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Review

**Doctoral Dissertation Dr. Muddassar Rasheed Malik, M.A.,
MSc Finance**

Title:

***THE IMPACT OF RISK GOVERNANCE ON THE PERFORMANCE
OF OECD BANKS***

The Doctoral Dissertation deals with the impact of risk governance on the performance of OECD banks. The author moves from a theoretical approach followed by a quantitative analysis on the topic. I enjoyed the reading and found the development of the work well structured from both a methodological standpoint and the way the author presents his arguments.

What I appreciated very much was the author's attempt to go beyond the simple concept of corporate governance in banking to embrace a specific perspective, i.e., that of *risk governance*. While there is a large amount of research on the topic of corporate governance and the related impacts to performance, a risk governance perspective leaves room open for novel and original research. In that, I appreciated very much the author's approach of relying on composite governance indicators.

Hereafter, some comments regarding the motivation of the study, theoretical approach, methodology and results.

MOTIVATION OF THE STUDY

I appreciate the effort and care of the author in describing the contributions they bring to the literature.

While the author clearly states the motivation of the study and answer to a significant research question, more effort would be needed in presenting the case for specifically focusing on OECD banks. Specifically, the arguments advocated in Section 1.4 appears of a general validity rather than providing motivations for addressing the specific case of OECD banks.

THEORY



This is one of the aspects I appreciated most. The author develops a good theoretical underpinning to set down the scope (and motivation) of the work and support the research hypothesis. Specifically, I appreciate very much the author's reference to the Upper Echelon Theory. Far from being widely used in banking studies, nonetheless it is appropriated for the aims of the work.

VARIABLES AND METHOD

In general terms the work is grounded on a sound methodological framework. The variables' choice is accurate as well and I appreciated very much its grounding on previous literature.

The major contribution the author brings is the adoption of composite measures of risk governance. That's give value to the work. Specifically, I appreciate the PCA approach. The only suggestions I can make is to specify the strategy the author used to select the components. In other terms, I see the author always selected the first component only in all the empirical investigations (impact of risk governance on risk, on performance and regulatory adjustments). What's the criteria for selecting only one component? Basically, one should select enough components to explain enough of the variance that he is comfortable with. It would be good to specify which considerations led the author to select one component. Probably a plot of eigenvalues would be fine.

Moreover, I may suggest discussing which concept (or concepts or dimensions) the selected components capture which might help interpreting the results.

Furthermore, I rise some much more specific points.

- Page 32: list of variables. Please include somewhere in the Text the reminder to Table 1. It would ease the reding.
- Variable CEOD. While it is clear how it has been measured, it would be valuable explaining which dimension it is intended to capture;
- Table 1. Regulatory adjustments (RA): Are they total adjustments? Why reporting them in 000 €? I was wondering whether it was better scaling the variable according to some specific criteria;
- Table 1: AVARTP. Not sure I've grasped how it has been determined;
- Throughout the empirical representations the author refers to "sensitivity analysis" to assess how results change in response to changes in model specifications and data (e.g., page 26, page 77..). Actually, these seem much more robustness checks.
- Page 87. Variable impaired loans on gross loans. That's a ratio: why expressing it in a logarithm form?
- Variable NI: why not scaling it instead of calculating the log?
- SIZE is the variable that would be better expressing in log form
- Page 66. The author claims the impact of risk governance on bank risk can be measured according to the TIER1/RWA ratio. While the ratio is an obvious measure of capital adequacy in relation to the bulk of risk the bank take, I agree it



can be used as a proxy of bank riskiness. Here, however, it would be better to spend some space to explain why the author decides to refer at TIER1/RWA at a first instance as a measure of bank risk instead of using other common risk measures in literature.

- Page 71. BI (the director is an independent director) has been found to be negatively correlated with TIER1/RWA. Also referring to the theoretical intuition and/or previous results, it would be interesting elaborating much more on the sign of the correlation. What plausible explanations?

RESULTS

Results are well presented and discussed. They provide good and valuable insights into the relationships between risk governance and the risk, performance and regulatory adjustments dimensions. The only thing I might suggest is to include in the regression analysis different models, e.g., starting from single variables that portrait risk governance to end with a model designed on the component derived from the PCA. It would provide a better understanding of the effects.

When it comes to the causality analysis, the author finds a quite interesting result, that of a mutual influence between governance factors and the TIER 1 ratio, leaving open the room for possible influences played by common factors. That's an interesting point and I appreciate it. It would be fine discussing it in a direction-for-future research section.

Other specific points are as follows:

- Page 72-74. What does RGI represent (see my previous comment on PCA analysis)?
- Page 74. Related to the previous point: the author associates a higher RGI value with better governance. Such a conclusion would require a discussion of what the RGI component (as I understand, this is the 1° component) represents based on the correlations with the single governance dimensions.
- Page 75 last paragraph (“These regression results provide empirical evidence supporting the hypothesis that effective risk governance practices positively impact by performance by...”). Again here, are you sure your results allow to support such a conclusion? I’m not denying it or putting it into doubt. But as pointed out in the previous points supporting such a conclusion again requires interpreting the results in terms of what governance features RGI synthetizes. This would be better rather than simply qualifying RGI as a better or worse governance dimension.
- Tables 5, 11 and 17. CEOAD and BS included in the regression separately instead of being comprised (as it seems) into the PCA. It would be fine to explain the reasons.
- Page 94 lines 4-6. The statement is: “This aligns with theoretical expectations that larger banks may experience benefits form economies of scale or a more diversifies risk profile which can positively impact..” Very good point. I add that it would be interesting (for further works or advanced versions of the current) an investigation of the relationship between size, business models, risk governance



and risk, which would provide a more robust grounding to the statement. In any case, good point.

- Pages 96-98, specifically Table 12 (sensitivity analysis). Sure the sign of RGI confirms results in Table 11 as it is claimed in the text? Look at impairments and charge offs. A positive sign suggests that an increasing RGI results in increased impairments and charge offs. Sure that we can conclude for a positive impact of RGI on performance, thus confirming results in Table 11?

DISCUSSION AND IMPLICATIONS

The conclusion section provides some discussion of the results and a summary of the contributions. Probably it would be fine to specifically sum up the limitations and directions for future research. Actually, the author highlights possible future research paths throughout the work. It would have been appropriate summarizing them in a systematic way in the concluding remarks.

Specifically, an issue that the author correctly mentioned throughout the work is the bank *risk appetite*. Integrating the risk appetite dimension into the risk governance-performance analysis, e.g. using an antecedents-outcomes approach with mediators/moderators, would be an interesting future research avenue.

CONCLUSION

The overall evaluation of the PhD thesis leads to the conclusion that it represents a high standard and significantly broadens knowledge in the field of social science, subfield economics and finance. The PhD candidate demonstrates his ability to originally formulate and solve a research problem. This work also demonstrates that he is able to conduct independent academic research. **Therefore, I acknowledge that this doctoral dissertation meets the statutory requirements and I recommend it for further proceedings”.**

Prof. Josanco Floreani

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