggests the following hypothesis:

$H0_8$: There is no effect of asset size on the financial performance.

1-3-9 The Relationship between financial leverage and financial performance:

Leveraged financing, or what is known as leverage, is among the factors affecting the financial performance of companies. It is related to the efficiency and effectiveness of the company's financial management in terms of the optimal use of available financial resources, which is reflected in its financial performance. It leads to an increase in financial risks represented by an increase in the cost of financing as a result of increased borrowing, inability to repay, and the inability to achieve sufficient returns to cover the cost of financing, and thus negatively affects the performance of the company (Bakari, Dougoum, 2017)**.**Several studies have examined the relationship between the company's financial performance and financial leverage, some found a positive relationship between financial leverage and financial performance similar to the study (Margaritis, Psillaki, 2010), while a study (vithessanthis, Tongurai's, 2015) found a negative relationship between financial performance and leverage (Kakani, 2001).Therefore, the study suggests the following hypothesis:

$H0_9$: Leverage has no effect on financial performance.

2- Methodology:

This study aims to analyze the effect of corporate governance on the financial performance of a sample of banks listed in the Saudi financial market during the period 2008-2019. The study collected data from10 banks operating in Saudi Arabia. The data were obtained from the banks' annual reports. The study used the Panel Data method.

2-1 Study variables:

2-1-1 Corporate governance: To measure corporate governance, the study used the following dimensions based on several studies, such as (Pual study, 2015), (Buallay et al., 2017), (Aggarwal study, 2013), (Al-Alamai study, 2016):

-Size of the board of directors reflects the number of board members

-Number of Executive members of the Board of Directors who are the members responsible for managing the affairs company's business in accordance with the instructions of the Board of Directors.

-Number of Non-executive members elected from outside the company, who supervise and control the decisions made by the executive members.

-Number of the independent members who are members of the company and have no relationship with it, except for their role as members of the board.

- The number of council meetings and represents the number of meetings the board holds during the year.

- The number of members of the audit committee responsible for supervising and controlling financial reports.

- The number of audit committee meetings, which represents the number of meetings held by the oversight committee during the year.

2-1-2 Financial Performance: To measure the financial performance, the study used return on equity (ROE) following several studies that have used this indicator (Jawadi, Amara, 2018),(Sunday, 2008),(Abubakar, Garba, 2010). ROE is one of the important analytical indicators in evaluating financial performance as it measures the effectiveness of management in exploiting owners' funds and generating returns.

2-1-3 Control variables: the study used some control variables to control their effects on the company financial performance. According to the previous studies, the study used the following control variables**:**

Company Size : measured by the logarithm of the total assets.

Financial leverage: refers the loans used by the company to finance its activity. It is calculated as the total debt divided by the total assets.

The study aims to estimate the following model to test the impact of corporate governance on financial performance. The model is presented in the following equation:

$$ROE_{it}=\beta 0 + \beta 1\ X_{1\ it} + \beta 2\ X_{2\ it}+ \beta 3\ X_{3it}+ \beta 4X_{4it}+ \beta 5\ X_{5\ it} + \beta 6\ X_{6it}+ \beta 7\ X_{7it} + \beta 8\ Size_{it}+ \beta 9\ LEV_{it} + \varepsilon it$$

Or:

i: represents the company

t: represents the year

ROE: Financial performance expressed as a return on equity.

$x_1, x_2, x_3, x_4, x_5, x_6, x_7$: represents the variables that measure corporate governance.

Size: company's size

lev: leverage ratio

ε: random error.

2-2 Descriptive Statistics:

The following table presents the descriptive statistics of the study variables.

Table n ° 1: Statistical Description of the Study Variables

	X_1	X_2	X_3	X_4	X_5	X_6	X_7	Lev	Size	ROE
Mean	9.87	0.80	4.72	4.35	5.23	4.05	5.50	0.46	11.64	0.12
Median	10	1.00	4.50	4.00	5.00	4.00	5.00	0.48	11.83	0.12
Maximum	12.00	8.00	10.00	10.00	9.00	8.00	11.00	0.96	12.85	0.25
Minimum	8.00	0.00	0.00	0.00	1.00	3.00	1.00	0.00	9.65	-0.08
Std. Dev	0.831	1.10	2.00	2.01	1.51	0.99	1.93	0.11	0.74	0.05
Skewness	-0.10	3.81	0.36	-0.55	0.53	0.46	0.36	-0.88	-0.84	-0.29
Kurtosis	2.52	23.99	3.59	3.49	3.25	3.09	3.26	9.18	3.01	4.04
Total	1185.00	96.00	567.00	522.00	628.00	486.00	660.00	54.44	1397.15	14.58
Observations	120	120	120	120	120	120	120	120	120	120

Source: Based on the results of the panel data program.

For the dependent variable, which represents financial performance measured by : Return on Equity (ROE), the mean was 0.12, while the standard deviation was 0.05. As for the independent variable represented the corporate governance measured by; The size board (X_1), executive members (X_2), non-executive members (X_3), independent members (X_4), number of board meetings (X_5), number of audit committee members (X_6), and number of audit committee meetings (X_7).The average was 9.87, 0.80, 4.72, 4.35, 5.23, 4.05, 5.50, respectively, while the standard deviation was 0.83, 1.10, 2.00, 2.01, 1.51, 0.99 and 1.93, respectively. As for the control variables represented by the size, the average leverage ratio (LEV) was 11.64, 0.46 respectively, while the standard deviation is 0.74 and 0.11, respectively.

3- Results and Discussion:

3-1 Stationary:

The stationary of the variables will be measured with Levin, Lin & Chu t-test, which is stationary test of panel data based on the following hypothesis;

H0: Time series is not stationary

H1: Time series is stationary

Table No. 2: Variables stationary

Board size	-2.8931	0.0019
Executive Board Members	-11.6961	0.0000
Non-executive members of the board of directors	-6.77771	0.0000
Independent Board Members	-5.11792	0.0000
Number of board meetings	-3.28739	0.0005
Number of Audit Committee members	-3.13778	0.0009
Number of Audit Committee meetings	-1.36888	0.0855
Size	-7.57530	0.0000
Leverage	-1.82065	0.0343

Source: Based on the results of the panel data program.

The results of the analysis indicate that the probability value of board size, value of executive members, non-executive members, independent members, board meeting, audit committee members, audit committee meetings, size, and financial leverage are less than the established significant value of 0.05. Therefore, the null hypothesis is rejected and we conclude that there are no unit roots and the variables are stationary at the level.

3-2Hausman Test:

To determine the type of estimation model, Hausman test was used to choose between the fixed effects model and the random effects model according to the following hypotheses:

H_0: The random effects model is the appropriate model.

H_1: The fixed effects model is the appropriate model.

Table 09: The Hausman Test

Test Summary	Chi-Sq .Statistic	Chi-Sq. d.f	Prob.
Cross-section random	17.296018	9	0.0443

Source: Based on the results of the panel data program.

The results indicate that the **Chi-Sq** statistic value was 17.296018 and the probability value was 0.0443, which is less than the established value of 0.05. Therefore, we reject the null hypothesis and the fixed effects model is the appropriate model.

3-3 Model Estimation:

Table No. 10: Fixed Effects Model

Test cross-section random effects
White cross-section standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.2085	0.2034	1.0250	0.3084
X_1	-0.0217	0.0073	-2.9656	0.0040
X_2	0.0120	0.0047	2.5341	0.0132
X_3	0.0115	0.0042	2.6810	0.0089
X_4	0.0097	0.0032	3.0036	0.0036
X_5	-0.0038	0.0015	-2.5198	0.0137
X_6	-0.0073	0.0037	-1.9568	0.0278
X_7	0.0040	0.0017	2.2414	0.0278
LEV	0.1467	0.0596	2.4601	0.0160
Size	0.0001	0.0166	0.0082	0.9935

R2 : 0.7079
S.E.R : 0.0264
F-statistic : 10.20437
Prob(F-statistic) : 0.0000
D.W : 2.157

Source: Based on the results of the panel data program.

The results showed that the coefficient of determination (R-square) is 0.7079, meaning that the model explains about 70.79% of the variation in the ROE, while the remaining 29.21% of the variation is due to other factors .F-statistic is equal to 10.20 with a probability value of 0.0000, which is less than the applicable significant value of 0.05, which confirms that the model is appropriate and statistically significant .The value of Durbin-Watson statistic is 2.157, which is close to 2, and this indicates no existence of an autocorrelation problem.

3-4 Residuals Test:

The study tested the residuals for cross-correlation based on panel data methods, which are; Breusch-Pagan LM, Pesaran scaled LM, Bias-corrected scaled LM, Pesaran CD.

Table No. 11: Residuals Test

Test	Statistic	Probability
Breusch-Pagan LM	37.55971	0.7766
Pesaran scaled LM	-0.784276	0.4329
Bias corrected scaled LM	-1.339831	0.1803
Pesaran CD	-0.465367	0.6417

Source: Based on the results of the panel data program.

The results of the analysis indicate that the probability value of all tests is greater than the established significant value of 0.05, which means that there is no cross-sectional correlation for the residuals.

3-5 Hypothesis Testing:

$H0_1$: Board size has no effect on Financial Performance:

The results of the analysis indicated that there is a negative effect of the size of the board of directors on the financial performance with coefficient equals (-0.021).The probability value is 0.0040, which is less than 0.05, therefore, we reject the null hypothesis and the board size has significant negative effects on financial performance .This means that the size of the board of directors does not necessarily lead to an improvement in financial performance. The larger board of directors is less effective in reducing agency costs and harms the financial performance .That is, the presence of a large number of members leads to the difficulty of coordination between them and the weakness of the management control process, which leads to bearing more costs and thus affecting negatively the financial return of the company, and this is what the agency theory indicated. This finding is consistent with (Jensen, 2009)

$H0_2$: Independent Board Members have no influence on Financial Performance:

The results of the analysis indicated that there is a positive relationship between the number of independent members of the board of directors and the financial performance (0.009). The probability value is 0.0036, consequently, we reject the null hypothesis and the independent members of the board of directors has a significant effect on the financial performance .That is, the presence of a large number of independent members increases the transparency and independence of the board and thus affects the financial return of the company and improves the return on shareholders' equity. Agency theory indicated that board independence increases the effectiveness of management oversight and reduces conflicts of interest and thus reduces agency costs. This finding is consistent with (Muhammadi, Qureshi,2016).

$H0_3$: Board Meetings has no effect on Financial Performance

The results of the analysis indicated that there is a negative relationship between the number of board meetings and financial performance (-0.003), which means that the board meets randomly during the year and does not follow up on the company's activity and this did not support the financial performance. The probability value is 0.0137, we reject the null hypothesis and the board meetings has a significant effect on the financial performance .That is, the frequent meetings of the board of directors make additional costs for the company, which leads to a reduction in its financial return. This finding is consistent with (Mogili Khalsa , 2016).

$H0_4$: Audit Committee Members has no effect on Financial Performance:

The results of the analysis indicated that there is a negative relationship between the number of audit committee members and financial performance (-0.007). This evidence suggests that the audit committee does not have sufficient quality and the inefficiency of its members in carrying out their work, which means that the audit committee has an effective role in reducing fraud and corruption and gives an indication that the company applies the principles of corporate governance. The probability value 0.027, so we reject the null hypothesis and the members of the audit committee role has a significant effect on the financial performance .That is, increasing the number of members of the audit committee in the required manner leads to conflicts and reduces decision-making in an effective and fast manner, which leads to a decrease in the financial performance of the company. This finding is consistent with (Paul, 2015).

$H0_5$: Non-Executive Board members has no effect on Financial Performance:

The results of the analysis indicated that there is a positive relationship between the non-executive members of the board of directors and the financial performance (0.011). This means that the increase in the number of non-executive members leads to an improvement in the return on equity and thus an improvement in the financial performance of the company. The probability value is 0.0089, we reject the null hypothesis and we accept that the number of Non-executive board members has a significant effect on the financial performance .That is, the rise of non-executive members contributes to providing the board of directors with external information and providing them with advice and information that benefits the company in a way that leads to a higher financial return. This finding is consistent with (Borghama and Gharbi, 2014).

$H0_6$: Executive Board members has no effect on Financial Performance:

The results of the analysis indicated that there is a positive relationship between the executive members of the board of directors and financial performance through the positive value estimated at 0.012091, which means that the increase in the number of executive members leads to an improvement in the return on shareholders' equity and improve the financial performance. The probability value is 0.0132, which is less than 0.05. Consequently, we reject the null hypothesis and accept that the executive members of the board of directors has a significant effect on financial performance .That is, the rise of the executive members contributes to the implementation of the company's strategy and plans, and the coordination between the board of directors and the company's functions, which leads to an increase in the financial performance of the company. This finding is consistent with (Abu Maser et all, 2011).

$H0_7$: Audit Committee Meetings has no effect on Financial Performance:

The results of the analysis indicated that there is a positive relationship between the number of audit committee meetings and financial performance (0.004). This means that the audit committee is independent in performing its tasks, which reflects positively on the financial performance. The probability value is 0.0278, we reject the null hypothesis and accept that the audit committee meetings has a significant effect on the financial performance .In other words, increasing the frequency of audit committee meetings enhances the control over members and their implementation of the assigned tasks, which leads to improving the performance of the company. This finding is consistent with (Aggarwal, 2013).

$H0_8$: Company's Size has no effect on Financial Performance:

The results of the analysis indicated that there is a positive relationship between the size of assets and financial performance (0.0001). This means that an increase in the size of assets leads to an improvement in the return on equity and thus an improvement in the financial performance of the company. The probability value is 0.9935, which is greater than the value of 0.05. We do not reject the null hypothesis and there is no significant effect of the company's size on the financial performance. That is, the large company is efficient in rotating its assets to create new revenues, which leads to improving its performance. This finding is consistent with (Aikeleng, 2004) and (Mouna , Ishaq, 2021).

$H0_9$: Leverage has no effect on the Financial Performance:

The results of the analysis indicated that there is a positive relationship between financial leverage and financial performance (0.146). This means that corporate that depending on the debt in finance their activities tend to realize high financial performance. The probability value is 0.0169, through this result we reject the null hypothesis and accept that the financial leverage has a significant effect on the financial performance. That is, the company relies on debt to finance its activities in order to preserve its liquidity and avoid the risk of bankruptcy, which leads to raising its financial performance. This finding is consistent with (Wanyana, Olweny, 2013).

Conclusion:

The aim of this study is testing the impact of corporate governance on the financial performance of a sample of 10 banks listed in the Saudi financial market for the period 2008-2019. The study reached a set of results represented in:

- The existence of positive effects of some indicators of institutional governance (executive members of the board, non-executive members, number of audit committee meetings) on the financial performance .While other indicators such as board meetings and the audit committee have a negative effect on the financial performance .This means that the composition of the board of directors and the meetings of the audit committee contribute to improving the financial performance of the company, while the size of the board and its meetings and the number of members of the audit committee have no effects on the financial performance of the company.

In light of these results, the following suggestions can be made:

- Work to spread the culture of governance among all concerned parties.
- Enhancing disclosure of annual financial statements of companies.
- Activating the meetings of the Board of Directors and its committees.

On the other hand, future studies should conduct the study in other sectors, other Arab countries, and over a longer period to generalize the results of this study and define objectively and accurately the role of corporate governance in improving the financial performance of companies in the Arab world.

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Appendix:

N	Banks
01	Riad
02	eldjazira
03	Saudi elfiranssi
04	Arabi elwatani
05	elbilad
06	Saudi istithmar
07	Saudi britani
08	elrajihi
09	samba
10	Inmae