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IFC
ISBN 978-605-06192-5-6

PressAcademia Procedia YEAR 2022 VOLUME 16

11th Istanbul Finance Congress (IFC), December 15, Istanbul, Turkey

THE INTERACTION BETWEEN CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE: AN IMPLEMENTATION FOR THE UK BANKS

DOI: 10.17261/Pressacademia.2023.1712
PAP- V.16-2023(58)-p.246-247

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To cite this document
Almusattar,I., Teker, D., (2023). The interaction between corporate governance and financial performance: an Implementation for the UK Banks. PressAcademia Procedia (PAP), 16, 246-247.
Permanent link to this document: http://doi.org/10.17261/Pressacademia.2023.1712

ABSTRACT

Purpose- There is a wide range of literatüre that study the relation between corporate governance and financial capability of firms. Choudhury & Alam (2013) defines corporate governance as the relationship between corporate management, executives, the providers of equity, and people and institutions who save and invest their money to get a return. Reddy et al (2013) claimed that a good corporate governance system allows companies to have easier access to resources, lower costs of capital, enhance stakeholder reputation and improve organisational performance. The purpose of this study is to examine the relationship between the performance of commercial banks in the UK with internal corporate governance elements. Thus, the listed commercial banks that works in the UK London Stock Exchange (LSE) considered as sample of this study. Hence, using availability data of the Financial Times Stock Exchange 350 (FTSE 350) companies including banks that operate in LSE, the period (2011-2020).

Methodology- The study employs a sample of banks trading on (LSE) in the UK, the study uses the quantitative research method, and the data is collected by using DataStream databases, as well as annual reports of listed banks in(LSM). The hypothesis has been tested and analysed by using multivariate fixed-effect regression to examine the relationship between corporate governance mechanisms and the financial performance of FTSE350-listed banks. Followed by robustness tests performed on the relationships to reveal any statistical issue that can change or deform the results of the study. The banks' performance was measured by using Return on Assets Ratio (ROA), Return on Equity (ROE), and TOBIN's Q. While, corporate governance variables are board size, board independence, board meeting, board female, audit committee independence, audit committee meeting, audit committee financial expertise, ownership concentration, and ownership institutional. Moreover, the study implemented a control variable which is based on the previous literature such as leverage, bank size, bank age, and capital adequacy ratio.

Findings- The result of this study shows that corporate governance's effect on bank performance depends on the performance measure as well as the governance attribution examined. In general, corporate governance dynamics show a negative correlation with all banks' performance proxies except ownership structure (ownership concentration, Institutional Investors) Concerning control variables dynamics indicate a negative correlation except capital adequacy.

Conclusion- There is increasing interest in the study of corporate governance and its impact on financial and non-finance firms' performance crosse the world. As mentioned earlier the many objectives of the study is to determine the relationship between corporate governance and bank performance in the UK. Based on the analysis the study concluded that banks operating in the UK would improve their performance with less board independence, fewer board meetings, higher audit committee independence, higher ownership concentration, and less institutional ownership.

Keywords: Corporate governance, board structure, ownership structure, audit committee structure, bank performance.
JEL Codes: G30, G32, G38

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