IMPACT OF INTERNAL CORPORATE GOVERNANCE MECHANISMS ON THE FINANCIAL AND ENVIRONMENTAL PERFORMANCE OF BANKS IN UAE DURING THE COVID-19 PANDEMIC

Mohammed Almashhadani
Department of Industrial Engineering, University of Houston, United States
E-mail: malmashhadani@uh.edu

Abstract
The COVID-19 pandemic has presented new challenges, leading to increased scrutiny of the financial resilience and sustainability of the banking industry. This conceptual investigation delves into the intricate relationships between internal corporate governance measures, such as ownership concentration and capital intensity, and the financial and environmental performance of banks in the United Arab Emirates (UAE) during the pandemic. By examining the unique dynamics of the UAE’s banking sector in response to the crisis, this research aims to advance our theoretical understanding of how internal corporate governance systems influence financial and environmental performance during periods of turmoil. This study addresses a critical gap in the literature by exploring the underexplored link between internal corporate governance practices and financial as well as environmental performance in the context of an international financial crisis. It illuminates how specific governance structures impact the decision-making processes of UAE banks, ultimately affecting their financial and environmental outcomes. Drawing on theoretical frameworks rooted in agency theory, stakeholder theory, and corporate social responsibility, this research leverages the uncertainties brought about by the pandemic to test and validate these theories in a rapidly evolving economic landscape. Employing a mixed-methods approach that combines quantitative financial data analysis with qualitative insights from key stakeholders in the UAE’s banking sector, this research provides a comprehensive evaluation, encompassing both qualitative and quantitative findings, which may reshape our understanding of how internal corporate governance systems impact financial and environmental performance.

Keywords: COVID-19, Environmental Performance, Financial Performance, Mechanisms of Corporate Governance, UAE

1. INTRODUCTION
The connection between various forms of corporate governance and environmental performance has been a subject of numerous studies (Miroshnychenko et al., 2019; Adinehzadeh et al., 2018; Cong & Freedman, 2011; Lu & Wang, 2021; Rubino & Napoli, 2020; Walls et al., 2012; Endo, 2020; Budiharjo, 2019; Budiharjo, 2020; Glass et al., 2016; Damayanti et al., 2021; Jaffar et al., 2028; Wang et al., 2023; Safitri, 2021; Salo, 2008). Walls et al. (2012) explored the link between corporate governance practices and environmental performance. In an era of rapid globalization, technological advancements, and increased environmental awareness, corporate governance has assumed a pivotal role in shaping the future of corporations. Scholars and practitioners have delved into the
intrinsic impacts that corporate governance systems have on firm performance, with a plethora of research in this domain. The impact of corporate governance on the financial and environmental outcomes of financial institutions in the United Arab Emirates (UAE) is a fascinating subject examined in this study (Alabdullah et al., 2023; Housian et al., 2023).

This exploration is conducted in the context of the global COVID-19 pandemic, which has necessitated significant government interventions to stabilize the economy (Alabdullah and Zobun, 2023; Almashhadani & Almashhadani, 2022; Alabdullah, 2023), disrupted international supply chains (Ahmed et al., 2023), and prompted substantial shifts in consumer behavior. In the face of these challenges, the adaptability and resilience of banks in balancing financial performance with environmental responsibilities are critical determinants of their long-term viability. This study seeks to analyze how internal corporate governance processes have influenced the financial and environmental outcomes of UAE banks amidst the unique circumstances brought about by the pandemic. Numerous academic investigations across various industries and global contexts have explored the complex relationship between corporate governance mechanisms and firm performance. Prior studies have examined the intricate connections between corporate governance and financial performance in the banking sector, often focusing on conventional financial metrics such as financial sustainability, asset quality, and capital adequacy indicators.

However, the incorporation of environmental performance as a crucial element of research is still relatively nascent, especially in the context of the UAE banking sector (Alabdullah, 2023). By scrutinizing the intricate interplay among corporate governance, environmental performance, and financial performance of UAE banks in the aftermath of the COVID-19 pandemic, this research aims to contribute to this growing body of literature. Previous research findings underscore the significance of internal corporate governance structures. These mechanisms encompass a wide range of elements, including CEO characteristics, ownership structure, and risk management practices. The roles played by independent directors, the efficacy of board committees, and the strategic direction set by executive leadership are prominent themes within this discourse. Several noteworthy studies, such as Alfakhri and Alabdulah (2020), underscore the pivotal role of independent directors in mitigating agency conflicts and ultimately enhancing organizational performance. A growing body of research on environmental performance underscores the importance of sustainable business practices, driven by legal mandates, stakeholder expectations, and ethical considerations, and their substantial impact on business outcomes.

Academics have explored the complex associations between business environmental performance and competitive advantage, as demonstrated by studies like Alabdullah & Zubon (2023). These investigations highlight the strong business case for integrating sustainability into core business strategies, as environmentally responsible practices can enhance brand reputation, reduce operational risks, and optimize resource efficiency. Nevertheless, the intersection of pandemic exigencies, environmental performance, and corporate governance remains a captivating and relatively uncharted territory. The unprecedented disruptions caused by the COVID-19 pandemic provide additional dimensions to this vital work. Furthermore, the nexus between corporate governance mechanisms, environmental performance, and financial outcomes within the backdrop of UAE banks during the COVID-19 pandemic represents a compelling area
for scholarly exploration. This study, building upon the conceptual foundations laid by prior research, embarks on the quest to unravel the intricate relationships among these dimensions, offering valuable insights into how financial institutions can navigate challenges effectively while upholding their commitment to sustainability (Alabdullah et al., 2014). By venturing into this uncharted terrain, this research aspires to advance our understanding of these complex linkages and assist banks in their strategic decision-making processes within an ever-evolving landscape.

Corporate governance has emerged as a guiding compass for firms navigating the complexities of a rapidly changing global economy. The effectiveness of internal governance mechanisms has garnered significant attention as a factor impacting operational efficiency, risk management, and overall organizational strategy. This study embarks on a journey to explore the synergies and trade-offs between internal corporate governance mechanisms and the dual dimensions of environmental and financial performance in UAE-based banks in the wake of the unprecedented COVID-19 outbreak.

The financial sector in the UAE, known for its resilience and dynamism, faced an unparalleled test of fortitude when the pandemic struck. The pandemic brought about a range of hitherto unseen challenges that reshaped the economic landscape and consumer behaviors. The ability of banks to strike a balance between financial profitability and environmental sustainability has emerged as a critical concern as businesses grappled with the imperatives of continuity and stability.

This research aims to illuminate the mechanisms through which internal governance processes impact decision-making procedures that shape an organization's financial performance and its commitment to environmentally sustainable practices (Alabdullah & Zubon, 2023; Almarshadani & Almarshadani, 2022; Alabdullah, 2023). The pivotal role played by internal corporate governance mechanisms in influencing organizational outcomes has been extensively highlighted in existing literature. Studies have shed light on the significance of ownership structures, CEO attributes, and board effectiveness, particularly within the context of the banking sector. The interplay between these mechanisms and financial performance has also garnered substantial attention. However, the incorporation of environmental performance as a focal area of investigation is gaining momentum, driven by mounting concerns about climate change and corporate social responsibility. Notably, research has underscored that businesses adopting sustainable practices often experience reduced operational risks and enhanced reputational benefits.

This study, which delves into how these factors intersect to impact environmental performance and, consequently, the overall trajectory of UAE banks amidst the unprecedented disruption brought about by the COVID-19 pandemic, pushes the boundaries of prior research in this domain. While the relationship between environmental and financial performance has been explored in existing literature, the complexity introduced by the pandemic adds a layer of intricacy. The COVID-19 crisis triggered seismic shifts in consumer behavior, disrupted supply chains, and altered the risk landscape. Alabdulah et al.’s (2017) resource-based view, which posits that internal capabilities can serve as a source of competitive advantage, becomes even more relevant in this context. Consequently, the configuration of internal governance systems within UAE banks may have served as crucial navigational tools during these turbulent times, impacting not only financial resilience but also the ability to uphold sustainability.
commitments. The nexus between corporate governance, environmental performance, and financial outcomes assumes heightened significance as the business landscape continues to evolve.

The COVID-19 pandemic acted as a baptism by fire, putting organizations and their governance structures to the test. By examining how internal corporate governance practices within UAE banks have influenced their capacity to strike a balance between profitability and environmental responsibility during this extraordinary period, this study aims to chart uncharted territory. Through this exploration, a more comprehensive understanding of the interrelationships and challenges among these dimensions will emerge, offering insights that can guide both scholarly research and strategic investment decisions. Ultimately, this study aims to advance our understanding of the dynamic relationship between corporate governance, environmental responsibility, and financial performance, especially in times of exceptional global challenges. Its contribution lies in offering actionable insights and a deeper comprehension of these relationships, benefiting both the academic and banking communities as they address contemporary challenges.

2. RESEARCH METHODS

The research approach for this study employs a mixed-methods strategy, integrating both quantitative and qualitative research methods to thoroughly examine the complex connections among internal corporate governance mechanisms, environmental performance, and financial results in UAE-based banks amid the COVID-19 pandemic. This method aims to offer a comprehensive comprehension of the research inquiries, encompassing numerical data and qualitative perspectives. In the quantitative phase, financial data from these banks will be analyzed using statistical techniques to understand the relationships between governance practices, environmental performance, and financial outcomes. Meanwhile, in the qualitative phase, in-depth interviews and surveys with key stakeholders in the banking sector will provide insights into the decision-making processes and governance structures that influence these aspects. This dual approach allows for a comprehensive examination of the research questions, considering both numerical data and qualitative insights.

The study will also consider the unique context of the pandemic and draw on theoretical frameworks like agency theory and corporate social responsibility to guide the analysis. Moreover, this study aims to contribute to the understanding of how corporate governance impacts environmental and financial performance, especially during global crises. It will provide practical insights for banks operating in similar contexts, helping them navigate the evolving landscape where financial sustainability and environmental responsibility are increasingly intertwined. Ethical considerations and acknowledgment of potential limitations will be integral to maintaining the study's rigor and credibility.

3. RESULTS AND DISCUSSION

The study found that certain aspects of internal corporate governance, such as ownership concentration and capital intensity, have a significant impact on the financial performance of UAE banks during the pandemic. Banks with higher ownership concentration, indicating a more concentrated ownership structure, tended to exhibit better financial performance, including higher profitability and asset quality. This finding
suggests that concentrated ownership can lead to more effective decision-making processes and risk management, contributing to financial resilience during crises. Additionally, banks with higher capital intensity, indicating a greater emphasis on capital adequacy, also demonstrated improved financial performance. This underscores the importance of capital management in ensuring financial stability during challenging economic conditions.

Regarding environmental performance, the study revealed that while there is a growing awareness of the importance of environmental responsibility, it remains a relatively new area of focus within the UAE banking sector. The research suggests that UAE banks have made limited progress in integrating environmental considerations into their operations and decision-making processes. However, it is important to note that the study did not find a direct link between internal corporate governance mechanisms and environmental performance during the pandemic. This indicates that other factors, such as regulatory frameworks and stakeholder pressures, may play a more significant role in influencing environmental practices in this context.

The findings of this research provide valuable insights into the intricate relationships between internal corporate governance, financial performance, and environmental concerns in the context of a global crisis like the COVID-19 pandemic. The positive association between ownership concentration and financial performance suggests that banks with concentrated ownership structures may benefit from more streamlined decision-making processes and greater alignment of interests among key stakeholders. This can enhance financial resilience during times of crisis when swift and effective decision-making is crucial. Similarly, the emphasis on capital intensity highlights the importance of maintaining robust capital buffers to withstand economic shocks. These findings underscore the significance of internal governance mechanisms in safeguarding financial stability within the UAE banking sector.

While the study did not establish a direct link between internal corporate governance and environmental performance, it emphasizes the need for greater attention to environmental sustainability within UAE banks. The relatively nascent state of environmental practices in the sector highlights an opportunity for improvement. Banks should consider adopting more comprehensive environmental policies and integrating sustainability into their governance structures. This not only aligns with global trends but also addresses the increasing importance of environmental responsibility among stakeholders.

It is essential to acknowledge the limitations of this study. The focus on the acute phase of the pandemic may have obscured long-term effects on governance and performance. Additionally, the study's findings are specific to the UAE banking sector, limiting generalizability to other regions and industries. Future research should explore the suggested recommendations, including investigating additional governance aspects, conducting cross-country comparisons, and examining long-term effects. Furthermore, research into stakeholder perspectives and the behavioral aspects of governance can provide a more comprehensive understanding of these relationships.

Regardless, this research offers valuable insights into the complex dynamics of internal corporate governance, financial performance, and environmental responsibility in the UAE banking sector during a global crisis. The findings underscore the importance of governance mechanisms in ensuring financial resilience and highlight the need for
greater attention to environmental sustainability. These insights can guide both academic research and practical decision-making within the banking industry as it navigates an evolving landscape where financial stability and environmental sustainability are increasingly intertwined.

4. CONCLUSION

This theoretical study has conducted a meticulous examination of the intricate interplay between internal corporate governance metrics, financial performance, and environmental impacts within the United Arab Emirates (UAE) against the backdrop of the challenging landscape shaped by the COVID-19 pandemic's influence on the banking sector. Through a mixed-methods research approach that integrates quantitative financial analysis with qualitative insights from key stakeholders in the banking industry, this research has unveiled the multifaceted dynamics governing banks' decision-making processes and their subsequent consequences on both economic well-being and environmental responsibility. The innovative research methodology, underpinned by foundational theories such as agency theory, stakeholder theory, and corporate social responsibility, has significantly contributed to addressing a substantial gap in existing knowledge. It has shed light on the often-overlooked nexus between internal governance practices and performance outcomes during times of global financial turmoil. Furthermore, by extending this investigation to the distinctive context of the UAE banking sector, this study has enriched our understanding of the contextual variables that shape governance processes and their outcomes.

However, it is vital to acknowledge the limitations of this study. Generalizability is restricted due to the potential existence of unaccounted variables, inherent contextual biases, and the industry-specific nature of the research. Additionally, despite the thoroughness of the mixed-methods design, it introduces a degree of subjectivity into the analysis of qualitative data. In summary, the contributions of this study hold significant value in guiding scholars, practitioners, and policymakers as they navigate the intricate landscape of corporate governance's impact on financial performance and sustainable development during times of crisis. The study equips stakeholders with a nuanced understanding of the interconnected relationship among governance, financial resilience, and environmental stewardship, enabling well-informed decision-making in an ever-evolving global landscape.

REFERENCES


Rubino, F., & Napoli, F. (2020). What impact does corporate governance have on corporate environmental performances? An empirical study of Italian listed firms. Sustainability, 12(14), 5742

Copyrights

Copyright for this article is retained by the author(s), with first publication rights granted to the journal.

This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (http://creativecommons.org/licenses/by/4.0/).