

Advancing Corporate Governance Research In Banking: A Review Of Emerging Determinants Of Profitability

Mohammad Odeh Salem Almari¹, Dr. S. C. Poornima²

¹Research Scholar, University of Mysore

²Professor, ISBR Research Centre

Abstract:

This review article critically examines the evolving landscape of corporate governance in the banking sector, focusing on emerging variables that extend beyond traditional constructs such as board size, independence, and CEO duality. Drawing from a robust body of global literature and contextualized insights from emerging markets—particularly Jordan—the paper explores under-researched governance mechanisms including board gender diversity, ESG governance, risk oversight structures, ownership concentration, and digital governance practices. Grounded in agency theory, stakeholder theory, and resource dependence theory, the article argues that these new variables offer greater explanatory power in assessing bank profitability amidst increasing regulatory, technological, and environmental complexity. Empirical evidence suggests that diverse and ESG-conscious boards improve stakeholder trust and long-term financial outcomes, while risk governance frameworks enhance resilience and performance. However, the review highlights several critical gaps in current scholarship: a narrow methodological focus on cross-sectional studies, contextual bias favoring developed markets, and the neglect of behavioral and psychological governance dimensions. The article calls for a more integrative research agenda that incorporates longitudinal methods, panel data analysis, and interdisciplinary perspectives. Special attention is given to ownership structure variations in MENA banks, as well as the rising influence of digital governance in shaping performance metrics like ROA and ROE. In conclusion, the paper emphasizes that corporate governance in banking should be reframed as a dynamic, context-sensitive framework essential to navigating post-crisis regulatory environments and achieving sustainable profitability. The insights presented aim to inform scholars, policymakers, and practitioners seeking to enhance governance outcomes in the global banking landscape.

Keywords: Corporate Governance, Bank Profitability, Emerging Markets, Board Diversity and ESG, Ownership and Risk Governance

Introduction

Corporate governance plays a pivotal role in ensuring accountability, transparency, and long-term profitability in the banking sector (Tricker, 2019). Unlike non-financial firms, banks operate under greater scrutiny due to their systemic importance, regulatory burden, and public trust dependencies (Macey & O'Hara, 2003). As a result, effective governance mechanisms not only reduce agency conflicts but also safeguard depositor interests and financial system stability (Adams & Mehran, 2003; Levine, 2004). Historically, empirical literature has concentrated on conventional governance variables such as board size, independence, and CEO duality (Hermalin & Weisbach, 2003). However, in response to the limitations of these standard metrics especially post the 2008 financial crisis researchers and practitioners have expanded their scope to explore emerging governance dimensions including board gender diversity (García-Meca et al., 2015), audit committee expertise (Klein, 2002), ownership dispersion (La Porta et al., 1999), and executive incentive structures (Core et al., 1999). These

extended variables aim to capture a more holistic view of how governance translates into firm performance, particularly in complex and regulated environments like banking. In emerging markets such as Jordan, where banking systems are modernizing under international oversight from entities like the World Bank and the Basel Committee, corporate governance reforms are gradually taking root (Hassan & Halbouni, 2013). Yet, despite regulatory alignment, empirical research in these contexts often lags behind, especially in incorporating nuanced and context-sensitive governance factors. For example, little attention is paid to the impact of board tenure, ownership type (state vs. private), or CSR governance on profitability indicators like ROA and ROE. This review article aims to address this gap by systematically examining the broader and newer dimensions of corporate governance that influence bank profitability. It specifically avoids rehashing traditional variables and instead focuses on underexplored areas such as board diversity (Adams & Ferreira, 2009), ESG governance (Friede et al., 2015), and risk governance practices (Pathan, 2009). These variables not only offer theoretical richness but also practical relevance in a post-pandemic, climate-aware financial ecosystem.

The theoretical underpinnings of this review are grounded in a combination of agency theory (Jensen & Meckling, 1976), stakeholder theory (Freeman, 1984), and resource dependence theory (Pfeffer & Salancik, 1978). While agency theory emphasizes internal alignment between shareholders and management, stakeholder theory broadens the accountability framework to include regulators, customers, and society. Resource dependence theory, meanwhile, posits that governance is shaped by the need to secure strategic resources, including reputation, talent, and legitimacy.

In summary, this review sets out to synthesize and critique the emerging literature on corporate governance and bank profitability, particularly focusing on non-traditional governance variables. It also highlights theoretical gaps, methodological inconsistencies, and geographic imbalances, especially in the MENA region. The paper concludes by offering future research directions that may enrich both academic inquiry and policy design.

Theoretical Framework

Corporate governance research in the banking sector draws upon several foundational theories that explain the dynamics between governance mechanisms and financial performance. This section reviews the key theoretical frameworks underpinning the relationship between emerging corporate governance variables and bank profitability.

Agency Theory

Agency theory, proposed by Jensen and Meckling (1976), remains the cornerstone of corporate governance literature. It posits that a fundamental conflict exists between principals (shareholders) and agents (managers), where agents may pursue self-serving objectives unless checked by governance mechanisms. In the banking sector, this theory justifies the emphasis on board oversight, audit controls, and ownership structures. Empirical studies show that well-designed governance structures such as independent directors and board committees mitigate agency problems and enhance performance (Adams & Mehran, 2012; Pathan & Faff, 2013).

Stakeholder Theory

Freeman (1984) argued that corporations have responsibilities not just to shareholders but to a broader set of stakeholders including customers, employees, regulators, and the community.

In banking, where systemic risk is high, stakeholder theory supports governance mechanisms that foster transparency, ethical conduct, and long-term stability. The increasing importance of ESG practices and CSR governance aligns with this theory (Fernando & Tam, 2020; Li et al., 2022). Stakeholder-centric boards tend to pursue sustainable profitability rather than short-term returns.

Resource Dependence Theory

Pfeffer and Salancik (1978) introduced the resource dependence theory, which views the board of directors as a critical mechanism for securing essential external resources. Board diversity, professional expertise, and interlocking directorships are seen as means to access strategic knowledge, capital, and networks. In banks, the presence of directors with risk management or financial expertise is positively associated with profitability (Minton, Taillard & Williamson, 2014). Diverse boards also provide legitimacy and improve stakeholder relationships, especially in highly regulated sectors.

Institutional Theory

Institutional theory explains how governance practices are shaped by normative, cultural, and regulatory pressures. In emerging economies like Jordan, banks often adopt international corporate governance frameworks (e.g., Basel III, OECD Guidelines) due to coercive and mimetic isomorphism (DiMaggio & Powell, 1983). However, the effectiveness of these frameworks varies depending on enforcement strength and local context (La Porta et al., 1998; Judge, Douglas & Kutan, 2008). Thus, the profitability impact of governance practices is institutionally contingent.

Literature Review

Board Gender Diversity and Bank Performance

Board gender diversity has gained considerable attention as an essential dimension of good governance. Diverse boards are believed to enhance cognitive variety, ethical behavior, and strategic innovation. Terjesen, Sealy, and Singh (2009) argue that female directors contribute unique perspectives that enhance decision-making and oversight. In the banking sector, Bernile, Bhagwat, and Yonker (2018) found that gender-diverse boards lead to more stable performance and risk-adjusted returns. Similarly, Gulamhussen and Santa (2015) showed that gender diversity on bank boards in Europe positively influenced ROA and risk moderation. However, the effectiveness of board gender diversity may depend on institutional and cultural contexts. In Middle Eastern banking systems like Jordan's, Alabdullah (2016) noted that tokenism and socio-cultural resistance may hinder the actual influence of women directors. Therefore, while board diversity holds promise, its impact on bank profitability is contingent upon active participation and contextual enforcement.

Risk Governance and Profitability

Risk governance refers to the structures and processes banks use to manage and oversee risks. The importance of effective risk governance has increased post-2008, with regulatory frameworks such as Basel III reinforcing board accountability for risk (BCBS, 2015). Ellul and Yerramilli (2013) found that banks with strong risk governance structures, including risk committees and directors with risk expertise, experienced lower default probabilities and higher long-term ROA.

Further, Aebi, Sabato, and Schmid (2012) demonstrated that banks with CROs (Chief Risk Officers) reporting directly to the board performed better during crises. Risk governance is thus seen not just as a compliance mechanism but as a strategic determinant of performance.

ESG Governance and Long-Term Financial Outcomes

Environmental, Social, and Governance (ESG) considerations have become vital in assessing bank credibility and long-term sustainability. Banks that incorporate ESG governance through sustainability committees, climate risk disclosures, and ethical codes are increasingly rewarded by investors and stakeholders (Friede, Busch, & Bassen, 2015). In emerging markets, empirical evidence shows ESG compliance reduces reputational risk and aligns financial goals with societal expectations (Fernando & Tam, 2020).

Scholtens (2009) noted that socially responsible banks in Europe had better performance metrics and stakeholder trust. While ESG integration is still evolving in MENA regions, studies such as by Alareeni and Hamdan (2020) suggest positive associations between ESG disclosures and profitability in GCC banks.

Ownership Structure and Bank Profitability

Ownership structure remains a crucial aspect of corporate governance, particularly in banking sectors where concentration of ownership may significantly influence strategic control and performance. In emerging markets like Jordan, ownership by families, the state, or institutional investors affects not only board composition but also the agency dynamics within firms (Claessens & Yurtoglu, 2013).

La Porta et al. (1999) argue that concentrated ownership can either mitigate agency problems through active monitoring or exacerbate them due to expropriation of minority shareholders. Empirical studies have shown mixed results. For instance, Cornett et al. (2007) found that banks with higher insider ownership often experience better alignment of interests and profitability. In contrast, Caprio et al. (2007) reported that politically connected or family-owned banks may underperform due to governance inefficiencies and rent-seeking behavior.

In the MENA context, Al-Hares, Ntim, and Al-Hares (2012) showed that institutional ownership positively influenced performance, while government ownership tended to reduce market efficiency and managerial autonomy. Therefore, the type and concentration of ownership play a critical role in shaping the effectiveness of governance practices and financial outcomes.

Research Gaps and Future Research Directions

Despite the considerable academic interest in the relationship between corporate governance and bank profitability, several important gaps persist particularly in emerging markets like Jordan. While existing literature has focused extensively on traditional board characteristics (e.g., board size, independence, CEO duality), recent studies emphasize the need to incorporate non-traditional, contextual, and dynamic variables that are more aligned with contemporary banking realities.

Narrow Variable Scope

Most studies concentrate on a limited set of governance variables such as board size or audit committee structure, ignoring broader dimensions like digital governance, cyber risk

oversight, or environmental, social, and governance (ESG) frameworks (Fernando et al., 2022). As banks undergo digital transformation and respond to sustainability regulations, governance studies must expand to include these evolving variables that impact profitability, risk resilience, and stakeholder trust.

Methodological Limitations

A significant proportion of studies rely on cross-sectional designs and traditional OLS regressions, limiting causal inferences. Few have used longitudinal or panel data, and even fewer apply structural equation modeling (SEM) or machine learning to capture complex governance-performance relationships (Chaudhry et al., 2020).

Contextual Bias Toward Developed Economies

Much of the influential literature on corporate governance originates from developed economies (e.g., USA, UK, Germany). These contexts differ substantially from emerging markets like Jordan in terms of regulatory frameworks, political connections, ownership patterns, and legal enforcement (Abdallah & Ismail, 2017). Consequently, findings from developed countries may not generalize well to the MENA region.

Underexplored Behavioral and Psychological Aspects

Corporate governance literature often overlooks behavioral governance the study of boardroom dynamics, decision-making biases, and managerial cognition (Westphal & Zajac, 2013). Especially in tightly controlled banks, where founder-CEOs dominate, behavioral elements could explain deviations from expected financial performance.

Future Research Agenda

- Develop integrated governance-performance models incorporating ESG, digital, and behavioral variables.
- Conduct comparative studies across MENA countries to identify regional patterns.
- Utilize panel data techniques, SEM, or machine learning for greater analytical precision.
- Explore moderating effects of macroeconomic variables like inflation, interest rates, or financial regulation on the governance-profitability link.

Conclusion

Corporate governance remains a cornerstone of sustainable profitability in the banking sector. While early research emphasized traditional variables such as board size, independence, CEO duality, and audit mechanisms, the evolving financial landscape demands a broader, more contextual understanding. This review article synthesizes recent developments and introduces emerging governance determinants such as board diversity, ESG governance, risk oversight, ownership concentration, and digital governance as critical levers influencing bank performance.

In particular, banks in emerging markets like Jordan operate in complex institutional and regulatory environments where governance mechanisms play a pivotal role not only in aligning management with shareholder interests but also in responding to technological, environmental, and ethical challenges. The findings indicate that newer constructs such as ESG-oriented boards and cyber governance frameworks are gaining prominence in the

corporate governance-performance dialogue. Moreover, ownership structures, gender diversity, and board expertise have nuanced effects on profitability that vary across institutional contexts.

Despite these advances, the literature reveals several research gaps. Methodological limitations, underrepresentation of behavioral and cultural variables, and the dominance of studies from developed economies underscore the need for a more holistic and context-sensitive research agenda. Future studies must adopt interdisciplinary approaches, leverage advanced statistical models, and examine cross-country patterns to fully understand the dynamic and multifaceted nature of governance in banking.

In conclusion, the review urges scholars, regulators, and banking leaders to reconceptualize corporate governance not as a static compliance tool, but as a dynamic framework that shapes strategic outcomes and stakeholder value in an increasingly volatile financial ecosystem.

References:

1. Aguilera, R. V., & Cuervo-Cazurra, A. (2009). Codes of good governance. *Corporate Governance: An International Review*, 17(3), 376–387. <https://doi.org/10.1111/j.1467-8683.2009.00737.x>
2. Adams, R. B., & Mehran, H. (2012). Bank board structure and performance: Evidence for large bank holding companies. *Journal of Financial Intermediation*, 21(2), 243–267. <https://doi.org/10.1016/j.jfi.2011.09.002>
3. Alabdullah, T. T. Y. (2018). The role of board of directors in firm performance: Evidence from the UK. *Corporate Board: Role, Duties & Composition*, 14(1), 1–5. <https://doi.org/10.22495/cbv14i1art1>
4. Andres, P. D., & Vallelado, E. (2008). Corporate governance in banking: The role of the board of directors. *Journal of Banking & Finance*, 32(12), 2570–2580. <https://doi.org/10.1016/j.jbankfin.2008.05.008>
5. Bhagat, S., & Bolton, B. (2008). Corporate governance and firm performance. *Journal of Corporate Finance*, 14(3), 257–273. <https://doi.org/10.1016/j.jcorpfin.2008.03.006>
6. Ciftci, I., Tatoglu, E., Wood, G., Demirbag, M., & Zaim, S. (2019). Corporate governance and firm performance in emerging markets: Evidence from Turkey. *International Business Review*, 28(1), 90–103. <https://doi.org/10.1016/j.ibusrev.2018.08.004>
7. Claessens, S., & Yurtoglu, B. B. (2013). Corporate governance in emerging markets: A survey. *Emerging Markets Review*, 15, 1–33. <https://doi.org/10.1016/j.ememar.2012.03.002>
8. Kirkpatrick, G. (2009). The corporate governance lessons from the financial crisis. *OECD Journal: Financial Market Trends*, 2009(1), 61–87. <https://doi.org/10.1787/fmt-v2009-art3-en>
9. La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (2000). Investor protection and corporate governance. *Journal of Financial Economics*, 58(1-2), 3–27. [https://doi.org/10.1016/S0304-405X\(00\)00065-9](https://doi.org/10.1016/S0304-405X(00)00065-9)
10. Naciti, V. (2019). Corporate governance and sustainability: A review of the literature. *Corporate Governance: The International Journal of Business in Society*, 19(1), 44–58. <https://doi.org/10.1108/CG-01-2018-0030>
11. Chaudhry, M. A., Qureshi, M. A., & Aslam, M. (2020). Corporate governance and performance of banks: A cross-country analysis. *International Journal of Finance & Economics*, 25(3), 385–400. <https://doi.org/10.1002/ijfe.1792>

12. Claessens, S., & Yurtoglu, B. B. (2013). Corporate governance in emerging markets: A survey. *Emerging Markets Review*, 15, 1–33. <https://doi.org/10.1016/j.ememar.2012.03.002>
13. DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48(2), 147–160. <https://doi.org/10.2307/2095101>
14. Judge, W. Q., Douglas, T. J., & Kutan, A. M. (2008). Institutional antecedents of corporate governance legitimacy. *Journal of Management*, 34(4), 765–785. <https://doi.org/10.1177/0149206308318615>
15. La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1998). Law and finance. *Journal of Political Economy*, 106(6), 1113–1155. <https://doi.org/10.1086/250042>
16. Tricker, B. (2019). *Corporate governance: Principles, policies, and practices* (4th ed.). Oxford University Press.