THE IMPACT OF CORPORATE GOVERNANCE ON THE PERFORMANCE OF LEBANESE BANKS

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ABSTRACT

This study examines the impact of corporate governance on financial performance of Lebanese banks during five years (from 2006 to 2010). Based on 182 observations, a quantitative method of data analysis was employed to investigate the relevance of corporate governance mechanisms. The first finding reveals a positive impact of independent boards on the performance of Lebanese banks. The research also finds a significant and negative relationship between CEO duality and bank performance. Finally, the paper reveals a positive impact of insider ownership concentration on the return of Lebanese banks indicating the more shares held by insiders, the better the performance. The weaknesses of corporate governance in some Lebanese banks might be compensated by higher insider ownership concentration.

INTRODUCTION

Lebanese banks play a key role in the Lebanese economy and dominate the financial system. Despite instability in Arab countries, confidence in the Lebanese banking system is solid due to several characteristics that attract the foreign capital. Recently, the sector is characterized by high systematic liquidity with overall confidence and trust from both investors and depositors. The safety of depositors' funds occurs based on solid banking secrecy, enhanced under supervision of the central bank which is the regulatory authority. According to the Association of banks in Lebanon (ABL), Lebanese banks have Strong growth and balance sheet activity. They are well capitalized with good returns. By their existence, they perform a vital role as providers of employment and act as a key player for economic growth and local development. The international monetary fund (IMF) has confirmed the importance of the banking sector by indicating that Lebanese banks are an important gauge to the viability of the Lebanese financial system.

Before reaching its current status, the banking system in Lebanon experienced many changes (Mergers, acquisitions, competition and other reformation) through the last 30 years. About 50 banks cover the Lebanese territory with more than 90 units spread around the world especially in Arab countries, Africa, United-states and Europe. There are many remarkable Internationals banks in Lebanon through many branches.

In this globalized system, Lebanese financial authorities believe that improving governance rules is a basic need because investments will follow sectors that have adopted efficient governance standards (OECD 2004). Therefore, Lebanese banks try to be in line with international regulatory standards on bank governance adequacy, especially with the principles published by Basel Committee on Banking Supervision. In January 2011, the ABL in collaboration with the Central bank (BDL), disseminated one of the best official corporate governance guidelines for the banks operating in Lebanon. We have witnessed in the last years a growing body of research regarding the importance of corporate governance and its impact on financial performance. Shleifer and Vishny (1997) noted that corporate governance mechanisms are used to reduce agency costs caused by conflicts of interest between firms' stakeholders. After six years, the Organization for Economic Cooperation and Development reported that effective corporate governance improves economic efficiency and growth as well as enhances investor confidence.

Lloyd (2009) indicated the last international financial crisis can be viewed as a potential breakdown of banks' corporate governance. Hence, it can be argued that good corporate governance leads to better Lebanese banks performance. But, the rigorousness of the applicability may differ from bank to bank due to the nature of its ownership and the institution's size.

Given the important role of banks in the Lebanese economy, and the critical effects of corporate governance, we focus on how and to which degree the governance structure of Lebanese banks affects financial performance in a globalized market. The purpose of this study is to shed light on the relationship between corporate governance and the financial performance of Lebanese banks.

The rest of this study is organized as follows: the first section reviews the corporate governance literature and the impact of corporate governance on bank performance. Section two presents the data and methodology used in this research. Finally, the last section analyzes the results. The paper closes with some concluding comments.

LITERATURE REVIEW

Each Lebanese bank has specific corporate governance. The term corporate governance arose after the publishing of Berle and Means in 1932. By studying the separation between ownership and control in corporations, they identified the basic elements of corporate governance. The conflict rises and performance decreases when the level of separation between control and ownership increases. Agency theory has subsequently developed by introducing the principle of agency cost. Jensen and Meckeling (1976), argue there is no agency cost when the manager owns 100% of the capital. When his participation drops below 100%, agency costs arise due to conflicts between different sets of interests within the firm. If different parties have the same interests, then there is no conflict of interests and consequently no agency cost.

To reduce agency conflicts, corporate governance emerges as a system that provides guidelines and principles to align different interests, especially the interests of managers with the interests of shareholders. La Porta, Lopez, and Shleifer (2000) described corporate governance as a set of mechanisms through which outside investors protect themselves against expropriation by insiders, (i.e. the managers and controlling shareholders).The OECD (2004) advisory group defined corporate governance by a *"set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined"*.

The Basel Committee has had a longstanding commitment to promote sound corporate governance practices for banking organizations. For the committee, effective corporate governance practices are essential to achieve and maintain public trust and confidence in the banking system. In its guidance (2006), the Basel Committee defined corporate governance as *"the manner in which the business and affairs of individual financial institutions are governed by their boards of directors and senior management.* In Lebanon, based on the recommendations of the Basel committee, the Association of Lebanese banks in collaboration with the central bank published a guide which includes regulations regarding the need for an independent board of directors which is relevant to increase the level of strategic performance.

The relation between corporate governance and firm's value has been the subject of numerous studies. The OECD advisory group (2004) concludes that good corporate governance increases operational performance. For Claessens (2003), it also increases access to external financing by firms, lowers the cost of capital and increases operational performance. According to the author, one of the basic elements of corporate governance is the board of directors. The board of directors is the top executive unit of a Bank. It is charged with defining strategies and supervising performance. Many scholars consider the board's

structure as an indicator to evaluate the efficiency of corporate governance specifically through dimensions of size, independence and CEO duality.

The optimal number of directors is a dilemma for Lebanese banks. Numerous studies find that size of the board of directors is inversely related to firm value (Jensen and Meckling, 1976; Jensen, 1993; Yermack, 1996; Hermalin and Weisbach, 2003; Mak and Kusnadi, 2004; Cheng, 2008; Adusei, 2011; Chang and Dutta, 2012). In the banking sector, Staikouras, Christos, and Agoraki (2007) have shown a negative relation between board size and the performance of 58 European banks. Moreover, Pathan, Skully, and Wickramanayake (2007) investigated the relationship between board size and bank performance in Thailand. During the period 1999-2003 they found significant and negative impact of board size on bank performance. The board efficiency is reduced if the number of members is too large. In a small board, the members are likely to be engaged and more active which leads to more efficiency and speed.

Another dimension of corporate governance investigated in the literature is board independence which refers to the proportion of qualified non-executive members relative to the total number of directors who are capable to exercise sound objective judgment. Theoretically, we argue that outsiders on the board of directors act like referees between shareholders and managers (Fama, 1980). Prevailing empirical evidence implies that more outsiders on the board are related to better governance. For example, Krivogorsky (2006) reported a positive effect of Independence on firm performance in several European countries. Based on a sample of 69 banks from Germany, UK, Spain, France, and Italy, Busta (2007) showed that banks with a higher presence of independent members in their boards perform better in term of the market-to-book value. For the author, the independent directors are more professional in decision making and can more easily achieve the supervising function, reduce the possibility of collusion of top executives and improve the operating performance.

The final dimension of board's structure is CEO-duality. In Lebanese banks, it is common for the CEO to serve as president of the board of directors. In this situation, the supervising function of the board of directors is reduced due to the lack of independence (Patton and Baker, 1987). Worrell et al.(1997) uncovered a negative impact of CEO duality on stock price. Mishra and Nielsen (2000) reported a significant negative relationship between CEO duality and bank performance which suggest a managerial entrenchment in the form of CEO duality. As such, the absence of duality decreases the risk of principal-principal conflict. In 2010, Li and Tang pointed out that CEO duality increases risk taking of Chinese firms. In the case of commercial banks in Turkey, Kaymak and Bektas (2008) found that CEO duality has a negative impact on ROA (return on assets). In 2010, Agoraki et al. have confirmed a negative relationship between bank efficiency and amplified managerial power. For the authors, there should be a separation between the top person of a bank and the top person of the board so that each could monitor the other. Finally in 2011, Mahmood and Abbas reported a negative correlation between CEO duality and the performance of banks in Pakistan. Therefore, it can be argued the performance metrics are more negative when firms shift away from dual structures.

By considering these results, the first three hypotheses of the research are defined as follows:

H_1: *Board size is positively related to bank performance;*
H_2: *The proportion of independent directors in the board is positively related to bank performance;*
H_3: *CEO-duality is negatively related to bank performance.*

Another dimension of corporate governance investigated in the literature is the ownership structure. For many authors the ownership dimensions is the second basic element of corporate governance. Effectively, ownership structure has two dimensions: the level of ownership concentration and identity of the owners.

Many recent studies show that companies with concentrated ownership outperform other organizations. Hill and Snell (1989) indicate that a company with a highly concentrated ownership structure has superior performance. In the case of European Banks, Ianotta et al. (2007) found that ownership concentration is associated with better loan quality, lower risk assets and lower insolvency risk. Using data from 244 banks in 44 countries, Caprio et al. (2007) reported that ownership structure is an important mechanism for governing banks. Moreover, a study of Jordanian commercial banks confirms that ownership concentration is an effective determinant of operational performance (Al-Hawary 2011). According to agency theory, ownership concentration leads to increase the performance and reduce the agency problems.

The second dimension of ownership investigated in the literature is the nature of the owner. Firms with the same degree of concentration but a different nature of owners may perform differently from one another. While some Lebanese banks are controlled by internal ownership (CEO, Founder-CEO, board member), others tend to be characterized by external ownership (non-executive block-holder). In the first system of control the basic conflict of interest is between the manager-owner and the external shareholders. In second system the basic conflict is between the controlling and minority shareholders.

According to principal-agent theory, the more a manager's shares increase, the less conflict there is between manager and shareholder. Consistent with this view, Adams, Almeida, and Ferreira (2005), and Anderson and Reeb (2003) found a positive impact of founder-CEO shares on the performance of the firm. Consequently, if a manager has a high level of participation, agency costs will decrease because he is likely to make decisions that maximize firm value. Based on the above results, the final two hypotheses of the research are defined as follows:

H_4: *Ownership concentration is positively related to bank performance;*
H_5: *Internal ownership is positively related to bank performance.*

DATA AND METHODOLOGY

A quantitative method of data analysis which involved descriptive statistics and multivariate regression analysis was employed to analyze the normal distribution and the deviation of regression variables. Multivariable regression is conducted to achieve the purpose of the study: to understand the effect of corporate governance on the performance of Lebanese banks.

As a starting point for data collection, we used the BDL (Banque du Liban) database which provides the names of banks in Lebanon. Public banks and foreign banks are excluded from the study to ensure a uniform sample for comparison and ease of interpretation purposes. In addition, we exclude 10 banks due to lack of information about the corporate governance dimensions. Table 1 show our final sample of banks.

The analysis in this paper is based on a panel data of 40 Lebanese banks over the period of 2006-2010, which leads to 200 bank-year observations for the entire sample. From the 200 bank-year observations we exclude 18 bank-year observations that do not have the necessary variables to run the regression model. We end up with 182 observations from which we can trace the corporate governance, and where financial data are available (see Table 2).

Table 1: Sample of Lebanese Banks

Finance Bank S.A.L.	Syrian Lebanese Commercial Bank S.A.L.
Bank of Beirut S.A.L.	Standard Chartered Bank S.A.L.
Byblos Bank S.A.L.	Intercontinental Bank of Lebanon S.A.L.
Banque de l'Industrie Et Du Travail S.A.L.	B.L.C. Bank S.A.L.
National Bank of Kuwait (Lebanon) S.A.L.	BANKMED S.A.L.
Federal Bank of Lebanon S.A.L.	Crédit Libanais S.A.L.
Fransabank S.A.L.	Arab Investment Bank S.A.L.
Banque Libano-Française S.A.L.	Arab Finance House S.A.L.
Citibank, N.A.	Banca Di Roma S.P.A
Lebanese Canadian Bank S.A.L.	Jammal Trust bank S.A.L.
Audi Saradar Bank S.A.L	Bank MED S.A.L.
HSBC Bank Middle East Limited	MEAB S.A.L.
Banque BEMO S.A.L.	BBAC S.A.L.
Al-Mawarid Bank S.A.L.	First National Bank S.A.L.
Société Générale de Banque au Liban S.A.L.	BLOM Bank S.A.L.
Lebanese Swiss Bank S.A.L.	FFA Private Bank
Banque Misr Liban S.A.L.	Banque de la Bekaa S.A.L.
Société Nouvelle de la BANQUE de SYRIE et du LIBAN	Creditbank S.A.L.
Lebanese Islamic Bank S.A.L.	Banque Nationale de Paris "Intercontinentale"
Bank of Kuwait And The Arab World S.A.L.	Lebanon & Gulf Bank S.A.L.

This table presents the sample extracted from the BDL (Banque Du Liban) database over the period of 2006-2010. The total sample number of 40 is small, medium and large-size private owned commercial banks after excluding 10 banks due to the lack of information. All the selected banks are endowed with several characteristics such as banking secrecy law, free exchange system and free movement of capital and earnings.

Table 2: Distribution of Bank-Year Observations over the Period of 2006-2010

Year	2006	2007	2008	2009	2010	Total
Number of bank-year observations	36	38	36	33	39	182
%	19.8%	20.9%	19.8%	18%	21.5%	100%

This table provides distribution statistics of the sample over five years, from 2006 to 2010. The total number of banks-observations is 182 distributed as follows: 36(19.8%) banks-observations for 2006, 38(20.9%) banks-observations for 2007, 36(19.8%) banks-observations for 2008, 33(18%) banks-observations for 2009 and finally 39(21.5%) banks-observations for 2010.

The numerical data to calculate the dependent variables and some control variables are derived from the financial statements presented in the annual reports. Data about governance are extracted from the annual reports and from the official bank websites. We use two accounting-based indicators as dependent variables. The first indicator is the performance of bank measured by return on assets (ROA) and return on equity (ROE). The objective of this indicator is to capture the impact of corporate governance on overall bank performance. The second indicator is deposits collected by the bank over total assets (DEPSTS). The aim of this variable is to test the impact of corporate governance on depositor trust level.

The main independent variables are the board of directors and the ownership structure of the Lebanese banks. To detect board of director dimensions, three independent variables have been used: (BDSIZE) Board of Director Size is the number of bank board members, (BDINDP) indicates the percentage of independents in the board of directors, and (BDUAL) takes the value of one if the CEO is also chairman of the board and zero otherwise. We measure the ownership concentration by calculating the percentage of the bank largest shareholder (OWNER). Insider ownership (INSID) is the percentage of shares owned by the insider (officer or director).

A number of control variables are included. Bank size (BKSIZ) is measured by the natural logarithm of total assets of the bank. Age (AGE) is the time period between creation of the bank and 2010. Leverage (LEV) is the ratio of equity to assets. Non-performing loans (NPEL) is measured by the ratio of non-performing loans to total loans.

RESULTS

Table 3 provides descriptive statistics dealing with the variables used in this study. Lebanese banks are considered highly performed with 18 years of experience. Average return on assets, return on equity and bank deposits are 2.3%, 19.2% and 37.9% respectively. Table 3 shows the average number of board of director members is 10.67. This number is under the average of board size (15.78) in European banks (De Andres and Vallelado, 2008). The average percentage of independents on the board of directors is considered 0.322 while this percentage is 0.516 in New Zealand (Koerniadi et al. 2012). The third independent variable is CEO-duality. The results indicate that (53%) of CEOs serve as presidents of bank boards.

Lebanese Banks are controlled by high level of concentration (46%) with the owner as executive officer in the majority of cases (57%). Finally, non-performing loans is low (2%) due to central bank regulations.

Table 3: Descriptive Statistics

Variables	Mean	Minimum	Maximum
ROA	0.023	-0.023	0.045
ROE	0.192	-0.041	0.202
DEPSTS	0.379	0.541	0.217
BDSIZE	10.67	7.000	15.00
BDINDP	0.322	0.100	0.531
BDUAL	0.532	0.000	1.000
OWNER	46.34	24.52	99.99
INSID	0.573	0.000	1.000
BKSIZ	21.02	14.53	28.54
AGE	18.32	4.000	35.00
LEV	0.130	0.049	0.262
NPEL	0.023	0.005	0.117

This table shows descriptive statistics of the dependent and independent variables. Dependent variables are return on assets (ROA), return on equity (ROE) and deposits collected by the bank (DEPSTS). The independent variables are: (OWNER) ownership concentration calculating by the percentage of bank largest shareholder. (INSID) the percentage of shares owned by the insider (officer or director). (BDSIZE) Board of Director Size which equals the number of banks board members, (BDINDP) the number of independents in the board of directors over the total number of board members and (BDUAL) taking the value of one if the CEO is also chairman of the board and zero otherwise. Bank size (BKSIZ) is measured by the natural logarithm of total assets of the bank. Age (AGE) is the time period between creation of the bank and 2010. Leverage (LEV) is the ratio of equity to assets. Non-performing loan (NPEL) is measured by the ratio of non-performing loan to total loans.

Table 4 provides results of correlation analysis. The relationship between the performance indicator (ROA) and independence of the board of directors is positive and significant. The relationships between accounting based performance (ROA and ROE) and board size are negative and statistically significant. A negative relationship is observed between ownership concentration and board dimensions (size and independence). Finally, a positive relationship is revealed between ownership and CEO-duality. From the correlation results, we capture a significant implication of corporate governance on the performance of Lebanese banks. Moreover, the owner tries to neutralize governance mechanisms when his level of ownership rises. In the next part of the study, we try to verify this evidence by regression analysis.

The following three regression models were used to examine the effect of corporate governance on the performance of Lebanese bank:

$ROA_{it} = \text{Intercept} + \beta1(BDSIZE)_{it} + \beta2(BDINDP)_{it} + \beta3(BDUAL)_{it} + \beta4(OWNER)_{it} + \beta5(INSID)_{it} + \beta6(BKSIZ)_{it} + \beta7(AGE)_{it} + \beta8(LEV)_{it} + \beta9(NPEL)_{it} + e_{it}$ (1)

$ROE_{it} = \text{Intercept} + \beta1(BDSIZE)_{it} + \beta2(BDINDP)_{it} + \beta3(BDUAL)_{it} + \beta4(OWNER)_{it} + \beta5(INSID)_{it} + \beta6(BKSIZ)_{it} + \beta7(AGE)_{it} + \beta8(LEV)_{it} + \beta9(NPEL)_{it} + e_{it}$ (2)

$DEPSTS_{it} = \text{Intercept} + \beta1(BDSIZE)_{it} + \beta2(BDINDP)_{it} + \beta3(BDUAL)_{it} + \beta4(OWNER)_{it} + \beta5(INSID)_{it} + \beta6(BKSIZ)_{it} + \beta7(AGE)_{it} + \beta8(LEV)_{it} + \beta9(NPEL)_{it} + e_{it}$ (3)

Before conducting the regression analysis of the study, three tests were conducted for Classical Linear Regression model assumptions. Both the (χ^2) and (F) version of the test statistic indicate no evidence of heteroscedasticity. Moreover, Hausman's test has been applied to differentiate between fixed effects model and random effects model in panel data. In our study, Random effects model (REM) is preferred under the null hypothesis due to its higher efficiency. Finally, the Durbin-Watson's Test reveals the result is conclusive because the errors are serially uncorrelated.

Table 4: Correlation Statistics

	ROA	ROE	DEPSTS	BDSIZE	BINDP	BDUAL	OWNER	INSID	BKSIZ	AGE	LEV	NPEL
ROA	1											
ROE	0.934**	1										
DEPSTS	0.434*	0.255*	1									
BDSIZE	-0.423**	-0.234*	0.037	1								
BDINDP	0.234*	0.422	0.129	0.231*	1							
BDUAL	0.111	0.193	0.112	0.321	0.201	1						
OWNER	0.532	0.263	0.311	-0.551*	-0.223**	0.632**	1					
INSID	0.604*	0.447	0.334	-0.422**	-0.103*	0.331**	0.857**	1				
BKSIZ	0.721*	0.652*	0.414*	0.421	0.215	0.336	-0.026	-0.042	1			
AGE	-0.318	-0.221	-0.442	0.151	0.332	0.121	-0.318	-0.323	0.011	1		
LEV	-0.441*	0.119	-0.421	0.272	0.188	0.200	0.144*	0.194*	0.122	-0.502	1	
NPEL	-0.211	-0.099	-0.022	-0.054	-0.188	0.011	-0.225	0.301	-0.121	0.371	-0.518	1

This table presents correlation statistics between the variables of the study (dependent and independent). The dependent variables are return on assets (ROA), return on equity (ROE) and deposits collected by bank (DEPSTS). (OWNER) is the ownership concentration calculating by the percentage of bank largest shareholder. (INSID) is the percentage of shares owned by the insider (officer or director). (BDSIZE) Board of Directors' Size is the number of banks' board members, (BDINDP) is the number of independents in the board of directors, (BDUAL) takes the value of one if the CEO is also chairman of the board and zero otherwise. Bank size (BKSIZ) is the natural logarithm of the total assets of the bank. Age (AGE) is the time period between the creation of bank and 2010. Leverage (LEV) is measured as the ratio of equity to assets. Non-performing loan (NPEL) is measured by the ratio of non-performing loan to total loans. ***, ** and * indicate significance at the 1, 5 and 10 percent levels respectively.

Table 5 presents results of regression analysis which reveal the relationship between performance indicators (ROE, ROA and DEPSTS) and the independent variables. According to regressions 1, 2 and 3, there is a positive relationship between the number of independents in the board (BDINDP) and the performance of Lebanese banks measured by return on assets (ROA), return on equity (ROE) and bank deposits (DEPSTS). Therefore, if the number of independents rises, the bank's profitability increases. The independent members represent an important line of defense that the owners can employ to protect themselves against opportunism behavior executed by managers. By their contributions to the board of directors they provide advice and expertise for viability and financial profitability.

A negative and significant relationship has been found between the CEO-Duality and the performance of Lebanese banks measured by ROA and ROE. This finding is consistent with the study of Agoraki et al. (2010), which reports a negative relationship between CEO-Duality and the performance of 57 commercial banks operating in Europe during a 5 year period. The CEO who executes the position of board chairman may exercise more control and be less likely to be substituted and having his bank decisions challenged by board members which lead to lower usage of skills and knowledge. This critical situation decreases bank performance by increasing the risk of entrenchment in term of CEO duality. As such, duality might be a suboptimal choice for Lebanese banks seeking a good corporate governance image.

The regression results were not sensitive to board size. For example the maturity of boards in term of knowledge and skills may eliminate the utility of adding new members. The dominance of CEO in term of authority is the second reason leading to increases in deficiencies of this variable.

The results of regressions 1 and 2 revealed there is a positive impact of ownership concentration (INSID) on performance (ROE and ROA) of Lebanese banks. In other word, the more shares held by insiders like officers the better the performance. This result is in line with the study of Caprio et al. (2007) based on 244 banks from 44 countries. CEOs' who own larger equity blocks in their banks are less likely to take decisions

that reduce the performance. Therefore, the weaknesses of corporate governance in some Lebanese banks might be compensated by higher insider ownership concentration because it reduces conflict of interests between owners and managers. Finally, a positive and significant relation has been found between bank size and bank performance (ROE, ROA and Deposits). In other words, as the size of bank increases, performance increases as well. This result is likely to be due to economies of scale.

Table 5: Regression Analysis

	Panel A	Panel B	Panel C
Variables	Regression 1: ROA	Regression 2: ROE	Regression 3: DEPSTS
IINTERCEPT	3.074	3.151	0.651
BDSIZE	-0.325	-0.389	-0.052
BDINDP	0.274*	0.241**	0.131*
BDUAL	-0.311*	-0.275**	-0.422
OWNER	0.426	0.341	0.484
INSID*OWNER	0.522*	0.399**	0.520
BKSIZ	1.201**	0.921*	1.321*
AGE	0.369	0.295	0.469
LEV	0.015	0.008	-0.214
NPEL	-0.077	-0.031	0.052
R-squared	0.565	0.502	0.543
Adjusted R-squared	0.415	0.342	0.399
F-statistic	7.377	6.948	7.011
Prob(F-statistic)	0.000	0.000	0.000
N	182	182	182
DURBIN WATSON D	1.833	1.784	1.612

This table presents results of the regression analysis: $ROA_{it} = Intercept + \beta 1(BDSIZE)_{it} + \beta 2(BDINDP)_{it} + \beta 3(BDUAL)_{it} + \beta 4(OWNER)_{it} + \beta 5(INSID)_{it} + \beta 6(BKSIZ)_{it} + \beta 7(AGE)_{it} + \beta 8(LEV)_{it} + \beta 9(NPEL)_{it} + e_{it}$. The dependent variables are: return on assets (ROA) for panel A, return on equity (ROE) for panel B and the deposit collected by the bank (DEPSTS) for panel C. (OWNER) is the ownership concentration calculating by the percentage of bank largest shareholder. (INSID) is the percentage of shares owned by the insider (officer or director). (BDSIZE) Board of Directors' Size is the number of banks' board members, (BDINDP) is the number of independents in the board of directors, (BDUAL) takes the value of one if the CEO is also chairman of the board and zero otherwise. Bank size (BKSIZ) is measured by natural logarithm of the total assets of the bank. Age (AGE) is the time period between the creation of bank and 2010. Leverage (LEV) is measured as the ratio of equity to assets. Non-performing loan (NPEL) is measured by the ratio of non-performing loan to total loans. ***, ** and * indicate significance at the 1, 5 and 10 percent levels respectively.

CONCLUDING COMMENTS

Using data of 40 Lebanese banks during 2006-2010, this study focuses on several dimensions to highlight the impact of corporate governance on financial performance. As a first result we reveal the proportion of directors in the board is positively and significantly related to bank performance (H2). External members are expected to be independent from the influence of bank owners, which allows them to perform their responsibilities more effectively. However, there is no evidence that board size is correlated with bank performance (H1). Moreover, we find that CEO duality affects negatively the bank performance (H3). To overcome this problem, Basel Committee and ABL (Association of banks in Lebanon) have claimed to avoid the duality in executive function.

Examining ownership dimensions, we find that ownership is not correlated with bank performance (H4). When we introduce insider ownership concentration, we observe a significant and positive impact on the financial return of Lebanese banks (H5). Managerial ownership seems to be an important factor affecting governance and performance of Lebanese banks.

Table 6: Validation of Hypotheses

Hypothesis	Details	Validation
1	*The board size is positively related to bank's performance*	Not confirmed
2	*The proportion of independent directors in the board is positively related to bank's performance*	Confirmed[**]
3	*CEO-duality is negatively related to bank's performance*	Confirmed[*]
4	*Ownership concentration is positively related to bank performance*	Not Confirmed
5	*Internal ownership is positively related to bank performance*	Confirmed[*]

This table presents the confirmed and non-confirmed hypotheses after showing the results of descriptive statistics and multivariate regression analysis. Hypotheses 1 and 4 are non-confirmed while hypotheses 2, 3 and 4 are confirmed as follows: (*): the confirmation of hypothesis 3 is based on the financial return (ROA and ROE). (*): the confirmation of hypothesis 5 is based on the financial return (ROA and ROE). (**): the confirmation of hypothesis 2 is based on the financial return (ROA and ROE) and financial trust (bank deposits).

Based on our findings, it is difficult to lead a successful commercial bank without corporate governance mechanisms based on the elimination of CEO duality and independence of members in the board of directors. The concentration of insider ownership rises as an alternative solution to increase the performance of Lebanese banks when corporate governance mechanisms are weak. Our findings tend to support agency theory which suggests that managerial ownership with a larger proportion of outside directors is more able to monitor any self-interested actions (Figure 3). In view of these analyses, La Porta et al. (2000) reported that ownership concentration is a consequence of poor protection of minority shareholders.

Figure 1: The Governance Mechanisms That Affect the Performance of Lebanese Banks

Banks performance in Lebanon
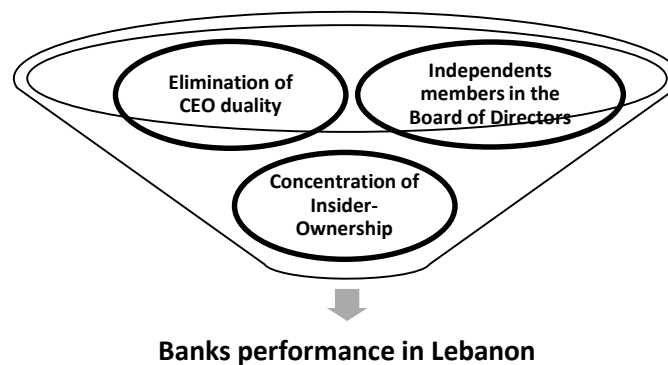
This figure shows the performance of Lebanese banks is based on three main corporate governance variables: Independent members in the Board of Directors, Elimination of CEO duality and Concentration of Insider-Ownership.

The results are exploratory due to several limitations. The limitations of this study were related to the performance and the ownership variables. For some authors ROA and ROE cannot detect bank performance. Consequently, we tried to overcome this problem by using bank deposits as a new variable. Due to lack of official and published information, the controlling ownership definition used in our study may not detect direct and indirect parts of the controlling bank owner. Moreover, definition of the independent members in the board of directors is based on family name. However, some dependent members in the board may use a different family-name.

We should note that current research might be extended in various directions. First, we can study the impact of corporate governance on the financial-based performance such as Tobin's Q. Secondly, more attention needs to be paid to effectiveness of the board of directors (number of meetings for example). Finally, the relationship between other factors (such as economic situation, employees' satisfaction and CEOs' incentives) and bank's performance can be tested in further studies.

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