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Impact of Corporate Governance on Financial Performance of Banks in Iraq

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The corporate governance importance has increased after the financial crises in the world, including the financial crisis that occurred in 2008 in the United States and other countries. Its importance stems from its contribution to achieve economic development and avoided financial crises, as it is one of the factors to improve economic efficiency and economic growth. The research aims to focus on the governance mechanisms and demonstrate their impact on the financial performance of banks. To achieve this goal, a questionnaire was prepared and distributed to the individuals of the research sample, which is represented by six private banks selected from the research society, which is represented by the banks listed of the Iraqi Stock Exchange. A set of statistical methods were used, which are arithmetic mean, standard deviation, correlation, regression and percentages. The most important findings of the research are: governance plays an important role in controlling the management and its relationship with stakeholders through a range of mechanisms and there is a significant impact of governance mechanisms on the financial performance of banks.

Key words: *Corporate Governance, Mechanism, Financial Performance. Banks, Transparency.*

Introduction

Corporate governance is primarily concerned with the ways in which all interested parties (all stakeholders) try to ensure that managers and other working employees in economic units always take appropriate measures or adopt mechanisms that protect the interests of all stakeholders. These mechanisms have gained importance and become necessary because of the separation of ownership from the administration, which is from the most prominent characteristics of companies. The research problem was represented by the weak activation of corporate governance mechanisms by the management of Iraqi banks, which reflects negatively on their performance.

The research aims to focus on the governance mechanisms and show the impact of their activation in the performance of banks.

The research seeks to test a set of hypotheses and focused on the impact and reflection of some governance mechanisms on the financial performance of banks.

To achieve the research objectives, it has been divided into five topics consisting of: the first section research methodology, the second topic corporate governance concept, importance, mechanisms, and pillars, the third topic implications of governance mechanisms on the financial performance of banks, the fourth section results discussion of the research and the fifth section conclusions and recommendations.

Literature Review & Hypothesis Development

The Concept and Definition of Corporate Governance

Opinions differed about the concept of corporate governance because of its renewable nature as a dynamic nature and it gains constant attention at the current regional and international levels; so it was the start of the great and noticeable interest about the concept of corporate governance and in solving the problems that may arise from the separation of ownership and management, which was represented by the theory of the agency (Khudair, 2009: 24).

Governance plays its role in controlling the management and its relationship with stakeholders, through a set of mechanisms that will be mentioned later.

Therefore, it should be noted that at the global level there is no selected definition agreed between economists, accountants, and legal and financial analysts of the corporate governance concept; there are important differences in the definitions that were addressed so the reason behind the differences of Corporate Governance Encyclopedia led to differing views of policymakers, accountants, researchers and theorists.

Shleiferfer & Vishney defined it as a process that addresses the ways in which capital providers guarantee to companies a return on their investment. (Shleifer & Vishney, 1997: 737).

As defined by Kushta and Sullivan, it is a set of play rules with which the company is managed internally and according to which the board of director supervises the company in order to protect the financial interests and investments of shareholders (Kushta and Sullivan, 2003: 1).

While (Eid) defined it from his point of view, as a set of regulatory and administrative legal and financial frameworks that regulate relations between management and owners (shareholders) and other stakeholders. (Al- Eid, 2008: 1)

It can be defined as: a set of structures, processes and necessary procedures to guide and control the organisation to identify and distribute the rights and duties among its main participant,s through a system aimed at achieving compatibility between the management interests and shareholders and other stakeholders as well as achieving economic, social and welfare efficiency.

Governance Importance

Corporate governance importance was increased after the financial crises happened in the world, including the financial crisis that occurred in 2008 in the United States and other countries. Its importance came from it contributing to economic development and avoiding the financial crisis (Winkler, 1998), and has a great role to be against financial and administrative corruption in organisations; also, to ensure the integrity and impartiality of the employees in the company, it is working on the fact that there are no intentional mistakes, deliberate erosion or inadvertent use of sophisticated regulatory systems (Mikhail, 2005 : 23); this is because it is one of the improvement factors of economic efficiency and economic growth as well as to enhance investor confidence. It also helps to provide a degree of confidence necessary in order to be the working in the market economy and as a result the capital cost is low and companies support to use more resources adequately and thus promote the economy growth (OECD, 2004 : 3).

Governance Mechanisms

Board of Directors

Singh and Harianto mentioned that the activists in the field of corporate governance companies, researchers and practitioners, considered the management board as a best tool to monitor management's behaviour, through its legal powers of appointment the exemption and the efficiency of senior management; also, a strong board management actively participates to set a company strategy and provides appropriate incentives for management to maximise the value of the company, and thus will play a central role in the governance of companies (Singh and Harianto,1989 : 127).

It is also defined as the link between people who provide capital (shareholders) and people who use it to create value for the company (Monks, 2001: 22). Also, the following committees are branched from it:

- **The Audit Committee:** There is no single definition by professional organisations and researchers of the Audit Committee. For the purposes of this research, the researcher will provide two definitions. The Canadian Association of Legists and Accountants (1992) has defined it as a committee consisting of the company Director whose responsibility is to audit the annual financial statements before handing them over to the Board of Directors (Al-Rehaili, 2005: 1). Also, this committee tries to help the Board of Directors to do his noble duties throughout its activities that consists of nominating the external auditor, indicating the scope and results of the audit as well as studying the internal control of the company, and also providing all financial information prepared for publication (Khudair, 2009 : 114).

- **The Nomination and Governance Committee**: approves the job specifications of the vacancies in the Board of Directors and is responsible for nominating those eligible to apply for the Board elections, so the nominators for this jobs are capable of doing it objectively; it is also responsible to review the special instructions to apply corporate governance in the company and give the Board of Directors some recommendations that are specified with developing and updating these instructions. This Committee recommends that all members of the Board of Directors with the following:

* Appropriate organisation of the Board of Directors.
* Qualifications required for membership of the Board of Directors, senior management and other responsibilities.
* Nominating a suitable and qualified group for the elections of the Council.
* Requirements and means to train members of the Council.
* Basic principles of corporate governance to be approved by the Board of Directors.

- **Awards Committee:** Contracts for senior management awards have a significant effect in linking the interest of shareholders (or owners) with management interest. McClogan argues that reward contracts and review in it are a financial incentive for management to increase the value of the company and that high levels of incentives will ultimately lead to higher performance (McClogan, Patrick, 2002: 39).

Because of the reward importance in reducing agency problems and mitigating associated costs, most studies on corporate governance and recommendations from interested parties, recommend that reward committees should form independent board members, and that the majority of its members should not have significant relationships with senior management. In the field of state-owned companies, the OECD guidelines emphasise the necessity of board members' rewards in senior management should be comparable to the level of rewards in private sector companies, in order to ensure the long-term interests of the company by attracting a high calibre professionals (OECD, 2005: 31).

Internal Audit

This is the second and main mechanism of internal corporate governance, and although this mechanism was presented as a basic function within companies, it is not necessary to analyse what the internal audit function can offer; however, the needs and expectations of decision-makers inside and outside the company of this job should be understood, which is to provide an independent assessment of risk management, internal control and governance processes. For example, multiple banks and insurance companies typically have an internal audit function focusing mainly on the assurance of cash auditing, i.e., monitoring and supervising operations in order to prevent cash losses and protect assets (Ruud, 2003: 83).

External Audit

The External Auditor plays an important role in helping to improve the quality of the financial statements; also, that is depending on the auditing committee's discussion about the quality of these statements not only their acceptance, with a focus growing on the role of management boards, and in particular the Audit Committee in the selection and continuation of the external auditor. Abbot & Parker believes that independent and active audit committees will require high-quality audits, thus selecting specialisations and competent auditors in the industry field in which the company operates (Abbott & Parker, 2000 : 47).

The Auditor is one of the essential branches of corporate governance, as he has an essential and effective role in the field of corporate governance. It becomes as an alert about any financial or managemental wrong. This role is embodied in its commitment to its duties and good performance of its mission and promises to be the mainstay of protection, ensuring the quality of the information provided and thereby enhancing its credibility (Muhammad Hassan, 2008: 14).

Products’ Market Competition (Services)

The labour market competition is one of the important mechanisms of corporate governance. Hess & Impavido stress this importance by saying that if the administration does not fulfill its duties properly (or is not qualified), it will fail to compete with companies operating in the same industry and thus go bankrupt. Competition in the market for products or services refines management behaviour, especially if there is an effective labour market for senior management. This means that the company management to bankruptcy will have a negative impact on the future of the manager and board members, as tests of appropriateness often determine that positions of responsibility are not occupied by Director or executives who have previously led their companies to bankruptcy or liquidation (Hess & Imparido, 2005: 5).

Mergers and Acquisitions

Mergers and acquisitions are undoubtedly traditional tools for restructuring the corporate sector around the world. Both John and Kedia point out that there is a wealth of literature and evidence to support the view that acquiring an important governance mechanism (in the United States, for example), without which management behaviour cannot be effectively controlled, and often eliminates the services of low-performing departments when the acquisition or merger occurs (John & Kedia, 2002).

Corporate Governance Mechanisms and the Financial Performance of Banks

The Concept of Financial Performance

The concept of performance is one of the core concepts of business organisations in general and banking institutions in particular, because it can give a complete and comprehensive picture of the progress of the activities of the organisation and its work at the level of the internal and external environment.

There are several studies on the subject of performance that they did not agree on a single concept and we will discuss this concept of performance and the implications of governance mechanisms of it.

Financial Performance is defined as: "The extent of activities contribute to the creation of value or effectiveness in the use of available financial resources through the achievement of financial goals at least Finance costs " (Daden and Hafsi, 2014: 24). Wheelen and Hunger defined the performance as the desired outcome that the organisation seeks to achieve (Wheelen and Hanger, 1995:15). With regard to the financial performance of the banks, the researcher believes that it is the product of the activities carried out by banks to achieve their objectives.

Impact of Governance Mechanisms on Financial Performance

The impact of governance mechanisms on the performance of economic unity is one of the main issues addressed by the researchers, that the financial crises and accounting scandals that occurred at the end of the last century and the beginning of this century, has drawn attention to the role and importance of governance mechanisms in the contemporary business environment. Therefore, governance mechanisms are a key factor and effective in economic growth and financial markets, through their impact on the financial performance of economic units; here Tamimi stresses that governance is largely focused on the results achieved by departments (Tamimi, 2008: 104) The researcher will address the impact of these mechanisms on financial performance as follows:

Board of Directors

The Board of Directors affects the performance of the economic units, through exercising its responsibilities in directing, guiding and effectively monitoring all the activities of the company, evaluating the performance of managers and rewarding them or holding them accountable as appropriate (Othman and Mtarina, 2016 : 10).

The Mechanism of the Board of Directors is Divided Into the Following Sub-Mechanisms

- The Size of the Board of Directors: Several studies have shown that the size of the Board of Directors has a positive impact on the performance of economic units, (Belkhir) and has a positive relationship between the Board of Directors and economic units' performance (Assad, 2015 : 10).

- The Independence of the Board of Directors: There were mixed views regarding the relationship between the independence of the Board of Directors with financial performance; some studies show a negative relationship like Tuhami and Qurashi, 2010 : 161 and Christensen et al, (2010 : 372) while Abor and Bikpe, (2007 : 385) for their part, stressed that the increase in the number of non-executive members has a positive relationship with financial performance.

- Reward Committee: McColgan pointed out that remuneration contracts are a financial incentive for management to raise the level of performance and thus increase the value of the company (McColgan, 2002: 109). In the same context, the Organisation for Economic Co-operation and Development (OECD) stressed that the remuneration of board members' senior management is necessary to ensure that the company's long-term interests are promoted by attracting highly qualified professionals who will increase the efficiency of economic units (OECD, 2005: 31).

- Audit Committee: At present, the Audit Committee has received great attention from international and local specialised scientific bodies and researchers, especially after the failures and financial turmoil that occurred in the global economic entities, This attention is due to the role that the Audit Committee can play as a tool of corporate governance in increasing the accuracy and transparency of financial information disclosed by companies; studies and searchers suggested that the concept of the auditing committee and their responsibilities witnessed a big development since its appearance in the late of thirties of the last century, when the US Stock Exchange Commission (SEC) and the New York Stock Exchange (NYSE) encouraged companies to form an audit committee after Mckesson and Robbin collapsed.

It also confirms that the idea of forming the Audit Committee has been linked in most countries to research about unexpected bankruptcy cases in companies as a result of misbehaviour from their management and poor performance (AL- Rehaily, 2005 : 12).

Internal Audit: Internal audit is an analytical, practical and objective function of the activities of the economic unit, in order to help its management to judge the efficiency and effectiveness of its activities and achieve its objectives, as well as internal control is a tool to avoid economic units from default and bankruptcy and has a significant role as a mechanism of governance in the economic growth, persistence and high market value (Sultan, 2005 : 200).

External Audit: External audit is an effective mechanism of corporate governance. External auditors assist these economic units to achieve accountability and integrity and improve their operations (Archambeault, 2000 : 8); also (Abbot and Parker) add that an external audit has an important role in improving the quality of financial statements and facilitates oversight and the issue that ultimately leads to improved performance of economic units (Abbott and Parker, 2000: 47).

Transparency: With regard to the importance of transparency in economic units, Tamimi stressed that they constitute the cornerstone of any process of governance reform units. It can facilitate access to information for the accountability of the company, as it is not possible to set clear and objective objectives for economic units, which makes it difficult to assess their performance and distribution of capital adequately (Tamimi, 2008 : 88) Based on the above, the researcher believes that accountability is an incentive for the economic units to raise their performance and improve the efficiency of their activities. In this regard, Borgia states that history proves that the economic units give the truth continuously, and it only advances its inevitable end, and that transparency may not lead to direct success of the company, but the lack of it leads to a certain failure (Borgia, 2005: 21).

Financial Performance Indicators

Fahd defined performance evaluation as an integrated system that compares the actual results of the selected and elected indicators against the corresponding target indicators, those that reflect performance results during previous periods, performance results in similar economic units taking into account historical and structural conditions, or indicators derived rates according to the mean results of a set of economic units, taking into account the approximation of the size of these units (Fahd, 2009 : 27).

The management of the economic unit makes continuous decisions to conduct the business of the unit, based on the information presented and represented by the financial statements (income statement and balance sheet), analysis and performance evaluation through a set of tools, which are the most important tools to measure financial performance. Financial analysis plays a great role in estimating economic performance units through judging the level of profits and the ability of the unit to create liquidity and repayment of obligations, as well as its ability to grant credit and valuation of assets, to be communicated to the parties related to the economic unit (Mohammed and others, 2015 : 104); Financial performance is measured by a set of indicators (Bushnaq, 2011 : 32-35; Tamimi & Flayyih, 2017: 13 ; Rouhani, 2014 : 57; Al-Taie, Flayyih & Talab, 2017; Sahbat, Khashea, & Hammood, 2018: 48):

Profitability Indicators

These indicators are one of the most important financial indicators used to evaluate the performance of banks, as these indicators enable the measurement of the bank's ability to achieve a net final return on invested funds; this means that these indicators focus on profit, which is the effective axis in the continuation and expansion of banks, which enhances their ability to stay competitive and to ensure stability by enhancing the confidence of customers and dealers with the bank.

These indicators include:

*** Profit Margin Ratio**
Profit margin ratio = {gross margin ÷ total assets) × 100%
Profit margin = interest earned - interest paid

This ratio measures the net return on interest earned and increased by the assets of the bank, which means that the assets are able to generate profits or profit margins for the commercial bank and vice versa.

*** Rate of Return on Equity**
Rate of return on equity = {net profit after tax ÷ equity) × 100%
This ratio reflects management's efficiency in utilising shareholders' funds and its ability to realise profits from such funds.

*** Rate of Return on Total Assets**

Rate of return on total assets = {net profit after tax ÷ total assets) × 100%

This rate measures the unit share of net assets after tax, and increasing this rate means efficient use of the money invested in revenue assets.

*** Net Profit to Total Revenue Ratio**

Net Profit to Total Revenue = {Net Profit After Tax ÷ Total Revenue} × 100%

This ratio shows the relative importance of the Commercial Bank's net profit for total revenues. Increasing them means more efficient financial performance given greater profitability relative for total revenue.

*** Net Operating Margin Ratio**

Net Operating Margin Ratio = {Net Revenue ÷ Total Assets) × 100%

Net operating income = operating income - operating expenses

This ratio measures the asset's ability to generate revenue for the Commercial Bank, increasing this ratio

Percentage of Dividends Distributed to Shareholders to Net Profits

Dividend payout ratio to net profit = {dividend distribution ÷ net profit after tax} 100%

This percentage shows the returns received by the shareholders from the Commercial Bank's annual net profit. Thus, this ratio is a subject of great interest to shareholders.

Liquidity Indicators

This set of indicators is designed to measure the availability of liquidity in the Bank that ensures the interface of commitments that may be due within a given period of time. The most important of these indicators are:

*** Cash Balance Ratio**

Cash balance ratio = {(Cash in hand + Cash in Central Bank + Bank balances) ÷ Total deposits} × 100%

This ratio indicates the bank's ability to meet its financial obligations due and payable on time from the cash available in the Fund and the Central Bank and also with other banks; it should avoid excessive increase or decrease in this ratio, because if they rise it will reflect negatively on returns by the bank. This is because of the non-exploitation of these funds in investments that can generate a profit on the bank, but the decline exposes the bank to many problems.

This means that there is a direct relationship between the ratio of cash balance and liquidity and the intended total deposits; deposits are all liabilities except the owned capital of the capital expressed in the following formula:

Owned capital = paid capital + reserves + retained earnings

*** Legal Reserve Ratio**

Legal reserve ratio = {cash balance to central bank ÷ total deposits} × 100%

Banks typically maintain an interest-free cash balance with the Central Bank called the statutory reserve (20%), which is a certain percentage of deposits. Banks must abide by them. The central bank may change this ratio depending on the economic conditions of the country, and this ratio is one of the important tools used by the central bank to influence the volume of credit granted, and the rise means higher capacity of the Commercial Bank to meet its financial obligations in unusual times. It retains a percentage of (.05%) held by banks in the form of cash and their purpose is to control the liquidity offered for trading.

*** Cash to Total Assets Ratio**

Cash to Total Assets Ratio = {(Cash + Due from Banks) ÷ Total Assets} × 100%
This ratio measures the Bank's liquid assets to total assets. Their increase means that there are non-operating cash balances, which reduces the Bank's final return. Lack of this ratio means that the Bank faces various risks such as sudden withdrawal, financing risks and other risks.

*** Employment Ratio (Investment)**

Employment ratio (investment) = loans and advances ÷ total deposits × 100%

This ratio reflects the Bank's ability to invest available funds from deposits to meet the needs of its customers for loans and advances. The increase in this ratio indicates the bank's ability to meet new loans, but at the same time indicates its low ability to meet its financial obligations.

Research Methodology

Research Problem

The research problem is the weak activation of the mechanisms of corporate governance by the management of Iraqi banks, which reflects negatively on their performance. The problem can be expressed through the following questions:

1- Does the activation of the Board of Directors affect the Banks financial performance?
2- Does the internal audit affect the financial performance of banks?
3- Does the external audit affect the financial performance of banks?
4- Is transparency reflected in the financial performance of banks?

Research Objective

The aim of the research is to shed light on the mechanisms of governance and to demonstrate the impact of their activation on the financial performance of banks. The researcher will test the impact of some mechanisms according to the nature of the Iraqi environment.

Research Importance

The importance of the research is to shed light on the impact of the application of governance mechanisms on the financial performance of banks and their role in rationalising management decisions that would maximise financial performance and protect the rights of stakeholders.

Research Hypotheses

The research is based on the main hypothesis that the application of governance mechanisms positively affects the financial performance of banks and branches, leading to the following hypotheses:

1. The Board of Director positively affects the financial performance of banks.
2. An internal audit has a positive impact on the financial performance of banks.
3. An external audit positively affects the financial performance of banks.
4. The commitment of bank departments to transparency is positively reflected in their financial performance.

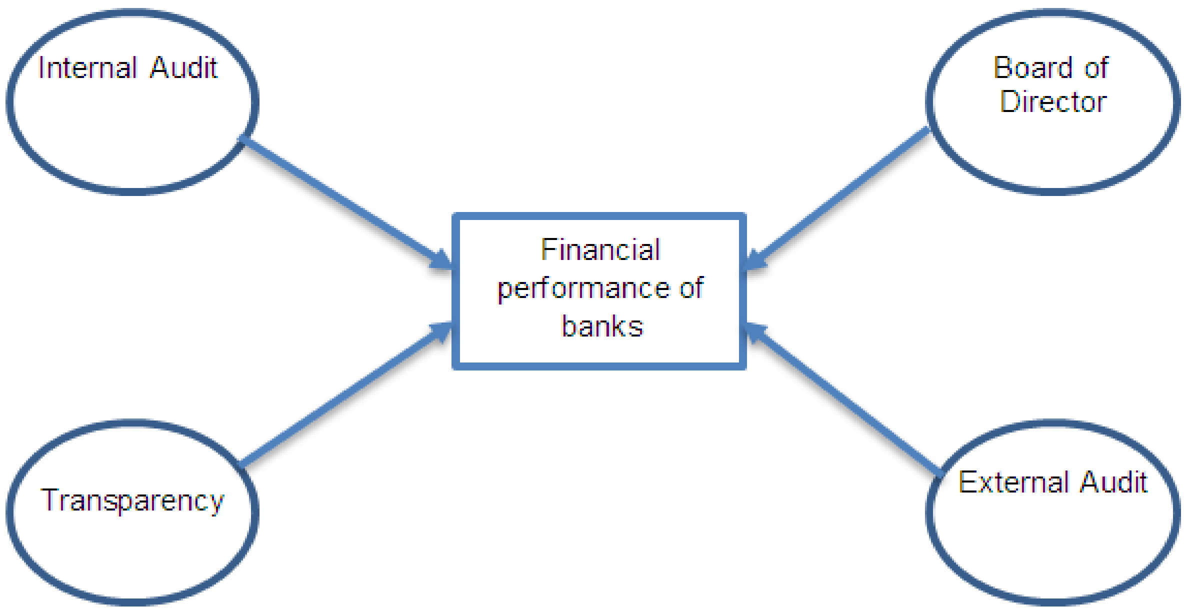
The Research Sample

50 questionnaires were distributed to the members of the research sample (managers and banking experts), which are represented by six private banks in Iraq (Bank Albilad, Elaf Bank, Investment Bank, National Bank, North Bank and South Islamic Bank).

Search Variables

Search variables are as follows:

Figure 1. Shows research variables



Measuring Variables and Results Discussion

This paper presents the results of the field study to investigate the results of the descriptive questionnaire analysis, through the use of descriptive statistical tools (arithmetic mean and standard deviation); the goal behind that is to make a diagram and a general framework to the general favourites and directions of receivers concerning research variables; it also used the Likart scale to make the choices that consider as consequent measurement, which is an ordinal scale, represented by the numbers to be entered into the SPSS. Weights, which were as follows:

1. Fully agree = 5
2. Agree = 4
3. To some extent = 3

4. Do Not agree = 2
5. Do Not fully agree = 1

A questionnaire was distributed to the research sample which has been selected randomly from holders of higher degrees and specialists who are working at Iraqi private banks; the questionnaire included thirty paragraphs distributed on five axes and the number of questionnaires distributed was 50, 40 were restored and 40 (valid) were analysed.

Analysis of Corporate Governance Responses

Table 1: Analysis of the answers of the research sample to the paragraphs of the mechanisms of corporate governance

Paragraph	Not fully agreed	Not agreed	to some extent	Agreed	Fully agree	Average	standard deviation	Coefficient of variation %
1	-	1 2.5%	3 7.5	15 37.5%	21 52.5%	4.40	0.744	16.91
2	-	1 2.5%	4 10%	12 30%	23 57.5%	4.43	0.781	17.76
3	-	2 5%	7 17.5%	15 37.5%	16 40%	4.13	0.883	21.38
4	-	7 17.5%	12 30%	13 32.5%	7 17.5%	3.45	1.061	30.75
5	-	-	1 2.5%	20 50%	19 47.5%	4.45	0.552	12.40
Board of Director 1x						4.17	0.804	19.28
6	-	-	2 5%	11 27.5%	27 76.5%	4.63	0.562	12.66
7	1 2.5%	6 15%	5 12.5%	16 40%	12 30%	3.80	1.114	29.32
8	-	2 5%	4 10%	19 47.5%	15 37.5%	4.18	0.813	19.45
9	-	-	10 25%	19 47.5%	11 27.5%	4.03	0.733	18.19
10	-	-	5 12.5%	13 32.5%	22 55%	4.43	0.712	16.07
Internal Audit 2x						4.21	0.792	18.81
11	-	1 2.5%	4 10%	15 37.5%	20 50%	4.35	0.770	17.70
12	-	1 2.5%	-	19 47.5%	20 50%	4.45	0.639	14.36

13	-	2 5%	4 10%	14 35%	20 50%	4.30	0.853	19.84
14	-	2 5%	8 20%	15 37.5%	15 37.5%	4.08	0.888	21.76
15	-	2 5%	8 20%	16 40%	14 35%	4.05	0.876	21.63
External Audit 2x						4.25	0.805	18.94
16	-	-	1 2.5%	11 27.5%	28 70%	4.68	0.526	11.24
17	-	2 5%	3 7.5%	10 25%	25 63.5%	4.45	0.846	19.01
18	-	1 2.5%	4 10%	16 40%	19 47.5%	4.33	0.764	17.64
19	-	-	4 10%	16 40%	20 50%	4.40	0.672	15.27
20	-	-	7 17.5%	11 27.5%	22 55%	4.38	0.774	17.67
Transparency **4x**						4.45	0.716	16.09
Corporate Governance **x**						4.27	0.779	18.24

1- The value of the arithmetic mean of paragraph (1) (the Board of Directors contributes in the development of plans for banks and ensure their objectivity and the possibility of implementation) (4.40), which is greater than the value of hypothetical mean of 3; this means that trends of the sample are towards agreement in proportion of 52.5% and towards agreement in proportion of 37.5%.
2- The value of the arithmetic mean of paragraph (2) (the board of director evaluates the performance of senior management and workers in the light of their accomplishments for their tasks) is 4.43, which is greater than the hypothetical mean, that is, the trends of the responses of the sample are towards a full agreement in proportion 57.5% and towards the agreement in proportion of 30%.
3- The value of the arithmetic mean of paragraph (3) (The board of directors shall lay down plans and instructions to reward the distinguished employees in their performance and hold those responsible to account) is 4.13, which is greater than the hypothetical mean, that the trends of the sample responses are towards a full agreement in proportion of 40% and towards the agreement in proportion of 37.5%.
4- The value of the arithmetic mean of paragraph (4) (The presence of non-executive members “who are not in change of managing departments or divisions" have a positive impact on the financial performance) is 3.45, which is greater than the value of the hypothetical mean. The responses were towards a full agreement in proportion of 17.5% and toward agreement in proportion of 32.5%.

5- The value of the arithmetic mean of paragraph (5) (The audit committee has a positive impact on the financial performance of the bank through its supervision of performance auditing by the internal audit units) is 4.45, which is greater than the value of the hypothetical mean, and that the trends of the sample responses were towards a full agreement in proportion of 47.5% and toward agreement in proportion of 50 %.

The arithmetic mean of the axis reaches 4.17, which is greater than the hypothetical mean; this confirms the orientation of the research sample towards agreement and full agreement.

Similarly, related to the internal audit axis, the arithmetic mean of the axis reaches 4.21, which is greater than the hypothetical mean, indicating the orientation of the sample members is agreement and full agreement.

As for the external audit axis, the value of arithmetic mean of the axis is 4.25, which is greater than the value of the hypothetical mean, which confirms that the members of the sample were in agreement and fully agreed.

As for the transparency axis, the mean of the axis is 4.45, which shows that the respondents are oriented towards a full agreement.

Analysis of the Sample Answers about Financial Performance

Table 2: Analysis of the answers of the research sample on the paragraphs of financial performance for banks

Paragraph	Not fully agreed	Not agreed	to some extent	Agreed	Fully agree	Average	standard deviation	Coefficient of variation %
1	1 2.5%	4 10%	2 5%	7 17.5%	26 65%	4.33	1.118	25.82
2	1 2.5%	2 5%	9 22.5%	13 32.5%	15 37.5%	3.98	1.025	25.75
3	-	1 2.5%	6 15%	13 32.5%	20 50%	4.30	0.823	19.14
4	1 2.5%	2 5%	15 37.5%	13 32.5%	9 22.5%	3.68	0.971	26.38
5	-	3 7.5%	17 42.5%	13 32.5%	7 17.5%	3.60	0.971	26.97
6	5 12.5%	6 15%	11 27.5%	10 25%	8 20%	3.25	1.296	39.88
7	4 10%	7 17.5%	5 12.5%	15 37.5%	9 22.5%	3.45	1.300	37.68
8	5 12.5%	7 17.5%	5 12.5%	14 35%	9 22.5%	3.38	1.353	40.03
9	4 10%	7 17.5%	2 5%	17 42.5%	10 25%	3.55	1.319	37.15
10	4 10%	8 20%	3 7.5%	15 37.5%	10 25%	3.48	1.339	38.48
Financial Performance for Banks y						3.70	1.152	31.14

It is clear from table (1) that the arithmetic mean of the financial performance axis of banks reaches 3.70 which is greater than the hypothetical mean, indicating the orientation of the sample members towards agreement and full agreement.

Statistical Analysis of Research Variables and Proof of the Research Hypotheses
Correlation Coefficients between Research Variables Nesperman

Table 3: Nesperman correlation coefficients between the research variables

Corporate Governance	Transparency	**External Audit**	**Internal Audit**	Board of Directors	variable
**0.726	0.426	**0.789	*0.625	**0.710	Financial performance

*Means that the value is significant with confidence 95%
**Means that the value is highly significant with confidence of %99

The correlation coefficient between financial performance and corporate governance is 0.726, which suggests to the strong and moral relationship with a high degree; as for the correlation coefficients between financial performance and the sub-dimensions of corporate governance, the highest correlation is 0.789; between the financial performance of banks and the external audit there is a strong and moral relationship with a high degree between variables and the lowest relationship reaches 0.426; between transparency and financial performance of banks, this indicates the weak impact of transparency in the financial performance of banks.

The Impact of Corporate Governance Mechanisms on the Financial Performance of Banks

Table 4: Analysis of the Impact of Corporate Governance and its Subdivisions in Banks' Financial Performance (Regression)

Independent variable	The determination coefficient	Regression coefficient (effect)	Fixed limit	Calculated t value	Calculated f value	Significance level	Relationship
Board of Director	0.504	0.338	3.120	*2.543	*6.467	0.012	significant
Internal Audit	0.391	0.244	3.512	1.187	1.409	0.315	Not significant
External Audit	0.623	0.078	4.029	*2.337	*5.442	0.031	significant
Transparency	0.181	0.365	3.985	1.234	1.545	0.226	Not significant
Corporate Governance	0.527	0.312	3.648	*2.040	*4.162	0.042	significant

Knowing that the value of tabular is 1.645 at 0.05 and tabular F value 4.08 at 0.05.

The above table suggests the following:

1- There is a significant impact of the Board of Directors on the financial performance, 50.4%; the impact on the financial performance of banks is caused by the Board of Directors, and that any increase in amount of one unit in the impact of the board of directors, the financial performance increases by 0.338 and the T value of the impact is significant because the computed value is greater than its tabular counterpart of 1.645 at the level of significance of 0.05 and the value of F calculated for the relationship is greater than its tabular counterpart 4.08 at the level of significance of 0.05 and this proves the first sub hypothesis.
2- With respect to the impact of internal audit on financial performance, the value of the calculated T is less than the tabular value of 1.645 and the calculated value of F is less than its tabular counterpart of 4.08 at the level of significance of 0.05, which means that the second sub-hypothesis is not proven.

3- As for the external audit, the calculated value of T was greater than its tabular counterpart, which indicates the proof of the third sub-hypothesis.
4- In terms of transparency, the calculated value of T was lower than its tabular counterpart and that the calculated value of F was also lower than its tabular counterpart at the level of 0.05, which would mean rejecting the fourth sub-hypothesis.

As for the impact of corporate governance on financial performance, the value of calculated T was greater than the tabular counterpart and the calculated value of F is also higher than its counterpart, which means proving the main hypothesis.

First: Conclusions

1. Governance plays an important role in controlling the pace of management and its relationship with stakeholders through a range of mechanisms.
2. The importance of corporate governance increased after the financial crises in the world, including the financial crisis that occurred in 2008 in the United States of America and other countries .Their importance stems from the fact that they contribute to economic development and avoid financial crises.
3. Corporate governance is based on a set of pillars, which are disclosure, accountability transparency, independence, compliance with laws and regulations, responsibility, justice and integrity.
4. The concept of performance is fundamental concepts in business organisations in general and banking institutions, because through them it can give a full and comprehensive picture about the activities of the entity and its work on the level of the internal and external environment.
5. The statistical analysis showed the following:

   *There is a significant impact for the Board of Directors on the financial performance, where 50.4% of the impact on the financial performance of banks is caused by the Board of Directors.

   * With regard to the impact of an internal audit on financial performance, there is no significant impact for an internal audit on the financial performance of banks, where calculated T is smaller than its counterpart.

   * With regard to the impact of an external audit on the financial performance of banks, there is a significant impact as the value of T calculated is greater than its counterpart.

   * There is no significant effect of transparency on the financial performance of banks. The calculated value of F is lower than its counterpart.

   * In general there is a significant impact of corporate governance on the financial performance of banks, where the value of T was greater than the tabular one.

Second: Recommendations

1- The need to enhance the role of the Board of Directors on the performance of the banks, through the exercise of its responsibilities in the guidance and effective control for all activities of the bank, and evaluate the performance of managers and their rewards or accountability as appropriate, through the following:
   * The need to enhance the independence of the Board of Directors through increasing the number of non-executive members.
   * Review the rewards system periodically because it represents a financial incentive for management to raise the level of performance, and thus increase the value of the bank.
   * Activate the role of the Audit Committee as a tool of corporate governance in increasing accuracy and transparency in financial information disclosed by the banks.
2- The external audit function should be considered as a mechanism of corporate governance which enables the bank to achieve accountability, integrity, and improve its operations, which leads to higher performance.
3- Increase the transparency because it constitutes a cornerstone for the process of governance to reform the corporate governance of the banks.

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