



Research Paper

Determining the Relationship between Corporate Governance Practices and Bank Performance: A Study on Bank Industry in Bangladesh

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Abstract: This paper explores the relation between corporate governance practices and bank performance in the banking industry of Bangladesh. Utilizing data from the top 10 scheduled banks based on Return on Assets (ROA) in 2019, covering a period of a decade from 2010 to 2019, content analysis and statistical approaches are used in this study. In contrast to the previous findings moderate level of corporate governance practices was reported in this study with weak associations among the variables. Regression analysis reveals that corporate governance has no significant effect on firm performance as only three out of 15 sub-hypotheses are accepted. Particularly, CEO, CFO, HIAC, and CS have a negative effect on both ROA and EPS, and NRC has a negative impact on ROE.

Key Words: Corporate Governance, Return on Assets (ROA), Earning Per Share (EPS), Return on Equity (ROE).

Received 05 Mar., 2024; Revised 16 Mar., 2024; Accepted 18 Mar., 2024 © The author(s) 2024.

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I. Introduction:

Background of the study

The function of corporate governance in creating shareholder value through technology, process, and relationships is paramount. It is indispensable for all organizations and has serious influence on banking performance (Rajan and Zingales, 1995; Chowdhury, 2004; Lima, 2009; Siddiqui, 2012; Hossain, 2016; Hossain and Hossain, 2015 and so on). Despite their size, modern banks require market share for their survival and evaluate performance to enhance investment returns (Steger and Amann, 2008). Opinions of stakeholders, resource utilization, financial results, product distribution, consumer expectations, and effective internal goal-attainment mechanisms are all factors that can impact the success of a bank (Kaplan and Norton, 1992). Effective leadership, strategic planning, customer requirements, workforce, operations, knowledge management, and outcome contribute to improving business performance. Other factors that also influence an organization's value include capital structure (Rouf, 2015), ownership structure (Imam and Malik, 2007), working capital management (Asaduzzaman and Chowdhury, 2014), earnings management, and firm governance. Various national corporate governance practices have an impact on the performance of banks due to social, political, economic, market and regulatory factors (Rouf, 2011; Ahunwan, 2003; Hermalin and Weisbach, 1991).

Research Question

From the above discussion, a question arises that, if there is any relation between the corporate governance practices and firm performance of banking industry in Bangladesh. To find the answer, the following questions need to be answered:

1. To what extent has the corporate governance been practiced in food and allied industry of Bangladesh?
2. How does corporate government practices affect bank performance?
3. What policies can be recommended to ensure effective corporate governance practices in food and allied industry and other industries?

Objective of the study

The study's major goal is to assess the correlation of corporate governance practices with the bank performance of Bangladesh. The specific objectives of this study are as follows:

1. Identification of the corporate governance practice level of the bank industry of Bangladesh.
2. To determine the effect of the corporate governance practices on the bank performance.
3. In order to provide some guidelines to enable the practice of corporate governance for enhancing firm performance in bank industry.

II. Literature Review

The above-mentioned scholars under this definition consider corporate governance as the mechanism of ensuring organizational discipline, stakeholder management, and accountability for resource utilization (Cadbury, 1992). It seeks to perpetuate the relationship among the stakeholders and ensure organizational control, including investor protection, which is very important for the capital market development (Morin and Jarrel, 2001). However, the firm performance is the separate issue from the rest of the components. It represents the operations of the firm that are aimed at the satisfaction of the stakeholders. I may also add that the value creation and operational efficiency are included in the firm performance. These two components are very important because they determine if the firm is competitive or not (Uddin, 2006). Performance evaluation comes in many dimensions, with financial and non-financial metrics being employed. Some of the common metrics for financial analysis are Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS) (Harrison, 1974). Corporate governance elements play an important role in the performance of the firm, being placed in line with capital and ownership structures (Rouf, 2011). Nevertheless, performance assessment is challenging because multiple determinants of organizational effectiveness come to play, requiring strong evaluation techniques (Gimbert et. al., 2010; Yuen, 2006). Besides productivity, flexibility, adaption, and inter-organizational tensions are among other dimensions that should be evaluated when evaluating performance. In general, the knowledge of the interrelationship between corporate governance practices and firm performance is critical for organizational effectiveness and market competitiveness.

III. Research Methodology

Population of the Study

In statistics, population refers to the total set of observations of a study. All the schedule banks have been considered as the population of the study. There are in total 61 schedule banks that are included in the population of the study. The data have been collected from annual reports of the companies over the period of 10 years from 2010 to 2019. The other data also collected from different sources and websites.

Sampling Technique:

As the sampling technique, convenient sampling technique has been considered, while considering the following factors:

- Only schedule banks have been selected for the study
- For the convenience of the study, top ten (10) schedule banks are selected based on ROA obtained in 2019.
- The annual reports of 10 years of the selected firms have been considered as the observations of the study.

Variable Description

In this study, the variables included are purely based from theoretical and empirical literature and there is a sincere effort to capture the core elements of corporate governance that influence the bank performance. Variables have been broken down into two groups, which are, dependent variables and independent variables. All the categories of variables have been described below:

Dependent variables

Firm performance is the main dependent variable in this study that shows the operational efficiency of a firm. It is calculated by Return on Assets (ROA), Return on Equity (ROE) and Earnings per Share (EPS).

Independent variables

Corporate governance practices act as the independent variable, determining the performance of the firm. Analyzed from five dimensions:

- Board of Directors.
- Chairman of the board, chief financial officer, head of internal audit control, and chief executive.
- Board of Directors Committee.
- Audit Committee.
- Nomination and Remuneration Committee.

Hypothesis Development

The study aims to investigate the link between the corporate governance practice and firm performance. The hypotheses are based on both the theoretical and empirical review of literature regarding the banks' corporate governance practice. The current study attempts to analyze five aspects of corporate governance and their influence on bank performance. The following five hypotheses associated with the dependent variable: Indicators for the empirical analysis of bank performance have been developed. A hypothesis is either rejected or accepted depending on the significant outcome of the models developed. The hypotheses are as follows:

Hypotheses	Description
H1	The board of directors have impact on firm performance.
H1a	ROA is impacted by the board of directors.
H1b	Board of director have impact on ROE.
H1c	EPS is impacted by the board of directors.
H2	CEO, CFO, HIAC and CS have impact on firm performance.
H2a	ROA is affected by CEO, CFO, HIAC and CS.
H2b	MD, CEO, CFO, HIAC and CS have some impact on ROE.
H2c	CEO, CFO, HIAC and CS affect EPS.
H3	Board of directors' committee have impact on firm performance.
H3a	Committee of board of directors impacts ROA.
H3b	The committee of board of directors impacts the ROE.
H3c	Board of director's committee impact on EPS.
H4	Audit board committee have impact on firm performance.
H4a	Board audit committee impact on ROA.
H4b	Audit board committee impact on ROE
H4c	Audit committee board impacts EPS.
H5	Nomination and remuneration committee have impact on firm performance.
H5a	Nominating and remuneration committee effects ROA.
H5b	The nomination and remuneration committee affects ROE.
H5c	Nomination and remuneration committee has effect on EPS.

Statistical Tools

For the analysis of the data three methods have been used in this study:

- 1. Descriptive Statistics:** In the descriptive statistics section, the corporate governance practice have been summarized. It shows the mean value and standard deviation of the practice level. Moreover, the reliability of the data has been tested as well.
- 2. Correlation Analysis:** Here the degree of correlation between the independent variable: corporate governance practice and dependent variable: bank performance output obtained using SPSS.
- 3. Regression Analysis:** For panel data analysis, OLS regression model has been conducted for predicting the existence of relationship between selected variables.

Here, the basic regression models are:

$$FP = \alpha + \beta_1 (BOD) + \beta_2 (CEO_O) + \beta_3 (BODC) + \beta_4 (ABC) + \beta_5 (NRC) + \varepsilon$$

$$FP = \alpha + \beta_1 (BOD_1) + \beta_2 (BOD_2) + \beta_3 (BOD_3) + \beta_4 (BOD_4) + \beta_5 (BOD_5) + \beta_6 (BOD_6) + \beta_7 (BOD_7) + \varepsilon.$$

$$FP = \alpha + \beta_1 (CEO_O_1) + \beta_2 (CEO_O_2) + \beta_3 (CEO_O_3) + \varepsilon.$$

$$FP = \alpha + \beta_1 (SC_1) + \varepsilon.$$

$$FP = \alpha + \beta_1 (ABC_1) + \beta_2 (ABC_2) + \beta_3 (ABC_3) + \beta_4 (ABC_4) + \beta_5 (ABC_5) + \beta_6 (ABC_6) + \beta_7 (ABC_7) + \varepsilon.$$

$$FP = \alpha + \beta_1 (NRC_1) + \beta_2 (NRC_2) + \beta_3 (NRC_3) + \beta_4 (NRC_4) + \beta_5 (NRC_5) + \varepsilon.$$

IV. Data Analysis and Findings

Sample Description:

All scheduled bank are the population of the study. The top ten scheduled bank based on their ROA obtained in 2019 have been considered in this regard. The annual reports of 10 years, from 2010 to 2019, have been reviewed to conduct the study. In total 100 observations have been employed to serve the purpose of the study.

Descriptive Statistics:

Table of Descriptive Statistics:

Variables	Mean	Maximum	Minimum	Standard Deviation
BOD	0.445	0.831	0.197	0.197
CEO	0.506	1	0.188	0.191
BODC	0.537	1	0.500	0.128
ABC	0.557	0.997	0.100	0.276
NRC	0.830	1	0.440	0.185
ROA	0.08230	0.2940	-0.0659	0.07696
ROE	0.54421	31.2315	-0.4816	3.13749
EPS	0.14459	1.2687	-0.1566	0.29227

The table provides a summary of various statistics for variables assumed to be from a study or dataset. The variables on the other hand comprise BOD, CEO, BODC, ABC, ONRC, ROA, ROE, and EPS. All variables have the entries for mean, max, min, and standard deviation as their attributes. The approaches run from 0.08230 (ROA) through 0.830 (NRC), indicating quite different central tendencies among different measures as well. The highest values are observable in the range showing 31.2315 for ROE which is truly a range or outlier. The arithmetic mean (average) of ROA (Return on Assets) is negative, while the minimum (floor) of CEO is 0.188. They range from 0.07696 for ROA to 3.13749 for ROE, meaning the deviation from the average of the variables differs greatly thereby, with ROE showing much larger values spread.

Correlation Analysis

Correlation analysis is an indicator of the degree of linearity of relationship between two or more variables. It was calculated via sample correlation coefficient (r). The correlation table gives the correlations of each pair of two variables under study. A high correlation coefficient for two variables may reflect collinearity. The correlation analysis overall outcomes pointed out that none of the dependent and independent variables have any significant relationship between them.

Correlation coefficient of the variables:

Variables Name	ROA (%)	ROE (%)	EPS	BOD	MD	BODC	ABC	NRC	CGP
ROA (%)	1								
ROE (%)	-.036	1							
EPS	.514**	.262**	1						
BOD	.055	-.124	.029	1					
MD	.048	-.147	.054	.922**	1				
BODC	-.004	-.034	.102	.423**	.592**	1			
ABC	.076	-.127	.007	.978**	.908**	.382**	1		
NRC	.112	.156	.039	-.284	. ^b	-.372	.678	1	
CGP	.060	-.130	.042	.975**	.972**	.562**	.969**	.688	1

** Correlation is significant at the 0.01 level (2-tailed).

b. Cannot be computed because at least one of the variables is constant.

In the correlation analysis, the independent variables are: BOD, MD, BODC, ABC, NRC,

Dependent variables are: ROA, ROE, and EPS.

The table presents variable correlations. ROA and ROE significantly correlate with EPS (0.514, 0.262), although negatively low (-0.036). BOD has a substantial correlation with MD (0.922) and a poor one with BODC (0.423). The correlation between ABC and MD and BOD is positive (0.908, 0.978). NRC slightly influence Corporate Governance Practice (CGP) but has a negative effect on BOD and BODC. BODC has negative tendencies with ROA and ROE but positively with EPS, while BOD, MD, and ABC have positive

correlations with EPS and moderate with ROE. The three performance measures are all positively related to NRC.

Regression Analysis

Regression analysis is a widely used statistical tool that helps to predict the unknown values of one variable from known values of one or more other variables. Likewise, the correlation analysis, with the help of regression analysis researchers also obtains a measure of the degree of association that exists between two variables.

Regression analysis have been used to study the existence of any associative relationship between the selected independent variables namely BOD, MD, BODC, ABC, NRC with the dependent variables namely ROA, ROE, EPS. The analysis has been conducted to test the strength of associations between the study variables. As information of 10 years have been collected of the selected firms, hence, panel data analysis has been used in this regarding. OLS regression model is employed in the study, where the independent variables have been determined after considering the effect of time and micro unit. That means, the overall regression analysis have been conducted using two-dimensional data.

Multiple Regression Analysis

Multiple regression analysis, which has been used in previous studies for the same subject, is modeling the relationship between a dependent variable (Y) and one or more explanatory variables (X) (Alenazi and Mohammad, 2016; Cotter and Silvester, 2003) . First five independent variables were part of Literature review. Another factors are board of directors; MD, CEO, CFO, HIAC and CS; board of directors committee; audit committee and nomination and remuneration committee. The dependent variable was the firm performance set against the independent variable. The firm performance has been evaluated using the ROA, ROE and EPS. 95% Confidence Interval was employed in the multiple regression analysis.

The multiple regression models for this study have been identified as follows:

$$FP = \alpha + \beta_1 (BOD) + \beta_2 (MD) + \beta_3 (BODC) + \beta_4 (ABC) + \beta_5 (NRC) + \varepsilon.$$

Here, α = Firm performance of the selected firms of food and allied industry listed under DSE in absence of all the independent variables.

β = Partial regression co-efficient which indicates a partial change in the FP due to one-unit change in each of the independent variables while other things remain constant.

ε = the term of error.

Dependent variable:

FP = Firm performance.

Independent variables: BOD, MD, CEO, CFO, HIAC, BODC, ABC, NRC.

Hypotheses Testing

To test the significance of the relationship between the dependent variable firm performance and the independent variable corporate governance practice following table has been made below:

Accept and rejection criteria of the hypotheses

Hypotheses	Description	Significance Level	Result for Alternative Hypothesis
H1a	ROA is impacted by the board of directors.	0.207	Rejected
H1b	Board of director have impact on ROE.	0.276	Rejected
H1c	EPS is impacted by the board of directors.	0.563	Rejected
H2a	ROA is affected by CEO, CFO, HIAC and CS.	0.016	Accepted
H2b	MD, CEO, CFO, HIAC and CS have some impact on ROE.	0.012	Accepted
H2c	CEO, CFO, HIAC and CS affect EPS.	0.415	Rejected
H3a	Committee of board of directors impacts ROA.	0.222	Rejected
H3b	The committee of board of directors impacts the ROE.	0.440	Rejected
H3c	Board of director's committee impact on EPS.	0.588	Rejected
H4a	Board audit committee impact on ROA.	0.178	Rejected
H4b	Audit board committee impact on ROE	0.730	Rejected
H4c	Audit committee board impacts EPS.	0.252	Rejected
H5a	Nominating and remuneration committee effects ROA.	0.672	Rejected
H5b	The nomination and remuneration committee affects ROE.	0.001	Accepted
H5c	Nomination and remuneration committee has effect on EPS.	0.792	Rejected

Findings of the Study

The study has passed through some statistical analysis in determining the effect of corporate governance practice on the performance of scheduled bank. In this case, firm performance has been operationalized as the dependent variable through three proxy measurements. The ones are Return on Assets (ROA), Return on Equity (ROE) and Earnings per Share (EPS). The corporate governance practice has been evaluated from various firm aspects. The dimensions include the board of directors, MD, CEO, CFO, HIAC, and CS, the board of directors committee, the audit committee, and the nomination and remuneration committee. The current study explored the descriptive scenario of the bank; the correlation among the variables was broken with the help of the Pearson correlation matrix, and the multiple regression analysis determined the effect of the corporate governance practice on the variables of firm performance. As a result, the picture of real life corporate governance practice has been brought to light in the regression equations. Now, the overall findings of the study are given below based on separate analysis:

Findings of the Descriptive Statistics

According to the descriptive statistics of the corporate governance practice (appendix B), the NRC is turning as a significance concerned of the regulatory authorities. The firms are trying their utmost to fulfill the conditions relating NRC. The practice of other mechanisms of the corporate governance as per their mean scores are the audit committee, followed by the board of directors, obligatory existence of the sub-committees of the board and lastly the practice of CEO, CFO, HIAC and CS. The overall practice of the corporate governance is on a moderate level as the composite mean is 0.539.

Findings of the Correlation Analysis

The correlation analysis represents that there is a very low correlation between the dimensions of corporate governance and the proxy variables of firm performance. Among the corporate governance dimensions the board of directors; MD, CEO, CFO, HIAC and CS and the audit committee shows a similar pattern. These three dimensions are positively correlated with the ROA and EPS. However, they are negatively correlated with the ROE. Furthermore, the NRC has positive correlation with all the proxy variables of firm performance. The overall practice of corporate governance has positive correlation with the ROA, ROI and EPS. Besides, it is negatively correlated with ROE.

V. Recommendations

Primarily, the present study has described the impact of corporate governance practices on firm performance based on bank industry of Bangladesh. After analyzing the data and discovering the findings, the study suggested some recommendations based on the study. The recommendations are given below:

- There is already a corporate governance code existed in Bangladesh. The firms should be aware and knowledgeable regarding the terms and conditions of the guidelines.
- BSEC and other concerned authorities need to ensure that the conditions of the guidelines have been executed appropriately and there is no misleading information of firms about complying the codes of corporate governance.
- Regulatory authorities need to develop the guidelines of practicing corporate governance. For this reason, new regulations may be introduced.

VI. Conclusion

The research concentrates on corporate governance practices' influence on bank performance. In developed countries, several empirical studies have been carried out on the same topic. These studies tell us that corporate governance has positively influences on firm's performance. Optimal application of corporate governance practices can improve the operational efficiency of the organization that would result in more profitable operations and organization's success. The independent variable here is corporate governance practice. Among the nine conditions highlighted in the CGC of 2019 developed by BSEC, five conditions have been considered. The literature identifies three proxy variables for measuring firm performance. To explore the present situation of the corporate governance practices and how it affects the performance of the firm, 10 banks of scheduled bank. Initially content analysis was performed to assess the level of corporate governance practice and qualitative analysis was utilized to determine firm performance. Subsequently, correlation analysis, panel data analysis using OLS regression model have been carried out to study the topic. To the surprise, the study reveals an opposite finding with the previous studies. Even though the corporate governance has been practiced in the firms of food and allied industry listed under DSE, such practices do not influence the firm performance. This implies that there are some reasons why corporate governance practices have no effect on firm performance. To address this, BSEC, other regulators and the firms should be aware of reducing the gap in this respect.

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