

Original Research

Board Characteristics and Firm Performance: Evidence from the Listed Non-Banking Financial Institutions of Bangladesh

Raihan Sobhan¹

Department of Business Administration, University of Asia Pacific
Dhaka, Bangladesh

Abstract

The main objective of this study is to find out the effects of board characteristics on firm performance in the listed companies of non-banking financial institutions industry of Bangladesh. This study has considered five board characteristics namely board size, the proportion of independent directors, the proportion of female directors, the number of board meetings and percentage of directors' ownership. ROA has been taken as the performance indicator. The regression results show that board size and female directors are positively and significantly related to firm performance. On the other hand the proportion of independent directors, the number of board meetings and the percentage of directors' ownership do not have any significant impact on firm performance. The findings of this study will help the regulators and policymakers to understand the existing weakness of corporate governance structure in the financial institution industry and will aid in their quest for harmonizing the practice of corporate governance of Bangladesh with that of developed countries.

Keywords: Board Characteristics; Firm Performance; Corporate Governance of Bangladesh; Financial Institutions

JEL Classification Numbers: G23, G34, M14

¹ Corresponding Author's Email: raihanfahim001@gmail.com

Introduction

Corporate governance has emerged as one of the most talked-about topics in the area of research over the past few decades. After the failure of some big companies like Enron, HIH, WorldCom, OneTel, the effectiveness of corporate governance structure has often been questioned. In order to increase the efficiency of the corporate governance, many acts and guidelines like Cadbury Report (1992), Sarbanes-Oxley Act (2002), CLERP 9 (2001), Ramsay Report (2001), Organization for Economic Development (OECD) Code (1999) have been introduced around the world. Bangladesh has been following the footsteps of developed countries to align its corporate governance structure with that of developed countries. Bangladesh introduced its first guidelines regarding corporate governance in 2006. Later in 2012, Corporate Governance Guidelines (CGG) were introduced. Recently the Corporate Governance Code (CGC) was introduced in 2018. However, whether the guidelines derived from developed countries can be successfully adopted in the context of Bangladesh remains the major issue.

The main purpose of this study is to analyze the effects of the characteristics of a board on firm performance in the listed companies from the financial institution industry of Bangladesh. Over the past few decades, the world has witnessed some of the biggest corporate failures and financial crises. In most of the cases, the major reason for the collapse was the existence of poor corporate governance. And board characteristics are important elements of corporate governance. Given the importance of good corporate governance in preventing corporate failures, the relationship between board characteristics and firm performance has recently drawn much attention to researchers and policymakers (Brown et al., 2011; Samaha et al., 2012).

The financial institution industry has been considered in this study for several reasons. The Non-Banking Financial Institutions NBFIs play an important role in the economy just like the commercial banks. However, the current situation of NBFIs is not quite well. The practice of granting loans imprudently has increased resulting in a huge amount of bad debts and deteriorating performance. Poor governance has led to the first liquidation of a company in this sector. Besides, most of the previous studies have focused on the banking and manufacturing industries. For these reasons, the financial institution industry has been selected for the study.

This study will contribute to the literature in several ways. Firstly, this study will contribute to the field of corporate governance by assessing the characteristics of boards in the financial institutions industry. Secondly, this study will provide a precise scenery about the current performance of the firms in the financial institutions sector by analyzing an operating performance indicator (ROA). Thirdly, the findings of this study will help the readers understand which characteristics of the board affect a firm's performance to what extent and how an effective board can boost a firm's performance. Finally, this study will fill the void in the existing literature as this is most probably the first study conducted in the financial institutions regarding the impact of board characteristics on firm performance.

The rest of the paper is organized in the following manner: Section 2 discusses the theoretical framework based on which the study has been conducted. Section 3 discusses

the literature review and hypotheses development used in the study. Section 4 shows the research methodology of the study. Section 5 represents the analysis of the results from the regression models. Finally, Section 6 draws a conclusion of the study and provides some recommendation based on the findings.

Theoretical Framework

One of the most important theories that can be linked to corporate governance mechanism in a country is agency theory. According to this theory, agents are engaged by principals for performing some services on the behalf of the principals (Jensen & Meckling, 1976). This theory also states that the agents or managers can sometimes overlook principal's interest to obtain their interest that may result in agency cost. Corporate boards can play an important role in mitigating this agency cost by trying to align the interest of the principal and the agent (Rose, 2005). The corporate board monitors and provides strategic guidelines to the management and for this it is regarded as a primary mechanism of corporate governance (Brennan, 2006). A board works for enhancing the performance of a firm and enacting responsibilities and duties that are legally vested (Zahra & Pearce II, 1989).

Another theory that can be linked to board characteristics is resource dependence theory. According to this theory, the behavior of an organization can be affected by some external resources. And different components of corporate governance mechanism can aid in connecting the organization and the external resources for increasing organization's performance (Pfeffer, 1973). For example, the immense experience and skills of board of directors, particularly independent directors can help a company improve its performance (Haniffa & Cooke, 2002). Besides, the inclusion of these directors in the board can enhance the reputation of the company and build strong business network (Haniffa & Hudaib, 2006). Finally, the directors may have personal relationship with influential people that can be used to obtain important information from political elites and other organizations. According to Nicholson & Kiel (2007), there is a positive relationship between outside resources and corporate performance.

Literature Review and Hypotheses Development

Board Size

Board size is one of the most important characteristics of a board that can have a significant impact on firm performance. Prior studies have found some mixed results regarding the effect of board size on performance. Rahman & Saima (2018) conducted a study on the listed manufacturing companies of Bangladesh and found a significant and positive relationship between board size and firm performance. Larger boards can add versatility to the company which can improve the performance significantly. Previous studies have concluded that larger board size has a positive impact on firm performance as it equips more expertise and can make effective strategic decisions (Amer et al., 2014; Kutum, 2015; Muttakin et al., 2012; Kiel & Nicholson, 2003).

However, some other studies have found a negative relationship between board size and firm performance. Guest (2009) conducted a study on 2746 listed firms in the UK

and found that board size is negatively related to ROA, Tobin's Q and share returns. According to this study, larger boards will result in poor communication and decision making which will lower the performance of the firm. Besides, Wu (2004) and Yermack (1996) have found that smaller boards are more effective compared to the larger ones as they improve coordination among the board members and fastens the decision making skill. Rashid et al. (2010) found that board size negatively affects ROA but positively affects Tobin's Q of a firm. However, some studies did not find any significant relationship between board size and firm performance (Masum & Khan, 2019; Al-Matari et al., 2012; Rouf, 2011). Based on the prior studies, the following hypotheses can be drawn:

H1 (a): *Ceteris paribus*, there is a positive association between board size and firm performance.

H1 (b): *Ceteris paribus*, there is a negative association between board size and firm performance.

Independent Directors

Independent directors are appointed from outside the organization to monitor the activities of the managers for maintaining shareholders' interests. According to Fama & Jensen (1983), a higher proportion of independent directors in the board will result in effective monitoring of the activities performed by the managers. From the perspective of agency theory, corporate performance can be enhanced by including more independent directors on the board (Ramdani & Witteloostuijn, 2010). Bhabra & Li (2011) conducted a study on both state-owned and non-state-owned firms of China and found that there was a significant increase in firm performance due to the improvement of board independence. Independent directors also have the responsibility to monitor firm performance (Rashid et al., 2010). For this, they can raise questions about information asymmetry, recommend compensation structure for executives and can also recommend the dismissal of the CEO if the expected performance is not achieved (Hermalin & Weisbach, 2003). Most of the studies have found a positive relationship between board independence and firm performance (Rahman & Saima, 2018; Muttakin et al., 2012; Rouf, 2011).

However, in the context of Bangladesh, there arises a question about the true independence of the independent directors due to concentrated family ownership and poor regulatory structure. As inside directors are the ones who are engaged in operational activities of the organization, they know the organization well than the independent directors do. So there exists information asymmetry between inside directors and outside directors (Nicholson & Kiel, 2007). Other studies did not find any significant relationship between board independence and firm performance (Rashid et al., 2010; Amer et al., 2014; Masum & Khan, 2019). Based on the above analysis, the following hypothesis can be drawn:

H2: *Ceteris paribus*, there is a positive association between proportion of independent directors in the board and firm performance.

Female Directors

The number of females participating in the board of directors in different sectors is increasing rapidly all over the world. Female directors are considered to be hard workers, have good communication skills and are active in fulfilling commitment (Robinson & Dechant, 1997). Gender diversity is positively related to effective board room debate and coordination among board members (Hillman et al., 2007). Female directors can promote new ideas and skills which can add value to the firm (Boyle & Ji, 2013). Other studies also found a positive and significant relationship between female directors and firm performance (Muttakin et al., 2012; Bear et al., 2010; Smith et al., 2006).

However, many studies have concluded that there is no significant relationship between female directors and firm performance (Rahman & Saima, 2018; Masum & Khan, 2019; Yasser, 2012). Most of the female directors are appointed based on family ties and these appointments are not done based on educational background or expertise in work (Rahman, 2016). Besides, female directors, who are from non-traditional backgrounds and are in a socialization process, try to agree with the other members and adopt their ideas instinctively (Rose, 2007). Based on the above discussion the following hypothesis can be drawn:

H3: *Ceteris paribus*, there is a positive association between proportion of female directors in the board and firm performance.

Board Meetings

An organization's board meeting held by its directors is a perfect platform to discuss operational issues and take proper decisions based on the uniform consent of the members. When executives have the responsibility of being present in a meeting, they are allowed to vote on important decision-making plans (Ronen & Yaari, 2008). According to Lorsch & MacIver (1989), frequent board meetings will increase the likelihood that the board will perform its duty sincerely to protect the interest of the shareholders. Studies conducted by Al-Daoud et al. (2016), Paul (2017) and Amer et al. (2014) found a positive association between numbers of board meetings held and firm performance.

Hanh et al. (2018) conducted a study on 94 listed firms in Vietnam and found a negative relationship between board meetings and firm performance. The study suggests that only the frequency of board meetings is not itself a good indicator. The quality of those meetings is an important factor that can influence firm performance. On the other hand some studies did not find any significant relationship between these two variables (Kutum, 2015; Qadorah & Fadzil, 2018). Based on the prior studies the following hypothesis can be drawn:

H4: *Ceteris paribus*, there is a positive association between the frequency of board meetings and firm performance.

Directors' Ownership

Berle & Means (1932) conducted a study to explore the relationship between ownership structure and firm performance. The study suggested that a firm should separate its ownership from control if it wants to go public. This was supported by Fama

& Jensen (1983) who added that separation of ownership and control improves professionalism through firm-specific knowledge and managerial proficiency. However a contradictory result was found by Jensen & Meckling (1976) who suggested that separation of ownership and control will result in conflict of interest. They suggested that alignment of interest can be brought if the agents' ownership in the firm is increased.

Board members who own shares of the organization tend to be more active and monitor the management effectively for the reduction of agency cost. More shareholdings by the directors implies their greater interest in the firm. As a result, they will try to monitor the activities of the management more carefully to protect their interest. Masum & Khan (2019) conducted a study on 101 listed firms of Bangladesh and found a significant and positive association between board members' ownership and firm performance. According to the study, directors' ownership helps to align the interest of the shareholders and the management. Besides, studies conducted by Abbas et al. (2013) and Fauzi & Locke (2012) found a positive relationship between directors' ownership and firm performance. Based on the above discussion, the following hypothesis can be drawn:

H5: Ceteris paribus, there is a positive association between directors' ownership and firm performance.

Methods

Sample Selection and Data Collection

Table 1 List of Sample Companies

Name of the Company	Name of the Company
1. Bay Leasing & Investment Limited	11. International Leasing & Financial Services Ltd.
2. Bangladesh Finance and Investment Co. Ltd.	12. IPDC Finance Limited
3. Bangladesh Industrial Fin. Co. Ltd.	13. Islamic Finance & Investment Ltd.
4. Delta BRAC Housing Finance Corp. Ltd.	14. Lanka Bangla Finance Ltd.
5. Fareast Finance & Investment Limited	15. MIDAS Financing Ltd.
6. FAS Finance & Investment Limited	16. National Housing Fin. and Inv. Ltd.
7. First Finance Limited	17. Phoenix Finance and Investments Ltd.
8. GSP Finance Company Limited	18. Prime Finance & Investment Ltd.
9. Investment Corporation Of Bangladesh	19. Union Capital Limited
10. IDLC Finance Ltd.	20. United Finance Limited

For this study, a sample of 20 financial institutions listed in Dhaka Stock Exchange (DSE) has been selected for the period of 2012 to 2018. At present, there are 23 listed financial institutions in DSE. However, one of the companies has recently been declared bankrupt. Among the rest of 22 companies, the annual reports of 2 companies were not available. The sample size was limited to 20 companies for 7 years, resulting in 140 firm-years. Due to unavailability of 4 annual reports, the final sample size was narrowed down to 136 firm-years. All of the data were taken from secondary source (annual reports). Annual reports are collected from the websites of respective companies. The reports, that were not available in the company's website, were collected from Bangladesh Securities

and Exchange Commission (BSEC). The list of sample firms taken for the study is given in Table 1.

Research Model

For this study, a pooled cross-sectional method is used. The hypotheses are tested using a regression equation based on ordinary least square (OLS) method. The following regression equation is drawn by keeping consistency with the studies conducted by (Masum & Khan, 2019; Rahman & Saima, 2018; Amer et al., 2014):

$$ROA = \alpha + \beta_1 LNBDS + \beta_2 IND + \beta_3 FD + \beta_4 BDMEET + \beta_5 DIROW + \beta_6 LEV + \beta_7 LNFSZ + \beta_8 LNAGE + \varepsilon \quad (1)$$

In the above equation, return on assets (ROA) has been taken as the performance indicator of the sample firms (Al-Matari et al., 2012; Amer et al., 2014; Rahman & Saima, 2018). The definitions of all the variables used in the equation are presented in Table 2.

Table 2 Definition of Variables

Variable Name	Symbol	Explanation	Expected Relation
Firm Performance (Dependent Variable)			
Return on Asset	ROA	Ratio of Net Profit Before Tax to Average Total Assets	
Board Characteristics (Independent Variables)			
Board Size	LNBDS	Natural Logarithm of Board Size	+/-
Independent Directors	IND	% of Independent Directors in a Board	+
Female Directors	FD	% of Female Directors in a Board	+
Board Meetings	BDMEET	No. of board meetings held in a year	+
Directors' Ownership	DIROW	% of Directors' Ownership	+
Control Variables			
Leverage	LEV	Ratio of Book value of Total Debt to Total Assets	+/-
Firm Size	LNFSZ	Natural Logarithm of Book Value of Total Assets	+
Firm Age	LNAGE	Natural logarithm of number of years since firm's inception.	+

Result and Discussions

Descriptive Statistics

Table 3 represents the descriptive statistics for the dependent and independent variables. From this table, it can be seen that the mean ROA is 1.67% which can be considered very poor. The minimum ROA is -70.24% due to a huge loss faced by one of the sample firms resulting in negative equity whereas the maximum is 11.33%.

Among the independent variables, the board size has a mean value of almost 12 (11.26) with a minimum of 7 members and a maximum of 17 members. The mean value of the proportion of independent directors is 20.60% which is slightly higher than the minimum requirement of 20% (Corporate Governance Code, 2018). The minimum value is 0% which means in some firms there were no independent directors. The proportion of female directors has a mean value of 13.21% with a minimum value of 0% and a maximum value of 33.33%. The average board meetings held by the sample firms were almost 12 (11.48). The percentage of directors' ownership has a mean value of 44.37% with a minimum value of 0% and a maximum value of 90.31%. Among the three control variables, leverage has a mean value of 83.09%, firm size has a mean value of BDT 26437.76 million and firm age has a mean value of 21.22 years.

Table 3 Descriptive Statistics

Variable Name	Symbol	Obs.	Mean	Med	SD	Min	Max
ROA	roa	136	1.67	2.31	6.68	-70.24	11.33
Board Size	bdsz	136	11.26	11.00	1.82	7.00	17.00
Independent Directors (%)	ind	136	20.60	20.00	9.86	0.00	57.14
Female Directors (%)	fd	136	13.21	11.11	9.38	0.00	33.33
Board Meetings	bdmeet	136	11.48	11.00	5.37	4.00	30.00
Directors' Ownership (%)	dirow	136	44.37	43.12	18.06	0.00	90.31
Leverage (%)	lev	136	83.09	85.87	12.85	39.18	169.17
Firm Size (in millions)	fmsz	136	26437.76	15933.11	31241.33	3057.66	175382.70
Firm Age	fmage	136	21.22	19.50	6.70	11.00	42.00

Bivariate Analysis

Table 4 Correlation Matrix

	roa	lnbdsz	ind	fd	bdmeet	dirow	lev	lnfmsz	lnfmage
roa	1.000								
lnbdsz	0.029	1.000							
ind	-0.293**	-0.245**	1.000						
fd	0.065	-0.121	0.292**	1.000					
bdmeet	-0.064	0.142	-0.284**	-0.295**	1.000				
dirow	-0.029	0.306**	0.136	-0.062	-0.203*	1.000			
lev	-0.643**	0.123	0.160	0.140	-0.023	0.088	1.000		
lnfmsz	0.127	-0.120	-0.239**	-0.136	0.113	-0.217*	0.072	1.000	
lnfmage	0.092	-0.089	-0.147	-0.037	0.192*	-0.302**	-0.115	0.604**	1.000

*p < 0.05, **p < 0.01

Pearson's correlation matrix is represented in Table 4. The matrix shows that board size, the proportion of female directors, firm size (ln) and firm age (ln) all are positively correlated to ROA. However, the correlation is not significant for any of the variables.

The proportion of independent directors, the number of board meetings, the percentage of directors' ownership and leverage are negatively correlated to ROA. Among these variables, the correlations of the proportion of independent directors and leverage to ROA are statistically significant.

Table 5 represents the variance inflation factor (VIF) for the independent variables and control variables. The VIF test is performed to check whether there is any presence of multicollinearity problems among the variables in the regression model. If the mean VIF is more than 10, it is an indication of the presence of a multicollinearity problem (Neter et al., 1989). On the other hand, if the mean VIF is less than 1, there is a possibility of bias in the regression equation (Bowerman & O'Connell, 1990). In this study, the mean VIF is 1.4 which indicates the absence of both multicollinearity problem and bias. It is consistent with the studies conducted by (Rahman & Saima, 2018; Masum & Khan, 2019).

Table 5 Variance Inflation Factor (VIF)

Variable	VIF	1/VIF
Board Size (ln)	1.31	0.76173
Independent Directors (%)	1.36	0.73434
Female Directors (%)	1.22	0.81703
Board Meetings	1.26	0.79464
Directors' Ownership (%)	1.32	0.75826
Leverage	1.15	0.86733
Firm Size (ln)	1.81	0.55113
Firm Age (ln)	1.78	0.56211
Mean VIF	1.4	

Multivariate Analysis

The result of the regression analysis is presented in Table 6. From the results, it can be seen that board size is positively and significantly related to ROA in both OLS and random effect regression models. It is consistent with some other studies and implies that larger boards are more effective in improving firm performance in the financial institution industry (Rahman & Saima, 2018; Amer et al., 2014; Muttakin et al., 2012). So the Hypothesis-1(a) can be accepted.

According to the regression output, there lies a negative but insignificant relationship between the proportion of independent directors and firm performance in the model. This does not support Hypothesis-2. However, it is consistent with previous studies (Rashid, 2018; Nguyen et al., 2017; Dalton & Daily, 1999). This is probably due to the existence of information asymmetry and expertise disadvantage. Independent directors generally have less information about the company compared to insiders. Besides inside directors have more experience and knowledge about the company they work for compared to

independent directors. As a result, independent directors tend to have little influence on the operating matters of a company.

The study found a positive and significant relationship between the proportion of female directors and ROA in both methods used. Robinson & Dechant (1997), Muttakin et al. (2012) and Bear et al. (2010) found a similar relationship between these two variables. So it supports Hypothesis-3.

There is a negative but statistically insignificant relationship between the number of board meetings and ROA. This is also the same in case of director's ownership and ROA. As a result, it does not support Hypothesis-4 and Hypothesis-5.

The impact of control variables on firm performance is also shown in Table-7. Leverage is negatively and significantly related to ROA in both OLS and random effect regression. Firm size has a positive and significant relationship with ROA. Finally, firm age does not have any significant relationship with firm performance in any of the models.

Table 6 Regression Output with OLS and RE Model

Variable	Symbol	Expectation	Model-1 (ROA)	
			OLS	RE
Board Size	lnbdsz	+/-	0.0470*	0.0102*
			(0.099)	(0.096)
Independent Directors (%)	ind	+	-0.1408	-0.1650
			(0.203)	(0.202)
Female Directors (%)	fd	+	0.1776***	0.2425***
			(0.000)	(0.000)
Board Meetings	bdmeet	+	-0.0010	-0.0009
			(0.249)	(0.381)
Directors' Ownership (%)	dirow	+	0.0165	0.0123
			(0.512)	(0.679)
Leverage	lev	+/-	-0.3637***	-0.3695***
			(0.000)	(0.000)
Firm Size (in millions)	lnfmsz	+	0.0219***	0.0321***
			(0.001)	(0.000)
Firm Age	lnfmage	+	-0.0324	-0.0411
			(0.179)	(0.112)
Observation			136	136
R-square			0.5469	0.5319

*p < 0.10, **p < 0.05, ***p < 0.01

Additional Analysis

Table 7 provides the regression result of an additional analysis conducted that considered the year dummy. The year dummy model is used to explore whether there is any significant effect of any particular year on the regression models. From the table, it can be seen that board size is significantly and positively related to ROA like the previous two methods. However, the proportion of female directors have no significant impact on firm performance unlike the results found in the previous two methods. The proportion of independent directors, the number of board meetings and the percentage of directors' ownership have similar results to OLS and random effect. Among the control variables, all the results are consistent with previous methods.

Table 7 Regression Output Considering Year Dummy

Variable	Symbol	Expectation	Model-1 (ROA)
Board Size	lnbdsz	+/-	0.0519* (0.068)
Independent Directors (%)	ind	+	-0.1738 (0.201)
Female Directors (%)	fd	+	0.1973 (0.125)
Board Meetings	bdmeet	+	-0.0007 (0.390)
Directors' Ownership (%)	dirow	+	0.0278 (0.273)
Leverage	lev	+/-	-0.3962*** (0.000)
Firm Size (in millions)	lnfmsz	+	0.0193*** (0.003)
Firm Age	lnfmage	+	-0.0449 (0.116)
Year Dummy?			Yes
Observation			136
R-square			0.5950

*p < 0.10, **p < 0.05, ***p < 0.01

Conclusion

The study examined the relationship between board characteristics and firm performance. Five characteristics namely board size, the proportion of independent directors, the proportion of female directors, number of board meetings and percentage

of directors' ownership were considered. ROA was considered as the performance indicator of sample firms. The study shows that the operating performance of the sample firms in the financial institution industry is not satisfactory at all as the mean ROA is 1.67% only.

The study found a positive and significant relationship between board size and ROA which means that larger boards can improve the operating performance of firms in the financial institution industry. Boards with more members can experience the benefits of diversified expertise and are less likely to be dominated by management. This will result in enhanced performance by the firms.

An interesting finding of this study is the existence of a negative relationship between independent directors and firm performance. Although the relationship is insignificant, this finding raises the question of the true independence of the independent directors. There is a possibility that independent directors are selected from those people who have personal relationships with or are close to the CEO or other insiders of the company (Finkelstein & Hambrick, 1996). In Bangladesh, independent directors are appointed on the basis of guidelines provided in the Corporate Governance Code (CGC) 2018. The CGC 2018 requires independent directors to be expert and experienced in the relevant field. However, there is a sub-section that allows the relaxation of these requirements subject to the Commission's approval. This leaves the door open for any person to be an independent director of a company. Besides, independent directors often have less knowledge about the company compared to inside directors. They often play the role of advisors instead of adding economic value to the organization (Rashid et al., 2010).

The proportion of female directors on the board is positively related to ROA. It implies that the addition of female directors in the board can increase the operating performance of the firm as they are hard workers and bring coordination in the board. Finally, the number of board meetings and the percentage of directors' ownership does not have any significant impact on firm performance according to the study.

However, there are some limitations of this study. Firstly, this study used only 136 firm-years as the sample size. Larger sample size would provide more comprehensive results. Secondly, the study did not include some board characteristics like the number of foreign directors, CEO tenure, CEO duality etc. in the regression model. Finally, performance indicators like Tobin's Q, return on equity (ROE), growth rate, earnings per share (EPS), share return were not considered in this study.

Based on the analysis and findings of the study, some recommendations can be provided. At first, the current situation of the financial institution sector should be improved. There exist severe mismanagement and a tendency of sanctioning imprudent loans by the NBFIs of Bangladesh which is deteriorating their performance. The regulatory body needs to take effective and timely measures to bring back the glory days to the industry. In order to minimize the existing information asymmetry, the NBFIs should be encouraged to increase the number of voluntary disclosures and restrict any kind of insider trading. Another important issue is the appointment of independent directors on the board. Regulatory authorities like BSEC and Bangladesh Bank needs to ensure that the true independence of the appointed independent directors is maintained.

Although it is a very challenging thing to do given the existing situation in Bangladesh, strict enforcement of laws and proper monitoring can help in this regard. Finally, the corporate governance structure should be reformed based on the existing corporate culture and business environment of Bangladesh instead of merely imitating the corporate governance pattern of other countries.

References

- Abbas, A., Naqvi, H. A., & Mirza, H. H. (2013). Impact of Large Ownership on Firm Performance: A Case of Non-Financial Listed Companies of Pakistan. *World Applied Sciences Journal*, 21(8), 1141-1152.
- Al-Daoud, K. I., Saidin, S. Z., & Abidin, S. (2016). Board meeting and firm performance: Evidence from the Amman stock exchange. *Corporate Board: role, duties and composition*, 12(2), 6-11.
- Al-Matari, E. M., Al-Siwidi, A. K., Fadzil, F. B., & Al-Matari, Y. B. (2012). The Impact of board characteristics on Firm Performance: Evidence from Nonfinancial Listed Companies in Kuwaiti Stock Exchange. *International Journal of Accounting and Financial Reporting*, 2(2), 312-332.
- Amer, M., Ragab, A., & Ragheb, M. (2014). Board Characteristics and Firm Performance: Evidence from Egypt. *6th Annual American Business Research Conference*, (pp. 0-25). New York.
- Bear, S., Rahman, N., & Post, C. (2010). The impact of board diversity and gender composition on corporate social responsibility and firm reputation. *Journal of Business Ethics*, 97(2), 207-221.
- Berle, A. A., & Means, G. C. (1932). *The Modern Corporation and Private Property*. New York : Macmillan.
- Bhabra, H. S., & Li, T. (2011). Independent Directors and Corporate Performance: Evidence from Listed Firms in China. *Corporate Ownership & Control*, 8(3), 145-169.
- Bowerman, B. L., & O'Connell, R. T. (1990). *Linear statistical models: An applied approach*. Boston PWS-Kent Pub. Co: PWS-Kent Pub. Co.
- Boyle, G., & Ji, X. (2013). New Zealand corporate boards in transition. *Pacific Accounting Review*, 25(3), 235-258.
- Brennan, N. (2006). Boards of Directors and Firm Performance: Is There an Expectations Gap? *Corporate Governance: An International Review*, 14(6), 577-593.

- Brown, P., Beekes, W., & Verhoven, P. (2011). Corporate Governance, Accounting and Finance: A Review. *Accounting and Finance*, 51(1), 96-172.
doi:10.1111/j.1467-629X.2010.00385.x
- Dalton, D. R., & Daily, C. M. (1999). What's wrong with having friends on the board. *Across the Board*, 36(3), 28-32.
- Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *Journal of Law and Economics*, 26(2), 301-325.
- Fauzi, F., & Locke, S. (2012). Board Structure, Ownership Structure and Firm Performance: A Study of New Zealand Listed-Firms. *Asian Academy of Management Journal of Accounting and Finance*, 43-67.
- Finkelstein, S., & Hambrick, D. C. (1996). *Strategic Leadership: Top Executives and Their Effects on Organization*. Minneapolis St. Paul: West Publishing Company
- Guest, P. M. (2009). The impact of board size on firm performance: evidence from the UK. *The European Journal of Finance*, 15(4), 385-404.
- Hanh, L. M., Ting, I. K., Kweh, Q. L., & Hoanh, L. H. (2018). Board Meeting Frequency and Financial Performance: A Case of Listed Firms in Vietnam. *International Journal of Business and Society*, 19(2), 464-472.
- Haniffa, R. M., & Cooke, T. E. (2002). Culture, Corporate Governance and Disclosure in Malaysian Corporations. *Abacus*, 38, 317-349.
- Haniffa, R., & Hudaib, M. (2006). Corporate Governance Structure and Performance of Malaysian Listed Companies. *Corporate Governance Structure and Performance of Malaysian Listed Companies.*, 33, 1034-1062.
- Hermalin, B. E., & Weisbach, M. S. (2003). Board of Directors as an Endogenously Determined Institution: A Survey of the Economic Literature. *Economic Policy Review*, 9(1), 7-26.
- Hillman, A., Shropshire, C., & Cannella, J. (2007). Organizational predictors of women on corporate boards. *The Academy of Management Journal*, 50(4), 941-952.
- Jensen, M. C., & Meckling, W. (1976). Theory of the firm: managerial behavior, agency cost and ownership structure. *Journal of Financial Economics*, 3, 305-360.
- Kiel, G. C., & Nicholson, G. J. (2003). Board Composition and Corporate Performance: How the Australian experience informs contrasting theories of corporate governance. *Corporate Governance. The International Journal of Business in Society*, 11(3), 189-205.

- Kutum, I. (2015). Board Characteristics and Firm Performance: Evidence from Palestine. *European Journal of Accounting Auditing and Finance Research*, 3(3), 32-47.
- Lorsch, J., & MacIver, E. (1989). Pawns or Potentates: The Reality of America's Corporate Boards. *Harvard Business School Press Review*, 15, 369-381.
- Masum, M. H., & Khan, M. M. (2019). Impacts of Board Characteristics on Corporate Performance: Evidence from Bangladeshi Listed Companies. *International Business and Accounting Research Journal*, 3(1), 47-57.
- Muttakin, M. B., Khan, A., & Subramaniam, N. (2012). Board structure and firm performance: Evidence from an emerging economy. *AT Business Management Review*, 8(2), 97-108.
- Neter, J., Wasserman, W., & Kutner, M. H. (1989). *Applied Linear Regression Models*. Homewood: Richard D. Irwin, Inc.
- Nguyen, T., Evans, E., & Lu, M. (2017). Independent directors, ownership concentration and firm performance in listed companies. *Pacific Accounting Review*, 29(2), 204-226.
- Nicholson, G., & Kiel, G. (2007). Can Directors Impact Performance? A Case Based Test of Three Theories of Corporate Governance. *Corporate Governance: An International Review*, 15(4), 585-608.
- Paul, J. (2017). Board Activity and Firm Performance. *Indian Journal of Corporate Governance*, 10(1), 44-57.
- Pfeffer, J. (1973). Size, Composition, and Function of Hospital Boards of Directors: A Study of Organization-Environment Linkage. *Administrative Science Quarterly*, 18, 349-364.
- Qadorah, A. M., & Fadzil, F. B. (2018). The Effect of Board Independence and Board Meeting on Firm Performance: Evidence from Jordan. *Journal of Finance and Accounting*, 6(5), 105-109.
- Rahman, M. M. (2016). Determinants of CEO Compensation: Empirical Evidence from Listed Banks of Bangladesh. *Dhaka University Journal of Business Studies*, 1(1), 127-161.
- Rahman, M. M., & Saima, F. N. (2018). Efficiency of Board Composition on Firm Performance: Empirical Evidence from listed Manufacturing Firms of Bangladesh. *Journal of Asian Finance, Economics and Business*, 5(2), 53-61.

- Ramdani, D., & Witteloostuijn, A. V. (2010). The impact of board independence and CEO duality on firm performance: A quantile regression analysis for Indonesia, Malaysia, South Korea and Thailand. *British Journal of Management*, 21(3), 607-627.
- Rashid, A. (2018). Board independence and firm performance: Evidence from Bangladesh. *Future Business Journal*, 4(1), 34-49.
- Rashid, A., De Zoysa, A., Lodh, S., & Rudkin, K. (2010). Board Composition and Firm Performance: Evidence from Bangladesh. *Australasian Accounting, Business and Finance Journal*, 4(1), 76-95.
- Robinson, G., & Dechant, K. (1997). Building a business case for diversity. *Academy of Management Executive*, 11, 21-30.
- Ronen, J., & Yaari, V. (2008). *Earnings management: emerging insights in theory, practice, and research*. New York: Springer.
- Rose, C. (2005). The Composition of Semi-Two Tier Corporate Boards and Firm Performance. . *Corporate Governance: An International Review*, 13(5), 691-701.
- Rose, C. (2007). Does female board representation influence firm performance? The Danish evidence. *Corporate Governance: International Review*, 15, 404-413.
- Rouf, M. A. (2011). The Relationship between Corporate Governance and Value of the Firm in Developing Countries: Evidence from Bangladesh. *The International Journal of Applied Economics and Finance*, 5(3), 237-244.
- Samaha, K., Dahawy, K., Hussainey, K., & Stapleton, P. (2012). The extent of corporate governance disclosure and its determinants in a developing market: The case of Egypt. *Advances in Accounting*, 28(1), 168-178. doi: 10.1016/j.adiac.2011.12.001
- Smith, N., Smith, V., & Verner, M. (2006). Do women in top management affect firm performance? A panel study of 2500 Danish firms. *International Journal of Productivity and Performance Management*, 55(7), 569-593.
- Wu, Y. (2004). The impact of public opinion on board structure changes, director career progression, and CEO turnover: Evidence from CalPERS' corporate governance program. *Journal of Corporate Finance*, 10, 199-227.
- Yasser, Q. R. (2012). Affects of female directors on firms performance in Pakistan. *Modern Economy*, 3, 817-825.

Yermack, D. (1996). Higher market valuation of companies with a small board of directors. *Journal of Financial Economics*, 40(2), 185-211.

Zahra, S. A., & Pearce II, J. A. (1989). Board of Directors and Corporate Financial Performance: A Review and Integrative Model. *Journal of Management*, 15(2), 291-334.

COPYRIGHTS

©2021 The author(s). This is an open access article distributed under the terms of the Creative Commons Attribution (CC BY 4.0), which permits unrestricted use, distribution, and reproduction in any medium, as long as the original authors and source are cited. No permission is required from the authors or the publishers.



HOW TO CITE THIS ARTICLE

Sobhan, R. (2021). Board Characteristics and Firm Performance: Evidence from the Listed Non-Banking Financial Institutions of Bangladesh. *International Journal of Management, Accounting and Economics*, 8(1), 25 -41.

DOI: 10.5281/zenodo.4589504

URL: http://www.ijmae.com/article_127102.html

