



Governance and its impact on enhancing financial performance

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Abstract ;

Governance is a modern concept of paramount importance for institutions to improve performance. Therefore, this study aimed to demonstrate the importance of governance in enhancing the financial efficiency of commercial banks in Algeria. To achieve the study's objectives, a descriptive and analytical approach was adopted, employing a range of statistical methods. Two hundred questionnaires were distributed, and 190 valid questionnaires were returned. The study concluded that there is a correlation and influence of governance, across its various dimensions, on the dependent variable of the financial efficiency of the banks under study. The study concluded with a set of recommendations and suggestions for developing governance systems in Algerian banks.

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- ✓ Governance
- ✓ financial efficiency
- ✓ incentives
- ✓ contribution
- ✓ transparency

1. Introduction

The concept of governance is a modern one that has gained significant importance from researchers and international institutions as a contemporary model for managing organizational affairs and improving financial performance. A governance system is considered an integrated program that protects organizations from problems and crises that could threaten them.

Corporate governance aims to restore confidence in the accounting and financial system and the resulting accounting and financial information. This information is crucial for assisting decision-makers in making sound economic decisions. It clarifies the financial position and results of various organizations and communicates them to different stakeholders and partners. The quality and accuracy of information help provide decision-makers with relevant accounting and financial data. Based on the foregoing, the central problem of this study can be summarized in the following question:

To what extent does governance improve the financial performance of banks?

This question, and the purpose of understanding the subject of the study, leads us to pose the following sub-questions:

- What are the principles and mechanisms upon which governance is based?

Based on the central problem of this study, we can formulate the following hypotheses:

- There is a statistically significant relationship between governance and the financial performance of banks.

Previous studies :

- **The Impact of Governance on Financial Performance in Algerian Commercial Banks – A Comparative Study Between a Sample of Public and Private Banks – by Amal Sekour, Mohamed Khider University – Biskra**

Governance is influenced by several internal and external factors, including the mechanisms of control within the institution, the availability of internal control mechanisms, and the importance of disclosure and transparency. Financial performance can be assessed

through several criteria, which cannot be limited to traditional standards but also include many other criteria. Financial institutions in Algeria suffer from a lack of independence from the central bank and from fragile banking systems, in addition to the high cost of risk management. Furthermore, weak coordination between public and private institutions hinders the achievement of effective governance, necessitating structural reforms to enhance transparency and oversight and improve financial performance..

- **An article entitled: The Impact of the Governance Role of the Board of Directors on the Financial Performance of Companies – An Applied Study on Some Algerian Shareholding Companies – by: A. Majili Khalisa and Dr. Rouabhi Abdel Nasser, Faculty of Economic Sciences and Management, Setif.**

The results of this study indicate that the characteristics of the board of directors do not have a significant impact on the financial performance of the companies studied. This suggests that other factors play a larger role in determining financial performance. The study also found that the size of the board of directors is associated with additional costs without a clear impact on governance. Furthermore, the study recommended strengthening the independence of oversight in family businesses, improving the efficiency of external audits, and establishing term limits for executive directors to ensure efficient and sustainable performance.

- **The Impact of Applying Governance Rules on the Financial Performance of Algerian Enterprises. Prepared by: Zahrawi Afaf and Souilah Oumaima. Journal of Economics, Finance and Business, Volume 7, Issue 2, September 2022**

This study aims to clarify the impact of applying sound governance principles on evaluating the financial performance of economic institutions. The evaluation is conducted using key financial analysis tools such as working capital, working capital requirements, and financial ratios. For the information to be effective, management rules must be established to achieve governance objectives, thus becoming a platform that guarantees fairness and transparency and ensures a rigorous review of financial performance. The study, through both theoretical analysis and a case study of a private institution, concluded that governance rules play a significant role in influencing evaluation indicators and, consequently, financial performance.

2. The Theoretical Framework of Governance

The concept of governance has gained significant importance internationally, yet a single definition has not been agreed upon by academics and those interested in its application.

2.1. Definition of Governance

- Linguistically, governance can be defined as the process of controlling and managing situations by establishing a set of controls and management constraints within institutions. (Dr. Yahiaoui Elham, Dr. Bouhadid Leila, 2014, p. 61)
- The World Bank defines it as the situation in which the economic resources of society can be optimally and efficiently utilized to achieve the highest levels of development. The United Nations Development Programme (UNDP) has concluded that governance represents the highest degree of practice of sound economic, political, and social policies for managing the affairs of society with high efficiency. (Dr. Attallah Warad, Dr. Muhammad Abdul Fattah Al-Ashmawy, p. 28)

Corporate Governance is the framework within which institutions strive to achieve their objectives through a set of necessary means and tools. The general framework of good governance must provide the framework through which the board of directors can pursue the institution's overall objectives through oversight, incentives, participation, and accountability. (Bouras Boudalia, Qaddoudou Jamila,, 2021, p. 145)

Governance aims to ensure adherence to the rules and regulations governing the company's financial performance, while simultaneously developing the various structures within the organization. (Habi Ahmed, A. Zubaidi Al-Bashir, p. 79)

This necessitates the establishment of a committee to review decisions within the organization, comprised of shareholders. Based on the preceding concepts, the following can be noted: (Jamal Al-Asali,)

- The organization is responsible for managing and monitoring all activities and workflow processes correctly.

- The company is committed to establishing the foundations and mechanisms, defining the responsibilities and powers of each party.
- The organization establishes a system that protects shareholders and their rights through governance mechanisms.
- Management is based on integrity, transparency, and accountability, and the law is enforced for everyone, accompanied by effective oversight.

2.2. Characteristics of Governance:

In its broadest sense, governance represents the process of creating a balance between achieving collective economic goals and individual objectives. Therefore, the general framework encourages the efficient and equitable use of resources. From this, some characteristics of governance can be derived, including: (Safi Ahmed, , p. 61)

- Transparency:
- . Independence:
- . Responsibility:

3. Field study:

3.1. Variables of study :

Fig 1 . Study variables

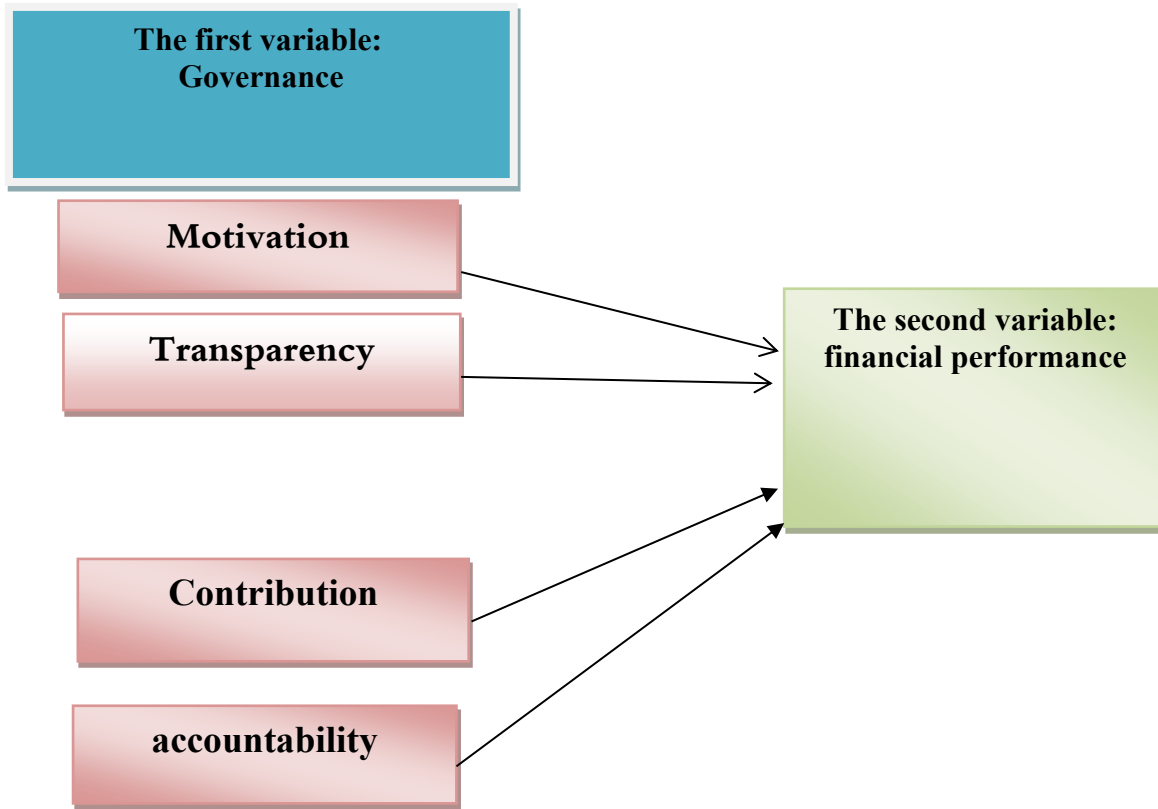


Table 1 . the number of questionnaires distributed

	Nombre	%
questionnaires distributed	200	100
questionnaires received	195	97.5
valid questionnaires	190	95

To test the correlation and influence between the independent variable (governance) and the dependent variable (financial performance), 200 questionnaires were distributed to the study population. 195 questionnaires were received, of which 190 were valid for the study (95%).

Table 2 . Descriptive analysis of the personal data of the sample members

Variable			Ratio to total %
		Total	
Sex	Male	105	55.26
	Female	85	44.73
Total		190	100%
Age	30 years 25-	60	31.57
	31-40 years	75	39.47
	41-50 years	40	21.05
	More 50 years	15	7.89
Total		190	100%
Qualification	high school	60	31.57
	academic	107	56.31
	Graduate	23	12.1
Total		190	100%
Professional Experience	Less than 05 years	55	28.94
	05-09 Years	95	50
	10-15 years	29	15.26
	More than 20 years	11	5.78
Total		190	100%

Source: Preparing researchers Depending SPSS

Based on the results presented in the previous table, males comprised 55.26% of the study sample, while females comprised 44.73%. This indicates that the banks under study tend to employ a significant percentage of women, due to the nature of their work. The ages of the sample members were predominantly between 25 and 40 years old (71%), with the 31-40 age group representing 39.47%, followed by the 25-30 age group (31.57%), then the 41-50 age group (21%), and finally those over 50 years old (7.89%). Regarding professional experience, most of the study sample had more than five years. Therefore, we can conclude that the majority of the sample members were university graduates holding bachelor's and master's degrees, exceeding 68% of the study sample, which demonstrates the high level of academic training within the sample.

3.2. Study the honesty and stability of the questionnaire:

Table 3 . the honesty and stability of the questionnaire

	variable	Alpha Cronbach
The first variable: Governance	Motivation	0.821
	Transparency	0.745
	Contribution	0.811
	accountability	0.782
The second variable: financial performance		
The second variable		0.866
All Questionnaire		0.765

Source: Preparing researchers Depending on SPSS

The table above shows that all reliability coefficients were high and positive, approaching one. They reached 0.821 for motivation, 0.745 for transparency, 0.811 for contribution, and 0.782 for accountability. For the dependent variable, the financial performance of banks, the reliability coefficient was 0.866. This reflects internal consistency, which in turn reflects the reliability of the items and the research instrument.

3.3. Descriptive statistics results:

Table 5 . Arithmetic means and standard deviations

Variables	Arithmetic means	Standard deviation
Motivation	4.1	0.701
Transparency	3.88	0.688
Contribution	3.58	0.755
accountability	2.69	0.658
The second variable: financial performance	3.1	0.761

Source: Preparing researchers Depending on SPSS

Based on the previous results in the table, the responses of the study sample were mostly at high levels, reaching 4.1 for motivation with a standard deviation of 0.701. As for the transparency

axis, the arithmetic mean reached 3.88 with a standard deviation of 0.688, and these are all high levels of response. As for the contribution axis, the arithmetic mean reached 3.58 with a standard deviation of 0.755. Finally, the responses of the study sample were at medium levels for the accountability axis with a mean of 2.69 and a standard deviation of 0.658. As for the responses of the study sample for the dependent variable, financial performance, they were at high levels with a mean of 3.1 and a standard deviation of 0.761.

3.4. correlation between the Governance and financial performance :

- **H0 :** There is not a statistically significant correlation between the Governance and financial performance
- **H1:** There is a statistically significant correlation between the Governance and financial performance.

Table 6. Correlation between the Governance and financial performance

Variables		financial performance
Governance	Correlation coefficient (Pearson)	0.793
	SIG	,000

Source: Preparing researchers on SPSS

To measure the correlation between the independent and dependent variables, and based on the previous results, the correlation coefficient between the two variables reached 0.793, and the SIG value reached 0.000. This indicates a strong correlation between the study variables, namely governance and financial performance. Therefore, we can accept hypothesis H1 and reject hypothesis H0

- H1: There is a statistically significant correlation between the Governance and financial performance

3.5. Impact of Governance and financial performance: :

- **H0 :** There is not a. Impact statistically significant correlation between the Governance and financial performance
- **H1:** There is a. Impact statistically significant correlation between the Governance and financial performance.

Table 7. Linear Regression

Variable		financial performance
Governance	R ² Ajusté	0.598
	T	6.111
	SIG	0.000

Source: Preparing researchers Depending on SPSS

Based on the previous results, the SIG coefficient reached 0.000, which indicates a strong correlation between the independent variable Governance and the dependent variable financial performance. The adjusted R² reached 0.598, meaning that 59.8% of the financial performance acquired by the banking institutions under study is due to the good application of governance principles, and the remainder is explained by other factors.

- **H1:** There is a. Impact statistically significant correlation between the Governance and financial performance.

Table 7. Linear Regression

Variable		financial performance
Motivation	R ² Ajusté	0.692
	T	5.223
	SIG	0.001
Transparency	R ² Ajusté	0.458
	T	6.521
	SIG	0.000
Contribution		0.564
		5.663
		0.000
accountability	R ² Ajusté	0.322
	T	4.659
	SIG	0.001

Source: Preparing researchers Depending on SPSS

Based on the preceding results, the SIG levels were 0.001 for motivation, 0.000 for transparency, 0.000 for contribution, and 0.001 for accountability. All these levels are below the significance level of 0.05. Therefore, a correlation can be established between the subvariates of the independent variable (governance) and the dependent variable (financial performance).

- The adjusted R² for motivation was 0.692, meaning that 69.2% of institutions' financial performance is achieved through motivation. Therefore:
- H1: There is a statistically significant correlation between motivation and financial performance.
- The adjusted R² for transparency was 0.458, meaning that 45.8% of institutions' financial performance is achieved through transparency. Therefore:

H1: There is a statistically significant correlation between transparency and financial performance.

- The adjusted R2 for Contribution reached 0.564, meaning that 56.4% of institutions' financial performance was achieved through transparency. Therefore:

H1: There is a statistically significant correlation between Contribution and financial performance.

- The adjusted R2 for Accountability reached 0.322, meaning that 32.2% of institutions' financial performance was achieved through accountability. Therefore:

H1: There is a statistically significant correlation between accountability and financial performance.

4. Conclusion:

The concept of governance has gained significant importance among academics and decision-makers at the level of economic and financial institutions, especially with the succession of numerous global financial crises, including those affecting the banking sector. The presence of numerous risks has led to an increased emphasis on governance in financial institutions, particularly banks.

Implementing governance in the banking sector requires applying its determinants, which include transparency, independence, accountability, and others. Therefore, sound and effective governance in banks has a significant and effective impact on their performance. Based on the field study conducted, which aimed to highlight the extent of governance's impact on the financial performance of banking institutions, the study concluded the following:

- There is a correlation and influence of the independent variable, governance, on the financial performance of the banking institutions under study.
- The determinants of governance—namely, transparency, incentives, accountability, and participation—have a significant impact on the financial performance of the banking institutions under study. The study concluded with the following recommendations:

- Banks should focus on establishing governance principles such as transparency, participation, and effective oversight, given their impact on improving financial performance.
- Financial and administrative disclosure channels should be strengthened, and information should be provided to stakeholders to bolster trust and enhance financial performance.
- Shareholders should be involved in decision-making, and their role should be activated.

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