

CORPORATE GOVERNANCE AND FIRM PERFORMANCE: EVIDENCE FROM AN EMERGING ECONOMY

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Abstract

The primary objective of this paper is to quantify the impact of corporate governance on firm performance in an emergent economy. To attain the objective a comprehensive list of elements of corporate governance were selected through extensive literature survey. The relationship between those components and firm outcome is then analyzed using ordinary least square regression model where ROA and ROE were employed as proxy for firm performance. The study is unique mainly for two reasons; its largest sample size for an empirical research in countries like Bangladesh and specific focus on some determinants of corporate governance frequently used in other institutional settings like developed or underdeveloped economy. The result of the empirical study proved that presence of independent director and block holder and board education level positively lead to improved firm performance. The board ownership, compensation, frequency of board meeting and CEO duality is largely negatively correlated. However audit committee, auditor reputation, age and gender of board members are not statistically significant. The result suggests that the regulatory body as well as the investors should concentrate on composition of board and ownership structure of the firm.

Key Words: Corporate Governance, Firm Performance, Emerging Economy, Independent Director, CEO Duality, Board Ownership, ROA and ROE.

1. Introduction

The relationship between corporate governance and firm performance can be simulated by its definition. Wheelen and Hunger (2011) defined corporate governance as the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation. During and after global financial crisis, corporate governance has come to the light as an important issue by collapsing many companies at a time (Hoque et al., 2013). Many researchers devoted themselves to identify an effective model of corporate governance for established market. However, according to the Mckinsey Emerging Market Investor Opinion Survey by Coombes and Watson (2001) the “emerging market corporate governance model” is noticeably different from that exists in the developed countries. These two markets differ significantly amongst ownership concentration, board independence, level of disclosure, shareholder protection and takeover market etc. Taking this issue into consideration, we can contentedly fit Bangladesh into the emerging market model (Farooque et al., 2007). Porta et al. (1999) noted Bangladesh is characterized with weak legal and regulatory structure to care for rights of stakeholders of companies irrespective of whether local or foreign.

Last decade observed a large number of empirical studies on corporate governance which concentrated mainly on the relationship between corporate

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governance and firm performance throughout the different institutional settings. However, very few of them focused so extensively on various indices of corporate governance issue in this emerging economy like Bangladesh (Adams & Ferreira, 2007). Prior studies concentrated to few indices of corporate governance and ignored some others to test the impact on firm performance in Bangladesh (Farooque et al., 2007; Imam & Malik, 2007; Rashid et al., 2010; Rouf & Abdur, 2011). This paper identifies a wide range of indices of corporate governance and examines their association with performance for listed companies of Bangladesh. Various research hypotheses based on a sample of almost all listed companies of the Dhaka Stock Exchange (DSE) for the 216 listed companies containing 18 industry categories (see Table 1) in DSE from 2012 to 2014 are examined, the longest possible data set when this study was conducted.

2. Objective of the study

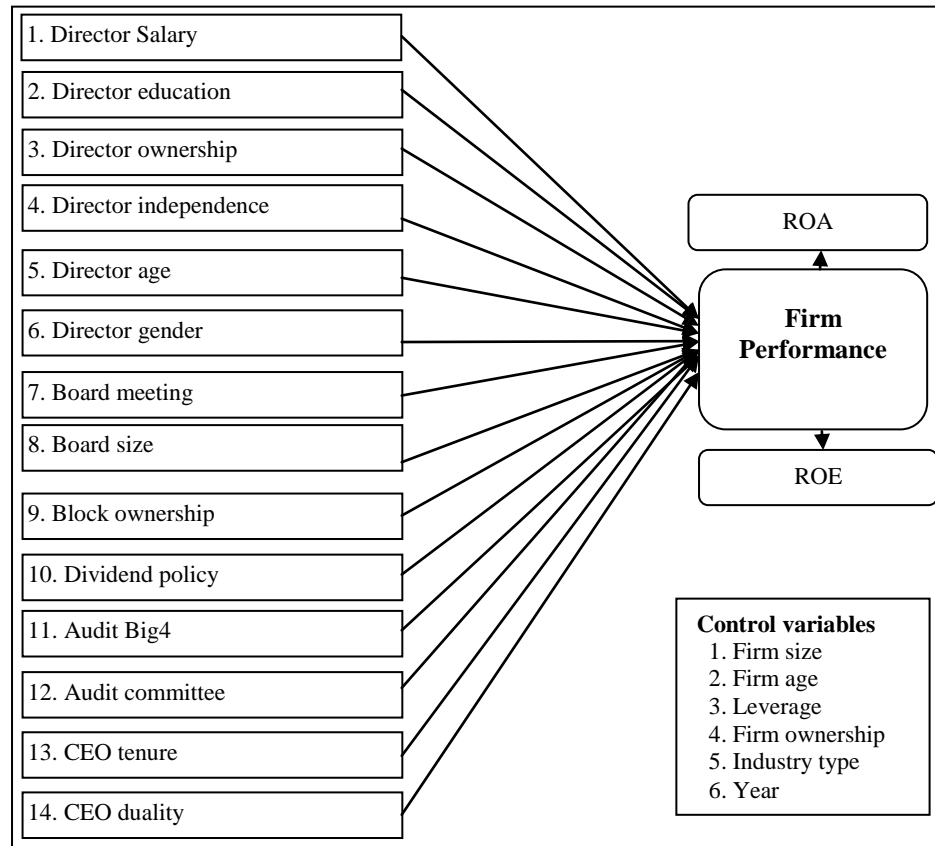
The prime objective of this study is to examine the relationship between corporate governance with firm performance in Bangladesh. This study also aimed at examining the comparative impacts of different corporate governance elements.

3. Literature Review and Research Hypotheses

Numerous literature from past academic studies confirmed the effect of corporate governance on a firm's performance (Black et al., 2007; Gürbüz et al., 2010; Hoque et al., 2013). For the most part past studies have measured corporate governance using very specific measures that typically reflect only a single aspect of governance for instance audit qualification (Pedro Sánchez Ballesta & Garcia-Meca, 2005). Nevertheless the two most popular aspects are board composition (Dalton et al., 1998; Rashid et al., 2010; Kumar & Singh, 2012; Post & Byron, 2015) and ownership structure (Farooque et al., 2007; Imam & Malik, 2007; Gürbüz et al., 2010). Recently, however, academic studies have started to bring together more wide-ranging measures of corporate governance. The extant literature reported positive governance effect on firm performance (Wu et al., 2009; Gürbüz et al., 2010; Hoque et al., 2013).

From the overseas on literature review and previous empirical studies the relationship has been referenced to develop a research framework. Previous studies indicated that corporate governance can be measured through the following components: 1. Number of members in the board; 2. Presence of female board members; 3. Duality of the CEO; 4. Education level of board members; 5. Presence of block holder ownership; 6. Independent (outside) directors; 7. Average salary of board members; 8. Board ownership level; 9. Board working experience (age); 10. CEO tenure; 11. Big4 audit affiliation; 12. Dividend policy; 13. Audit committee; and 14. Number of board meeting. In addition, a firm's performance is measured by two different ratio aspects i.e., the return on asset (ROA) and return on equity (ROE) ratio. In the following sections these aforementioned components will be discussed and referenced from literature to support their relevance and relation to firm performance.

In this study, a research framework is presented in figure below:

Figure 01: Research Framework

Source: Author's compilation

3.1 Board Size

Board size has drawn considerable attention in the corporate governance literature. Selection of sustainability strategy and other long term decision can be influenced by board size. Larger board usually brings more links to the firms; this ultimately helps companies perform sustainably. After conducting a meta-analysis Dalton et al. (1999) concluded that board size is positively linked with firm outcome. In fact larger board is ideal in most cases. Coles et al. (2008) argued that larger board is optimal for companies with complex contracts and external connections. Based on the statement abovementioned, this paper proposes the hypotheses as follows.

Hypothesis H₁: There is a positive relationship between board size and a firm's performance.

3.2 Female board members

The female board members are the sign of the board diversify (Dutta & Bose, 2006). Smith et al. (2006) also added three different reasons to establish necessity of female board members. They are as follows (i) better understanding power about

market than male members, (ii) they have better ability to create good image in the perception for a firm which increases the firm's performance, and (iii) when female board members are appointed other board members try to enhance their knowledge about business environment. Besides the above necessity to develop the career of junior female staff, female board member play a vital role in a business. For which, with the presence of female board members directly or indirectly a firm's performance is improved (Vo & Phan, 2013).

Hypothesis H₂: There is a positive relationship between female board members and firm's performance.

3.3 Duality of CEO

The board could lose its independence and monitoring power, consequence performing a weak function as a bulwark against agency problems, if the chairman serves as CEO, playing roles of decision maker as well as supervisor simultaneously (Chen et al., 2008). Moreover other researchers like Dalton et al. (1998) and Dahya et al. (2009) found evidence that CEO duality leads to reduced firm performance. The following hypothesis can be concluded from above discussion.

Hypothesis H₃ : CEO duality is negatively related to firm performance

3.4 Education level of board members

A board plays a role the internal corporate governance of a firm. In a business a board also seems as a control system (Fama & Jensen, 1983). Management decisions are supervised in an efficient manner by a board which will improve firm's performance. Every board member should require to be equipped fully management knowledge of finance, accounting, marketing, information systems, legal issues and other related areas at decision making process to supervise management decision (Vo & Phan, 2013). The existence of this quality of every board will contributes significantly and positively to management decision which is then transform into better firm outcome (Nicholson & Kiel, 2004; Adams & Ferreira, 2007). From the above analysis a research hypothesis is developed as below:

Hypothesis H₄: Board's educational level will positively contribute to firm's performance.

3.5 Board working experience

There is a thought that if the board members average age is higher they will have much more experience than a younger age average board members. Experience positively contributes to the better performance of a firm (Vo & Phan, 2013). On the other hand, older-age board members appear to be more aggressive and dictatorial with decisions. Board members such characteristic may result in risky decision making, which may reduce a firm's performance (Carlsson & Karlsson, 1970). In addition, higher average age may create rigidity to elastic business environment and this may obstruct the execution of more strategic decisions (Child, 1975). From the above statement hypothesis can be stated as:

Hypothesis H₅: Board's level of experience is positively correlated with a firm's performance.

3.6 Independent (outside) directors

Independent directors are so much important to success of a firm which is agreed by many empirical studies which bear evidence of that insider ownership has a positive relation with firm performance (Burkart et al., 1997; Rashid et al., 2010; Kumar & Singh, 2012). However, this may not be true for every type of companies. With high ratio of independent directors in a board face less frequent financial pressure (Elloumi & Gueyie, 2001). Business face lower probability of filing for bankruptcy if independent director becomes large in a number (Denis & McConnell, 2003). Now the hypothesis is as:

Hypothesis H₆: Larger share of independent director catalyze better firm performance.

3.7 Board's compensation

Diminishing agency problem is one of the vital objectives in corporate governance (Jensen & Meckling, 1976). Compensation encourages management to run a firm on behalf of shareholders. Agency problem between management and shareholders can be resolved by board compensation. It is also a helpful factor to a firm's performance (Jensen & Murphy, 1990; Mehran, 1995).

Hypothesis H₇: Board of directors' average salary is positively correlated with firm performance.

3.8 Board's ownership

Board ownership encourages board members which is helpful to supervise management in an efficient way. Brickley et al. (1988) and Mehran (1995) concluded that board ownership and firm performance are positively correlated. There are empirical evidences that improvement of firm performance depends on board ownership (Jensen & Murphy, 1990; Gedajlovic & Shapiro, 1998). Measures of board effectiveness are associated with inferior performance when it is family owned firm (P. Klein et al., 2005). To conclude it can be said that ownership category influences the impact of government practices on firm performance.

Hypothesis H₈: Board's ownership is positively related to a firm's performance.

3.9 Block holders

Two major views regarding block holders exist in previous studies. Some believe that, block holders may abuse the power that hinders firm's performance. Managers' decision making become high-handed and which results in lower firm performance (Burkart et al., 1997; Myers, 2000). However, block holding could be the means of power holding which could lead to a centralized managerial command over the firm. In addition to that, many believe that, individuals' block holding will generally affect a firm's performance positively in centralizing managerial power (Denis & McConnell, 2003; Becker et al., 2011)

Hypothesis H₉: Firm's performance is positively associated with the number of block holders.

3.10 CEO tenure

CEO tenure is defined as the length of service of CEO in the firm. A CEO who has had five years' experience at age 65 is more qualified and possesses distinct ownership knowledge than five years' experience at age 50. These CEOs possess exceptional knowledge, enthusiasm and career concern. On the other hand, this is not the total picture. However, several researchers predicted positive relationship between this variable and firm performance (Carlsson & Karlsson, 1970; Hu et al., 2010)

Hypothesis H₁₀: There is a positive relationship between CEO tenure and firm's performance.

3.11 Big4 audit

Availability of highly reliable and credible accounting information can diminish agency problem to a great extent and quality audit or big 4 audit can do that (Jensen & Meckling, 1976). The big audit firms are likely to disclose more information in order to reduce their legal liability. A positive relation is anticipated between Big-4 affiliated audit firm and firm performance (Farooque et al., 2007). Several studies that examined the association of big audit firms with performance found a positive relationship with superior firm's end result (Denis & McConnell, 2003; Pedro Sánchez Ballesta & García-Meca, 2005).

The following hypothesis can be proposed:

Hypothesis H₁₁: There is a positive relationship between Big4 audit and firm's performance.

3.12 Dividend policy

There exists proof of much apprehension about dividend policy, audit committee, operating performance and firm value to many researchers (Gedajlovic & Shapiro, 1998). While in Germany, Drobetz et al. (2004) used dividend yield as proxy for the cost of capital and they reported negative correlation between expected stock returns and firm level corporate governance. Using data from Oslo Stock Exchange firms, Ødegaard and Bøhren (2003) report that corporate governance matters for economic performance, and that performance is inversely related to board size, leverage, dividend payout and the fraction of non-voting shares. Moreover dividend policy is positively associated with firm outcome and value (Child, 1975).

Hypothesis H₁₂: Dividend enhances firm's performance.

3.13 Audit committee

It is mandatory to constitute an audit committee consisting of at least three members and holding meeting three times in a year. The audit committee plays a vital role to check the financial reporting and audit process. Moreover it is responsible for efficient in-house control structure and pecuniary risks and divergence management. To improve the quality of the financial management of the company and its performance audit committee works as another internal control mechanism (Weir et al, 2002). However A. Klein (1998) reported that there is no evidence that firm's performance is affected by the structure of subcommittees or

audit committee. On the other hand, more recent studies like Hu et al. (2010) shows the empirical evidence that the average return on equity is positively correlated with audit committee.

Hypothesis H₁₃: There is positive association between audit committee and firm's performance.

3.14 Board Meeting

Most of the researcher in developed economy found evidence that board meeting has got positive influence on firm outcome (Pfeffer, 1972; A. Klein, 1998). It can be argued that board meetings capitalize dialogue to get the bottom of the most widely faced managerial problems and the quantity of board meetings is the key to progress the efficacy of a board. For developing country perspective there is increasing attention of researchers on the issue and many found positive relationship between board meeting and outcome (Lipton and Lorsch (1992); Hu et al., 2010; Shan & Xu, 2012).

Hypothesis H₁₄: Number of Board meeting is positively related to a firm's performance.

4. Research Contribution of the Study

Improving firm performance is a continuous issue to the managers and they try their best to manipulate variables which contribute greater governance and profit for the firm. On the other hand, regulators are in ever chasing over the managers opportunistic behavior. So for the both parties literature on corporate governance and firm performance never become old. Uphold study is adding some latest findings for the parties concerned and hold some unique characteristics. No literature was so aggregate over so vast industry type like this study in Bangladesh. Imam and Malik (2007) included 218 firms for their study which is the largest so far counted. However, the highest number of industry covered in corporate governance literature in Bangladesh is 15 (Imam & Malik, 2007). In contrast this paper covered 236 firms with 4,720 observations from 2011 to 2015 with 18 industry type.

This paper contributes to the emergent literature relating broad indices of corporate governance to firm performance. Here the relationship between firm performance, as measured by both ROE and ROA, and thoroughly adjusted and comprehensive components of corporate governance is examined. In this analysis, the author therefore investigated not only whether broadly defined corporate governance shapes firm performance, but also whether some governance factors are more important than others. In this respect the paper contributes to the debate over the measurement of corporate governance. Finally, this paper also contributes to the literature that examines the effects of corporate governance in different institutional environments (Gedajlovic & Shapiro, 1998; Denis & McConnell, 2003).

5. Methodology

Summary measure provided by different institutions and information providers like news agency, analysts is getting popularity among all sort of users because of its robustness in measuring position and ranking of firms to their governance standard.

Many researchers used such an index comprised of multiple components of corporate governance to measure corporate governance, which result an aggregate score for a firm (P. Klein et al., 2005). It has been gaining greater choice for many of them to use a compiled index combining suggested measures by different institutions such as Standard and Poor's (S&P), Governance Metrics International (GMI) and Securities and Exchange Commission (SEC). However a clear disadvantage of such index is that the list of measured variables and the arbitrarily attachment of weights to them. In addition, the governance index in most cases does not incorporate ownership diversity and other heterogeneity of firms and one have to design distinctive measures for these occasions (P. Klein et al., 2005). Moreover with different weight, result of impact of corporate governance on similar institutional settings can vary significantly. According to the author, the most appropriate structure for analyzing corporate governance impact on firm performance is looking into each individual elements relationship to the model. Here, this study used two different models (ROE and ROA) to be more optimistic in measuring the effect and cross check their relevance.

5.1 Measurement of variables

This empirical study includes different variable (1) dependent variable (firm's performance); (2) independent variables; and (3) control variables. Concepts and measurements of these variables are summarized in Figure below.

Figure 2: Concepts and measurements of variables in the study

Dependent	Definition	Measurement
ROA	Return on asset	Earnings Before Tax and Interest(EBIT)/Total Assets
ROE	Return on equity	Earnings Before Tax and Interest(EBIT)/Total Equity
Independent		
Dir_Sal	Board of Directors Average Salary	Natural Logarithm of average compensation of all directors on the board.
Dir_edu	Education	Number of directors holding postgraduate or higher degrees.
Dir_own	Board Ownership	Percentage of shares held by all the directors from total outstanding shares of the firm.
Dir_indp	Number of Outside Director	Number of independent or outside directors present on the board.
Dir_age	Board Age	Average age of all directors on the board.
Dir_gend	Gender	Number of female board member.
Firm_age	Firm Age	Natural logarithm of number of years the firm is under operation.
Firm_sz	Firm Size	Natural logarithm of book value of total assets.
Firm_own	Ownership Type	Code "1" if the firm is owned by Government and "0" otherwise.
Firm_debt	Leverage	Natural logarithm of total debt.
Aud_b4	Big 4 Audit	Code "1" if audited by Bangladesh Bank rank A auditor and "0" otherwise.

<i>Aud_com</i>	Audit Committee	Number of members of audit committee.
<i>CEO_ten</i>	CEO tenure	Number of years CEO is serving the firm (as CEO) at the current position.
<i>CEO_dual</i>	CEO Duality	Coded “1” if Chairman also holds the position of CEO and “0” otherwise.
<i>Board_met</i>	Number of Board Meeting	Number of Board Meetings held in a fiscal year.
<i>Board_sz</i>	Board Size	Number of inside and outside directors on the board.
<i>Div_pol</i>	Dividend Paid	Percentage of dividend paid last year.
<i>Block_own</i>	Block holders Ownership	Code “1” if percentage of total outstanding shares held by the block holders is equal to or greater than 5% (not considered state ownership) and “0” otherwise.
<i>Industry</i>	Industry effect	Industry dummies.
<i>Year</i>	Fiscal year	Year dummies.

Source: Author's compilation

5.2 Characteristics of data sample

A rigorous analysis was employed for the sample collection. At present (as of 8th May 2017), total 556 companies are listed including mutual funds and bonds in Dhaka Stock Exchange (DSE), Bangladesh. This study ignores mutual funds (41), corporate bond (2), debenture (8) and treasury bonds (221) due to lack of relevance in operations' requirements. Hence, the sample covers 284 firms, the best suit number for the study, were surveyed which are listed in Dhaka Stock Exchange (DSE) for the period from 2011 to 2015 inclusive. It is noted that formats of annual reports and financial statement of these listed firms are not similar. As such, missing data is unavoidable. Our final sample includes 236 firms with the total of 4,720 observations. Table 1 (see appendix) explains the details of the collected sample.

5.3 Model Development

The following Ordinary Least Square (OLS) regression models are to be fitted to the data in order to assess the effect of each variable on the firm performance:

Model (1)

$$ROA = \beta_0 + \beta_1 \text{BoardSize} + \beta_2 \text{Gender} + \beta_3 \text{Duality} + \beta_4 \text{Edu} + \beta_5 \text{BoardAge} + \beta_6 \text{OutDir} + \beta_7 \text{Comp} + \beta_8 \text{Own} + \beta_9 \text{Block} + \beta_{10} \text{CEOtenu} + \beta_{11} \text{Big4Audt} + \beta_{12} \text{DivPol} + \beta_{13} \text{AudComt} + \beta_{14} \text{BoardMt} + \beta_{15} \text{FirmSize} + \beta_{16} \text{FirmAge} + \beta_{17} \text{OwnType} + \beta_{18} \text{Leverage} + \beta_{19} \text{Industry}_{ij} + \beta_{20} \text{Year}_{ij} + \epsilon_i$$

Model (2)

$$ROE = \beta_0 + \beta_1 \text{BoardSize} + \beta_2 \text{Gender} + \beta_3 \text{Duality} + \beta_4 \text{Edu} + \beta_5 \text{BoardAge} + \beta_6 \text{OutDir} + \beta_7 \text{Comp} + \beta_8 \text{Own} + \beta_9 \text{Block} + \beta_{10} \text{CEOtenu} + \beta_{11} \text{Big4Audt} + \beta_{12} \text{DivPol} + \beta_{13} \text{AudComt} + \beta_{14} \text{BoardMt} + \beta_{15} \text{FirmSize} + \beta_{16} \text{FirmAge} + \beta_{17} \text{OwnType} + \beta_{18} \text{Leverage} + \beta_{19} \text{Industry}_{ij} + \beta_{20} \text{Year}_{ij} + \epsilon_i$$

Where, ROA and ROE = dependent variables used as proxies for firm performance

β_0 = the intercept; e = the error term

6. Results

Table 2 (see appendix) gives us an idea about the data sample through descriptive statistics which appear very typical to the present scenario of Bangladeshi firms. For both the Models (1 and 2) it is observed that they fit to the equations with adjusted R^2 over 50% and Durbin Watson test score below 2 (see table 3 in appendix). For model 1, independent variables (corporate governance indicators) are explaining almost 60% variations while for model 2, they are explaining 54% (rounded) variation of the total variation of the dependent variable (firm performance) measured by ROA and ROE respectively.

Table 4 confirms the model significance for both of the models where F is 20.51168 and 16.05564 respectively with corresponding P value is .000. Table 5 (see appendix) exhibits the variables of the matrix of Pearson correlation coefficient.

Model 1 and Model 2 are significantly related because of the same variable measured with different performance measures. The absolute value of the correlation coefficient of independent variables ranges between 0.00 and 0.44 (see table 5 in appendix). The outcomes confirm that there is no significant correlation among independent variables. A maximum of a correlation coefficient of 0.44 is found via a correlation between a board's size and a board's education level. Moreover, the other important index to check the multicollinearity in the research model is Variance Inflation Factor (VIF factor). Table 5 also presents the VIF factors for all the explanatory variables. The maximum of this VIF is at 2.22 which conclude that multicollinearity is not significant in this study.

Table 6 and 7 explain the relationship which exists between independent variable (corporate governance) with dependent variable (firm performance) with model 1 (ROA is used as proxy for performance) and model 2 (ROE is used as proxy for performance).

For model 1, 5 variables can be marked those are significantly correlated. Of them number of outside director and firm size are positively and CEO duality, board ownership and board of directors average salary are negatively correlated to firm performance (see Table 6).

In contrast to the model 1, in model 2 although the same number of variables (5) is identified as noteworthy there is only one variable common i.e. number of outside directors. In model 2, the other 4 significant variables are board ownership, dividend paid, number of board meeting and block holder ownership. However, only the common variable (number of outside director) and last one (block holder ownership) are positively associated while others negatively. Moreover at 10% level of confidence, board size and board education will come into connotation.

6.1 Research findings and implications for Bangladesh

Here the result of relationship between different variables of corporate governance with firm performance is summarized as below by the following figure:

Figure 3: Summary of the findings

Corporate Governance Determinants (Independent Variables)	Relationship with Firm Performance			
	Model 1 (ROA)		Model 2 (ROE)	
	@5% CL	@10% CL	@5% CL	@10% CL
Board Size	No	No	No	Negative
Gender	No	No	No	No
CEO Duality	Negative	Negative	No	No
Education	No	No	No	Positive
Board Age	No	No	No	No
Number of Outside Director	Positive	Positive	Positive	Positive
Board Ownership	Negative	Negative	Negative	Negative
Block holders Ownership	No	No	Positive	Positive
CEO tenure	No	No	No	No
Big 4 Audit	No	No	No	No
Dividend Paid	No	No	Negative	Negative
Audit Committee	No	No	No	No
Number of Board Meeting	No	No	Negative	Negative
Ownership Type	No	No	No	No
Firm Size	Positive	Positive	No	No
Leverage	No	No	No	No
Firm Age	No	No	No	No
Board of Directors Average Salary	Negative	Negative	No	No

Source: author's compilation

Total 18 variables are selected as the determinants of corporate governance for analyzing this aforementioned relationship. Of them 10 are relating to board characteristics and rest are firm related. In this uphold study concluded that board related determinants are more important than that of the later group. At least in case of any model and CL, the paper detected significant relationship in 7 variables of total 10. There found no significant relationship with board members' personal traits like gender and age of directors. However education level is positively related to firm performance in model 2 at 10% confidence level. Again CEO tenure does not matter but Duality negatively affects firm performance if it is measured by ROA (model 1). For both the model, the only positively correlated variable in general board characteristics is number of outside directors. So it can be concluded that, the performance is enhanced by the increased number of independent directors present in the board.

It is assumed that greater board ownership would result less agency cost and boost performance but surprisingly the study noticed just opposite result. Moreover, number of board meeting (model 2) and board members' average salary (model 1) are also negatively correlated to firm performance which surprised us. This result can be reasoned in many ways. Burkart et al. (1997) and Myers (2000) cautioned researchers that lower performance is an eventual outcome of too much centralized and high-handed decision making. In a weak institutional environment like Bangladesh, greater board ownership with higher compensation and freedom might result in directors' dominance and decision making become high-handed which ultimately can lead to lowered firm performance.

Firm related variables are rarely significant to firm performance. In relation to model 1, the only notable variable is firm size marked as the bigger the firm the better the performance. In relation to model 2, dividend policy is the only significant variable which is negatively correlated. However, block holding is significant and firm's performance is improved. This finding is supported by the decision-making theory. It is empirically proved that, there is no link between ownership type of firm (public or private) and firm's performance. In addition, the relationship between other controlled variables such as firm age and leverage structure cannot be concluded from this study.

The following conclusions are justified from the uphold paper concerning impact of corporate governance on firm's outcome.

First, in March 2004, Bangladesh Enterprise Institute (BEI) requires that a number of outside directors should not be less than $\frac{1}{10}$ th of the total board members. This paper indicates that greater number of independent director contribute positively to firm's performance. As such, it is appropriate to revise the minimum number of outside members within a Board.

Second, it is a matter of great concern the annual report of many firms even listed in DSE does not disclose information regarding board's ownership and are indisposed to provide this data. From the findings of this study, it is noted that too much board's ownership is detrimental to firm's performance. So, it is argued that, measures can be taken to compel them to provide such information. In addition to that, BEI, SEC can set maximum ownership limit for the board members.

This empirical study intended to provide empirical evidence for internal and external regulators of listed firms in Bangladesh, a typical example of emerging market, better understanding of a corporate governance mechanism in relation to review and improvement. As a result, listed companies as well as the regulators are now provided with evidence to set up a flexible, dynamic and efficient corporate governance index. Some specific lessons can be summarized as below.

- There should not be too many members of board of directors because a larger board's size will contribute negatively to firm's performance.
- As outsider directors are vital to the board and educated members can make a significant contribution to firm's performance. Board should appoint adequate highly educated and independent board members

- The outcomes from this paper also indicate that board's ownership, compensation and meeting numbers doesn't positively contribute to firm's performance. Therefore, it is indispensable for listed firms to justify an appropriate and competitive ownership and compensation level of board's members.
- CEO duality should be avoided, i.e., the same person should not be the chairman of the board and managing director of the firm as it result in complete dominance over the firms decision making and which is ultimately disadvantageous for the firm's performance.
- Institutional ownership in other word block holding ensures better control and contributes to better firm performance. So such share holding should be encouraged.

7. Conclusion

Corporate governance does matter in Bangladesh. The specific aspects of corporate governance that are most important to both managers and regulators, however, can vary depending on firm setting. In general, board related factors in corporate governance are highly valued by investors. The study finds no evidence that board members personal trait and audit mechanism are valued as influential governance variables. For both the model, board independence and block holders presence are strongly and positively correlated with performance. This finding supports the claim of many companies that a high level of board independence and external persuasion leads to better performance. Regulators also need to exercise caution when formulating policy regarding board ownership and interest in firm outcome. The contributing elements of governance to firm performance measured by different variables do appear to differ for firms in emerging economy. This is a significant finding due to the differences in institutional settings as compared to many other countries, including Bangladesh. It also implies that a global index for corporate governance determinants may not be an appropriate pursuit.

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