Board Governance Mechanisms and Liquidity Creation: A Theoretical Framework

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Abstract:

Objective – The highly concentrated ownership structure, lack of quality information, and weak regulatory environments caused imbalances in the movement of cash flows and thereby put the liquidity levels of Gulf Cooperation Council (GCC) banks on a downward trend. This prompted policymakers in the GCC region to modify their Corporate Governance (C.G.) codes to boost the financial position of the GCC banking industry as liquidity providers and minimize systemic risk. Therefore, the purpose of this study is to conceptually investigate the relationship between board governance attributes and liquidity creation in the GCC banking sector.

Methodology – The methodology employed in this study is a review of prior research on bank governance mechanisms and liquidity creation to gather perspective and establish a prediction about the association between board attributes and liquidity creation in the GCC banking industry.

Findings – The study concludes that there is a positive correlation between the analyzed board governance features and the creation of liquidity based on several theories gleaned from a review of prior research.

Novelty – The study evaluates bank liquidity creation and how board attributes influence it.

Type of Paper: Review

JEL Classification: M41, M49.

Keywords: Liquidity Creation, Corporate Governance, Agency Theory, Board Attributes, GCC.

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1. Introduction

The theory of financial intermediation suggests that one of the key functions that banks conduct is the transformation of maturities (Berger & Bouwman, 2009). Through such a function, banks finance their illiquid and risky assets with liquid liabilities, which leads to liquidity creation. Thus, liquidity is created "when a bank finances long-term illiquid investments or loans with liquid short-term liabilities" (Diamond & Dybvig, 1983; Berger & Bouwman, 2009). Banks, through liquidity creation, determine the destination of financial resources, which makes them a powerful engine of economic growth (Deep & Schaefer, 2005; Diamond & Dybvig, 1983; Berger & Bouwman, 2009). They are also the fulcrum of the payment system and serve as a tool for the execution of domestic monetary policy. (Berger & Sedunov, 2017).

However, Berger et al. (2016) argued that asymmetric information arising from the financial intermediation role causes imbalances in the flow of withdrawals and forces banks to liquidate illiquid assets early, which affects the function of creating liquidity in the banking industry. Thus, shortcomings in bank corporate governance can destabilize the banking system as a liquidity creator and pose systemic risks to the real economy (Rose, 2017). In this context, the agency theory suggests that internal governance mechanisms such as board characteristics (independent directors, foreign directors, gender diversity, educational background, meeting, CEO duality, size) and audit committee attributes (independence, financial expertise, meetings, size) are important internal monitoring mechanisms to solve the agency problem by reducing moral hazard and information asymmetry, and thus may result in more effective oversight of managers' opportunistic decision-making in relation to liquidity creation (Diamond & Dybvig, 1983). It has been suggested that the enhancement in board composition and functioning improves management advisory abilities and encourages them to extend their customer base through engaging in more lending activities, which in turn affects liquidity creation (Díaz & Huang, 2017; Delis et al., 2009; Safiullah et al., 2020; Sadeghi, 2020). Besides that, board monitoring relies not only on the board's composition and structure but also on the board's subcommittees, like the audit committee, where major procedures are reviewed, and significant decisions are taken (Gupta & Mahakud, 2021). According to Gupta & Mahakud (2021), an effective audit committee improves the overall quality of the information environment and fosters bank decision-making, which improves bank productivity, including prudent liquidity creation. Therefore, board characteristics and audit committee attributes as an internal governance mechanism are important tools to impact liquidity creation in the banking sector. In the meantime, previous studies have investigated how corporate governance mechanisms impact bank liquidity creation in developed countries, such as western European countries (Yeddou & Pourroy, 2020) and the USA (Díaz & Huang, 2017); while few studies have looked at the connection between bank liquidity creation and corporate governance mechanisms in emerging economies. Typically, various nations have different levels of internal governance practices and structures of ownership. The study believes that it is appropriate to consider these aspects while examining liquidity creation in diverse countries with distinct economic and social factors. Given this, the present study seeks to examine the impact of corporate governance on bank liquidity creation in the Gulf Cooperation Council countries (i.e., the Kingdom of Saudi Arabia (KSA), the United Arab Emirates (UAE), Bahrain, Oman, Qatar, and Kuwait), which share distinct features and similarities that outweigh their differences and unite them under a single umbrella.

In general, corporate governance is a relatively new concept in the GCC countries and has recently undergone substantial advances and improvements in governance practices (Ben Zeineb & Mensi, 2018). The C.G. codes of GCC countries are comprehensive, and in compliance with OCED principles, in which the C.G. of GCC requires the majority, at least 50% of the directors to be non-executives; separate roles for the CEO and chairman; and at least one-third of the board members should be independent (Shehata, 2015). Nevertheless, boards are dominated by politically connected (royal family) members, which leads to questioning the level of compliance with the laws of those banks (Shehata, 2015). Furthermore, Grassa (2016) demonstrated that the boards of GCC banks had a higher proportion of foreign directors because over 200 nationalities reside there, making them among the nations with the most diverse labor forces, with foreigners accounting for 60 to 90 percent of the labor workforce. In addition, Abou-El-Sood (2019) highlighted the lower participation of females on the boards of GCC banks due to tradition and culture governing the region where women cannot hold decision-making or leading positions. In this regard, previous studies (Abou-El-Sood, 2019; Ben Zeineb & Mensi, 2018; Chazi et al., 2018; Bajrei et al., 2018; Grassa, 2016) showed that these traits have detrimental effects on financial performance, quality of disclosures, credit ratings, and investment diversification of the GCC banking sector. Therefore, these features create several issues that might affect the internal governance mechanism of the GCC banking sector, thereby motivating this study to examine the relationship between board characteristics and liquidity creation, which is the primary function of the financial system.

In addition, concentrated government ownership is one of common issues faced by the GCC financial system. For example, the government owns between 13% and 52% of businesses in Kuwait and the UAE, respectively. In KSA, the government owns about 35% of the banking sector, and both government and quasi-government institutions own 53% of the banking industry. In Oman, 30% of the total is owned by the government and 49% is owned by the quasi-government. In Qatar and Bahrain, on the other hand, the government owns about 20% of all the banking industry (Al-Khouri & Arouri, 2019). Consequently, concentrated government ownership can be a hindrance to the implementation of internal governance as an effective monitoring system and may exert pressure to accomplish governmental objectives at the expense of stakeholder objectives. Nevertheless, Al-Khouri & Arouri (2019) found that GCC banks with high state ownership or semi-state ownership are more capable of providing liquidity due to government protection, which makes the investors in the region more confident in those banks. Therefore, it is very important to know how government ownership affects the relationship between corporate governance and liquidity creation in the GCC banking sector.

This study is primarily motivated by the significance of corporate governance in the banking business. It is one of the few studies that look at how corporate governance affects liquidity creation, a topic that prior studies have acknowledged is underdiagnosed, particularly in emerging nations. The previous studies that were conducted in the GCC region only focused on the relationship between corporate governance and financial performance or risk-taking (Musleh Alsartawi, 2019; Abou-El-Sood, 2019; Ben Zeineb & Mensi, 2018; Chazi et al., 2018; Bajrei et al. 2018), while only a few studies have examined whether and how corporate governance is related to liquidity creation in the GCC region. The study adds to the corpus of knowledge by introducing several aspects of board features that have not been extensively examined in previous studies, such as independence, foreign directors, gender diversity, CEO duality, and government ownership. As mentioned earlier, board gender diversity is analyzed because female presence on GCC bank boards is low or symbolic and has not been adequately researched in terms of liquidity creation in the banking sector. In a similar line, the study is one of the few to link foreign directors' participation with liquidity creation, as it is one of the most prevalent characteristics of GCC bank boards that has gained the least attention in regional banking governance studies. The paper likewise underlines the link between board composition in terms of independence and liquidity creation, as independence has been researched more about bank risk-taking, performance, and financial disclosure quality than liquidity creation. Equally, evaluating liquidity creation from the angle of board functioning is uncommon, particularly in the GCC banking context. Considering the inconclusiveness of prior research on liquidity creation, this study also investigates the moderating effect of government ownership on the association between board features and liquidity creation in the GCC banking industry. This study theoretically contributes to the existing body of knowledge by applying the assumptions of the agency and resource dependence theories to explain the interaction between these variables and liquidity creation. Practically, this study is crucial for all stakeholders, including the government, bank management, regulators, depositors, creditors, potential investors, and non-governmental organizations, because it will help policymakers determine how to attract FDI in a manner that is beneficial for the GCC banking sector.

The remainder of this article is organized as follows: Section two reviews the literature on liquidity creation and corporate governance, while Section three discusses the research framework and methodology. Finally, section four gives the conclusion and discusses the study's limitations and future research directions.

2. Related literature and hypothesis development

The subsections that follow examine the concept of liquidity creation as well as past research on board governance attributes and liquidity creation in the banking industry.

2.1 Liquidity creation

The creation of liquidity is the primary function of banks in the economy. Liquidity is created "on the balance sheet by financing long-term illiquid assets with relatively short-term liquid obligations" to meet daily liquidity needs and for investment objectives (Diamond & Dybvig, 1983; Deep & Schaefer, 2005). Additionally, banks create liquidity through "off-balance sheet activities" such as providing their clients with standby letters of credit and loan commitments (Berger & Bouwman, 2009). Thus, through this function, banks provide a mechanism for transforming public deposits into economic-boosting productive investments (Berger et al., 2016; Berger & Sedunov, 2017). However, it is important to highlight that increasing bank liquidity may place banks at risk and limit their ability to provide liquidity (Berger & Bouwman, 2009). This can occur when fund providers, primarily depositors due to asymmetric information, claim their deposits simultaneously and in a large amount, resulting in a liquidity crisis (Díaz & Huang, 2017). As a result, liquidity creation is an extremely vital task that must be optimized but not maximized. In terms of empirical research that measures liquidity creation, two significant studies have made a pioneering contribution to develop liquidity creation measurements. The Deep & Schaefer (2005) measure was one of the initial attempts to calculate bank liquidity transformation, but it was not regarded as comprehensive because it did not consider all items on balance sheets and excluded off-balance sheet transactions (Berger & Bouwman, 2009). The second attempt to estimate the creation of bank liquidity was conducted in Berger & Bouwman's (2009) key study. Berger & Bouwman (2009) fill an important gap in bank research by developing four empirical measures of bank liquidity, namely "cat-nonfat", "cat-fat", "mat-nonfat", and "mat-fat", which vary based on how bank activities are classified by category or maturity, as well as whether off-balance-sheet activities are included or excluded. As a result of Berger & Bouwman's (2009) pioneering research, interest has lately focused on a bank's position as a liquidity creator, and various studies have studied the factors driving liquidity creation, such as Díaz & Huang (2017), Yeddou & Pourroy (2020), Safiullah et al. (2020), Berger & Sedunov (2017), and Berger et al. (2016).

2.2 Corporate governance and liquidity creation

Corporate governance has become a popular issue among policymakers in the last two decades, primarily due to the expanding influence of capital markets (Dong et al., 2017), corporate governance's critical role in improving a business's efficiency and value (Farag & Mallin, 2017), as well as the urgent need to implement strong governance structures for privatized organizations, as evidenced by global financial crises (Rose, 2017). Banks are incorporated entities like every other business, and they are subject to the same core corporate governance standards as every other incorporated organization. However, Vallascas et al. (2017) identified two features of bank governance that distinguish it from non-financial firms: the number of stakeholders in banks is much higher, and their business is more complex and opaque. Due to the opaqueness of banking operations, it is challenging for the diffused shareholders and debt holders to employ efficient monitoring, which makes banks more vulnerable to systemic risk because banks take risks fast and in ways that are not readily apparent to directors or external stakeholders (Acharya & Naqvi, 2012). In this context, the foundations of this systemic risk are based on the role of banks as liquidity providers, since, as mentioned earlier, demandable debt (deposits) allows intermediaries to provide liquidity insurance against idiosyncratic shocks (Berger et al., 2016). Besides that, moral hazard and option values related to the limited liability of banks drive banks to rely heavily on leverage to produce loans and create liquidity, therefore, certain interest conflicts between shareholders and debtors will arise (Díaz & Huang, 2017). Accordingly, banks require slightly different corporate governance priorities than other corporations due to their function as liquidity creators and the prudential issues connected with bank regulation (Safiullah et al., 2020).

While banking governance in terms of risk-taking and financial performance has been extensively studied (e.g., Dong et al., 2017; Vallascas et al., 2017; Moussa, 2019; Khan & Rehman, 2020; Arnaboldi et al., 2020; Farag & Mallin, 2017; Rose, 2017), the influence of corporate governance on liquidity creation remains in its infancy and concentrated in developed countries. Nevertheless, limited studies have looked at how corporate governance is related to bank liquidity creation due to the pivotal role of banks as liquidity providers to the economy. For instance, Delis et al. (2009) examined the association between board-specific characteristics and liquidity of the banking industry in ten OECD nations. The study employed only two parameters of board size and independence as board attributes. Overall, the results indicated negative correlations between board size and liquidity and a U-shaped correlation between board independence and liquidity. However, this study was brief and not comprehensive enough to deepen understanding of the relationship between bank liquidity and board structure.

In pursuit of further research to fill the gap in bank governance and expand the existing empirical literature on bank liquidity creation, Díaz & Huang (2017) investigated the influence of internal governance on bank liquidity creation in the U.S. banking sector before, during, and after the global financial crisis. The study found that better governance decreases liquidity creation both before and after a financial crisis and that during a financial crisis, governance has a positive and statistically significant effect on liquidity creation. In particular, the analysis revealed that higher scores in key governance categories, such as compensation incentives, audit committee characteristics, and ownership categories, had distinct consequences on liquidity creation during the financial crisis than they did before and after the crisis. Furthermore, the analysis demonstrated that these categories are relevant and positive only for large banks.

In the same vein, driven by the disparity in governance structures between Islamic and conventional banks, Safiullah et al. (2020) looked at the impact of regular board governance and Shariah supervisory board (SSB) on the creation of liquidity over a sample of 110 banks. The study discovered that "better SSB governance enhances the Islamic banks' on-balance sheet liquidity creation while decreasing their off-balance sheet liquidity creation". By analyzing the influence of SSB characteristics, they observed that the education, meeting participation, and female representation of SSB members are more important for liquidity creation than the size of SSB and the reputations of SSB members. In addition, they used management capacity measurement as a mechanism by which board governance affects liquidity creation. Thus, the study concluded that traditional boards of conventional and Islamic banks impact liquidity creation by enhancing managerial capability.

Regarding ownership structure and liquidity creation, Yeddou & Pourroy (2020) investigated the association between commercial bank ownership structure and liquidity creation from 2004-2018 in 17 Western European nations. Overall, they concluded that ownership concentration increases liquidity because the creation of liquidity is in the shareholder's interest because it generates value. The study also concluded that a bank's risk appetite is strongly related to the quantity of liquidity created depending on the type of major owner the bank has.

Regarding the GCC region, the previous empirical studies reveal that only a few studies are related to bank governance among the GCC countries. Furthermore, governance studies place more emphasis on performance and risk-taking (Ben Zeineb & Mensi, 2018; Bajrei et al., 2018; Chazi et al., 2018; Musleh Alsartawi, 2019; Abou-El-Sood, 2019; Al-Magharem et al., 2019), whereas the operational environment of banks determines the nature of these interactions. There is controversy on the findings, although some research implies that bank governance is essential for bank productivity such as performance, efficiency, risk-taking, and credit growth (Ben Zeineb & Mensi, 2018; Chazi et al., 2018; Abou-El-Sood, 2019; Al-Magharem et al., 2019), others claim that bank governance is insignificant (Bajrei et al, 2018; Musleh Alsartawi, 2019). Eventually, the studies emphasized the three key forces that need to be balanced within the bank in terms of corporate governance: the power of ownership, the power of directors; and the power of institutional shareholders. In terms of bank liquidity, the empirical evidence on the impact of corporate governance on liquidity creation is still far from straightforward. Nevertheless, Al-Khouri & Arouri (2019) conducted a study to measure the liquidity created by GCC banks through the following Deep & Schaefer (2005) approach. The study found that the ability of GCC banks to convert their liquid deposits into illiquid assets was approximately 85%, which is much better than U.S. banks, as in Deep & Schaefer's (2005) research, where it was approximately 20%. Furthermore, the study linked specific factors such as bank competition, size, capital, government ownership, GDP, and inflation with liquidity creation. Al-Khouri & Arouri (2019) proposed that banks in the GCC should focus on giving more comprehensive information regarding items on balance sheets and be more accessible to get a more precise estimate of liquidity creation.

Based on the previous, this research is motivated by the scarcity of studies that related to bank governance with liquidity creation within the domain of emerging countries, especially in the GCC region, which is described as "a bank-based economy where banks dominate most financial flows and hold the majority of financial assets". This is consistent with Díaz & Huang (2017) and Safiullah et al. (2020), who believe that the relationship between board governance characteristics and liquidity creation is still in its early stages. Therefore, the purpose of this research is to take a conceptual look at liquidity creation in the GCC by reviewing critical board governance attributes such as board composition (i.e., independent directors, foreign directors, gender diversity, education background), board functioning (meeting frequency and CEO duality), the board size, and the moderating effect of government ownership. To the best of the researchers' knowledge, these characteristics distinguish the present study from past studies on liquidity creation, particularly in the GCC region. The literature on these attributes is discussed in detail in the following sections.

2.2.1. Independent Directors

Independent directors are neither company employees nor have any company affiliation or executive rights at all (Musleh Alsartawi, 2019). Consistent with that, Dong et al. (2017) asserted that independent directors have two primary features that enable them to effectively oversee the firm's performance: independence and market-related repute. By the agency theory, boards with a higher percentage of independent directors could significantly influence managerial decisions since these directors have a strong incentive to safeguard their reputational capital (Fama & Jensen, 1983). The resource dependence theory contends that the presence of independent outside directors on the board offers the bank ties to the external environment because of their qualifications, expertise, position, and connections, which is helpful to the bank (Ingley & Van Der Walt, 2001). In addition, Moussa's results indicated that independent directors increase the credit quality of the banking sector and incentivize the liquidity role by building financial reserves. Thus, the presence of independent directors improves bank management's counseling abilities and encourages them to extend their customer base, which promotes liquidity creation (Safiullah et al., 2020; Díaz & Huang, 2017).

In contrast, Vallascas et al. (2017) claim that a high proportion of independent directors may raise the restrictions imposed on banks and force them to forego attractive investment opportunities. Inyang et al. (2020) also found that a high percentage of independent directors limits bank lending activities and affects liquidity negatively. Even though the findings are conflicting, most previous studies have revealed a positive impact of independent directors on bank liquidity creation. The presence of independent directors on the board is expected to strengthen monitoring and reduce agency costs, ultimately improving liquidity creation. Based on that, the next hypothesis is proposed as follows:

H1: *There is a positive relationship between board independence and bank liquidity creation.*

2.2.2. Foreign Directors

According to resource dependency theory, foreign directors strengthen board independence as foreign members with diverse ethnicities or cultural backgrounds are more likely to have better management practices, strong risk management, and high operational efficiency (Moussa, 2019). These attributes foster bank decision-making and help create a competitive advantage for them, hence enhancing bank performance (Arnaboldi et al., 2020). Therefore, previous studies (Boussaada et al., 2018; Moussa, 2019) stated that the presence of foreign directors boosts bank credit quality through building financial buffers and thereby may affect liquidity positively. In contrast, Khan & Rehman (2020) argued that a high share of foreign directors could significantly control managerial decisions and may limit banks' abilities to engage in value-increasing activities by limiting upside risk-taking, which may negatively impact liquidity creation. Even though the available empirical literature fails to conclude whether foreign directors enhance or weaken liquidity creation, it is expected, based on the resource dependency theory, that foreign directors' knowledge and cultural diversity might enhance the board's effectiveness, fostering decision-making and liquidity creation. As a result, the following hypothesis is proposed:

H2: *There is a positive relationship between foreign directors and bank liquidity creation.*

2.2.3. Gender diversity

The agency theory promotes board diversity to evade a single person or a tiny group from controlling the decision-making mechanism (Farag & Mallin, 2017). According to Abou-El-Sood (2019), female board members provide diverse perspectives in board conversations, which helps to promote board selections in a more transparent information environment. Dong et al. (2017) discovered that higher gender diversity improved bank management supervision by reducing excessive risk and improving loan quality. Safiullah et al. (2020) also indicated that female directors on the board can contribute significantly to enhancing bank productivity, including prudent liquidity creation. In contrast, Sabeeh Ullah & Kamal (2017) argued that female directors are more risk-averse in a competitive environment, leading to conflict and slower decision-making. Resultantly, board gender diversity can have a detrimental impact on liquidity creation. Nevertheless, previous studies mainly asserted that gender diversity is an important corporate governance mechanism, which can strengthen the independence of board directors and improve the decision-making and supervision quality of the board of directors, resulting in more liquidity creation. As a result, the following hypothesis is proposed:

H3: *There is a positive relationship between gender diversity and bank liquidity creation.*

2.2.4. CEO Duality

According to agency theory, the CEO and chairman functions should be separated to prevent senior management from controlling the board of directors (Fama & Jensen, 1983). Power concentration can aggravate the conflict of interest and reduce the flow of information between the other directors (Fama & Jensen, 1983; Jensen, 1993). Previous studies (Gontarek & Belghitar, 2020; Moussa, 2019; Grassa, 2016) contend that the function of duality has a detrimental impact on the bank board's oversight and monitoring process. Thus, the formal hierarchical power and authority concentrated on one individual motivates banks to engage in risky activities that others would avoid. Therefore, combining the chairman and CEO's responsibilities deteriorates the quality of bank loans (Chen & Lin, 2016), which may negatively influence liquidity creation.

In contrast, Gill & Shah (2012) found a positive relationship between CEO duality and cash holdings. Thus, they argue that holding both the CEO and Chairman positions allows for more clarity in decision-making and responsiveness to investment opportunities, resulting in more liquidity creation. However, this perspective is less probable because integrating both functions into a single person leads to dominating the internal governance process and may reduce the bank board's effectiveness in monitoring and supervising, which negatively impacts liquidity creation. As a result, the following hypothesis is proposed:

H4: *There is a negative relationship between CEO duality and bank liquidity creation.*

2.2.5. Board Meeting

According to Vafeas (2005), the frequency of board meetings is an essential determinant of the overall success of the board. Consistent with that, Dong et al. (2017) argued that board meetings are crucial avenues via which directors get firm-specific information and accomplish their monitoring responsibilities. According to Gupta & Mahakud (2021), board meetings allow board members to get together, communicate, and exchange ideas about how they want to supervise the management and bank strategies. As a result of their regular attendance, Safiullah et al. (2020) stated that board meetings improve investment decision-making and can effectively optimize banks' liquidity creation procedures. In contrast, Musleh Alsartawi (2019) and Khan & Rehman (2020) pointed out that increased board meeting frequency could result in higher costs associated with strict monitoring. Thus, the more meetings there are, the tighter the control over managers becomes, restricting banks’ ability to engage in activities that will create value, which may negatively impact liquidity creation. However, the last viewpoint is less plausible because the number of board meetings is an important factor in the board's overall success and ensures a better flow of knowledge and information between directors about bank activities, which leads to improved liquidity creation. As a result, the following hypothesis is proposed:

H5: *There is a positive relationship between Board meetings and bank liquidity creation.*

2.2.6. Board Size

There are two opposing views on the impact of board size concerning liquidity creation in the banking sector. The first perspective is resource independence theory, which claims that larger boards tend to have more skills and knowledge and a better capacity for oversight and task distribution (Ben Zeineb & Mensi, 2018). In addition, Inyang et al. (2020) argued that a larger board of directors is likely to increase its ability to regulate and encourage activities that create value, thereby enhancing bank performance. Thus, they stated that a larger board size enables banks to extend lending activities and create more liquidity. In contrast, agency theorists argue that too many members on a bank board create challenges in coordination and communication, thereby making agency conflicts more severe (Jensen, 1993). Earlier research (Safiullah et al., 2020; Sadeghi, 2020; Delis et al., 2009) indicated that a large board size weakened decision-making and hindered bank lending activity, severely impacting liquidity creation. Even while the studies claimed that larger boards improve monitoring and oversight, this benefit may be balanced by weaker decision-making in a larger group and less efficiency in strategic issues, which harms liquidity creation. As a result, the following hypothesis is proposed:

H6: *There is a negative relationship between board size and bank liquidity creation.*

2.2.7. Government Ownership

This study uses government ownership as a moderating variable in the association between the independent variables (independent directors, foreign directors, gender diversity, CEO duality, board meetings, and board size) and the dependent variable (liquidity creation). Government-owned banks are financial entities owned and operated in the public interest by a government or semi-government body. Previous studies (Borisova et al., 2019; Fu et al., 2015) classified government-owned banks as financial institutions in which the government controls more than 5% of the shares and has more than one executive director on the board. As a result, the executive directors perform the functions of agents and principals (Borisova et al., 2019). Hence, government involvement in bank operations may boost the effective monitoring or supervision of banks' management via laws and regulations enacted to serve public interests, particularly the interests of banking service creditors (Qian et al., 2015).

Meanwhile, the government's role as a bank shareholder will exacerbate the agency conflicts in a bank (La Porta et al., 2002), because their decisions may be influenced not only by financial considerations but also by the government's development and political goals. In line with this, Andrei Shleifer & Vishny (1997) claimed that government-owned banks might benefit from highly concentrated rights since they are typically managed by bureaucrats whose goals are often driven by the public interest. Resource dependency theory, on the other hand, focuses on the board's function in securing and acquiring the organization's critical resources through their connection with the external surroundings. In this context, Saha (2019) stated that banks with governmental shareholdings improve the flow of information by engaging in a voluntary disclosure to legitimize the government's actions and fulfill their reporting responsibilities to the general public. Additionally, these banks are more closely regulated by the government and have access to government funding, which lessens the need to fundraise from outside sources (Al-Khouri & Arouri, 2016). Therefore, empirical studies show that government-owned banks expand their lending activities due to government protection by engaging in more investments, which in turn positively influences bank liquidity creation (Yeddou & Pourroy, 2020).

In the GCC context, as previously noted by Chazi et al. (2018) and Bajrei et al. (2018), ownership in the banking industry in the GCC region is mainly attributed to governments and semi-governments rather than small and diverse ownership. Furthermore, Al-Magharem et al. (2019) stated that, while all GCC codes require that the chairman be independent, the chairman in several GCC banks has significant government ownership or political connections with one of the board members. Thus, Al-Khouri & Arouri (2016) and Bajrei et al. (2018) pointed out that investors in the GCC are more confident in government-owned banks and that state ownership positively affects bank productivity, including performance, credit growth, and stability. As a result, according to Al-Khouri & Arouri (2019), banks with a high level of state or semi-state ownership are better able to provide liquidity due to government protection that bears the consequence of excessive lending activities. This, together with Baron and Kenny's (1986) perspective, supports the use of government ownership as a moderator in dealing with the problem of conflicting findings. In other words, the moderator variable, through an indirect effect, may be able to describe the situation if the correlation between the IV and the DV is ambiguous or conflicting (Baron & Kenny, 1986).

Furthermore, using government ownership as a moderator variable repeats the work of Fu et al. (2015), who used a sample of Chinese banks; Qian et al. (2015) in Pakistan; and Rehman et al. (2020) in China. These researchers noted that government ownership could moderate the correlations between board characteristics such as board independence, diversity, and size with bank risk-taking and efficiency. Based on these considerations and the agency and resource dependency theories, this paper proposes that government ownership may moderate the association between board governance attributes and liquidity creation in the GCC banking industry.

3. Research Methodology

The method employed by this study is a review of the literature concerning bank liquidity creation in association with corporate governance attributes. Through this method, the study gained insight into the level of research regarding bank liquidity creation and how it has been influenced by board attributes focusing on the banking sector in the GCC context.

The research framework depicted in Figure 3.1 below is developed based on agency and resource dependency theories. Agency theory is the leading theory in this study and is used in developing and explaining the relationship between board characteristics and bank liquidity creation. Resource dependency theory, on the other hand, is highlighted to illustrate the moderating effect of government ownership and to provide a further understanding of the relationship between dependent and independent variables.

In general, agency theory states that corporate governance is intended to guarantee that the administration runs the bank in the best interests of its shareholders and stakeholders because the financial intermediation function suggests asymmetric information arises when the bank acts as an agent on behalf of investors while transferring their short-term deposits into risky long-term investments (Diamond & Dybvig, 1986). Additionally, when it comes to the banking industry, there is an agency problem between controlling shareholders and bank creditors (Yeddou & Pourroy, 2020). Thus, various corporate governance techniques have been proposed to ensure that managers operate the organization in a manner that suits shareholders' interests. The agency theory suggests that robust internal governance procedures in terms of board attributes (i.e., board meeting, size, educational background, COE duality, independent directors, foreign directors, and gender diversity) are essential mechanisms to align the interests of principals and agents and could lead to better supervision of managers' opportunistic decision-making in respect to liquidity creation (Díaz & Huang, 2017). Furthermore, the agency view predicts that while managers of state-owned banks usually put up little effort or divert funds for their gain, state-owned banks generally serve societal goals and allocate resources when private markets fail (La Porta et al., 2002). Thus, Berger et al. (2016) suggest that large shareholders, such as government owners, enhance board monitoring as they have sufficient voting power to influence liquidity creation decisions in the banking industry.

Based on the resource dependency theory, it has been assumed that board characteristics (i.e., board meeting, size, educational background, CEO duality, independent directors, foreign directors, and gender diversity), enhance board advisory abilities and encourage them to extend their customer base through engaging in more investment activities, which in turn affect liquidity creation (Safiullah et al., 2020). Resource dependence theory posits that bank board’s provide access to critical resources through linkages with the external environment (Dong et al., 2017). Rehman et al. (2020) stated that in the case of emerging economies, due to market inefficiency, acquiring resources from the government is a more direct and easier method. Therefore, state ownership is expected to moderate the relationship between board characteristics and liquidity creation due to the provision of government protection, funding access, and advisory services.

While this work is inspired by the models developed by Díaz & Huang (2017) and Safiullah et al. (2020), it differs significantly in its focus on liquidity creation in the GCC banking sector and its use of a moderator and novel independent variables. In their work, Díaz & Huang (2017) used eight different governance attributes to construct a Corporate Governance Index (CGI) that looked at how they related to liquidity creation by U.S. banks from 2003 to 2014. Safiullah et al. (2020) employed two main I.V.s (Shariah supervisory board (SSB) and regular board governance) in addition to different individual board attributes, except for managerial ability, which serves as a channel through which board governance affects liquidity creation. The study established relationships among variables using a range of possible theories, including agency, stakeholder, and resource independence theories (Safiullah et al., 2020).

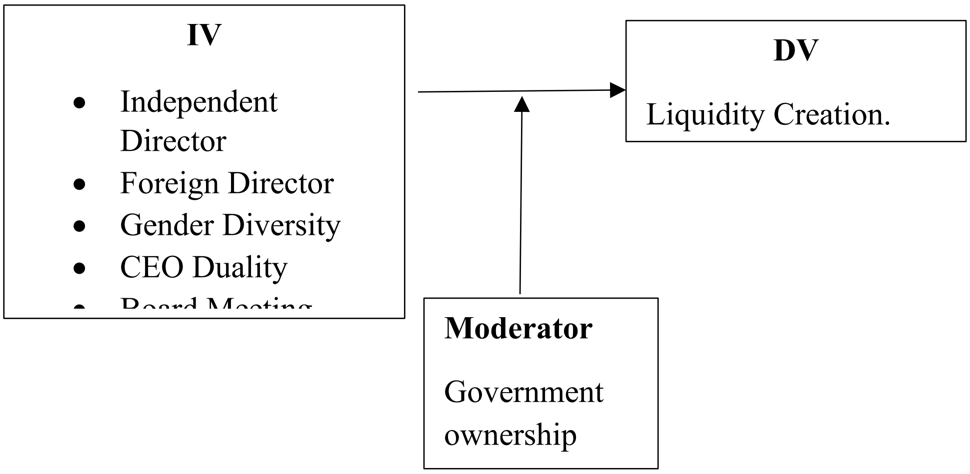

Figure 1. Research Framework

4. Conclusion and Recommendations

The preeminent function of banks as financial intermediaries in the economy encourages the study of liquidity creation. Thus, corporate governance is the foundation of a good business and is viewed as both the structure and the relationships that determine the direction and performance of the enterprise. It includes all the procedures, rules, and regulations a bank uses to make official decisions and run its operations (Farag & Mallin, 2017). At a glance, good internal governance will ensure that the board of directors retains control over the business and better manage bank assets and liabilities to generate prudent liquidity creation (M. Delis et al., 2009; Sadeghi, 2020). Furthermore, the board composition and functioning are part of the system of checks and balances that assures that bank managers' moral hazard of excessive risk-taking is reduced as a result of the liquidity buffer, potentially leading to more prudent liquidity creation (Díaz & Huang, 2017; Sadeghi, 2020; Safiullah et al., 2020). Therefore, the objective of this study is to conceptually analyze liquidity creation by focusing on the role of board governance characteristics like board independence, foreign directors, gender diversity, CEO duality, board meetings, and board size, as well as the moderating effect of government ownership. Based on prior studies conducted primarily in developed countries, effective board governance has been shown to improve the liquidity position of banks by guarding their cash resources and lines of credit. Following up on the empirical evidence of the relationship between board governance characteristics and liquidity creation, the current study examined the relationship conceptually. It came to the following conclusion based on the knowledge from the studied literature: (1) In most emerging economies, particularly the GCC, research on liquidity creation is still scarce if compared to developed countries. (2) It is proposed that there is a significant relationship between the analyzed board attributes (i.e., board independence, foreign directors, gender diversity, CEO duality, board meetings, and board size) and liquidity creation. (3) The relationship between board attributes and liquidity creation is moderated by government ownership (Fu et al., 2015; Qian et al., 2015; ur Rehman et al., 2020). This research adds to the body of knowledge by investigating the board attributes that have received the lowest academic focus regarding liquidity creation. So, most of the past research on board governance looked at how it affected bank performance, taking risks, efficiency, asset quality, credit risk, and other things. The study further adds to present knowledge through the proof of (agency and resource dependence theories) as determinants of corporate governance and liquidity creation (Safiullah et al., 2020). In addition to its theoretical value, this research has important policy and investment implications concerning board governance and liquidity creation. As a result, it may play a role in assisting bank management, regulators, GCC governments, and other stakeholders in developing solid monetary and governance policies that stabilize the region's financial condition.

Nevertheless, the study had certain limitations. For example, the board governance attributes that have been investigated are only a few of them that may be looked at in terms of liquidity creation. In addition, this study is conceptual rather than empirical, as furthering the causative or correlational relationship between board characteristics and liquidity creation is critical and essential. Therefore, the study suggests that future research should be empirical and include additional variables in examining liquidity creation, such as audit committee, risk committee, remuneration and nomination committee, compliance with regulations, the various levels of concentrated ownership, and the types of such ownership. For comparative purposes, future research may investigate the impact of board governance on liquidity creation in other countries, particularly in Asia, an emerging market.

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