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PROPOSING AND TESTING A MODEL OF CORPORATE GOVERNANCE AND BANKS PERFORMANCE; A COMPARATIVE STUDY BETWEEN THE CONVENTIONAL AND ISLAMIC BANKS

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ABSTRACT

It is considered that corporate governance mechanisms play a crucial role in the success and survival of corporations. During the 1990s, due to the increased issues of corporate governance, many firms failed in developed countries like Australia and America. As a result, the area of corporate governance captures the attention of academics and regulators. The concept of corporate governance is investigated in different fields like Accounting, Marketing, and Finance. Despite such extensive research on the topic, the financial crises of 2007 revealed the weaknesses of Corporate Governance. These arguments inspire the researcher to conduct a study for evaluating the role of corporate governance and risk governance over the financial performance of banks operating in Pakistan. As the corporate structure of conventional and Islamic banks varies, so researcher also compares the effect of corporate governance for both tiers of management. The present study has a sample size of 17 conventional banks and 7 Islamic banks operating in Pakistan during the time frame of 2010 to 2020. The results indicated the positive and significant effects of board size on the performance of conventional banks while it turns into negative in the case of Islamic banks. The findings of the present study suggest that the dedicated risk committee also significantly affects the financial performance of both conventional and Islamic banks in a positive way.

An increase in the effectiveness of the Shariah supervisory committee will cause an increase in the financial performance of Islamic banks. This research paper also found that risk governance causes an increase in the risk-taking behavior of banks and ultimately increases the financial performance of both Islamic and conventional banks. The present study has some future directions for further research; this study is conducted only in the territory of Pakistan, while the future researcher may expand the boundaries to cross-border research. Future researchers may conduct the research before and after financial crises and then make a comparison.

INTRODUCTION

The area of corporate governance captured the much attention of academics and regulators after the financial crisis in 2007 (Daily & Dalton, 1994; Dalton, Daily, Ellstrand, & Johnson, 1998; basheer). As a result, the concept of corporate governance is investigated in different fields like Accounting, Marketing, and Finance. Despite such extensive research on the topic, the financial crises of 2007 revealed the weaknesses of Corporate Governance. Previous studies (Aebi, Sabato, Schmid, & Finance, 2012; Erkens, Hung, & Matos, 2012; Kirkpatrick, 2009) directed that the fundamental reason for the financial crises of 2007 was poor internal corporate governance against the risks management.

Besides, many practitioners and academics put significant blame for that crisis upon the weak structure of the Board of directors because it is the ultimate authority who is responsible for the firm's strategic decision-making (Nguyen, Nguyen, & Yin, 2015; Ntim, Lindop, & Thomas, 2013). As a result, many countries acknowledged the critical role of the Board of directors while managing the risks.

Regulatory authorities of different countries observed the scenario and pressured financial corporations to adopt advanced and more sophisticated risk management systems. As a result, firms established a dedicated risk committee and assigned a Chief Risk Officer to manage the risk (Santomil & González, 2020). This change of corporate governance through establishing the Board of directors' sub-committees attracts academics and practitioners towards their risk management role. Previously Audit committee was responsible for managing the risk, but due to the complexity of risk faced by the firm, corporations started to emphasize the importance of having a dedicated risk committee that is responsible for the risk-taking behavior of the firm.

In the corporate governance literature, many studies (Al-Manaseer, Al-Hindawi, Al-Dahiyat, & Sartawi, 2012; El-Chaarani & Research, 2014; Tai, 2015) investigated the relationship between corporate governance and banks' performance. While on the other hand, the Literature ignored another type of banking system—the Islamic banking system—that surprisingly resilient the effects of financial crises 2007. Islamic Banks follow or comply with Shariah's principles to satisfy the needs of clients. Moreover, the internal corporate structure of Islamic banks is different from the governance structure of Conventional banks due to the Shariah Supervisory Board (Mohammed & Muhammed, 2017; Musibah & Alfattani, 2014). Thus, it is expected that the corporate governance mechanisms will differently affect the Islamic banks'

performance compared to conventional banks. Based on the arguments mentioned above, the current study proposed investigating the relationship of Corporate governance mechanisms with the performance of conventional and Islamic banks.

Research Objectives

The primary core objective of the present study is to investigate the impact of corporate governance mechanisms on bank performance. As the corporate governance structure of Islamic and Conventional banks is different from each other, so, the secondary objective of this study is to explore the comparative relationship of these variables between the conventional and Islamic banks. These core objectives are divided into different sub-objectives,

- To investigate the Effect of the Board of Directors (BOD) and Risk Committee on the conventional banks' performance
- To explore the relationship of the Board of Directors (BOD), Risk Committee, and Shariah Supervisory Board (SSB) with Islamic Banks Performance
- To identify the differentiated relationship of Board of Directors (BOD) and Risk Committee with the performance of Islamic and Conventional Banks
- To investigate the relationship of Risk Governance with the performance of Conventional banks
- To explore the Effect of Risk Governance on the performance of Islamic banks

Research Questions

The research questions of this study pertain to the relationship of Corporate Governance Mechanisms and firm performance between the Conventional and Islamic Banks. The main research questions are:

Q1) What is the relationship between the structure of the Board of Directors, the Existence of Risk Committee, and Conventional Banks' performance?
Q2) What is the Effect of the Board of directors' structure, Existence of Risk Committee, and Shariah Supervisory Board on Islamic banks' performance?
Q3) What is the relationship of Risk governance with the Islamic Bank's performance?
Q4) What is the Effect of Risk governance on the Conventional Bank's performance?
Q5) How does the relationship between corporate governance mechanisms and conventional banks' performance differ from the relationship between corporate governance mechanisms and Islamic Bank's performance?

Contribution of the study

This study extends the existing Literature (Bhatt & Bhatt, 2017; Buallay, Hamdan, Zureigat, & Journal, 2017; Ciftci, Tatoglu, Wood, Demirbag, &

Zaim, 2019; Danoshana, Ravivathani, & Research, 2019) on corporate governance and firm performance in different ways. Firstly, this is the first comparative study between the Islamic and conventional banks to capture the impact of various corporate governance mechanisms on the bank's performance. Secondly, this research also methodologically contributes to literature through its measures of Risk Governance and Risk-taking Behaviors. This study's third contribution is related to the influence of Risk Governance mechanisms on firm performance through Risk-taking behaviors. Previous Literature (Alfiero & Venuti, 2016; Andries, Balutel, Ihnatov, & Ursu, 2020; Srivastav & Hagendorff, 2016) investigates only the relationship of Board Structure Characteristics with the bank's risk-taking. Thus, the current study proposes to explore the relationship between Risk Governance and firm performance through the two most debatable risk governance mechanisms (CRO and RC). Only a few studies analyzed the association of risk governance with Risk-Taking behaviors; however, these studies measure Risk-taking Behaviors with the help of some specific risks like the market or credit risk (Abou-El-Sood, 2019; RAMZANPOOR, GHOLIZADEH, & PARVAN, 2017), whereas the current study measures the risk-taking behaviors through four different risks and also consider a single index for these risks. To the best of my knowledge, the current study is the first to analyze the relationship between Risk Governance and risk-taking behaviors for both Islamic and Conventional Banks.

LITERATURE REVIEW

Board Effectiveness and Financial Performance of Conventional and Islamic Banks:

The primary purpose of the Board of Directors is to stabilize business safety and improve its financial health through the monitoring and advising roles (M. A. Khan, Khidmat, Ullah, & Khan, 2019). A wide range of empirical and theoretical literature suggests that the Board's primary purpose can be achieved through the optimum adjustment of Board Structure (Alabdullah, Nor, Ahmed, & Yahya, 2018; Kalsie & Shrivastav, 2016; Linck, Netter, & Yang, 2008; Mishra & Kapil, 2017; Yasser, Al Mamun, & Rodrigs, 2017). According to Coles, Daniel, and Naveen (2008), the relationship between the Board Structure—Board Size and Board Composition— and firm value may vary based upon the business characteristics (Basheer, 2014). As the Conventional bank's governance structure differs from the Islamic bank because of an additional layer of Shariah Supervisory Board, this study proposes to see the relationship between Board structure and firm performance differently for Conventional and Islamic banks.

For the conventional banks, a wide range of empirical literature has shown that a higher number of directors with a greater portion of independent directors can better advise the CEO and improve the firm performance (Boone, Field, Karpoff, & Raheja, 2007; Singh, Tabassum, Darwish, & Batsakis, 2018). Agency theory and Resource dependence theory are also consistent with this empirical Literature and suggest that firm performance can

be enhanced by increasing the number of directors with a higher number of independent directors.

Islamic banks' governance structure is altogether different from conventional banks because of the Shariah Supervisory Board (Abdelsalam, El-Komi, & organization., 2016). According to Mollah, Hassan, Al Farooque, and Mobarek (2017), the larger board size with a higher proportion of independent directors is negatively associated with the board effectiveness and firm performance. The clients choose Islamic banks over the conventional bank because it acts under the Shariah requirements, so the Board relies on Shariah Supervisory Board to ensure clients' trust and support the bank's reputation. Thus, a higher number of directors with outsider directors lacking Islamic finance knowledge increase the cost and decrease the firm value and board effectiveness. Stakeholder theory suggests that the composition of the Board consider all stakeholder. As far as Islamic banks are concerned, the board size and independent directors' proportion should be less because the major stakeholders believe in Shariah supervisory board. Based on the Empirical and Theoretical Literature, the following Hypothesis are proposed for testing:

H1: *A small board size with a lower proportion of independent directors is positively associated with Islamic banks' performance.*
H2: *A larger board size with a higher proportion of independent directors is positively associated with conventional banks' performance.*

Risk Committee and Firm Performance:

According to Garcia-Torea, Fernandez-Feijoo, and de la Cuesta (2016), the Board's committees directly influence its effectiveness and, ultimately, the business values. Lundqvist and Policy (2015) suggest that most of the corporate governance codes recommend the existence of a dedicated risk committee for overseeing the firm's risk-taking behavior. Aebi et al. (2012) find the negative relationship between risk committee and business performance. According to the study of (Al-Hadi, Hasan, & Habib, 2016), the dedicated risk committee's effectiveness increases the market risk disclosure. Lingel and Sheedy (2012) found that strong risk governance decreases the business risks and ultimately improves firm performance by increasing the return on asset (ROA). The overall Literature recommends that the dedicated risk committee reduce the firm's risk-taking behavior, leading to an increase in its financial position. Thus, the proposed Hypothesis for testing is:

H3: *There is a positive relationship between the Risk Committee's existence and the banks' financial performance.*

Shariah Supervisory Board and Firm Performance:

Bourezk, Acha, Barka, Studies, and Research (2020) argue that investor behaviors and preferences are significantly influenced by social norms. The majority of the Islamic bank investors demand from the bank to invest in all those activities that are consistent with Shariah Principles. Any action of management—Islamic bank—that is not consistent with the Shariah will raise

the chances of Shariah Non-Compliant risk and lose stakeholders' trust (Meslier, Risfandy, & Tarazi, 2020). Thus, the Islamic banks construct an additional layer of governance named the Shariah Supervisory Board to gain stakeholders' confidence and mitigate the Shariah Non-Compliant risk. According to Mollah, Zaman, and Finance (2015), the useful role of the Shariah Supervisory board Improves the performance of the firm. Abd Rahman, Jusoh, and Sciences (2018) suggest that the multidimensional knowledge of finance and Islamic finance increases the chance to improve firm performance. Rafay, Farid, Finance, and Management (2018) found no significant relationship between the Shariah Supervisory Board's effectiveness and firm performance. According to the study of Nomran, Haron, and Hassan (2018), the higher portion of SSB multiple membership directors increases the business's credit rating that, ultimately, increases the business value. Resources Dependence theory also suggests that the increased percentage of Multiple discipline members of SSB improves the firm performance because of increased knowledge about the outside environment. Based on the above empirical and theoretical Literature, the proposed Hypothesis of the study is:

H4: *There is a positive relationship between the Shariah Supervisory Board's effectiveness and Islamic banks' performance.*

Risk Governance and Firm Performance

The financial Crises 2007-2008 raised the need to understand the causes behind it. According to the study of Carré and L'œillet (2018), poor risk management was one of the significant reasons that ended the Great financial crisis. Thus, the corporate governance codes emphasize the adoption of Risk Governance Mechanisms through a dedicated risk committee and chief risk officer responsible for managing risk (Karanja & Management, 2017; Lundqvist & Policy, 2015). Lundqvist and Policy (2015) discussed that risk governance mechanism is more important than traditional risk management and improves firm performance. According to Soliman, Mukhtar, and Systems (2017), better corporate governance with a risk committee and chief risk officer leads toward effective enterprise risk management (ERM). Previous Literature (Bhagat & Bolton, 2019; Buallay et al., 2017; Ciftci et al., 2019) investigated the relationship between corporate governance and firm performance but not investigated the Risk governance mechanisms so; there is still a study gap exploring the relationship between the Risk Governance Mechanism and Firm performance. Consistent with the institutional theory, the proposed Hypothesis is based on the idea that the Risk Committee and CRO's existence will positively change organization value.

H5: *There is a significant association between Risk Governance Mechanisms and Firm Performance.*

As previously discussed, Islamic banks' corporate governance structure is different from conventional banks due to Shariah Supervisory Board, so the risk governance mechanisms of IBs also different from conventional banks. IB faces another risk of Non-Compliance with Shariah that changes the risk governance mechanisms (Meslier et al., 2020). These differences in the

corporate governance systems of both banking sectors provide an opportunity to avail it and identify the association of Risk governance mechanisms and firm performance for Conventional and Islamic banks separately,

RESEARCH DESIGN AND METHODOLOGY

This section's primary purpose is to explain the research methodology of the current study, the Philosophical Paradigm, Population of the study, and measures of variables.

Research Paradigm and Research Methodology

A philosophical paradigm is a belief about data collection and Analysis regarding a specific phenomenon(Wiens, Sweet, & Worsley, 2020). The current study is based on the Positive Paradigm. Researchers normally use one of the two primary research methodologies: quantitative and qualitative research methods(Lo, Rey-Martí, & Botella-Carrubi, 2020). This study is proposed to adopt the quantitative research method for collecting data because the research design demands to collect data from past reports to evaluate firms' performance. The study adopts the deductive positivism approach. The Research will generate the hypothesis based on theories, express the hypotheses in the form of variables, test these hypotheses, and examine the causal relationship based on results(Park, Konge, & Artino Jr, 2020). The Researcher uses multiple regression to test the hypothesis (Basheer et al., 2021: Basheer et al., 2018: Basheer et al., 2019; Song et al., 2022). A wide range of Literature (Bhatt & Bhatt, 2017; Danoshana et al., 2019; Naimah, 2017) suggests that multiple regression is the most suitable technique to analyze the relationship between corporate governance mechanisms and firm performance.

Descriptive statistics and panel data methodology

Descriptive statistics is an essential measure to observe the data generally. Usually, descriptive statistics see the central tendency—through mean, median, and mode— and dispersion through stander deviation. The research proposes to adopt the panel data methodology to analyze the relationship between corporate governance mechanisms and firm performance. The Research adapt this methodology based on three justification: (1) data has both—time series and cross-sectional— attributes, (2) it reduces the problem regarding the degree of freedom, (3) panel data eliminate the problem of multicollinearity and endogeneity (Karacan & Kılıçkan, 2019). LM test will be run to decide between the pooled OLS regression and fixed or random effect regression. The Research will run the Hausman test to see the suitability of fixed or random effect regression for estimation.

The population of the study

All commercial and Islamic banks listed with the Pakistan stock exchange will be part of the population. The Researcher collected the data of the proposed population from 2010 to 2020.

Data Collection Methods

Data of this proposed study is collected from secondary sources like the financial statements or audit reports of banks. The researcher collected the data from the annual reports of the listed commercial and Islamic banks over the period 2010-2020. Data related to Return on Assets, return on equity, Risk-taking behaviors, and Corporate Governance is collected through a comprehensive study of financial reports.

Measures of Variables

Depended Variable _ Financial Performance

Historically, firm performance is measured through various measures(Jia & Bradbury, 2020; Ozdemir, 2020; Yang, Riepe, Moser, Pull, & Terjesen, 2019). Most of the Literature (Al Nasser, 2018; Atuahene, 2016; BOAMAH, 2019) measures firm performance through the Return on Assets, Return on Equity, and TOBIN's Q. so, the Research is proposed to measure the firm performance by categorizing it into two groups: market base firm performance and Accounting base firm performance. According to Merendino and Melville (2019), Market base firm performance helps to understand investors' perceptions while the Accounting base firm performance measures the current financial health of the business.

Independent Variable Corporate Governance Variables

The current study is proposed to measure corporate governance through various aspects of the Board of Directors, Risk Committee, Shariah Supervisory Board, and Risk Governance. The BOD structure is measured through two primary dimensions: Board Size and Board Independence. Board size is defined as the total number of directors on the Board. This can be extracted from the financial statements of the banks over a period. This study measures Board Independence through the percentage of independent directors on the Board of directors (Agrawal & Lakshmi, 2020; Chbib & Page, 2020). The risk Committee effect will be measured through the dummy variable regarding the existence of a separate Risk Committee. The effectiveness of the Shariah Supervisory Board will be measured through these two aspects: (1) SSB Size is measured through the total number of SSB members, (2) SSB qualification is measured through the percentage of SSB directors having financial as well as Islamic knowledge. According to Ellul and Yerramilli (2013), Risk Governance Index (RGI) is a suitable measure for determining the risk governance strength and independence for each organization. The proposed Research will also measure the effectiveness of Risk Governance through the RGI by considering the Risk Committee and CRO as a responsible authorities to manage the risk. For the purpose to analyze the risk monitoring quality of the Risk Committee, the current study proposes to measure the effectiveness of the Risk committee through five different characteristics: (1) RC Size, Dummy variable will be used to measure whether the size of RC is greater than the Mean size of all banks(2) RC independence, Researcher will use the dummy variable to measure whether the Percentage of Independent

directors is more than the mean of all banks (3) RC meetings, it will be measure through a dummy variable that whether the frequency of RC meetings is more than the average meetings of all banks (4) RC multi-membership, dummy variable will be used and one is for those whose proportion of independent directors (serving as Board member in another organization as well) is more than the mean of all banks (5) Professional Accounting and Finance member: Dummy variable will be used to measure whether the RC members have more experience than the mean of all banks. The Next dimension of Risk Governance is the Importance of CRO measured through the Dummy variables. The current study analyzes various characteristics of CRO : (1) CRO Present, it will be measured through Dummy variable (2) CRO Executive, a dummy variable that takes one if the CRO is the executive member of the bank (3) CRO Member, Dummy variable will capture it through 1 if the CRO is member of RC (4) CRO reporting to BOD, It will capture through the dummy variable, and one is for those whose CRO directly reports to the BOD. In Literature, risk-taking behavior is only aligned only with market risk(Ellul & Yerramilli, 2013; J. Sun, Lan, & Liu, 2014). While no study found that it measures risk-taking behavior in three different dimensions. The current study is proposed to capture the risk-taking behaviors through Market Risk, Operational Risk, and Liquidity Risk. Following the previous Literature (Armstrong & Vashishtha, 2012; Baixauli-Soler & Sanchez-Marin, 2015; W. Khan, Vieito, & Finance, 2012), the current Research is presented to measure the market risk through the stander deviation of monthly stock return. The operational risk will be measured by calculating the stander deviation of Return on assets, which is consistent with the study of (L. Sun, Chang, & Finance, 2011). The Researcher will estimate the Liquidity risk through the percentage of cash holdings against the total assets. The study is also proposed to calculate a single index of risk-taking through the factor analysis.

FINDINGS AND DISCUSSION

Descriptive Statistic:

The initial sample size for the present research includes the conventional and Islamic banks listed in the Pakistan stock exchange during the timeframe between 2010 to 2020. There are more than 25 conventional banks listed in the Pakistan stock exchange, but due to the missing data, the researcher selected 17 conventional banks operating in the territory of Pakistan. While on the other hand, there are many windows of Islamic banks operating in Pakistan, but only seven full-fledged Islamic banks are listed in the Pakistan stock exchange during this time frame. So, the researcher included these banks in the final sample of the research. The total observations are 240, of which 71% belong to conventional banks, and 29% belong to Islamic banks. These results are summarized in Table 4.1.

Table 4.1: Observations of Sample during 2010 to 2020

	Observations (CBs)	Observations (IBs)	Full Sample	CBs Percentage	IBs Percentage
Banks	17	7	24	71%	29%

Table 4.2 shows the descriptive statistics of the present research. The data is analyzed by dividing the sample into various forms. In the first panel, the data is analyzed by considering full data as a sample size. While on the other hand, data is divided into two major categories according to the bank type (conventional bank or Islamic bank). The mean value of Board size is 9.88 in full sample while 9.49 in Islamic banks and 10 in conventional banks.

The mean value of Board independence varies between the Islamic banks and conventional banks that may represent the board size may differently affect the performance of Islamic and conventional banks. Descriptive statistics also summarized the results regarding the median, stander deviation, minimum value, and maximum value of observations. Table 4.2 elaborates the descriptive results of the data.

Table 4.2: Descriptive Statistic

Variable	Full Sample					IB's Sample Mean	CB's Sample Mean
	Mean	Median	SD	Min.	Max		
BODSIZE	9.880	9.900	1.920	5.000	17.000	9.49	10
BODIND	0.450	0.430	0.250	0.000	1.000	0.499	0.42
RC	0.810	1.000	0.420	0.000	1.000	0.772	0.833
SSBSIZE	4.340	4.210	1.061	1.000	6.000	4.003	-
SSBQUAL	0.250	0.210	0.235	0.000	0.850	0.255	-
SSBMULTI	0.750	0.760	0.271	0.000	1.000	0.745	-
SSB-effectiveness	-0.015	-0.230	0.723	1.610	1.611	-0.014	-
RG	0.498	1	0.42	0	1	0.515	0.412

Empirical Results

Table 4.3 presents the results regarding the impact of independent variables upon the financial performance of banks operating in Pakistan during the time frame of 2010 to 2020. The table shows that the data is divided into three categories; the first shows the full sample, while the second and third panels differentiate the Islamic and conventional banks. The result from the tables elaborates that the Board size (in full sample size) significantly and positively affects the financial performance of all banks (including Islamic and conventional). According to Ali, Alim, Ahmed, and Nisar (2022), increasing the size of the board may cause a wide range of suggestions and creativity that will cause an increase in the performance of an organization. An increase in board size will create a diversified workforce environment that enhances the culture of productive thinking that ultimately causes the better performance of a company (Wang, Shan, He, & Zhao, 2022).

Panel B shows the empirical results of Board size impact on the financial performance of Islamic banks. The results enlighten the negative and significant impact of board size on the financial performance of Islamic banks. It supports our Hypothesis H1 that an increase in board size may cause an increase in conflict between the shariah supervisory board and board of directors. This conflict may result in the poor performance of Islamic banks.

Table 4.3: Empirical Results and Discussion

Variable	Panel A: Full Sample		Panel B: Islamic Banks				Panel C: Conventional Banks	
	OLS	TOBIT	OLS	TOBIT	OLS	TOBIT	OLS	TOBIT
BODSIZE	0.061**	0.082**	-0.072 *	-0.13 **	-0.08 *	-0.122 **	0.104***	0.151***
	(0.022)	(0.033)	(0.044)	(0.054)	(0.044)	(0.055)	(0.031)	(0.039)
BODIND	0.04**	0.002**	-0.3	-0.4	-0.089	-0.172	0.075*	0.166*
	(0.199)	(0.251)	(0.332)	(0.361)	(0.299)	(0.352)	(0.330)	(0.350)
RC	0.310**	0.355**	0.501**	0.430*	0.510**	0.499**	0.38**	0.48**
	(0.144)	(0.188)	(0.199)	(0.220)	(0.199)	(0.221)	(0.180)	(0.240)
SSBSIZE			0.171*	0.255**				
			(0.092)	(0.109)				
SSBQUAL			-0.472	-0.557				
			(0.392)	(0.451)				
SSBMULTI			0.656**	0.717*				
			(0.322)	(0.361)				
SSB-effectiveness					0.199*	0.233**		
					(0.108)	(0.118)		
RG	0.052**	0.088**	0.066*	0.10*	0.07*	0.211**	0.170**	0.121***
	(0.032)	(0.047)	(0.054)	(0.042)	(0.073)	(0.065)	(0.022)	(0.029)

In the table, Panel C represents the results extracted from the data related to the conventional banks operating in Pakistan during the timeframe between 2010 to 2020. As the p-value is less than 0.05, the result shows that the board size is significantly and positively associated with the financial performance of conventional banks operating in Pakistan. These results support our Hypothesis H2. Table 4.3 elaborated that the Board's independence positively affects the financial performance of full sample banks while it does not significantly associate with the performance of Islamic banks. The results from Panel C shows that the increase in independent director will cause an increase in the financial performance of conventional banks.

A dedicated risk committee significantly and positively affects the financial performance of banks in Pakistan during the post-financial crises time. Results show that the results are not only significant in the full-fledged sample but also significant and positive for the Islamic and conventional banks. The governance system of Islamic banks is different from the conventional banks as in the Islamic bank; two boards take part in the decision-making process, including the Board of directors and the Shariah supervisory board.

The present study hypothesized that the effectiveness of the shariah supervisory board does have a significant and positive effect on the financial performance of Islamic banks. Panel data B from table 4.3 shows that the p-value is less than 0.05, elaborating that the increase in the effectiveness of the shariah supervisory board will cause an increase in the financial performance of Islamic banks. The results also highlighted that the effectiveness of risk governance is an important element that defines the financial performance of banks. P statistics show that risk governance does have positive and significant impact on the financial performance of conventional and Islamic banks.

CONCLUSION AND FUTURE DIRECTIONS

Banking sector is considered as the pulse of the economic strength of any nation so research on this sector always been an area of interest for the researcher. One of the major reasons behind the financial crises 2007 was the poor risk management of the financial sector. Thus, the financial crises are the inspiration to conduct the following research in which researcher analyze the effect of efficient management of corporate governance and risk governance on the financial performance of banking sector in Pakistan during the post financial crises time frame (2010 to 2020). As the board structure for the Islamic and conventional banks varies so the researcher also compares the results for both Islamic and conventional banks. The researcher divided the full sample into two major categories: conventional banks data and Islamic banks data. The empirical results show that the board size significantly and positively affects the financial performance of conventional banks while it negatively and significantly affects the financial performance of Islamic banks. The effectiveness of the Shariah supervisory board and risk governance is also significantly associated with the financial performance of banks. Results also elaborated that the dedicated risk committee mange the risk more efficiently, which causes an increase in the bank’s financial performance.

Although the present research covers various dimensions and fills a wide gap in the literature but still like other research, the present study has some limitations. The present study is conducted only in the territory of Pakistan, so future researchers may expand the domain by considering a cross-border study. The researcher of the current study conducted the research based on the post-financial crises data. The future researcher may consider doing research based on the prior-financial crises data as well and then compare the results. The current study focuses only on the corporate governance aspects, while the future researcher may consider other factors.

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