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CORPORATE GOVERNANCE, OWNERSHIP STRUCTURE AND BANK PERFORMANCE: EVIDENCE FROM THE MIDDLE EAST AND NORTH AFRICA (MENA)[1]

We study the relationship between ownership structure and performance for a sample of 89 commercial, investment, specialized, and Islamic banks in the Middle East and North Africa (MENA) region for the period 1998-2003.) Our results for commercial banks show that the performance of banks is weakened with board/management separation and concentrated ownership, and enhanced with government ownership.

I. Introduction

The field of corporate governance has grown in recent years into a dynamic area of study due to the increased role of corporations and their impact on the economies in which they operate. The interest in this subject was earlier limited to developed nations; however, with the globalization trend, developing and emerging markets are now incorporating governance restructuring in their reform programs.With the increasing demand for investment funds in developed and developing nations, and the decreasing need for barriers to the free flow of capital, policy makers have now recognized the role corporate governance may play in attracting capital. They also have come to the conclusion that weak corporate governance systems will definitely hinder the efficient allocation of resources, weaken opportunities of competition and ultimately slow down investment and economic development.

Ever since the East Asian crisis in mid 90's and the more recent events concerning the Enron scandal, both public and private sectors have been increasingly involved in finding mechanisms through which to boost investors' confidence in the firms and consequently the countries in which they operate. In this respect, assessing the corporate governance framework comes as a natural step in that direction. Jim Wolfensohn, the former president of the World Bank, is quoted saying that "the proper governance of companies will become as crucial to the world economy as the proper governance of countries." [2]

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[2] Wolfensohn, J. D. (1999). A Battle for Corporate Honesty, the Economist: the World in 1999 at 38. *Financial Times*.

Corporate governance could be briefly explained as the set of rules, laws and frameworks that govern how fiduciary authority is exercised. Assigning proper controls on the relationships between the different stakeholders is essential in the set up of a proper check-and-balance system and the promotion of well defined lines of responsibility.

Nowadays, investors around the globe are demanding improved measures to safeguard their investments and its returns to go along with ever growing flows of capital across borders caused by movements towards globalization. Hence, it is the policy makers' job to recognize the importance of sound corporate governance as a tool in both attracting these capitals and the creation of appropriate atmosphere for the development of systems for the efficient allocation of resources.

The recent crashes in many Gulf Cooperation Council (GCC) stock markets that spread as far as North African countries has shed the spotlight on the need for reform in the corporate as well as the financial sector in the MENA region. Given the fact that the region is heavily endowed by ever increasing capital due to oil revenues, reforms are needed in the banking sector in order to promote better governance strategies and to boost investor confidence.

The current paper aims to test empirically the relationship between ownership structure and performance for a sample of MENA banks. The contribution of this study is two fold: First, it aims to fill the gap in banking literature by focusing on the banking sector in the MENA region. Second, it aims to gain an understanding of a significant determinant, ownership structure, which is associated with bank performance. The paper is divided into six sections. Section II summarizes different corporate governance systems and models that are implemented worldwide and reviews the literature. Section III discusses the state of corporate governance in the MENA region with particular focus on the financial sector. Section IV describes the data and the methodology used in the current study. Section V includes an analysis of the empirical results. Section VI concludes with a summary of the main findings.

II. Corporate Governance and Bank Performance: Review of Literature

The main aspects of corporate governance revolve around the "principal-agent" problem or the agency problem. This problem arises when the owner of capital is different from the person who controls and manages it. There is no single definition of corporate governance that is used today. Rather, different organizations as well as researchers have made considerable efforts to present concise definitions of the term. A slightly more general definition is the one put forward by Shleifer and Vishny (1997) stating that "we can define corporate governance as the set of methods to ensure that investors (suppliers of finance, shareholders, or creditors) get a return on their money."[3]

There are three main stakeholders in a certain firm: shareholders, managers and creditors. Problems stem from the fact that in most cases, each of these stakeholders may have different interests in the firm. Agency theory suggests that managers acting as agents for owners have tendencies to pursue strategies that meet their own goals rather than those of the owners (Jensen and Meckling, 1976). From here comes the need for certain control mechanisms that can efficiently manage these interests, so as one is not exercised at the expense of another. Stiglitz (1985) states that the most important mechanism to ensure proper respect for interests is through the concentration with which the financial claims of the firm are held. In other words, if equity of a certain firm is concentrated, this will give shareholders enough incentives to pursue their interests more closely and consequently keep a closer eye on management through increased investment in information acquisition and monitoring. Stiglitz (1985) concludes that large shareholdings give investors the increased ability to control

[3] Shleifer, A., and Vishny, R. W. (1997). A Survey of Corporate Governance. *Journal of Finance, 52*(2), 737-783.

through the power of voting or representation on the board of directors. In addition, if debt is concentrated in the hands of a few creditors this will give the latter enough incentive to monitor management decisions.

The banking system in the world remains a vital sector in both developed and developing countries. It plays a critical role in the transmission of monetary policy and the channeling of savings to firms and households. Hence, it is important to study whether banks are affected by corporate governance mechanisms and whether the agency problem has any severe implications on the performance of these banks. The financial sector worldwide is highly regulated. This has to some extent substituted the weaker mechanisms of corporate control of this sector, a weakness that arises from the oligopolistic nature of the banking sector in certain countries. However, regulatory intervention is seen to be more costly than healthy market mechanisms. Regulators usually are motivated to push for regulations which target reducing the probabilities of failure rather than increasing shareholder wealth.

The bulk of research on bank governance is interested in how corporate governance mechanisms vary in different legal and regulatory environments. Research has predominantly concentrated around two different aspects. First, corporate governance in financial firms is contrasted with that of nonfinancial firms. Second, researchers compare financial firms across countries to explain how different legal and regulatory environments affect governance mechanisms. Hannan and Mavinga (1980) studied differences in input expenditure between banks that were classified as owner-controlled (largest shareholder held more than 25% stake in the bank) versus manager-controlled banks (largest shareholder held less than 10% stake in the bank). Their results show that banks which were classified as manager-controlled operating in noncompetitive markets spent more on items that are likely to be preferred by managers such as salaries and wages, equipment and expenses related to the premises of the banks than did owner-controlled banks.Glassman and Rhoades (1980) examined over 1400 US banks in 1975 and 1976. They studied whether profit rates, costs and growth rates were related to the ownership structure of the bank. Banks were classified as owner-controlled if 5% of owners held more than 60% of equity stake, otherwise they were classified as manager-controlled. The results showed that owner-controlled banks had higher profit rates and that large banks in general exhibited behavior consistent with being under control of managers.Smirlock and Marshall (1983) studied the effects of bank size on the expense-preference behavior of managers. They found that as bank size increases, ownership becomes more and more dispersed since capital demands of large banks surpass individual investors' abilities. This creates a problem for owners as it becomes more difficult for them to monitor managers. This is reflected in higher expense-preference behavior by managers. Akella and Greenbaum (1988) studied the difference between two forms of institutions: *mutual* versus *stock* savings and loans. Mutual savings and loans are legally owned by depositors but they do not have any ownership rights or responsibilities, unlike stock savings and loans where some responsibilities are held by owners and thus incentive and power to monitor managers. They found that mutual savings and loans tend to expand their deposit and loans portfolios beyond profit maximizing levels.Saunders et al. (1990) found that banks with higher degree of management ownership (lower managerial slack) are riskier, since these managers benefit from the incentives provided by fixed rate deposit insurance.Allen and Cebenoyan (1991) examined the relationship between ownership structure in banks and acquisitions. They found that banks with entrenched management tend to be heavily involved with acquisitions. This is explained by managers' preference for lower risk levels as well as the increased perquisites managers have to gain by increasing the size of the corporation. Murto (1994) presents evidence that Finnish banks in the late 1980s got into trouble by expanding their respective market shares too fast, which is a reflection of managers' preference for size at the expense of profits. Gorton and Rosen (1995) studied the decline of banking in the 1980s in the US. They inferred that moral hazard problems did not play a major role in this decline. They set the problem at the level of corporate controls, whereby managers ultimately hold the final lending decisions and consequently the amount of risk that could be taken. They found that managers have a tendency to take excessive risks when the industry is unhealthy and their stake in ownership is too large to make outside monitoring very costly but at a point where their ownership is not so large as to align their interests with those of shareholders. However, if the industry is healthy, entrenched managers tend to behave too conservatively. Gorton and Schmid (1999) studied ownership structure in Austrian cooperative banks. They found that firm performance declines as the number of cooperative members increases, corresponding to a greater separation of ownership and control. The decline in firm performance is attributed to an increase in efficiency wages. Altunbas, Evans, and Molyneux (2001) found that there is little evidence to suggest that privately owned banks are more efficient than mutual or public sector banks. Using data on German banks from the years 1989-1996, they concluded that banks of the three forms were able to benefit from economies of scale associated with increased size. Public sector and mutual banks seem to have slight cost and profit advantages as compared to privately owned banks, which are caused by lower cost of funds. La Porta, Lopez-de-Silane and Shleifer (2002) studied government ownership of banks in the world. Using data on banks in 1995, they found that government ownership of banks does not lead to subsequent growth and development, which is consistent with the political view of government ownership of banks whereby the resource allocation process is politicized leading to reduced efficiency. Anderson and Campbell (2004) studied governance activity of over 100 TSE-listed Japanese banks for a 12-year period during the banking crisis in the early 1990s. By examining top executive turnover at Japanese banks and how it is affected by bank performance, they did not find a relation between bank performance and non-routine turnover of bank presidents in the pre-crisis period of 1985–1990, suggesting that Japanese bank executives were insulated from disciplinary dismissal because of poor relative performance prior to the banking crisis. In contrast, they found a significantly negative relation between non-routine presidential turnover and bank performance measures such as stock returns or profitability in the crisis years of 1991–1996. Crespi et al (2004) examined the governance of Spanish banks and found a negative relationship between performance and governance intervention for banks, but the results change for each form of ownership and each type of intervention. Internal-control mechanisms work for independent commercial banks, but savings banks show weaker internal mechanisms of control and the only significant relationship between performance and governance intervention that appears is for mergers. Levine (1999) suggests that in time of crisis or economic stagnation, the presence of foreign banks with internationally diversified asset portfolios have stabilizing influence. Barth, Caprio, and Levine (2001) found that the likelihood of a major banking crisis is positively associated with limitations on foreign bank entry and ownership. In another study, Barth et al (2004) found that regulations that encourage and facilitate the private monitoring of banks tend to boost bank performance, reduce non-performing loans and enhance bank stability.

III. Corporate Governance in the MENA Region

The issue of corporate governance is still taking its first steps in the MENA region. Although there is recognizably more interest in the matter, the region still lags behind others, especially if compared with the more industrialized countries in aspects pertaining to the establishment of the proper frameworks for corporate governance.

In this respect, the partnerships with the European Union that many regional countries have undertaken are expected to speed up the process of recognizing problems that lie within the corporate governance frameworks.

A. The State of Financial Development in the MENA Region

Creane et al (2004) study the financial sector development in the MENA region. Table 1 presents several indices relating to the state of financial development in the region. The first index "Financial Development Index" is the weighted average of several indices such as monetary sector and policy, financial openness, and institutional environment. As observed in Table 1, some countries in the region have faired well in all of the indicators. However, the region as a whole barely makes it into the average category. These indicators also show that the banking sector has managed higher scores than the non-bank financial sector. This is more indicative of the severe underdevelopment of the non-bank financial sector rather than relative development of the banking sector.

Saidi (2004) summarizes different key issues to be considered as essential building blocks in diagnosing the problem of corporate governance in the region. The first point is the lack of data or clear image on the state of governance in the MENA region. Saidi (2004) mentions that only six countries (Algeria, Jordan, Kuwait, Morocco, Tunisia and UAE) in the region have presented an ROSC (Report On The Observance Of Standards And Codes) which is a report detailing the standards of accounting and auditing. In addition only four countries (Algeria, Kuwait, Tunisia and UAE) have accomplished a Financial Sector Assessment Program which is jointly prepared with the International Monetary Fund and the World Bank to assess the financial sector's strengths and weaknesses. This indicates that the countries with studies on the status of their respective financial sectors are very limited.

Table 1

Financial Development in the MENA Region[4]

	Financial Development Index	Banking Sector	Non-Bank Financial Sector	Regulation and Supervision
Bahrain	7.7	7.3	5	9.3
Lebanon	7	8.7	3.3	7.7
Jordan	6.9	7.1	6.3	8.7
Kuwait	6.8	7.4	5	8
United Arab Emirates	6.6	7.9	5	6.7
Saudi Arabia	6.4	7.8	3.3	8
Pakistan	6	5.8	6.3	7.7
Oman	5.9	6.1	5	8.3
Qatar	5.7	6.8	0.7	6.7
Tunisia	5.6	7.7	4.7	5.3
Morocco	5.5	5.6	4.7	7.3
Egypt	5.4	6	6.3	5.3
Sudan	4.7	5.7	0.7	3.7
Dj ibouti	4.1	3.8	1.3	5
Yemen, Republic of	3.9	4.1	0.7	3.3
Mauritania	3.5	3.8	0.7	3
Algeria	3 2	2.5	3	3.5
Iran, Islamic Rep.	2.5	1.9	3.3	4.7
Syrian Arab Republic	1.1	1.9	0.7	0
Libya	1	1.3	0.7	2
Average	5	5.5	3.3	5.7
Scale: Very low: below 2.5, Low: 2.5-5.0, Medium: 5.0-6.0, High: 6.0-7.5, Very high: above 7.5.				

[4] Creane et al.(2004), Financial Sector Development in the Middle East and North Africa

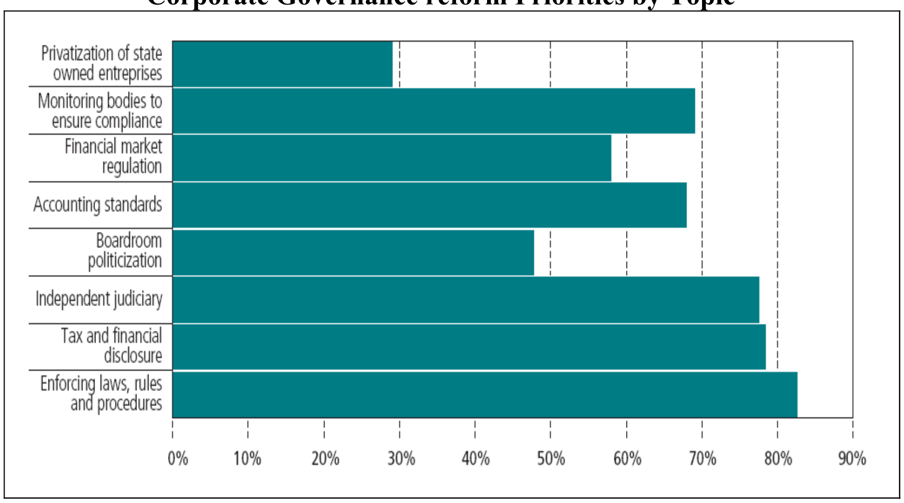
Saidi (2004) also surveys 298 companies and their CEOs in Lebanon on different issues relating to corporate governance. Figure 1 displays the priorities for reform as concluded from the survey. Accordingly, enforcing laws, rules and procedures is seen as the most pressing problem in facing Lebanese businesses.

B. Corporate Governance in Banks of the MENA Region

Similar to the state of corporate governance of non-financial firms in the MENA region financial firms lag behind their counterparts in the developed countries. Also the issue of corporate governance in banking has not attracted enough attention. There are still some misconceptions within bank management that consider improving governance as a costly process requiring time and effort without any financial return.

Figure 1

Corporate Governance reform Priorities by Topic[5]



The Union of Arab Banks (UAB) (2006) has surveyed 5 out of 18 banks operating in the Sultanate of Oman representing 93% of the total assets of the Omani banking sector. The survey focused on issues related to capital adequacy, risk management, asset liability management, transparency and corporate governance. The survey concludes that Oman is improving its regulatory framework in order to comply with the requirements of the Basel Committee's Core Principles for Effective Banking Supervision. The survey also finds that accounting and provisioning practices in Omani banks are in compliance with Basel II requirements. However, risk management systems are still not up to the minimum standards needed. In 2002, the banking law in Oman was amended to regulate the functions of external auditors. The newly amended law makes it the board of governors' duty to ensure the qualifications of external auditors. It enforces the importance of periodical rotation, the timeliness of reporting and the need to ensure the complete compliance with the regulations and standards of the CBO.

The central Bank of Jordan has put forward a handbook in an effort to explain and promote better governance practices within Jordanian banks[6]. This handbook emphasizes two aspects of

[5] Saidi, N. (2004, June 3-5, 2004). *Corporate Governance in MENA Countries: Improving Transparency and Disclosure.* Paper presented at the The Second Middle East and North Africa Regional Corporate Governance Forum, Beirut.

[6] Bank Directors' Handbook of Corporate Governance. *Central Bank of Jordan*, 2006.

corporate governance: Internal and External corporate governance. Internal corporate governance deals with the relationship between the various groups in direct control of the Bank: Shareholders, Board of directors and management as well as other shareholders. Good corporate governance is one where managers are held accountable by the board of directors, and where directors are held accountable by shareholders. External corporate governance involves the establishment of laws and regulation, capital market infrastructure, and accounting standards .The Central Bank of Jordan concludes that both appropriate internal and external environments are needed to ensure a good corporate governance framework. These environments should be based on four guiding principles: fairness, transparency, accountability and responsibility. Al-Muharrami, Matthews, and Khabari (2006) investigated the market structure of Arab GCC banking industry during the period 1993-2002 and found that Kuwait, Saudi Arabia and UAE have moderately concentrated banking sector, and operate under perfect competition. On the other hand, Qatar, Bahrain, and Oman are highly concentrated markets and operate under conditions of monopolistic competition.

IV. Data and Methodology

The current study aims at studying the relationship between ownership structure and performance of banks in the MENA region. The initial sample includes 89 banks in four categories: commercial, investment, specialized, and Islamic banks.

We define the variables that determine the ownership structure of the banks, and then test whether these variables are significantly related to bank performance.

The data used are obtained from the Arab Banks and Financial Institutions Directory 1998-2004 published by the Union of Arab Banks. It covers a six year span for the period 1998-2003.

The variables are:

- Natural Logarithm of Net profits of banks: used as a proxy of performance.
- Natural Logarithm of Shareholders' Equity (US Dollars) and Loan Advances (US Dollars) included as control variables.
- Five dummy variables that differentiate the ownership structure of banks.

The data on the continuous variables (Net profits, Shareholders' Equity and Loan Advances) is the average for the period sampled 1998-2003.

The five dummy variables are the concentrated versus non-concentrated ownership variable, government ownership variable, foreign/local ownership variable, ownership/board separation variable and board/management separation variable.

a. Concentrated versus non-concentrated ownership. Banks with concentrated ownership are coded as 1 while banks with non-concentrated ownership are coded as 0. Banks with a single owner with 50 percent or more of total shares are considered as ownership concentrated. It should be noted that banks in MENA region, have less dispersed ownership than banks in other regions with few banks actively involved in dispersed public ownership. The first hypothesis to be tested follows:

H_1: Banks with concentrated ownership perform better than banks with dispersed ownership

Table 2

Characteristics of banks in the region[7]

	Arab[1]	Foreign (Non-Arab)[2]	Local[3]	Foreign[4]
Algeria	16	0	0	0
Bahrain	35	31	4	4
Egypt	43	3	20	6
Jordan	19	3	10	6
Kuwait	11	0	5	1
Lebanon	55	15	29	13
Lybia	17	0	7	0
Morocco	14	1	2	2
Oman	11	5	7	0
Quatar	10	5	7	0
Saudi Arabia	15	0	6	0
Sudan	32	1	11	4
Tunisia	22	2	7	2
UAE	40	12	12	2
Yemen	15	2	7	0

1. Number of Arab banks in the respective country
2. Number of Non-Arab banks in the respective country
3. Number of Local banks.
4. Number of Foreign banks.

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b. Type of ownership. The government ownership dummy is coded 1 when a bank is owned by a governmental institution, and foreign/local ownership dummy is coded as 1 if the bank is owned by foreign investors by more than 50 percent of its outstanding shares. The next two hypotheses follow:

H_2: Privately owned banks perform better than government owned banks
H_3: Foreign banks perform better than domestic banks

c. Ownership/board separation. This dummy is used to describe whether owners choose to be directly represented within the board of directors. Board of directors, with more than half of its members being owners of the bank or direct representatives of holding institution, is considered to have no ownership/board separation and coded as 1. This variable is important in assessing to which level bank owners play an active role in guiding the general policies of the bank operations.

H_4: Banks with no ownership/board separation perform better than those with ownership/board separation .

d. Board/management separation. This dummy measures whether there is a separation between board membership and management. Banks with half of the top level management

[7] Source: Union of Arab Banks Directory 1998-2003

composed of board of directors are considered to have no board management separation and coded as 1. This variable tests to which extent stockholders control management activities.

> *H_5: Banks with board/management separation perform better than those with no board/management separation.*

The following regression equation is formed to test for the above hypotheses:

Ln PERFORMi = $\beta_0 + \beta_1$GOV + β_2 FOREIGN + β_3 CONCENTRATED + β_4OWNER/BOARD + β_5BOARD/MNGT + $\beta_6$ln EQUITY$_i$ + $\beta_7$ln LOANADV$_i$ + ε

V. Empirical Results

The multivariate analysis is comprised of weighted least square regressions. This is an efficient method that makes good use of small data sets. It also shares the ability to provide different types of easily interpretable statistical intervals for estimation, prediction, calibration and optimization. In addition, the main advantage that weighted least squares enjoy over other methods is the ability to handle regression situations in which the data points are of varying quality. The dataset available is a cross-sectional one with 89 banks represented. White heteroskedasticity-consistent standard errors and covariance is used to correct for heteroskedasticity in the regressions. In addition, the natural logarithm of continuous variables is used given that these variables are not normally distributed.

The results of Table 3 show that all variables are insignificant except for board/management separation and the two control variables: LN Shareholders' Equity and LN Loan Advances. We next exclude 34 bank observations in three categories (investment, specialized, and Islamic banks) due to inconsistent and missing information on the relevant variables tested. In order to get “cleaner” results, we run a least squares regression for commercial banks only (n=56).

Table 4 summarizes the results for commercial banks. The coefficient of the dummy variable for board/management separation is positive and significant at 5% level. This indicates that the performance of the banks is enhanced when there is no board/management separation. The result is consistent with the argument that moral hazard problems are reduced when board members have an active role in management and that no separation will decrease managerial slack thus increasing profitability and efficiency.

The concentrated ownership variable is negatively related to performance implying that concentrated ownership is constraining management ability to invest in higher risk/higher return assets. Increased monitoring of management through concentrated ownership happens at the expense of reduced profits.

The coefficient of the government ownership variable is positive and significant implying that government ownership of commercial banks has a positive effect on net profits, which is a plausible result that contrasts the standard view that government ownership leads to inefficient and wasteful behavior.

Finally, ownership/board separation coefficient and the foreign ownership coefficient are both insignificant. This implies that the performance of MENA banks cannot be explained by these variables. Hence, any inference based on these variables becomes inconclusive.

Table 3

Least Square Regression for All Banks (n = 89)

White Heteroskedasticity-Consistent Standard Errors & Covariance Least Squares Regression			
Variable	Coefficient	t-Statistic	Prob.
Constant	-2.1687	-6.0416 (***)	0.0000
Government Ownership	0.1728	0.8664	0.3889
Foreign/Local Ownership	-0.0647	-0.3127	0.7553
Concentrated Ownership	-0.2056	-1.2867	0.2019
Ownership/Board Separation	-0.0575	-0.3198	0.7499
Board/Management Separation	0.2761	1.8125(*)	0.0736
LN Shareholders' Equity (USD)	0.8403	10.3339(***)	0.0000
LN Loan Advances (USD)	0.1406	2.0581(**)	0.0428
R-squared	0.8662		
Adjusted R-squared	0.8546		
F-statistic	74.8841		
Prob(F-statistic)	0.0000		
(***) Significant at 1% level			
(**) Significant at 5% level			
(*) Significant at 10% level			

Table 4

Least Squares Regression for Commercial Banks (n = 56)

White Heteroskedasticity-Consistent Standard Errors & Covariance Least Squares Regression			
Variable	Coefficient	t-Statistic	Prob.
Constant	-2.3856	-4.1642(***)	0.0001
Government Ownership	0.8809	2.8024(***)	0.0073
Foreign/Local Ownership	0.2193	0.7629	0.4492
Concentrated Ownership	-0.5367	-2.3845(**)	0.0211
Ownership/Board Separation	-0.0495	-0.2013	0.8413
Board/Management Separation	0.4667	2.1657(**)	0.0353
LN Shareholders' Equity (USD)	0.6053	3.8888(***)	0.0003
LN Loan Advances (USD)	0.3603	2.2793(**)	0.0271
R-squared	0.8996		
Adjusted R-squared	0.8850		
F-statistic	61.4688		
Prob(F-statistic)	0.0000		
(***) Significant at 1% level			
(**) Significant at 5% level			
(*) Significant at 10% level			

VI. Summary

The current paper examines empirically the relationship between ownership structure and performance for a sample of MENA banks over a six year period 1998-2003.The initial sample included 89 banks in four categories: commercial, investment, specialized, and Islamic banks.

We run a least square regression with the natural logarithm of net profits of banks as a proxy of bank performance in addition to five dummy variables for the ownership structure of banks: concentrated versus non-concentrated ownership, government ownership, foreign/local ownership, ownership/board separation and board/management separation .The natural logarithm of shareholders' equity and loan advances are included as control variables.

After finding insignificant results for the whole sample, we focus on the "clean" sample of commercial banks (n=56). The coefficient of the dummy variable for board/management separation is positive and significant at 5% level. This indicates that the performance of the banks is enhanced when there is no board/management separation. The result is consistent with the argument that moral hazard problems are reduced when board members have an active role in management and that no separation will decrease managerial slack thus increasing profitability and efficiency.

The concentrated ownership variable is negatively related to performance implying that concentrated ownership is constraining management ability to invest in higher risk/higher return assets. Increased monitoring of management through concentrated ownership happens at the expense of reduced profits.

The coefficient of the Government ownership variable is positive and significant implying that government ownership of commercial banks has a positive effect on net profits, which is a plausible result that contrasts the standard view that government ownership leads to inefficient and wasteful behavior.

Finally, ownership/board separation coefficient and the foreign ownership coefficient are both insignificant. This implies that the performance of MENA banks cannot be explained by these variables. Hence, any inference based on these variables becomes inconclusive.

Our results show that the performance of banks is weakened with board/management separation, and concentrated ownership and enhanced with government ownership.

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