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ta’minlashning ustivor yo‘nalishlari” mavzusidagi xalqaro ilmiy-amaliy anjuman

ahamiyatga ega. Bu nafaqat ishlab chiqarish jarayonini takomillashtirishga, balki qishloq xo‘jalik sohasini yanada barqaror va rivojlanayotgan holga keltirishga xizmat qiladi.

Foydalanilgan adabiyotlar;

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CORPORATE GOVERNANCE REFORMS AND THEIR IMPACT ON THE FINANCIAL PERFORMANCE OF STATE-OWNED BANKS IN UZBEKISTAN

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Abstract

As Uzbekistan’s banking sector is going through structural transformations, understanding the implications of the reforms is crucial. This research investigates how recent corporate governance reforms influence profitability in Uzbekistan’s state-owned banking sector. The study employs panel data analysis – Fixed Effects model with Bootstrapping, to first assess the influence of governance variables, including board composition and size, gender diversity, risk and audit committee size, and government ownership, on profitability indicators such as Return on Assets (ROA) and Return on Equity (ROE). It then uses T-tests to evaluate before and after effects of the reforms in Uzbekistan. The findings indicate that government ownership enhances stability, however an increased audit committee size may impede efficiency. Besides, the study showed that the reforms have not substantially affected profitability, implying that additional time may be required for the complete financial effects to materialize. The findings provide guidance for policymakers in emerging markets, emphasizing the necessity of tailoring governance models to align with particular economic and institutional contexts.

Key Words.

Uzbekistan, Corporate Governance Reforms, Financial Performance, State-Owned Banks.

Introduction

From the beginning of the new reforms in Uzbekistan, President Shavkat Mirziyoyev stressed out: “A reliable and stable banking and financial system plays an

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important role in the development of the economy. Without increasing the confidence of the population and business entities, we will not be able to completely free ourselves from the "shadow" economy. In the implementation of the tasks set for the development of the banking system in 2018, the main attention should be paid to ensuring fruitful and mutually beneficial cooperation between banks and business entities” (Shavkat Mirziyoyev July 03, 2018). Transformation of the Banking Sector has, in fact, started in 2017 when the government allowed the currency to float freely. Later in 2019, law on “Banks and Banking Activities” from 1996 has been revised redefining and modernizing the authority of Central Bank. In addition, Decree of the President of the Republic of Uzbekistan dated January 09, 2018 No.5296 "On measures to radically improve the activities of the central bank of the Republic of Uzbekistan" was adopted. Later, the Uzbek government has launched an ambitious banking sector reform strategy for 2020 – 2025 (Resolution of the President dated May 12, 2020, №UP-5998) aiming at reducing the state’s involvement and elevating the proportion of assets owned by private banks from the current 18% to 60% till the end of 2025. In March 18, 2022, another resolution of the President №PP-168 was signed to accelerate the ongoing privatization process.

Financial institutions have always been regarded as major role players for the development and growth of every economy (Musah and Adutwumwaa, 2021; Sarkar and Sarkar, 2018; Appiah et al., 2015). On the same note, numerous countries have implemented reforms aimed at enhancing corporate governance and reinstating investor confidence in financial markets by imposing or advocating for increased board independence, preventing CEO duality and greater audit committee and auditor independence most of which happened subsequent to the release of the United Kingdom’s Cadbury Report in 1992 (Peter and Wong, 2023). These reforms have been the focus of extensive research because they bring about several changes in organization’s internal governance procedures, therefore helping in the mitigation of endogeneity problems in empirical finance literature (Dahya and McConnell, 2007; Kim and Lu, 2013; Li, 2014; Fauver et al., 2017; Chen et al., 2020). One region of the global economy where the corporate governance has relatively been under-researched continues to be Asia (Wahyuningrum et al., 2023; Lombardi and Juraboev, 2021).

Studying Central Asia, especially Uzbekistan, is essential for several reasons. First, country’s unique institutional structures offer a largely underexplored environment for analyzing the influence of Corporate Governance on Financial Performance. Additionally, Uzbekistan now is still in transitioning stage from centrally planned economy to a market-oriented system which is bringing about several transformations within the banking sector, particularly concerning state-owned banks that possess assets making up more than 50% of the country’s GDP, higher than Kazakhstan or Ukraine (Dubko, 2023). Lastly, Uzbekistan's strategic significance in the area, together with its continuous efforts to attract international investment, renders the enhancement of corporate governance essential for its sustained financial stability and prosperity. By being both timely and relevant, this study can contribute to the broader literature on governance in emerging markets providing insights that policymakers can apply to their own transitioning economies.

Financial institutions, especially state-owned banks, are pivotal to Uzbekistan’s economy, possessing a predominant asset share, 65% of total GDP as of 2023 and more worryingly 69% of the bank assets are owned by the government (Dubko, 2023). These banks, historically concentrated on lending to state-owned firms the most, have been in the spotlight of most recent ongoing corporate governance reforms aimed at enhancing efficiency, transparency and profitability (EBRD, 2023)

1.2. Problem Statement and Research Gap

Despite the multiple reformation efforts, State-owned Banks remain plagued by low transparency, inefficiencies and limited profitability. Key initiatives in the government reforms such as privatization, board restructuring and audit committee reforms have yet to produce desired outcomes with initial targets not being fulfilled as planned (EBRD, 2023). As Uzbekistan endeavors to align with international governance norms and attract foreign investments, it is essential to comprehend the effects of corporate governance reforms on the financial performance of state-owned banks. Nonetheless, there is limited empirical research on the success of these reforms resulting in a considerable void in our understanding of how changes in governance can influence financial performance. Existing studies (Temirov A. 2020. Umarkhojaeva M. 2022) devoted to Corporate Governance in Commercial Banks of Uzbekistan, (Mirpulatova L. 2023) have predominantly concentrated on dealing with digital technologies or the privatization process and macroeconomic reforms however, have not sufficiently addressed the impact of governance changes in state-owned banks towards efficiency and profitability. This gap is essential, considering the current reforms intended to modernize Uzbekistan's banking industry and decrease state ownership. This study addresses a significant gap in the literature by examining the impact of corporate governance reforms on the financial performance of state-owned banks, offering practical lessons for policymakers managing economic transitions in Uzbekistan and other emerging nations.

1.3. Objective and Research Questions

The main aim of this study is to objectively evaluate the effect of Uzbekistan's 2020-2025 Banking Sector Reform Strategy on the financial performance of state-owned banks. This research seeks to assess the impact of key corporate governance variables, stemming from board composition and structure to transparency and disclosure practices, on the profitability of these banks over the past seven years, starting in 2017. The researcher strives to see and analyze before and after effect on the profitability indicators and investigate the effectiveness of the most recent reform in the banking sector.

Main Research question will be: What effect has the 2020–2025 Banking Sector Reform Strategy had on Uzbekistan's state-owned banks' financial performance? Meanwhile, the sub-questions will be:

- What are the changes in key financial measures, such as Return on Assets (ROA) and Return on Equity (ROE), before and after the reform?
- How have the changes in governance practices affected financial performance over the past years?

2. Literature Review

Corporate governance reforms have regularly been evaluated through the lens of several different theories each offering a unique perspectives on the relationship between governance practices and financial performance. In this paper, main frameworks used for understanding corporate governance in government owned banks in Uzbekistan will be Agency Theory and Stewardship Theory as recommended in the literature (Sanda, Mikailu and Garba, 2010; Rashid, 2009).

- Agency Theory

The origin of the theory goes back to Adam Smith (1776) when he explained the main issues that may arise as a result of separating ownership and control in an organization (Samson and Tarila, 2014). They also added that such conflict of interest can lead to inefficiencies in organizations. The theory was later elaborated by Jensen and Meckling in 1976 and they highlighted the risks of managers pursuing their own interests over shareholders. Governance systems such as independent boards or audit committees can reduce these risks by aligning the actions of the management with the interests of shareholders (Fama & Jensen, 1983). This is especially true in the case of state-owned

enterprises where weak governance is the case most of the time (Baum et al., 2019). This theory has been applied to banking industry already and been the basis of the economic reward model (Banda and Mwange, 2023).

- Stewardship Theory

Contrary to Agency theory, Davis and at all in 1997 proposed another management theory that when entrusted with responsibility, managers will act as stewards and well-established corporate governance reforms can in fact improve corporate performance. The stewardship theory offers a unique viewpoint that emphasizes collaboration and common objectives over conflict and divergent interests (Glinkowska & Kaczmarek, 2015). This theory, rooted in sociology and psychology, critiques the Agency Theory's focus on an economic model of human behavior. The Stewardship Theory argues that managers, often termed "stewards," are inherently compelled to prioritize the organization's interests over their own. This mindset results from a sense of duty, commitment, intrinsic motivation, and a desire for accomplishment and acknowledgment. Stewards exert considerable effort to enhance organizational performance and shareholder value by aligning their interests with those of the owners. (Banda and Mwange, 2023). The authors also elaborated on the main assumptions of the theory – Alignment of Interests, Intrinsic Motivation, Positive View of Human Nature and Long-term orientation

2.1. Hypothesis Development

➢ Board Composition and Structure

The most common indicators are changes in the structure and the independence of the board. To start with Board size, the number of directors on the board is an important measure of a sound corporate governance (Musah and Adutwumwaa, 2021). Some academics contend that a small board size mitigates social loafing and free riding, while others argue that a large board size impairs effective communication and coordination (Golden and Zajac, 2001; Musah et al. 2019). Adams and Mehran (2012) discovered through empirical study that board size positively affects the financial performance of major banks in the United States, based on a sample of 35 of the largest banks. Their analysis additionally demonstrated that banks with extensive board sizes exhibited a favorable correlation with performance as assessed by Tobin's Q. Conversely, there have been other studies that showed opposing findings, suggesting that a big board size reduces financial performance. Staikorous et al. (2007) conducted a study involving 58 large European banks from 2002 to 2004, revealing a negative correlation between board size and bank performance. Labelle and Trabelsi (2010) indicated that an increase in board members correlates with a decline in banks' financial performance, as assessed by Tobin's Q. More recent study though conducted in Indonesia showed that the board size does not have a significant impact on financial performance of Banks (Umar, Sudradjat and Etti Ernita Sembiring, 2023; Mai, 2021).

Agency theory suggests that corporate boards manage managerial activities to mitigate the self-serving actions of agents (Miller, 2002). For the same reason, corporate boardrooms must have a component of independent directors. (Maniruzzaman et al., 2024). The primary motivation for appointing sovereign members to the boards of publicly traded organizations is to mitigate potential wrongdoing by mainstream members and to augment the value of the boards, particularly in the dissemination of information that safeguards stakeholder interests (Rashid & Hossain, 2022). However, some argue that while non-executive directors enhance a company's board, an excessive number may exacerbate information asymmetry between the board and management, thereby compromising the board's monitoring effectiveness (Musah et al. 2019; Abad et al. 2017). When it comes to profitability, the findings are inconclusive (Maniruzzaman et al., 2024). Some past papers indicate that increased participation of independent members correlates

with enhanced economic performance (Shan, 2019; Uribe-Bohorquez et al., 2018), while other studies suggest that a greater proportion of independent members is negatively associated with financial performance of banks (Fuzi et al., 2016; Zabri et al., 2016). Certain research were unable to ascertain whether board composition significantly correlates with financial performance or not.

Lastly, Gender diversity has attracted significant attention from government entities, academics, and practitioners, sparking vigorous debate on its good or bad effects on organizational dynamics and performance (Al-Jaifi, 2020). Khan et al. (2020) argued that the inclusion of female directors in Islamic banks may better reflect the inclusive attitude of these institutions. Consequently, a positive association between firm performance and female presence on the board is anticipated. Consistent with the findings of Khan et al. (2020), Jabari & Muhamad (2020) asserted that Islamic banks in Indonesia and Malaysia exhibiting greater gender diversity on their boards of directors demonstrated superior performance. Meanwhile, a year earlier Musah et al. (2019) had discovered no significant correlation between gender diversity and the performance of commercial banks in Ghana. However, in Poland in the same year, Matuszak et al., 2019 proved that female board of directors has a significant positive effect on the conventional Banks. Most recent study by Umar in Indonesia, Sudradjat and Etti Ernita Sembiring in 2023 also supported the results

Based on the empirical findings presented and in accordance with agency theory, the study hypothesizes that:

H1: There is positive correlation between board sizes of the state-owned banks in Uzbekistan and their financial performance

H2: The proportion of non-executive directors in state-owned banks in Uzbekistan is positively correlated with bank performance

H3: The Diversity of the board has a positive influence on financial performance of the state-owned banks of Uzbekistan

- Government Ownership

Studies on the share of state on firms and their profitability have provided mixed results, especially in emerging markets. Most recently, Boshnak (2023) examined this dynamic within Saudi Arabia and discovered that government ownership favorably influences both accounting-based and market-based performance indicators. He further added and said such ownership provides stability and support for Arabian enterprises. Similarly, Government ownership may promote optimal governance practices and thus improve performance due to direct enforcement and efficient monitoring (Al-Janadi et al., 2016). In fact, a range of empirical studies proved such positive relationship Al-Janadi, 2021; Din et al., 2021; Ahmed et al., 2022). However, there are some evidences of negative relationship coming from Agency theory stating that State-owned enterprises may pursue certain social objectives that could conflict with the interests of other shareholders and adversely affect performance. These theories were empirically proven by researchers by Al-Malkawi and Pillai (2018), Alawi (2019) and Iwasaki et al. (2022) over time.

H4: There is a positive link between Government ownership and financial performance of state-owned banks in Uzbekistan

- Board Committees

Research investigating the presence and size of a board-level risk committee is scarce due to data constraints and challenges in identification (Jiang and Ji, 2023). Regardless, Aebi et al. (2012) observed that banks possessing a board-level risk committee are correlated with reduced buy-and-hold returns during the financial crisis period. Earlier Bedard et al. (2004) had argued that big committees offer both strength

and various perspectives and skills, making it effective in identifying and solving potential problems. Also, agency theory predicts that a larger committee can cause free-rider problems with the presence of additional members showing complacency which may lead to agency problems between the committees and management (Subramaniam et al., 2009; Karamanou and Vafeas, 2005). More recently, Abubakar et al., (2018) and Musallam (2018) also confirmed this by stating that bigger size committees will cause focus lost and possibly negative effect in performance. A research in Malaysian nonfinancial firms in 2024, the researchers found that the size of the Risk committee is negatively and significantly linked with ROA (Karim et al., 2024). On the other hand, Pearce and Zahra (1992) believe resource dependence theory supports the idea of size (Karim et al., 2020; Elamer and Benyazid, 2018) because the larger the committee, the more probable that it has more resources to be deployed in addressing difficulties and problems in the monitoring process. Similar statements were made by Coetzee in 2016 saying that a larger committee could potentially enhance the authority of the committee inside the firm.

The Audit Committee (AC) is the most extensively studied corporate governance committee due to its vital function in supervising management and ensuring the accuracy and integrity of the company's financial statements and reports. Numerous modern regulations, corporate practices, and rigorous legal frameworks have been instituted to revitalize the AC so far (Abhisheck Kumar Singhania and Nagari Mohan Panda, 2023). Various studies showed that Audit committee size has a significant positive effect on firm performance (Majeed et al., 2018; Alqatamin, 2018; Musallam, 2020). These studies backed up the earlier results by McMullen, (1996) and DeZoort et al., (2002) where they had said larger audit committees enhances the monitoring process by increasing the number of meetings which ultimately reduces chances of errors and fraud. Most recent study using meta-analysis by Altin (2024) also confirmed the positive and strong relationship. However, there has been a few warnings too by DeZoort et al., 2002 stating that if the audit committee becomes excessively large, it may experience a diffusion of responsibility. Overall most of the results were positive therefore we developed the following hypothesizes.

H5: Having more risk committee members in state-owned banks can positively impact the profitability

H6: Existence of larger audit committee in state-owned banks can lead to increased firm value

- Control Variables

Bank size is a frequently utilized as control variable in most past literature on determining the impact on bank performance, as larger banks typically gain from economies of scale, which can enhance profitability (Laeven & Levine, 2009). Interestingly, Grženta, Žiković and Tomas Žiković in 2023 studied the impact of major regulatory changes on Bank profitability with regards to bank sizes and found that the bank size was significant and negatively affected the large banks's profitability. This contradicted the earlier findings of Asongu and Odhiambo (2019) and Petria et al. (2015) where they found the strong and positive impact towards bank performance. Nonetheless, intriguing outcomes arise when the study is performed independently for various size categories, revealing that regulatory rules positively influence the profitability of large and medium-sized banks while adversely impacting the profitability of small banks (Grženta, Žiković and Tomas Žiković, 2023). The use of Bank size as a control variable guarantees that fluctuations in profitability are not exclusively coming from governance structures, but also considering the operational benefits associated with size

Another crucial control variable in the research is Loan-to-Deposit ratio (LTD) which reflects financial institutions lending strategy. Banks with a higher loan-to-deposit (LTD) ratio typically assume greater risk by allocating a larger share of their deposits for lending, which may enhance profitability via interest revenue, however also escalates liquidity risk (Kosmidou, 2008). By adjusting for the LTD ratio, the study considers the varying risk-taking tendencies of banks, so assuring that the findings specifically isolate the impact of governance elements on financial performance.

3. Methodology

3.1. Research Design

The study uses Panel data regression model to evaluate the impact of corporate governance reforms on financial performance of state-owned banks in Uzbekistan. Because of the lack of available data the researcher had to deal with limited sample size (3 banks over 7-year period, before and after the main banking sector reform strategy 2020-2025). To make most out of the data, I used Fixed Effects regression model with bootstrapping (for robustness check) to accommodate for the limited sample size. Also, a dummy variable was used to represent 2017-2019 as zero and 2020-2023 as 1 to identify changes in profitability and governance impact over time. Lastly, the researcher resorted to T-test to perform an analysis of ROA and ROE Pre and Post Reforms.

3.2. Data Collection

Three banks – NBU (National Bank of Uzbekistan), SQB and Asaka banks were selected for this study as their assets combined represented 60% or more of the total share of state-owned banks in Uzbekistan. Therefore, the results coming from those chosen banks could be generalized to all state-owned banks in Uzbekistan and possible the whole Banking Sector in the territory. Also, last seven years (2017-2023) were selected because the purpose of the study was to evaluate the effect of the major reform that started in 2020 in Uzbekistan. This not only allowed the researcher to see before and after effects of the banking sector reform strategy but also compare the effects of each year after the implementations started. Main sources of the data were Annual Reports and Financial Statements of the selected banks obtained from their respective websites in Investor relations section and openinfo.uz platform, Unified Corporate Information Portal of National Agency of Perspective Projects of The Republic of Uzbekistan. Government ownership related proportions were obtained from CERR report (Center for Economic Research and Reforms in Tashkent)

3.3. Model Specification and Justification

$$ROA = \alpha + \beta_1 * BoardIndependence + \beta_2 * BoardSize + \beta_3 * GenderDiversity + \beta_4 * AuditCommitteeSize + \beta_5 * RiskCommitteeSize + \beta_6 * GovernmentOwnership + \gamma_1 * Bank\ Size + \gamma_2 * LTD + u_i + \epsilon$$

The rationale for choosing the model was that it was more appropriate for analyzing the influence of corporate governance reforms on the profitability of individual state-owned banks over time because it isolates the effects of variables by accounting for all time-invariant characteristics unique to each bank. Also, because the research concentrated on state-owned banks in Uzbekistan, the fixed effects model yields context-specific results meaning that it actually can help policymakers understand changes in performance across the same organizations. Lastly, the Fixed Effects model is less constraining in presuming that individual effects (e.g., the distinct characteristics of each bank) are connected with the independent variables, a scenario which is prevalent in governance studies.

Variables	Measurement
Reform	Dummy variable: 1 for 2020-2023 and 0 for 2017-2019
Board Independence	Measured by the Ratio of Independent Directors and Total number of Board members
Board Size	Total number of Board members
GenderDiversity	Female board members divided by Total number of Board members
Audit Committee Size	Number of executive team in Audit Committee
Risk Committee Size	Number of executive team in Risk Committee
Government Ownership	Percentage of shares that governmen owns
ROA	Net Income/Total Assets
ROE	Net Income/Total Equity
Bank Size	Natural Log of Amount of Total Assets
Loan-to-Deposit Ratio	Total Loans/Total deposits

3.4. Descriptive Statistics

The summary statistics showed the overview of all key variables across 21 observations.

Profitability Variables: It showed that profitability is on the lower side across all banks with ROA being 1.06% with a standard deviation of 0.0068. Return on equity figures, meanwhile showed higher percentages (7.53%) but with wider fluctuations with standard deviation of 0.041.

Corporate Governance variables: Board independence averaged at 18.9% with the range of 11% and 27% which meant that the number of independent board members varied a lot across banks. Board size though had relative consistency with banks staying at an average of 16.7 members. Moving to gender diversity, the percentage of woman in the board was low, with an average 10% of total members and a range of 6%-17%. Audit and Risk committees, meanwhile, reflected almost consistent committee structures with average 3.24 and 2.6 members respectively. As expected, government ownership indicated a strong state influence over the banking sector with an average ownership of 97.6% across banks. This high concentration may impact governance practices and financial performance as government priorities are normally different from private shareholders.

Control Variables: Starting with Bank size, logged total assets, it showed an average figure of 1.06 while Loan-to-Deposit (LTD) Ratio, had a mean of 3.359 showing different levels of liquidity across all banks

Variable	Obs	Mean	Std. Dev.	Min	Max
roa	21	.010619	.0068737	0	.02
roe	21	.0752857	.0407506	.011	.147
boardindep~e	21	.1885714	.0447533	.11	.27
boardsize	21	16.66667	1.90613	14	21
genderdive~y	21	.1	.0316228	.06	.17
auditcommi~e	21	3.238095	.7684245	2	5
riskcommit~e	21	2.619048	.4976134	2	3
government~p	13	.9761539	.0423357	.85	1
ln_bank_size	21	11.06197	.3561423	10.62325	11.75741
ltd	21	3.588095	.706998	1.96	5.07

Statistical Tests: The Correlation matrix was created to detect possible multicollinearity among the variables. No correlation above 0.65 was detected suggesting

that the multicollinearity did not exist. However, when the author conduced the VIF test, the score was above 10 after which then we had to normalize one of the high scorers by taking the natural log. Then Ln of Bank Size is generated and rerun the test, consequently, the score dropped below 10. Besides, Due to the restricted sample size, bootstrapping with 1,000 replications and clustering by bank ID was employed to derive robust standard errors. This methodology enhanced the reliability of our fixed-effects estimations.

4. Results

Fixed Effects Model with Bootstrapping Interpretations: Overall, the model indicated high degree of explanation for the variability in ROA with 98% of R-Squared. However, overall R-squared was on the lower side with 7% which meant that variability among banks may not be well explained by the model. The final model looked like as follows:

$$ROA/ROE = 0.2045 - 0.2223*BoardIndependence + 0.0038*BoardSize + 0.0835*GenderDiversity - 0.0066*AuditCommitteeSize + 0.0028*RiskCommitteeSize + 0.3203*GovernmentOwnership - 0.0449*BankSize - 0.0067*LTD + u_i + \epsilon$$

```
Fixed-effects (within) regression               Number of obs      =        13
Group variable: bank_id                         Number of groups   =         3

R-sq:                                           Obs per group:
     within  = 0.9784                                         min =         3
     between = 0.5679                                         avg =       4.3
     overall = 0.0718                                         max =         7

                                                Wald chi2(8)       =         .
corr(u_i, Xb)  = -0.9369                        Prob > chi2        =         .

                                   (Replications based on clustering on bank_id)
```

roa	Observed Coef.	Bootstrap Std. Err.	z	P>|z|	Normal-based [95% Conf.	Interval]
boardindependence	-.2223331	.1243156	-1.79	0.074	-.4659873	.021321
boardsize	.0038045	.0027102	1.40	0.160	-.0015073	.0091163
genderdiversity	.0834525	.0897036	0.93	0.352	-.0923633	.2592683
auditcommitteesize	-.0066379	.0028579	-2.32	0.020	-.0122394	-.0010365
riskcommitteesize	.002844	.0054271	0.52	0.600	-.0077928	.0134809
governmentownership	.3202523	.1126592	2.84	0.004	.0994443	.5410602
ln_bank_size	-.0448931	.0251819	-1.78	0.075	-.0942487	.0044626
ltd	-.0066571	.0034179	-1.95	0.051	-.013356	.0000418
_cons	.2044944	.1732314	1.18	0.238	-.1350329	.5440217
sigma_u	.02001522					
sigma_e	.00123481					
rho	.99620833	(fraction of variance due to u_i)				

During the research, two of the variables were identified as significant – Government ownership and Audit Committee Size. Starting with the former, it showed that the government ownership is associated with financial stability and it can positively affect the ROA with huge degree. The latter though had a negative impact towards profitability most likely because of efficiency trade-off which means that larger audit committees may face with diminishing decision-making efficiency. While not being statistically significant (close though), board independence's negative coefficient of -0.2223 suggests that having more independent directors was in fact affecting the profitability of state-owned banks negatively in Uzbekistan. This aligns with stewardship theory which suggests that in certain situations, less independent board of directors may

improve organizational performance, particularly in environments where the trust, alignments of interests and organizational goals are the main focus, not the strict control. There were two other near significant variables that acted as control variables in this study to account for the scale and liquidity of the banks. Bank size was found to negatively affect the profitability, possibly because of larger banks facing diminishing returns while Load to Deposit ratio can affect profitability negatively, though with marginal degree, based on the results of this study.

T-Test Results Interpretation:

To identify the effects of the governance reforms, T-tests were conducted with ROA and ROE. The results for ROA showed that financial performance of the banks did not reveal any statistical significant difference before and after the reforms. This indicates that the reforms the Uzbek government are implementing may not have an immediate impact and may require longer time span to take an effect on profitability. Similar results were found for ROE too with no major difference pre and post reforms in Uzbekistan.

```
Two-sample t test with equal variances
```

Group	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf.	Interval]
0	9	.0107778	.0026966	.0080898	.0045594	.0169961
1	12	.0105	.0017859	.0061865	.0065693	.0144307
combined	21	.010619	.0015	.0068737	.0074902	.0137479
diff		.0002778	.0031091		-.0062296	.0067852

```
    diff = mean(0) - mean(1)                                  t =   0.0893
Ho: diff = 0                     degrees of freedom =       19

    Ha: diff < 0                 Ha: diff != 0                 Ha: diff > 0
 Pr(T < t) = 0.5351         Pr(|T| > |t|) = 0.9297          Pr(T > t) = 0.4649
```

```
. ttest roe, by(reform)

Two-sample t test with equal variances
```

Group	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf.	Interval]
0	9	.074	.0122304	.0366913	.0457966	.1022034
1	12	.07625	.0130315	.0451425	.0475679	.1049321
combined	21	.0752857	.0088925	.0407506	.0567362	.0938352
diff		-.00225	.0184289		-.0408222	.0363222

```
    diff = mean(0) - mean(1)                                  t =  -0.1221
Ho: diff = 0                     degrees of freedom =       19

    Ha: diff < 0                 Ha: diff != 0                 Ha: diff > 0
 Pr(T < t) = 0.4521         Pr(|T| > |t|) = 0.9041          Pr(T > t) = 0.5479
```

4. Discussion

The study provides an empirical evaluation of the Banking Sector Reform Strategy 2020-2025 being implemented in Uzbekistan and it focuses on corporate governance and financial performance aspects. The findings demonstrated interesting results, providing insights that both correspond with and differ from current research on governance in emerging markets.

One of the key findings is the significant positive effect of government ownership on the performance of banks in Uzbekistan. The results were consistent with the more recent papers studying other emerging markets (Boshnak, 2023; Ahmed et al., 2022; Al-Janadi, 2021; Din et al., 2021) while contrasting with the findings of Al-Malkawi and Pillai (2018), Alawi (2019) and Iwasaki et al. (2022). In Uzbekistan, benefits of being state-owned such as operational stability and access to resources can be particularly relevant and it highlights that in transition economies while implementing Banking Sector reforms, state-owned banks will benefit the most. This is also contrary to Agency theory and conventional expectations that state ownership often impedes efficiency.

Another significant finding was the discovery of negative effect coming from audit committee size on financial performance in state-owned banks in Uzbekistan. This finding was unexpected and opposed to many other previous conducted studies (Altin, 2024; Majeed et al., 2018; Alqatamin, 2018; Musallam, 2020; McMullen, 1996 and DeZoort et al., 2002). In Uzbekistan’s context, the warnings of DeZoort et al., 2002 came true where they stated if the audit committee becomes excessively large, it may experience a diffusion of responsibility and may cause coordination challenges. In an effort to guarantee adequate oversight and accountability, the corporate governance code of Uzbekistan mandates that audit committees in state-owned institutions must consist of a minimum of three members. Nevertheless, the adverse impact of an increasing audit committee size on financial performance, as demonstrated in this study, implies that adhering to the minimum size may be advantageous for the banks here, whereas excessively large committees could decrease the profitability.

There were also three variables which were near significant, of those three 2 were control variables Bank Size and Liquidity (LTD). Although economies of scale are typically advantageous to larger banks, the absence of significance in this instance implies that size alone does not contribute to profitability in Uzbekistan's state-owned banks. Similarly, the loan-to-deposit ratio did not exhibit any substantial influence. This suggests that other factors, such as governance practices, may have a more significant impact on the performance of these institutions.

Also, the analysis before and after the reform provided some insights into how corporate governance changes impacted financial performance over time. Although the reforms were intended to improve governance transparency and profitability, the absence of substantial changes in ROA and ROE indicates that these governance enhancements may necessitate a lengthier time horizon to be translated into financial performance. Previous research also supports that by stating that governance reforms tend to take time to manifest (Grove et al., 2011; Affes and Jarboui, 2023) Furthermore, the inconsistent outcomes of governance variables suggest that, although reforms have implemented structural modifications, additional contextual factors, including operational alignment and regulatory support, may be required to fully realize their financial implications.

4.1. Practical Implications

The implications of this research are particularly valuable for policymakers, banking regulators, and leadership in state-owned financial institutions, particularly in emerging markets. In economies where private investment is relatively limited or financial markets experience high volatility, the discovery that government ownership can positively impact financial performance suggests that a precisely calibrated level of state ownership may provide essential stability. This stability could be crucial in environments like in Uzbekistan, where state support could guarantee the continuity and resilience of public sector banks.

Nevertheless, the observed negative correlation between profitability and the size of audit committees suggests that a measured expansion of the committee is necessary.

Although comprehensive oversight is essential, the efficiency and timely decision-making of audit committees may be compromised by their expansion beyond an optimal size. This suggests that governance structures should strive for a balance that preserves both agility and efficacy, rather than solely concentrating on size.

Furthermore, the insignificant results for other governance elements such as board independence or gender diversity indicate that governance reforms must be adapted to unique structures of state-owned institutions and implementation could yield favorable results. Tailoring governance frameworks to state owned organizations where mission alignment and public accountability normally takes priority compared to strict independence could enhance both financial and developmental outcomes in the sector for Uzbek policymakers and banking sector leaders in comparable markets.

4.2. Limitations

Limited Sample Size: The results of this research are based on a comparatively small sample, which is restricted to three state-owned banks over a seven-year period. The generalizability of the results to the broader banking industry or other sectors may be restricted by this scope. By increasing the sample size or extending the timeframe, future research could acquire a more comprehensive understanding.

Data Availability: This study primarily used publicly available financial statements as a result of the limited availability of detailed corporate governance data in Uzbekistan. This method may fail to account for specific internal governance practices that are not disclosed in public documents, which could potentially restrict the profundity of governance insights.

Short-Term Impact of Reforms: This study examines the consequences of the 2020-2025 banking changes, however, the little duration since their implementation may obscure the complete impact on profitability. Enhancements in governance frequently require extended durations to manifest in financial outcomes, indicating that an extended observation period might be advantageous for subsequent study.

Model and Control variable limitations: This study controlled for characteristics like bank size and LTD ratio, however, including additional factors like market competitiveness or economic indicators could yield a more comprehensive understanding. Also, the restricted sample size for fixed-effects modeling may result in certain unobserved factors affecting performance being overlooked.

5. Conclusion

To summarize, the study revealed that corporate governance reforms in Uzbekistan's state-owned banks impact financial performance differently across different governance areas. State ownership appears to enhance financial stability while larger audit committees may cause reduction in efficiency, hence, financial performance. Moving to the before and after effects of the Banking reform in Uzbekistan, the findings indicate that the complete financial advantages of these measures may require time to manifest. All of the insights from this study are beneficial for policymakers, indicating that tailoring governance frameworks to accommodate local requirements might enhance stability and banking performance in transitional economies.

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