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CORPORATE GOVERNANCE AND PERFORMANCE OF SAUDI BANKS: 2010-2015

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Abstract

Bank corporate governance is a critical component of financial system stability, given the importance of banks in the economy. Due to the weaknesses and failures in operation of many commercial banks in the crisis period starting 2008, corporate governance and risk management have become extremely important issues in developed countries as well as developing countries where the finance industry is still evolving. This paper examines the effect of corporate governance on performance of Saudi Arabian banks over the period 2010-2015. This empirical study, building on prior research, investigates the relationship between bank performance represented by return on equity (ROE), and corporate governance factors as represented by board size, number of board committees and ratio of independent directors to total. The model suggests that the number of board members is positively linked with Saudi bank profitability over this time frame. However, the opposite relation is observed for independent directors and number of committee, which may be explained in part by data constraints. In any case, this has implications for Saudi bank governance, sustainability and stability, particularly in an economy that is diversifying more towards financial and other services. The general conclusion is that while the Saudi system is sound, banks need to continue to build governance and technical skills to enhance an effective and efficient system for the board, the managers and the committees that oversee improved performance.

Keywords: Bank Corporate Governance, Risk Management, Saudi Arabian Banks.