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Original Research

The Nomination and Remuneration Committee: Does it Really Matter on the Financial Performance of Insurance Companies in Bangladesh?

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Abstract

The establishment of the nomination and remuneration committee (a key element of corporate governance structures) arises from the imperative to uphold principles of fairness, impartiality and transparency within the organization which serves to strengthen stakeholders' confidence and enhance overall business performance. The purpose of this paper is to investigate the relationship between a firm's financial performance and its nomination and remuneration committee (NRC). As shown in the section delineating the research technique, the statistical software STATA was employed to analyze the correlation between the independent and dependent variables in this inquiry. The dataset consisted of total 48 insurance firms listed in the Dhaka Stock Exchange over the time period of 2015 to 2022 resulting in a total of 384 firm-year observations. The results show that there is a statistically significant positive relationship between the financial measures (EPS, ROE) and the independent variable (NRC) except the ROA which is not statistically significant. This investigation seeks to address a gap in the existing literature by examining the company financial performance within the emerging insurance sector of Bangladesh. The study concludes by suggesting that further investigation and research in this area are warranted. Presumably, this means there are more aspects to explore regarding the relationship between financial performance and NRC in the context of the insurance sector in Bangladesh.

Keywords: Firms' Performance, Insurance Companies, Nomination and Remuneration Committee (NRC).

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Introduction

The issue of corporate governance has been a source of interest to investors, policy makers, and corporations especially after recent corporate scandals (Aribaba and Ahmodu, 2017; Sobhan, 2021). Corporate governance can be defined as a set of mechanisms which ensures that potential providers of external capital receive a fair return on their investment (Derayat et al. 2020). Governance ratings of the company had a significant positive impact on its financial performance (Datta, 2018). The importance of this matter further enhanced when dealing with insurance companies because insurance companies promote savings and investment by managing risk in the economy (Kripa, 2016). As a result, researchers and other stakeholders are very much interested to understand the nexus between corporate governance and firm performance.

As a governance tool the topic of executive compensation has drawn considerable attention from shareholders, investors, and regulators alike in today's fast-paced and constantly-changing corporate world. The remuneration packages awarded to senior executives exert a profound influence on the conduct, performance and overall success of businesses. The research study of Almarayeh (2021) also supported this phenomenon through the findings that there is a positive relationship between board compensation on firm financial performance. The necessity for efficient corporate governance processes becomes more and more important as businesses continue to negotiate the complexity of international marketplaces and public demands. And corporate financial performance (CFP) is a key benefit that comes with the adoption and implementation of a good corporate governance structure in organizations (Asamoa and Puni, 2021). Within a corporate governance structure, the board includes a specialized subcommittee known as the Nomination and Remuneration committee. Its primary responsibilities encompass recommending suitable candidates for senior management positions on the board and determining their compensation packages. The establishment of the nomination and remuneration committee arises from the imperative to uphold principles of fairness, impartiality and transparency in the selection of board members and senior executives. The process becomes more impartial and less prone to potential conflicts of interest by having a dedicated committee. The committee's activity aids in locating people with the necessary training and expertise to run the business successfully. Setting proper compensation packages is also essential for attracting and keeping talented workers while coordinating their interests with the long-term profitability of the business. Overall, the committee is essential to corporate governance and building investor faith in the company's management. The determination of executive compensation is entrusted to the remuneration committee, a key element of corporate governance structures. This committee aligns executive pay with the organization's strategic objectives and its long-term sustainability. An effective nomination committee could play an important role in enhancing the board of directors' effectiveness and hence firm performance (Al-Absy and AlMahari, 2023). The research findings of Yahaya (2022) indicate a significant positive relationship between the remuneration committee and profitability of the business. By establishing a well-structured independent remuneration committee, the process of setting executive pay can be enhanced to be more transparent, accountable and equitable. Such measure serves to bolster stakeholders' confidence and enhance overall business performance.

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Problem statement

The purpose of this research is to determine how Nomination and Remuneration Committees (NRCs) affect the financial success of Bangladesh's listed insurance companies. Due to a number of compelling factors, including corporate governance enhancement, legal framework, investor confidence, sector-specific dynamics, limited past research, practical ramifications, and strategic decision making, this topic is highly relevant today. The efficacy of board committees is one of the least studied topics (Cybinski & Windsor, 2013; Huse, 2011; Handa, 2018). Based on the available information, there appears to be a dearth of study undertaken on this particular subject matter within the context of Bangladesh. According to the existing literature, it was observed that a majority of studies opted to utilize banks, as well as other financial institutions, as their research subjects (Habib, 2016; Pravitasari and Setiany, 2022; Tornyeva and Wereko, 2012). Because of the capital-intensive nature of the insurance business, this investigation chosen insurance companies as the subjects of the research. The Insurance company provide unique financial services to the growth and development of the economy (Udayanga and Buddhika, 2021). Ultimately, this study aims to provide valuable insights for managers and investors in their decision-making process by examining the impact of NRC on financial performance of the companies.

Bangladesh Corporate Governance Code 2018, mandates that companies listed on the stock exchange establish both an audit committee and a nomination and remuneration committee (NRC) as a means of demonstrating their adherence to corporate governance regulations. This legislation outlines comprehensive guidelines concerning the composition, functions and duties of the NRC, which plays an important role in assisting the board of directors in developing nomination criteria and policies for evaluating the qualifications, positive attributes, experiences and independence of directors and senior level executives. Additionally, it provides a framework for the formal consideration of director and senior executive remunerations. This research endeavor aims to investigate whether the establishment of a robust and well-structured NRC has a positive impact on the financial performance of insurance corporations of Bangladesh. The study evaluates financial metrics such as profitability, solvency and efficiency to determine the potential influence of NRCs on these aspects.

Literature Review and Hypothesis Development

One of the most crucial committees within a company's board of directors, known as the nomination and remuneration committee (NRC), plays a central role in mitigating agency conflicts by ensuring that newly appointed board members collaborate effectively to advance the interests of the shareholders. Consequently, the NRC wields significant influence over the ultimate success or failure of the business. Research conducted by Zraiq and Fadzil in 2018, titled "The Impact of Nomination and Remuneration Committee on Corporate Financial Performance," identified a positive correlation between the NRC and Corporate Financial Performance (CFP) on Jordanian enterprises. This study revealed that the NRC's decision regarding board appointments and the configuration of the executive management team have a discernible impact on the CFP of all enterprises. These findings were corroborated by Ajemunigbohun et al. in their 2020 research.

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To increase the likelihood that the firm will succeed, the NRC must ensure that the appropriate candidate with the relevant profile is selected (Appiah & Chizema, 2016). An independent NRC with independent members is less likely to have the CEO or other executive directors influence the appointment of directors, according to a number of empirical studies (Zraiq and Fadzil, 2018). According to Cybinski and Windsor (2013) and Zajac & Westphal (1996), this event will steer to an enlarge in the recruitment of executives who have a recognition for ardently utilizing their influence over the administrative directors. Above all, the NRC needs to be powerful enough to make independent proposals on its own without engaging the CEO or the executive directors (Zraiq and Fadzil, 2018). An increased representation of external directors on the board or the remuneration committee would encourage management to act more pro-actively, according to previous research studies that looked into the effectiveness of compensation committees. Jermias & Gani (2014) investigated the relationship between several board variables and firm performance. Their results were consistent with the view that firms benefit from competent board members to monitor managers which ultimately ensure better performance for the business. According to Bhattacharyya and Mohanty (2018), NRC is in charge of making sure that (a) the board's composition is appropriate in terms of capabilities, diversity, and independence; (b) the succession planning is solid; and (c) the remuneration policy structures are suitable for luring and retaining talent at the board and senior management levels.

The effectiveness of nomination committees is the subject of few existing literature. There is no factual evidence to back up the claim that the creation of a nomination committee would have any impact on the levels of CEO compensation. According to a recent study, Al'Absy, Ismail, and Chandren (2018) contend that board chairmen (BC) may have a significant impact on the firm's productivity, particularly if they serve on board committees. Aldegis et al. (2023) developed a conceptual framework to support a research study targeting 68 non-financial companies over 4 years to evaluate the impacts of CG (particularly through the characteristics of nomination and remuneration committee and risk management committee as tools for good governance) on financial performance in Jordan as a developing country. Alfarisa and Harymabwan (2021) state that the study discovered a negative relationship between independent commissioners and directors' compensation, demonstrating that concerns with a higher segment of free-spirited commissioners pay their administrators less as a result of better control over management's opportunistic behavior. The study found a good relationship between the success of the company and the remuneration committee, according to Harymawan et al. (2020). Izquierdo, Mendez, and Garcia (2018) claim that their study discovered lower CEO pay and CEO pay growth in companies with female representation on their compensation committees. Bel-Oms and Moliner's findings from 2022 show that the presence of remuneration committees increases the likelihood that companies will disclose information about their corporate social responsibility efforts, and the presence of independent board members positively modifies this association. Finally, NRC's existence contributes to the company's value. Additionally, the board frequently possesses distinctive ideas, experiences, and thinking abilities, which forms the basis for improved outcomes during the formulation of decisions and policies and upgrades the CFP (Pirzada et al., 2017).

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Theoretical background

The concept of corporate governance stems from a number of theories that explain the intricate dynamics within organizations and their impact on firm performance such as the Agency theory, the stewardship theory, and resource-based theory and the stakeholder theory (Maharjan, 2019). This paper explores how the NRC operates within these theoretical frameworks, with a particular focus on the agency theory and resource dependency theory.

Agency theory

The agency theory, initially proposed by Berle and Means (1932) and further developed by Jensen and Eisenhardt, (1989); Meckling (1976), investigates the challenges arising from the separation of ownership and control in organizations. Two primary concerns underpin this theory, information asymmetry and the misalignment of interests between principals (shareholders) and agents (managers). The agent typically possesses more extensive information about the company, creating a power disparity. Additionally conflicting interests may emerge between the principals and the agent due to differing objectives. There may be disputes of a gain between the ruling and the emissary as a result of their having different interests (Jensen and Meckling, 1976; Hill and Jones, 1992).

From an agency theory standpoint, the NRC addresses the information asymmetry issue by facilitating transparency and accountability in executive appointments and remuneration. By overseeing the selection of qualified individuals and designing performance-based compensation packages, the NRC mitigates potential conflicts of interest between executives and shareholders.

Resource Dependency theory

In contrast, the resource dependency theory emphasizes an organization's reliance on external resources for optimal functioning and financial performance. It centers on the ability of board members, particularly those in the NRC, to provide access to critical resources required by the firm. This theory suggests that an effective NRC can play a major role in ensuring the organization secures the necessary talents, skills and competencies to enhance shareholders' returns (Zraiq and Fadzil, 2018).

The resource dependency theory underscores the NRC's role in attaining external resources, including human capital. Through its oversight of talent acquisition and remuneration strategies, the NRC ensures that the organization attracts and retains the necessary expertise and competencies to remain competitive and financially viable. From this discussion the following hypothesis can be developed:

H_1: There is a connection between the nomination and remuneration committee and ROA.

H_2: There is a relation between the EPS and the nomination and remuneration committee. H3: The nomination and remuneration committee and ROE are related.

Research Methodology

This study aims to examine the quantitative relationship between the NRC and the financial performance of the listed insurance companies in Bangladesh. This study utilizes secondary panel data derived from the audited financial statements appended to the annual reports of insurance companies registered on the Dhaka Stock Exchange (DSE) over a span of 8 years, from 2015 to 2022. The sample comprises of total 48 insurance companies that have been listed.

The purpose of this study is to conduct an empirical examination of the regression equation associated with the stock market performance model in order to address the research objectives. In addition, the study will employ descriptive statistics, correlation matrix, and regression analysis to provide empirical evidence in support of those hypotheses. Microsoft Excel is commonly employed for the purpose of data collection. The study was undertaken to assess the dependability and precision of data through the utilization of STATA software. The hypothesis has also been examined in order to ascertain whether the association is positive or negative.

Model specification

(1) $EPS_{it} = \beta_0 + \beta_1 NRC_{it} + \beta_2 FA_{it} + \beta_3 FS_{it} + \beta_4 Leverage_{it} + \varepsilon_{it}$

(2) $ROA_{it} = \beta_0 + \beta_1 NRC_{it} + \beta_2 FA_{it} + \beta_3 FS_{it} + \beta_4 Leverage_{it} + \varepsilon_{it}$

(3) $ROE_{it} = \beta_0 + \beta_1 NRC_{it} + \beta_2 FA_{it} + \beta_3 FS_{it} + \beta_4 Leverage_{it} + \varepsilon_{it}$

(In this case, β_0 = Regression Constant; β_1…. B_4 = Regression coefficient, represents the error term)

Table 1. Summary of Variables Measurement

No	Variables	Operationalisation
(1) Dependent Variables	(1) ROA (2) ROE (3) EPS	(1) Earnings divided by total assets of the firm. (2) Earnings divided total equity (3) Net income divided by total number of outstanding shares
(2) Independent Variable	(1) NRC	Measured by ‘1’ if company has NRC and ‘0’ otherwise
(3) Control Variables	(1) FA (2) FS (3) Leverage	(1) Natural log of firm total assets (2) Natural log of firm size (3) Debt-equity ratio of the firms

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Descriptive Presentation and Analysis

Table 2. Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
NRC	384	0.5130208	0.5004825	0	1
EPS	384	1.857716	1.364378	0	8.43
ROA	384	0.0504615	0.0221823	0.0102	0.207
ROE	384	0.1308274	0.6596183	0.0163	10.88
FA	384	3.569993	2.655086	1.0986	21.63
FS	384	21.61255	1.106427	19.99	24.75
Leverage	384	0.6484754	0.2511547	0.1629	1.77

As previously indicated, this study centers its attention on three dependent variables, namely earnings per share (EPS), return on assets (ROA), and return on equity (ROE), with the (NRC) being regarded as the independent variable. Table 2 presents a succinct summary of the descriptive statistics pertaining to the dependent and independent variables utilized in the study. Descriptive statistics comprise a set of measures that include the mean, median, minimum, maximum, standard deviation, skewness, and kurtosis. The mean values of NRC, EPS, ROA, ROE, FA, FS, and Leverage are 0.5130208, 1.857716,0.0504615, 0.1308274, 3.569993, 21.61255, 0.64084754 respectively, as denoted by the mean. The dataset utilized in this research encompasses the time period from 2015 to 2022 and comprises a comprehensive set of 48 insurance companies that are publicly listed on the DSE. So table 2 presents the dataset consists of 384 observations. Nevertheless, it is crucial to acknowledge that the organizations included in the dataset exhibit a range of ages.

Table 3. Regression Analysis

NRC	Coef.	Std.Err.	T	p>[t]	[95%conf.	interval]
EPS	0.0616081	0.0182671	3.37	0.001	0.0256899	0.0975263
ROA	1.464078	1.480433	0.98	0.326	-1.462592	4.390749
ROE	-.0472394	0.011117	-4.25	0.000	-0.069098	-0.025380
FA	0.0158611	0.0096466	1.64	0.101	0.0031069	0.034829
FS	0.054231	0.0241612	2.24	0.025	0.0067234	0.1017387
Leverage	0.448142	0.0864709	5.18	0.000	0.2781584	0.6182099
_cons	-1.18846	0.5568089	-2.13	0.033	-2.2833	-0.093619

The p value column of Table 3 reveals that all variables, with the exception of ROA, have values below 0.05, indicating a substantial association between the independent variable and EPS, ROE, FA, FS, and leverage. Additionally, there is no connection between the independent variable, NRC, and the ROA.

The R-squared value is 0.0966, as the table also demonstrates. The analysis shows that the firm's market performance may be responsible for a sizeable amount of the entire change, approximately 9.66%.

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Table 4. Regression statistics for model 1

EPS	Coef.	Std.Err.	T	P>[t]	[95% conf.	Interval]
NRC	0.5169999	.1363335	3.79	0.000	.2489351	.7850648
FA	-0.865449	0.25158	-3.44	0.001	-.136011	-.037078
FS	0.1988762	0.0612117	3.25	0.001	0.0785191	.3192334
Leverage	-0.480084	.2714848	-1.77	0.078	-1.013889	.053721
_cons	-2.085449	1.362894	-1.53	0.127	-4.76523	.5943317

The outcomes presented in table 4 exhibit a noteworthy level of statistical significance for the NRC variable, supported by a 95 percent confidence level. It is evident from the analysis that the p-values for NRC, FA and FS, with the exception of leverage, all fall below the 0.05 threshold. This observation implies a statistically significant relationship between EPS and the independent variable. Upon closer examination of the study's findings, the R-squared value is calculated to be 0.1046 while the adjusted R-squared value stand at 0.0952. This analysis indicates that a substantial portion of the overall variation, specifically 9.52 percent, can be attributed to the firm's market performance, as illustrated by its earnings per share (EPS). Furthermore, when consider only relevant variables, EPS accounts for 9.52 percent of the total variability. The current analysis also highlights a statistically significant inverse correlation between financial distress risk and leverage, with consequent implications for the firm's market performance. And this suggests that an increase in the ratio of firm assets (FA) and leverage has an impact on the organization's market performance.

Table 5. Regression statistics for model 2

ROA	Coef.	Std.Err.	T	P>[t]	[95% Conf.	Interval]
NRC	.0055642	0.021776	2.56	0.011	0.0012826	0.0098458
FA	-0.00154	0.0004018	-3.65	0.000	-0.002336	-0.000755
FS	-0.00549	0.0009777	-5.62	0.000	-0.007419	-0.003574
Leverage	-0.02125	0.0043362	-4.90	0.000	-0.029782	-0.01273
_cons	.1857081	0.0217685	6.53	0.000	0.1429059	0.2285103

The findings presented in table 5 indicate that the NRC demonstrates a significant level of statistical significance with a confidence level of 95 percent. ROA have significant relationship with NRC as it has p value below 0.05 threshold. The outcomes demonstrate that the R-squared value is 0.1358, but the adjusted R-squared value is 0.1267. The analysis reveals that a significant portion of the total fluctuation, specifically 12.67% may be attributed to the firm's market performance, as elucidated by the return on assets (ROA). In addition, when only pertinent variables are taken into account, the return on assets (ROA) is able to account for 12.67% of the overall variation. The present analysis demonstrates a statistically significant inverse correlation between firm assets (FA), firm size (FS), leverage, and the market performance of the firm. This discovery implies that a rise in the ratio of firm assets (FA) and leverage, as well as the firm size (FS), will affect the market performance of the organization.

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Table 6. Regression statistics for model 3

ROE	Coef.	Std.Err.	T	P>[t]	[95% Conf.	Interval]
NRC	-0.0764139	0.0693711	-1.10	0.271	-0.2128144	0.0599866
FA	-0.0060186	0.0128012	-0.47	0.639	-0.0311889	0.0191517
FS	-0.0341395	0.0311466	-1.10	0.274	-0.0953813	0.0271023
Leverage	-0.0409889	0.1381407	-0.30	0.767	-0.3126079	0.2306284
_cons	0.9559375	0.6934867	1.38	0.169	-0.4076258	2.319501

The findings presented in table 6 indicate that, at a 95% confidence level, there is no statistically significant correlation between return on equity (ROE) and the variables under investigation. It is observed that the variables NRC and FS exhibit p-values below 0.05, while FA and Leverage have p-values above 0.05. The analysis further reveals that the R-squared value is 0.0081, but the adjusted R-squared value is -0.0023 which suggest that ROE accounts for only 0.81% of the total variation in market performance. However, when considering only relevant variables, ROE contributes to a mere -0.23% of the overall variation. Notably, this analysis establishes a statistically significant inverse correlation between the variables NRC, FA, Leverage and the firm’s market performance. This implies that a higher proportion of NRC, FA, and Leverage negatively impact the market performance of the firm.

Table 7. Pearson Correlation

	NRC	EPS	ROA	ROE	FA	FS	Leverage
NRC	1.0000						
EPS	0.1866	1.0000					
ROA	0.0444	0.3733	1.0000				
ROE	-0.0680	0.0201	0.0634	1.0000			
FA	0.0272	-0.1770	-0.1465	-0.0195	1.0000		
FS	0.1125	0.2090	-0.2159	-0.0597	-0.1016	1.0000	
Leverage	0.1883	-0.0646	-0.1826	-0.0198	-0.0301	-0.1053	1.0000

According to Pallant (2016), the occurrence of multicollinearity can be observed when the correlation coefficients between independent variables above a threshold value of 0.70. Based on the correlation analysis shown in the aforementioned table 7, it is evident that all of the coefficients displayed therein demonstrate values that are less than 0.7. Hence, it may be deduced that the variables exhibit no evidence of multicollinearity.

Table 8. VIF

Variable	VIF	1/VIF
NRC	1.06	0.944627
Leverage	1.06	0.945954
FS	1.04	0.958801
FA	1.01	0.985680
Mean VIF	1.04	

In order to substantiate this claim, it is imperative to calculate the Variance Inflation Factors (VIF) for each independent variable and integrate them into the presented table. Multicollinearity can be mitigated by ensuring that the Variance Inflation Factor (VIF) values remain below 5, and that the reciprocal of the VIF values (1/VIF) are all less than 1. The table presented above provides information regarding variance inflation factors (VIF). Based on the data provided in the table, it is evident that the values of the Variance Inflation Factor (VIF) are all below the threshold of 5. This observation suggests that the independent variables included in this study fall within an acceptable range, indicating that the issue of multicollinearity is not a significant worry.

Here it can be concluded that there is a statistically significant positive relationship between the dependent variables and the independent variable. The primary aim to examine the association between the NRC and a firm's financial performance, is successfully accomplished which support the acceptance of the hypothesis. Hence the findings indicate that the Nomination and Remuneration Committee indeed exerts an influence on a firm's financial performance.

Conclusion and Recommendations

This study's aimed to assess the relationship between the NRC (Nomination and Remuneration Committee) and financial performance within the scope of listed insurance companies in Bangladesh. It has also strived to address the existing knowledge gap concerning the role of NRC as an effective governance tool for managing the financial performance of insurance firms. The study operated on several assumptions to facilitate the analysis of the relationship between independent and dependent variables. It utilized data from 48 listed insurance companies over an eight-year period, and the findings of the study suggest a noteworthy and positive correlation between NRC and the financial performance of these entities.

The positive correlation found between NRC and financial performance implies that the presence and effectiveness of NRCs within these insurance companies are associated with improved financial outcomes. Nevertheless, it is crucial to acknowledge the limitations of the study, particularly its focus on a specific industry, which may limit the generalizability of the findings. In light of these results, the study proposes various avenues for future research in this domain.

One avenue for further research is exploring potential moderating or mediating variables that could provide deeper insights into how NRC influences corporate performance. By considering additional factors that may interact with or mediate the relationship between NRC and financial performance, researcher can gain a more comprehensive understanding of the underlying mechanisms.

Furthermore, expanding the set of variables to encompass various determinants of financial performance within the context of good governance is recommended. This could involve investigating other aspects of corporate governance, such as board composition, other supporting committees (audit committees), and internal control mechanism to understand how they collectively impact financial performance.

The study also suggests that future research endeavors should consider investigating the interplay between NRC and financial performance using alternative theoretical frameworks, such as stakeholder theory, institutional theory and stewardship postulate, as these frameworks may offer valuable perspective within this context (Zraiq and Fadzil, 2018) allowing for a more comprehensive analysis of the subject.

In conclusion, the study's findings suggest a significant positive correlation between NRC and the financial performance of listed insurance companies in Bangladesh, highlighting the importance of effective governance in this sector. However, further research is needed to explore the nuances of this relationship, consider additional variables and apply alternative theoretical frameworks to enhance our understanding of how Nomination and Remuneration Committee contributes to financial performance in the context of insurance companies.

Author Contributions

The manuscript is my original contribution and has not been plagiarized/copied from any source/individual. It does not contravene on the rights of others and does not contain any libelous or unlawful statements and all references have been duly acknowledged at the appropriate places.

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