

**THE EFFECT OF CORPORATE GOVERNANCE, BANK
CHARACTERISTICS AND MACROECONOMIC
FACTORS ON BANK CREDIT RISK:
EVIDENCE FROM THE ARABIAN
PENINSULA**

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**DOCTOR OF PHILOSOPHY
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The effect of corporate governance, bank characteristics and
macroeconomic factors on bank credit risk : evidence from the
Arabian Peninsula / Abdulkarem Ali Saleh Al-Magharem

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BANK CREDIT RISK: EVIDENCE FROM THE ARABIAN
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ABDULKAREM ALI SALEH AL-MAGHAREM

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THE EFFECT OF CORPORATE GOVERNANCE, BANK CHARACTERISTICS AND MACROECONOMIC FACTORS ON BANK CREDIT RISK: EVIDENCE FROM THE ARABIAN PENINSULA

ABDULKAREM ALI SALEH AL-MAGHAREM

2020

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Banks are highly opaque, heavily regulated, intervened by government, and driven by information asymmetry and agency problems, which differentiate them from non-financial firms and underline the need for more distinct analysis. Recently, the banking sector has suffered from credit risk, which is the main cause of financial crisis and bank failure, and it has been proposed that corporate governance may enhance risk management and mitigate credit risk. Thus, this study attempts to examine the relationship between corporate governance, bank characteristics, and the macroeconomic factors, and credit risk by employing panel data regression. The random effects model is performed to examine the data of listed banks in the Arabian Peninsula countries, in which the final sample reaches 306 bank-years. The statistical outcome of this study reveals that effective corporate governance in terms of the segregation of the duties of the role of the chief executive officer (CEO) and the chairman of the board is associated with higher credit risk measured by non-discretionary loan loss provisions. The most plausible explanation is that the separation of the role of both CEO and the chairman enforces management to increase the level of non-discretionary loan loss provisions to cover the increase of non-performing

loans. Moreover, the findings suggest that the board audit committee professionalism, foreign ownership, bank risk-taking, and bank size have a significant negative association with credit risk. Meanwhile, non-performing loans and inflation are significantly and positively related to credit risk. It also indicates that there is no major difference between Islamic and conventional banks with regard to risk management. In the context of the practical and managerial contribution of this study, it is deemed to be the first attempt to investigate corporate governance and other variables with credit risk measured by non-discretionary loan loss provisions based on a review of the literature. The current study supports the professional qualifications of the audit committee members and foreign ownership to enrich real performance in the banking system by improving the efficiency of the lending activities. It may have potential implications for academic researchers and banks, and particularly, policymakers who may enact the required regulations for the banking sector to strengthen risk management in the banking industry as well as to enhance stability and the economy as a whole.

Keywords: Credit risk, corporate governance, Arabian Peninsula countries

Abstrak tesis yang dikemukakan kepada Senat Universiti Malaysia Terengganu
sebagai memenuhi keperluan untuk Ijazah Doktor Falsafah

**KESAN TADBIR URUS KORPORAT, CIRI-CIRI BANK DAN FAKTOR
MAKROEKONOMI PADA RISIKO KREDIT BANK: KAJIAN DI
SEMENANJUNG ARAB**

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Bank adalah institusi yang tidak telus, dikawal selia dengan ketat, dipengaruhi oleh campurtangan kerajaan dan mempunyai masalah agensi and simetri maklumat. Ini membezakan bank daripada firma bukan kewangan dan menimbulkan keperluan bagi analisis lebih terperinci. Baru-baru ini, sektor perbankan mengalami krisis risiko kredit yang merupakan punca utama krisis kewangan dan kegagalan bank. Tadbir urus korporat telah diusulkan untuk meningkatkan pengurusan risiko dan mengurangkan risiko kredit. Kajian ini berkisar tentang penyelidikan hubungan di antara tadbir urus korporat, ciri-ciri bank, faktor-faktor makroekonomi dan risiko kredit dengan menggunakan regresi data panel. Model kesan rawak digunakan untuk menilai data bank tersenarai di negara Semenanjung Arab. Sampel akhir mencapai 306 tahun perbankan. Hasil kajian secara statistik mendedahkan bahawa tadbir urus korporat yang berkesan dari segi pemisahan tugas ketua pegawai eksekutif (CEO) dan pengerusi lembaga pengarah mempunyai hubungkait dengan risiko kredit yang tinggi yang diukur oleh peruntukan kerugian pinjaman bukan budi bicara. Penjelasan terbaik ialah pemisahan peranan CEO dan pengerusi memaksa pihak pengurusan untuk meninggikan tahap peruntukan kerugian pinjaman bukan budi bicara untuk

mengimbangi kenaikan pinjaman tidak berbayar. Dapatan juga menunjukkan tahap profesionalisme jawatankuasa audit pemilikan asing, pengambilan risiko bank, dan saiz bank mempunyai hubungan negatif yang signifikan dengan risiko kredit. Pinjaman tidak berbayar dan inflasi pula mempunyai hubungan positif yang signifikan dengan risiko kredit. Dapatan juga menunjukkan tidak ada perbezaan yang ketara di antara bank Islam dan konvensional dari segi pengurusan risiko. Kajian lepas menunjukkan bahawa dalam konteks sumbangan kajian ini dari aspek praktikal dan pengurusan, ia boleh dianggap sebagai percubaan pertama untuk mengkaji pengaruh tadbir urus korporat dan pembolehubah lain dengan risiko kredit diukur oleh peruntukan bukan budi bicara. Kajian semasa menyokong kelayakan profesional ahli jawatankuasa audit dan pemilikan asing di dalam pengukuhan prestasi sistem perbankan melalui peningkatan kecekapan aktiviti pemberian pinjaman. Ia mempunyai implikasi bagi penyelidik akademik dan bank, dan terutamanya bagi penggubal polisi yang mungkin menguatkuasakan peraturan untuk sektor perbankan bagi mengukuhkan pengurusan risiko dalam industri perbankan di samping mempertingkatkan kestabilan dan ekonomi secara keseluruhan.

Kata kunci: Risiko kredit, tadbir urus korporat, negara-negara Semenanjung Arab