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Board Reputation vs Overload: Optimal Analysis on Systematic Risk in the Banking Sector

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ABSTRACT

This research paper explores the determinant trade-off between director reputation and overload (busyness) and its systematic risk implication and performance of banks in the weak institutional environment by exploring a novelty unique aspect of Pakistan. Based on panel data of 27 commercial banks between 2018 and 2024 (189 observations), we use fixed-effects regression models to investigate how the nature of busyness (senior outside roles), busyness level (total directorships) and education and financial expertise of directors affect them. The results provide a more complex picture: the multiple-board seats relationship (the degree of busyness) proves bank performance and a reduction of risk- this finding supports the reputation hypothesis, whereas the senior extraneous position relationship (the character of busyness) indicates no significant effect. Most importantly, more-educated directors who are more likely to have financial expertise are busier and enhance performance, even though its relationship with risk is complex. The analysis will offer useful information on the attainment of Pakistan governance reform of 2017 that lowered directorship limits. Our findings provide key considerations in terms of regulators pondering over tiered directorship limits and differentiated governance rules, especially Islamic banks, to maximize the effectiveness of the board and to maintain financial stability.

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Introduction and background of the study

In recent years, there has been rising interest in the academic, regulatory and prudential policies research circles over the value of busyness of a board of directors regarding stability and overall performance of the banking fraternity. There remain disagreements with the research findings that supported whether or not the busyness of the Board of directors had any impact on the performance of a company (Hauser, 2018; Saleh et al., 2020a). Previous literature on the relation between the number of directorships held by a board of directors to the firms' performance indicate that there are two diametrically opposed stances i.e. reputation hypothesis and busyness hypothesis. According to the reputation hypothesis, outside directors are provided incentives to develop their reputation as monitoring experts by the market of outside directorship because of their wide social connections, extensive knowledge, and financial expertise (Karkowska and Acedański, 2019; Lee and Lee, 2014; Shamsudin et al., 2018). Following the busyness hypothesis, prior researches posit that multiple directorships held by directors are negatively associated with a firm's performance as the directors tend to be over-stretched with an increasing number of outside directors having multiple directorships, and thus board oversight tends to shrink.

Consistent with this, prior researches argue that firms with a busy board of directors show the declining valuation of firms (Fernandez Mendez et al., 2017; Garner et al., 2017; Hauser, 2018). Bank's corporate governance is subject to careful inspection since the financial crisis of 2007-2009, as it was supposed to be a key benefactor to the crises. Orazalin et al. (2016) role in the crisis has been highly criticized (De Haan and Vlahu, 2016). The Regulations mainly sought to reaffirm the principles of governance institutionalized in corporations in 2012, and changes to the board structures are directly stipulated to come in force in January 2018. Recent amendments provide that a listed company with seven board directors should now comprise two independent, two executive directors (including the CEO) and three non-executive directors. The crux of the appointments of the independent directors under Section 166 of the Act and the Regulations is to ensure their independence in their relationships and their capability to pass subjective judgments independently. There is an explicit formulation of the breadth of circumstances contained in section 166 of the act that acts to affect such independence. However, such conditions are not exhaustive, and thus, companies and individuals should be vigilant as far as any transaction, relationship, or conduct that jeopardizes independence under the Act is concerned (Sharoon et al., 2024). Corporate Governance has a keen interest in the ownership structure of financial firms because financial institutions are risky than nonfinancial firms (Aguilera and Crespi-Cladera, 2016; Paniagua et al., 2018; Utama et al., 2017) and therefore, the governance of the banking sector is more important for the Economy and it might change the structure and working of the bank's Board of directors.

Lee and Lee (2014) and Oehmichen (2018) examined how busy independent directors are and how that affects the success of a company in Asian emerging markets. They found that having more than one directorship is more important than the reputation hypothesis in these economies. They said that firms benefit from having a busy independent director

who is knowledgeable about money and has a lot of networking contacts. In contrast, regarding Chinese firms (Chen et al., 2014; Chen and Keefe, 2020; Liu et al., 2015) argued that, a firm with a controlling shareholder is exposed to expropriation by the insiders, under the condition of network centrality, a non-executive director who is busy is likely to reduce the tunneling behavior of the controlling owners. In this aspect, Ferris et al. (2020); Narayanan and Shin (2019) added that research scholars must focus on emerging markets as a distinct category, rather than aggregating numerous countries with varied governance frameworks and differing levels of financial development, as emerging economies exhibit considerable homogeneity in cultural, social, political, legal, institutional, and business ownership aspects.

Therefore, the historical relationship between the specific design of board composition, namely, the balance between director reputation and workload and systemic risk, has been poorly understood and under-researched within the unique governance environment of individual emerging economies. This research contributes to a significant gap in the governance-risk body of knowledge. There is a gap in the board-level trade-off of reputational capital and cognitive overload and its impact on systematic risk in the banking sectors of some emerging economies (Addae et al., 2023). This paper argues that this is not always the case. Still, it varies according to different nations' financial development and legal-political history, a detail that earlier generalized studies have missed. Additionally, the busyness hypothesis posits that a board of directors with numerous directorships may inadequately supervise their firm's operations (Achiro, 2022). Furthermore, a director must maintain restricted directorships to enhance optimal corporate governance practices (Sabbaghi, 2016; Saleh et al., 2020a; Shamsudin et al., 2017).

In such a way, this research is determined to respond to the following questions:

1. What is the influence of the director's busyness on the performance and risk-taking behavior of the banking industry in Pakistan?
2. What is the impact of the director's level of busyness on the performance and risk-taking behavior of the banking industry in Pakistan?

Board of directors, with higher education levels and extensive financial experience, are more likely to make effective monitoring and decision making, which enhances the firm's performance (Karkowska and Acedański, 2019). Effectively monitoring directors' diverse knowledge and education makes them reputable, affecting their busyness and the firm's performance and value. Some researchers (Adnan et al., 2016; Jung and Ejermo, 2014) investigated the influence of the Board of Directors' education on a firm's performance and found that education diversity positively affects a firm's performance. Post et al. (2011) studied a sample of 41 electronic manufacturing companies in the US. They concluded that higher education on the Board of Directors may improve the firm's performance and environmental corporate social responsibility (ECSR). Mang (2018); Adnan et al. (2016) state that education diversity influences the Board of Directors' busyness by increasing their knowledge, information, and reputation, which in turn increases their busyness level and influences the firm's performance.

On the basis of human capital theory, the job-related experiences among directors make them work in an efficient manner compared to those lacking such experiences (Hamori and Koyuncu, 2015; Hou et al., 2017). In the same line of thought, resource dependence theory stipulates that experience is one among the main resources of a firm and that it is quite useful in attaining the goals (Limbach et al., 2015). Specifically, the expertise of CEOs has better chances of identifying fraud and, therefore, preventing it (Saleh et al., 2020a; Shurafa and Mohamed, 2016).

The agency theory illustrates the theoretical parameters by which numerous directorships may result in monitoring deficiencies, especially within family-controlled boards. This study's findings can furnish Pakistani regulators with essential evidence regarding the efficacy of the 2017 reform, particularly in assessing whether the reduction of the directorship limit from ten to seven has alleviated the risk of over boarding and enhanced the stability and performance of banks, thus guiding future policy modifications.

Literature Review

The Board of Directors is the primary mechanism of ensuring a firm's effective governance, as they are considered responsible for executing dual functions of monitoring and advising, enhancing performance, and reducing risk (Latif et al., 2020).

Multiple directorships and independent BODs' busyness

The acronym "busy board" has been increasingly significant in corporate governance research in recent years. Busy directors face criticism for inadequately dedicating time and effort to their oversight responsibilities due to their numerous positions on other corporate boards. Preliminary research examining director busyness is essential (Core et al., 1999; Ferris et al., 2003; Hermalin and Weisbach, 1988; Perry and Peyer, 2005; Yermack, 1996, 2006).

Multiple directorships not only add more workload to the Board of Directors, but the board membership committees also add prolonged responsibilities that should be conducted. As a result, directors' commitments within and outside the company may influence their supervisory capabilities (Méndez et al., 2015). Opponents of the busy Board of directors, e.g., Adams et al. (2010); Ferris et al. (2003); Lu et al. (2013); Lu and Boateng (2018) argue that multiple directorships held by directors negatively influence the effectiveness of directors' monitoring. On the other side, supporters i.e., Ferris et al. (2020); Lu and Boateng (2018); Pandey et al. (2015); Trinh et al. (2020) praise these directors for providing improved advising to focal boards and CEOs via valuable knowledge, information, and expertise gained through multiple directorships in other companies, which is considered one of the significant tasks of directors. They argue that busy directors may have valuable knowledge and experiences important for effective monitoring (Minton

et al., 2014).

Board Busyness, Firm's Performance, and Risk-taking

The size, independence, and busyness of the Board of Directors gives inconsistent and inadequate evidence that Gives a mixed view on whether Board members size, independence and busyness contribute to a firm-level results, firm-level value, and firm-level risk. Evidence indicates that bigger and more sophisticated companies tend to have more extensive boards and a greater percentage of non-executive directors to deal with their effective governance and decision-making (Coles et al., 2008; Mohapatra, 2017). Nevertheless, there has been significant discussion about the influence of busy directors- those directors with many different board memberships. Andres et al. (2013); Falato et al. (2014); Hauser (2018) major part of the study is critical of the impacts of busyness amongst board members due to their overcommitting, and they do not have the time and attention to engage in their monitoring responsibilities. This gives way to missed board meetings, poor decision making, poor governance and increased risks especially in institutions that are highly governed such as the financial institutions. Moreover, Cashman et al. (2012); Nili (2020) argued that the burden of multiple responsibilities compromises the memory and concentration of the directors causing cognitive overload and attention distraction and weakening their strategic leadership and the firm performance.

On the conflicting, a number of studies can offer evidence of positive influence of board busyness. Supporters cite the fact that busy directors are often prestigious, talented, and experienced individuals with networks, business associations, and industry knowledge of great benefit to the companies in which they represent the directors (Pohjanen and Bengtsson, 2010; Pombo and Gutiérrez, 2011). By having a wider exposure, they are able to make better decisions, win contracts that fetch profits, and lower their costs of financing since they have better terms with their stakeholders. Chakravarty and Rutherford (2017) argue that companies with a busy board of directors have a lower debt cost. Baran (2017); Masulis and Mobbs (2011); Rapp et al. (2017) argued that busy boards of directors are considered networked directors because of their social and business relations. Elyasiani and Zhang (2015) claim that busy boards enhance the performance of a firm, reduce financial risk, particularly in institutions whose regulatory oversight is higher i.e. bank holding companies.

In contrast, some Asian studies (Kiel and Nicholson, 2006; Kutubi et al., 2018; Pombo and Gutiérrez, 2011; Rao and Tilt, 2016) indicate no significant relationship between busyness of directors and firm performance, and thus the result may be confined to other contextual data (like type of industry, regulations, and complexity of the firm). From the possible risks, the European Union CRD (2013) imposed decreased the number of external board positions directors of large financial institutions can hold, although the U.S. has no such limitations overall, and some of the busiest boards in theworld can be found in the U.S.-based organizations, such as Citi Group, where nearly two-thirds of independent directors serve on three or more boards (Kastiel and Nili, 2017; Stutz, 2017). Finally, the

current literature agrees that the impact of board busyness on firms' value and risk is time and fact specific with board busyness having a potential performance-enhancing effect through experience and networks but when taken into extreme proportions busyness can be used to destroy governance and expose firms to risks.

Performance and Risk-taking Consequences of Board Busyness in a Weak Institutional Environment of Emerging Market Economies

The structure of South Asian countries indicates that the busyness of Boards of Directors, including size, independence, and maximum membership, reflects country-specific corporate governance codes, ownership and institutional mandates, Securities and Exchange Commission requirements for listed banks, and OECD principles. Designated stakeholder groups in Bangladesh, India, and Sri Lanka appoint certain directors (Almaqtari et al., 2020; Kutubi et al., 2018). In Bangladesh, two boards of directors are designated by the depositors. Despite the fact that these countries' Codes of Corporate Governance provide adequate criteria for the selection of a bank's independent Board of Directors, controlling owners predominantly elect and nominate candidates from their personal and social networks (Kutubi et al., 2018; Pandey et al., 2019).

In Pakistan, as per the rules of CG, the chairman and the CEO of a firm must not be the same person. The chairman leads the firm's Board (Claessens and Yurtoglu, 2013; Kutubi et al., 2018). The Board shall contain independent directors of at least one-third of its whole, and a director can hold a maximum of seven directorships in publicly listed companies simultaneously (Kutubi et al., 2018). In emerging market economies, multiple directorships held by independent directors offer repute and continuity to powerful controlling owners, and therefore, the positions of independent directors are attractive in these countries (Ararat et al., 2014, 2010). Additionally, not each independent director is an equally expert and qualified monitor (Ararat and Dallas, 2011; Levit and Malenko, 2016; Salvioni et al., 2013). Sometimes, an independent BOD may also be less effective at monitoring firm management because of the time constraint imposed by its busyness (Elyasiani and Zhang, 2015; Fernandez Mendez et al., 2017). Therefore, the question of whether different directors by external directors' increase or decrease the functions of the corporate Board indeed varies with the relative significance of either advising or monitoring functions of the external directors as well as with the kind and degree of their busyness.

Research hypotheses

H1: The nature of the Independent Board of Directors' busyness increases performance and lowers the risk of banks.
H2: Independent board directors' level of busyness increases performance and lowers banks' risk.
H3: Independent board directors' education and financial experiences increase performance and lower banks' risk.

Data and Methodology

The financial data regarding Performance, risk-taking and governance level data, i.e., the independent Board of Directors' nature of busyness, level of busyness, their education, and financial experience, has been collected from the Board of Directors' profile given in annual reports published on each bank's official website. Data concerning governance level variables was also gathered from the LinkedIn accounts of independent directors, following the exclusion of banks that have undergone mergers, foreign banks (in accordance with the parent company's regulations), development financial institutions, and those with incomplete data (regarding annual reports and directors' LinkedIn profiles) or whose financial statements have not been published since 2018. The study sample comprises twenty-seven commercial banks in Pakistan, with data collected from 2018 to 2024, resulting in 189 observations. The timing has been designated to align with the updated Codes of Corporate Governance, released on November 22, 2017. The maximum permissible directorships stipulated in the Code of Corporate Governance (2012) is 10. In 2017, the Code of Corporate Governance limited the maximum number of directorships. The new regulations facilitate the examination of the performance implications of holding multiple directorships, as they permit individual directors to serve on a maximum of seven boards and collectively allow directors to occupy up to 52 boards.

Missing Data Handling

The durability and dependability of the data were guaranteed through a multi-tiered approach in handling the missing or incomplete data. First, the biographies of the directors presented in the sample bank's annual reports were cross-checked extensively with the LinkedIn account. The information provided in the annual reports was assigned the first priority to maintain the objectivity of the publicly filed documents. To ensure data integrity, the missing observation on that same variable was then list-wise deleted in the regression analysis in the cases where data could not be completed after this cross-verification. Lastly, the social value of the research is deemed to be high since the proposed work will lead to the improvement of transparency and governance practices in the banking sector in Pakistan, thus leading to increased financial stability and safeguarding the stakeholders' interests.

Empirical models and Methods

In this study, the analysis of unobserved heterogeneity is established with panel data analysis. Banks differ dramatically in their unobserved, time-invariant characteristics (i.e., corporate culture, historical legacy and internal governance systems). A pure cross-sectional design would be prone to omitted variable bias if these factors correlate with board structure and the outcome measure. Using a year fixed effects (FE) model will allow us to control unobserved heterogeneity as a result of exploiting the within-bank data

variation over time, providing more accurate and unbiased estimates.

To investigate the influence of the independent Board of Directors' nature of busyness, level of busyness and their Qualification & financial experiences on the bank's performance/risk, and developed the following econometric models:

$$Performance = \alpha + \beta_1\ nature\ of\ busyness + \phi P + \mu\ year\ effects + \epsilon \quad (1)$$

$$Performance = \alpha + \beta_1\ level\ of\ busyness + \phi P + \mu\ year\ effects + \epsilon \quad (2)$$

$$Performance = \alpha + \beta_1\ Education\ \&\ financial\ experiences + \phi P + \mu\ year\ effects + \epsilon \quad (3)$$

$$Risk\text{-}taking\ behavior = \alpha + \beta_1\ nature\ of\ busyness + \phi P + \mu\ year\ effects + \epsilon \quad (4)$$

$$Risk\text{-}taking\ behavior = \alpha + \beta_1\ level\ of\ busyness + \phi P + \mu\ year\ effects + \epsilon \quad (5)$$

$$Risk\text{-}taking\ behavior = \alpha + \beta_1\ qualification\ \&\ financial\ experiences + \phi P + \mu\ year\ effects + \epsilon \quad (6)$$

The Return on Assets (ROA) is computed by dividing net income to total assets, whereas the Return on Equity (ROE) is ascertained by dividing net income to total equity. Tobin's q is calculated by summing the market value of the firm's equity at year-end with the difference between the book value of the firm's assets and its equity at year-end, divided by the book value of the firm's assets at year-end, and then multiplying by 100. Risk-taking behavior can be termed as credit risk or banking leverage. The credit risk is assessed by the ratio of non-performing loans to total assets for each year in the bank sample. Credit risk is measured as the ratio of non-performing loans to total assets for each bank's sample years. It demonstrates the retrospective aspect of the bank's existing loans (Kutubi et al., 2018; Latif et al., 2020; Trinh et al., 2020). Bank leverage is determined by dividing total liabilities to total assets (Harymawan et al., 2019).

The determination of a director being in a healthy seat happens in cases where the director is a director in other financial institutions, such as a bank, claim administrators, or a mutual fund board. This two-threshold is justified because time investment, specialized experience and propensity to conflicts of interests are correspondingly more rampant in the financial industry, where companies are highly regulated, as reflected in literature on interlocked directorships (Booth and Deli, 1996). A director holding two or more external senior directorships in a given firm is referred to as busyness and is quantified as the ratio of the independent directors who had two or more external senior directorships to the total number of independent directors. In line with the practices of past studies Ferris et al. (2003) and Fich and Shivdasani (2006), a director is considered to be busy when they have an excessive number of directorships (non-compliant) than what is required as stipulated in the most recent corporate governance code, and "non-busy" when they have

fewer directorships (compliant) as needed for the same code. The risk threshold is seven total directorships. This is specified by the Code of Corporate Governance (2017).

Education and financial expertise (financial expertise refer to the knowledge, skills and professional experience of an independent director that allows understanding of complex financial statements, assessing market risks, and conducting adequate oversight of a bank in terms of its financial reporting, audit process, and strategic financial decision-making.) is the ratio of the independent directors with master-level and higher education and five years or less experience in any financial areas or a bank. In this study, the variable is assigned the value of 1 when 50 per cent of independent directors possess a master's Degree or above and have up to five years of financial experience, and 0 otherwise. In these models, ϕ P stands for the vector of control variables that include factors such as bank age, board size, board independence, board meeting, attendance at board meetings, number of committees on the board, Islamic bank, GDP growth rate, and yearly inflation rate. The standard error term is denoted as ϵ.

Data Analysis and Discussions

Descriptive Statistics

Descriptive statistics in Table 1 show that the mean value of the nature of busyness shows that independent directors in this study have around five senior directorships. The level of busyness has an average of 0.739, which shows that directors of sample banks have almost seven inside/ outside directorships. The mean value of the level of busyness, 0.739, is higher than the mean value of the nature of busyness, 4.900, which shows that directors with three or more inside/ outside directorships are more than directors with senior directorships. These numbers are higher compared to prior studies, i.e., Kutubi et al. (2018), which reported a mean directorship value of 4.060 (four directorships), and Elyasiani and Zhang (2015), which reported an average directorship of 2.623 (two directorships). The mean value of Education and financial experience is 0.806, which shows that 80% of directors in the study sample are highly qualified and experienced. This mean value is higher than previous research, i.e., Trinh et al. (2020), which reported an average value of 0.36 (36% directors with higher education and financial experiences).

Table 1: Descriptive Analysis of Variables

Sr. No	Variables	N	Min	Max	Mean	Std. Dev.
1	Nature of busyness	113	1.000	16.000	4.900	2.656
2	Level of busyness	124	0.000	3.000	0.739	0.568
3	EDU & Financial Experience	113	0.000	1.000	0.806	0.396
4	ROA	117	0.000	7.150	0.212	1.092
5	ROE	118	0.000	3.230	0.234	0.300
6	TBQ	118	1.850	20.127	18.590	2.350
7	CR	105	0.000	8.380	0.991	5.797
8	Leverage	118	0.010	88.700	0.395	7.741
9	Bank size	117	5.460	9.510	8.533	0.717
10	Board size	119	0.780	1.300	0.999	0.123
11	Board independence	118	0.000	0.660	0.346	0.131
12	Bank age	105	0.000	4.370	3.509	0.761
13	No. of board committees	117	2.000	9.000	5.052	1.432
14	Board meeting attendance	119	0.000	1.000	0.932	0.252
15	Frequency of board meetings	129	4.000	15.000	6.741	2.234
16	Islamic bank	125	0.000	1.000	0.851	0.356
17	Inflation	121	0.400	8.620	3.935	3.025
18	GDP	124	39.670	45.080	43.058	2.131

While ROA and ROE had typical mean values of 0.212 and 0.234, respectively, the study's criteria variable, Tobin's Q, had a lower mean value of 18.590. The average value of Tobin's Q is lower than in earlier research. For instance, Latif et al. (2020) presented an average Tobin's Q of 112.84. Return on Equity and return on assets have average mean values almost similar to Saleh et al. (2020b), who reported an average return on assets of 0.222 and an average return on Equity of 0.210. Another criterion construct is the bank's risk-taking behavior in which leverage has a higher mean, i.e., (13.955), than other measures, i.e., credit risk, which has mean value of (0.991). Credit risk has a lower mean compared to prior studies, i.e., Boateng et al. (2019), who reported an average credit risk of 2.789. At the same time, leverage has a mean almost similar to a previous study, i.e., Saleh et al. (2020b) conducted in Palestine and reported an average leverage of 0.311. Board size has an average board size of 0.999, similar to Chen and Keefe (2020), who presented an average board size of 0.954 and 0.922, respectively. Board meeting attendance has an average mean greater than previous studies, i.e., Kutubi et al. (2018); Chen and Keefe (2020), which shows that the Board of Directors of Pakistan's banking sector attend their meetings more regularly than other emerging market economies. The frequency of board meetings has an average of 6.741, which is lower than previous studies, i.e., Chen and Keefe (2020), who reported an average meeting frequency of 7.983.

Multi collinearity check

The table 2 on multi collinearity has shown that there is no serious multi-collinearity issue among the independent variables. All values of VIF are also smaller than generally

accepted threshold of 10 (still less than even the stricter one of 5), indicating that none of random variables are very correlated with the other ones. Board size and independence have the largest VIFs (2.99 and 2.07 respectively) but it is not high relative to the acceptable limit. The Mean VIF value is 1.647, which is significantly low indicating that the issue of multi collinearity in not a serious problem in this data. This means that the regression coefficients would be sound and reasonable, and all the factors can be included in the model without the distortion of parameter estimates

Table 2: Variance Inflation Factor

Sr. No	Variables	VIF	1/VIF
1	Nature of busyness	1.87	0.535
2	Level of busyness	1.33	0.752
3	EDU & Financial Experience	1.04	0.962
4	Bank size	2.01	0.498
5	Board size	2.98	0.336
6	Board independence	2.07	0.483
7	Bank age	1.28	0.781
8	No. of board committees	1.78	0.562
9	Board meeting attendance	2.01	0.498
10	Frequency of board meetings	1.11	0.901
11	Islamic bank	1.82	0.549
12	Inflation	1.01	0.990
13	GDP	1.10	0.909
Mean VIF		1.647	

Empirical analysis

Test for independent Board of director's nature of busyness

In panel A of Table 3, an independent Board of Directors possessing two or more external senior directorships is positively correlated with the performance model. The association is negligible as the p-values exceed 0.05, with values ranging from 0.240 to 0.916. Panel B presents -0.177 for CR and -0.027 for Lev, suggesting an absence of a significant link between the independent variable BOD type of job/duty and risk-taking behavior (P values 0.508 for CRI and 0.916 for Lev). The data indicate that senior directors did not enhance performance or substantially mitigate risk within the bank. These findings contradict the assertions of Bathula (2008); Rapp et al. (2017), which claim that a senior independent director positively influences the firm's performance. The findings oppose the assertions of previous studies, who propose that the presence of a senior independent director can mentor the independent director community through their expertise in corporate governance. According to Hakimi et al. (2018), organizations with senior independent directors exhibit superior performance and less risk.

For control variables, coefficients of bank-level indicators, i.e., bank size, have a significant negative relationship with return on Equity in the performance model (Panel A) and credit risk and leverage in the risk-taking behavior model (Panel B). These results show that large banks with independent directors engaged with multiple job tasks/ duties tend to reduce the firm's return on Equity and risk. In contrast, all other control variables are insignificantly associated with performance and risk-taking behavior models.

Table 3: Regression Analysis

Independent Variable: Nature of Busyness					
	Panel A: Performance			**Panel B: Risk-Taking Behavior**	
Variables	ROA	ROE	TBQ	CR	LEV
Nature of busyness	39.355				
	(0.855)	97.344	(0.562)	0.297	(0.240)
Islamic	3.445	-3.891	0.412	-0.689	1.624
	(0.845)	(0.757)	(0.529)	(0.596)	(0.370)
Meetings held in a year	55.254	103.049	1.391	0.456	0.449
	(0.715)	(0.443)	(0.943)	(0.123)	(0.107)
Board meetings attendance	6.529	-3.335	2.871	-0.523	0.273
	(0.449)	(0.235)	(0.136)	(0.554)	(0.800)
No. of board committees	5.970	32.439	1.984	-1.363**	0.356
	(0.354)	(0.513)	(0.653)	(0.020)	
Total no. of directors	-5.959	9.611**	1.469*	-0.498	1.048***
	(0.130)	(0.047)	(0.054)	(0.134)	(0.000)
Bank size	6.827	-5.071**	0.886	-4.497*	-3.619**
	(0.130)	(0.047)	(0.350)	(0.094)	(0.012)
Bank age	0.106	7.951	-1.571	0.593	-3.200*
	(0.613)	(0.157)	(0.330)	(0.319)	(0.070)
GDP	3.666	3.209	0.248	-0.006	0.024**
	(0.534)	(0.469)	(0.643)	(0.333)	(0.030)
Inflation	0.245	0.728	0.815	-0.001	0.019**
	(0.942)	(0.798)	(0.849)	(0.555)	(0.017)
Board size	0.291*	1.125	0.262**	0.280*	0.199
	(0.091)	(0.120)	(0.047)	(0.063)	(0.230)
Constant	41.420***	7.730*	9.954**	2.350	-2.689**
	(0.000)	(0.077)	(0.042)	(0.110)	(0.029)
Observations	117	118	118	105	118
Year effects	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.787	0.427	0.164	0.347	0.377

Note: The table displays the findings of OLS regression analyzing the influence of independent directors' workload on the performance and risk-taking behavior of Pakistan's banking sector. Performance is represented by ROA, ROE, and TBQ (Panel A), while risk-taking behavior is represented by CR and LEV (Panel B).
*, **, *** denote significance at 10%, 5%, and 1% levels, respectively.

The econometric models of the study are as follows:

$$\textit{Performance / Risk-taking behavior} = \alpha + \beta_1 \textit{ nature of busyness} + \phi P + \mu \textit{ year effects} + \epsilon$$

The variable is found to be statistically insignificant in all five models because all of its p-values (except its last, which is 0.240 and not 0.916) are significantly higher than the conventional alpha value of 0.05. This volume implies that it is impossible to reject the null hypothesis about the true coefficient being equal to zero; the provided relations are caused merely by chance. Though both ROA (39.355) and ROE (97.344) had large coefficients that happened to be statistically significant, they would not provide any economic significance or practical meaning. With ROA having a coefficient of 39.355, the implication would be that having a busy seat would be an increase of about 39.355 percentage points to the Return on Assets of a bank, which is an absurdly high figure that would not be the case for such a single element of governance. These findings align with the busyness hypothesis, which states that the presence of busy directors is negatively associated with a firm's performance as the Board tends to be over-stretched with an increasing number of outside directors having multiple directorships. Thus, board oversight tends to shrink (Garner et al., 2017). According to Latif et al. (2020), the Director's presence on the firm's Board does not significantly increase performance and lower risk.

Test for the independent Board of Directors' level of busyness

Panel A in Table 4 presents Performance: The coefficient's magnitude is substantial and positive. The coefficient of 21.016 for ROA, 60.741 for ROE, and 18.130 for Tobin's Q indicates that each additional directorship held by an independent director results in an increase of over 21.6, 60.741, and 18 percentage points in Return on Assets, Return on Equity, and Tobin's Q, respectively. RiskTaking (Panel B): The leverage (LEV) coefficient is 1.811, which is substantial at the 1% level. The more active the activity, the greater the likelihood that the bank's leverage, a primary indicator of financial risk, will be enhanced. The positive coefficient of the Capital Ratio (CR, 0.054) is significant although modest, suggesting more intricate relationships with risk capital. The results indicate that occupied directors possess greater obligations both within and outside the firm, which may enhance the firm's ROA, ROE, and Tobin Q, while simultaneously mitigating risk. Which coefficient possesses economic significance?

The variable is statistically significant across all five models. All p-values (0.003, 0.036, 0.043, 0.037, 0.002) are below the customary threshold of 0.05, with three achieving significance at the 1 percent level. It can be concluded that a genuine relationship is evident. The Islamic dummy variable had a negative correlation with return on equity in the performance model for control variables. Simultaneously, it has a negligible and inconsequential correlation with risk-taking behavior. These findings align with Trinh et al. (2020). In the performance model, coefficients of bank size have a substantial negative correlation with return on equity, indicating that the engagement of independent directors in large banks may diminish the bank's return on equity. Finally, the regression findings

in Table 5.3 touch on the fact that companies with busy directors provide superior performance and lower risk because every extra board position can supply new connections and resources to the Board.

Table 4: Regression Analysis

Independent Variable: Level of Busyness					
	Panel A			**Panel B**	
Variables	ROA	ROE	TBQ	CR	LEV
Level of busyness	21.016***	60.741**	18.130**	0.054**	1.811***
	(0.003)	(0.036)	(0.043)	(0.037)	(0.002)
Islamic	-8.734	-7.493*	18.616	-0.562	-15.156
	(0.139)	(0.094)	(0.139)	(0.255)	(0.474)
Meetings held in a year	57.302	155.205	39.326	0.093	-17.572
	(0.719)	(0.314)	(0.719)	(0.348)	(0.985)
Board meetings attendance	220.687	-1138.736	18.772	-0.572	-36.533
	(0.777)	(0.122)	(0.777)	(0.335)	(0.856)
No. of board committees	317.027	13.508	18.045	0.786**	-16.804*
	(0.217)	(0.941)	(0.217)	(0.038)	(0.060)
Total no. of directors	-3.605**	-0.971***	18.271**	-0.097	-16.860*
	(0.043)	(0.002)	(0.043)	(0.141)	(0.090)
Bank size	-11.198	-9.980***	43.452	-0.475	-15.666
	(0.167)	(0.009)	(0.167)	(0.226)	(0.789)
Bank age	296.849	723.882**	18.520	-0.079	-35.300
	(0.514)	(0.046)	(0.514)	(0.697)	(0.197)
GDP	-4.283	-0.236	37.134	-0.012	-39.520**
	(0.428)	(0.954)	(0.428)	(0.166)	(0.046)
Inflation	-0.564	-0.564	35.285	-0.600*	-39.994*
	(0.840)	(0.840)	(0.108)	(0.083)	(0.096)
Board size	0.381**	0.299*	0.221	0.522*	0.049*
	(0.030)	(0.061)	(0.312)	(0.095)	(0.062)
Observations	117	118	118	105	118
Year effects	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.397	0.397	0.397	0.686	0.686

Note: The table displays the findings of OLS regression analyzing the influence of independent directors' *level of busyness* on the performance and risk-taking behavior of Pakistan's banking sector. Performance is shown by ROA, ROE, and TBQ (Panel A), while risk-taking behavior is characterized by CR and LEV (Panel B).
*, **, *** denote significance at 10%, 5%, and 1% levels, respectively.

Effect of the board of directors' education & financial expertise on their level of busyness

This coefficient of 1.866 is economically insignificant. It signifies that the higher the measures of education and financial expertise (e.g. the more a director is a non-expert and an expert), the more the number of boards that a director is involved in per unit (i.e. an expert by about two additional board seats). Following Trinh et al. (2020) and Minton et al. (2014), this study considers an independent director as a financial expert if they have a master's or higher level Degree and up to five years of economic experience. The study assumed that a highly qualified and financially expert board of directors are more capable of effective decision making Rapp et al. (2017) and they have the knowledge and skills required to boost a firm's performance and reduce risk (Trinh et al., 2020). These assumptions are made based on the reputation hypothesis Kutubi et al. (2018); Shamsudin et al. (2018), which states that highly qualified and expert Board of directors take advantage of being skilled and reputed and thus their presence in the firm's Board increases firm performance and reduces risk. Based on these assumptions, the study developed the following econometric equations:

$$\textit{Education and financial expertise} = \alpha + \beta_1 \textit{ nature of busyness} + \phi P + \mu \textit{ year effects} + \epsilon \quad (7)$$

$$\textit{Education and financial expertise} = \alpha + \beta_1 \textit{ level of busyness} + \phi P + \mu \textit{ year effects} + \epsilon \quad (8)$$

Table **??** displays the findings of the regression analysis for equation (8) concerning the level of workload of independent directors. Equation (7), pertaining to the director's level of busyness, remains untested due to the insignificance of the initial results from the two-stage regression of the model established non the third section of the study. Thus, regression was only performed for equation (8), i.e., (%INDQ&EX *%LBB), to examine whether busy directors with more than two inside/ outside jobs or duties (at any post) are affected by their education and financial experiences or not. The findings show that the director's level of busyness increases with increased education and financial experience. This is observed by the substantial positive relationship between (%INDQ&EX *%LBB). Therefore, directors' qualifications and financial experiences are positively linked with board busyness, as directors with multiple board appointments may gain new expertise and network connections in the external environment, which in turn makes them reputable, and based on their reputation, they are considered beneficial for the firms (Latif et al., 2020).

Table 5: Regression Analysis

Variables	**Level of Busyness**
Education & financial expertise	1.866*
	(0.005)
Islamic	-0.732*
	(0.096)
Meetings held in a year	0.149**
	(0.042)
Board meetings attendance	-0.044
	(0.922)
No of board committees	-0.012
	(0.897)
Total no of directors	0.052
	(0.324)
Bank size	-0.200
	(0.990)
Bank age	-0.021
	(0.110)
GDP	0.027
	(0.311)
Inflation	0.004
	(0.299)
Board size	0.217**
	(0.032)
Constant	7.291***
	(0.002)
Observations	124
Year effects	Yes
Adjusted R^2	0.134

Note: The table presents OLS regression results identifying the impact of independent directors' education and financial expertise on their level of busyness (defined as directors holding two or more inside/outside roles).
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

The econometric equation is as follows:

$$\textit{Education and financial expertise} = \alpha + \beta_1 \textit{ level of busyness} + \phi P + \mu \textit{ year effects} + \epsilon \quad (9)$$

Test for independent Board of directors' education and financial experiences

Regression analysis results indicate that the education and financial experiences of the Board of Directors influence the performance and risk-taking behavior of banks in Pakistan. The variable is significant across all statistical models; the p-values range from 0.005 to 0.089, providing robust evidence in financial research, especially for a significant variable of interest.

Performance (Panel A): The variables ROA, ROE, and Tobin-Q have positive coefficients, which are all significant at (3.801), (5.279), and (0.419), respectively. This implies that more educated, financially experienced directors make banks more profitable, and their valuation in the stock market increases. For example, the coefficient on ROE (5.279, p-value 0.005) is significant and its value is large; this indicates a 5.28 proportion gain in Return on Equity with a single unit gain on expertise, a large homogeneous amount that is economically very significant.

Risk-Taking (Panel B): The positive result on the Capital Ratio (CR, 1.068, p-value 0.060) and the positive results on Leverage (LEV, 0.826, p-value 0.038) appear to be contradictory.

Table 6: Regression analysis

Independent Variable: Education & Financial Expertise

		Panel A		Panel B	
Variables	**ROA**	**ROE**	**TBQ**	**CR**	**LEV**
Education & financial expertise	3.801*	5.279***	0.419*	1.068*	0.826**
	(0.089)	(0.005)	(0.057)	(0.060)	(0.038)
Islamic	-1.694*	-2.608**	18.573	-0.710	1.104
	(0.067)	(0.024)	(0.588)	(0.152)	(0.508)
Meetings held in a year	18.354	4.316*	17.190	0.148	0.396
	(0.222)	(0.050)	(0.862)	(0.138)	(0.202)
Board meetings attendance	70.507	-17.554*	18.823	-0.853	0.118
	(0.936)	(0.095)	(0.174)	(0.255)	(0.934)
No of board committees	45.489*	19.881	17.954	0.086	-1.821***
	(0.076)	(0.511)	(0.862)	(0.566)	(0.005)
Total no of directors	-4.953***	-9.332***	18.288	-0.126*	0.969***
	(0.007)	(0.000)	(0.213)	(0.076)	(0.001)
Bank size	-8.517	-12.565***	18.908	-0.385	4.093***
	(0.146)	(0.004)	(0.567)	(0.321)	(0.003)
Bank age	8.198	8.606***	18.486	-0.080	-1.942*
	(0.349)	(0.009)	(0.474)	(0.660)	(0.068)
GDP	-5.858	-2.270	16.167	-0.014	0.024***
	(0.355)	(0.602)	(0.830)	(0.158)	(0.009)
Inflation	-6.464*	-2.134	15.384	-0.007*	0.020***
	(0.059)	(0.463)	(0.969)	(0.074)	(0.007)
Board size	0.046*	0.236*	0.590***	0.286*	0.297**
	(0.092)	(0.066)	(0.001)	(0.061)	(0.033)
Constant	1.160***	7.750**	19.605	30.583***	-36.789**
	(0.000)	(0.024)	(0.755)	(0.000)	(0.015)
Observations	117	118	118	105	118
Year effects	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.420	0.420	0.420	0.492	0.492

Note: The table displays the findings of an OLS regression that examines how the education and financial expertise of independent directors influence the performance and risk-taking behavior within Pakistan's banking sector. Performance is represented by ROA, ROE, TBQ (Panel A), and risk-taking behavior is described by CR, LEV (Panel B).
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

The econometric models of the study are as follows:

$$\textit{Performance / Risk-taking behavior} = \alpha + \beta_1 \textit{ education and financial expertise} + \phi P + \mu \textit{ year effects} + \epsilon \tag{10}$$

These findings align with the reputation hypothesis, which posits that individuals holding multiple board positions are regarded as high-quality directors. This theory suggests that such directors possess diverse experiences, can offer superior counsel on various crit-

ical matters, and provide enhanced oversight of top management (Latif et al., 2020). The Islamic dummy variable exhibits a substantial negative correlation with return on assets and return on equity. A negative albeit negligible correlation with credit risk suggests that Islamic banks led by highly qualified and financially adept directors demonstrate diminished return on assets and return on equity. The findings indicate the detrimental impact of overextended financial expert directors in Islamic institutions. These results align with Trinh et al. (2020). The size of a bank is strongly negatively correlated with return on equity and significantly positively correlated with leverage, suggesting that larger banks with financially adept boards demonstrate lower return on equity and more risk. The size of the board is strongly positively correlated with both performance and risk-taking models, suggesting that banks with larger boards and financially proficient directors achieve superior success and undertake greater risk. Finally, the results presented in Table 5.6 support with the findings of Abdelbadie and Salama (2019); Mang (2018); Tan et al. (2020). These results are also confirmed by Minton et al. (2014), who stated that highly qualified and expert boards of directors in a firm's Board are favorable for firms as they have superior experiences which may positively contribute to firm performance (Hamori and Koyuncu, 2015). Qualified directors' characteristics may positively contribute to firm performance and reduce risk.

Reverse Causality; Addressing Endogeneity

The extent of literature proves that the problem of reverse causality exists between a firm's performance/risk and a director's busyness. There is a possibility that the independent Board of Directors' busyness and their experiences are affected by the bank's performance. High-performing banks have enough resources to hire well-qualified and experienced directors, regardless of their multiple commitments. If well-qualified and experienced directors work only for high-performing banks, their contribution in enhancing bank performance and reducing risk can't be observed in lowperforming banks. To address this problem, we have drawn different subsamples from the data. We divided the banks into two subsamples, which are given below:

Banks with high performance
In our sample, banks with above-average accounting performance are considered high-performing. Accounting performance is measured using the Operational Self-Sufficiency Measure (OSS), the ratio of a firm's revenues to expenses.

Banks with low performance
Banks with a below-average performance in their accounting activities are termed as performing banks. To obtain such subsamples, we first calculated the performance and risk averages and then constructed subsamples using the averages. We have only used high-performing banks as our subsamples; thus, this potential, shaped by reverse causation and attendant bias, is controlled. The regression analysis returns similar results to those of the primary regression analysis. The results are shown in Tables 5.7 and 5.8, given below. In banks classified as high performers, the workload of independent directors, as well as their qualifications and financial competence, is highly correlated with the per-

formance and risk of the bank. However, the outcomes of the study show that the third independent variable, the nature of the workload of the independent director, is not significantly associated with the study. These results are not presented as a table due to brevity.

Table 7: Regression analysis

	Independent Variable: Level of Busyness			
	Model 1		**Model 2**	
Variables	**ROA**	**CR**	**ROA**	**CR**
Level of busyness	0.304**	1.246***	0.004	0.070
	(0.016)	(0.006)	(0.366)	(0.208)
Islamic	-0.235	-1.112	-0.001	0.130**
	(0.480)	(0.430)	(0.908)	(0.029)
Meetings held in a year	0.166	0.718***	0.000	0.005
	(0.009)	(0.029)	(0.916)	(0.674)
Board meetings attendance	-0.085**	-0.013	0.003	-0.069**
	(0.717)	(0.886)	(0.336)	(0.015)
No of board committees	0.052	0.039	0.002	-0.005
	(0.543)	(0.292)	(0.296)	(0.732)
Total no of directors	-0.137**	-0.825**	-0.002*	0.006
	(0.045)	(0.022)	(0.073)	(0.493)
Bank size	-1.133**	-6.076***	-0.003	-0.109***
	(0.011)	(0.013)	(0.512)	(0.001)
Bank age	0.054	0.910	0.002	-0.061
	(0.695)	(0.190)	(0.593)	(0.431)
GDP	0.000	-0.587	0.000**	0.000**
	(0.118)	(0.227)	(0.064)	(0.023)
Inflation	-0.016	0.604	0.000	0.006**
	(0.582)	(0.257)	(0.368)	(0.012)
Board size	-0.048**	-1.318	0.000	-0.040
	(0.026)	(0.820)	(0.631)	(0.412)
Constant	6.242***	68.914*	0.088*	3.120***
	(0.004)	(0.060)	(0.082)	(0.002)
Observations	65	65	52	52

Note: The table presents the results of an OLS regression analyzing the relationship between busyness as an independent variable and performance/risk as a dependent variable, utilizing two distinct subsamples to address reverse causation. Model 1 represents high-performing banks, and Model 2 represents low-performing banks. We calculated the mean values of performance and risk to extract these subsamples. Performance and risk serve as dependent variables, while the level of busyness functions as the independent variable. Control variables include governance, banking, and country-level indicators.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 8: Regression analysis

Independent Variable: Education & Financial Expertise

	Model 1		Model 2	
Variables	**ROA**	**CR**	**ROA**	**CR**
Education & Financial Expertise	0.181**	1.128**	0.000	0.022
	(0.019)	(0.038)	(0.993)	(0.662)
Islamic	-0.519	-2.353	-0.006	0.164***
	(0.222)	(0.181)	(0.375)	(0.009)
Meetings held in a year	0.201***	0.853**	0.001	-0.001
	(0.001)	(0.016)	(0.548)	(0.951)
Board meetings attendance	-0.262	-2.211	0.001	-0.071**
	(0.267)	(0.175)	(0.735)	(0.049)
No of board committees	0.080	0.656	0.001	-0.007
	(0.359)	(0.128)	(0.335)	(0.170)
Total no. of directors	0.153**	0.995***	-0.002**	-0.002
	(0.028)	(0.005)	(0.021)	(0.882)
Bank size	-1.187***	-6.722***	-0.004	-0.126**
	(0.005)	(0.005)	(0.270)	(0.005)
Bank age	0.078	0.992	0.002	-0.070**
	(0.627)	(0.215)	(0.606)	(0.012)
GDP	-0.033	-0.624	0.000**	0.000
	(0.231)	(0.305)	(0.023)	(0.142)
Inflation	-0.013	0.700	0.000	0.005**
	(0.730)	(0.254)	(0.630)	(0.056)
Board size	-0.067**	-1.485***	0.000	-0.015
	(0.010)	(0.009)	(0.245)	(0.772)
Constant	7.771***	85.201**	0.140**	2.993**
	(0.001)	(0.037)	(0.013)	(0.017)
Observations	65	65	52	52

Note: The table presents the results of an OLS regression analysis examining the relationship between the qualifications and financial expertise of the Board of Directors and performance/risk, using two distinct subsamples to address reverse causality. Model 1 represents high-performing banks, and Model 2 represents low-performing banks. Mean values of performance and risk were used to extract these subsamples. The dependent variable is performance/risk, and the independent variable is directors' qualifications and financial expertise. Control variables include governance, banking, and country-level indicators.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Conclusion

One important tool for managing a company is its board of directors. So, it's no secret that board effectiveness is currently the most talked-about topic in governance Abdelbadie and Salama (2019). The study of these components has sparked considerable debate

concerning the influence of multidirectorship on corporate performance within environments characterized by limited institutional frameworks. A widely held notion suggests that the mechanisms of corporate governance in emerging markets are significantly distinct from those found in developed markets. In emerging markets, the framework of corporate governance diverges from that of developed markets, largely owing to the existing landscape of investor protection, which is marked by limited external regulation. Bank regulators and policymakers have acknowledged the expertise and competencies of bank directors in addressing issues related to the Boards supervisory and advisory functions, which are linked to a lax governance framework. The literature i.e., Adnan et al. (2016); Hauser (2018); Hundal (2017); Kutubi et al. (2018); Liu et al. (2015); Lu and Boateng (2018); Mang (2018); Mohapatra (2017); Orazalin et al. (2016); Saleh et al. (2020b); Shettima and Dzolkarnaini (2018); Tan et al. (2020); Trinh et al. (2020) utilize the busyness of directors as a proxy for their experience and expertise, aligning with the reputation hypothesis. Busyness may indicate a tendency to evade responsibilities, as suggested by the over-boarding hypothesis regarding directors. The first part of the analysis discussed how the number of external senior directorships influences the performance and risk-taking of banks among directors who have two or more such directorships. The study found that busy directors and team performance have a positive, yet insignificant relationship, with a negative and insignificant impact on risk taking behavior of the firm. Secondly, it had analyzed how the busyness of directors, in this case independent directors who hold 3 or more other directorships, correlates with the performance and risk-taking attitude of banks, which were strongly positively correlated. During the third phase, the study looked into the impact of highly qualified and financially expert directors on their busyness level and the highly qualified expert directors were significantly and positively correlated with each other; therefore, highly skilled expert directors are considered busier in terms of being a director compared to other directors. Lastly, the study investigated whether qualified and financially expert directors influence a bank's performance and risk-taking. They can assess the firm's financial performance and stability due to their expertise (Custódio and Metzger, 2014; Jackon and Fang, 2014; Lee and Lee, 2014). Directors with banking backgrounds can help the corporation finance its debts. Financial specialists must be objective, alert, and accountable when overseeing despite their relevant knowledge (Nili, 2020; Tan et al., 2020). According to the reputation hypothesis, active boards are likely to possess superior skill in risk management and in facilitating high performance (Elnahass et al., 2019; Tan et al., 2020; Trinh et al., 2020).

Implications and Future Directions

The study explains its results by referencing agency theory in the weaker institutional environment prevalent in an emerging economy. Classical agency theory emerged in developed markets and presupposes that independent boards have an important role in regulating managers (Jensen and Meckling, 2019). But in less advanced institutional frameworks, this will not be the case as informal socio-cultural forces, kinship ties, personal networks and family control supersede formal institutions of governance. Independent directors can be formally neutral but may be corrupt by powerful controlling sharehold-

ers and therefore cannot provide checks and balances effectively. Additionally, the nature of the agency problem in such settings can change to a conflict between controlling parties and minority shareholders, thus some larger boards can be utilized strategically to entrench controlling parties, fill it with loyalists, and introduce inefficiencies. This drives home the point that traditional agency theory must be modified to reflect the reality of institutional voids where informal systems of governance prevail.

The study based on empirical findings offers policy implications that can enhance board effectiveness and accountability in emerging markets. Regulators can restrict the number of board memberships directors are allowed: executive directors can serve only 1-2 boards, whereas nonexecutive directors can serve 3-5 boards, but they must publicly declare how they will allocate their time. This implies that directors can strike a balance between experience and undivided attention. The study suggests that the role of the Sharia Supervisory Board be strengthened by requiring it as a mandatory tool, giving it independence and powers to veto activities that are not compatible with it, within Islamic financial institutions. It also recommends having a representative stakeholder member on the board to protect stakeholder interest and ensure fair play according to the principles of Islamic finance. The reforms are designed to prioritize transparency, accountability, and protection of stakeholders in the emerging markets where the governance system is habitually ineffective or relatively under developed.

For future research direction, the researchers suggest a few directions, which can be conducted to comprehend the matter of corporate governance in a more precise manner within an institutional context. First, the nature of family ownership and its role in strategic decision-making needs further exploration, preferably with a qualitative or case-study research design to determine whether family representation contributes to the achievement of a strategic fit or whether it presents a risk of entrenchment and expropriation. Second, in the age of accelerated digital transformation, future research needs to look into whether a digitally competent board will drive better financial and nonfinancial performance. Third, experimental research can give information about the cohesiveness in the board, the quality of the debate and the effectiveness of monitoring in turbulent institutional settings, through surveys and simulations. Finally, longitudinal analyses that focus on how governance reforms evolve and cross-country studies that compare reforms in different emerging markets can be used to determine the institutional prerequisites of governance code transplants and how and why they make them successful as well as the corresponding causal impact on bank performance and risk.

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