ARTICLES

Perceptions of Concerned Parties about Corporate Governance and Business Ethics in Kuwaiti Banks

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Abstract:

Study Purpose: This study aims to explore both corporate governance (GC) and business ethics (BE) practices in Kuwaiti Islamic and conventional banks and the relationship between CG and BE, using an accountability framework.
Study Methodology: Using a questionnaire survey method, this study examines the perceptions of key stakeholder groups who are connected to Kuwaiti banks like bank employees (clerks), clients, and regulators regarding BE and CG then it probes the difference between applying the two in conventional and Islamic banks.
Study Data & Sample: A random sample of relevant parties were applied on 272 participants varied in experience, scientific efficiency, and age.
Study Findings: The study revealed that the main concern is not the absence of CG, but rather the lack of its consistent enforcement. Participants underlined the need of strict implementation of Kuwaiti banks governance and adopting conclusive measures to protect all concerned parties' wealth, not only that of stockholders. What also drew attention was banks' client's high expectations concerning implementing CG standards and BE practices.
Research Implications: This study provides some important implications for managers, policymakers, and foreign investors. Managers can use it to develop optimal CG and BE strategies based on their clients' expectations. Regulators can develop governance mechanisms in Islamic Banks (IBs) based on both clients' and employees' stances which affirmed the importance to embed CG and BE practices. Moreover, establishing CG and BE practices

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will also attract foreign investment which in turn promotes economic welfare.

Keywords: Corporate Governance (GC), Business Ethics (BE), Islamic Banks, (IBs) Conventional Banks (CBs), Accountability.

1. Introduction

Recent years have seen growing public interest in CG because of the scandals at high profile corporations such as Enron and the associated abuses of managerial power (Heath and Norman, 2004; Spitzeck, 2009). The rising number of corporate crises and failures has sparked discussion about the role of large corporations in society and raised questions about their ethical standards, management decisions and CG practices (Boda and Zsolnai, 2016). Corporate failures, such as that at Enron, have raised concerns over the effectiveness of existing governance, corporate accountability, and BE practices (Arunachalam and McLachlan, 2015; Wood, 2017; BÃTAE, 2018).

Consequently, in academic journals, there has been a growth in the number of papers investigating CG. Besides, the relationship and the impact of CG on ethical behaviour is a popular topic for researchers (Rossouw, 2005; Müller et al., 2016). Hence, there have been more appeals for an ethical evolution to restore trust and confidence in the governance system, focusing on behaviour of individuals in governance regimes (Holme, 2008; Key, 2012; Price et al., 2018). In fact, there is a widely shared view that the leaders of corporations should lead by speaking out more often on ethical matters and making appropriate ethical pronouncements that take current community priorities into account (Holme, 2008). Furthermore, there are several factors that highlight the importance of robust CG and BE systems in developing and emerging markets, such as weak and illiquid markets, high ownership concentration, state ownership, weak investor protection, closely-held family firms, and low levels of disclosure and transparency (Baydoun et al., 2013; Abdallah and Ismail, 2017).

Despite the growing number of studies on CG and BE, there is a dearth of studies that attempt to explore the CG system in the Gulf

Cooperation Council (GCC) countries[1], particularly in Kuwait. In addition, to the best of the author's knowledge, no study has been published in the Kuwaiti financial sector including both Islamic and conventional banking that investigates the relationship between CG and BE from the perspective of key stakeholders. Studying the banking sector is crucial, as it is the essential pillar of any financial and economic system. The financial sector's development can make a significant contribution to economic growth, welfare and stability. Furthermore, globalisation, and the continued growth of emerging economies, especially in the GCC countries that have signicant oil and gas reserves and relatively high gross domestic product per capita, have led to a surge in international capital flows into such developing and emerging markets. This opportunity has created an opening for foreign investors who need to understand CG and BE practices in these environments.

These factors have motivated the researchers to carry out a study that explores the relationship between CG and BE in the Kuwaiti banking sector, and to take a first step towards reforming and enhancing the practice of CG and BE in the Kuwaiti financial sector.

The findings of this study provide some important implications for managers, policymakers, and foreign investors. For managers, it allows them to develop optimal CG and BE strategies based on their clients' expectations. For regulators, it could guide their decisions regarding governance mechanisms in Islamic Banks (IBs) based on both clients' and employees' stances and gradually embeds solid and specic CG and BE practices. It also, demonstrates the importance of incorporating ethical matters into CG pronouncements. Moreover, establishing robust CG and BE practices is not only significant for domestic firms but is also required for attracting foreign investment to promote economic welfare.

(1) The GCC was established on May 25th, 1981 as an alliance of six countries, (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), that share similar characters in terms of ethnicity (Arab), religion (Islam), political regime (monarchy), culture and traditions.

2. Literature Review

A good CG system should be accountable to as many organisational stakeholders as possible, including the shareholders, to protect the interests and to maximise the firm's value. Bonn and Fisher (2005) state that CG is concerned with the processes by which an organisation is directed, controlled and held accountable. They view the notion as dealing primarily with the responsibilities and rights of an organisation's management, its shareholders and other stakeholders, with an emphasis on balancing these interests with the organisation's economic goals and society's interests.

The literature suggests that the existence of a robust governance structure adds excellent value to a company and raises the likelihood of significant financial achievement. It is not only a matter of putting restrictions on the conduct of the company, but equally about creating a culture and environment that encourages high ethical standards (Wanyama et al., 2013; Crane and Matten, 2016; Wood, 2017; Singh et al., 2018).

Observing the CG from the BE perspective, the literature provides several definitions of ethics in general. The notion of ethics is concerned with the moral judgements involved in making decisions about what is morally good and bad, or morally right and wrong (Joyner and Payne 2002; Crane and Matten, 2016). Hence, BE is applying theories of what is right and wrong to activity within and between commercial enterprises and their external environment (Crane and Matten, 2016).

BE literature concentrates on transforming individual ethics at the corporate level. Demise (2005) asserts that some essential institutional reforms are necessary in order to correct this lack of corporate conscience, such as creating a more personal identity for employees and increasing the transparency of individuals' actions. Moreover, sustainable governance reforms should also emphasise both decreasing the benets that individuals and corporations can derive from ignoring CG regulations and increasing the costs of corporate frauds (Rajagopalan and Zhang, 2009). Developing this theme, Boda and Zsolnai (2016) argue that the implementation of ethical conduct codes to drive the performance of business requires the establishment of appropriate structures and processes for improving and monitoring ethical behaviour. Their argument, would entail identifying the key performance indicators needed to supply reliable information about the ethical performance of organisations.

Bonn and Fisher (2005) identify several considerations that need to be addressed by boards of directors if they want to integrate ethical concerns successfully into the CG structures of their organisations. First, boards need to identify their current attitudes, values and beliefs and evaluate whether they are appropriate for their organisation. Second, boards should carefully examine their behaviour as regards ethical issues. Finally, boards need to evaluate the policies, current strategies and procedures of the organisation, and investigate whether they encourage ethical behaviour and reflect the ethical values of the organisation.

Nordberg (2007) explores how ethical frameworks underpin conventional CG models to guide directors, primarily independent non-executives who, he argues, increasingly act as the (moral) compass of the corporation. Nordberg suggests that an ethical system based on shareholder value is impracticable as well as having deep theoretical flaws. For different reasons, he argues that stakeholder theory is also flawed; for example, he claims that it fails at the theoretical level because it struggles with determining the difference between means and ends (Nordberg, 2007). In contrast, he suggests that agency theory can assist the directors in finding solutions to major CG problems such as how to keep managers from diverting the funds of the corporation for private purposes (Nordberg, 2007).

In terms of BE and CG in the GCC, a robust and consistent CG regime in the GCC countries is still being developed. A few studies have investigated CG in the GCC countries (Baydoun et al., 2013; Al-Saidi and Al-Shammari, 2012; Shehata, 2015; Pillai and Al-Malkawi, 2016; Abdallah and Ismail, 2017), none of which, however, examined both CG and BE and explored the link between them.

Using the OECD’s 2005 survey data, Baydoun et al. (2013) analysed the resulting measures of CG in five GCC countries. They found that Oman is the leader among the ve countries, followed by Kuwait and the United Arab Emirates, while Bahrain and Qatar rank fourth and fth, respectively. Likewise, Shehata (2015) explored the development of CG codes in the GCC and looked at the similarities and differences of GCC CG codes. Similarities exist in several items, including board compositions and audit-committee requirements, whereas significant differences are found concerning corporate social responsibility. She found that corporate social responsibility is addressed in all countries except in the Omani code, which states that companies must have a written code of conduct or ethics. In addition, the Bahraini code added the requirement for social responsibility toward different stakeholders. Pillai and Al-Malkawi (2016) explored the quality of CG in GCC countries using conventional and non-conventional indices. They found that there is a statistically significant difference in CG adherence levels between financial and non-financial firms, with financial firms displaying higher levels of CG compliance than non-financial ones. Nevertheless, the major limitation of this paper is the elimination of a considerable number of companies from Kuwait due to unavailability of data which places a constraint on unveiling the exact governance situation in Kuwait. Hence, the findings of this paper must be interpreted with caution when it comes to Kuwaiti firms.

Having said that, the primary study that focused on CG in the Kuwaiti context is Al-Saidi and Al-Shammari (2012). They investigated CG in Kuwait from a stakeholders' perspective using eight semi-structured interviews as a sample of stakeholder groups, namely, a regulator, executive director, nonexecutive director, CEO, chairman, auditor, academic and investor. Al-Saidi and Al-Shammari (2012) found that CG mechanisms are not well organized in Kuwait. For instance, banks have limited roles, and companies have appointed ineffective independent directors, while the legal system, shareholders' and stakeholders' rights and protections are very weak. It is worth noting that these interviews took place in 2011 and many government interventions regarding CG have taken place since. For instance, the capital markets authority (CMA) started to operate in June 2011. In addition, the Central Bank of Kuwait (CBK) in 2012 replaced the previous GC codes for banks. Furthermore, that the findings of Saidi and Al-Shammari (2012) used only 8 interviews does not necessarily mean that their findings could be generalised. Therefore, there is a need to conduct a current study in the Kuwaiti context to evaluate the impact of recent government legislation introduced by CMA and CBK regarding both CG and BE.

Although BE and CG comprise an essential aspect in the Islamic context, there is still a lack of literature on the governance structure and processes from an Islamic perspective. In fact, there is an increasing Islamic banking presence in the global financial market, while Islamic banks and windows have grown rapidly since the mid-1970s (Alnasser and Muhammed, 2012; Uddin, 2018). Alnasser and Muhammed (2012) argue that the financial conditions in IBs and windows require additional items to be included in the financial reports, such as Zakah. More generally, the need for investment and financing undertaken by IBs and windows to be in line with Sharia'h and the expectations of the Muslim community are often portrayed as ethical issues (Hasan, 2009). In this regard, the banks involved have an obligation towards all of their stakeholders and related parties, which may extend beyond the financial interest to embrace ethical, religious and other values when good CG is required (Uddin, 2018).

According to Chapra and Ahmed (2002), the objective of CG in the Islamic context is to ensure ethical behaviour towards all stakeholders, thus ensuring fairness, and greater transparency and increased accountability. The objective of CG also incorporates higher standards of protection for minorities against expropriation, enhancing transparency, increasing disclosure and effective accountability within the Sharia'h-based context. This minorities' protection will promote compliance with Sharia'h injunctions and BE (Ibrahim, 2006; Uddin, 2018). More specifically, Ibrahim (2006) argues that CG in an Islamic context requires the absence of the following: market manipulation; transactional opaqueness; short selling; speculation; and excessive financial exposure. This absence is essential because such practices have been considered by Islamic scholars to be immoral and unethical.

Two specific notions shape the nature of CG from an Islamic perspective. The first one is Sharia'h. Every action of Muslim life must conform to Sharia'h and observed ethical standards must be derived from Islamic principles. These principles - as explained earlier - define what is true, fair and just, the priorities of society, the nature of corporate responsibility and certain specific governance standards. Second, certain Islamic financial principles and BE have a direct impact on corporate policies and practices (Lewis, 2005).

Significantly, Nasr (2002) points out that no governance system can influence organisational behaviour unless it is embedded in an appropriate ethical or moral climate. This concern about the integration of BE into the CG debate in the Islamic context is clearly stated in the guiding principles on CG for institutions offering only Islamic financial services, published in 2006 by the Islamic Financial Services Board (IFSB). In this document, the IFSB (2006) state that Islam has strongly promoted good ethics, strong morals, unshakable integrity and honesty of the highest order. Additionally, ISFB standard 9 discussed the importance of implementing the code of business conduct, which would benefit more from a principles-based approach instead of a rules-based approach that leads to a box-ticking attitude toward compliance (IFSB-9, 2009).

If a broad definition of CG can be agreed upon, such as “a set of organizational arrangements whereby the actions of the management of a corporation are aligned as far as possible with the interests of its stakeholders” (IFSB, 2006., p. 16), then it may transpire that there are more similarities than differences between the ’conventional’ and Islamic approaches toward a good CG, particularly to ensure fairness, transparency and accountability (Hasan, 2009; Mohamed, 2016). A significant difference would be that the Islamic approach has religious values and requirements related to Sharia’h entrenched within it (IFSB, 2006).

Finally, in considering an Islamic view of the broad definition of CG, it is often perceived to promote an interpretation beyond those who participate in the governance of the corporation to the religion of Islam itself (Hasan, 2009). Therefore, the CG model from a Sharia’h viewpoint considers Islam to be the supreme stakeholder. The concept of Islam as the primary stakeholder affects the CG structure where it identifies Sharia’h and its ethical purposes to be the governing law of all corporate affairs, requiring the establishment of the Sharia’h Supervisory Board as part of any firm’s CG system.

3. Data and Methodology

An online self-completion survey was employed for the study in addition to a paper-based survey to approach a broader range of the targeted sample. The questionnaires were developed to suit the different groups of stakeholders identified for the study (clients, employees (clerks) and regulators). These were the key stakeholders in the banking industry (apart from shareholders) who were addressed in the literature.

The questionnaire survey was distributed to a random sample of the employees and client of all Islamic and conventional banks in Kuwait (main branches). IBs include Kuwait Finance House, Warba Bank, Boubyan Bank, Al Ahli United Bank, and International Bank of Kuwait, while CBs include National Bank of Kuwait, Commercial Bank of Kuwait, Gulf Bank, Al Ahli Bank of Kuwait, and Burgan Bank. Regarding the regulator sample, the questioner survey was distributed to the employees of CBK and CMA.

The research questions explored the participants' perceptions regarding the definition, importance, awareness, codes adequacy, clarity and other issues of CG and BE in the Kuwaiti banking sector. The survey questions examined the link between CG and BE. Besides, the study investigated the practices of BE and CG in IBs compared to CBs.

A five-point Likert scale was used, and the respondents were asked to indicate the extent of their agreement by choosing the appropriate box, from 1 (= not at all) to 5 (= to a great extent). The data were transferred to the Statistical Package for the Social Sciences (SPSS). The descriptive statistical mean and standard deviation were employed to evaluate the general pattern in responses. Then a Scheffé's method test was applied to the set of estimates of all possible contrasts among the factor level means, not just the pairwise differences. This is used as a multiple comparison post-hoc test in Analysis of Variance.

The questionnaire was prepared initially in English and then translated into Arabic by using a backward translation method with an assistant from an expert in both languages to reduce translation bias and errors.

The main issues covered in the questionnaire survey include: defining CG and BE, their importance, the current situation in Kuwait, CG mechanisms and accountability, and the link between CG and BE (see Appendix for the detailed question survey).

The first section of the questionnaires asked for basic demographic information concerning the respondent's background. The sample of the study involved 272 participants, including participants with various degrees or types of years of experience, qualifications, age and relations to the bank. Table (1) offers an overview of the distribution of the sample and how the stakeholders are related to the bank.

Table (1)
Demographical Information

indicator	number	Average	
Years of experience	Less than 5	32	11.8%
	5-10	53	19.5%
	10-15	74	27.2%
	More than 15	113	41.5%
Qualification	Below Diploma	14	5.1%
	Diploma	34	12.55%
	Bachelor	137	50.4%
	Master	45	16.5%
	PhD	42	15.4%
Age	30 & below	38	14.0%
	31-40	121	44.55
	41-50	72	26.5%
	51-60	35	12.9%
	Above 60	6	2.2%
Relation to bank	Client	130	47.85%
	Employee	110	40.4%
	Regulator	32	11.8%

It is clear from table (1) that most respondents from different stakeholders, including employees, regulators, and clients, had more than 15 years of experience and were well educated. For instance, 50.4% have a bachelor degree. Finally, the table shows that most of the participants were below 40 years of age.

Questionnaire Reliability

The internal reliability of the questionnaire was obtained by calculating the correlation between each indicator and the total result in the questionnaire. The calculation was done through the SPSS by using Pearson Correlation. Table (2) offers an overview of the correlation.

Table (2)
The correlation between each indicator and the total result in the questionnaire

Indicator	Correlation
The concept of corporate governance	0.617**
Importance and awareness of corporate governance	0.800**
The notion of business ethics	0.620**
Importance of business ethics and its link with corporate governance	0.821**
Corporate governance and business ethics in Islamic banks	0.468**

Note: **indicates statistical significance at 0.01 level

It is clear from the table that the correlation between each indicator and the total result in the questionnaire is high and indicated at (0.01) with an average between (0.468- 0.821), which illustrates the internal consistency and hence reliability.

4. Analysis and Discussion of the Results

4.1 The Concept of Corporate Governance

The first question of the questionnaire survey explored the CG definitions adopted by the three groups of participants. Six definitions of CG drawn from the literature were provided in the questionnaire.'s

Table (3)
Defining Corporate Governance

Group Means						F Value	Sig.	Multiple Comparisons- Scheffe Mean Difference (I-J)		
q	C	E	R	Total	St. Dev.			C-E	C-R	E-R
1	3.98	3.94	3.69	3.93	0.984	1.121	0.328	0.041	0.289	0.041
2	4.00	4.05	3.94	4.01	1.098	0.131	0.877	-0.045	0.063	0.108
3	4.02	3.97	3.94	3.99	0.993	0.103	0.902	0.043	0.078	0.035
4	3.87	3.85	3.94	3.87	1.032	0.08	0.923	0.015	-0.068	-0.083
5	4.00	3.74	3.78	3.87	1.079	1.909	0.150	0.264	0.219	-0.045
6	4.14	4.08	4.19	4.12	1.018	0.168	0.846	0.057	-0.049	-0.106

Note: This table presents the means and standard deviation (St.Dev.) for responses of all participant. C, E, R stands for client, employees, and regulators respectively. The table also provides F-value and p-value for ANOVA. Finally, the table reports the multiple comparisons- Scheffe mean difference (I-J), in a pairwise pattern; C-E, C-R, E-R, representing the mean differences of the responses of clients with employees, clients with regulators, and employees with regulators, respectively. * Indicates significance at 5% level

Table (3) shows that all the definitions or characterisations generated average responses between (3.87) and (4.12), suggesting recognition of several formulations. Characterisation no. 6 (commitment to ethics and professional conduct rules) achieved the highest level of agreement (mean value of 4.12). This is consistent with the literature (Bonn and Fisher 2005; Price et al., 2018). This was followed by characterisation no. 2 which refers to a broader perspective (integrity and honesty in the company's activities and sincerity in showing up financial and nonfinancial data), with a mean response of (4.01). Definition no. 4 (the principles that relate to the relationship between the company and all stakeholders who affect, or who are affected by, the decisions and activities of the institution) came third with a mean value of (3.99). The definition that presented CG as 'the system that directs and supervises the company' reached a mean value of (3.93). Definitions (4) and (5) gained the same mean response of (3.87).

Table (3) also illustrates the lack of significant simultaneous or pair-wise responses across the three groups. Like the literature, this evidence suggests that no single definition of CG dominates in Kuwait banking sector.

4.2 Corporate Governance Issues

Six statements were designed to explore the participants' perceptions regarding the importance, awareness, rules adequacy, clarity and other issues of CG in Kuwait.

Table (4)
Importance of Corporate Governance

Group Means						F Value	Sig.	Multiple Comparisons- Scheffe Mean Difference (I-J)		
q	C	E	R	Total	St. Dev.			C-E	C-R	E-R
1	4.27	4.35	4.38	4.31	0.988	0.249	0.78	-0.076	-0.106	-0.03
2	2.68	3.3	2.97	2.96	1.199	8.489	0.000	-.623*	-0.292	0.331
3	3.12	3.37	3.44	3.26	1.042	2.385	0.094	-0.257	-0.322	-0.065
4	3.06	3.52	3.41	3.29	1.133	5.201	0.006	-.457*	-0.345	0.112
5	3.59	3.46	4.09	3.6	1.122	3.999	0.019	0.129	-0.501	-.630*
6	2.99	3.44	3.34	3.21	1.205	4.363	0.014	-.444*	-0.351	0.093

Note: This table presents the means and standard deviation (St.Dev.) for responses of all participant. C, E, R stands for client, employees, and regulators respectively. The table also provides F-value and p-value for ANOVA. Finally, the table reports the multiple comparisons- Scheffe mean difference (I-J), in a pairwise pattern; C-E, C-R, E-R, representing the mean differences of the responses of clients with employees, clients with regulators, and employees with regulators, respectively. * Indicates significance at 5% level.

The results in table (4) indicate that all three groups strongly agreed that CG is important for Kuwaiti banks, with an overall mean of (4.31). The regulators generated the highest level of agreement with a mean of (4.38), with employees and clients producing figures of (4.35) and (4.27) respectively. These results reflect a good level of awareness of the CG and accountability concepts and of their impact on the business sector as confirmed by many authors (see: Solomon, 2010; Crane and Matten, 2016).

In contrast, the participants were dissatisfied with the level of awareness of governance in Kuwaiti banks, with an overall mean of (2.96) suggesting that bank managers and regulators are not convincing stakeholders that the banks have a high level of awareness of CG. Hence, there is a lack of accountability here. Nevertheless, the group means show that employees gained the highest mean value of (3.3), which indicates that they believe that there is an acceptable level of awareness of CG. In contrast, clients disagree with this point of view. This finding is clearly shown by the multiple comparisons among participant groups, as presented by a Scheffé test. It confirms that there is a statistically significant difference between the employees' responses and the clients' ones. Thus, this interesting result reflects the gap in perceptual knowledge between the two groups. It also indicates that bank managers and employees think they are doing well in this regard, while clients believe that they are not. Therefore, to bridge this gap, the banks need to pay more attention to CG issues as well as letting clients and the public know that they are doing so. This is because an essential component of good governance is creating an organisational culture within ethical banks (Halamka and Teplyì, 2017) and reinforcing these norms and values among the society (Kersbergen and Waarden, 2004). In addition, as suggested by some participants, it is important to teach CG in depth at university and college level in Kuwait, especially for students likely to follow careers in the financial sector. Currently, CG is not part of the mainstream curriculum, and the evidence here suggests that the issue requires an immediate response by integrating the notion and its importance into education (see Guillermina et al., 2018).

Contrary to Al-Saidi and Al-Shammari (2012), there was an agreement among groups regarding the sufficiency of governance instructions and rules in Kuwait, with an overall mean of (3.26), and all groups' means above (3). The participants believed that existing CG codes issued by CBK in 2012, replacing the previous ones in 2004, are comprehensive and sufficient for banks. The same overall level of agreement was generated by the groups as to the clarity to stakeholders of the existing corporate governance instructions, with an overall mean of (3.29), and again all groups' means above 3. This shows that the recent government interventions regarding CG, represented by the efforts of the CMA and CBK have been helpful. However, the statistical results show again a statistically significant difference between the clients' and employees' group's responses. The client participants question the clarity of CG codes to banks' stakeholders. This supports the evidence of a gap in perceptions, as discussed previously, between those two important stakeholder groups.

In addition, the participants agreed that the CG and BE codes issued by the capital markets authority CMA for listed companies and investment management funds are beneficial and complement CBK corporate codes for listed banks, with an overall mean of (3.60). This result implies that the CMA code is perceived by the participants as a complement to CBK, which may be reflected as a right level of accountability in relation to these concepts. However, this was driven by the regulators' group, who produced the highest mean value of (4.09), but clients and employees scored less than (4) with a mean of (3.59) and (3.46) respectively, which is reflected clearly in the results of the Scheffé mean differences among participant groups. Regulators strongly believe that CG and BE codes issued by the capital market authority are beneficial and complementary to the CBK instructions while employees are less convinced. Therefore, results indicate that there is a gap in perceptions between regulators who tend to think that their work is effective, and employees who might have a more accurate view of its effectiveness in practice. This leads to the discussions brought by Holme (2008) which encouraged more involvement of employees with regulatory matters.

As Rajagopalan and Zhang (2009) reported, table (4) indicates slightly different views, with the statement that ‘‘the system of punishing the banks that are not compliant with CG codes is effective and positive’’, with the mean ranging between (2.99) for the clients' group (who slightly disagreed) and (3.44) for employees. It seems that clients are more negative than employees regarding this point, as confirmed by the Scheffé test's mean difference between the two groups. Such views point to the importance of the CG system being strictly and effectively implemented in Kuwaiti banks to protect all stakeholders' interests, and not only those of shareholders.

The implication is that once malpractice is detected, a penalty should be enforced immediately (see Rajagopalan and Zhang, 2009). Nevertheless, it is argued that in emerging markets, the main issue is not the absence of CG codes, but rather the lack of timely and consistent enforcement of the laws that already exist (Rajagopalan and Zhang, 2008). Hence, to prevent abuse of the CG system and any arbitrary practices, top management should be held accountable (Kersbergen and Waarden, 2004; Al-Saidi and Al-Shammari, 2012). Furthermore, to ensure that effective governance is achieved, legal regulations must tackle several issues such as disclosure of affiliate and family relationships, a culture of independent non-executive directors and enforcement of regulations (see Al-Saidi and Al-Shammari; 2012, Baydoun et al., 2013).

4.3 Business Ethics and Corporate Governance

This section is designed to investigate perceived definitions and importance of BE among the three stakeholder groups, and the link between BE and CG.

Table (5)
Defining Business Ethics

Group Means						F Value	Sig.	Multiple Comparisons- Scheffe Mean Difference (I-J)		
q	**C**	**E**	**R**	**Total**	**St. Dev.**			**C-E**	**C-R**	**E-R**
1	3.84	4.04	3.91	3.93	1.025	1.119	0.328	-0.198	-0.068	0.13
2	4.09	3.9	3.78	3.98	1.002	1.808	0.166	0.192	0.311	0.119
3	3.99	3.94	3.88	3.96	0.952	0.233	0.793	0.056	0.117	0.061
4	3.68	3.72	3.63	3.69	1.053	0.109	0.897	-0.041	0.052	0.093

Note: This table presents the means and standard deviation (St.Dev.) for responses of all participant. C, E, R stands for client, employees, and regulators respectively. The table also provides F-value and p-value for ANOVA. Finally, the table reports the multiple comparisons- Scheffe mean difference (I-J), in a pairwise pattern; C-E, C-R, E-R, representing the mean differences of the responses of clients with employees, clients with regulators, and employees with regulators, respectively. * Indicates significance at 5% level.

Table (5) shows the four definitions of BE which were included in the questionnaire in this regard. Similar to the literature, the results reveal that no one definition dominated participants' views, with all means falling between (3.69) and (3.98). The conceptualisation of BE as ‘‘the principles that control the relationship between the institution and others’’ (no. 2) achieved the highest level of agreement among the sample as a whole. Given that this is one of the narrowest definitions of BE suggested, it indicates that broader concepts of ethical behaviour in a business context are not yet well understood in the Kuwaiti banking context, with consequent effects on practices. Phrase (3), which provided a broader perspective, defining BE as ‘‘principles describing how employees should act with others inside and outside the bank’’, scored the second highest overall mean of (3.96). The narrowest definition (employees' behaviour in the bank) came third with an overall mean (3.93). Interestingly, the broadest definition of BE (applying theories of right and wrong on the banks' activities and internal and external transactions, including society and environment) produced the lowest mean value.

The next question in the survey provided ten statements related to the importance of BE and its links to CG in Kuwaiti banks, and invited the participants to express the extent of their agreement with each one. The participants' responses varied regarding the statements.

Table (6)
Importance of Business Ethics and its relationship with Corporate Governance

Group Means						F Value	Sig.	Multiple Comparisons-Scheffe Mean Difference (I-J)		
q	C	E	R	Total	St. Dev.			C-E	C-R	E-R
1	4.53	4.45	4.53	4.5	0.88	0.307	0.736	0.085	0	-0.086
2	2.87	3.4	3.16	3.12	1.153	6.596	0.002	-.531*	-0.287	0.244
3	2.96	3.43	3.38	3.2	1.068	6.403	0.002	-.466*	-0.413	0.052
4	3.05	3.83	3.28	3.39	1.04	18.906	0.000	-.773*	-0.227	.546*

Cont/ Table (6)
Importance of Business Ethics and its relationship with Corporate Governance

Group Means						F Value	Sig.	Multiple Comparisons-Scheffe Mean Difference (I-J)		
q	C	E	R	Total	St. Dev.			C-E	C-R	E-R
5	3.22	3.54	3.81	3.42	1.035	5.732	0.004	-0.321	-.597*	-0.276
6	3.62	3.77	4.03	3.73	0.994	2.46	0.087	-0.157	-0.416	-0.259
7	3.08	3.38	3.63	3.26	1.036	4.91	0.008	-0.305	-.548*	-0.243
8	3.48	3.58	3.94	3.58	1.063	2.354	0.097	-0.097	-0.453	-0.356
9	4.09	3.75	4.03	3.95	1.122	2.835	0.06	0.338	0.061	-0.277
10	3.87	3.56	4.06	3.77	1.117	3.55	0.03	0.306	-0.193	-0.499

Note: This table presents the means and standard deviation (St.Dev.) for responses of all participant. C, E, R stands for client, employees, and regulators respectively. The table also provides F-value and p-value for ANOVA. Finally, the table reports the multiple comparisons- Scheffe mean difference (I-J), in a pairwise pattern; C-E, C-R, E-R, representing the mean differences of the responses of clients with employees, clients with regulators, and employees with regulators, respectively. * Indicates significance at 5% level.

Table (6) shows several interesting findings among various stakeholders' groups whose views are sometimes significantly different. First, there was a broad agreement among all three groups of stakeholders that BE concerns are essential for Kuwaiti banks. This finding is supported by the views reported earlier in the literature that a business cannot survive without society and the society cannot progress without business (Joyner and Payne 2002; Kersbergen and Waarden, 2004). Therefore, a business must acknowledge the existence of society and implement more ethically (socially) responsible practices. Hence, good ethics would lead to good business, and therefore maintaining a good level of accountability (see: Kersbergen and Waarden, 2004; Haniffa and Hudaib, 2007; Arunachalam and Andrea, 2015; Wood, 2017; BÃTAE, 2018). Furthermore, this finding is consistent with the finding of Pae and Choi (2011) who indicated that adopting more comprehensive and high-quality CG practices and committing to higher standards of BE would lead to higher company value. Pae and Choi (2011) argued that because more comprehensive CG and high ethical standards reduce agency problems and increase transparency, they hence reduce the cost of equity capital and increase firm value.

On the other hand, the second statement (“there is an adequate awareness of the principles of BE in the Kuwaiti banking sector”), achieved the lowest mean value among the ten statements. Thus, participants, in general, were not satisfied with the level of awareness of BE. Furthermore, the clients’ group was even less in agreement with a mean value of (2.87). This is clear from the significant statistical difference in means recorded by the Scheffé test between the clients’ group and the employees’ group. Similarly, statement (3) which is "business ethics practices in Kuwaiti banks are satisfactory" comes number (9) in order, before the last, with (3.20) in statistics of the mean. Hence, there was a low agreement among the groups in general. Once more, clients were the least satisfied, with a mean value of (2.96). Indeed, this is supported by the significant statistical difference in means revealed by the Scheffé test between the clients’ group and the employees’ group, which supports the fact that the demands for ethical behaviour are stronger than ever before and client’s expectations are increasing over time (Van Beurden and Gossling, 2008; Saeidi et al.,2015; BÃTAE, 2018). Accordingly, bank managers are pressurised to meet stakeholders’ expectations in terms of CG and BE practices. Therefore, stakeholders should be able to force corporations to improve their practices (see Arunachalam and McLachlan, 2015; Boda and Zsolnai, 2016).

Furthermore, it is the responsibility of the top management to confirm that employees follow the code of ethics, and that they are informed about the penalties that might arise if they do not (Demise, 2005; BÃTAE, 2018). Hence, it is a good idea to include ethical performance as a criterion for employee appraisal (Singh et al., 2018). Moreover, BE courses in higher education would also increase awareness of ethics issues (Guillermina et al., 2018).

Furthermore, another significant disagreement between the employee and client participants emerges in statement 4 (the bank has a code of BE conduct that is obligatory and applied) with a general mean level of (3.39). It is clear that employee participants indicated a highly significant mean difference compared to both client and regulatory groups, as revealed by the Scheffé test. Nevertheless, again, these results raise interesting implications for banks managers, as they allow them to develop CG and BE strategies based on their clients' expectations, not only what they themselves believe is right.

Likewise, the statement that "the relation between CG and BE is clear" also attracted a midlevel of agreement among respondents with a mean value of (3.42). Interestingly, the regulator group recorded a significantly high level of agreement compared to client participants, as revealed by the Scheffé test. Furthermore, regulators broadly agreed with the statement that "corporate governance codes motivate and guide bank managers to behave ethically", generating a mean of (4.03), followed by employees and clients with means of (3.77) and (3.62) respectively. Such results indicate that there was a good level of understanding among such groups concerning the nature and link of BE with CG practices.

The results in table (6) show a mild level of support by the groups of the view that "the existing corporate governance codes issued by CBK and CMA are sufficient to ensure the banks behave ethically" with an overall mean of (3.26). Unsurprisingly, the responses of the regulators' participant group once more showed a significant mean difference compared to those of the clients' participant group, as indicated by the Scheffé test. As a result of the involvement of regulators in launching such regulations, client participants still have doubts about their effectiveness.

Moreover, the participants broadly agreed with the statement that "a strong code of BE would enhance corporate governance practices in Kuwaiti banks", generating an overall mean of (3.58), representing that the relationship between CG and BE was seen by the participants as a bank success factor.

The participants broadly agreed regarding the statement that "ethical practices influence my decision about which bank to deal with", with a recorded overall mean of (3.95). This mean value is the second top one among the ten statements. The highest group mean was (4.09), generated by clients, which should motivate banks to achieve a satisfactory level of BE practices. Furthermore, in relation to the statement that "corporate governance practices influence my decision about which bank to deal with", respondents produced an overall mean of (3.77), which is the third top mean value among the ten statements. This demonstrates an obvious concern about CG and ethical aspects among all participant groups. These findings are indications that banks which are implementing good ethical and CG practices can still be profitable, if not achieving higher profitability than their peers, as verified by many studies such as Van Beurden and Gossling (2008), Ghosh et al. (2011), and Halamka and Teplyì (2017). This is because bank managers will attract more clients, especially those who are inspired by ethical and CG values, as their expectations will be met. In addition, as the findings of Saeidi et al. (2015) suggest, there is a role for BE in indirectly promoting a firm's performance through enhancing its reputation and competitive advantage, while improving clients' satisfaction.

4.4 Corporate Governance and Business Ethics in Islamic Banks

Table (7) presents the perspectives of participants regarding the concepts of CG and BE practices in IBs specifically.

Table (7)
Corporate Governance and Business Ethics in Islamic Banks

Group Means						F Value	Sig.	Multiple Comparisons- Scheffe Mean Difference (I-J)		
q	C	E	R	Total	St. Dev.			C-E	C-R	E-R
1	3.59	3.43	3.03	3.46	1.302	2.467	0.087	0.165	0.561	0.396
2	3.17	2.81	2.69	2.97	1.191	3.796	0.024	0.36	0.482	0.122
3	3.24	3.14	3.34	3.21	1.135	0.493	0.611	0.102	-0.105	-0.207
4	3.18	2.86	3.28	3.07	1.141	3.047	0.049	0.321	-0.097	-0.418

Note: This table presents the means and standard deviation (St.Dev.) for responses of all participants. C, E, R stands for client, employees, and regulators respectively. The table also provides F-value and p-value for ANOVA. Finally, the table reports the multiple comparisons- Scheffe mean difference (I-J), in a pairwise pattern; C-E, C-R, E-R, representing the mean differences of the responses of clients with employees, clients with regulators, and employees with regulators, respectively. * Indicates significance at 5% level.

Table (7) shows that there is an agreement among participants concerning CG codes in IBs, the overall mean (3.46) suggesting that such governance codes should be different from those in CBs. All three groups generated mean values above (3), and the highest score was reached among clients (3.59). This is consistent with the vast majority of the literature (Lewis, 2005; Hasan, 2011; Grassa and Matoussi, 2014; Gilani, 2015; Shibani and De Fuentes, 2017; Farag et al., 2018). That is due to the different nature and characteristics of IBs compared to conventional ones (see Lewis, 2005; Abu-Tapanjeh, 2009; Alnasser and Muhammed, 2012; Grassa and Matoussi, 2014; Mohamed, 2016; Shibani and De Fuentes, 2017; Farag et al., 2018). Henceforth, in this regard, regulatory authorities such as CBK shall take the initiative to adopt particular Sharia'h governance and ethical standards for IBs. This might be guided by a central SSB and Sharia'h external auditing to ensure compliance with the new governance and ethical codes. Moreover, this should enhance regulators' auditing and disclosure systems to protect stakeholders' wealth, not just stockholders' wealth.

The respondents were in general dissatisfied with the statement that "in practice, IBs apply to BE more than conventional ones" with an overall mean of (2.97). The result, in general, suggests that IBs are like their conventional peers in terms of applying governance codes. This finding is consistent with that of Hayat and Kabir (2017), who find no significant differences in CG quality between Islamic and non-Islamic firms. Additionally, it is similar to the finding of Haniffa and Hudaib (2007) who found incongruence between IBs and their ideal ethical identity. IBs were expected to be more accountable not only to society but also eventually to God (Haniffa and Hudaib, 2007) and thus to provide a higher quality of CG and BE application. This implies that IBs' managers are challenged by a requirement to enhance upright CG and ethical practices, as they can no longer depend on a marketing strategy of attracting religious clients who might be concerned only about the Sharia'h compliance of their services (Dusuki and Abdullah, 2007).

On the other hand, there was agreement among participants in relation to the statement that "the Sharia'h supervisory board ensures that

IBs transactions and products are aligned with Sharia'h including BE'' with an overall mean of (3.21), such a board being one of the key aspects of accountability from an Islamic perspective (Hasan, 2011; Hamza, 2013; Mohamed, 2016). This result indicates that there was a good level of satisfaction amongst groups regarding the role of SSB towards applying BE in IBs, as all group means fell between (3.34) and (3.14).

Finally, the views of respondents regarding the statement that ''I am aware that the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued special governance regulation and BE for Islamic Financial Institutions'' presented groups' agreement with an overall mean of (3.07); the group means were (3.28), (3.18) and (2.86) for regulators, clients, and employees respectively. Remarkably, banks employees recorded the lowest mean value. This is interpreted by the fact that AAOIFI's standards are not obligatory in Kuwait for IBs, compared to other countries including Bahrain (see: Garas and Pierce, 2010; Hamza, 2013). Hence, a significant number of employees might not be familiar with AAOIFI's standards. Therefore, the SSB might need to adequately train and develop such employees concerning AAOIFI's Sharia'h, ethical, and CG standards to boost their confidence and awareness of Islamic ethical banking. This is noticeable because employees play a vital role in communicating the ethical stance of an IB (Gilani, 2015).

On the other hand, it worth pointing out that the employee sample includes employees from CBs who might not have heard about AAOIFI's standards. This helps interpret the lack of awareness among the banks employees sample. Nonetheless, adopting AAOIFI's Sharia'h, ethical, and CG standards for IBs in Kuwait would make the standards better known in the banking industry. In addition, CMA and CBK are also called to cooperate with AAOIFI to enhance CG and BE codes.

5. Conclusions

The paper has reported the empirical findings of a questionnaire survey that was distributed among three key groups of Kuwaiti banks' stakeholders (clients, employees, and regulators).

Most participants linked CG with ethics when defining BE. However, as in the literature, there is no single definition of CG or BE agreed on. Still, the participants were dissatisfied with the level of awareness of CG and BE, especially client participants in contrast to the employee. This suggests that the management are complacent while the customers are more critical. Thus, to bridge this knowledge gap between these two key stakeholders, management needs to improve their CG and BE and to communicate this to their customers. The regulators and supervisors need to play their roles more effectively in enforcing the codes.

Regulators strongly believe that CG and BE codes issued by CMA are beneficial and complemented to the CBK instructions while employees are less convinced by this point of view. Hence, banks managers and employees are encouraged to get more involved with the regulators.

The results revealed that the main concern is not the absence of CG and BE, but the lack of consistent enforcement of the regulations. CG and BE systems need to be strictly and effectively implemented in Kuwaiti banks to convince all stakeholders of their effectiveness. Therefore, once a fraud is detected, punishment should be enforced immediately, and stakeholders involved should be held accountable even though there are other ways in which banks can treat their customers unfairly, and breach BE codes, without actually breaking the law. Therefore, the regulatory bodies should consider this gap when enforcing the codes.

The participants were, in general, not satisfied with the level of awareness of BE and banks practices. This highlights the increasing demand for BE values and clients' high expectations concerning CG and BE over time. Thus, participants asserted that banks need to maintain CG and BE values in society rather than focusing on maximising their shareholders' value. This explains why participants strongly believe that CG and BE practices of a particular bank affect their decision in dealing with that bank. Such practices would boost banks' performance through enhancing reputation, competitive advantage, and customer satisfaction as found in the literature.

The relation between CG and BE was clear and strong from the participants' point of view. They also agreed that CG rules encourage banks to commit to BE and professional behaviour, even though our results suggest that IBs are like their conventional peers in terms of applying governance codes. However, participants agreed that CG and BE codes of IBs must be different from those in conventional banking. Therefore, CMA and CBK might consider appointing a central and independent external SSB and auditing body to ensure the compliance of IBs with the new governance and ethical codes such as the national Sharia'h body in Malaysia. This would support the internal and in-house SSB. Furthermore, SSBs are encouraged to play a more significant role in training IBs employees concerning AAOIFI's Sharia'h, ethical, and CG standards to boost their confidence and awareness in this regard. This is because the employee sample revealed low awareness of AAOIFI's standards. CMA and CBK are also invited to cooperate with AAOIFI to enhance CG and BE codes for IBs.

6. Limitations and Future research

The current study only explores the relationship between CG and BE in the banking sector of the Kuwaiti market. Thus, further research might investigate this relationship in the financial and non-financial sectors of the Kuwaiti market. Furthermore, a comparison might be undertaken between IBs and CBs in relation to the BE codes in operation and examine how that impacts their ethical and socially responsible performance. The samples might focus on small- and medium-sized enterprises (SME), as the findings might differ from listed firms. Furthermore, the sample could be extended to include multinational and empirical comparison. Moreover, an in-depth study might look at the most influential factors that could affect IBs and CBs regarding CG and BE, using ethical analysis to connect business theories and practice. A future study might determine the factors that make codes of CG and BE effective. In addition, it could be interesting to explore how CG and BE educational courses might inuence the potential development of practices by future managers (current students). Even though the self-completion survey and paper-based survey was a good measure for the relationship between the CG and BE in Islamic Banks, future research should include other important components like Islamic modes and products. Future research should also include the contribution of the Islamic financial sector as a component of the whole financial sector, for comparison between IBs and CBs and implementing the CG and BE.

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Appendix

Questionnaire questions

The Concept of Corporate Governance

To what extent do you agree that the term Corporate Governance term refers to:

1 - The system by which institutions are controlled and directed.
2 - Integrity and honesty in all activities in an institution.
3 - The principles that relate to the relationship between the institution and its shareholders.
4 - The principles that relate to the relationship between the company and all stakeholders who affect, or who are affected by, the decisions and activities of the institution.
5 - Responsible management with ethical foundations and recognition of the accountability of the institution towards all of its stakeholders.
6 - Commitment to ethics and professional conduct rules.

Importance and Awareness Of Corporate Governance

To what extent do you agree with the following statements:

1 - Corporate governance is important for Kuwait banks.
2 - There is an adequate awareness of corporate governance in the Kuwaiti banking sector.
3 - The existing corporate governance codes issued by CBK in 2012 replacing the previous ones in 2004 are comprehensive and sufficient for banks.
4 - The existing corporate governance instructions are clear to stakeholders in the market.
5 - The corporate governance and business ethics codes issued by the capital market authority CMA for listed companies and investment management funds are beneficial and complement CBK corporate governance codes.
6 - The system of punishing the banks that are not compliance with corporate governance codes is effective and positive.

The Notion of Business Ethics

In the context of the Kuwait banking sector, to what extent do you agree that the term "Business Ethics" refers to:

1 - The behaviour of employees within an institution

2 - The principles that control the relationship between the institution and others

3 - A set of principles describing how employees should behave towards others, whether inside or outside the institution

4 - An application of theories of "right" and "wrong" to activity within and between institutions, and between institutions and their broader environment

Importance of Business Ethics and Its Link with Corporate Governance

To what extent do you agree with the following statements:

1 - Business ethics are important for Kuwaiti banks

2 - There is an adequate awareness of the principles of business ethics in the Kuwaiti banking sector

3 - Business ethics practices in Kuwaiti banks are satisfactory

4 - The bank has a code of business ethics conduct that is obligatory and applied

5 - The relation between corporate governance and business ethics is clear

6 - Corporate governance codes motivate and guide bank managers to behave ethically

7 - The existing corporate governance codes issued by CBK and CMA are enough to ensure that the banks behave ethically

8 - A strong code of business ethics would enhance corporate governance practices in Kuwaiti banks.

9 - Ethical practices influence my decision about which bank to deal with

10 - Corporate governance practices influence my decision about which bank to deal with

Business Ethics and Corporate Governance in Islamic Banks

To what extent do you agree with the following statements about Kuwaiti Islamic banks

1 - Corporate governance codes for Islamic Banks should be different from conventional ones

2 - In practice, Islamic banks apply business ethics more than conventional ones.

3 - The Sharia'h supervisory board ensures that Islamic banks transactions and products are aligned with Sharia'h including business ethics

4 - I am aware that AAOIFI has issued corporate governance standards and codes of ethics for Islamic Banks.

تصورات أصحاب العلاقة عن دور الحوكمة وأخلاقيات العمل في البنوك الكويتية

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ملخص:

أهداف الدراسة: تهدف الدراسة إلى استطلاع ممارسات الحوكمة وأخلاقيات العمل والعلاقة بينهما في البنوك الكويتية الإسلامية والتقليدية من خلال نظرية المساءلة.

منهجية الدراسة: تختبر الدراسة تصور الأطراف ذات الأهمية والصلة بالبنوك الكويتية كالعاملين فيها والعملاء والجهات الرقابية حول قضايا الحوكمة وأخلاقيات العمل، ثم استطلاع الفرق بين تطبيق الحوكمة وأخلاقيات العمل في البنوك الإسلامية والتقليدية من خلال تطبيق طريقة أسلوب الاستبانات الإحصائية.

البيانات وعينة الدراسة: طبقت استبانات على عينة عشوائية، ووصل عدد المشاركين في الدراسة إلى ٢٧٢ مشاركاً بمستويات متفاوتة في الخبرة والكفاءة العلمية والعمر.

نتائج الدراسة: كشفت نتائج الدراسة أن التخوف الأساسي ليس في عدم وجود نظام الحوكمة وإنما في عدم تطبيقه بشكل فاعل. ذكر المشاركون في الدراسة أنه لابد من الحزم في تطبيق نظام حوكمة البنوك واتخاذ إجراءات حازمة لحماية جميع الأطراف ذات الصلة وليس حماية ثروة المساهمين فقط. ما أثار الانتباه أيضاً، ارتفاع مستوى توقعات عملاء البنوك فيما يخص تطبيق معايير الحوكمة وممارسات أخلاقيات العمل.

آثار الدراسة: للدراسة نتائج يستطيع مديرو البنوك ومتخذو القرار فيها وواضعو السياسات من المنظمين للصناعة والمستثمرين الأجانب الاستفادة منها. بإمكان المديرين وضع إستراتيجيات مثلى تتعلق بالحوكمة وأخلاقيات العمل بناء على توقعات عملائهم. وبإمكان المنظمين الاستعانة بها في تطوير آليات الحوكمة في البنوك الإسلامية بناء على

توقعات عملاء البنوك وموظفيها، ومن المؤكد ضرورة إدخال أخلاقيات الأعمال في ممارسات الحوكمة. هذا بالإضافة إلى أن تفعيل قضايا الحوكمة وأخلاقيات العمل سوف يسهم في جذب المستثمر الأجنبي الذي بدوره يدعم الرفاه الاقتصادي.

المصطلحات العلمية: الحوكمة، أخلاقيات العمل، البنوك الإسلامية، البنوك التقليدية، المساءلة.

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