

Essential of Corporate Governance on Performance of Commercial Banking Institutions in Southeast Asia and East Asia

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Abstract

Purpose: This paper aims to examine the impact of corporate governance (CG) mechanisms on the commercial bank's performance across Southeast Asia (SEA) and East Asia (EA) countries.

Design/methodology/approach: This paper tested a total sample of 99 commercial banks (CB) across SEA and EA countries for 2020 by carrying out a cross-sectional regression analysis. This paper has involved five CG variables, board size (SIZE), number of non-executive directors (NONEX), the existence of female directors (FEM), CEO duality (DUA), and the existence of CEO on the board (PRE) while controlling the bank-specific factors such as bank age (AGE) and bank liquidity (LIQ). Moreover, the assets on asset and return on equity will be used to measure the performance or value of commercial banks.

Findings: The findings reveal that the board size, existence of non-executive director, and presence of CEO in the boardroom are typically demonstrated mixed relationship, while CEO duality is negative significantly influence on the commercial banks' performance. Besides, there is a significant finding in this paper, whereby the presence of the female director in the boardroom displays an adverse correlation with the CB's performance. This finding was contradicted with the mandatory pass by many countries to promote the gender diversified boardroom.

Research limitations/implications: The limitation of the study was small sample size, limited access to the targeted population and only secondary data collection method applied throughout the study, as a result, the real-world source information may be omitted.

Practical implications: This study imply that the government should restore the public and investors' confidence in the economy by effectively enforcing the code of CG, improving auditing, and stepping up law enforcement to maintain a sound CG structure in banking institutions as the scandals such as corruption, fraud, and negligence are no longer acceptable by the public. Besides, the banks should practice a diverse board to form sound CG and improve financial performance. For instance, the banks should include directors with different

educational background and professional qualifications in the boardroom. In addition, the combination of dual leadership roles may lead to an excessive concentration of power vested in an individual and lead to issue of “imperial CEOs.”

Originality/value: This study concluded that corporate governance awareness is relevant for people from all walks of life as a good governance will ensures everyone in an organization follows appropriate and transparent decision-making processes and that the interests of all stakeholders.

Keywords: Bank Performance, Board Size, Non-executive Directors, Female Director, CEO Duality, Bank-specific Factors

1. Introduction

Due to the COVID-19 pandemic, the economy dived. Businesses shut down, and many were set back financially, not to mention emotionally. This year the global economy was recovering from the pandemic-induced recession, with a combination of surging demand and disrupted supply chains that have led to a dramatic increase in inflation across many countries. Southeast Asian and East Asia economies in 2021 are widely emphasizing to regain the growth momentum they had before the COVID-19 pandemic triggered historic declines in the year 2020. During this challenging time, the banking institution played an essential role in preserving financial stability while continuing emphasized on assisting their clients through the difficult times (Bellen, Pogson, Bedford & Meekings, 2020). In light of the ongoing COVID-19 pandemic, strong corporate governance structures have become essential than ever. Bank regulators and shareholders expect the banking institutions’ boards of directors to actively oversee and monitor the business. This is owing to corporate governance will assist in navigating the unexpected effectively, identifying the changes it brings, and practicing for long-term survival. Banking institutions are also crucial during the post-pandemic economic recovery of a country.

According to the report of the Asian Corporate Governance Association (2021), Hong Kong (an Asia leading international financial centre), further corporate governance improvements are needed as the city and financial centre in Asia continue to lag behind on some governance best practices. When addressing regulatory and enforcement issues, Hong Kong is at its most determined; however, it has lost its nerve when it comes to driving foundation improvement in an organization’s governance (Bray, 2021). Also, they stated that due to lack of lead independent directors, they tend to set a higher bar for board diversity, independent directors, and the quality of governance reporting. The report also found that the corruption issues also worsen in Hong Kong, Australia, and Singapore, while Singapore was recognized as one of the major financial centre in Asia.

Furthermore, Loh, Thi, Thao, Lee and Thomas (2020) also reported that ASEAN’s record on anti-corruption performance seems unsatisfactory. Despite continuing efforts to resolve the issue, corruption cases are still widespread. Based on the Corruption Perceptions Index (CPI) measured by Transparency International, which focuses on the perception of corruption in the public sector, the average CPI score of ASEAN countries in 2020 is 41.7 points. It demonstrated a decline compared with 42.3 points in 2019. Moreover, it is also lower than the average score of 43.3 points for 180 countries and regions evaluated globally in 2020. Table 1 shows the CPI scores and rankings across 14 Southeast Asia (SEA) and East Asia (EA) countries in 2020. According to the table 1, Singapore had marked the best ranking and top performance among ASEAN countries, which gained from its national commitments to corruption control, especially in the public sector. In recent years, the CPI performance of most ASEAN countries has remained stagnant and below World’s average.

Table 1: CPI Scores and Rankings Across EA and SEA Countries

| Country | Rank 2020 | CPI Score 2020 |
|------------------------------|-----------|----------------|
| East Asia Region | | |
| Hong Kong | 11 | 77 |
| Japan | 19 | 74 |
| Taiwan | 28 | 65 |
| South Korea | 33 | 61 |
| China | 78 | 42 |
| Mongolia | 111 | 35 |
| Average CPI Score | | 59 |
| Southeast Asia Region | | |
| Singapore | 3 | 85 |
| Brunei Darussalam | 35 | 60 |
| Malaysia | 57 | 51 |
| Indonesia | 102 | 37 |
| Thailand | 104 | 36 |
| Vietnam | 104 | 36 |
| Philippines | 115 | 34 |
| Cambodia | 160 | 21 |
| Average CPI Score | | 45 |

Source: Transparency International

Yeap (2020) reported that although there was an improvement in promoting gender diversity in the boardroom, however, the progress remains low. As of 2021, the percentage of women on boards of directors in Malaysia marked 27.4% (refer to) and still has not achieved the 30% threshold of women directors, which implemented since 2011. In line with this, the Malaysia government mandates that public companies must have at least one female director and will take effect from 1st September of 2022, for capital companies, while 1st of June, 2023, for public listed companies in the Malaysia Budget 2022 (Raghu & Shukry, 2021). Malaysia Finance Minister Zafrul Abdul Aziz claimed that the role of females should be recognized in the decision-making process and enhance the leadership and effectiveness of the BOD.

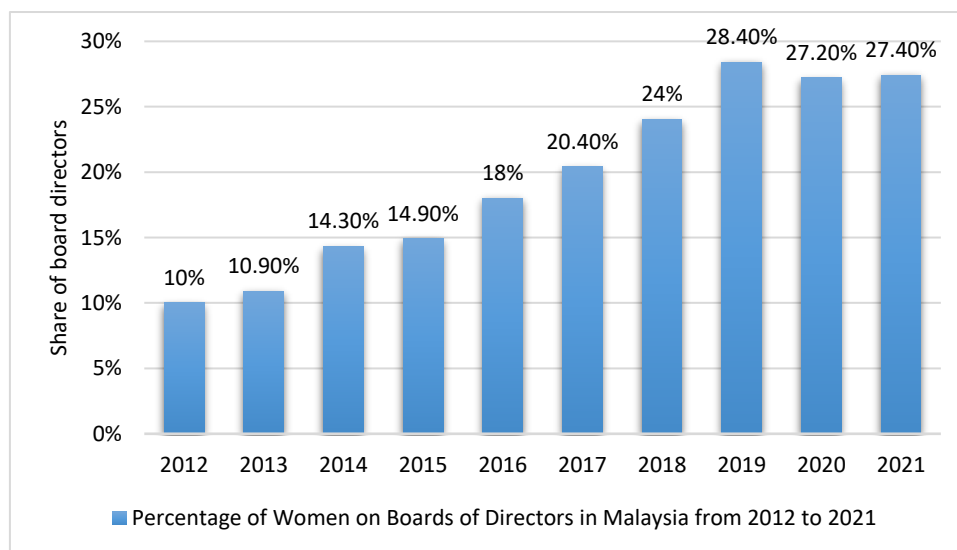


Figure 1: Percentage of Women on Board of Directors in Malaysia from 2012 to 2021

Source: Statista

On the other hand, few papers examined the CG mechanism on the performance of banking institutions in Asian countries, such as (Nguyen & Vo, 2020; Sobhy & Hussain, 2017). These studies show that board size, CEO duality could positively influence bank performance. The significant positive relationship between board size and the firm's performance is also further supported by a previous study in China (Li, Zhou, Zhou & Chen, 2021), Philippine (Kabigting, 2011), India (Abdul Gafoor, Mariappan & Thyagarajan, 2018) while contradicting with the research in Gulf Cooperation Council (Al-Musalli & Ismail, 2012; Naushad & Malik, 2015). In Malaysia, the CG mechanism of the composition of non-executive directors was also found to significantly influence a firm's financial performance (Alhaji, Baba & Yusoff, 2013), which contradict with study in Nigeria (Olubukunola & Stephen, 2011), Pakistan (Sheikh & Schwarte, 2013). In terms of board gender diversity, Chan and Heang (2010) reported that the board gender diversity is negatively correlated with the firm performance in Malaysia's commercial banks supported by the study in Pakistan (Mirza, Andleeb & Ramzan, 2012), Norway (Yang et al., 2019), while the result disagreed by the study (Romano et al., 2012).

After reviewing the previous literature, the gap of the study on the influence of CG on the financial institution is identified in SEA and EA. There was lack of research on investigating the significance of CG on banking institutions in SEA and EA countries. Hence, this study emphasizes on studying the influence of CG mechanisms, which comprise of board size, non-executive director, female director, CEO duality and CEO's presence on the BOD by controlling bank-specific factors, bank age and bank liquidity on the commercial banks' performance measured by ROA and ROE in SEA and EA region in year 2020.

2. Literature Review

Previously, various empirical studies found different findings on the association between the organization's performance and the board size of directors. This is because a large board of directors could enhance the firm performance as they increase the resources and expertise in the company, which allow a better decision making and avoid the domination of a CEO. Kabigting (2011) pointed out that board size has a significant positive relationship with return on assets (ROA) and return on equity (ROE). He explained that the increase in the number of directors is typically for board control, although other factors are also taken into account. In India, Abdul Gafoor, Mariappan and Thyagarajan (2018) also found that the board size is positively associated with bank performance. In China, Li, Zhou, Zhou and Chen (2021) reported a strong positive association among the board size and the firm's performance. The findings recommend that the advantages of diversity in perspectives and expertise outweigh the potential free-riding issue and agency problems brought about by larger boards for young and growing firms. Resource dependency theory suggests that resources are the key to organizational success and that access and dominate over resources is a basis of power. Thus, the board equipped with various skills, knowledge, and resources could contribute more significant value to the organization. Generally, the diverse board could positive significantly correlates with a better performance of the banks.

However, there are other papers that show an adverse association between board size and firm performance. This is due to boards tend to become less efficient and might be more correlated with bureaucratic issues and cause the decision-making become complex and time-consuming when the boards are large (Jensen & Meckling, 1976). Another factor is that it will raise the difficulty to communicate, coordinate, and engage when the boards become too large; in the end, it declines the performance of an organization (Martin & Herrero, 2018). The research by Naushad and Malik (2015) found that the board size is negative and insignificant in influencing the firm's performance in Gulf Cooperation Council (GCC) countries. Staikouras, Staikouras

and Agoraki (2007) summarized that the board size is negatively associated with the bank profitability. They explained that the board size should limit or even be mandated based on the out-of-equilibrium interpretation.

Number of non-executive directors also an essential indicator for the CG performance of the banks. Non-executive directors (NONEX) generally are not engaged in the firm's daily operation; however, they offer an independent view on the operating of the business and governance. Olubukunola and Stephen (2011) found that the proportion of non-executive directors is negative and significantly associated with ROE. This is due to the non-executive directors are being occupied with other tasks and only engaged with the bank's operation part-time. Also, the non-executive directors might not have a hands-on approach or are not necessarily proficient in operating a business, therefore, do not required make the best decisions. Sheikh and Schwarte (2013) also found that there is a negative relationship between the proportion of outside directors and corporate performance. They mentioned that the negative association might be due to the very low representation of outside directors on Pakistani firms' boards, which might stimulate the managers to expropriate the corporate's resources for their personal advantages. In Pakistan, Alam, Abbas and Hafeez (2020) also found a significant negative correlation between the number of non-executive directors and bank performance. They justified that the negative correlation was due to the prevalence of cozy relationships between non-executive directors and executive directors, which limits the supervising role of non-executive directors on board performance.

In contrast, Alhaji, Baba and Yusoff (2013) concluded that the independent non-executive directors are positive and strongly associated with the firms' ROE. This is because of the presence of outside directors may boost corporate competitiveness and generate new strategic outlooks for the firms. Fauzi and Locke (2012) revealed that the number of non-executive directors is a positive and significant influence on the ROA. They justified that the existence of non-executive directors may ensure management fully utilized the company's assets to generate income. The positive relationship was backed by agency theory and stewardship theory. Agency theory suggested that the roles and responsibilities of principal and agent should be separated to avoid conflict of interest. Hence, the existence of non-executive directors could ensure the independency of the board and eliminate the conflict of interest. Besides, stewardship theory supported that the agents should be motivated so that the agents will work in line with the organization goals set by the chairman. Stewardship theory also established to eliminate the agency cost incurred from the conflict between the principal and agents. In short, these two theories proposed that the existence of non-executive directors could enhance the bank's performance.

According to Sabatier (2015), the existence of women in boardroom is a good instrument to promote the board gender diversity. According to Terjesen, Sealy and Singh (2009), they concluded that the existence of women could enable a better decision-making due to their different viewpoints and innovative mindset. In addition, Perrault (2015) outlined that women could raise the perceptions of the board's lawfulness and reliability, therefore enhancing stockholder confidence towards the organization. Romano et al. (2012) found that female directors' existence could positively correlate with the bank performance in Italian banking groups. As they could contribute to a large pool of skills and knowledge, competencies, and relationships that can boost the performance. The gender-stereotyping theory proposed that females should obtain fair attention to their talents and abilities. Thus, board diversity could improve the performance of an organization as it allows persons with different experiences, backgrounds, ages, and gender to make a better decision. The existence of female directors is believed that they could provide fresh ideas and innovative suggestions, and lead to a positive growth of the bank.

Based on Mirza, Andleeb and Ramzan (2012), female directors are adversely associated with the performance of the firm. They mentioned that the firm tends to display a negative sign to investors and threatens the firm performance when the females are placing on top of the firm.

Chan and Heang (2010), found that the mechanism of gender diversity is negatively insignificant in affecting the cost and profit efficiency of the CB in Malaysia. This owing to the portion of females in Malaysia has a low percentage, even no females on the board. Hence, their contribution might not critically influence the efficiency of the banks.

Based on agency theory, separating the roles and responsibilities of the CEO and chairman of the board can reduce agency costs. CEO duality also could bring a negative influence to the organization performance. In Lebanon, El-Chaarani (2014) concluded that the role of CEO and chairman should not combined, because it could potentially reduce the effectiveness of board monitoring. The negative relationship also supported by Grove, Patelli, Victoravich and Xu (2011), Nazar (2016), Dogan, Elitas, Agca and Ogel (2013).

In contrast, there are several previous study reports that CEO duality, delegate power to CEO in instructing the company daily operations and enables him to make effective decisions will boost the company performance. Managerial-hegemony theory recommended that the management team should provide with more power and control over the organization's operation. This is because the management team has closer interaction with the business's daily operations and has the professional knowledge to foster sound financial performance. Naushad and Malik (2015) reported that the duality of CEO is likely to foster the financial and accounting performance of the banking sector. Yang and Zhao (2014) found that practicing a new framework that offset these difficulties and realizes that duality will add advantages to firm performance when competition intensifies.

Moreover, the presence of the CEO as a board member enables the CEO to channel the bank's latest operating situation and information to the board from time to time. As a result, it will enable the board of directors to make an informed decision beneficial to the banking institution. The placement of the CEO generally will be beneficial to the organization as it will provide expert advice and updated information to other board members before making any decision (Ma, Kor & Seidl, 2020). Meanwhile, it will enhance the organization's governance structure by splitting the role of Chairman and CEO and reduce the agency problem in the organization. In contrast, the CEO serving as the board member also could lead to a conflict of interest. This is because the board of director's roles are supervising the CEO's performance; however, the involvement of the CEO in the boardroom might increase the complexity of the organization structure (Carlo, 2017). For instance, conflicts may happen in the nominating process of the board of director (BOD). The CEO as a board member may nominate the directors who are personally loyal to the CEO, revealing the CEO's influence on other board members.

In this research, the bank specific variables that will be used as control variable will be the bank age and bank liquidity. The age of banks is generally in line with the experience in operating a banking business that will influence the existence of banks in the face of competition. Particularly, a newly formed bank lacks information regarding the bank's condition and overall banking sector. Also, it is relatively for companies to initiate their business operations mainly aim to generate profits in the early stages of their operations. However, there was a mixed result identified by previous scholars. The previous scholars such as Baidhani (2015), and Ben Abdallah and Bahloul (2021) generally concluded that the bank age has a positive relationship with bank performance. Based on the learning curve principle, financial institutions will always capture from their previous good and bad experience for rectification, enhancement, and development, as long as other CG predictors remain constant. However, the bank age also could negatively correlated with the bank performance (Afriyie,

Aidoo, & Agboga, 2021; Loderer & Waelchli, 2011; Marinova et al., 2016). They justified that decline in the financial performance could indicate that the agency problem incurred between agents and principals intensifies as time goes by. Whereby, the agents prefer a quiet life and hence, manage to work less, steer away from high-risk investment and simply milk the present lines of business.

Liquidity management is a vital management tool for organizations as it will show the organization’s capability to meet its immediate and short-term financial obligations by using its current assets. Arif and Nauman Anees (2012) concluded that banks’ profitability is negatively affected by the rise in liquidity gap and non-performing loans. They justified that when the banks face liquidity risk, they may be required to borrow from the repurchase agreement (REPO) market at a higher rate, increasing banks’ costs. The cost incurred will directly reduce the profit of the bank. Isik and Ince (2016) reported that the bank’s liquidity was negatively associated with the bank’s performance. This reflects that the banks with higher credit and expose to greater liquidity risk will perform worse. Also, the negative association outlined that there is a detrimental influence of risk measures on banks’ financial performance Under pandemic Covid-19, well-developed liquidity management was essential to overcome this unprecedented crisis.

In contrast, Huong, Nga and Oanh (2021) indicate that the liquidity risk is positively correlated to the performance of the bank. They further explained that banks tend to seek to raise the liquidity assets to enhance profitability, leading to an increase in financial costs and lower bank efficiency during the crisis. In Malaysia, Wasiuzzaman and Tarmizi (2010) found that liquidity is positively correlated with bank profitability. They claimed that the banks are more likely to engage in lending activities to increase profitability. Hence, they suggest that reduce the amount of loan loss reserves will reduce the loan loss provision expense so that more funds are available to lend out. The higher the negative loan loss reserves, the higher the loan loss expenses.

3. Theoretical Framework

Error! Reference source not found.2 demonstrates the theoretical framework for this study. This framework design to investigate the influence of CG mechanisms (board size, non-executive director, female director, CEO duality and CEO’s presence on the BOD) by controlling bank-specific factors (bank age and bank liquidity) on the commercial banks’ performance measured by ROA and ROE in SEA and EA region.

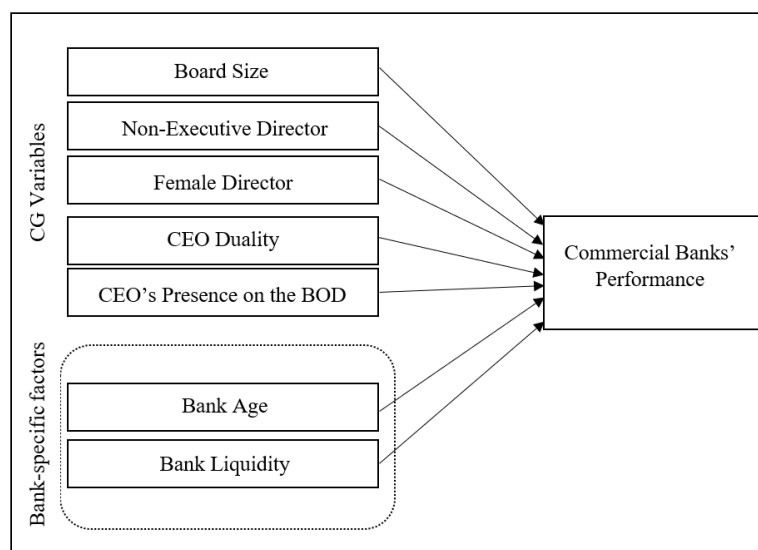


Figure 2: Theoretical Framework

Hypotheses Development

Accordingly, the study develops fourteen hypotheses to meet the research objective in this study.

- H₁: There is a relationship between board size and bank's ROE.*
- H₂: There is a relationship between number of non-executive directors and bank's ROE.*
- H₃: There is a relationship between existence of female director and bank's ROE.*
- H₄: There is a relationship between CEO duality and bank's ROE.*
- H₅: There is a relationship between presence of CEO on the board and bank's ROE.*
- H₆: There is a relationship between bank age and bank's ROE.*
- H₇: There is a relationship between bank liquidity and bank's ROE.*
- H₈: There is a relationship between board size and bank's ROA.*
- H₉: There is a relationship between number of non-executive directors and bank's ROA.*
- H₁₀: There is a relationship between existence of female director and bank's ROA.*
- H₁₁: There is a relationship between CEO duality and bank's ROA.*
- H₁₂: There is a relationship between presence of CEO on the board and bank's ROA.*
- H₁₃: There is a relationship between bank age and bank's ROA.*
- H₁₄: There is a relationship between bank liquidity and bank's ROA.*

4. Methodology

In this paper, the top 50 commercial banks are selected respectively from SEA and EA regions based on the list of The Asian Banker Strongest Banks By Balance Sheet evaluation 2021. However, there was a total of 99 commercial banks are selected, whereby 49 CBs from the SEA region and 50 CBs from the EA region. One of the bank in Vietnam, which is Vietcombank, is excluded from the study due to the lack of the latest annual report for the year 2020. The data are generally gathered from the annual report, audited financial report, corporate governance report, and Bloomberg. The construct of instruments is generated based on the previous research. The following table 2 defines the selected variables that will be adopted for this study. Generally, it consists of the explained variables, explanatory variables, and control variables.

Table 2: Definition of Variables

| Variables symbols | Definition | Measurements |
|------------------------------|-----------------------------|---|
| Explained Variables | | |
| ROE | Return on Equity | Net Income / Total Equity |
| ROA | Return on Assets | Net Income / Total Assets |
| Explanatory Variables | | |
| SIZE | Board Size | Number of board of directors |
| NONEX | Non-Executive Directors | Number of non-executive directors |
| FEM | Female Director | If Female director exist = 1; otherwise = 0 |
| DUA | CEO Duality | If the CEO and Chairman is the same person = 1; otherwise = 0 |
| PRE | CEO's presence on the board | If the CEO is one of the BOD = 1; otherwise = 0 |
| Control Variables | | |
| AGE | Bank Age | Years of bank establishment |
| LIQ | Bank Liquidity | Total deposit to total asset |

Model Specifications

This study practices cross-sectional multiple regressions analysis to examine the association between the CG mechanism and CBs' performance. The regression model is illustrated below:

Equation 1

$$ROE_{it} = \beta_0 + \beta_1 SIZE_{it} + \beta_2 NONEX_{it} + \beta_3 FEM_{it} + \beta_4 DUA_{it} + \beta_5 PRE_{it} + \beta_6 AGE_{it} + \beta_7 LIQ_{it} + \varepsilon_{it}$$

Equation 2

$$ROA_{it} = \beta_0 + \beta_1 SIZE_{it} + \beta_2 NONEX_{it} + \beta_3 FEM_{it} + \beta_4 DUA_{it} + \beta_5 PRE_{it} + \beta_6 AGE_{it} + \beta_7 LIQ_{it} + \varepsilon_{it}$$

Whereas,

| | |
|---------------|---|
| <i>i</i> | = Commercial Banks in SEA and EA region |
| <i>t</i> | = Financial Year 2020 |
| <i>ROA</i> | = Return on Assets |
| <i>ROE</i> | = Return on Equity |
| <i>SIZE</i> | = Board Size |
| <i>NONEX</i> | = Non-Executive Director |
| <i>FEM</i> | = Female Director |
| <i>DUA</i> | = CEO Duality |
| <i>PRE</i> | = CEO's Presence on the board |
| <i>AGE</i> | = Bank Age |
| <i>LIQ</i> | = Bank Liquidity |
| ε | = Error term |

Diagnostics Tests

The normality test is utilized to test on the data normality to decide the measures of central tendency and statistical methods for data analysis. Generally, normality tests have little statistical power in a small sample size. In this research, Jarque-Bera Test is practiced to measure the goodness-of-fit of sample data. The Jarqua-Bera test is a combined square of normalized skewness and kurtosis in a single statistic. In this study, numerical methods will be adopted to avoid the wrong interpretations.

Besides, the reliability test typically also conducts to measure the consistency of a result. In this study, analysis of variance (ANOVA) is adopted to measure the variation in a response variable. However, there are four assumptions required to meet before carrying out the ANOVA test. The four assumptions are the individual observations are mutually independent, the sample adheres to an additive statistical model comprising fixed effects and random errors, the random errors are normally distributed, and lastly, the random errors have homogenous variance (Larson, 2008). After meeting these criteria, the ANOVA is conducted to explain the association between the explained and explanatory variables in this study.

Multicollinearity potentially exists in the case of multiple linear regression analysis. Thus, the variance inflation factor (VIF) is applied to determine how inflated the variance is. Multicollinearity can be detected by inflating the variance of the independent's coefficient in the case of correlation among the dependent's standard error. When multicollinearity exists, it will reduce the precision of the estimated coefficients, weakening the regression model's statistical power. Therefore, the VIF will be analysed to offset the problematic effects in the regression model.

In addition, heteroscedasticity primarily happens when the presence of an outlier in the data or omission of variables in the regression model. In this study, the heteroscedasticity will be

evaluated by using both Breusch Pagan Test and the scatter plot. Breusch-Pagan-Godfrey tests heteroscedasticity in a linear regression model and assumes that the error terms are normally distributed. It will measure whether the variance of the errors from regression is predicated on the values of the predictor variables. Besides, analysis based on the scatter graph is also a way that assists in the process of identifying the heteroscedasticity. A heteroscedasticity issue will exist if the scatter graph demonstrates a rough cone shape.

Table 3: Result of Diagnostics Testing

| Normality Test - Jarque-Bera Test | | | | | | |
|---|------------|-------|-----------|-------|-------------------|-------|
| Variables | SEA Region | | EA Region | | SEA and EA Region | |
| | ROE | ROA | ROE | ROA | ROE | ROA |
| Jarque-Bera | 0.66 | 1.11 | 1.28 | 3.86 | 3.75 | 14.94 |
| Probability | 0.72 | 0.57 | 0.53 | 0.15 | 0.15 | 0 |
| Observation | 49 | | 50 | | 99 | |
| Reliability Test - Analysis of Variance (ANOVA) | | | | | | |
| F-value | 5.15 | 4.46 | 3.07 | 3.42 | 4.1 | 4.05 |
| Sig | 0 | 0 | 0.01 | 0.01 | 0 | 0 |
| Observation | 49 | | 50 | | 99 | |
| Multicollinearity Test - Variance Inflation Factor (VIF) | | | | | | |
| | VIF | | VIF | | VIF | |
| SIZE | 2.132 | | 1.984 | | 1.795 | |
| NONEX | 4.115 | | 2.011 | | 2.368 | |
| FEM | 1.181 | | 2.238 | | 1.262 | |
| DUA | 2.899 | | 1.257 | | 1.582 | |
| PRE | 1.279 | | 2.032 | | 1.342 | |
| AGE | 1.134 | | 1.013 | | 1.026 | |
| LIQ | 1.046 | | 1.084 | | 1.046 | |
| Heteroscedasticity Test - Breusch-Pagan-Godfrey | | | | | | |
| SIZE | 1.73 | 0.03 | 0.63 | -0.01 | 0.02 | 0.02 |
| NONEX | -4.4 | -0.06 | -0.51 | 0 | -1.59 | -0.03 |
| FEM | 2.27 | 0.09 | 8.67 | -0.01 | -1.94 | -0.17 |
| DUA | -28.41 | -0.07 | -1.91 | -0.08 | -1.32 | 0.27 |
| PRE | 4.77 | 0.06 | 2.52 | -0.05 | -22.78 | -0.51 |
| AGE | -0.09 | 0 | -0.05 | 0 | -0.1 | 0 |
| LIQ | 0.06 | 0.01 | -0.06 | 0 | -0.05 | 0 |
| F-statistic | 0.65 | 0.78 | 0.85 | 0.54 | 1.5 | 3.17 |
| Prob. F | 0.71 | 0.6 | 0.55 | 0.8 | 0.18 | 0 |

In assessing the normality, the Kurtosis value was observed. The Kurtosis values were generally larger than 0, denoting departure from normality (refer to table 3). This was also

supported by the Jarque-Bera test, where their p-values were all greater than 5% significant level, indicating that the models were normally distributed. In terms of reliability, the Analysis of Variance was conducted. In general, the multiple regression models are significant to explain the commercial banks' performance since their p-values were all less than 5% significant level. Also, there is low multicollinearity and homoscedasticity in the model of both SEA and EA.

5. Findings

Prior to discussing the relationships among all variables, the descriptive analysis for all variables in the cross-sectional data regression model are described. Table 4 demonstrates a summary of the descriptive analysis of the variables used in this study. On average, SEA have a greater profitability performance than EA measured by ROA and ROE. This is due to although EA was recognised as world's most prosperous economies, however, the SEA witnesses the growth of some of the world's fastest growing emerging economies.

Table 4: Summary of Descriptive Statistics

| Variables | SEA Region | | | | EA Region | | | |
|------------------------------|------------|------|-------|-------|-----------|-------|-------|-------|
| | Mean | SD | Min | Max | Mean | SD | Min | Max |
| DEPENDENT VARIABLES | | | | | | | | |
| ROE | 9.59 | 6.31 | -3.65 | 31.27 | 9.42 | 3.93 | -1.83 | 18.69 |
| ROA | 1.15 | 0.79 | -0.57 | 3.57 | 0.76 | 0.36 | -0.11 | 1.9 |
| INDEPENDENT VARIABLES | | | | | | | | |
| SIZE | 9.92 | 3.28 | 5 | 19 | 12 | 2.54 | 7 | 17 |
| NONEX | 6 | 4.41 | 0 | 14 | 7.64 | 3.67 | 0 | 14 |
| FEM | 0.9 | 0.31 | 0 | 1 | 0.9 | 0.3 | 0 | 1 |
| DUA | 0.29 | 0.46 | 0 | 1 | 0.06 | 0.24 | 0 | 1 |
| PRE | 0.86 | 0.35 | 0 | 1 | 0.92 | 0.27 | 0 | 1 |
| CONTROL VARIABLES | | | | | | | | |
| AGE | 59.8 | 31.8 | 12 | 155 | 57.38 | 38.47 | 9 | 161 |
| LIQ | 71.58 | 7.78 | 40.18 | 81.88 | 68.17 | 13.49 | 5.93 | 83.84 |
| TOTAL OBSERATIONS | 49 | | | | 50 | | | |

6. Discussion and Conclusion

Based on the table 5, the relationship between board size and bank performance is found to be positively correlated in SEA Region, while negatively correlated in EA Region. The positive correlation in SEA Region is consistent with the study of Abdul Gafoor et al. (2018); Kabigting (2011). Li et al. (2021) suggest that the larger the board, the more diverse knowledge and expertise of directors which can lead to a better performance of the banks. In contrast, the negative association is supported by Al-Musalli and Ismail (2012); Naushad and Malik (2015). These scholars indicate that large board size could increase the conflict, as difficulty of communication and coordination increase (Golden & Zajac, 2001). As a result, agency issue could negatively influence the bank performance.

The number of NONEX has a negative significant influence on the bank performance in SEA Region, while positively significant influence in EA Region. The negative influence between the number of non-executive director and bank performance is supported by the previous study such as Alam et al. (2020); Sheikh et al. (2013). Olubukunola Ranti and Stephen, (2011) explained that the negative correlation was because the NONEX is busy with other tasks and

only engaged with the bank's operation part-time. Besides, the function of independent non-executive directors in SEA is practically absent because, in reality, none of them is independent. This is due to the code of CG in SEA does not specify the expiration of the term of appointment for the NONEX (Lim, Young & Lee, 2021). On the other point of view, the positive influence of non-executive director on the bank performance is backed by Alhaji et al. (2013); Fauzi and Locke (2012). The positive correlation could explained by the non-executive directors may provide a broader perspective and generate new strategic outlooks for the firms (Alhaji et al., 2013).

In addition, there is a negative significant relationship between the existence of female director and bank performance across SEA and EA region (Chan & Heang, 2010; Mirza et al., 2012; P. Yang et al., 2019). The negative relationship could have explained by the existence of female on board may indicates a negative sign to the public and negatively influence the performance of the banks (Mirza et al., 2012). On the other point of view, the negative relationship could explain by the low percentage of female directors and even no females on board. Therefore, their contribution might not significant affecting the performance of banks (Chan & Heang, 2010).

Furthermore, the result of this research concluded a negative association between CEO duality and bank performance in SEA and EA region. This findings has backed by previous study (Abdul Gafoor et al., 2018; Dogan et al., 2013; El-Chaarani, 2014; Grove et al., 2011; Mishra & Nielsen, 2000; Nazar, 2016). El-Chaarani (2014) reported that the duality of CEO may would constrain the chairman from playing its responsible to monitor the bank operation and therefore may lead to agency conflicts. The findings of this study is consistent with the previous research reveal that the dual role of CEO may negatively influence the bank performance.

In terms of presence of CEO, the result concludes a negative relationship in SEA region, while positive relationship in EA region. The negative relationship could be explained by the busyness of CEO. When a CEO holding more position in a firm, it could increase the burden and put less effort in particular organization and could negatively influence the organization's performance (Harymawan et al., 2019). In contrast, the presence of CEO may also positively associate with the bank's performance. Ferris et al. (2003) argued that the presence of reputable CEO on board could increase the public confidence and lead to positive bank performance. The presence of CEO on board may provide the board members with strategic advice and enable the board to make informed decision.

The main objective of this paper is to investigate the association between CG and the performance of commercial banks in SEA and EA. This study uses a sample of 99 commercial banks from both SEA and EA for the year 2020. Based on the cross-sectional multiple regression results, it is concluded that CG mechanisms such as board size, non-executive directors, female directors, and CEO duality on the board are generally essential to influence the commercial banks' performance across both SEA and EA regions. While, the variable of the presence of CEO on board only demonstrates a significant association in SEA region, while insignificant in EA region.

The result demonstrates that the board size is statistically significant in influencing the financial performance of commercial banks. The large board size could increase the difficulty of communicating and engaging, while the small board size could be less diversified and result in greater potential for "group think." Besides, the number of non-executive directors also could potentially impact the performance of CBs that supported by the agency theory and stewardship theory. This is due to non-executive directors play an essential role in reviewing and monitoring the management's performance while ensuring that the stakeholder's interest is safeguarded. Besides, the existence of female directors is negative significantly influencing the CBs' performance. This finding is contradicted with the mandatory pass by many countries to

include at least one female director in the boardroom. It believes that the existence of female director in the boardroom may bring a negative perception to the public and damage the financial performance of the banks.

Based on the findings, it demonstrates that combining of two leadership roles would negatively impact the power of chairman from carrying out a practical and objective supervisory role, thereby increase the conflict and lead to more serious agency problem in an organization. This finding is opposed with the managerial-hegemony theory that recommend that CEO should delegate with greater power and control over banks' operations. Lastly, the existence of a CEO on board negatively influences commercial banks' performance in the SEA region while having no significant effect in the EA region. The insignificant could be explained by the negative association from the busyness of the CEO. While CEO is holding more positions, it will be overburdened and tend to put less effort into the particular organization; in the end, it could threaten the performance of the banks.

This study imply that the government has to provide and promote an enabling environment for a commercial bank to sustain itself in this competitive environment. The public outcry over the recent scandals has made it clear that corruption, fraud, and negligence are no longer acceptable. The public is solely emphasizing accountability and responsibility for corporate behaviour. Hence, the government should restore the public and investors' confidence in the economy by effectively enforcing the code of CG, improving auditing, and stepping up law enforcement to maintain a sound CG structure in banking institutions. Besides, the banks should practice a diverse board to form sound CG and improve financial performance. The involvement of NONEX could offer an independent point of view for the business operation and act in the interest of company stakeholders. Moreover, the banks should include directors with different educational background and professional qualifications in the boardroom. The intangible factors such as working experience and personal attitudes could also take into consideration while appoint a director. Lastly, the roles of the CEO are demonstrated as an effective mechanism for influencing the bank's performance. Therefore, the CEO should spare more time to focus on the banks' daily operations, while the chairman should lead the board and develop a strategic plan for the organization. Also, the combination of dual leadership roles may lead to an excessive concentration of power vested in an individual. In the worst case, this could result in the infamous corporate governance issue of "imperial CEOs."

The first limitation is the sample size of the study. The sample size of 99 commercial banks may have difficulties in generating sufficient and accurate data to the scholars in examining the influence of CG on bank performance. Furthermore, limited access to the targeted population as only secondary data was obtained from the Internet. The research data in this paper is only obtained from secondary sources such as annual reports, Bloomberg and World Bank. The primary data collection method was not practiced in this study, while the data originally originates from and is regarded as the best kind of data in research. The lack of a primary data source could limit this study analyze based on historical data that might not reflect the specific information needed, and the measured things may change over time. Lastly, the market-based measures, Tobin's Q ratio, could be adopt by the future scholars while conducting the same research area. This is due to Tobin's Q ratio could reflect the changes in the corporate value when the share price changes in the market which unable identified by the ROA and ROE.

Throughout our paper, it recommends that a wider sample size be involved to reflect the significance of CG on commercial banks in various regions. Larger samples sizes will help in identifying the average value of quality among selected samples and eliminate the gaps in the data obtained. Besides, the market-based measures, Tobin's Q should be included to measure

the performance of the commercial banks. Tobin's Q ratio could express the association between the intrinsic value of a physical asset and its market valuation. Also, various data collection methods could be practiced to obtain more precise data, such as online surveys and interviews. Practicing mixed data collection methods will increase the richness of the data, providing a more expansive view of the research objectives.

Table 5: Result of Cross-sectional Multiple Regression Analysis

| Variables | SEA Region | | EA Region | | SEA and EA region | |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|-------------------|
| | ROE | ROA | ROE | ROA | ROE | ROA |
| C | 12.63 (0.09)* | 1.79 (0.06)* | 15.73 (0.00)*** | 1.70 (0.00)*** | 16.68 (0.00)*** | 1.73 (0.00)*** |
| SIZE | 0.38 (0.24) | 0.07 (0.08)* | -0.55 (0.05)** | -0.09 (0.00)*** | -0.11 (0.61) | -0.02 (0.36) |
| NONEX | -0.85 (0.01)*** | -0.09 (0.05)** | 0.36 (0.07)* | 0.05 (0.00)*** | -0.13 (0.47) | -0.00 (0.93) |
| FEM | -6.16 (0.02)** | -1.07 (0.00)*** | -5.07 (0.04)** | -0.65 (0.01)*** | -2.86 (0.11) | -0.47 (0.03)** |
| DUA | -4.85 (0.08)* | -0.09 (0.79) | -5.94 (0.01)*** | -0.58 (0.01)*** | -1.83 (0.25) | 0.23 (0.25) |
| PRE | -4.93 (0.04)** | -0.63 (0.04)** | 4.01 (0.13) | 0.28 (0.23) | -2.13 (0.23) | -0.40 (0.07)* |
| AGE | -0.04 (0.10)* | -0.00 (0.28) | -0.04 (0.00)*** | -0.00 (0.14) | -0.05 (0.00)*** | -0.00 (0.10)* |
| LIQ | 0.17 (0.09)* | 0.01 (0.33) | 0.02 (0.62) | 0.00 (0.35) | 0.04 (0.42) | 0.01 (0.30) |
| No of Observations | 49 | 49 | 50 | 50 | 99 | 99 |
| R-squared | 0.47 | 0.43 | 0.34 | 0.36 | 0.24 | 0.24 |
| Adjusted R-squared | 0.38 | 0.34 | 0.23 | 0.26 | 0.18 | 0.18 |
| F-statistic | 5.15 | 4.46 | 3.07 | 3.42 | 4.10 | 4.05 |
| P-value | 0.00 | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 |

Note: Significant level ***1%, **5%, *10%. Probability is in parenthesis.

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