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Impacts of Board Characteristics on Corporate Performance: Evidence from Bangladeshi Listed Companies

Mofijul Hoq Masum, Maksudur Momin Khan

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Schools of Business and Economics, United International University, Bangladesh

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Abstract

The purpose of this study is to investigate the impacts of board characteristics on corporate performance. To conduct this study one hundred and one Bangladeshi listed companies are taken into consideration. Simultaneous multiple regression analysis has been used to address the relationship between the proxy variables of board characteristics and the proxy variable of corporate performance. The study revealed that out of five proxy variables of board characteristics, board member's ownership and foreign member on board has significant positive relationship on corporate performance whereas the other three proxy variables of board characteristics - board size, percentage of independent director on board and percentage of women on board has no statistical significant association along with corporate performances of the selected companies. Implications: The findings of the study portrays the scenario of board characteristics and its influence on corporate performance which certainly will pave the way to encourage the corporate people to take life-sustaining decisions regarding board members. These results also provide immense opportunity to the future researchers regarding to the exploration of the association between various attributes of board characteristics and levels of corporate performance.

✉ Address Correspondence:
E-mail: masum.ais@gmail.com

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INTRODUCTION

Corporate governance becomes a burning issue in most of the companies and organizations throughout the last three decades (Masum, Fakir, & Hussain, 2017). Companies use corporate governance guidelines to ensure the accountabilities and responsibilities within the organizations (Haque, Jalil, & Naz, 2007). A good corporate governance practice can lead to efficient utilization of resources which is a cornerstone of success for every organization irrespective of the cultural context, social norms and economic efficiency (Masum et. al. 2017). Finegold, Benson, & Hecht (2007) argued that boards not only monitor the managements but also provide strategic plans during the crisis of the company. The role of the board of governance is one of the important elements for the performance of the company and for the economic growth of the nation (Brav, Jiang, Partnoy, & Thomas, 2008). Numerous researchers who already have worked on corporate governance and firm performance all over the world, come to a conclusion that few board characteristics have impacts on corporate performance of the company (Dutta & Bose 2006; Haniffa & Hudaib 2006; Ramdani & Witteloostuijn, 2010; Horváth & Spirollari 2012; Fooladi 2012; Kilic 2015; Nhan & Quy 2016; Kaur & Vij 2017; Anis et al., 2017).

Agency theory is most extensively used as a main factor in corporate governance research nowadays (Anis, Chizema, Lui, & Fakhreldin, 2017). Agency relationship is a contract between two parties- principal and agent, where agent acts on behalf of the principal and under this contract; principal assigns some authority to the agent (Hodgson, Holmes and Tarca, 2006). Weir, Laing & McKnight (2002) argued that the segments of corporate governance such as board characteristics have a great impact on corporate performance of the company. The Corporate Governance Guidelines (2012) of Bangladesh stated that a company, listed with any prevailing stock exchange in Bangladesh, shall not have less than five (05) members and more than twenty (20) members on the board. It is also revealed by the Corporate Governance Guideline (2012) that independent director of a company will be at least one-fifth (1/5) of the total directors on board. Women director on board represents the diversity of the board (Dutta & Bose, 2006). Having foreign member on board can be beneficial for the company. From the agency theory perspective, board member with ownership status will monitor the board in such way thus agency conflict may reduce. Godfrey et al. (2006) argued in their book that agency conflict will increase the agency costs. So, board member with ownership status can ensure the better corporate performance of the company by reducing the agency costs.

The remainder of the paper is designed as follows. Section 2 presents literature review & hypothesis development while section 3 elaborates the research methodology part of the study. Results and discussions are showed in section 4 and the final section represents the conclusion & recommendation part of the paper.

LITERATURE REVIEW

Few researchers (Johl, Kaur, & Cooper, 2015; Boyle & Ji, 2012; Rose, 2007; Lee & Farh, 2004; Fooladi, 2012) had already worked on - Board characteristics and Corporate Performance, but their outcomes were found different depending on the corresponding cultural, political and economic context. As per section 90, Company Act (Bangladesh) 1994, every public limited company shall have at least 3 directors. According to the Corporate Governance Guideline (2012) by Securities & Exchange Commission of Bangladesh, the number of board members shall not be less than five (05) and more than twenty (20). From the point of view of agency problem, small board size may perform well and improve performance than the large board size (Lipton & Lorsch, as cited in Anis et al., 2017). Stewardship theory prefers small board size because of productivity (Coleman & Biekpe, 2007). Haniffa & Hudaib (2006) found that Small board size is more effective and less costly. Coles, Daniel, & Naveen (2008) suggested that large boards can ensure better decisions and better monitoring activities. A positive significant relationship was found between board size and firm performance from Malaysian listed firms by

Johl et al. (2015). Shukeri, Shin, & Shaari (2012) found that board size has a positive significant relationship from the study of Malaysian public listed company. Anis et al. (2017) found from the study of Egyptian listed Companies that small board size is positively related with firm's ROA but insignificant. It was found from the Japanese listed firms that board size is negatively related with the corporate performance (Bonn, Yoshikawa, & Phan, 2004). A negative significant relationship was found between board size and firm's value (Mak & Kusnadi, 2005). Thus the following hypothesis is developed from the above review:

H1: There is a significant positive relationship between board size & corporate performance.

From the agency theory perspective, a greater number of independent directors on board can ensure the better corporate performance (Ramdani & Witteloostuijn, 2010). Independent non-executive directors play a vital role in the long term performance (Abidin, Kamal, & Jusoff, 2009). According to agency theory viewpoint, independent directors can reduce the agency cost by monitoring the managers' activities (Jensen & Fama, as cited in Anis et al., 2017). Independent directors play their role to reach a satisfactory and effective outcome (Ramdani & Witteloostuijn, 2010). A positive correlation was found between firm's performance and independent directors from the study of Ghana (Coleman & Biekpe, 2006). A positive significant relationship was found from the study of UK firms by Dahya and McConnell (2005). There was a positive significant relationship found between Independent directors and firm's return on assets from the Egyptian listed companies (Anis et al., 2017). A study from the Australian firms showed that there is a significant positive relationship between independent directors and firm's ROA (Bonn et al., 2004). There were few opposite case found that means negative relationship between percentage of independent directors and firm's performance (Farnandes; & Mura; as cited in Nhan & Quy, 2016). Johl et al. (2015) argued that percentage of independent directors has no effect on corporate performance. Therefore it needs to be tested the relationship between independent director on board and corporate performance. The hypothesis to test this hypothesis is given below:

H2: There is a significant positive relationship between independent director on board & corporate performance.

Women are found holding an increasing number of seats on board all over the world (Kaur & Vij, 2017). Women on board can add value by sharing extra ideas, and skills which may not be done by only male members on board (Boyle & Ji, 2012). The greater number of women on board cannot cause firm's better performance (Dobbin & Jung, 2011). A significant positive impact was found between percentage of women on board and firm's performance from the study of 2500 Danish firms (Smith, Smith, & Verner, 2006). There is a positive association found by Bear, Rahman and Post (2010). There was an insignificant status found but it has a positive correlation between percentage of women on board and corporate performance (Chemweno, 2016). An insignificant relationship was found between percentage of women on board and firm's performance (Rose, 2007; Anis et al., 2017). Bonn et al. (2004) found a negative insignificant relationship between female director on boards and firm's ROA from their study of Japanese firms. Adams and Ferreira (2009) found a negative relationship between women on board and corporate performance. Carter, D'Souza, Simkins and Simpson (2010) found that there is no significant relationship between women on board and corporate performance. Hence it is required to justify the association between women on board and corporate performance and assume the following hypothesis:

H3: There is a significant positive relationship between women on board & corporate performance.

Foreign member on board can share his/her advance skills which may improve the performance of the company (Lee & Farh, 2004). Doidge, Karolyi, and Stulz (2004) found that foreign director was appointed in the board to improve the performance. Foreign directors can help improve the advisory panel of the boards (Adams, Almeida, & Ferreira, 2009). Foreign member on boards will have less understanding about local problems and for this reason firm's effectiveness may reduce (Hassan et al 2010; Masum & Bhuiyan 2011; Ujunwa, Nwakoby, & Ugbam, 2012). A study of the

Swedish companies disclosed that there is a positive relationship between foreign director and corporate performance (Oxelheim & Randoy, 2003). Ujunwa et al. (2012) found board nationality that means the percentage of foreign member on boards has a positive significant relationship with firm's Return on Assest (ROA). Kilic (2015) failed to establish that there is a positive significant association between the presence of foreign director and bank performance and also failed to prove that percentage of foreign directors and bank performance is positively significant from the context of Turkey. Kizito (2013) established that there is an insignificant relationship between percentage of foreign directors and firm's return on assets. For the above circumstances we have consider the hypothesis below to explore the relationship between foreign member on board and corporate performance:

H4: There is a significant positive relationship between foreign member on board & corporate performance.

Seifert, Gonenc and Wright (2005) argued that board members with ownership status will monitor the board and management better to reduce the agency costs. Ownership of the board of directors is a strong influencing factor and it is very important for firm's performance (Horvath & Spirollari, 2012). Hayes, Mehran and Schaefer (2004) found that there is a positive association between director's ownership and firm's performance. A study of Swedish firms reveled that there is a positive significant linked between board member's ownership and corporate performance (Ho & Williams, 2003). Fooladi (2012) couldn't established any significant relationship between director's ownership and performance of the firm but it has a positive relationship. Abidin et al. (2009) found an insignificant negative association between director's ownership and firm's performance. Ho and Williams (2003) found insignificant results between directors' ownership and firm's performance from both the study of South African and British firms. The effect of board of director's ownership is also discussed by Becht, Bolton, and Roell (2005). Thus it need to be tested the degree of association between board member's ownership and corporate performance and the hypothesis on this regards is stated below:

H5: There is a significant positive relationship between board member's ownership and corporate performance.

METHODS

Data design

Annual report is the main source of data collection of this study. Company provides reliable and accurate information in the annual report and that is why it is used to collect the data (Bhuiyan, and Masum, 2010). To conduct the study, the most recent available year is considered here and all the information is collected from the annual reports during the year 2016 and 2016-2017. Information of board characteristics (Board Size, Independent Directors on Board, Women on Board, Foreign Member on Board and Board Member's Ownership) and corporate performance (Return on Assets) is taken from the annual reports.

Sample design

There are 302 listed companies are traded at Dhaka Stock Exchange under various industries other than the financial instruments in December, 2017. To select the samples, one third (1/3) of the population has been taken. Therefor the sample size becomes close to 101 companies. Table 1 presents the details of samples of the study.

Table 1. Sample design

Name of the industry	Population	Sampling technique (1/3)	Sample size taken
Bank	30	10	10
Cement	7	2.33	2
Ceramics	5	1.67	2
Engineering	36	12	12
Financial Institution	23	7.67	8

Food & Allied	18	6	6
Fuel & Power	18	6	6
Insurance	47	15.67	16
IT	8	2.67	3
Jute	3	1	1
Miscellaneous	12	4	4
Paper & Printing	2	0.67	1
Pharmaceuticals & Chemicals	28	9.33	9
Services & Real Estate	4	1.33	1
Tannery	6	2	2
Telecommunication	2	0.67	1
Textile	49	16.33	16
Travel & Leisure	4	1.33	1
Total	302	100.67	101

Variable design

Five independent variables namely - Board Size, Percentage of Independent Director on Board, Percentage of Women on Board, Foreign Member on Board and Board Member's Ownership are used here as a proxy of board characteristics whereas return on assets (ROA) is used as the proxy of corporate performances that represents the dependent variable. Details of these variables and their measurement are shown in table 2:

Table 2. Measurement of variables

Types of variable	Name of the variable	Measurement	Source
Dependent Variable	Return on Assets (ROA)	Net profit after tax by Total assets	Anis et al. (2017); Bonn et al. (2004); Bhuiyan & Masum (2010)
Independent Variables	Board Size	Total number of directors	Shukeri et al. (2012); Johl et al. (2015)
	Percentage of Independent Director on Board	Independent director on board scaled by Total number of directors	Nhan & Quy (2016); Abidin et al. (2009)
	Percentage of Women on Board	Women on board scaled by Total number of directors	Rose (2007); Bear et al. (2010)
	Foreign Member on Board	If there is at least one foreign member on board then score is 1 otherwise score is 0.	Kilic (2015); Ujunwa et al. (2012)
	Board Member's Ownership	If there is at least one director with ownership status then score is 1 otherwise score is 0.	Fooladi (2012); Hayes et al. (2004)

Model specification

A multiple regression model is used in the study to explore the relationship between board characteristics and corporate performance. The following regression model is used:

$$ROA = \alpha + \beta1*(B\_S) + \beta2*(B\_I) + \beta3*(B\_W) + \beta4*(B\_F) + \beta5*(B\_O) + \varepsilon$$

Where,

ROA = Return on Assets

α = Constant

B_S = Board Size

B_I = Percentage of Independent Director on Board

B_W = Percentage of Women on Board

B_F = Foreign Member on Board

B_O = Board Member's Ownership

ε = Error

RESULTS AND DISCUSSIONS

Descriptive statistics

Table 3 represents the descriptive statistics of all the variables where mean, standard deviation, minimum, and maximum values are shown. Board size is determined by the total number of directors. The average no. of directors is 9.7 with a minimum no. of directors 5 and the maximum no. of directors 20 which indicates that board size of all the companies perfectly complied with the guideline of corporate governance by Securities & Exchange Commission (SEC) of Bangladesh. Mean value of the independent director is 0.2339 or 23.4% that means rest 76.6% of the directors is not independent director. The maximum value of independent director is 0.60 or 60% where the minimum value of independent director is 7% and standard deviation is 9%. One of the companies has no women director on board, for that reason minimum value of women on board is 0, maximum value of women on board is 0.60 or 60% where mean value of women on board is 18.1% that means rest 81.9% is holding by the men directors. Foreign member on board and board member's ownership are used as a dichotomous variable that is why both the variables got same minimum and maximum values where 0 means non-existence and 1 means there is at least one foreign director or there is at least one director with ownership status. On the other hand, return on assets (ROA) has a mean value of 0.0554 which means the average return on assets is 5.5%. A minimum and a maximum return on assets (ROA) are found -1% and 41% respectively with a standard deviation of 5.8%.

Table 3. Descriptive statistics

Variable	N	Mean	Std. deviation	Minimum	Maximum
B_S	101	9.7228	4.34769	5.00	20.00
B_I	101	0.2339	0.09310	0.07	0.60
B_W	101	0.1811	0.14796	0.00	0.60
B_F	101	0.2574	0.43940	0.00	1.00
B_O	101	0.8812	0.32518	0.00	1.00
ROA	101	0.0554	0.05813	-0.01	0.41

Correlation and collinearity analysis

From the table 4a, it is found that there is a weak negative correlation between board size (B_S) and corporate performance (ROA) where the r value is -0.165. On the other hand, there is a weak positive correlation between independent director on board (B_I) and ROA as the r value is 0.043 and a poor negative correlation between women on board (B_W) and ROA as the r value is -0.010. A positive moderate correlation has been found between foreign member on board (B_F) and ROA since r value is 0.446. Board member's ownership (B_O) and ROA has also a positive moderate correlation since the r value is 0.442. Independent variables are free from multi-collinearity issue that means there is no independent variable found to have a higher correlation with the other independent variables as the value no values or r value on these regards is more than 0.70.

Table 4 a. Correlation efficient

Particulars	Variable	ROA	B_S	B_I	B_W	B_F	B_O
	ROA	1.000					
	B_S	-0.165	1.000				
Pearson correlation	B_I	0.043	-0.421	1.000			
	B_W	-0.010	0.085	-0.091	1.000		
	B_F	0.446	-0.004	0.120	-0.132	1.000	
	B_O	0.442	0.012	0.001	0.217	0.274	1.000

Hair et al. (2010) set a limit for the tolerance value and VIF value to check the multi-collinearity issues where tolerance and VIF value will be 0.10 and 10 respectively. It means if the tolerance value is less than 0.10 and VIF value is more than 10 for any independent variable then that variable has a multi-collinearity issue. It can be concluded from the table 4b that there is no multi-collinearity existed in this study because for all variables the tolerance value is more than 0.1 whereas the VIF value on this regards is less than 10 for all the variables.

Table 4 b. Variables with tolerance value and VIF value

Variable	Tolerance	VIF
B_S	0.760	1.316
B_I	0.787	1.271
B_W	0.869	1.150
B_F	0.897	1.115
B_O	0.862	1.160

Multiple regression analysis

From the model summary table (Table 5), the value of adjusted R square is 0.406 which is statistically significant at $P < 0.01$. It means 40.6% of variation in ROA can be explained due to the variation in board size, independent director on board, women on board, foreign members on board and board member's ownership. It also indicates that 59.4% of the variation in ROA that can be explained by the other factors which are not included in this model. Bhuiyan & Masum (2010) and Hasan, Masum, & Islam (2010) also have the similar results while examining the corporate governance and corporate performances.

Table 5. Model summary

Model summary [b]							
Model	R	R square	Adjusted R square	Std. error of the estimate	R square change	F change	Sig. F change
1	0.664[a]	0.441	0.406	0.04482	0.406	13.653	0.000
Predictors: (Constant), B_S, B_I, B_W, B_F, B_O							
Dependent variable: ROA							

Table 6 exhibits multiple regression coefficients, t-value, and p value of the model. To explore the association between corporate performance and board characteristics, we have found that board member's ownership (B_O) has the highest (0.42) unique contribution on corporate performance which is statistically significant at $P<0.001$. This findings contradict the result of Abidin et al. (2009) who found an insignificant relationship but we both found the positive association. In addition, foreign member on board (B_F) has the second highest (0.397) unique contribution on corporate performance at a significance level of $P<0.001$. This finding is complied with the previous findings of Ujunwa et al. (2012). Therefore, hypothesis (H4) and hypothesis (H5) has been accepted in the study.

It is also found from the study that board size (B_S) and percentage of independent director on board (B_I) have negative insignificant relationship with Corporate performance (B = -0.113, t = -1.275 and p = 0.206) and (B = -0.025, t = -0.288, and p = 0.774) respectively which is not statistically significant at P<0.001. This relationship between Board size and corporate performance is matched with the result of Anis et al. (2017) who also found insignificant but they found a positive relationship and the result of Independent director on board (B_I) does not support the outcome of Dahya and McConnell (2005). These two hypothesis (H1) & (H2) are rejected in this paper. There is a positive insignificant relationship between women on board and corporate performance (B = 0.044, t = 0.534 and p = 0.594) at P>0.1 level of significance and the result supports the previous study outcome of Chemweno, (2016).This hypothesis (H3) is also rejected in this study.

Table 6. Regression coefficient

Variables	Coefficients		Std. error	t-value	Sig.
	Unstandardized	Standardized			
(Constant)	0.351		0.063	5.537	0.000
B_S	-0.002	-0.113	0.001	-1.275	0.206
B_I	-0.016	-0.025	0.054	-0.288	0.774
B_W	0.017	0.044	0.032	0.534	0.594
B_F	0.052	0.397	0.011	4.874	0.000
B_O	0.075	0.421	0.015	5.071	0.000

Table 7. Summary of key findings.

Hypothesis	Nature of association	Significance	Decision
H1: There is a significant positive relationship between board size and corporate performance	Negative relationship	Insignificant	Rejected
H2: There is a significant positive relationship between independent director on board and corporate performance	Negative relationship	Insignificant	Rejected
H3: There is a significant positive relationship between women on board and corporate performance	Positive relationship	Insignificant	Rejected
H4: There is significant positive relationship between foreign member on board and corporate performance	Positive relationship	Significant	Accepted
H5: There is a significant positive relationship between board member's ownership and corporate performance	Positive relationship	Significant	Accepted

CONCLUSION

This study aims to evaluate the effects of board characteristics – namely five proxy variables -Board Size, Independent Director on Board, Women on Board, Foreign Member on Board, and Board Member's Ownership on corporate performance especially on ROA. And here we want to examine which proxy variables of the board characteristics have more influences on corporate performance. The result reveals from the hundred and one (101) Bangladeshi listed companies that board characteristics have both the significant and insignificant influences on corporate performance. Board size, independent director on board, and women on board are found to have insignificant relationship with the corporate performance. On the other hand, foreign member on board and board member's ownership have significant positive relationship with the corporate performance (ROA). There are no strong correlation found between dependent variable and independent variables, but foreign member on board and board member's ownership have a moderate correlation with corporate performance. The study outcome also discloses that board member's ownership and foreign member on board have more influences on corporate performance (ROA) of the Bangladeshi companies. That means some of the board characteristics have a vital role on corporate performance. This study is based on a cross sectional analysis with a sample size of 101, but a panel data analysis of the samples may vary from the above results. This study will let companies assess the importance of relationship between corporate performance and board characteristics and help the Bangladeshi companies to improve the corporate governance practices especially to think about the appropriateness of the various dimensions of the board characteristics.

Five board characteristics are reviewed in this study and provide ample research opportunity in this sector for future researchers. New researchers can additionally focus on government officer on board, board meetings, relatives on board, professional degree holder on board etc. to find the influences of theses board characteristics on corporate performance. However some control variables like age of company, size of the company etc. are also need to be tested to explore the relationship between board characteristics and corporate performances.

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