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Corporate Governance of Banks in Asia Emerging Market: The Relationship between Board Governance Enhancements and Bank Performance

Abdul Hadi Zulkafli
School of Management, Universiti Sains Malaysia

Amar Hisham Jaaffar*
College of Business Management & Accounting, Universiti Tenaga Nasional
Ahisham@uniten.edu.my
** Corresponding Author*

Hasroleffendy Hassan
Faculty of Business Management, Universiti Teknologi MARA Kedah

Haslindar Ibrahim
School of Management, Universiti Sains Malaysia

Abstract
Purpose: This study is conducted to analyse the impact of corporate governance mechanisms specifically board governance enhancements on the performance of banks in emerging Asia from 2011 until 2015 of post 2007 global financial crisis.
Design/methodology/approach: A total of 109 banks with 545 observations from eight countries are selected into this study. The board governance enhancements are represented by the proportion of directors who had qualifications in banking and/or finance, the proportion of directors who had experience in banking and/or finance and the majority number of independent directors on board. Meanwhile, net interest margin (NIM) is the proxy for bank performance. Evidently, all the three variables under board governance enhancement have significant relationship
Findings: Evidently, all the three variables under board governance enhancement have significant relationship with bank performance. Concerning board qualification and experience in banking and finance, the finding of this model signifies that the appointment of more directors with qualification in banking and finance enhanced NIM of emerging Asia banks. In relation to board independence, this model documented negative relationship with NIM. Therefore, bank performance deteriorated with more independent directors on board.
Research limitations/implications: Concerning direction for future research, the studies can expand the population samples, including global samples.
Practical implications: The bank's management could employ more directors with qualification and experience in banking and/or finance to achieve that objective. This could be regulated by the relevant local regulators via new requirements in the countries' corporate governance codes coupled with revisions on guidelines on corporate governance for banking institutions.
Originality/value: This study provide empirical model for study related to corporate governance and bank performance.

Keywords: corporate governance, board structure, bank, Asia, emerging market

Introduction

This study is conducted to analyse the impact of corporate governance mechanisms particularly board governance on the performance of banks in emerging Asia from 2011 until 2015 of post 2007 global financial crisis. Hale and Kennedy (2012) emphasized that emerging Asia was not totally exempted from the 2007 financial catastrophe although the said countries were less affected as against the more advanced economies. It was highlighted that investment flows to emerging markets prone to global sudden fluctuates and they had rebounded sharply in 2012. Conversely, the recovery could reverse again should there be weak policies scenario coupled with home-grown vulnerabilities in some economies.
Since banks are integral composition of financial system, they must be able to endure any disturbances to ascertain its survival and subsequently stability of an economy. It is notable that business nature, regulations, stakeholders and capital structure of banks are dissimilar as against non-bank companies. Moreover, it is generally accepted that banks are the most heavily regulated industry worldwide and the main reason for the strict regulation is to provide a sound, stable and healthy financial system (Seid, 2011). It also due to the sensitive roles that it plays in the economic system as liquidity guarantors, originators of non-market finance, information brokers between lenders and borrowers as well as operators of payment systems (Gorton and Winton, 2003). Anything occurs in the banking communities impact the national economy and also shapes businesses and individuals in every community throughout the country (Bowden & Holbert, 1984). Hence, economic prosperity and expansion greatly depend on the services provided by banks whilst its efficiency lowers the capital costs of firms, increase capital formation and boost productivity growth (Levine, 2004).
It is widely accepted that corporate governance including board governance; is one of the most prominent elements that bank management must improve continuously to have a more resilient bank. The consultative document by The Basel Committee on Banking Supervision (BCBS) (2014) also highlighted that effective corporate governance is critical to the optimal functioning of the banking sector, as well as the economy as a whole. Kirkpatrick (2009) concluded that failures and flaws in corporate governance engagements in financial industry contributed to the recent global financial catastrophe. However, corporate governance of banks is different from non-financial firms given that banks have many stakeholders as against the non-financial corporations (Mehran, Morrison and Shapiro, 2011). Moreover, the business operations of banks are opaque and complex. Therefore, more enhancing features of corporate governance need to be implemented in the banking sector.
It is noteworthy that BCBS has been recommending for enhancements in board governance, apart from other aspects in comprehensive improvements of corporate governance for banks. Srivastav and Hagendorff (2016) emphasised that the expertise and previous relevant experience of directors can have positive attitude on bank risk-taking. In an analysis of corporate governance and bank risk-taking, they stated that board quality such as previous relevant experience of board members can influence bank risk-taking. Hence, they suggested for future research to investigate the background which includes expertise of board members and relate it to bank risk-taking and subsequently its performance.
This study contributes on theoretical contributions in term of new conceptualisation/dimension of variables. Existing literatures on bank's corporate governance have considered the importance of corporate governance for banks in weathering the global financial disaster. Nevertheless, majority of the existing literatures did not specifically compare whether the corporate governance reforms are also proposed by the key global institutions in their papers. This article enhances study on bank's corporate governance, particularly board governance and their performances, by inserting a number of factors that are not often utilised by the existing literatures but pertinent for banks, together with the variables that recommended for corporate governance reform by the prominent global institutions as well i.e. recommended by BCBS' "Principles for enhancing corporate governance" (2010). The exceptional mechanisms in this study are board qualification in banking and finance plus board experience in banking and finance.

Literature Review and Hypothesis Development

Agency Theory

Fundamentally, agency theory is principally centred on the relationship between managers and shareholders whereby an agency connection is defined as one in which one or more persons (the principal) appoints another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent (Jensen & Meckling, 1976 and Ross, 1973). The basis of agency theory is the hypothesis that the interests of principals and agents are contradictory. Agency theory appeared as the prevailing paradigm in management, finance as well as economics literatures until scholars began to discover the implications that agency theory might have for the disciplines of corporate governance, organizational behaviour, organizational theory and strategic management beginning late 1980s, for instance Eisenhardt (1985, 1988, 1989) and Kosnik (1987) (Hill & Jones, 1992).

Corporate Governance of Banking Institutions in Asia Emerging Market

The Organisation for Economic Co-operation and Development (OECD) as the most renowned global controller for corporate governance in banking institutions defined corporate governance as "*a set of relationships between the bank Board of Directors and between shareholders, depositors and other stakeholders. Furthermore, governance provides procedures that outline the goals of banks, besides defining the ways to achieve these goals plus applying them to test management efficiency at banks*" (OECD, 2004). However, as mentioned above, it is clearly shown that there are differences between corporate governance of banks and non-banks. Adams and Mehran (2003) clarified that corporate governance of banking firms may be different from the unregulated and non-financial firms due to several reasons. One of that is the number of parties with a stake in a banking institution's activity complicates the governance of banks. Besides investors, depositors and regulators have direct interest in bank performance as well. On a more aggregate level, regulators are concerned with the effect that governance has on the performance of banking institutions because the strength of the overall economy depends upon their performances. Consequently, the board of directors of a banking firm is placed in a crucial role in its governance structure. Although the boards of banking institutions are assigned the same legal responsibilities as other boards, regulators have placed additional expectations on bank. Therefore, corporate governance reforms should take industry differences into account in order to be more effective in their implementations.

According to BCBS, after the publication of the Committee's 2006 guidance, there have been several corporate governance failures and lapses, most of which came apparent during the 2007 financial disaster. These included, amongst others, insufficient board oversight of senior management, inadequate risk management and unduly complex or opaque bank organisational structures as well as activities. Subsequently, the Committee decided to revisit its 2006 guiding principles and after reviewing the guidance plus the necessary dynamic reforms, the 2010 guidance was published. Compared to the 2006 guiding principles, the 2010 guidelines are more comprehensive as it constitutes 14 corporate governance principles under six key areas with more guiding principles covering for the functions and responsibilities of directors.

Regarding the Board Practices Area, all the four principles in 2010 guidelines had been already underlined earlier by BCBS in 2006 but with few amendments for corporate governance reforms i.e. board qualifications under Principle 2. In 2006 guiding principles, the requirements were only for board members to have adequate collective knowledge of each substantial financial activity that bank intends to undertake. Nevertheless, in 2010 guidelines, there were further requirements for the directors to also possess relevant experience that related to the aforementioned financial activity of bank. Additionally, another reform on Board Practices Area is role of the chair under Principle 3. In this framework, BCBS calls for banks to have a lead board member, senior independent board member or a similar position, especially if in the banks, the roles of the chairman and chief executive officer (CEO) are vested in the same person. This is imperative for the banks to have the said measures ready in order to minimise any adverse impact on the banks' checks and balances of such circumstances.

Board Governance and Bank Performance

Board Qualifications and Experience in Banking and Finance

As a result of several corporate accounting frauds worldwide, most regulators raise their emphasis on the importance of having financial experts on the board of directors. Aebi, Sabato and Schmid (2012) explained that according to the Sarbanes-Oxley Act of 2002, a financial expert has among other things ''an understanding of generally accepted accounting principles and financial statements''. Aebi et al.

(2012) defined directors with finance background as directors with experience (present or past) as an executive officer in a bank or insurance company, mutual fund, hedge fund or Certified Public Accountants (CPA), Chartered Financial Analysts (CFA) or private equity fund managers, REIT managers or professors in finance, economics and accounting. Nevertheless, Erkens, Hung and Matos (2012) had simpler but broader definition i.e. directors that either has a CFA/CPA or has worked in accounting or finance functions. Pertaining to Kallamu (2015), they scrutinised the financial qualification and background attributes amongst audit committee only, based on finance qualification of audit committee together with finance industry experience of the committee. It is worthwhile to note that only Aebi et al. (2012) and Kallamu (2015) produced similar findings whereby financial qualification and background of directors negatively affect performance of banks and these findings unexpectedly refutes the contemporary requirements or suggestions for banks to have more financial experts on the board of directors to enrich the banks' achievements. Nonetheless, findings of Minton, Taillard and Williamson (2014) emphasized that the level of financial expertise among directors is positively correlated to risk taking, both before and during the financial disaster in spite of being consistent with shareholders' value maximization objectives. For that reason, their sample banks registered better stock performance before the crisis but then poorer performance throughout the financial calamity. They opined that the detrimental results were not actually caused by incompetent financial professionals on board but attributable to chief executive officers who merely selected independent financial experts who could rubber stamp strategies that satisfy their risk appetite. Conversely, Erkens et al. (2012) revealed that financial qualification and background of directors were insignificantly associated with performance of banks. This might be owing to much larger sample of banks in their literature.

On the other hand, Tarraf and Majeske (2013) discovered that the wide-ranging banking governance system including the general education and background of banks' directors did not significantly influence risk taking of banks but risk taking indeed affected their performances. Consistent with theories and past literatures, the paper demonstrates that during the crisis, banks with lower risk had better performances than banks with higher risk. Regarding Peni and Vahamaa (2012), their results are mixed between three performance methods namely ROA (profit), Tobin's Q (value of banks) plus stock returns as well as two periods i.e. during and after financial catastrophe. Contradicts with Tarraf and Majeske (2013), Peni and Vahamaa (2012) disclosed that amidst the financial disaster, high scores of corporate governance including the general education and background of banks' directors intensify banks' profitability significantly, suggesting that good governance may had moderated the severe effects of the financial tragedy on financial performance of banks. Contrariwise, good corporate governance did not improve the stock market performance of banks during the financial crisis as banks with stronger governance recorded lower value of banks as well as lower stock returns throughout the calamity. Their findings make it apparent that good corporate governance did not create shareholders' value amongst banking firms during the market collapse.

Nevertheless, Peni and Vahamaa (2012) highlighted that banks with superior corporate governance mechanisms disclosed substantially greater stock returns after the financial disaster, from March 2009 onwards. This outcome points out that at the very least, good corporate governance implementations may had alleviated the unfavourable perceptions of the crisis on banks' credibility among stock market participants. In other words, the participants might be optimistic that the good governance of banks and this optimism might be partially attributed by convincing qualification and background of the banks' directors. Additionally, Kirkpatrick (2009) and Walker (2009) highlighted that lack of financial expertise amongst bank directors is the key factor in the 2007-2008 financial crisis. This suggests that a more financially knowledgeable board can effectively advise and monitor bank management to avoid excessive risks. However, there is limited number of studies on the impact of more financially expert directors on bank risk-taking. It is also noteworthy that these corporate governance mechanisms were already recommended by BCBS in their 2010 guidelines under Key Area A-Board Practices, Principle 2. Ultimately, it will be the best for bank to appoint directors that possess abundant experience in the related banking activities, of which are normally former bank management. This, for instance can prevent banks from granting loans to borrowers that might be unable to repay due to their vulnerable businesses which are prone to just temporary unfavourable economic conditions. Boards that simply have the related qualifications might just agree to provide loans to these types of borrowers but for boards that have the extensive relevant experience, they will evaluate further and request for further information and justifications so as to reduce risks for banks. Accordingly, it is hypothesized that:

Hypothesis 1: There is a significant positive relationship between directors' qualifications in banking/ finance and bank performance.

Hypothesis 2: 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 as they are assigned with delegated authorities by the shareholders to formulate policies and strategies, safeguard internal control, supervise, evaluate as well as compensate the top management to boost the competence of the corporation (Hoque, Islam & Ahmed, 2013). Consequently, the success of a firm mostly depends on the optimal composition of board encompassing non-independent and independent directors. According to Financial Stability Board (FSB) (2013), an independent director basically refers to a member of the board who does not have any management responsibilities with the firm and is not under any other undue influence that would impede the director's exercise of objective judgement.

Most regulatory efforts and market best practices worldwide have concentrated on the issue of independence board post the 2007 financial crisis and even before the financial predicament (Aguilera, 2005). Many central banks or state banks in several countries have reinforced recommendations on board composition and independence (Huse, 2005). BCBS (2006) together with Walker (2009) Report also underscore particularly on the role of independent directors stating that their role is (i) to ensure that there is an efficient executive team in a bank, (ii) to participate actively in the decision-taking process of the board and (iii) to oversight appropriately over execution of the approved executive strategy. Walker (2009) Report also states that it is not obligatory for all independent directors to have industry experience that closely relevant to the business of the bank since the ones with less industry specific knowledge could bring other related experience that could enrich the perspectives of decision-taking, particularly risk taking in the board. (Tanna, Pasiouras, & Nnadi, 2011).

Empirically, majority of the earlier papers on the relationship between board independence and firm (bank and non-bank) performance disclose that there was solid association between board composition and market valuations of emerging market companies. Findings suggest that companies with 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 significant level of independent directors. Overall, results suggest that board independence plays important roles in developing countries and emerging markets, where other control mechanisms on insiders' self-dealing are weaker. There are also some evidences that board independence must reach a certain threshold and be mandated to be effective (Claessens & Yurtoglu, 2013). These findings are in line with Chiang (2005) who argues that independent directors are more specialized to monitor the board than the executive directors in running successful firms. This objective can be achieved by reducing the concentrated power of the chief executive, whereby it supports the firms to prevent misuse of resources and simultaneously, enhancing performance. Moreover, higher proportion of independent directors also helped in preventing expropriation through related party transactions (Lo, Wong, & Firth, 2010).

In contrast, directors who are unrelated to the firm may lack the knowledge or information to be effective monitors (Hoque et al., 2013). De Andres and Vallelado (2008) highlighted that an excessive proportion of independent directors could damage the advisory role of boards since executive directors facilitate the transfer of information between directors and management. Prior related study revealed that there is significant relationship between independent directors and bank performance. Interestingly, the results were mostly documented in emerging markets utilising sample banks from single countries. Ngwenya (2014) for South Africa, El-Chaarani (2014) for Zimbabwe, Dincer (2012) for Turkey, Tanna et al. (2011) for the United Kingdom (UK), Nyamongo and Temesgen (2013) for Kenya, Rowe, Shi and Wang (2011) for China together with Hoque et al. (2013) for Bangladesh discovered that quantity of independent directors significantly enhanced banks performance. Tanna et al. (2011) linked the

improved efficiency to the higher number of independent directors who avoided wasteful use of input resources while providing their services to the board. In relation to banking sectors in Europe, Busta (2007) discovered that banks with more independent directors in continental Europe perform better with regard to market-to-book value and return on invested capital (ROIC). It is still paramount for corporate governance of banks given that it is still analyzed by contemporary related literatures, as well as still being recommended by the relevant authorities on bank corporate governance.
Apart from the above, it is also notable that this governance mechanism had also been suggested by BCBS 2010 guidelines under Key Area A-Board Practices, Principle 3. It is a call for banks to have greater independence in order to minimise any adverse impact on the banks' checks and balances especially in the existence of CEO Duality. Based on the above discussions, the following hypothesis is developed:

Hypothesis 3: There is a significant positive relationship between independent directors' majority and bank performance.

Methodology

Data

The population for this study is derived from selected listed banks from emerging Asia countries. A number of eight countries are selected generalized from definitions of various organization such as IMF, Financial Times Stock Exchange (FTSE), Morgan Stanley Capital International (MSCI), Standard & Poor's (S&P) and Dow Jones. These include banks from China, India, Indonesia, Malaysia, South Korea, Philippines, Thailand and Taiwan. A total of 109 listed banks with 545 observations are chosen for data collection. Since this study intends to evaluate the impact of corporate governance post 2007 financial calamity, data collection encompasses 2011 until 2015. Data for bank performance (net interest margin) and board governance were taken from the banks' respective annual reports. In addition, BANKSCOPE database and the related central banks' websites are the sources of data for the control variables.

Time Period

Since this study intends to investigate the impact of corporate governance post 2007 financial calamity, data collection encompasses 2011 until 2015. This study selects the time phase in order to examine the effectiveness of Basel II implementation with proposed continuous gradual reforms via Basel 2.5 and Basel III reflecting on the global financial disaster from 2011 onwards. Similarly, Farooqi and O'Brien (2015) analysed the impact of Basel II (and the consequent reforms) on banking sector partly from 2010 onwards. Based on 2011 Progress report on Basel III implementation by BCBS of Bank for International Settlements, most countries committed to complete Basel II together with Basel 2.5 adoption by 2011. Latham and Watkins (2011) clarified that the implementation of both Basel II and Basel 2.5 commenced in 2010. Besides, IMF reminded that in 2015, emerging economies was having diminishing growth rates for five consecutive years which indirectly means that the regions started to experience financial crisis since around 2010-2011. Hence, the selected period of this paper is consistent with the reform period of Basel II as well as post global financial calamity that also affected Asia emerging markets.

Dependent Variable

In tandem with key source of bank income through the spread between its loan interest income and interest expense, this study calculates net interest margin (NIM) to measure the profitability of bank lending (Amba & Almukharreq, 2013; Minton et al., 2014; Rowe et al., 2011). Nasserinia, Ariff and Cheng (2014) claimed that NIM is the most vital performance measure as a good proxy for bank performance but lots of past studies using ROA and/or ROE only and neglecting NIM's practicalities. Henceforth, using NIM as one of the bank-specific measurements is pertinent to gauge the composition of bank profitability in order to strategize for future concentration level on income diversification.

Independent Variable

In agreement with the importance of banking institutions in an economy, adequate collective knowledge of substantial financial activity must be strengthened with relevant experience that related to the aforementioned financial activity. In addition, the adverse impact in the banks can be resolved by having check and balance through more independent board composition. Therefore, board governance enhancements in this study is represented by three governance mechanisms including the proportion of directors with qualification in banking and finance, the proportion of directors with experience in the financial institutions and a majority independent directors in the selected banks.

Control Variable

Evidently, the banks in Asian emerging economies must not only improve its competences and corporate governance practices over their competitors but they must also be able to weather the macroeconomic and other external conditions since banks are also affected by the outer factors. There is a consensus that macroeconomic stability is critical for the growth of banking institutions in reference to Naceur and Omran (2011). The variables are log of total assets (LnASSET), Consumer Price Index (CPI), volume of bond and sukuk (BONDSUK), money supply (MONEYSS) and stock exchange index (STOCKEXCHG). Consequently, bank-specific determinants together with external factors are essential to measure a bank's performance. The following Table 1 provides the compositions and definitions of measurements all variables:

Table 1: Definition of Variables

Variable	Definition	Source
Net Interest Margin	(Interest Income-Interest Expense) / Interest-Earning Assets	Annual Report
Qualification of directors in in banking and/or finance	Number of directors who had qualifications in banking and/or finance divided by total number of directors. The qualification includes finance, economics and accounting studies (Erkens et al., 2012).	Annual Report
Experience of directors in banking and/or finance	Number of directors who had experience in banking and/or finance divided by total number of directors. The experience encompasses experience as executive in bank, insurance company and other types of financial institutions (Aebi et al., 2012).	Annual Report
Board Independence	A binary variable at value of one if a bank had majority number of independent directors on board. A zero value given if a bank did not have the majority number of independent directors on board (Claessens & Yurtoglu, 2013).	Annual Report
LnASSET	Log of Total Asset	Annual Report
Consumer Price Index	CPI as inflation proxy derived as percentage of annual change during the selected period	Annual Report
Volume of Bond and Sukuk	Total volume for new issuance of bond and sukuk during a particular year, in the respective banks' operating countries.	Bankscope
Money Supply	Annual percentage changes of national money supply, which comprises currency in circulation and demand deposits of the private sector, plus other deposits of the private sector placed with commercial banks, Islamic banks and other banking institutions.	Bankscope
Stock Exchange Index	Annual changes of stock market returns (in percentage) for an economy.	Bankscope

Empirical Model

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

$$Y_{it} = \beta_0 + \beta_1 BDQUABKGFIN_{it} + \beta_2 BDEXPBKGFIN_{it} + \beta_3 BDINDEP_{it} + \beta_4 LnASSET_{it} + \beta_5 CPI_{it} + \beta_6 BONDSUK_{it} + \beta_7 MONEY_{it} + \beta_8 STOCKEXCHG_{it} + \varepsilon_{it}$$

Where;

Y_{it}	Bank performance (NIM)
BDQUABKGFIN	Qualification of directors in banking
BDEXPBKGFIN	Experience of directors in banking and/or finance
BDINDEP	Board Independence majority
LnASSET	Log of Total Assets
CPI	Price Index
BONDSUK	Total volume for issuance of bond and sukuk
MONEY	Money supply
STOCKEXCHG	Stock exchange index

Pooled panel data analysis involve with cross sections (refers to different banks) and time series (Hsiao, 2004; Baltagi, 2005 and Kunst, 2011). Panel data models scrutinize individual-specific effects, time effects or both in order to deal with heterogeneity or individual effect (cross-sectional or time-specific effect) that might be or might not be observed. The analysis is 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 heterogeneity of variables with less collinearity, reduced bias and better degree of freedom. According to Diggle, Liang and Zigger (1994), longitudinal or pooled data analysis is effective in studying change.

Empirical Results and Discussion

The sample of this study is the public listed banks in Asia emerging countries. Any banks with incomplete applicable data during 2001 until 2015 were excluded from the analysis. Apparently, this study omitted many banks from China as their data i.e. annual report is presented in Chinese language. The excluded banks neither have English translated annual reports nor websites. The number of selected banks from eight Asia emerging economies is 109 of which details are as per Table 2. The initial number of unfiltered banks is 524. The highest numbers of banks are from India and Indonesia of 27 and 25 respectively.

Table 2:Distribution of Banks in Asia Emerging Markets

Country	Number of selected banks
Malaysia	7
Taiwan	12
Indonesia	25
India	27
Philippine	11
Thailand	9
China	13
South Korea	5
Total	**109**

Descriptive Statistics

The following Table 3 presents the descriptive statistics of this research. The table summarizes the descriptive statistics (categorical and continuous variables) of board governance enhancements together with the dependent plus control variables.

Table 3: Descriptive Statistics

Variable	Mean	Median	Standard Deviation	Minimum	Maximum	Percentage
Director's qualification in banking and finance (%)	59.72	58.33	18.51	12.5	100	NA
Director's experience in banking and finance (%)	79.38	80	16.20	33.33	100	NA
Board independence majority	NA	NA	NA	0	1	50.28
CPI (%)	4.03	4.00	2.80	-0.90	9.90	NA
Bond issuance	277.52	40.75	524.15	17.10	2,316.63	NA
Money Supply	11.46	12.00	4.01	0.00	18.30	NA
Stock exchange index	5.68	4.10	17.30	-27.10	55.07	NA

Concerning the banking performance indicator, the mean of NIM for the banks under review was 3.26% which indicate that on average, the banks generated profits of 3.26% from their interest-earning assets, after subtracting the relevant interest expenses. Overall, the median for NIM was not much different from its mean. It is noteworthy that this average figure is almost consistent with other past studies that also performed in Asia emerging economies namely Battaglia and Gallo (2015) recorded average of 3% for China plus India, Tan (2016) registered 2.81% for China together with Wasiuzzaman and Gunasegavan (2013) which documented 3.41% for banks in Malaysia. In addition, Amba and Almukharreq (2013) documented average NIM for Islamic and conventional banks in GCC at 3.43% and 2.62% respectively.

Apparently, Asia emerging banks were selective in the selections of directors. Qualification in banking and finance was one of the preferred requirements in appointing the banks' directors as nearly 60% of the banks' directors had qualification in the two fields. Moreover, the percentage was higher for directors' experience in banking and finance i.e. about 79% of directors in Asia emerging banks experienced in banking and finance. It is also notable that the standard deviations for the qualification and experience in banking and finance were considered high i.e. 18.51 and 16.20 respectively. In comparison, there has been no past study that examines the effect of board qualification in banking and finance per se, on bank performance but there were preceding researches that analysed the impact of board experience in banking and finance on performance of banks but with different definitions. Aebi et al. (2012) discovered that 22.5% of bank directors in their both small and large samples in USA had finance background i.e experience in banks or insurance companies. Additionally, in Minton et al. (2014), 26% of independent directors in its sample banks experienced in banking and finance but the figure was only derived from independent, and not all directors. Conversely, the banks did not adopt ample corporate governance mechanisms regarding board independence whereby only approximately half of them had majority independent directors on board. This figure is higher than Praptiningsih (2009) i.e. 41% which conducted a research on four ASEAN countries during 2003-2007. Notably, 50% of banks in Malaysia also had majority independent directors from 2003 until 2011 (Siew & Isa, 2015). Nonetheless, the 50% figure is much lower than the banks in more developed economies before 2010, namely Europe and USA i.e. 82% (Erkens et al., 2012) and 77% (Romano, Ferretti & Rigolini 2012).

With regards to the control variables involving total assets of the banks, the average size of the banks under review was USD139 billion whereas the maximum assets of the bank were USD3.35 trillion. Furthermore, the standard deviation was high at USD429 billion. Most of prior researches present their assets value in logged figures. Pertaining the external and macroeconomic variables of the banks in Asia emerging countries, the mean and median of CPI were both 4% respectively. In this research, CPI is derived as percentage of annual change during the selected period. The average for new issuance of bond and sukuk in the selected eight economies was USD277.52 billion which was substantially different from the median which was only USD40.75 billion. This is also evidenced by large standard deviation of USD524.15 billion. These figures encompassed both government and private bond issuances. Furthermore, the mean for annual changes of money supply, particularly M3 was 11.46%.

Regarding capital market measures, the average for annual changes of stock market index for the eight countries was 5.68% whilst the standard deviation was relatively high i.e. 17.3%. It is notable that these outputs signify that there were not many variations in the economic conditions of the countries in which the banks were operating, since all the eight countries were specifically categorised as “Asia emerging economies” by the prominent international institutions as discussed in earlier section.

Regression
Table 4 demonstrates the findings of investigating the relationship between board governance and bank performance represented by NIM. Table 4 demonstrates the findings of investigating the relationship between board governance and ban performance represented by NIM. In relation to the first dimension of this category, board qualification in banking and finance is significantly and positively related to NIM. Accordingly, the emerging Asia banks with more board qualification in banking and finance registered better financial performance as against their competitors that had less, or no boards qualified in banking and finance. This indicates that board qualification in banking and finance enhanced performance of the sample banks. Therefore, hypothess 1 is supported.

Table 4: Board governance-Fixed Effect Model (FEM)

Dependent Variable		NIM	
Independent Variables	**Expected Sign**	**Coefficient**	**Probability**
Board Governance			
BDQUABKGFIN	+	0.0045	0.0217**
BDEXPBKGFIN	+	0.0259	0.0000***
BDINDEPMAJ	+	-0.0721	0.0882*
Control Variables			
LnASSET		-0.4859	0.0000***
CPI		0.1358	0.0000***
BONDSUK		0.0191	0.4595
MONEYS		0.0520	0.2175
STOCKEXCHG		0.0040	0.3433
R-Squared		0.2773	
F-Statistic (p-value)		17.0091 (0.0000)	
C		3.385819 (0.0000)	
Observations		545	

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

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Board experience in banking and finance has significant and positive affiliation with NIM of banks in Asia emerging markets. Thus, more board experience in banking and finance in the emerging Asia banks contributed to the banks’ greater performance, compared to other banks that did not have boards with such backgrounds during period under review. This signifies that the banks’ better performance was partly attributed by growing board experience in banking and finance in their organizations. This might be a result of their more specialised expertise plus experience in comprehending NIM as amongst the most vital emphasises for banks. Hence, hypothesis 2 is supported.

The above findings on two board governance mechanisms are partly in line with Peni and Vahamaa (2012) which unveiled that amidst the financial disaster, high scores of corporate governance under Gov-score, including the general education and background of banks’ directors intensify banks’ profitability significantly. This suggests that good governance may had moderated the severe effects of

the financial tragedy on financial performance of banks. This might be in line with the call by BCBS in their 2010 guidelines under Key Area A-Board Practices, Principle 2 which stresses for board of banks to collectively have adequate expertise and experience relevant to (but not limited to) finance, accounting, lending, governance, risk management, internal controls, auditing and compliance.
Contrary to the results of board qualification plus board experience in banking and finance, board independence majority is negatively affiliated with performance of banks in Asia emerging markets. This result reflects that performance of the banks under review strengthened when their board became less independent. In other words, the banks with fewer board independence majority performed better than the banks that did not have majority of independent directors. Therefore, hypothesis 3 can't be supported.
The outcome is consistent with Erkens et al. (2012) which discovered that board independence significantly decreased bank performance in its selected samples. Furthermore, directors who are unrelated to the firm may lack the knowledge or information to be effective monitors, compared to internal or non-independent directors (Hoque et al., 2013). Besides, De Andres and Vallelado (2008) emphasised that an excessive proportion of independent directors could damage the advisory role of boards since executive directors are better in facilitating the transfer of information between directors and management. Internal directors also provide information and knowledge that external directors would find difficult to gather. Although majority of independent directors can be considered as reputable and efficient, they might be too busy to allocate their attention in a single company since most of them also serve in more than one directorships in other listed firms. (Elyasiani & Zhang, 2015; Tanyi & Smith, 2014). Hence, they may have insufficient time and energy to effectively monitor and provide advice to the management (Elyasiani & Zhang, 2015).There are also some evidences that board independence must reach a certain threshold and be mandated to be effective (Claessens & Yurtoglu, 2013). This indicates that board independence is a contributing factor for better bank performance, but it must have a certain optimum number, above which the bank performance would be jeopardized.

Limitation and Suggestions for Future Research
Concerning direction for future research, the studies can expand the population samples, including global samples. In fact, future research could use similar model to compare bank performance in emerging countries as against performance of banks in developed economies. Secondly, apart from larger population, the upcoming researchers could also increase the observations of future studies by extending the period. Thirdly, similar studies could also be performed in other emerging markets or groups such as BRICS which encompasses Brazil, Russia, India, China and South Africa. Additionally, similar model and approach could also be employed to compare performance of the conventional banks in this paper with performance of Islamic banks in the same eight countries, with relevant amendments.

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