Corporate governance and bank performance in the light of agency theory

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Abstract: Over recent years, a lot of attention has been given on corporate governance which has become a mainstream concern in all advanced economies, as well as in developing countries especially after the financial devastation of many companies and banks, which in turn endangered the stability of the global financial system. And given the major role played by banks in any economy, corporate governance of banks is necessary to ensure a sound financial system. This former is supposed to have a positive impact on the performance of banks under the assumptions of agency theory. Our contribution aims to verify the assumptions of agency theory concerning the relation between the mechanisms of corporate governance and the financial performance of banks on the basis of recent empirical researches.

The analysis of the relation between corporate governance mechanisms and financial performance in the banking industry, allowed us to point out that the assumptions of agency theory concerning the impact of corporate governance mechanisms on banks financial performance are valid and robust after a synthesis of a different recent empirical studies.
Keywords: Corporate governance, banking industry, financial performance, agency theory.
Jel Classification Codes: G21, G34, G39.

Résumé: Au cours des dernières années, une attention particulière a été accordée à la gouvernance d'entreprise qui est devenue une préoccupation dominante dans toutes les économies avancées, ainsi que dans les pays en développement surtout après la dévastation financière de nombreuses entreprises et banques, ce qui a mis en péril la stabilité de système financier mondial. Et compte tenu le rôle major joué par les banques dans toute économie, la gouvernance des banques est nécessaire pour assurer un système financier solide. Ce premier devrait avoir un impact positif sur la performance des banques selon les suppositions de la théorie d'agence. Notre contribution vise à vérifier les suppositions de la théorie d'agence concernant la relation entre les mécanismes de la gouvernance d'entreprise et la performance financière des banques sur la base des recherches empiriques récentes.

L'analyse de la relation entre les mécanismes de la gouvernance d'entreprise et la performance financière dans le secteur bancaire nous a permis de souligner que les suppositions de la théorie d'agence concernant l'impact des mécanismes de gouvernance sur la performance financière des banques sont valides et robustes après une synthèse de différentes études empiriques récentes.
Mots clés : gouvernance d'entreprise, secteur bancaire, la performance financière, la théorie de l'agence.
Codes de classification Jel: G21, G34, G39.

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I-Introduction:

Over recent years, corporate governance has become a major and highly contentious issue in all advanced economies, as well as in developing countries[1]. It becomes a mainstream concern—a staple of discussion in corporate boardrooms, academic meetings, and policy circles around the globe due to the deficiencies in corporate governance which endangered the stability of the global financial system and the behavior of the corporate sector which affected entire economies[2]. More so, with the emergence of globalization, there is greater de-territorialization and less of government control which results is a greater need for transparency and accountability. Hence, corporate governance has become one of the critical issues in the business world today[3].

Also, the consensual vision of good governance has being gradually called into question, as it failed to avoid the enormous scandals which were the bankruptcy of Enron in the United States, Parmalat in Italy, Vivendi in France. Thus, it was unable to respond to the challenges resulting from the introduction of new actors, individual or organizational, gathered under the name "stakeholders"[4]. So, a lot of attention has been given the last years on corporate governance which has become an issue of interest across the world, especially during the last economic crisis and the financial devastation of many companies and banks[5]. And, since banks are considered to play a vital role in the financial world and in the economy at large, problems with poor governance in the banking sector are more severe and have more significant costs[6].

So given the major role played by banks in any economy and given the fact that poor corporate governance of the banks can drive the market to lose confidence in the ability of a bank to properly manage its assets and liabilities, including deposits, which could in turn trigger a liquidity crisis and then it might lead to economic crisis in a country and pose a systemic risk to the society at large, corporate governance of banks seems to be more important than other industries because the banking sector plays a crucial financial intermediary role in any economy, particularly in developing countries[7]. And in order to preserve the sustainability of the banks and consequently the reinforcement of their stability, a certain necessity to strengthen the performance of the banks was born. This latter is supposed to have a positive relationship with the banks' governance under the assumptions of agency theory.

Given the importance of this subject and of the above, we posed the following problematic:

How do the mechanisms of corporate governance affect the financial performance of banks in the light of agency theory? And are the assumptions of agency theory about the relation between corporate governance mechanisms and the financial performance of banks valid based on recent empirical researches?

Our principal hypothesis assumes that if the characteristics of the board and the ownership structure comply with the agency theory assumptions, it is anticipated that they would be related positively to bank performance.

The main objective of this paper is to take a look at the theoretical framework of corporate governance in general and bank governance in particular and, on the other hand, to investigate the literature review regarding the relation between corporate governance mechanisms and the financial performance of banks under the agency theory and finally to verify whether the assumptions of agency theory concerning the impact of corporate governance mechanisms on bank financial performance are valid or not after a synthesis of a recent empirical studies.

This study is based on both the descriptive and analytical approach, as it will first address the theoretical framework' aspects of corporate governance in general and the banking governance in particular, then it will discuss the literature review regarding the relation between corporate

governance mechanisms and the financial performance under the agency theory and finally, it will verify whether the assumptions of agency theory concerning the impact of corporate governance mechanisms on bank financial performance are valid or not after a synthesis of a recent empirical studies.

To answer our central question, we organized our article as follows. Firstly we discuss the theoretical aspects of bank governance by addressing its specificities, principles and importance. Secondly, we present the literature review regarding the relation between corporate governance mechanisms and the financial performance under the agency theory. And finally, we will verify the validity of the agency theory' assumptions concerning the impact of governance mechanisms on bank financial performance.

I.1- The theoretical aspects of bank governance:

The corporate governance is defined by the organization of economic cooperation and development (OECD 1999 and 2004), as a set of relationships between a business's management and its board of directors, its shareholders and lenders, and other stakeholders such as employees, customers, suppliers, and the community of which it is a part. And because banks are characterized by distinct agency problems which are created by the existing informations' asymmetry between stakeholders, and are also relatively supported as other non-regulated business, they are especially concerned by corporate governance, and therefore, we will discuss in the next point the specificities of banks' governance.

I.1-1-The specificity of corporate governance in banking industry.

• Banks are subject to special regulations and supervision by state agencies; supervision of banks is also exercised by the purchasers of securities issued by banks and depositors ("market discipline", "private monitoring");

•The bankruptcy of a bank raises social costs, which does not happen in the case of other kinds of entities' collapse; this affects the behavior of other banks and regulators;

•Regulations and measures of safety net substantially change the behavior of owners, managers and customers of the banks; rules can be counterproductive, leading to undesirable behaviour management (take increased risk) which expose well-being of stakeholders of the bank (in particular the depositors and owners);

•Between the bank and its clients there are fiduciary relationships raising additional relationships and agency costs;

•Problem principal-agent is more complex in banks, among others due to the asymmetry of information not only between owners and managers, but also between owners, borrowers, depositors, managers and supervisors, also, the number of parties with a stake in an institution's activity complicates the governance of financial institutions[8].

I.1-2-The principles of corporate governance for banking organizations.

For the Committee sound corporate governance involves the following seven practices:

• Establishment of strategic objectives and a set of corporate values to be communicated throughout the banking industry;

• Definition and enforcement of clear lines of responsibility and accountability throughout each bank and banking organization as a whole;

• Assurance that board members are qualified for their positions, have a clear understanding of their role in corporate governance, and are not subject to undue influence from management or outside concerns;

• Assurance that there is appropriate oversight by senior management;

• Effective utilization of the work undertaken by internal and external auditors in recognition of the important control function they exercise;

• Assurance that compensation approaches are consistent with the banks ethical values, objectives, strategy and system of control;

• Conduct of corporate governance in a transparent manner[9].

I.1-3- The importance of bank' governance

Corporate governance for banks is arguably of greater importance than for other companies, given the crucial financial intermediation role of banks in an economy[10]. It has become a worldwide dictum that the quality of corporate governance makes an important difference to the soundness and unsoundness of banks. Also, the enthronement of good governance in financial institutions remains of almost importance given the role of the industry in the mobilization of fund, the allocation of credit to the deficit sectors of the economy, the payment system and the implementation of monetary policy and this will lead to the retention of public confidence[11]. This is confirmed by Isaac who indicates that "even strong economies, lacking transparent control, responsible corporate boards, and shareholder rights can collapse quite quickly as investor's confidence collapse"[12]. In addition, banks play important roles in governing firm to which they are major creditors and in which they are major equity holders. Thus, if bank managers face sound governance mechanisms, this enhances the likelihood that banks will raise capital inexpensively, allocate society's savings efficiently, and exert sound governance over the firm they fund[13]. Finally, the well-functioning banks, promote economic growth because when banks efficiently mobilize and allocate funds, this lowers the cost of capital to firms and accelerates capital accumulation and thus lubricates the engine of growth of the economy[14].

I.2- Corporate governance and financial performance: A literature review

Corporate governance refers to the integrated set of internal and external mechanisms that harmonize manager-shareholder (agency) conflicts of interest resulting from the separation of ownership and control[15]. These corporate governance mechanisms work together to provide incentives to managers, and thus, to alleviate the agency problems between shareholders and managers, resulting from the separation between ownership and control. Also, according to Stuart & Gillan, and within the framework of the banking firm, the mechanisms of corporate governance have two dimensions: the external dimension is manifested by prudential regulation, while the internal dimension is the mode of administration of the bank. And among these two corporate governance mechanisms, the internal control system, is mainly composed of the board of directors, whose task is to hire, reward, potentially fire managers and to design the system of incentives for them[16]. Another internal mechanism designed to mitigate the moral hazard behaviour of managers is monitoring by the ownership structure. Consequently, and in the presence of potential separation of ownership and control, governance mechanisms including the board of directors and ownership structure are assumed to solve agency problems by aligning managers' interests with those of shareholders[17]. And because it is widely acknowledged in the literature thatthe main internal mechanisms of corporate governance, are the board of directors and the ownership structure[18], our study will focus only on these two internal mechanisms of bank governance. Among these internal mechanisms, we include in our study the size and composition of the board of directors represented

by the presence of independent directors, the combination of chairman and chief executive officer, and finally, the ownership structure represented by the identity of owner. Because, within the review of literature on corporate governance as its affects the firm performance, four specific governance mechanisms are frequently mentioned in the literature: the size of the board, independence of the board of directors, separation of the chairman and the CEO and finally the ownership structure.

In what follows, we quote the main theoretical arguments that deal with the relationship between internal governance mechanisms and performance, and we will deduce the hypothesis which will be tested on the basis of empirical studies.

I.2-1-The relation between the size of the board of directors and financial performance

For Adusei, the board of directors of a firm is the hub of its internal governance[19]. Economists also view the board as an important element in the governance structure of the large corporation, because without this internal governance mechanism, managers are more likely to deviate from the interests of shareholders. Agency theorists also confirmed this fact which considers that the board of directors is the main internal mechanism for controlling managers[20], and argue that the board, with its legal authority to hire, fire, and compensate top management, safeguards invested capital, is an important element of corporate governance[21].

Agency theory asserts that boards need to exercise extensive oversight of their firms' managers to curtail potential opportunistic behavior. Essentially, they need appropriate mechanisms and structures to follow the behavior of managers (i.e., the agents), as they may not act in the best interest of shareholders (i.e., the principals). The shareholders, in most instances a diffuse and scattered group, rely mostly on the board of directors to perform this role[22]. This later is considered by Adams Ferreira, as the ultimate legal authority with respect to decision making in the firm[23]. As such, if the mechanism works well it will increase bank performance.

A frequently studied feature of the board of directors is its size. Also, agency theory suggested that the number of directors on the board has an effect on the extent of a company's monitoring, controlling, and decision making. Several authors claim that the board loses its effectiveness when it is too big[24].

So, the largely shared wisdom regarding the optimal board size is that the higher the number of directors sitting on the board the lesser is the performance. This leans on the idea that communication, coordination of tasks and decision making effectiveness among a large group of people is harder and costlier than it is in smaller groups.

This is in line with prior studies Jensen (1993)[25], Lipton & Lorsch (1992)[26], Yermack (1996)[27], which have argued that a small board size is, more effective with a greater diversity of knowledge and experience and preferable in terms of easy co-ordination, cohesiveness, and communication.

For instance, Jensen (1993) suggested that keeping board small can help improve firm performance as the board is less likely to function effectively and is easier for the CEO to control when it gets beyond seven or eight members. It is further argued that any increase in board size will make it less effective in monitoring management because of free-riding problems among directors as well as increased decision-making time[28]. Lipton & Lorsch (1992) also call for adoption of small boards, and recommend that board size be limited to seven or eight members[29]. Bhagat & Black (2002) confirmed this assertion that smaller boards tend to have greater control over the executives[30].Hermalin & Weisbach (2003) argue that the consensus in the economic literature is that an increase in board size will have a negative effect on firm performance[31]. Also, Crespi et al (2004) stressed that the good functioning of this governance mechanism leads to good corporate

governance since the board oversees all executive policies and ensures the application of all supervisory rules[32]. In the same vein, Pathan et al (2007), Al Manaseer et al (2012) argued that big boards may produce problems of coordination, communication, and decision-making as well as more risks[33].

Based on these theoretical arguments, firms with larger boards of directors could experience lower performance and thus the first hypothesis is as follow:

Hypothesis 1: There is a negative relationship between board size and the financial performance of banks.

I.2-2-The relation between board independence and financial performance

According to Sahut & Boulerne, board independence is a decisive factor in corporate governance and its effectiveness[34]. According to Bouton, the definition of an independent director is as follows: "a director is independent of the management of the company if he has no relationship of any kind with the company or its group that could compromise the exercise of his freedom of judgment"[35]. So, independent or outside directors, i.e. directors who have no direct financial, family or interlock ties with management, are considered to be more effective monitors of management because they are in theory less beholden to management[36]. Also, agency theory argues that managerial opportunism can be mitigated by increasing the level of board independence through appointing more outside members. The independent directors should have no previous or current professional or personal affiliation with the company[37].

Board independence which refers to the entry of independent directors onto the board, play an important role in the safeguard of the board operation by acting as 'professional referees'. Because, according to Fama and Jensen (1983), independent directors have the incentive to act as monitors of management because they want to protect their reputations as effective, independent decision makers. So, for them, independent directors play an important role in the effective resolution of agency problems because they are unlikely to work with executive directors against the interests of the shareholders, and therefore their presence improve the supervision and reduce the conflict of interest among stakeholders, and thus can lead to straightened and more effective decision-making in the firm[38].

The agency theory assumes that internal directors do not have sufficient power to oppose managers' decisions. On the other hand, independent directors are recruited for their skills. Their independence from managers, allows them to oppose the most questionable decisions[39]. That's why, the agency theory supports a higher proportion of independent directors because they provide more effective monitoring of managers and they are more likely seen to limit the opportunistic behavior of the CEO and to provide strategic directions leading to improvement in performance (Jensen and Meckling (1976)[40], Fama and Jensen (1983), Muth & Donaldson (1998))[41].For instance, Jensen and Meckling (1976) suggested that boards dominated by independent directors may help to alleviate the agency problem by monitoring and controlling the opportunistic behavior of management to ensure that they pursue shareholders' interests[42]. Also, Pearce and Zahra (1992) argued that boards dominated by independent directors may influence the quality of directors' deliberations and decisions and provide strategic direction and improvement in performance[43]. In the same vein, Brennan & McDermott (2004) stated that independent directors are expected to be more effective in monitoring managers, thereby reducing the agency costs arising from the separation of ownership (shareholders) and control and thus improvements in the independence of corporate boards ought to yield improvements in corporate performance. Haniffa & Hudaib (2006) argued that the presence of independent directors can make executive directors feel evaluated and under pressure[44].

In line with the lessons of agency theory, the presence of independent directors in the composition of the boards, seeks to align management decisions with the creation of shareholder value. This theory adds that they perform better than internal ones in resolving conflicts and mitigating agency costs and moral hazard issues, and that they contribute positively to effective control of executives. This incentive to act in the interest of the company generally stems from the reputation of these directors in the labor market of senior managers. And thus, agency theory authors conclude that the presence of independent directors leads to an increase in the performance of the firm.

According to this reasoning, the presence of independent directors on the board should have a positive impact on the performance of a bank. This allows us to formulate the following hypothesis:

Hypothesis 2: There is a positive relationship between board independence measured by the presence of independent directors on the board and the financial performance of banks.

I.2-3-The relation between duality and financial performance

The leadership structure of a firm can be divided into combined leadership structure and separated structure[45].Duality refers to the situation when one person holds the two most powerful positions on the board of directors – namely, CEO and chairman. Combining the two roles is a key indicator of bad corporate governance[46]. Because, such arrangement is questioned, as it gives a single individual an inordinate level of power and responsibility and this may preclude the board from exercising independent judgment and reduce its efficacy in making strategic decisions[47]. That’s why the primary feature of the agency theory requires that the shareholders’ interests are protected by separating the incumbency of roles of board chair and CEO. The argument being that the CEO, who is also a board chair, will have a concentrated power base that will allow him or her to make decisions in his or her own-self-interest and at the expense of shareholders[48].

For instance, Jensen (1993) maintained that the combined structure is an inappropriate way to design one of the most critical power relationships in a firm[49]. Lipton & Lorsch (1992), Worrell et al. (1997), Carlsson (2001) supported the agency theory with respect to the separation of the two positions; as such separation improves the board’s effectiveness in management monitoring that also could lead to improved performance. Advocates of agency theory argue that duality entails a divergence between the managers’ personal interests and the interests of the shareholders of the company, which manifests itself in an increase in agency costs and an abuse of power. They contend that CEO duality makes the board inadequate and powerless in the face of a strong CEO[50]. Also, agency theory suggests that, under duality, shareholder rights are compromised, as the board is effectively not in a position to question management actions, especially when their interests clash with shareholders[51].

According to Adams et al (2010)[52], Adams et al (2005)[53], duality gives CEOs greater control at the expense of other parties, including outside directors and greater influence over corporate decision making. It although may increase the potential for managerial abuse[54]. So to mitigate the consequent problems, many observers of corporate governance have called for a prohibition on the CEO serving as chairman.

So the reason for the need for separation is that when both the monitoring roles (i. e. The chairman of the board) and implementation roles (i. e. The CEO) are vested in a single person, the monitoring roles of the board will be impaired. This impairment in the board independence could affect the board incentives to ensure that management pursues value increasing activities. So though the literature seems to argue that the separation of the two roles leads to a better governance system[55].

Thus, we can conclude that agency theory assumes that the separation of the functions of the chairman of the board of directors and the general manager reduces agency costs and thus improves the performance of firms. Accordingly, the agency theory supports the idea that the impartiality of supervision is no longer guaranteed, due to the confusion of powers and responsibilities, the CEO Chairman becomes judge and part. A logical consequence, the singular structure (accumulation of functions) makes it difficult to identify the respective responsibilities of the chairman of the board of directors and the CEO in case of poor performance of the company[56].Hence, our hypothesis regarding duality will be as follow:

Hypothesis 3: There is a negative relationship between CEO duality and the financial performance of banks.

I.2-4-The relation between ownership structure and financial performance

It is generally accepted that ownership structure, which is whether based on ownership concentration or ownership identity, is an important component and it is considered as one of the main dimensions of corporate governance because it represents a mechanism of corporate governance (Al-Najjar (2015)[57], Arrouri et al (2011)[58]). Also, beside the abundant literature on ownership concentration, the relevant literature on corporate governance pays much attention to the issue of shareholder identity. So, it is important, not only how much equity a shareholder owns, but also who the shareholder is (private person, financial institution, non-financial institution or government). This later is used in our paper to represent the ownership structure mechanism[59].

Hostility towards government owned banks reflects the hypothesis – known as the "political view of state banks" – that these banks are established by politicians who use them to shore up their power by instructing them to lend to political supporters and state-owned enterprises. This hypothesis also postulates that politically motivated banks make bad lending decisions, resulting in non-performing loans, financial fragility and slower growth[60].

Individual state-owned institutions have relatively low efficiency and high nonperforming loans, and large market shares for state-owned banks are associated with reduced access to credit, diminished financial system development, and slow economic growth[61].

Also, recent evidence points to the costs of government ownership of banks: Barth et al (2000) show that greater state ownership of banks tends to be associated with less efficient and less developed financial systems. In a related study, La Porta et al (2002) find that government ownership of banks is associated with slower subsequent financial development, lower growth of per capita income and productivity[62].

Finally and based on the assertions of agency theory, state-owned banks would suffer lower disciplinary effect from the financial market. This would encourage their leaders to follow their own interests at the expense of the interests of their institutions. Such banks are experiencing a low efficiency and suffer a high rate of nonperforming loans[63]. According to this reasoning, we will formulate the following hypothesis:

Hypothesis 04: There is a negative relationship between state ownership and financial performance of banks.

So we can say that agency theory is used to hypothesize the relationship between board characteristics and ownership structure (independent variables) and firm performance (dependent variable). In this study, three board characteristics and one ownership mechanism are selected on the basis of the agency theory argument that it could affect the performance of banks. First, is the board size, where proponents of the agency theory argue that, a small number of directors, is needed

to facilitate monitoring and control on firm's activities and that a smaller board is positively associated with firm performance. Second, there is board independence, which refers to the entry of outsiders to the board. The rationale of having independent directors is to reduce agency costs, to gain access to the capital market as well as to ensure accountability in executive remuneration. Also, this paper looks at CEO duality, which the agency theory states as being where the shareholders' interests are protected by separating the incumbency of roles of board chair and CEO. Lastly, agency theory asserts that greater state ownership of banks is associated with less financial development and lower growth and productivity and a high level of non-performing loans which in turn will damage their financial performance.

So, after the literature review regarding the relation between corporate governance mechanisms and financial performance we conclude that according to agency theory, the board of directors and ownership structure affect the efficiency of monitoring mechanisms and thus they can mitigate the agency problem. So, based on agency theory, the study predicts that corporate governance mechanisms positively affect firm performance under its assumptions which indicate that the BS is an important aspect of effective corporate governance when the board have a small number of directors, when it has a majority of outside and – ideally – independent directors and when the position of chairman and CEO is held by different persons. Also, ownership structure can enhance financial performance when the bank is not held by the government. Thus, we resume all the hypotheses as follow:

- ✓ Hypothesis 1: There is a negative relationship between board size and the financial performance of banks.
- ✓ Hypothesis 2: There is a positive relationship between board independence measured by the presence of independent directors on the board and the financial performance of banks.
- ✓ Hypothesis 3: There is a negative relationship between CEO duality and the financial performance of banks.
- ✓ Hypothesis 4: There is a negative relationship between state ownership and the financial performance of banks.

I.3-Review of recent empirical research on the relationship between banking governance and financial performance.

In this section we will review recent empirical research on the relationship between banking governance and financial performance.

Table n° 01:Recent empirical researches on bank governance and financial performance

Researchers	Governance mechanisms	Bank performance	The nature of the relationship
Huang (2010), 41 Banks in Taiwan[64]	Board size	ROA/ ROE Non-performing loans ratio	**Positive relation**
	The percentage of independent directors		**Positive relation**
Kobeissi & Sun (2010), 221 banks in 17 MENA countries[65]	State ownership	ROA, ROE	**Negative relation**
Cornett et al(2010), banks from		ROA	**Negative relation**

East Asia[66]	State ownership	cash flow / assets	
Adusei (2011), 17 banks in Ghana[67]	Board size	ROE The cost-income ratio	**Negative relation**
Farazi et al (2011), 120 banks from 9 MENA countries[68]	State ownership	ROA/ROE Net interest margin	**Negative relation**
Grove et al(2011), 236 banks of the United States [69]	Board size	ROA	**Concave relation**
Arrouri et al (2011), 27 banks in GCC countries[70]	Board size	ROA	**Non-significant**
Chahine & Safieddine (2011), 749 years from Lebanese banks[71]	Board size	ROA ROE	**Positive relation**
	The percentage of independent directors		**Quadratic relation**
Rachdi & Ben Ameur (2011), 11 Tunisian banks[72]	Board size	ROA, ROE	**Negative relation**
Pandya (2011), 12 Indian banks [73]	The percentage of independent directors	ROA ROE	**Non-significant**
Uwuigbe &Fakile (2012), 21 Nigerian banks [74]	Board size	ROE	**Negative relation**
Al Manaseer et al (2012), 15 Banks in Jordan[75]	Board size	ROE Earnings Per Share Profit Margin	**Negative relation**
	The percentage of independent directors		**Positive relation**
	CEO Duality		**Non-significant**
Ayorinde et al(2012), 24 Nigerian banks[76]	Board size	ROA/ ROE	**Negative relation**
Liang et al (2013), 50 Chinese banks[77]	Board size	ROA ROE	**Negative relation**
	The percentage of independent directors		**Positive relation**
	CEO Duality		**Negative relation**
	State ownership		**Negative relation**

Kiruri (2013), 43 banks in Kenya[78]	State ownership	ROE	**Negative relation**
Al-Baidhani (2013), 50 banks in the peninsula[79]	The percentage of independent directors	ROA	**Negative relation**
Fanta et al (2013), 63 Ethiopian banks [80]	Board size	ROA ROE	**Negative relation**
	The percentage of independent directors		**Positive relation**
	CEO Duality		**Positive relation**
	State ownership		**Non-significant**
El-Chaarani(2014), 40 Lebanese banks [81]	Board size	ROA ROE	**Negative relation**
	The percentage of independent directors		**Positive relation**
	CEO Duality		**Negative relation**
Mburu et al (2015), 29 banks of Nairobi[82]	CEO Duality	ROA	**Negative relation**
Abdul Rahman & Reja (2015), 21 banks in Malaysia[83]	State ownership	ROA ROE	**Negative relation**

Source: Prepared by the researcher

From the above, and according to the authors cited above, we can summarize the relationship between governance mechanisms and bank performance measured by ROA and ROE in the next table.

Table n°02: Summary of empirical researches on the relationship between governance mechanisms and bank financial performance.

Governance mechanisms	Negative relation	Positive relation	Non-significant	Concave or non-linear relation
Board size	Adusei (2011), Rachdi & Ben Ameur (2011), Uwuigbe &Fakile (2012), Al Manaseer et al (2012),Liang et al (2013), Ayorinde et al (2012), Fanta et al (2013), El-Chaarani (2014).	Huang (2010), Chahine & Safieddine (2011).	Arrouri et al (2011).	Grove et al (2011).
The percentage of independent directors	Al-Baidhani (2013),	Huang (2010), Al Manaseer et al (2012), Liang et al (2013), Fanta et al (2013), El-Chaarani (2014),	Pandya (2011)	Chahine & Safieddin (2011)
CEO Duality	Liang et al (2013), El-Chaarani (2014), Mburu et al (2015).	Fanta et al (2013),	Al Manaseer et al (2012)	-----------------
State ownership	Kobeissi & Sun (2010), Cornett et al (2010), Farazi et al (2011),Liang et al (2013), Kiruri (2013), Abdul Rahman & Reja (2015).	-----------------	Fanta et al (2013)	-----------------

Source: Prepared by the researcher

II-Conclusion

Corporate governance of banks seems to be more important than other industries because the banking sector plays a crucial financial intermediary role in any economy. In this paper, bank governance is represented by three board characteristics and one ownership mechanism which are selected on the basis of the agency theory argument that it could affect the performance of banks.

The study predicts that if the characteristics of the board and the ownership structure comply with the agency theory assumptions, it is anticipated that they would be related positively to bank performance which is measured by financial ratios, and according to recent empirical researches which are compatible with the assumptions of agency theory, we confirm our hypotheses because we find results similar to what we expected, as well as to what is advocated by the agency theory, thus confirming the literature deriving from the agency theory on the relationship between corporate governance and bank financial performance.

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