# Corporate Governance Practices and Bank Performance in Asian Emerging Market Post-Financial Calamity

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## ABSTRACT

This study assessed the influence of bank corporate governance attributes, including risk governance, board governance, disclosure and transparency governance, together with bank restructuring on bank performance within the context of Asia's emerging markets from 2011 to 2015, following the 2007 financial crisis. This study leveraged a dataset comprising 109 banks, totaling 545 observations across eight countries, via panel data analysis techniques. Notably, the analysis revealed that risk governance mechanisms significantly and positively affected the overall performance of the banks. Furthermore, both board governance and disclosure and transparency governance made substantial contributions to improving the banks' performance. However, there was a negligible connection between bank restructuring measures and Net Interest Margin (NIM), while most control variables displayed a significant impact on bank performance. In light of these findings, this study advocates for the use of corporate governance enhancements by bank management to enhance their performance. This recommendation could be regulated through the implementation of reforms within the corporate governance codes and guidelines for banking institutions in respective countries. Furthermore, this paper offers a unique empirical model for studying the relationship between corporate governance and bank performance, providing valuable insights and contributing to the existing body of knowledge in this domain.

**Keywords:** Corporate Governance, Banking, Asian Emerging Market, Financial Crisis

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## INTRODUCTION

The global financial atmosphere is undergoing a swift transition. Likewise, Asian banks in the emerging markets have transformed their operating structure in striding towards full globalisation amid uncertainties (Hassan et al., 2018). It is worth noting that despite improvements in several countries, the 2007 global financial turmoil has not entirely ended; hence banks have been more observant. The latest failures of top three American banks plus Credit Suisse signify that most banks and their respective supervisory authorities might not have adequate corporate governance practices. Since banks are an integral component of the financial system, they must endure any disturbances to ascertain their survival and, subsequently, ensure the resilience of the general economy (Hassan et al., 2019). The consultative document by the Basel Committee on Banking Supervision (BCBSb) (2014) highlighted that effective corporate governance is critical to the optimal functioning of the banking sector and the economy as a whole.

The International Monetary Fund-Global Financial Stability Report (IMF-GFSR) (2011) disclosed that financial stability risks had increased significantly from March to September 2011. This report is highlighted here to reflect the phases after the 2007 financial crisis as well as to be in line with the selected data i.e. from 2011 to 2015. Concerning emerging markets, IMF-GFSR (2011) highlighted that their credit cycle was more advanced because they could attract more capital inflows partly due to lower interest rates and worse prospects in advanced economies. Moreover, there has been a gradual build-up of financial imbalances and credit quality deterioration, attributable to the projected significant increase in non-performing loans in some regions (Arphasil, 2019). Meanwhile, the IMF warned that emerging markets also face the risk of sharp reversals of reforms prompted by weaker global growth, sudden capital outflows, or a surge in funding costs that could weaken domestic banks (Pisani-Ferry et al., 2013). Moving forward, the Asian emerging market must strategize accordingly on the operating landscape of their financial systems, particularly after the 2007 financial disaster whereby more investors brought in their “hot money” into the region after facing slow growth and small yields in the developed economies (Blommestein & Santiso, 2007; Michailidou, 2016; Wise et al., 2015). These had paved the way for two evident forces, i.e. growth and volatility in most of Asia emerging nations.

The market report by Ernst and Young (2013) discovered that fundamental reforms are essential across large parts of the banking industry, given that many business models are no longer suitable. Moreover, under the new contemporary regulatory regimes, for instance, Basel III, banks in this region must be aware of products and services that can generate a sustainable return above the current higher cost of equity and deposits. Evidently, one of the prime factors for 2023 American bank failures was due to authorities’ ineffective oversight and banks’ negligence on matching interest rates between deposits and assets, principally loans (Williams, 2023; Wise et al., 2015). Thus, banks that operate in Asian emerging nations must be vigilant of bank-specific internal factors like liquidity, size and many more. Besides, IMF-GFSR (2011) cautioned that the immediate priorities are to address the legacy of the crisis and conclude financial regulatory enhancements instantly to regain their resilience.

It is noteworthy that most of the corporate governance practices significantly influence bank performances which are postulated by Fernández-Méndez et al. (2020), Hassan et al. (2019) and Zhu and Zhang (2020). Therefore, banks must be conscious of regulatory-based factors, i.e., corporate governance, that their stakeholders have highly emphasised recently. Banks' corporate governance has undergone few supreme enhancements since its initial guidance in 1999 with two revised principles in 2006 and 2010 (BCBSa, 2010). However, several corporate governance flaws still occurred, many of which were revealed during the 2007 financial crisis (Zulkafli et al., 2020). For example, these comprised inadequate board oversight of senior management, insufficient risk management and excessive complex or opaque bank organisational structures. Premised on the lapses, the Basel Committee on Banking Supervision decided to revise its 2006 principles to warrant critical adoption by banks and supervisors to safeguard the effective implementation of the principles (Ghiaie, 2023).

Consequently, the report by Lydenberg (2014) from the International Finance Corporation-Global Corporate Governance Forum underscored that the banking and financial sectors, currently ranking among the least trustworthy industries globally, which have suffered from more than a decade of related scandals and calamities. Notably, Credit Suisse's failure was emphasized as being contributed to by scandals and irregularities, as stated by the Swiss Finance Minister Keller-Sutter in 2023. Furthermore, the recent banking crisis in the United States can be traced back to poor risk management practices on balance sheets, as revealed by Hurley (2023). Epstein (2023) identified corruption and self-dealing as primary factors leading to American bank collapses, which could potentially affect other countries due to inadequate supervision, where financiers channeled substantial profits back to politicians to secure support against stringent regulation. Hence, it is evident that a more vigilant oversight is needed to ensure transparency in the banking sector, thereby enhancing its resilience.

The corporate governance mechanisms analysed in this paper includes risk governance, board governance, disclosure and transparency governance and bank restructuring. This study selected bank-specific measures, namely Net Interest Margin (NIM), as the main criteria for evaluating the bank performance. Notably, NIM will not be easily manipulated as the measurement model that employs accounting and market-based data, specifically Return on Asset (ROA), Return on Equity (ROE) and Tobin’s Q (Al Karim & Alam, 2013). Moreover, NIM comprises a significant portion of banks’ assets and liabilities, for instance, interest income from loans. Consequently, the banks can proactively rectify any deficiencies and detect prospects in improving their performances to execute better operational strategies ahead of full globalisation. Thus, a more hybrid, integrated and global financial system must be a system that is resilient during good times and fundamentally during bad times (Hassan, 2019). Henceforth, this study investigated how corporate governance mechanisms could enhance bank performances via indicators closely related to bank operations. Besides, the findings could be a benchmark for future bank strategies to alleviate potential risks while enhancing their performances post a financial crisis.

It is noteworthy that while there have been many papers analysing the impact of corporate governance measures on bank performance (Himaj, 2014; Islam et al., 2015; Mateus & Belhaj, 2016), most of them examined different sets of corporate governance factors. Moreover, no similar study has been done on the Asian emerging market. There were only few studies on corporate governance against performance of banks in the Asian emerging market (Claessens & Yurtoglu, 2013; Nguyen & Vo, 2020). Besides, the period from 2011 to 2015 is of particular historical significance for the global economy. This time frame immediately follows the 2007-2008 financial crisis, which had a profound impact on the global financial landscape. The consequences of the crisis were still unfolding during these years, making it an essential period for examining the recovery and the role of corporate governance in Asian emerging markets (Pieterse, 2012; Van Essen et al., 2013). In addition, the aftermath of the financial crisis saw many countries implementing substantial reforms in their financial and corporate governance systems to prevent a recurrence of such a crisis (Conyon et al., 2011; Mitchie, 2022). Understanding how these reforms affected banking sector performance during 2011-2015 is crucial, as it sheds light on the effectiveness of regulatory changes in the region. The earlier studies also took dissimilar phases for data analysis without any concentration on the enhancements of corporate governance mechanisms especially progress of guidelines issued by BCBS. Additionally, prior papers applied different formulas and models to derive bank performance whereby a majority of the theses employed profitability formulas namely ROA and Tobin's Q to represent bank performance rather than bank-specific performance measures such as NIM to gauge bank performance.

## LITERATURE REVIEW

### Risk Governance in Banking

The OECD Steering Group on Corporate Governance emphasised that the prime responsibility of the board is to ensure the integrity of the corporation's systems for risk management (Zulkafli & Hassan, 2020). The financial turmoil could be attributed to imperfections in corporate governance arrangements, which did not serve their purpose to safeguard against excessive risk taking in several financial institutions (Kirkpatrick, 2009). The Institute of International Finance in 2008 insisted on re-emphasising the roles of the Chief Executive Officer (CEO) and the board in the risk management process, apart from a solid thorough risk culture. The report made several pertinent suggestions to reinforce board management of risk issues. First, the boards and/or few members in the risk committee (or equivalent) should be individuals with technical knowledge. Next, there is a need for financial sophistication in risk disciplines or solid business experience. This is also in line with the goals of the international institutions namely BCBS, OECD and the European Union (EU) to specifically insert risk governance in their guidelines to improve bank corporate governance.

Hasan and Dridi (2010) advocated that banks that did not have efficient risk management implementations during the 2007 financial crisis encountered poorer financial flaws after the financial disaster against the banks with better risk management practices. In this regard, banks in emerging countries must explore more applicable risk managements and differentiate them from non-bank organisations. Even recent researchers suggested that a Chief Risk Officer (CRO) should be part of a bank's executive board and oversee all relevant risks (Battaglia & Gallo, 2015; Lee et al., 2018). Few researchers have examined the relationship between the appointment of CRO and bank performance, namely Fernández-Méndez et al. (2020), Grira and Belguith (2020), Zhu and Zhang (2020), Pathan et al. (2018) plus Dahya et al. (2019), notwithstanding the growing number of banks that appoint CRO or equivalent, in tandem with recommendations by BCBS. Moreover, most previous studies only took the establishment of risk committee without considering the risk committee's characteristics in their model specifications (Himaj, 2014; Islam et al., 2015; Mateus & Belhaj, 2016).

## Risk Governance Mechanisms and Bank Performance

CRO in banks implementing stronger risk management mechanisms might improve bank performance level (Hassan et al., 2019). In addition, Romano et al. (2012) discovered that the presence of CRO in banks was significantly related to better bank performance. Hence, we can conclude that the contribution of decisions and recommendations from the risk committee is significant towards advancements of bank performances. However, Yu et al. (2015) investigated the presence of a CRO in the Bank's executive board. Based on their empirical findings, the stock returns do not differ significantly between banks with and banks without a CRO in the executive board throughout the financial calamity. However, most existing papers, such as Romano et al. (2012) and Shungu et al. (2014), had only examined the establishment of the risk committee without considering its characteristics in their analyses.

### *Size of risk committee*

Battaglia and Gallo (2015) discovered that banks with larger risk committees achieved better profitability. Still, in contrast, they revealed that the size of risk committee was negatively associated with market valuation and the expected market growth of banks. This indicates that the market identifies a "really functioning risk committee" for banks that should constitute a small number of members but with frequent effective meetings. Correspondingly, Romano et al. (2012) also concluded that the risk committee responsible for internal control activities should be smaller to enhance bank performance. A more recent article by Kacem and El Harbi (2023) highlighted that a larger risk committee is desired for a more effective control mechanism and consequently improved bank performance.

Additionally, Klein et al. (2018), Farooq et al. (2019) and Hoque et al. (2019) discovered that a larger risk committee was positively associated with bank performance. Hoque et al. (2019) found that larger risk committees are associated with lower credit risks. Perhaps, the larger risk committee members would consist of those with varied expertise for effective oversight (Zulkafli & Hassan, 2020).

Consequently, it paves the way for rising vigilance on board decisions and activities, escalating bank profitability. Accordingly, it was hypothesised that:

> *$H_1$: There is a significant positive relationship between the size of risk committee and bank performance.*

### *CRO gender*

There has been growing interest in the impact of gender diversity on corporate governance and bank performance. The study by Grira and Belguith (2020) revealed that CRO gender did not significantly affect bank performance in Tunisia. Contrarywise, Fernández-Méndez et al. (2020), Zhu and Zhang (2020), Fernandes et al. (2018) along with Dahya et al. (2019) discovered that female CROs significantly improved bank performance post 2007 financial disaster. Specifically, Dahya et al. (2019) found that female CROs were associated with lower risk-taking and higher bank performance. According to Zhu and Zhang (2020), some studies have suggested that having a female CRO may enhance board diversity and bring additional perspectives to risk management. Bart and McQueen (2013) opined that having a significant portion of female directors may produce more effective decisions because they have highly developed Complex Moral Reasoning (CMR) skills than male directors. The positive impact of CRO gender might also be in line with Ittonen and Peni (2012), who suggested that female directors have a more diligent approach to the monitoring role via membership on related corporate governance committees and audit committees (Hassan et al., 2019). The abovementioned findings and reasoning are in line with Shungu et al. (2014) for Zimbabwe, Rambo (2013) for Kenya together with Setiyono and Tarazi (2014), which discovered that board gender diversity improved financial performance of banks under review. Based on those justification plus evidence, Hypothesis 2 was constructed as follow:

> *$H_2$: There is a significant positive relationship between female CRO and bank performance.*

### *CRO nationality*

Zhu and Zhang (2020) and Haniffa et al. (2019) discovered that local CROs contribute to better bottom lines of banks under review. This is due to their familiarity with the local industry's operations and regulations as well as language and cultural barriers that foreign directors might encounter in the board meetings and processes. In addition, Haniffa et al. (2019) reported that higher appointments of foreign CROs are associated with higher levels of risk-taking which could decrease bank stability and consequently lower bank performance. Conversely, Fernández-Méndez et al. (2020), Krambia-Kapardis and Zopiatis (2021) together with Fernandes et al. (2018) found that nationality diversity was positively related to bank performance. The presence of foreign CRO promoted well-organised risk monitoring as well as reduced managerial entrenchment and agency costs in a company. Such directors also brought diversified expertise and experience since they came from at least one country with dissimilar practices and systems. Moreover, the foreign directors typically always protected their integrity, reputation and professional competence while performing in a performance-based working culture (Hassan et al., 2019). Therefore, the following hypothesis was developed:

*$H_3$: There is a significant positive relationship between foreign CRO and bank performance.*

### *Reporting line of CRO*

Hassan et al. (2019), Erin et al. (2018) together with Bertrand and Melesse (2018) discovered that banks in which the CRO reports directly to the board of directors performed significantly better during the credit crisis. This signifies that risk governance in general and CRO reporting were vital to a banks' crisis performance. The empirical results were consistent with many earlier qualitative papers that emphasised the importance of an effective reporting line from CRO to the board, namely Mongiardino and Plath (2010) as well as Sabato (2010). On the contrary, banks in which the CRO reports directly to the CEO instead performed significantly worse (Zhu & Zhang, 2020), which might conform to the argument by Aebi et al. (2012) that a CEO might have a different agenda than a CRO who possibly neglected the prominence of effective risk management. Moreover, the CEO might also overemphasise the assets growth without a defined risk appetite strategy. Their findings correspond to Ellul and Yerramilli (2013), which revealed overall results that efficient and independent risk management functions, including CRO and risk committee characteristics, can restrain tail risk exposures at banks and possibly enhance value predominantly during crisis years. Accordingly, it was hypothesised that:

*$H_4$: There is a significant positive relationship between the reporting line of the CRO and bank performance.*

## Board Governance and Bank Performance

### *Board qualifications and experience in banking and finance*

As a result of several corporate accounting frauds worldwide, most regulators emphasised the importance of having financially-expert directors. According to Aebi et al. (2012), the Sarbanes-Oxley Act of 2002 defined a financial expert as having, among other things, ''an understanding of generally accepted accounting principles and financial statements''. Moreover, directors with finance background are directors with experience as an executive officer in a bank or insurance company, mutual/hedge fund or Certified Public Accountants (CPA), Chartered Financial Analysts (CFA) or equity fund managers, REIT managers or professors in finance, economics and accounting. It is worth noting that only Aebi et al. (2012) and Kallamu (2015) discovered that directors' financial qualification and background negatively affected bank performance. These findings unexpectedly refute the contemporary suggestions for banks to have more financial experts on the board to enrich bank achievements.

Minton et al. (2014) emphasised that the level of financial expertise among directors is positively correlated to risk-taking, both before and during a financial disaster in spite of being consistent with shareholders' value maximisation objectives. For that reason, their sample banks registered better stock performance before the crisis but then poorer performance throughout the financial calamity. These were attributable to CEOs who merely selected independent financial experts who could rubber stamp strategies that satisfy their risk appetite.

Contrariwise, Peni and Vahamaa (2012) disclosed that amidst the financial disaster, education and background of banks' directors intensified banks' profitability significantly, suggesting that good governance may have moderated the severe effects of the financial tragedy on banks. This was also evidenced by Zhu and Zhang (2020), Krambia-Kapardis and Zopiatis (2019) as well as Javed et al. (2020) which proved a similar positive association. Additionally, Kirkpatrick (2009) and Walker (2009) highlighted that lack of financial expertise amongst bank directors was the key factor in the 2007 financial crisis. This suggests that a more financially knowledgeable board can effectively monitor bank management to avoid excessive risks. It is also noteworthy that BCBS already recommended these corporate governance mechanisms in their 2010 guidelines under Key Area A-Board Practices, Principle 2. Ultimately, it will be best for the bank to appoint directors with abundant experience in the related banking activities, which are normally former bank management (Jaaffar et al., 2020). This, for instance, can prevent banks from granting loans to borrowers that might be unable to repay by conducting comprehensive evaluations to reduce risks for banks. Based on that evidence, the following hypotheses were constructed:

*$H_5$: There is a significant positive relationship between directors' qualifications in banking/ finance and bank performance.*

*$H_6$: There is a significant positive relationship between directors' experience in banking/ finance industry and bank performance.*

### Board independence

Directors are the most vital personnel in any corporation. They are assigned with delegated authorities by the shareholders to formulate policies and strategies, safeguard internal control, supervise, evaluate, and compensate the top management for boosting the corporation's competence (Hoque et al., 2013). Consequently, a firm's success mostly depends on the optimal composition of board encompassing non-independent and independent directors. Findings suggest that companies with a higher fraction of outsider/independent directors usually have a higher valuation (Claessens & Yurtoglu, 2013). The positive effects of board independence were recorded for Korea and India, in which governance reforms require a significant level of independent directors. There are also some evidences that board independence must reach a certain threshold and be mandated to be effective (Claessens & Yurtoglu, 2013). The prior related study revealed that there is a significant relationship between independent directors and bank performance. Interestingly, the results were mostly documented in emerging markets utilising sample banks from single countries. Specifically, studies done in China (Zhu & Zhang, 2020), Cyprus (Krambia-Kapardis & Zopiatis, 2020) and Pakistan (Raza et al., 2019) discovered that quantity of independent directors significantly enhanced bank performance. These findings align with the argument that independent directors can bring fresh perspectives and enhance the board's oversight as well as decision-making abilities. Based on the above discussions, the following hypothesis was developed:

*$H_7$: There is a significant positive relationship between the number of independent directors and bank performance.*

## Disclosure and Transparency Governance in Bank Performance

### *Audit committee full independence*

Several prior studies underscored the advantages of having an independent audit committee. A more independent audit committee might perform better than the less independent team as they are in a better position to resist their management pressure (Zulkafli et al., 2020). Additionally, Woidtke and Yeh (2013) testified that a completely independent audit committee and an audit committee with an independent majority is associated with improved comprehensive details of a firm's accounting earnings. It is worth noting that the audit committee must have the majority of independent directors and be completely independent (Hassan et al., 2018). Bronson et al. (2009) contended that an independent audit committee would only ensure effective monitoring when the committee is fully independent. Likewise, Ali et al. (2020), Alhashel (2019), Maksimović et al. (2020) and Kallamu and Mohd Saat (2014) examined the impact of audit committee features on the performance of financial institutions in a single country such as Malaysia, Kuwait and Serbia. The articles found that audit committee composition, particularly the presence of more independent audit committees, enhanced financial institutions' profitability (ROA and ROE). The result is consistent with agency theory that advocates the importance of independent directors in providing effective management monitoring by enhancing profitability and reducing the possibility for opportunistic management behaviour. In tandem with the aforementioned empirical results, the following hypothesis was developed:

*$H_8$: There is a significant positive relationship between a fully independent audit committee and bank performance.*

### *Expert-independent audit committee*

Fernandes et al. (2018) found that the performance of banks was positively impacted by the presence of the expert-independent directors on the audit committee. The study also reported that an increase of an audit committee encompassing most finance/banking-trained directors by one standard deviation; was associated with a 2.5% increase in ROE. It is worth noting that without majority control of the board of an audit committee, the mere presence of expert-independent directors has no impact on firm value which could just portray possible "window dressing" of the committee. This conforms to studies of Nurunnabi et al. (2018) and Pathan et al. (2018) which found evidence that audit committee members with more expertise and managerial experience positively impacted bank performance. Furthermore, Krambia-Kapardis and Zopiatis (2018), Kallamu (2015) together with Aldamen et al. (2012) documented that audit committee members with more expertise and managerial experience indeed enhanced bank performance. They opined that these types of audit committees had more exposure to strategic operations of their other firms, i.e. more corporate experience. Additionally, they always tried to perform the best possible since their performance measurement as the director is closely tied to their valued reputational market capital. Premised on the above, the following hypothesis was developed:

> *$H_9$: There is a significant positive relationship between an expert-independent audit committee and bank performance.*

## Bank Restructuring

Bank restructuring plays a vital role in shaping corporate governance practices and subsequently influences the performance of banks. This paper delves into the relationship between bank restructuring and corporate governance in the context of Asian emerging economies, post the 2007 financial crisis. Aside from responding to financial crises, banks may initiate restructuring to align with new corporate strategies or adapt to rapidly changing conditions within the banking industry (Hassan, 2019). The strategies commonly employed in bank restructuring include consolidating the banking industry through mergers and acquisitions, receiving additional capital injections from the government (nationalization), and facilitating deregulation to encourage the entry of foreign players. It is worth noting that the impact of bank restructuring on the performance of banks in Asian emerging economies following the 2007 crisis has received limited attention. Most research on these factors, such as bank restructuring and deregulation, has primarily focused on the United States and European economies (Ariff & Can, 2009).

Liu and Wilson (2019) conducted a study exploring the influence of bank restructuring on the risk-taking behavior of Chinese banks. Their findings indicated that banks undergoing restructuring tended to engage in more risk-taking activities, as evidenced by higher loan loss provisions in the short term. However, this effect diminished in the long term, suggesting that bank restructuring may initially lead to instability but can eventually have a positive impact on financial performance. Additionally, a meta-analysis by Nguyen (2018) involving 60 studies on bank restructuring found a positive long-term effect on bank performance. Bank restructuring was associated with increased profitability, enhanced asset quality, and reduced operating costs.

The ownership structure of banks also plays a significant role in their performance. Jiang et al. (2013) argued that state ownership negatively impacted bank performance in China. In contrast, Lin et al. (2014) found that state-owned banks performed better due to government nationalization efforts, involving increased capital injections and loan guarantees, which improved the interest margins of banks in developed economies. Empirical evidence also suggested that the entry of foreign banks contributed to a more efficient and competitive banking industry in China (Xu & Ahmed, 2014). Jiang et al. (2013) documented that banking institutions with foreign ownership demonstrated greater profitability in the long run, despite experiencing short-term efficiency losses. Foreign ownership ultimately led to long-term improvements in terms of cost, profit, and interest income efficiency (Hassan, 2019). Concerning bank restructurings through mergers and acquisitions (M&As), Kaur and Kaur (2013) and Sufian (2010) reported a positive association between M&As and bank performance. Consequently, the following hypothesis was developed:

> *$H_{10}$: There is a significant positive relationship between bank restructuring and bank performance.*

## RESEARCH METHODOLOGY

### Data

The study population were selected public listed banks from the Asian emerging market countries. A total of 109 listed banks with 545 observations (see Appendix I) were chosen for data collection with China (12), India (27), Indonesia (7), Malaysia (12), South Korea (5), Philippines (11), Thailand (9) and Taiwan (25). These countries were selected based on definitions of "Asia emerging market country" by IMF, Financial Times Stock Exchange (FTSE), Morgan Stanley Capital International (MSCI), Standard & Poor's (S&P) and Dow Jones. Since this study intended to evaluate the impact of corporate governance post-2007 financial calamity, data collection encompassed 2011 until 2015. Data for bank performance and the corporate governance mechanisms were taken from the banks' respective annual reports. In addition, the BANKSCOPE database and the related central banks' websites were the sources of data for the control variables. This study employed panel data analysis via the EViews software.

### Dependent Variable

Since the key source of bank income is spread between its loan interest income and interest expense, this study calculated Net Interest Margin (NIM) to measure the profitability of bank lending (Minton et al., 2014). Nasserinia et al. (2014) claimed that NIM is the most vital performance measure as a good proxy for bank performance but many past studies used ROA and/or ROE only and neglected NIM's practicalities (CFA Institute, 2014).

$$NIM = \frac{(\text{Interest Income} - \text{Interest Expense})}{(\text{Interest-earning assets})} \qquad [1]$$

### Independent Variable

This study investigated the impact of four key mechanisms of corporate governance of banks in the Asian emerging markets on bank performances. The four key mechanisms were risk governance, board governance, disclosure and transparency, and bank restructuring measures. The mechanisms under risk governance were the size of risk committee, CRO gender, CRO nationality and reporting line of CRO whilst qualification and experience of directors in banking/finance together with board independence majority were under board governance. Furthermore, disclosure and transparency governance comprised the audit committee full independence as well as the expert-independent audit committee.

## Control Variable

Banks are also affected by external factors; hence, there is a consensus that macroeconomic stability is critical for the growth of banking institutions (Naceur & Omran, 2011). The variables employed in this analysis were log of total assets (ASSET), Consumer Price Index (CPI), volume of bond and sukuk (BONDSUK), money supply (MONEY) and stock exchange index (STOCKEXCHG). Consequently, bank-specific determinants and external factors are essential to measuring a bank's performance. Table I elaborates the compositions and definitions of measurements for all variables.

**Table 1: Definition and Measurements of Variables**

| Variables | Measurements |
|---|---|
| Net Interest Margin (NIM) | (Interest Income-Interest Expense) / Interest-Earning Assets |
| **Risk Governance** | |
| Size of Risk Committee (SRC) | Total number of directors on the risk committee |
| CRO Gender (CROGEND) | A binary variable at the value of one if a bank appointed a female CRO, zero otherwise. |
| CRO Nationality (CRONAT) | A binary variable at the value of one if a bank appointed a foreign CRO, zero otherwise. |
| Reporting Line of CRO (REPORTCRO) | A binary variable at the value of one if the CRO directly to the board, zero otherwise. |
| **Board Governance** | |
| Qualification of Directors (BDQUABKGFIN) | Number of directors who had qualifications in banking/finance divided by the total number of directors. |
| Experience of Directors (BDEXPBKGFIN) | Number of directors who had experience in banking/finance divided by the total number of directors. |
| Board Independence Majority (BDINDEP) | A binary variable at the value of one if a bank had a majority number of independent directors on board, zero otherwise. |
| **Disclosure and Transparency Governance** | |
| Audit Committee Full Independence (AUDITFULLIND) | A binary variable at a value of one if a bank's audit committee comprised 100% independent directors, zero otherwise |
| Expert-Independent Audit Committee (EXPERTINDAC) | Number of directors who also hold other top executive management position (at least General Manager or Senior Vice President and above) in other public listed firms divided by the total number of directors |

| | |
|---|---|
| Bank Restructuring (BKRESTRUCT) | A binary variable at the value of one if a bank had undergone either of these restructuring methods; i) Capital injection by government, ii) Additional off-market foreign equity participation and iii) M&As. A zero-value is given if a bank was not involved in any restructuring methods. |
| Total Assets (ASSET) | Log of Total Assets |
| Consumer Price Index (CPI) | Inflation proxy derived as a percentage of annual change during the selected period |
| Volume of Bond and Sukuk (BONDSUK) | Total volume for new issuance of bond and Sukuk during a particular year |
| Money Supply (MONEY) | Annual percentage changes of the national money supply |
| Stock Exchange Index (STOCKEXCHG) | Annual changes of stock market returns (in percentage) |

*Source: Researcher findings*

The model in this study was constructed to test the impact of corporate governance mechanisms on bank performance measured by its NIM. The model is specified as follow:

$$Yit = \beta 0 + \beta 1SRCit + \beta 2CROGENDit + \beta 3CRONATit + \beta 4REPORTCROit + \beta 5BDQUABKGFINit + \beta 6BDEXPBKGFINit + \beta 7BDINDEPit + \beta 8AUDITFULLINDit + \beta 9EXPERTINDACit + \beta 10BKRESTRUCTit + \beta 11ASSETit + \beta 12CPIit + \beta 13BONDSUKit + \beta 14MONEYit + \beta 15STOCKEXCHGit + \varepsilon it \quad [2]$$

The analysis was conducted on the premise of a balanced panel due to constant and repeated number of years for all the cross-sectional data. Using this method has advantages in dealing with the heterogeneity of variables with less collinearity, reduced bias, and a better degree of freedom. It was argued that longitudinal or pooled data analysis effectively studies change (Diggle et al., 1994).

## FINDINGS AND DISCUSSIONS

This study deliberately chose a set of eight countries to serve as representative proxies for the emerging markets in Asia. The selected nations encompassed China, India, Indonesia, Malaysia, South Korea, the Philippines, Thailand, and Taiwan. It is important to note that the study exclusively focused on 109 publicly listed banks, for the purpose of data collection. These countries were specifically chosen due to their widely recognized status as emerging markets in Asia, a consensus shared by a significant majority of the leading global institutions, with at least three out of the six prominent institutions categorizing them as such.

Furthermore, the decision to exclusively investigate publicly listed banks can be substantiated by the practical necessity of data accessibility. Much of the pertinent information related to corporate governance, such as reporting structures for Chief

Risk Officers and detailed risk committee information, is predominantly available in the annual reports of publicly listed banks. Although a larger set of banks was initially considered, the selection process involved dropping those that lacked annual reports and/or websites in English and failed to provide sufficient details about their corporate governance practices. This stringent approach ensured the research was based on comprehensive and comparable data, to enhance the robustness of the findings.

The following Table II and Table III present the descriptive statistics for categorical and continuous variables respectively. The Table 2 summarize the descriptive statistics (categorical and continuous variables) of several corporate governance mechanisms of risk governance, board governance together with disclosure and transparency governance that were analysed in this study, coupled with the dependent variable.

**Table 2: Descriptive Statistics for Categorical Variables**

| Variable | Availability | Frequency | Percentage |
|---|---|---|---|
| **Formation of risk committee** | Available | 1 | 97.61 |
| **Formation of risk committee** | Not available | 0 | 2.39 |
| **Appointment of CRO** | Available | 1 | 79.63 |
| **Appointment of CRO** | Not available | 0 | 20.37 |
| **CRO gender (female)** | | 1 | 7.89 |
| **CRO gender (male)** | | 0 | 92.11 |
| **CRO nationality (local)** | | 1 | 73.21 |
| **CRO nationality (foreign)** | | 0 | 26.79 |
| **Reporting line of CRO** | | 1 | 58.90 |
| **Reporting line of CRO** | | 0 | 41.10 |
| **Board independence** | Available | 1 | 50.28 |
| **Board independence** | Not available | 0 | 49.72 |
| **Audit committee full independence** | Available | 1 | 72.29 |
| **Audit committee full independence** | Not available | 0 | 27.71 |
| **Bank restructuring** | Available | 1 | 10.64 |
| **Bank restructuring** | Not available | 0 | 89.36 |

*Source: Researcher findings*

**Table 3: Descriptive statistics for continuous variables**

| Mechanisms | Mean | Median | Standard Deviation | Minimum | Maximum |
|---|---|---|---|---|---|
| **NIM (%)** | 3.26 | 2.91 | 1.69 | 0.24 | 13.10 |

| | | | | | |
|---|---|---|---|---|---|
| **Size of risk committee** | 5 | 5 | 2 | 0 | 14 |
| **Director's qualification in banking and finance (%)** | 9.72 | 58.33 | 18.51 | 12.5 | 100 |
| **Director's experience in banking and finance (%)** | 9.38 | 80 | 16.20 | 33.33 | 100 |
| **Expertise of audit committee (%)** | 8.33 | 33.33 | 32.23 | 0 | 100 |
| **Asset (USD billion)** | 39 | 25 | 429 | 0.0038 | 3,350 |
| **CPI (%)** | .03 | 4.00 | 2.80 | -0.90 | 9.90 |
| **Bond issuance (USD billion)** | 77.52 | 40.75 | 524.15 | 17.10 | 2,316.63 |
| **Money Supply (% of annual changes)** | 1.46 | 12.00 | 4.01 | 0.00 | 18.30 |
| **Stock exchange index** | .68 | 4.10 | 17.30 | -27.10 | 55.07 |

*Source: Researcher findings*

Noteworthy patterns emerged while examining the descriptive statistics of the selected banks' corporate governance mechanisms and their subsequent impact on performance. The mean Net Interest Margin (NIM), a key performance indicator, stood at 3.26%, denoting that, on average, banks generated profits of this percentage from their interest-earning assets after accounting for relevant interest expenses. This aligned with comparable studies in Asia's emerging economies and showcased consistency with the global banking landscape.

Concerning risk committees, the majority of banks in emerging` Asia maintained committees with an average size comparable to studies conducted in China, India, and Italy. Interestingly, the appointment trend for CROs leaned towards male and local candidates, revealing prevailing preferences at 92.11% and 73.21%, respectively. The governance practices were commendable, as nearly 60% of CROs reported directly to the board of directors rather than CEOs, a practice that proved to be more efficient in risk management, mitigating conflicts of interest.

The selection of directors and audit committee members showed a preference for qualifications and experience in banking and finance, with around 60% possessing such credentials. The high standard deviations highlighted variability in these attributes. However, less prior studies specifically examined the impact of board qualification on bank performance, emphasizing a research gap. Regarding board independence, only around half of the banks in emerging Asia had majority of independent directors, a figure surpassing that of Association of Southeast Asian Nations (ASEAN) countries.

In terms of audit committees, over 70% of banks in emerging Asia maintained fully independent committees, indicating an improvement post-implementation of the recommendations by BCBS. However, the expertise of audit committee members varied widely, with 38% holding top management positions elsewhere, implying recognition in their local corporate industries.

Remarkably, only 10.64% of the selected banks underwent restructuring, significantly lower than the figures reported during the 1997 Asia financial crisis in ASEAN countries. This disparity underscored the impact of local regulations, economic conditions, and development stages on restructuring decisions.

In conclusion, the descriptive statistics shed light on the governance landscape of emerging Asian banks, reflecting global trends and emphasizing the need for further exploration, especially regarding risk governance.

Table IV demonstrates the outcome of exploring the relationship between the corporate governance mechanisms covering risk governance, board governance, disclosure and transparency governance, bank restructuring, control variables, and bank performance.

**Table 4: Panel Regression Results-Fixed Effect Model (FEM)**

| **Dependent Variable** | | **NIM** | |
|---|---|---|---|
| Independent Variables | **Expected Sign** | **Coefficient** | **Probability** |
| **Risk Governance** | | | |
| SRC | + | 0.1049 | 0.0000*** |
| CROGEND | + | 0.5133 | 0.0033*** |
| CRONAT | + | 0.1916 | 0.0712* |
| REPORTCRO | + | 0.2376 | 0.0204** |
| **Board Governance** | | | |
| BDQUABKGFIN | + | 0.0095 | 0.0000*** |
| BDEXPBKGFIN | + | 0.0206 | 0.0000*** |
| BDINDEPMAJ | + | -0.2961 | 0.0000*** |
| **Disclosure and Transparency Governance** | | | |
| AUDITFULLIND | + | 1.0147 | 0.0000*** |
| EXPERTINDAC | + | -0.0066 | 0.0002*** |
| **Bank Restructuring** | | | |
| BKRESTRUCT | + | 0.1954 | 0.1337 |

| | | |
|---|---|---|
| **Control Variables** | | |
| ASSET | -0.3015 | 0.0006*** |
| CPI | 0.1123 | 0.0016*** |
| BONDSUK | -0.3570 | 0.0281** |
| MONEYS | 0.0391 | 0.2677 |
| STOCKEXCHG | 0.0029 | 0.3755 |
| R-Squared | **0.3632** | |
| Adjusted R-Squared | **0.3402** | |
| F-Statistic (p-value) | **15.7618 (0.0000)** | |
| C | **2.140767 (0.0011)** | |
| Observations | **545** | |

*Notes: ***, **, * denote significance of 1%, 5% and 10% significant level respectively.*

The governance mechanisms under risk governance, board governance plus disclosure and transparency governance significantly affected bank performance. This signified that the nine of ten (90 percent) governance mechanisms had the supreme important roles in enhancing bank performances in the Asian emerging market from 2011 until 2015. However, it was noteworthy that two corporate governance mechanisms in this model produced outcomes with different directions, i.e. negative impacts from the anticipated hypotheses. Furthermore, this study did not find evidence of the relationship between bank restructuring measures and the performance of the banks. Concerning the control variables, three of the five variables had a significant association with the performance of the banks.

The finding of this study is consistent with Kacem and El Harbi (2023), Klein et al. (2018), Farooq et al. (2019) and Hoque et al. (2019) which also documented a significant positive association between the size of a risk committee and bank performance. The aforesaid result is also in line with Fernández-Méndez et al. (2020) for South America, Zhu and Zhang (2020) for China, Fernandes et al. (2018) for many countries along with Dahya et al. (2019) for the United States which discovered that board gender diversity improved financial performance of banks. These correspond to Setiyono and Tarazi (2014), which suggested that female directors commonly had higher expectations regarding their responsibilities, leading to better monitoring of managers by the board of banks than their male counterparts. Moreover, the significant relationship between nationality and bank performance signified that foreign CRO improved bank performance during the period under review. This indicates that the appointment of foreign CROs in the Asian emerging banks contributed to their better bottom lines as against local CROs. The result is in line with Fernández-Méndez et al. (2020), Krambia-Kapardis and Zopiatis (2021) together with Fernandes et al. (2018) that also discovered the positive influence of foreign boards on bank performance. Furthermore, CRO should also report directly to the board of directors to enhance bank performance. This outcome is consistent with Hassan et al. (2019), Erin et al. (2018) together with Bertrand and Melesse (2018) which reported banks in which the CRO reports directly to the board of directors, performed significantly better than other banks, in which the CRO did not report directly to their boards.

In the aspect of board governance, only board qualification and experience in banking and finance had a significant relationship with NIM, but board independence majority was otherwise. The findings of this study signify that the appointment of more directors with both qualifications plus experience in banking and finance enhanced the profitability of banks in the Asian emerging market. The above findings are in line with Zhu and Zhang (2020), Krambia-Kapardis and Zopiatis (2019) as well as Javed et al. (2020), which unveiled that amidst the financial disaster, high scores of corporate governances including the general education and background of bank directors, intensify bank profitability significantly. Both audit committee full independence and expert-independent audit committee were significantly related to NIM but with different effects in relation to disclosure and transparency governance.

Banks in the Asian emerging economies with full independent audit committees registered better NIM than banks without such audit committees. The findings are consistent with Ali et al. (2020), Alhashel (2019) and Maksimović et al. (2020) which reported that financial institutions with more independent audit committees registered better performance during the global financial turmoil. Concerning expert-independent audit committees, unexpectedly, the accumulation of that kind of independent committee (who also holds the top management position of another publicly traded firm) lessened the financial performance of the sample banks. However, it is notable that the coefficient of the negative impact was very low, i.e. 0.66%. This signified that when the sample banks had more expert-independent audit committees, they registered a worse performance during the period under review. Correspondingly, it was also discovered that directors with industry experience decreased the market valuation of firms (Kallamu, 2015).

Additionally, bank restructuring in the Asian emerging market did not significantly affect the performance of the said banks. This finding corresponds to Liu and Wilson (2019) who also found an insignificant connection between one or more bank restructuring measures and bank performances. After certain bank restructuring measures, the effect might not be translated immediately into performance change. It was documented that the foreseeable advantages of foreign participation deregulation will possibly take longer to be realised by the affected banks (Hassan, 2019).

## CONCLUSION

This study has provided valuable insights into the intricate relationship between corporate governance mechanisms, control variables, and bank performance in Asia's emerging markets during the period from 2011 to 2015. The findings highlight the substantial influence of governance mechanisms on bank performance, as well as the significance of certain control variables. Additionally, the study addressed the impact of bank restructuring on performance, shedding light on areas where corporate governance practices play a pivotal role. The results of this study demonstrated that the majority of governance mechanisms examined, including risk governance, board governance, and disclosure and transparency governance, played a crucial role in enhancing the performance of banks in Asia's emerging markets. This finding underscores the vital importance of governance practices in shaping the financial performance of banks in the region. Notably, a majority of the governance mechanisms examined were found to have a significant positive impact, indicating their supreme importance in enhancing bank performance in the given context.

Moreover, the study confirmed the influence of specific control variables on bank performance. The association between the size of the risk committee and bank performance aligned with prior research, emphasizing the positive role of the risk committee's size in improving bank performance. Board gender diversity and the presence of foreign CROs were also found to have positive impacts on bank performance; highlighting the potential benefits of diverse boards and the appointment of foreign CROs. The study further underscores that having the CRO report directly to the board of directors is conducive to better bank performance, consistent with previous studies. Examining board governance, the study revealed that board qualification and experience in banking and finance positively impacted bank profitability. The presence of a fully independent audit committee is associated with better NIM, suggesting the benefits of strong corporate governance structures during challenging financial periods. Interestingly, expert-independent audit committees had a slightly negative impact on bank performance, signifying a nuanced relationship in this context. Surprisingly, the study found that bank restructuring measures did not significantly affect the performance of banks in Asia's emerging markets during the study period. Perhaps, the effects of certain bank restructuring measures may take time to manifest or may not necessarily translate into immediate performance improvements.

The findings of this study have several implications for corporate governance and bank performance in Asia's emerging markets. These implications are based on the relationships identified between governance mechanisms, bank restructuring, control variables, and their impact on bank performance. First, the study revealed that governance mechanisms related to risk governance, board governance, and disclosure and transparency governance played a crucial role in enhancing bank performance. This underscores the importance of effective governance structures in the banking sector, with nine out of ten governance mechanisms showing a significant positive association with bank performance. These findings highlight the need for banks in Asia's emerging markets to focus on strengthening their governance practices to improve their performance.

On the other hand, the appointment of directors with qualifications and experience in banking and finance has a positive impact on the profitability of Asia's emerging market banks. This aligns with previous research and suggests that boards with directors who possess relevant expertise can contribute to better financial performance. Banks should continue to prioritize the recruitment of directors with strong qualifications and experience in the industry. Next, the size of the risk committee is crucial as a more extensive and diverse risk committee can enhance a bank's ability to manage risks and, consequently, its overall performance. The study underlines the importance of diverse perspectives and expertise in board composition. Notably, banks that promote gender diversity in their boards may benefit from improved financial performance. The study result suggests that foreign expertise and perspectives in risk management can contribute to superior performance. Banks in the region may consider recruiting international talent to strengthen their risk management capabilities. While the impact of having expert-independent audit committees is relatively small, it suggests that an overabundance of expert-independent committees may have unintended consequences. Lastly, the effects of bank restructuring may not immediately translate into performance changes. Henceforth, banks should be prepared for potential lagging effects of restructuring measures.

The findings can offer lessons learned from the past, highlighting areas where governance mechanisms had a significant impact on bank performance or areas where improvements are needed. These lessons can inform current decision-making and strategy development for banks and regulatory bodies. The findings from the 2011-2015 period can serve as a benchmark for assessing whether there have been improvements or changes in governance practices and their effects on bank performance in the years following the study. Researchers can compare the current state of corporate governance and bank performance to the earlier period to identify trends and areas where improvements are needed. Besides, some governance changes take time to manifest their full impact on bank performance. The 2011-2015 data may provide insights into long-term effects that have become more evident in the years following the study. Understanding these delayed effects can be valuable for both researchers and practitioners. Besides, by examining these trends, researchers and practitioners can better understand the evolution of governance practices and their impact on banks over time.

It is essential to acknowledge the limitations of this study. The analysis covers a specific period, and the findings may not necessarily reflect long-term trends or the impact of more recent developments. The study focus on Asian emerging markets, and its applicability to other regions may vary. Moreover, while the research examined a comprehensive set of governance mechanisms and control variables, there may be other factors at play that were not considered. For future research, scholars can explore the temporal dynamics of the relationships between corporate governance, bank performance, and bank restructuring. Investigating how governance mechanisms adapt to changes in the banking industry and economic conditions over time could yield valuable insights. Additionally, conducting similar studies in different regions or focusing on specific sub-regions within Asia would contribute to a more comprehensive understanding of the subject. Furthermore, an in-depth examination of the reasons behind the slightly negative impact of expert-independent audit committees on bank performance could provide a deeper understanding of this phenomenon.

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