

Risk Governance, Board Diligence, and Non-Performing Loan Dynamics in Emerging Economies: A Systematic Analysis.

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Abstract

The escalation of non-performing loans (NPLs) in emerging economies remains a persistent challenge that threatens financial stability and constrains economic development. This paper examines the relationship between board governance mechanisms, particularly board diligence measured through meeting frequency and oversight intensity, and NPL dynamics in emerging market banking systems. Drawing on agency theory and empirical evidence from African, Asian, and Middle Eastern banking sectors, the analysis demonstrates that board governance effects on credit risk and NPL levels are context-dependent and mechanism-specific. While board financial expertise, independent audit committees, and targeted oversight structures consistently reduce NPLs and enhance provisioning discipline, aggregate board meeting frequency shows mixed effects across jurisdictions. The findings reveal that governance intensity influences loan monitoring quality, provisioning credibility, and investor confidence during macroeconomic stress, but effectiveness depends critically on board composition, ownership structure, and institutional enforcement capacity. The paper contributes to the literature by synthesizing recent empirical evidence on governance-NPL linkages and by demonstrating that enacted governance, characterized by substantive oversight rather than symbolic compliance, constitutes the mechanism through which board diligence affects credit risk outcomes. Implications for banking regulators, board practitioners, and investors in emerging economies are discussed.

Keywords: Risk governance, board diligence, non-performing loans, emerging economies, credit risk management, corporate governance

1. Introduction

Non-performing loans represent one of the most significant threats to banking sector stability in emerging economies, where institutional frameworks for credit risk management remain

underdeveloped and macroeconomic volatility amplifies loan portfolio deterioration (Aslam & Haron, 2021). The persistence of elevated NPL ratios across developing regions, often exceeding 10% of gross loans in Sub-Saharan Africa and South Asia, constrains credit supply, erodes bank profitability, and undermines investor confidence in financial intermediaries (Kyei et al., 2022). Understanding the governance mechanisms that either contain or exacerbate NPL escalation has become a policy priority for regulators and a strategic imperative for bank boards navigating uncertain operating environments. Board governance, particularly the intensity and effectiveness of board oversight, has emerged as a critical determinant of credit risk outcomes in banking institutions. Ogundipe (2019) demonstrated that board diligence, operationalized through meeting frequency and board size, significantly enhances firm value in Nigerian deposit money banks, with markets rewarding visible and repeated oversight as a credible signal of monitoring quality. This foundational finding established that board meeting frequency serves as an observable proxy for oversight intensity, signaling to investors that directors actively engage in risk management duties. The valuation premium attached to frequent board meetings reflects market recognition that diligent oversight reduces perceived credit risk and strengthens investor confidence, particularly in banking sectors exposed to leverage risk and asset-quality volatility.

Building on this governance-valuation relationship, subsequent research has explored how board diligence translates into tangible credit risk management outcomes, specifically the containment or escalation of non-performing loans. The theoretical mechanism posits that active board oversight enhances loan monitoring quality, enforces provisioning discipline, and constrains managerial discretion in credit decisions, thereby reducing NPL accumulation (Budotela et al., 2023). However, empirical evidence from diverse emerging market contexts reveals considerable heterogeneity in governance effects, with board meeting frequency showing positive, negative, or null associations with NPL levels depending on institutional context, board composition, and measurement approaches (Akter et al., 2020; Kyei et al., 2022). This paper addresses three interrelated research questions. First, how does board diligence, measured through meeting frequency and oversight intensity, affect NPL dynamics in emerging economy banking systems? Second, which specific governance mechanisms most effectively enhance loan monitoring quality and provisioning discipline? Third, how does governance intensity influence investor confidence during periods of macroeconomic stress characterized by NPL escalation? By synthesizing recent empirical evidence and examining the conditions under which board governance effectively constrains credit risk, the analysis contributes to understanding the governance-NPL transmission mechanism in resource-constrained institutional environments.

The remainder of this paper proceeds as follows. Section 2 reviews the theoretical foundations linking board governance to credit risk management. Section 3 examines empirical evidence on board diligence effects across emerging market regions. Section 4 analyzes specific governance mechanisms that influence loan monitoring and provisioning discipline. Section 5 explores governance intensity and investor confidence dynamics. Section 6 discusses implications for policy and practice, and Section 7 concludes.

2. Theoretical Foundations: Board Governance and Credit Risk Management

The relationship between board governance and credit risk outcomes in banking institutions is theoretically grounded in agency theory, which posits that separation of ownership and control creates information asymmetries and incentive misalignments between shareholders and managers (Aslam &

Haron, 2021). In banking contexts, agency conflicts are particularly acute because banks operate with high leverage, hold opaque loan portfolios, and face regulatory constraints that complicate shareholder monitoring (Doğan & Ekşi, 2020). Board governance mechanisms, including board composition, committee structures, and oversight intensity, serve as institutional devices to mitigate agency costs by enhancing monitoring effectiveness and constraining managerial discretion in credit risk-taking. Broader governance research similarly shows that integrated oversight architectures improve risk monitoring, coordination, and accountability in complex decision environments, reinforcing the importance of system-level governance design in financial risk management (Kolade, 2019). Board diligence, operationalized through meeting frequency and active oversight, represents a visible manifestation of board engagement in monitoring duties. Ogundipe (2019) established that frequent board meetings signal credible oversight to capital markets, with investors rewarding banks whose boards demonstrate active engagement through repeated deliberations. The valuation premium reflects market expectations that diligent boards will more effectively monitor loan portfolio quality, enforce risk management protocols, and intervene promptly when credit conditions deteriorate. This market discipline mechanism creates incentives for boards to maintain oversight intensity as a means of preserving investor confidence and firm value.

The governance-NPL transmission mechanism operates through three interconnected pathways (see Figure 1). First, board oversight intensity directly influences loan monitoring quality by ensuring that credit risk assessment protocols are rigorously applied, loan review processes are conducted with appropriate frequency, and early warning systems for portfolio deterioration are maintained (Ghazouani et al., 2022). Second, active board engagement enhances provisioning discipline by constraining managerial incentives to understate loan loss provisions for earnings management purposes, thereby ensuring that balance sheet reserves accurately reflect credit risk exposure (El Mokrani et al., 2022). Third, board diligence affects investor confidence by providing credible signals of risk management effectiveness, which reduces information asymmetries and mitigates adverse market reactions during periods of NPL disclosure or macroeconomic stress (Pirgaip & Uysal, 2023). However, agency theory alone provides an incomplete framework for understanding governance effects in emerging market banking systems, where ownership concentration, political connections, and weak institutional enforcement introduce additional complexities. Stewardship theory offers a complementary perspective, suggesting that in certain contexts, particularly where unified leadership enhances coordination efficiency, CEO duality may improve decision-making speed and risk management responsiveness rather than weakening oversight (Ogundipe, 2019). This theoretical tension between agency and stewardship perspectives underscores the importance of context-specific empirical analysis to determine which governance configurations effectively constrain credit risk in particular institutional environments.

The effectiveness of board governance in containing NPL escalation depends critically on board composition and expertise. Boards with greater financial expertise possess superior capacity to evaluate credit risk exposures, challenge management assumptions in loan portfolio reviews, and enforce conservative provisioning standards (Budotela et al., 2023). Similarly, board independence, when operationally activated through committee structures and genuine oversight authority, enhances monitoring effectiveness by reducing conflicts of interest and strengthening accountability mechanisms (Akter et al., 2020). Conversely, symbolic governance characterized by formal compliance with independence requirements without substantive oversight intensity fails to constrain credit risk and may even correlate with higher NPL levels if boards lack the expertise or incentives to exercise effective monitoring (Kyei et al., 2022).

Figure 1: Risk Governance Mechanisms and NPL Dynamics in Emerging Economies

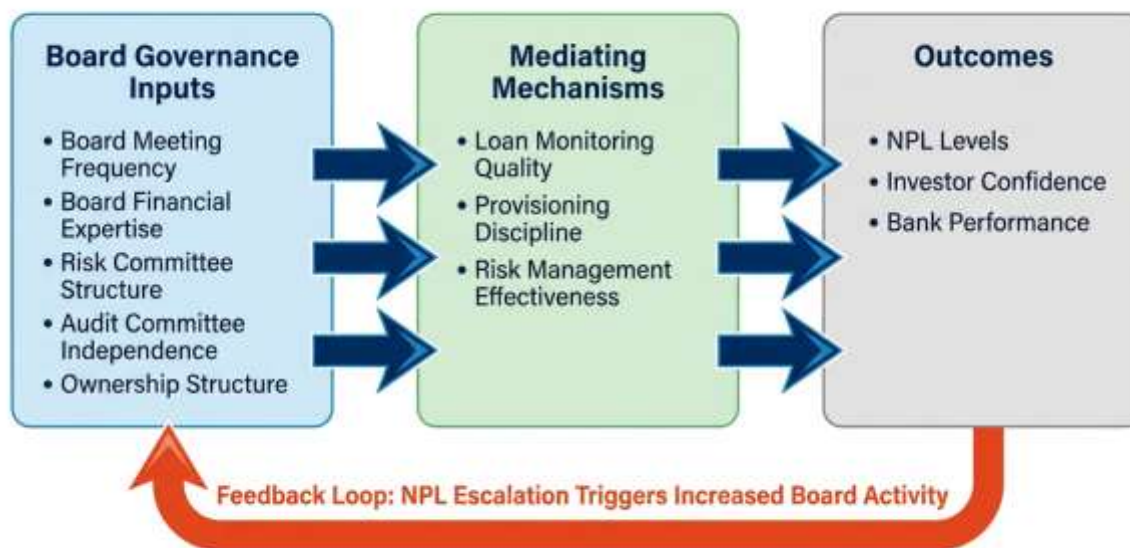


Figure 1. Conceptual framework illustrating the relationship between board governance mechanisms and NPL dynamics in emerging economies. Board governance inputs (meeting frequency, expertise, committee structures) influence mediating mechanisms (loan monitoring quality, provisioning discipline) which determine outcomes (NPL levels, investor confidence). A feedback loop shows how NPL escalation triggers increased board activity.

3. Board Diligence and NPL Dynamics: Empirical Evidence from Emerging Markets

Empirical evidence on the relationship between board meeting frequency and NPL dynamics reveals considerable heterogeneity across emerging market contexts, challenging simplistic assumptions that more frequent board meetings uniformly reduce credit risk. This section synthesizes recent findings from African, Asian, and Middle Eastern banking systems to identify patterns and contingencies in governance effects.

3.1 Positive Effects of Board Meeting Frequency

Aslam and Haron (2021) examined 129 Islamic banks across 29 countries and documented an inverse relationship between board meeting frequency and bank risk, with more frequent board meetings associated with lower credit and liquidity risk. The study demonstrates that in faith-based financial institutions operating across diverse regulatory jurisdictions, frequent board engagement strengthens monitoring effectiveness and reduces risk-taking behavior. The positive governance effect likely reflects the specialized oversight requirements of Islamic banking operations, where boards must ensure Shariah compliance alongside conventional risk management, creating greater returns to active oversight. Similarly, Akter et al. (2020) found that more frequent audit committee meetings and higher proportions of independent audit committee members significantly reduce NPL levels in listed Bangladeshi banks, while other audit attributes showed no significant effects. This finding underscores the importance of targeted committee activity, specifically audit committee oversight, rather than aggregate board meeting frequency. The audit committee's specialized focus on financial reporting

quality and internal controls enables more effective detection of emerging credit problems and enforcement of conservative provisioning practices compared to general board deliberations.

3.2 Negative and Mixed Effects of Board Meeting Frequency

Contrasting evidence from Tanzania reveals a more complex relationship. Budotela et al. (2023) found that increased board meeting frequency significantly increased NPL levels in Tanzanian commercial banks, while board financial expertise and female director representation reduced NPLs. This counterintuitive finding suggests that meeting frequency may reflect reactive oversight in response to deteriorating loan portfolios rather than proactive risk management. Alternatively, frequent meetings without corresponding expertise or decision-making authority may represent symbolic governance that fails to translate into improved credit risk outcomes. The positive effects of financial expertise and gender diversity indicate that board composition matters more than meeting frequency alone for NPL containment. Kyei et al. (2022) documented similarly mixed effects in African banking systems, finding that frequent board meetings negatively associate with loan loss provisions relative to net interest revenue but positively associate with loan loss reserves relative to gross loans. This measurement-sensitive pattern indicates that governance effects depend critically on how credit risk is operationalized. Boards that meet frequently may reduce short-term provisioning charges, potentially reflecting earnings management incentives, while maintaining higher stock reserves that signal recognition of underlying credit problems. The divergent effects across provisioning metrics highlight the importance of examining multiple dimensions of credit risk rather than relying on single NPL indicators.

3.3 Regional Patterns and Institutional Context

Regional patterns in governance-NPL relationships reflect underlying institutional differences in regulatory enforcement, ownership structures, and board capacity. In Sub-Saharan African banking systems, formal governance structures frequently fail to function as intended due to limited board expertise, weak enforcement mechanisms, and ownership concentration that undermines independent oversight (Mashamba & Gani, 2022). Paradoxically, standalone risk committees and chief risk officer appointments sometimes correlate with increased bank risk in African contexts, suggesting that formal governance structures without corresponding expertise and accountability mechanisms may create moral hazard by providing symbolic assurance that encourages greater risk-taking. Asian banking systems exhibit greater heterogeneity in governance effects, reflecting diverse ownership models and regulatory frameworks. Uddin et al. (2022) demonstrated that politically connected directors increase NPL levels in Bangladeshi banks unless those directors hold substantial ownership stakes, indicating that political appointments weaken monitoring when directors lack personal financial exposure to credit losses. This finding highlights how ownership structure conditions governance effectiveness, with concentrated ownership by politically connected directors potentially reversing the adverse effects of political influence on loan quality. Middle Eastern and North African banking systems show more consistent positive governance effects. Ghazouani et al. (2022) found that internal governance mechanisms significantly reduce credit risk in Tunisian banks, while El Mokrani et al. (2022) demonstrated that board size, gender diversity, and audit committee independence constrain discretionary loan loss provisioning in Moroccan banks. The more consistent governance effects in MENA banking systems may reflect stronger regulatory frameworks, lower ownership concentration, or cultural factors that enhance board accountability compared to Sub-Saharan African contexts.

Figure 2: Board Governance Effects on NPL Dynamics: Mixed Evidence from Emerging Markets



Figure 2. Comparative evidence on board governance effects across emerging market regions. Islamic banks show consistent positive effects of meeting frequency on credit risk reduction, while African and Asian contexts reveal mixed or negative effects depending on institutional factors and board composition.

4. Governance Mechanisms and Loan Monitoring Quality

Beyond aggregate board meeting frequency, specific governance mechanisms demonstrate more consistent effects on loan monitoring quality and provisioning discipline. This section examines board composition, committee structures, and ownership arrangements that influence credit risk outcomes.

4.1 Board Financial Expertise and Non-Executive Representation

Board financial expertise emerges as one of the most robust governance determinants of NPL containment across emerging market contexts. Budotela et al. (2023) found that board members with financial expertise significantly reduce NPL levels in Tanzanian banks, reflecting the specialized knowledge required to evaluate credit risk exposures and challenge management assumptions in loan portfolio reviews. Similarly, Iraqi banking studies document that board financial experience and non-executive director representation negatively associate with NPLs, while audit committee effects remain insignificant in some samples (Sadaa et al., 2023). The consistent positive effects of financial expertise indicate that technical competence matters more than formal independence for effective credit risk oversight. Directors with banking or accounting backgrounds possess superior capacity to interpret loan quality indicators, assess adequacy of provisioning models, and identify emerging credit concentrations that threaten portfolio stability. Non-executive directors bring external perspectives and independence from management, reducing conflicts of interest that might otherwise bias credit decisions toward excessive risk-taking or inadequate provisioning. Gender diversity in board composition also contributes to NPL reduction in several contexts. Budotela et al. (2023) found that female director representation significantly lowers NPL levels in Tanzanian banks, while El Mokrani

et al. (2022) demonstrated that gender diversity constrains discretionary provisioning in Moroccan banks. These findings suggest that board diversity enhances deliberation quality and reduces groupthink in credit risk assessments, consistent with broader corporate governance literature documenting positive diversity effects on board monitoring effectiveness.

4.2 Audit Committee Attributes and Provisioning Discipline

Audit committee characteristics exert significant influence on provisioning discipline and NPL dynamics through oversight of financial reporting quality and internal controls. Akter et al. (2020) established that frequent audit committee meetings and higher proportions of independent audit committee members reduce NPLs in Bangladeshi banks, while other audit attributes showed no significant effects. The targeted focus of audit committees on loan loss provision adequacy and credit classification accuracy enables more effective detection of emerging portfolio problems compared to general board oversight. El Mokrani et al. (2022) demonstrated that audit committee independence constrains discretionary loan loss provisions in Moroccan banks, limiting managerial ability to manipulate earnings through opportunistic provisioning choices. Independent audit committees enhance provisioning credibility by ensuring that reserves reflect economic reality rather than earnings management objectives. This credibility effect reduces information asymmetries between banks and investors, potentially explaining the positive valuation effects of audit committee independence documented in cross-sectional studies. However, audit committee effectiveness depends on operational activation rather than symbolic appointment. Hakimi et al. (2023) found that audit committee presence alone does not consistently reduce NPLs across MENA banking systems unless accompanied by genuine independence, financial expertise, and adequate meeting frequency. This pattern reinforces the distinction between enacted governance, characterized by substantive oversight authority and active engagement, and symbolic governance that satisfies regulatory compliance requirements without improving monitoring effectiveness.

4.3 Risk Committee Structures and Chief Risk Officer Roles

Formal risk governance structures including standalone risk committees and chief risk officer (CRO) appointments show inconsistent effects on NPL dynamics across emerging markets. Nguyen and Dang (2022) documented that risk governance structure affects NPL ratios and risk management effectiveness across ASEAN banking systems, with stronger frameworks linked to better NPL outcomes. The positive effects likely reflect enhanced specialization in risk oversight and clearer accountability for credit risk management compared to general board oversight. Conversely, Mashamba and Gani (2022) found that standalone risk committees, CRO board appointments, and formal risk training paradoxically correlate with increased bank risk in several African banking systems. This counterintuitive finding suggests that formal risk structures may create moral hazard by providing symbolic assurance that encourages greater risk-taking, particularly in contexts where risk committees lack genuine authority or expertise to constrain management. Alternatively, the positive association between risk structures and measured risk may reflect reverse causality, with banks establishing formal risk governance in response to prior risk exposures rather than as proactive risk management. The divergent findings on risk committee effectiveness underscore that governance design alone cannot ensure effective risk management. Board expertise, incentive alignment, and regulatory enforcement determine whether formal structures improve loan monitoring or merely satisfy compliance requirements. In institutional environments with weak enforcement and limited board capacity,

proliferating governance structures may substitute for rather than complement substantive oversight improvements.

4.4 Ownership Structure and Political Connections

Ownership concentration and political connections materially condition governance effectiveness in emerging market banking systems. Uddin et al. (2022) demonstrated that politically connected directors increase NPL levels in Bangladeshi banks unless those directors hold substantial ownership stakes, indicating that political appointments weaken monitoring when directors lack personal financial exposure to credit losses. Political connections may facilitate connected lending to politically influential borrowers with weak creditworthiness, undermining loan quality and increasing NPL risk. State ownership introduces additional governance complexities, with monitoring committees and independent directors playing critical roles in mitigating excess risk-taking in government-owned banks. Lee and Hooy (2020) found that monitoring committee presence reduces risk-taking in state-owned Asian banks, suggesting that formal oversight structures can partially substitute for market discipline in contexts where government ownership reduces shareholder monitoring incentives. However, the effectiveness of monitoring committees depends on genuine independence from political influence and adequate authority to constrain management credit decisions.

Ownership concentration by financial institutions or founding families shows more ambiguous effects on NPL dynamics. Concentrated ownership can enhance monitoring by creating stronger incentives for oversight, but may also facilitate tunneling or related-party lending that increases credit risk. The net effect depends on whether controlling shareholders prioritize long-term firm value or extract private benefits through credit allocation decisions.

5. Governance Intensity and Investor Confidence During Macroeconomic Stress

Board governance intensity influences investor confidence and market reactions during periods of NPL escalation and macroeconomic stress through signaling mechanisms and credibility effects. This section examines how governance features affect market perceptions of credit risk management capability.

5.1 Market Reactions to NPL Disclosures and Disposals

Pirgaip and Uysal (2023) examined how corporate governance moderates market reactions to NPL sales in emerging markets, finding that stronger governance attenuates negative investor responses to NPL disposal transactions. The moderating effect indicates that investors interpret NPL sales more favorably when banks maintain credible governance structures, viewing disposals as proactive portfolio management rather than distress signals. Conversely, weak governance amplifies adverse market reactions because investors question whether NPL sales reflect accurate portfolio valuation or opportunistic timing. The credibility effect of governance on market reactions operates through reduced information asymmetries. Banks with active audit committees, independent boards, and transparent risk disclosure practices provide more credible signals of loan portfolio quality, reducing investor uncertainty about the magnitude of unreported credit problems. This credibility premium becomes particularly valuable during stress periods when information asymmetries intensify and investors discount bank valuations to reflect worst-case credit risk scenarios.

5.2 Governance Signals and Risk Perception

Nguyen and Dang (2022) demonstrated that risk governance structure correlates with risk management effectiveness across ASEAN banking systems, suggesting that investors use observable governance features as proxies for unobservable loan quality and provisioning adequacy. Formal risk committees, CRO appointments, and board risk expertise signal institutional commitment to credit risk management, potentially reducing required risk premiums and supporting bank valuations during periods of market stress. However, the signaling value of governance depends critically on perceived implementation quality. Symbolic governance structures without corresponding expertise or authority fail to provide credible signals and may even increase investor skepticism if markets interpret proliferating committees as evidence of underlying credit problems. The distinction between enacted and symbolic governance becomes particularly important during stress periods when investors scrutinize governance effectiveness more intensively.

5.3 Monitoring Committees in State-Owned Banks

Lee and Hooy (2020) found that monitoring committee presence reduces risk-taking in state-owned banks across Asian emerging markets, potentially bolstering investor confidence in contexts where government ownership reduces market discipline. Effective monitoring committees can partially substitute for shareholder oversight by providing independent assessment of credit risk exposures and constraining political lending pressures that might otherwise increase NPL risk in government-owned institutions. The investor confidence effect of monitoring committees depends on perceived independence from political influence. Committees dominated by government appointees or lacking genuine authority to constrain management credit decisions provide little credible assurance to investors. Conversely, monitoring committees with external experts, transparent reporting, and demonstrated willingness to challenge management enhance investor confidence by signaling that state ownership does not preclude effective risk governance.

Figure 3: Board Diligence and Credit Risk Management: The Governance-NPL Transmission Mechanism

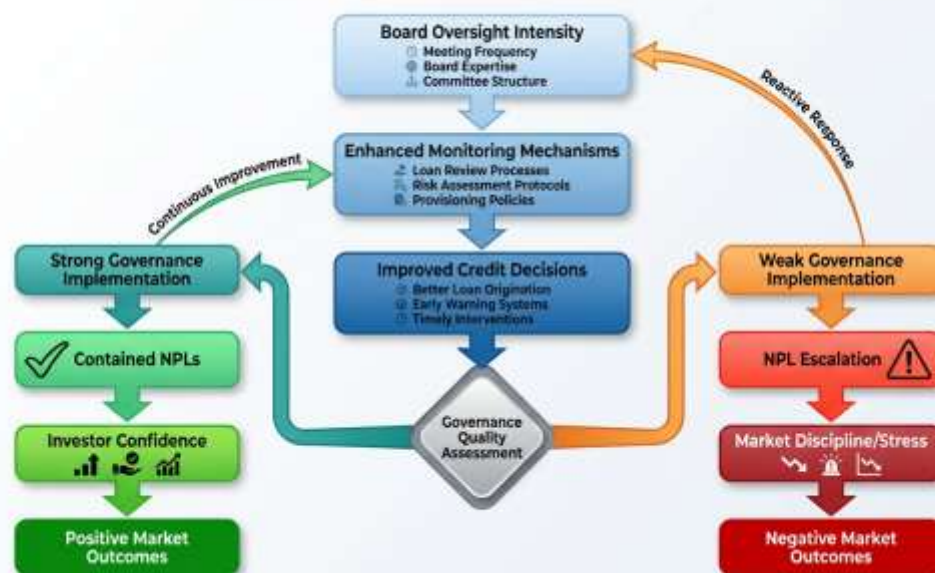


Figure 3. The governance-NPL transmission mechanism showing how board oversight intensity affects credit risk outcomes through loan monitoring quality and provisioning discipline. Strong

governance leads to contained NPLs and investor confidence, while weak governance results in NPL escalation and market stress, with feedback loops reinforcing each pathway.

6. Discussion: Implications for Policy and Practice

The synthesis of empirical evidence on board governance and NPL dynamics in emerging economies yields several important implications for banking regulators, board practitioners, and investors.

6.1 Regulatory Policy Implications

Banking regulators in emerging economies should prioritize governance substance over symbolic compliance in corporate governance codes and prudential regulations. This is particularly important because fragmented governance structures often weaken oversight effectiveness, create coordination gaps, and reduce the capacity of institutions to manage complex risks in a coherent manner (Joseph, 2013). The evidence demonstrates that formal governance structures, including board independence requirements, risk committee mandates, and meeting frequency minimums, do not automatically translate into effective credit risk management. Regulatory frameworks should emphasize board expertise requirements, particularly financial and banking experience, as prerequisites for director appointments in systemically important institutions. Regulators should enhance governance transparency by requiring disclosure of board attendance records, committee meeting frequency, director expertise profiles, and governance effectiveness assessments in annual reports and prudential filings. Increased transparency enables market discipline by allowing investors to differentiate between banks with enacted versus symbolic governance, creating competitive pressures for governance improvements. Transparency requirements should extend to ownership structures and political connections that materially affect governance effectiveness. Prudential supervision should incorporate governance quality assessments into bank examination processes, with supervisory ratings reflecting board expertise, oversight intensity, and credit risk management effectiveness. Banks with weak governance should face enhanced supervision, capital surcharges, or growth restrictions until governance improvements are demonstrated. This supervisory approach recognizes governance as a critical determinant of credit risk outcomes rather than merely a compliance matter.

6.2 Board Practice Implications

Bank boards in emerging economies should prioritize substantive oversight over symbolic compliance with governance codes. The evidence indicates that meeting frequency alone does not ensure effective credit risk management; boards must combine regular engagement with financial expertise, independent audit oversight, and genuine authority to challenge management credit decisions. Boards should conduct regular self-assessments of governance effectiveness, focusing on loan monitoring quality, provisioning discipline, and early warning system functionality. Board composition should emphasize financial expertise and diversity rather than merely satisfying independence requirements. Directors with banking, accounting, or credit risk management backgrounds contribute disproportionately to effective oversight compared to independent directors lacking relevant expertise. Gender diversity and professional diversity enhance deliberation quality and reduce groupthink in credit risk assessments, particularly valuable during periods of macroeconomic stress when cognitive biases may distort risk perception. Audit committees should receive adequate resources, expertise, and authority to fulfill credit risk oversight responsibilities. Committee charters should explicitly assign

responsibility for loan loss provision adequacy, credit classification accuracy, and NPL management effectiveness. Audit committees should meet privately with internal auditors and external auditors to assess credit risk exposure independently of management representations, enhancing provisioning credibility and investor confidence.

6.3 Investor Implications

Investors in emerging market banking systems should incorporate governance quality assessments into credit risk evaluation and valuation models. Observable governance features, including board expertise, audit committee independence, meeting frequency, and ownership structure, provide valuable signals of credit risk management capability that predict NPL dynamics and provisioning adequacy. Governance quality becomes particularly important during macroeconomic stress periods when information asymmetries intensify and weak governance amplifies credit losses. Investors should differentiate between enacted governance characterized by substantive oversight and symbolic governance satisfying regulatory compliance without improving monitoring effectiveness. Banks with frequent board meetings but limited financial expertise, weak audit committees, or concentrated ownership by politically connected shareholders warrant governance discounts in valuation models. Conversely, banks demonstrating active oversight, transparent risk disclosure, and credible provisioning discipline merit governance premiums reflecting lower credit risk uncertainty. Engagement strategies should emphasize governance improvements as mechanisms for enhancing firm value and reducing downside risk. Institutional investors should advocate for board expertise requirements, audit committee strengthening, and ownership transparency as priorities in shareholder engagement with emerging market banks. Collective engagement through investor coalitions can amplify influence on governance practices and regulatory frameworks.

7. Conclusion

This paper has examined the relationship between board governance mechanisms and non-performing loan dynamics in emerging economy banking systems, with particular emphasis on board diligence measured through meeting frequency and oversight intensity. The analysis demonstrates that governance effects on credit risk outcomes are context-dependent and mechanism-specific, challenging simplistic assumptions that more frequent board oversight uniformly reduces NPL levels. The synthesis of empirical evidence reveals that board financial expertise, independent audit committees, and activated oversight structures consistently enhance loan monitoring quality and provisioning discipline, thereby containing NPL escalation. However, aggregate board meeting frequency shows mixed effects across jurisdictions, with positive effects in some contexts offset by negative or null effects in others. The heterogeneity in governance effects reflects underlying differences in institutional enforcement, ownership structures, and board capacity across emerging market banking systems. The theoretical and empirical analysis establishes that enacted governance, characterized by substantive oversight authority, financial expertise, and genuine independence, constitutes the mechanism through which board diligence affects credit risk outcomes. Symbolic governance that satisfies regulatory compliance requirements without operational activation fails to constrain credit risk and may correlate with higher NPL levels if boards lack expertise or incentives to exercise effective monitoring. This distinction between enacted and symbolic governance has important implications for regulatory design, board practice, and investor assessment.

Building on Ogundipe (2019), which demonstrated that board meeting frequency enhances firm value in Nigerian banks by signaling credible oversight to investors, this paper extends understanding by examining how governance intensity translates into tangible credit risk management outcomes. The evidence confirms that markets reward enacted governance because it reduces NPL risk, enhances provisioning credibility, and preserves investor confidence during macroeconomic stress. The governance-NPL transmission mechanism operates through enhanced loan monitoring quality, constrained managerial discretion in credit decisions, and credible signaling of risk management capability. Several limitations qualify these conclusions. First, the evidence base relies primarily on cross-sectional and panel regression designs that may not fully address endogeneity concerns arising from reverse causality and omitted variable bias. Future research should employ quasi-experimental designs exploiting governance reforms or regulatory changes to establish causal effects more rigorously. Second, the measurement of governance quality remains imperfect, with observable features such as meeting frequency and independence providing noisy signals of underlying oversight effectiveness. Developing more refined governance metrics incorporating board expertise, deliberation quality, and decision-making processes would enhance understanding of governance mechanisms.

Third, the analysis focuses primarily on board-level governance while giving limited attention to management quality, organizational culture, and employee incentives that also influence credit risk outcomes. Future research should examine interactions between board governance and management systems to identify complementarities and substitution effects. Fourth, the evidence base concentrates on African, Asian, and Middle Eastern banking systems with limited coverage of Latin American contexts, constraining generalizability across emerging market regions. Despite these limitations, the analysis contributes to understanding governance-NPL dynamics by synthesizing recent empirical evidence, identifying conditions under which board governance effectively constrains credit risk, and demonstrating that enacted governance rather than symbolic compliance constitutes the critical mechanism. For emerging economy banking systems confronting persistent NPL challenges, strengthening board expertise, activating audit committee oversight, and enhancing governance transparency represent promising pathways for improving credit risk management and preserving financial stability.

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