

Abstract

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Is there an association between debt and banks' operating performance? A comparative analysis between conventional and Islamic banks in Middle East and North Africa region (MENA region)

This article extends the common view that corporate governance is all about merely the role of the board of directors. Since debt financing is regarded as one of the governance mechanisms, many studies have found that debt has a positive impact on banks' and firms' performance. This article will not only examine the relationship between debt governance structure and banks' operating performance, the study will also compare the strength of association between debt financing and banks' performance in two different types of banks conventional banks and Islamic banks. Debt in both types of banks is supposed to be different, since Islamic banks depend on the principle of profit-losses-sharing and the inhibition of interest "Riba", on the other hand conventional banks use interest in most of their activities. The objective of the article is to examine the association between debt financing and banks operating performance in conventional and Islamic banks that are located in Middle East and North Africa (MENA) region. The results show that debt structure has a governing role on banks' operating performance in both conventional and Islamic banks, and the debt in Islamic banks is more associated with operating performance than in conventional banks.