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Article

The Impact of Corporate Governance and Political Connectedness on the Financial Performance of Lebanese Banks during the Financial Crisis of 2019–2021

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Abstract: The Lebanese banking sector has become risky due to political and economic crises. At such times, corporate governance mechanisms ensure objectivity of assessment and rationality in decision making. We examine the impact of internal corporate governance mechanisms on the performance of Lebanese banks, with political involvement in the administration and ownership of the banks. We used linear regression on a sample of 194 bank-year observations from 2016 to 2021. The presence of independent members on boards of directors, and ownership concentration due to family ownership, had positive effects on bank return on assets, return on equity, liquidity levels, and loans issued. Efficient control, along with the presence of audit, and compliance committees reduced risk by increasing capital adequacy and reducing non-performing loans. Both administrative political connections and ownership political connections increased return on assets, increased return on equity, increased liquidity levels, and increased loans to deposits, while increasing non-performing loans. Agency conflicts suggest that granting loans due to political pressure increased non-performing loans.

Keywords: corporate governance; political intervention; bank performance; agency conflicts



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1. Introduction

Despite the financial distress and instability of the international financial crisis of 2007, followed by political instability in the Middle East and North Africa (MENA) region, such as during the Arab Spring, by December 2010, Lebanese banks were characterized by a high level of financial stability, and superior performance. Specifically, Lebanese banks had the highest level of liquidity in the MENA region (El-Chaarani 2019). Solid balance sheet structure and high growth of banks (El-Chaarani and El-Abaid 2019), along with banking secrecy and banking regulations enforced by the Lebanese Central Bank, bolstered the confidence of international depositors and investors in Lebanon as a safe repository for funds.

The trajectory of increasingly positive bank performance reversed in August 2019. This was partly due to COVID-19 lockdowns restricting business activity. Businesses defaulted on loans, while postponing capital improvements, thereby reducing borrowing. Investors fled to the safety of foreign securities and government debt (Priem 2021; El-Chaarani et al. 2022a). In March 2020, the Lebanese government announced its first default by declaring its inability to service a USD 1.2 billion debt payment. To preserve liquidity, Lebanese banks began restricting cash withdrawals in the Lebanese lira, while prohibiting withdrawals in the US dollar. The International Monetary Fund (IMF) and foreign donors refused to finance new public debt. The Corruption Perception Index classified Lebanon in the red zone (highly corrupted country). Standard and Poor's and Fitch and Moody's gave Lebanon a CCC rating. Standard and Poor's also classified many Lebanese banks

in selective default status due to their underperformance, high credit risk, and excessive liquidity risk (El-Chaarani et al. 2022a).

During liquidity crises, it is essential that bank management display impartiality in loan assessment, seeking out alternative sources of revenue, as revenue sources are lost due to economic conditions. Banks should prevent deposit drains, while implementing measures to reduce risk. In essence, creative decision making and rationality in loan assessment are needed. Effective corporate governance can assist in achieving these outcomes. Independent directors, along with an efficient audit committee, an effective risk management committee, and an effective compliance committee, can ensure objectivity in the assessment of management. Such assessment may lead to the hiring of individuals committed to creative decision making and rationality in loan assessment which, in turn, increase bank profitability and liquidity, while reducing risk. Multiple studies have provided support for this thesis. Lloyd (2009) and Kirkpatrick (2009) observed that the international financial crisis of 2007 was the result of failed corporate governance in the US banking sector. Hopt (2013) revealed the importance of corporate governance in protecting the interests of shareholders and depositors during a crisis.

There is a paucity of research on the effect of corporate governance mechanisms on the performance of Lebanese banks during the financial crisis. The only other contemporary study (El-Chaarani et al. 2022b) focused on the COVID-19 lockdown period, with a sample that includes banks in other MENA countries, so it does not address the Lebanese crisis directly. A search on corporate governance in Lebanese banks yielded a single study, that of Kchouri (2016), which used 18 corporate governance attributes to evaluate the usage of corporate governance in Lebanese banks from 2011–2015. Results were inconclusive, as the corporate governance system had weak legal protection and lack of transparency. Kchouri (2016) concluded that there was no empirical evidence that corporate governance influenced bank performance among Lebanese banks. The first objective of this study is to close the research gap of the lack of empirical findings of the impact of corporate governance mechanisms on bank performance. In addition, we capture corporate governance effects during the financial crisis—a hitherto unexplored period.

We address a second research gap, i.e., the influence of politically connected individuals on bank performance. The current knowledge of such connections is confined to anecdotes, with lack of empirical evidence of the impact of such relationships on bank performance. Attalah and Tamo (2021) provide anecdotal evidence of connections between Lebanese politicians and banks. In one case, 54% of a bank was owned by two members of a family, while a third member, who was a former finance minister, became Board Chair. A high net worth politician was offered a lucrative interest rate in excess of 30% on deposits. Two former government ministers have become majority bank shareholders, while three others were independent directors on the boards of banks. We measure political connectedness in two dimensions. The first one is administrative connections within banks with politicians, while the second one is the ownership of banks by politicians. We conjecture that bank profitability, bank liquidity, and bank risk may be affected by such political connections. Both positive and negative effects may occur. Connections with politicians may increase bank profitability, due to the ability of politicians to direct funds to the banks in which they have ownership. Conversely, banks may be constrained to offer loans to less creditworthy applicants who are connected to politicians.

We advance knowledge of bank performance during an economic crisis, by measuring bank performance comprehensively, in terms of profitability, liquidity, and risk. This is significant, as increased profitability can mask liquidity problems, with increases in risk. During crises, loan defaults and deposit drains occur. Loan defaults increase risk, while deposit drains reduce liquidity.

2. Literature Review

2.1. Hypotheses and Conceptual Model Development

Lebanese banks may display elements of agency conflicts, entrenchment theory, and failed stakeholder theory. The demarcation between control and ownership results in a high level of conflict between the owner (principal) and manager (agent), due to divergent priorities (Berle and Means 1932). Jensen and Meckling (1976) posited that managers are willing to embark on a growth strategy by increasing risk, but shareholders wish to minimize risk to protect their stock from declining in value. In the case of the banking sector, agency problems exist between shareholders and bank managers (Girotti and Salvadè 2021). Girotti and Salvadè (2021) proxied agency conflicts in banks by giving insiders preferences in obtaining loans. Alternatively, managers of banks may take risky decisions to increase their private benefits. Entrenchment theory sets forth that managers use information asymmetry to make investment decisions that make themselves irreplaceable (Hodgson 2005). During the Lebanese economic crisis, managers exhibited information asymmetry as they are privileged to see loan defaults from longstanding customers and deposit drains from depositors who are dissatisfied with haircut savings rates, both of which reduce bank liquidity. They see the decline in account balances of business customers during a recession. They know of the high interest payouts on deposits of politically connected persons in conjunction with limited interest income from public bond investments. Thus, managers have exclusive access to the details of increasing bank risk and drain on liquidity. According to entrenchment theory, managers may act defensively, by offering incentives to existing depositors to maintain accounts with the bank, or altering loan terms to prevent defaults on loans. They may forego the higher returns from seeking alternative sources of income through loan commitments, investments in derivatives, or foreign securities. Stakeholder theory balances the needs of all of a firm's stakeholders. Bank stakeholders include depositors, borrowers, managers, employees, politicians, and regulators. During crises, it is challenging to balance the needs of all stakeholders. Conflicts arise between depositors who want high savings rates, borrowers who want easier loan terms, managers and employees who desire job security, and regulators who evaluate banks in terms of profitability. Recent research papers (Manning et al. 2019; Lăzăroiu et al. 2020; May et al. 2021) revealed that to enhance the performance of institutions, managers should integrate corporate governance systems that generate unambiguous, meaningful, and responsible stakeholder interactions.

El-Chaarani et al. (2022a), revealed that an efficient corporate governance system improved the performance of the Lebanese banking sector. Independent members, elimination of CEO duality, and concentration of ownership structure had a positive impact on the financial performance of Lebanese banks. However, El-Kassar et al. (2018) revealed that the boards of directors of Lebanese banks do not follow international standards regarding disclosure. In addition, they did not observe any correlation between actions by the board of directors and bank performance. Thus, the importance of this research is to shed light on the role of corporate governance mechanisms on the performance of the banking sector during a very critical period characterized by the existence of the Lebanese economic crisis and COVID-19. A growing body of research studies has addressed the financial impact of political connections with banks (Braham et al. 2020; Carretta et al. 2012; Dinc 2005; Igan et al. 2012). They revealed that politicians use their connections with banks to achieve their financial and political objectives when there is a weak level of legal protection. For example, politicians can encourage state-owned banks to be engaged in a risky lending strategy to deliver evidence that their presence is associated with a high return level during the election period (Dinc 2005). They can use their presence on the board of directors to develop political power (Carretta et al. 2012) and own self-interest (Braham et al. 2020). Therefore, we include two measures of political connectedness. They are (1) administrative political connectedness, or staff with administrative political connections, along with (2) ownership political connectedness, or ownership of banks by politicians.

2.2. Hypotheses Pertaining to Board Characteristics

The board of directors is the top governing group of the bank that nominates top management. The board of directors is the sole body with the power to terminate the employment of the CEO and the rest of the top management team.

Independent Members

Fama and Jensen (1983) maintain that independent directors benefit firms by providing monitoring of management, as they are upholders of the shareholders' interests. Independent directors conduct rigorous assessments of management to maintain their reputations of being rational and impartial. Independent directors have been found to disclose corporate social responsibility, increasing goodwill, and in turn, firm performance (Tran 2021). They may dismiss underperforming CEOs, whose turnover increases with the presence of outside directors (Weisbach 1988). It follows that the existence of independents has a positive impact on bank efficiency. Banks are leveraged entities, who derive revenue from illiquid long-term assets, such as mortgages, to be funded by liquid short-term deposits. Evidence from prior studies has confirmed the positive impact of the presence of independent members on the performance of the banking sector (El-Chaarani et al. 2022b; Fernandes and Fich 2013). During financial crises, defaults on long-term assets proliferate, along with drains on short-term deposits, so managers have to offer high interest rates to retain depositors. Revenue declines, while expenses increase. Independents may be able to suggest novel solutions to these issues, and reward managers, who develop their own alternative revenue streams. Thus, independent directors can increase revenue, and in turn, net income. Increases in net income result in higher return on assets, higher return on equity, and greater liquidity. To the extent that independent directors control management's proclivity to grant loans to less creditworthy applicants, to boost loan interest income, independent directors may reduce bank risk by reducing the number of non-performing loans.

Hypothesis 1 (H1). *Independent directors may increase bank return on assets, increase return on equity, and improve the liquidity level, while reducing risk through the reduction in non-performing loans of Lebanese banks.*

2.3. Ownership Structure

If the ownership of a bank is largely separated from management, and owned by a big number of shareholders, the risk of entrenchment and expropriation is very high. Practically, ownership structure can be analyzed based on the level of ownership concentration and the identity of its owner.

2.3.1. Level of Ownership Concentration

Managers may choose investments with high risk, which promise high returns, as they are evaluated on the basis of achieving certain return benchmarks. Such action creates agency costs, with shareholders who fear loss of capital from these risky investments. If large shareholders dominate bank ownership, they may take action by giving negative evaluations of management, thereby becoming controllers of agency costs. Soana et al. (2021) demonstrated that banks with concentrated ownership of large shareholders have high profitability in the short-term, and reduced risk in the long-term. El-Chaarani (2014) found a positive association between the level of ownership concentration and financial profitability of the largest 20 banks in Lebanon, during the 2006–2010 period, preceding this study. It follows that the domination of large shareholders can result in higher return on assets, or return on equity, with reduction in risk, in the form of reducing the number of non-performing loans.

Hypothesis 2 (H2). *The presence of a high level of ownership concentration may increase return on assets and increase return on equity, while reducing the number of non-performing loans.*

2.3.2. Type of Ownership

The second factor related to ownership structure is the nature of the owner. Banks with different types of owners, and the same degree of ownership concentration, may perform differently from one another. Tekatel and Nurebo (2019) found that in Ethiopia, state-owned banks had lower return on assets and net interest margin than private banks. As Lebanon has weak legal protections that prevent depositors from obtaining redress due to loss of funds from managerial mismanagement, government-owned banks are likely to have poor performance.

Family ownership may benefit bank performance. In Lebanon, family members seek to protect their inheritance from currency devaluations and bank liquidity crises. In the context of the crisis period, the conservative behavior of family members toward risk can protect the bank from financial distress (Ong and Gan 2013). They may deter management from investing in negative NPV projects, discourage them from lending to risky borrowers, or paying excessively high interest rates to retain existing depositors. The existence of family members is negatively associated with agency costs, as family members are usually supportive of rewarding dedicated and committed managers. As preservation of capital is the goal of family members, family ownership may be expected to reduce expenses, boost revenue, and increase cash flows. Therefore, family ownership may increase return on assets and increase return on equity, both of which depend on increased revenue. The reduction in risky loans may reduce the size of the loan portfolio.

Hypothesis 3 (H3). *The presence of high family ownership concentration may increase return on assets, increase return on equity, improve liquidity levels, and contract the loan portfolio of risky loans.*

2.4. Internal Governance Tools

2.4.1. Internal Audit

The internal audit provides independent assurance for banks on the performance of the internal control system, risk management strategy, and governance mechanisms. The internal audit committee should have a high level of independence. Thus, internal audit results should be reported to the board of directors without any filtering from executive managers. To be efficient, the internal audit committee must have unconditional access to any physical properties, management information systems, records, and data of the bank. Furthermore, the committee should include many members with advanced experience in finance and accounting.

During a financial crisis, banks are under pressure to prove financial viability. To show quick gains in an environment of deposit drains and loan defaults, management may accept less creditworthy loan applicants. This measure is inherently risky, as it increases the number of non-performing loans. An audit can reveal such action, suggesting that an audit committee is capable of risk reduction, by reducing the number of non-performing loans. Empirically, Larasati et al. (2019) observed that independent audit committees objectively assessed risk, based on the recommendations of the risk management committee, by demanding higher audit quality.

Hypothesis 4 (H4). *The presence of an efficient internal audit committee reduces the number of non-performing loans at Lebanese banks.*

2.4.2. Risk Management and Control

A contagion spreads risk from the first bankrupt bank to others. Therefore, banks have to be cautious about excessive risk taking. It is customary for banks to appoint a risk management committee to monitor risk, on an ongoing basis, such as in evaluating payment systems. Evaluations of payment systems ensure that payments are made in the appropriate amounts to the right recipients in a timely fashion. Remittances of funds are frequently sent through cross-border payments from family members in the United

States and in Europe to recipients in Lebanon. It is the responsibility of banks to act as intermediaries in facilitating such transfers. Additionally, the risk management committee controls the risk-taking behavior of management, identifies emerging risks, and proposes different strategies to mitigate risk. Numerous studies have shown that the existence of a risk management committee, efficient risk management, and risk control practices can increase the financial performance in the banking sector by reducing operational and non-operational costs (Zulfikar et al. 2020).

Therefore, by definition, an effective risk management committee reduces bank risk. Such risk may take the form of inadequate capital reserves to sustain the bank during the financial crisis, together with increases in non-performing loans from business customers with declining sales, or individual customers who have lost employment.

Hypothesis 5 (H5). *The presence of an efficient risk control committee increases capital adequacy, while reducing the number of non-performing loans at Lebanese banks.*

2.4.3. Compliance

Banks are heavily regulated, in comparison with brokerages and finance companies. Governments are committed to protecting the safety of deposits, which depends on the level of capital reserves to cushion declines in cash flows. Standards for capital adequacy consist of the minimum level of capital reserves to be maintained, i.e., funds that cannot be loaned. Loan loss ratios are evaluated, in order to assess the extent of non-performing loans. Any deposit insurance program is evaluated for capital adequacy, so that sufficient funds are available to compensate depositors in the event of insolvency.

Hypothesis 6 (H6). *The presence of an efficient compliance committee reduces the risk of capital inadequacy, and reduces the number of non-performing loans at Lebanese banks.*

2.5. Political Connectedness

Administrative Political Connectedness: Certain individuals employed at a Lebanese bank have friends or family members who are politicians. Other employees are members of ruling families. In developing countries, such as Lebanon, politicians and ruling families wield considerable influence. Usually Western-educated, they are occupied with forging connections with other ruling families who own banks, brokerages, pharmaceutical companies, real estate, food and beverage producers, or have agricultural holdings. The offspring of certain elite families may seek employment in banks, both public and private. They form the administratively politically connected staff at these institutions. Their upward mobility through the layers of bank management is ensured by their ability to contact their influential family members and politicians to smooth approvals for bank-funded projects. During a financial crisis, they can be particularly useful, as they can provide access to emergency government funds for financial institutions, while successfully reducing the most stringent regulatory requirements, due to their ability to connect with individuals at the highest levels of political institutions and bank regulatory institutions (Bussolo et al. 2022).

The additional funding can increase net income which, in turn, improves bank performance, in terms of return on assets and return on equity. Inflows of funds have a direct positive impact on liquidity and expansion of loans. Reduction in regulation has similar effects on income and liquidity, in that it reduces costs of compliance. Conversely, administratively politically connected individuals may demand that loans with favorable terms be given to family and friends. Such loans that fail to meet the bank's credit requirements may subsequently become bad debts (Preuss and Königsgruber 2021).

Hypothesis 7 (H7). *The presence of staff with administrative political connections has a positive impact on the performance of Lebanese banks in terms of return on assets or return on equity. Conversely, administrative political connectedness may increase the loan portfolio of risky loans (given to friends and family) and the amount of non-performing loans.*

Ownership Political Connectedness: Another form of political connectedness arises from the ownership of banks by politicians. Government ministers and high-ranking military personnel, upon retirement, may become principal shareholders of banks. They demonstrate their control over bank operations by influencing the membership of the board of directors. By placing their associates on the board, they can be certain that the board will adopt policies that favor their own self-interest. Agency conflicts are minimized, as ownership concentration results in a few politicians becoming shareholders, with shareholder wealth maximization as the overriding goal of the firm. Management's interests are subordinated to the interests of politician-shareholders. Boards are likely to favor seeking alternative sources of income during the financial crisis. Politicians may be able to hire experts to find such sources of income.

Large shareholders may influence the granting of loans to friends and family members, thereby increasing the loan portfolio and draining cash from the bank. To the extent that such loans are allocated, without stringent credit assessments, the proportion of bad debts may increase.

Hypothesis 8 (H8). *The ownership of banks by politicians has a positive impact on the performance of Lebanese banks in terms of return on assets and return on equity. Conversely, it may increase the amount of non-performing loans.*

Figure 1 depicts the hypothesized relationships.

Hypotheses		Outcome
1. Independent Directors	→→→→→Improves	Profitability, liquidity, risk reduction
2. Ownership Concentration	→→→→→Improves	Profitability, risk reduction
3. Family Ownership Concentration		
	→→→→→Improves	Profitability, liquidity
4. Audit Committee	→→→→→Improves	Risk reduction
5. Risk Control Committee	→→→→→Improves	Capital adequacy, risk reduction
6. Compliance Committee	→→→→→Improves	Capital adequacy, risk reduction
7. Administrative Political		
Connectedness	→→→→→Improves	Profitability
	→→→→→Increases	Loan risk, overall risk
8. Ownership Political		
Connectedness	→→→→→Increases	Profitability, overall risk

Figure 1. Hypothesized Relationships of Predictors, and Criteria.

3. Materials and Methods

3.1. Sample Description

The main population consists of 15 Lebanese investment banks and 50 commercial banks, as retrieved from the [Orbis \(2021\)](#) database. From the 65 banks, 11 banks were excluded due to missing data pertaining to financial and corporate governance variables. Foreign banks were excluded from the initial population. The final sample includes 45 Lebanese banks and 194 bank-year observations extracted from 2016–2021. The Lebanese banking crisis began in 2019 but we believe that this crisis had its roots several years prior.

The non-financial and financial information was extracted from different databases such as Orbis Bank-Scope (Orbis 2021) and the annual reports of Lebanese banks. The regulatory data related to the protection rights of shareholders, depositors, and other relevant stakeholders were extracted from the different legal circulars issued by the Lebanese Central Bank (CBL 2021), the Banking Control Commission of Lebanon (BCC 2021), and the Association of Lebanese Banks (ALB 2021). Table 1 provides a description of the sample.

Table 1. Sample Description.

Year	2016	2017	2018	2019	2020	2021
Number of Bank Observations per Year	45	45	39	32	17	16
Number of Commercial Banks	39	39	33	27	15	14
Number of Investment Banks	6	6	6	5	2	2

The data in Table 1 show that the number of observations was 45 for 2016 and 2017. It declined to 39 and 32 during 2018 and 2019, respectively. The numbers of observations during 2020 and 2021 were 17 and 16 banks, respectively.

3.2. The Research Model

This research studies the influence of the independent variables of corporate governance and political connectedness on three different dependent variables: profitability, liquidity, and risk management. Profitability was measured by return on assets, along with return on equity. Liquidity was measured by liquidity level and the loan portfolio. Risk was measured by capital adequacy and non-performing loans. Figure 1 diagrams the proposed relationships between the predictors and the criteria.

3.3. Regression Equations

Six OLS regressions were performed, with the following dependent and independent variables. All regressions were free of heteroskedastic residuals and autocorrelated residuals. Regression (1) and Regression (2) assessed profitability, Regression (3) and Regression (4) measured liquidity, while Regression (5) and Regression (6) evaluated risk.

$$ROA_t = \alpha_t + \beta_1 BS_t + \beta_2 BI_t + \beta_3 CD_t + \beta_4 OW_t + \beta_5 FAM_t + \beta_6 FOR_t + \beta_7 INST_t + \beta_8 DIR_t + \beta_9 AC_t + \beta_{10} RE_t + \beta_{11} RO_t + \beta_{12} RC_t + \beta_{13} APC_t + \beta_{14} OPC_t + \beta_{15} BSIZ_t + \beta_{16} BAGE_t + \varepsilon \quad (1)$$

$$ROE_t = \alpha_t + \beta_1 BS_t + \beta_2 BI_t + \beta_3 CD_t + \beta_4 OW_t + \beta_5 FAM_t + \beta_6 FOR_t + \beta_7 INST_t + \beta_8 DIR_t + \beta_9 AC_t + \beta_{10} RE_t + \beta_{11} RO_t + \beta_{12} RC_t + \beta_{13} APC_t + \beta_{14} OPC_t + \beta_{15} BSIZ_t + \beta_{16} BAGE_t + \varepsilon \quad (2)$$

$$LI_t = \alpha_t + \beta_1 BS_t + \beta_2 BI_t + \beta_3 CD_t + \beta_4 OW_t + \beta_5 FAM_t + \beta_6 FOR_t + \beta_7 INST_t + \beta_8 DIR_t + \beta_9 AC_t + \beta_{10} RE_t + \beta_{11} RO_t + \beta_{12} RC_t + \beta_{13} APC_t + \beta_{14} OPC_t + \beta_{15} BSIZ_t + \beta_{16} BAGE_t + \varepsilon \quad (3)$$

$$LO_t = \alpha_t + \beta_1 BS_t + \beta_2 BI_t + \beta_3 CD_t + \beta_4 OW_t + \beta_5 FAM_t + \beta_6 FOR_t + \beta_7 INST_t + \beta_8 DIR_t + \beta_9 AC_t + \beta_{10} RE_t + \beta_{11} RO_t + \beta_{12} RC_t + \beta_{13} APC_t + \beta_{14} OPC_t + \beta_{15} BSIZ_t + \beta_{16} BAGE_t + \varepsilon \quad (4)$$

$$NPL_t = \alpha_t + \beta_1 BS_t + \beta_2 BI_t + \beta_3 CD_t + \beta_4 OW_t + \beta_5 FAM_t + \beta_6 FOR_t + \beta_7 INST_t + \beta_8 DIR_t + \beta_9 AC_t + \beta_{10} RE_t + \beta_{11} RO_t + \beta_{12} RC_t + \beta_{13} APC_t + \beta_{14} OPC_t + \beta_{15} BSIZ_t + \beta_{16} BAGE_t + \varepsilon \quad (5)$$

$$CA_t = \alpha_t + \beta_1 BS_t + \beta_2 BI_t + \beta_3 CD_t + \beta_4 OW_t + \beta_5 FAM_t + \beta_6 FOR_t + \beta_7 INST_t + \beta_8 DIR_t + \beta_9 AC_t + \beta_{10} RE_t + \beta_{11} RO_t + \beta_{12} RC_t + \beta_{13} APC_t + \beta_{14} OPC_t + \beta_{15} BSIZ_t + \beta_{16} BAGE_t + \varepsilon \quad (6)$$

where

ROA = Return on Assets, Net Income/Total Assets,

ROE = Return on Equity, Net Income/Total Equity,

LI = Liquidity Level, Total Loans/Total Assets,

LO = Loan Portfolio, Total Loans/Total Deposits,

NPL = Non-Performing Loans, Non-Performing Loans/Gross Loans,

CA = Capital Adequacy, (Tier 1 Capital + Tier 2 Capital)/(Risk-Weighted Exposure)

BS = Board Size, Number of Board Members, Control Variable,
BI = Board Independence, Percentage of Independent Members,
CD = CEO Duality, Dummy Variable = 1, if the CEO is Board Chair, Dummy Variable = 0, if the CEO is not the Board Chair, Control Variable,
OW = Level of Concentration of Large Shareholders, Equity owned by Large Shareholders,
FAM = Family Ownership, Equity owned by Family Members,
FOR = Foreign Ownership, Equity owned by Foreign Investors,
INST = Institutional Ownership, Equity owned by Institutions, Control Variable,
DIR = Ownership by Members of the Board, Equity owned by Board Members,
AC = Effectiveness of the Internal Audit Committee, 1 = Effective Audit Committee, 0 = Ineffective Audit Committee, Effectiveness = 1, if Number of Members > 3, and Independent Members who meet > 3 times per year,
RE = Compensation Level, Payments Made to the CEO,
RO = Effectiveness of the Compliance Committee, 1 = Efficient Compliance Committee, Effectiveness = 1, Number of Members > 3, with a well-defined compliance evaluation system,
RC = Effectiveness of the Risk Management Committee, 1 = Effective Risk Management Committee, Effectiveness = 1, if the Number of Members > 3, with a well-defined technique to manage risks,
APC = Administrative Political Connectedness, 1 = presence of politically connected Administrators, 0 = absence of politically connected Administrators,
OPC = Ownership Political Connectedness, Equity Ownership of the Bank by Politicians,
BSIZ = Natural logarithm of bank assets,
BAGE = Number of Years in Business of the Bank.

4. Results

4.1. Descriptive Statistics and Correlations

Table 2 shows the means and standard deviations of the variables during the study period of 2016–2021. The first column shows the years, from 2016–2021. Financial performance indicators decreased from 2016 to 2019, with Return on Assets declining from 9.4 in 2016 to 2.7 in 2019, and Return on Equity declining from 2.1 in 2016 to 0.12 in 2019. The liquidity level also deteriorated between 2016 and 2019. The total loan to assets ratio increased from 28.2 in 2016 to 54.2 in 2019. The total loans to total deposits ratio increased from 33.34 in 2016 to 47.35 in 2019. In 2020 and 2021, the levels of LI and LO decreased because almost all of the Lebanese banks ceased lending.

Table 2. Means and Standard Deviations (in Parentheses) of Financial Indicators for Lebanese Banks.

Return on Assets	Return on Equity	Liquidity Level	Loan Portfolio	Capital Adequacy	Non-Performing Loans
2.1245 (3.1083) Year 2016	9.4664 (12.2641)	28.2746 (7.8436)	33.3484 (11.2764)	15.3212 (2.1746)	8.3101 (5.5917)
1.9344 (3.3393) Year 2017	7.1552 (13.4124)	35.2422 (8.6321)	38.5914 (13.7112)	15.0299 (1.5376)	10.2133 (3.3451)
1.3968 (2.1847) Year 2018	6.3523 (11.2585)	48.1857 (9.9957)	27.4501 (14.5003)	12.7615 (1.4181)	16.4538 (7.2745)
0.3757 (1.8972) Year 2019	4.1442 (8.1841)	54.2555 (11.2037)	47.3500 (17.3645)	10.5352 (1.8373)	20.3101 (6.7376)
0.1137 (1.2021) Year 2020	3.5711 (6.3664)	52.2726 (12.4551)	46.9481 (16.4821)	10.0182 (1.3941)	19.4461 (4.3810)
0.1201 (1.5401) Year 2021	2.7461 (7.0019)	50.8731 (11.2945)	42.8175 (15.3815)	10.0352 (1.3670)	17.5914 (5.9575)

The financial risk indicators reflected the financial situation of the Lebanese banking sector from 2016 to 2019. They reveal that the non-performing loan (NPL) ratio increased from 8.31 in 2016 to 20.31 in 2019. The ratio of NPL decreased in the last two years, reflecting the end of new loans. The capital adequacy declined from 15.32 in 2016 to 10.03 in 2021, which reflects the capital constraints of Lebanese banks.

Among corporate governance variables, the average number of members on the board of directors was nine in 2016 and 2017 with an increase of one member during 2020 and 2021. The percentage of independent members on the board of directors was about 30% from 2016–2021. In 52% of Lebanese banks, the chairman was the CEO of the bank during 2016. This average increased slightly to 58% in 2021. Results also reveal that the ownership concentration of the ultimate owner decreased from 56.34% in 2016 to 48.32% in 2019. Family ownership decreased from 48.53% to 45.32% from 2016–2019, rising to 52% in 2021. The ownership concentration of institutional investors was almost stable. Audit committees were widely prevalent, with 62% of the Lebanese banks having an efficient audit committee in 2016 and this average increased to 67% in 2021. Risk management committees exhibited stable usage. As for the compliance committee, only 32% of Lebanese banks had an efficient compliance committee in 2016, with the average increasing slightly to 36% in 2021. Finally, the compensation level of executives decreased from an average of 297 million Lebanese lira in 2017 to 245 million Lebanese lira in 2019 after a slight increase between 2016 and 2017. During the last years, 2020 and 2021, the level of payment increased due the high inflation rate in Lebanon.

As for political connectedness, the ownership concentration of Lebanese politicians was 32% in 2016. Their participation in the banking sector has decreased since 2017. The average ownership concentration of politicians was 13% in 2021. The downsizing of the ownership concentration of Lebanese politicians suggests their premonition of a banking collapse. As of 2021, 49% of Lebanese banks have a direct connection with politicians. In addition, Table 3 provides a correlation matrix of intercorrelations of dependent and independent variables.

Table 3. Pearson correlation.

	ROA	ROE	LI	LO	CA	NPL	APC.X	OPC.X	BS	BI	CD	OW	FAM	FOR	INST	DIR	AC	RE	RO	RC	BSIZ	BAGE
ROA	1																					
ROE	0.26 *	1																				
LI	0.28 **	0.37 *	1																			
LO	0.15 *	0.18	0.24 *	1																		
CA	0.03	0.26	0.16	0.35	1																	
NPL	−0.03 *	−0.14 *	0.14 *	0.16 *	0.24	1																
APC.X	0.14 *	0.27 *	0.346 *	0.34 *	0.05	0.25 *	1															
OPC.X	0.23 *	0.37	0.06 *	0.21 *	0.26	0.16 *	0.13 *	1														
BS	0.25	0.25	0.65	0.34	0.17	0.27	0.24	0.25	1													
BI	0.06	0.14 *	−0.12	−0.06 *	0.12	−0.18	0.16	0.06	0.13	1												
CD	0.24	0.25	0.03	0.04	0.27	0.24	0.07	0.47	0.14	0.24	1											
OW	0.17	0.37	0.04	0.26	0.18	−0.33	0.28	0.23	0.03	0.32		1										
FAM	0.04	0.37 *	−0.37	−0.34	0.36	0.18	0.45	0.07	−0.42	0.26	0.12 **	0.14 **	1									
FOR	0.07	0.35	−0.26	−0.37	0.25	0.05	0.13	0.28	−0.27	0.37	0.23	0.45	−0.14	1								
INST	0.13	0.24	−0.47	−0.27	0.27	0.27	0.15	0.15	0.38	0.27	0.16	0.27	−0.12	−0.15 *	1							
DIR	0.25	0.25	0.34	0.24	0.18	0.24	0.12	0.18	0.08	0.15	0.07	0.38	−0.03	0.16	−0.15	1						
AC	0.36	0.16	−0.27	−0.22	0.25	−0.17	0.07	0.05	0.06	0.44	0.48	0.14	0.14	0.34	0.25	0.34	1					
RE	0.27	0.37 *	−0.16	−0.06	0.13	−0.24	0.18	0.33	0.34	0.27	0.33	0.36	0.12	0.07	0.06	0.16	0.35	1				
RO	0.16	0.01	−0.43	−0.24	0.14	−0.06	0.38	0.16	0.23	0.03	0.18	0.13	0.02	0.18	0.28	0.28	0.16	0.03	1			
RC	−0.17 *	−0.13	−0.13	−0.27	0.26	−0.16 *	0.13	0.07	0.42	0.26	0.13	0.25	0.17	0.14	0.26	0.37	0.46	0.35	0.97	1		
BSIZ	0.18	0.05	0.24	0.14	0.18	0.25	0.16	0.28	0.06	0.17	0.15	0.16	0.25	0.12	0.36	0.16	0.18	0.36	0.05	0.23	1	
BAGE	0.21	0.26	0.26	0.33	0.16	0.14	0.27	0.05	0.18	0.02	0.27	0.07	0.24	0.14	0.14	0.16	0.25	0.37	0.25	0.13	0.06	1

Levels of significance: (**) 5%, and (*) 10%.

4.2. Results of Hypotheses Testing

Table 4 shows the regression output used to test the hypotheses. All VIF values are less than 5 which reveal the absence of multicollinearity among all independent variables. Figure 2 shows the supported hypotheses.

In Table 4, the coefficients of the supported hypotheses are listed in bold. Hypothesis 1 was fully supported with the presence of independent directors on the board (BI) significantly increasing profitability by increasing the return on assets, increasing return on equity, increasing liquidity by reducing the loan to assets ratio, reducing the loan to deposit ratio, and reducing risk by significantly reducing the proportion of non-performing loans. Hypothesis 2 was rejected, with the level of concentration of the ultimate owner (OW) having no significant impact on bank profitability, liquidity, or risk. Hypothesis 3 was partly supported, with family ownership of banks (FAM) significantly increasing profitability through higher return on assets, and higher return on equity. Family ownership also had a significantly positive impact on liquidity, by decreasing loans, both in relation to assets and in relation to deposits. However, family ownership had no effect on reducing the level of non-performing loans. Hypothesis 4 was fully supported, with the audit committee (AC) significantly reducing the proportion of non-performing loans. Hypothesis 5 was fully supported, with the risk control committee (RC) reducing risk, by reducing the proportion of non-performing loans, and reducing risk by improving capital adequacy, as hypothesized. In addition, effective risk control (RC), improved both profitability and liquidity. Hypothesis 6 was fully supported, with effective compliance significantly reducing the number of non-performing loans. Hypothesis 7 and Hypothesis 8 were fully supported in that administrative political connectedness (APC.X) and ownership political connectedness (OPC.X) significantly influenced bank profitability, liquidity, and risk. Some effects were positive, while others were detrimental. Both forms of connectedness increased profitability. However, they increased the value of loans to both assets and deposits, reducing liquidity. Further, some of the additional loans were non-performing, resulting in increased risk.

Figure 2 depicts the relationships supported by the hypotheses.

Hypotheses		Outcome
1.Independent Directors	→→→→→Improves	Profitability, liquidity, risk reduction
3.Family Ownership Concentration		
	→→→→→Improves	Profitability, liquidity
4.Audit Committee	→→→→→Improves	Risk reduction
5.Risk Control Committee	→→→→→Improves	Capital adequacy, risk reduction
6.Compliance Committee	→→→→→Improves	Risk reduction
7.Administrative Political		
Connectedness	→→→→→Improves	Profitability
	→→→→→Increases	Loan risk, overall risk
8. Ownership Political		
Connectedness	→→→→→Increases	Profitability, overall risk

Figure 2. Supported Relationships of Predictors and Criteria.

Table 4. Regression Results.

Dependent	Financial Profitability				Liquidity				Risk Management			
	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
	Return on Assets		Return on Equity		Liquidity		Loan Portfolio		Non-Performing Loans		Capital Adequacy	
Coefficient (Coef.)												
Variance Inflation Factor (VIF)	Coef.	VIF	Coef.	VIF	Coef.	VIF	Coef.	VIF	Coef.	VIF	Coef.	VIF
Intercept	2.4615 ***		2.542 ***		3.634 ***		3.033 ***		3.057 ***		3.144 ***	
APC.X	0.1754 **	1.653	0.255 ***	1.352	0.053 **	3.666	0.1055 **	2.345	0.0485 *	2.214	0.0055	1.134
OPC.X	0.0563 *	2.453	0.0543 *	1.069	0.058 **	2.543	0.0963 **	2.917	0.0255 **	1.595	0.0064	2.863
BS	−0.1045	1.855	−0.2164	1.478	0.069	1.355	0.0267	1.032	0.2445	1.256	−0.153	1.366
BI	0.0316 *	1.366	0.0445 *	1.448	−0.174 *	1.853	−0.2165 *	2.496	−0.2356 *	2.434	0.3663	2.253
CD	0.0046	2.044	0.0045	2.534	0.005	1.752	0.0056	1.466	0.1166	1.034	0.1022	2.042
OW	0.066	1.235	0.0566	1.244	0.0263	1.334	0.0355	1.223	0.0294	3.255	0.0153	3.228
FAM	0.3744 *	2.853	0.3444 *	1.836	−0.366 *	2.775	−0.3614 *	1.362	0.3563	2.226	0.4106	2.244
FOR	0.0563 *	1.366	0.1036 *	2.007	−0.244 *	1.396	−0.2355 **	1.263	−0.2356	1.460	0.3156	1.092
INST	0.0064	1.673	0.0526	2.548	−0.063	2.147	−0.0413	1.466	−0.0932	1.535	0.1167	1.227
DIR	0.2533	1.553	0.3466	1.794	0.255	1.778	0.1266	2.535	0.3166	1.755	0.3032	1.433
AC	0.0544	1.644	0.0346	2.466	−0.145	3.524	−0.1574	3.066	−0.2152 *	1.523	0.2873	1.527
RE	0.1846 *	1.986	0.2134 *	1.532	−0.026	2.033	−0.1315	2.846	−0.0526	2.995	0.0457	1.878
RO	0.0044	2.435	0.0044	2.855	−0.016	1.834	−0.0166	1.562	−0.0056 *	3.251	0.0055	1.072
RC	−0.042 **	2.655	−0.0355 *	1.244	−0.333 *	3.153	−0.3253 *	1.336	−0.6766 **	1.655	0.0053 *	2.155
BSIZ	0.0142	1.133	0.0074	2.234	−0.020	2.416	−0.0034 *	1.077	−0.0096	1.983	0.0025 *	1.136
BAGE	0.0144	2.445	0.0178	1.964	−0.026	1.767	−0.0144	2.436	−0.0133 *	1.846	0.0117	2.074
Adjusted R2	0.442		0.462		0.451		0.353		0.463		0.463	
p-value for Fisher test	<0.01		<0.01		<0.01		<0.01		<0.01		<0.01	

Levels of significance: (***) 1%, (**) 5%, and (*) 10%. ROA = Return on Assets, ROE = Return on Equity, LI = Liquidity Level, LO = Loan Portfolio, NPL = Non-Performing Loans, CA = Capital Adequacy, BS = Board Size, BI = Board Independence, CD = CEO Duality, OW = Level of Concentration of Large Shareholders, FAM = Family Ownership, FOR = Foreign Ownership, INST = Institutional Ownership, DIR = Ownership by Members of the Board, AC = Effectiveness of the Internal Audit Committee, RE = Compensation Level, RO = Effectiveness of the Compliance Committee, RC = Effectiveness of the Risk Management Committee, APC = Administrative Political Connectedness, OPC = Ownership Political Connectedness, BSIZ = Natural logarithm of bank assets, BAGE = Number of Years in Business of the Bank.

5. Discussion and Conclusions

This research paper explores the mutual impacts of political connectedness and governance designs on the performance of the Lebanese banking sector before and during the ongoing Lebanese financial crisis (2019–2022). This research sheds light on whether governance mechanisms and political connectiveness contributed directly or indirectly to the Lebanese financial distress that began in 2019 by using three financial proxies, namely, profitability, liquidity, and financial risk.

The results show that all financial indicators, and mainly liquidity ratios of the Lebanese banking sector, decreased dramatically from 2016. This decline reveals that the financial crisis of the Lebanese banks began several years ago. Further, the result indicates that the participation of politicians in the capitalization of Lebanese banks has decreased since 2017 whereas their administrative implications as executives, board members, or consultants have remained almost the same and, thus, lead to the conclusion that politicians contributed to the Lebanese banking crisis.

The results also revealed that the presence of independent members on boards of directors, high level of ownership concentration, an efficient audit committee, an efficient compliance committee, and an efficient risk control committee could improve financial performance and mitigate financial risk.

5.1. Discussion of Results

5.1.1. Financial Profitability

This paper extends existing findings of the positive influence of corporate governance mechanisms on bank profitability, bank liquidity, and bank risk reduction during normal economic periods to periods of financial crises.

Independent Members: An increase in the proportion of independent members on the board has a significant and positive influence on the financial performance of crisis-ridden Lebanese banks. These results confirm the agency theory ([Jensen and Meckling 1976](#)) and the theory of resource dependence ([Pfeffer and Salancik 1978](#)). Independent directors constrain management to pursue shareholder wealth maximization, instead of pursuing their own interests, minimizing agency conflicts. The resource dependence theory suggests that a firm is an open system, that must acquire resources from external entities. Lebanese banks must increase the number of independent members to improve their profitability level.

In support of [El-Chaarani \(2014\)](#) and [Fernandes and Fich \(2013\)](#), independent directors provide objective assessments of management's performance during normal economic periods. This study shows that objective evaluations during crises consist of rewarding managers for providing creative solutions to increasing revenue, when traditional revenue streams are in decline.

Family Ownership: The ownership of banks by families, foreign investors, and insiders (executives) had a positive impact on the financial performance of the Lebanese banking sector from 2016–2021. Therefore, the increase in capital owned by family and foreigners reduces agency costs ([Jensen and Meckling 1976](#)), by increasing control of managerial behavior ([Al-Hawary 2011](#); [Magahaes et al. 2010](#)). The commitment of family members to preserving their inheritance makes them impartial evaluators of management's performance, incentivizing them to support management's efforts to boost profitability, while unequivocally rejecting revenue-reducing policies.

Risk Control Committee: The existence of a level of risk control reduces the overall risk which can lead to a decrease in the level of profitability of Lebanese banks. Risk management committees may advocate excessive risk aversion that prevents the adoption of new revenue streams to increase bank profitability, as the bank loses existing customers and experiences deposit drains. Banks may react to the crisis with the highly risk-averse strategy of resisting depositors' withdrawals. This is a novel finding of this study.

Political Connectedness: Political connections of bank employees, along with politicians owning banks, show a positive impact on the profitability of the banking sector. The assistance provided by politicians may arise from Lebanese banks' funding budget deficits by buying the maximum of Lebanese Treasury bonds with a high level of interest and risk.

5.1.2. Liquidity

Independent Directors: The existence of independent members has a negative and significant impact on the liquidity ratios, indicating that independent directors reduce the issuance of loans, thereby retaining capital within the bank which, in turn, increases liquidity. Independent directors prevail upon management that in times of declining currency values, the bank must increase its emergency funds, in order to cope with unforeseen cash demands, particularly as loan defaults curb interest income. Such actions reduce agency conflicts. Management may wish to increase the amount of loans, to achieve higher sales, which would grant them rewards in the form of pay raises and bonuses. As these loans may be made to risky borrowers, who have reduced income due to the financial crisis, such loans may become bad debts. Herein lies the agency conflict, where management's actions serve its own interest at the expense of the bank's profitability. Independent directors may evaluate management negatively upon perceiving the increase in bad debts. This action may prevent management from making risky loans, thereby eliminating agency conflicts. Resource dependence theory also suggests that independent directors may reduce the number of risky borrowers. By directing management to external consultants, industry as-

sociations, and other resources, management may find techniques to minimize the issuance of risky loans.

Risk Control Committee: The same significant and negative relationship is also detected between the existence of efficient risk management committees and liquidity ratios. An efficient risk committee can mitigate liquidity risk by reducing expansionary lending practices. This is a novel finding of this study, as we do not find its parallel in the literature.

Political Connectedness: Political connectedness results in an increase in loans, regardless of whether there is administrative political connectedness, or ownership of the bank by politicians. Banks may submit to political pressure by expanding the number of loans to friends and business associates of politicians, resulting in loss of liquidity, as cash leaves the bank to be disbursed in the community. Agency theory indicates that managers seeking the favor of politicians may issue these additional loans, which yield private benefits for the managers, while reducing the bank's liquidity. The result is an application of agency theory, in which managers may implement different strategies to extract private benefits. Numerous empirical studies found these motivations for loan expansion by managers during non-crisis periods (Braham et al. 2020; Carretta et al. 2012; Dinc 2005).

5.1.3. Risk Management

Model 5 finds the existence of independent members on the board of directors is negatively and significantly associated with the percentage of non-performing loans. In support of agency theory, the presence of independents on boards leads banks to be very selective in their lending strategy, which can reduce the level of non-performing loans. We add specificity to Jensen and Meckling's (1976) agency theory, with the finding that independent directors reduce risk by reducing agency conflicts in granting loans, as these directors prevent management from granting loans to personal friends and family members, who may be less creditworthy. Moreover, the results in Model 5 identify a negative and significant impact of the efficient audit committee and efficient compliance committee on the non-performing loans. The existence of the above committees can improve the function of credit risk control in Lebanese banks. This finding is consistent with that of Larasati et al. (2019) for audit committees and Zulfikar et al. (2020) for compliance committees during non-crisis periods.

The result of political connection variables shows that the implication of politicians in the bank as shareholders or executive members is increases in the level of engagement in risky lending activities. Kchouri (2016) failed to empirically verify the influence of political connectedness on bank performance during non-crisis periods, while we found increased risk due to administrative political connectedness and ownership political connectedness. Finally, the result of Model 6 demonstrates that only the size of banks, besides the existence of an efficient risk management (RC) committees (RO), has a marginally positive impact on the capital adequacy ratio of Lebanese banks for the period of 2016–2021. We believe that this novel finding is due to the marginal role of the Lebanese banking sector in terms in influencing the capital adequacy level. The capital adequacy level is determined by the internal regulation codes issued by the Central Bank.

5.2. Theoretical Implications and Implications for Lebanese Banking

This research has many theoretical implications and delivers new insights to the literature that studies the impact of governance structures, and political connectedness, on banks' performance during uncertain periods. First, the findings of this research are in line with several theories such as resource based and agency theories, showing that internal corporate governance mechanisms such as independent members, ownership concentration, internal audit, compliance, and risk management committees could lead to mitigating the expropriation behaviors and increasing the financial performance of the banking sector. Second, this paper offers an in-depth understanding of the impact of political connection on the financial behavior and performance of the banking sector.

On the other hand, this paper could be used by bankers and financial regulators to manage banks efficiently during uncertainty and crises. First, Lebanese bankers must review their loan policy and liquidity, and assess the resilience of these basic pillars. Second, executives in banks must review the disadvantages of their connections with politicians. They must limit the roles of politicians in banks to operational activities. Third, Lebanese banks must evaluate their financial strategies and financial structures to ensure their sustainability during uncertainty. Finally, the Lebanese government and financial authorities have to review their financial regulations to enhance the control of the banking sector.

5.3. Managerial Contributions

Four main corporate governance mechanisms can be implemented by Lebanese banks to improve financial performance, reducing any potential conflicts between agent and principal. The first internal corporate governance mechanism is the independent members. The results of this study indicate that the financial performance of Lebanese banks is positively associated with the percentage of independent members on the board of directors, which improves the ability to efficiently deploy resources and reduce agency conflicts.

The second internal corporate governance mechanism is ownership concentration. The concentration of ownership by family and institutional investors has a positive impact on the profitability and liquidity of Lebanese banks. Thus, ownership concentration can be used by the bank as a governance mechanism to align interests between executives and shareholders.

The third internal corporate governance mechanism is the remuneration of top managers. The compensation policy can be employed as an alternative method to motivate the CEO toward the increasing of bank financial performance. On the other hand, the result does not reveal any impact of remuneration on liquidity and risk management of Lebanese banks. Thus, the problem is related to management's efforts to improve the performance of banks. They can employ high-risk strategies to develop bank performance, which can increase agency costs. The existence of an efficient risk control committee reduces the level of liquidity risk and credit risk in Lebanese banks. This is the only internal committee to positively impact capital adequacy.

The existence of political connections with banks led Lebanese banks to be engaged in practicing risky and non-performing lending strategies since 2016 without considering international standards of credit risk control and liquidity risk management. For years, Lebanese banks have been financing government debt. Despite the importance of corporate governance variables and their impacts on the different financial indicators of the Lebanese banking sector, the internal and external governance mechanisms in Lebanon are weak and need to be improved. The weak level of corporate governance mechanisms and the political connections can be considered as factors that contributed to the financial collapse of the Lebanese banking sector in 2020, and their improvement can foster trust toward the Lebanese banks.

According to this research, the Lebanese banks cannot sustain and face the financial crisis without reviewing their governance mechanisms and reexamining the impact of their connection with politicians. They should develop bank transparency and independence, through the presence of independent members as executives and as members of the board of directors. On the other hand, the Lebanese government in collaboration with financial regulators and the Lebanese Central Bank must reinforce their control and corporate governance mechanisms of banks. In addition, they must prohibit any suspicious connection with politicians that could lead to damage to the sustainability of banks. Despite the limitations of this study (e.g., limited period in the analysis, absence of comparison among countries), future research is directed to further verify the current results, by introducing some additional variables into the analysis.

5.4. Research Limitations and Future Perspectives

Despite the theoretical and managerial contributions, this research paper has several limitations. First, this research focused on a limited period (2016–2021). Second, this research considered quantitative data without considering qualitative information related to each bank. Third, the variables related to political implications in banks' activities could be biased by the existence of non-observed roles of politicians in the Lebanese banking sector. Fourth, this research studied the financial performance of the Lebanese banking sector from 2016–2022 which could be biased by the development of COVID-19 and its impact on the socioeconomic conditions. Finally, this research did not consider several important economic factors and other internal factors due to lack of information.

Thus, future research can be directed to verify the results by considering the recovery period from COVID-19 and by integrating additional microeconomic and macroeconomic variables.

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