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EFFECTS OF BOARD AND AUDIT COMMITTEE ATTRIBUTES ON BANK PERFORMANCE IN BANGLADESH

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ABSTRACT

This paper explores the impacts of board and audit committee (AC) features on the financial performance of DSE-listed banks in Bangladesh from 2016 to 2022 because concern arose from a growing number of banking scandals, a huge number of money laundering incidents, and a growing amount of non-performing loans in this industry. Descriptive and inferential statistics have gauged the impacts of explanatory variables on bank performance. Generalized Method of Moments (GMM**)** reveals that board size, board autonomy, AC size, and AC meetings are linked positively with return on assets (ROA), but in an insignificant way. Yet, directors' ownership, AC freedom, and AC financial and accounting knowledge are inversely associated with bank financial performance, where AC freedom is significant at the 10% level. Also, firm size and age are linked positively with ROA, but the linkages are inconsequential. Non-performing assets, however, are inversely associated with ROA, and the tie is significant. The current study found that the existing corporate governance (CG) code efficacy needs enhancement and suggests reforming this code based on social, political, economic, and cultural priorities. This study especially urges a review of the selection strategies of some key personnel (CEO, AC head, and independent directors) and the role of regulatory bodies, such as Bangladesh Bank and the Ministry of Finance. In addition, the study suggests to include at least one independent board director on behalf of the depositors.

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1. INTRODUCTION

The banking industry is an essential segment of the financial sector because of its involvement in financial intermediation and contribution to the economy, society, and ecology (Maniruzzaman, 2023; Zheng et al., 2022). This sector creates value for society through boosted earnings from its services and by handling the banking needs of unbanked people, ensuring client comfort, trustworthiness, safety, fast service, and low-cost dealings, reimbursing expatriates' money, boosting savings culture, and creating income options for agents (Islam and Hossain, 2018). This sector has many challenges, however, such as weak supervision, feeble governance, inept leadership, and disobedience to ethical norms, which lead to numerous banking scams, including money laundering and non-performing loans (Li et al., 2021; Alam et al., 2024; Aliyu, 2014; Alam, Haq and Kader, 2015). Technological progress and deregulation have intensified competition in the banking industry to improve its services in recent years (Bos, Kolari, and van Lamoen, 2013). Most Bangladeshi banks have flawed loan cultures, leading to high Non-Performing Loans (NPL), putting the banks at default risk and adversely impacting the overall economy. The banks in Bangladesh have also suffered from weak political culture and high interference. A sound corporate governance (CG) system is essential to improve sectorial efficiency (Dalwai, Chinnasamy, and Mohammadi, 2021). Because of its enormous leverage and complex regulatory framework, bank governance is unique (Adams and Mehran, 2003).

The board and its sub-committees are often required to find opportunities for the firm’s growth by making an allowance for performance impacting hazards. The distinction between a board and its role in good governance implies that a bank board influences its risk-taking and performance. Industry efficiency depends on CG (Dalwai et al., 2021). As sound bank governance may support a stable financial system by boosting the monitoring function, the Basel Committee on Bank Supervision (BCBS) has underlined the need to improve bank governance (Nguyen and Dang, 2022). CG is now one of the most pressing issues debated globally, which is required to enhance firm performance (Maniruzzaman and Hossain, 2019b). The death of Enron, WorldCom, AIG, Lehman Brothers, Tyco, and so many others have raised the need for sound CG mechanisms and provide signals to diverse stakeholders, such as investors, stockholders, corporate managers, and others, on how to improve firm performance.

Yasser and Mamun (2017) noted that the board, among the CG devices, is essential to protect the rights of different stakeholders. Also, the board decides how to eliminate agency costs by limiting the opportunistic attitudes of managers, harmonizing manager and stockholder benefits, hiring and firing managers, and observing the CEO's behavior. Boards are patrons of businesses that formulate policies and strategies to achieve firm financial and strategic objectives (Jensen and Meckling, 1976). The CG norms aim at strengthening bank competitiveness and improving the board's qualitative features.

Besides, an Audit Committee (AC) ensures financial and economic transparency and informs different levels of stakeholders of the magnitude of risks the company faces. As a subcommittee, the AC performs a catalytic role in monetary control. Its functions are significant as it increases precision of bank financial statements and reduces compliance risk (Al-Jalahma, 2022).

Several studies have shown how CG decisions impact corporate financial performance in different contexts. Against this backdrop, this research examines the effects of AC and board features on bank financial performance because there is a knowledge gap. It is the first attempt to see how the board and AC traits jointly impact bank performance using a reasonably broader and newer data set in the Bangladesh context.

1.1 WHY BANGLADESH?

As stated earlier, a robust banking system is essential for attaining sustainable development goals (Ahmed et al., 2015). Bangladesh is one of the fastest-growing economies, whose finance and banking sectors have been harshly affected by the COVID-19 Pandemic (Ghosh and Saima, 2021). Moreover, a lack of trust and confidence in this industry has resulted from high levels of non-performing loans (NPLs) because of the absence of good governance within the banking and non-banking firms. The increasing trend of NPLs (see Table 1) is reflected in the decreasing trend of bank financial performance.

Table 1 reveals the amount of non-performing loans (NPLs) of different categories of Bangladeshi banks from 2016 to 2021. The amount of NPLs of state-owned commercial banks (SCBs) shows an increasing trend from 2016 to 2021. Likewise, the other categories of banks, except for specialized banks (SBs), show a growing trend of

NPLs from 2016 to 2021, leading to the decreasing financial performance trend of most Bangladeshi banks.

TABLE 1
Amount (in billion BDT) of NPLs by the Types of Banks

Bank Types	2016	2017	2018	2019	2020	2021
SCBs	310.3	373.3	487.0	439.9	422.7	438.4
SBs	56.8	54.3	47.9	40.6	40.6	36.9
PCBs	230.6	294.0	381.4	441.7	403.6	491.9
FCBs	24.1	21.5	22.9	21.0	20.4	24.9
Total	621.8	743.1	939.2	943.2	887.3	992.1

Source: The Off-site Supervision Department of the Central Bank of Bangladesh (https://www.bb.org.bd/pub/annual/anreport/ar2021/chap5.pdf)

In 2019, the failure of People's Leasing and Financial Services Limited (PLFS) due to the eroding financial health over the years raised governance concerns. Also, the “Hallmark Scam” involving the default of BDT 3.547 billion from the state-owned Sonali Bank in 2012, the theft of BDT 4.5 billion from Basic Bank in 2013, and the sharp increase of default loans to BDT 10 billion by AnonTex and Crescent from Janata Bank in 2018 have boosted concerns for the rightfulness of credit assessment, credit oversight, board and AC independence, and management efficacy (Mustafa, 2023). Moreover, because of the growing NPL trend, banks are under tremendous stress over their operations, liquidity, investments, managerial efficacy, and financial performance. The NPL issue is the biggest challenge facing the banking industry in Bangladesh (Ghosh and Saima, 2021).

The banking sector in Bangladesh is currently struggling. It requires a strong, resilient, and well-guided banking culture and strategy. These include the law governing loan approval, loan recovery from defaulting clients, and actions against corrupt officials. It is time to use the newest FinTech to transform traditional banking systems into customer-centric, digital, mobile, and online banking systems (Kamaruddin et al., 2023). No country will achieve the SDGs and economic solvency unless it overcomes the crises in its banking sector, according to the lessons learned from economic and financial history (Kamarudin and Kassim, 2022). To protect this sector from economic and financial shockwaves and make it robust and efficient, policymakers, especially the Central Bank and other regulators, must adopt proactive, quick, and corrective measures. Bangladeshi banks operate within the legal framework of the Bank Companies (Amendment) Act, 2013, the Corporate Governance guidelines of the Bangladesh Securities and Exchange Commission (BSEC), and the Companies Act, 1994. In 2006, the BSEC, the capital market regulator of Bangladesh, issued CG guidelines on a comply or explain basis, which was amended in 2012 with some changes, and made it obligated to comply in 2018 through another amendment. Banks disclose CG information related to the notification no. BSEC/CMRRCD/2006/ 158/207/Admin/80, Dhaka, Dated: 03 June 2018 of BSEC.

According to BSEC CG code, the number of members on the Corporate Board must be between five and 20, but at least five. However, in some Bangladeshi banks, board sizes have seen more than 20 members. The number of Independent Directors on the Board of the Company shall be at least one-fifth (1/5) of the total number of Directors, which in some cases are/or not complied. It is also mandatory that different persons hold the roles of Managing Director (MD)/ Chief Executive Officer (CEO) of the company and Chairperson of the Board. The Nomination and Remuneration Committee and Audit Committee members must be present at the Board meetings except for due reason to confirm sound CG. Except for the chairperson of the Board, the Board shall nominate members of the Audit Committee who shall be the firm's non-executive directors and include at least one independent director. The Audit Committee must hold at least four meetings in a fiscal year. All audit committee members should be “financially literate,” and at least one member must have a background in accounting or a similar field of financial management and ten years of relevant experience.

Hence, current literature highlighted CG as the most pressing issue confronting emerging countries such as Bangladesh. In the remainder of this paper, Section 2 presents the literature review and hypothesis development. Section 3 talks about the data and the research approach, followed by results in section 4. Section 5 presents a discussion of the findings. The paper ends with a conclusion in Section 6.

2. LITERATURE REVIEW AND HYPOTHESIS FORMULATION

A lower level of board ownership improves enterprise performance and decreases agency issues (Jensen and Meckling, 1976). Ownership patterns influence the firm operational strategies (Maniruzzaman and Hossain, 2019a). Family members may be appointed to vital executive roles when the ownership structure is related to internal owners, regardless of their talent and experience (Maniruzzaman and Hossain, 2019b). In Bangladesh, most publicly traded companies are single-man shows. It is a red flag for good governance as most decisions are taken from a personal perspective (Hasan, Rahman, and Hossain, 2014). The family-based system with ownership discourages innovation as decision-makers exert little executive authority (Amrah, Hashim, and Ariff, 2015). Prior literature confirmed that a board having controlling ownership affects firm performance adversely. Hence, low board ownership impacts corporate economic performance positively. Hermalin and Weisbach (1991), however, suggested that as the board ownership grows, the business performance also initially grows and then drops. Bhabra (2007) also pointed out that board ownership and performance move in different directions. Im and Chung (2017) found that board ownership and firm performance have a low correlation. Based on the agency theory, board shareholding has an adverse effect on profitability. Given these findings, this research proposes that:

H1: Board shareholding has an adverse impact on bank profitability.

Board size influences firm performance. The perfect size is a big challenge because many factors restrict the choice of skilled directors. Florackis and Ozkan (2009) argued that a large board rarely does well due because of the lack of good contact among the members and slow decision-making, which depends on the will of the CEO. Musallam (2020) found that small boards are more effective in containing executives as they might face a few communication issues with executives and state bureaucrats and have fewer issues with free riders among their directors. Kutum (2015) revealed that firm performance is associated with board size. Lipton and Lorsch (1992) observed that a perfect board size for ensuring sound governance is between seven and nine members. Moreover, the right board size allows a firm to combine skills and wisdom to make more informed decisions and make it hard for CEOs to exploit. Hence, the study set the following hypothesis:

H2: Board size has an impact on bank financial performance.

The forward-thinking of Jensen and Meckling (1976) indicates that self-controlling board members oversee the agency's activities and enhance firm value. The agency theory predicts that corporate boards handle managerial affairs to limit agents' self-interested behaviors (Hasan et al., 2014). The principal drive behind choosing independent members on boards of publicly held firms is to resist any misdeed of the mainstream members while exposing information that can defend stakeholder interests (Rashid and Hossain, 2022). As a result, by having more self-governing board members, companies can lower agency costs and improve financial success. The main feature of CG is board freedom, which requires an appropriate number of independent directors on the board. In Malaysia, if a firm has only three directors on the board, two must be independent (Hasan et al., 2014). The board members should have a specific level of freedom to monitor managerial affairs (Jahid et al., 2020). Many studies indicate that board independence positively impacts corporate success, but others reveal negative impacts (Syed Fuzi, Halim, and Julizaerma, 2016). The outside members cannot control the behavior of the CEO as they report to the CEO (Merendino and Melville, 2019). The observed effects of board composition and economic performance have been inconclusive. Hence, the study assumed that:

H3: Board freedom has a substantial impact on bank profitability.

The AC monitors and examines monetary dealings that help maintain the excellence and accuracy of corporate financial information, and as such, it is an influential element of CG (Mat Yasin and Nelson, 2012). AC, as the standing committee of a board, facilitates relevant, faithful, and timely information disclosure based on accounting principles (Song and Windram, 2004). Musallam (2020) observed that the size of an AC is a ratio of the total directors of a board. Pearce and Zahra (1992) observed that a suitable AC size permits members to apply their skills and knowledge to ensure stockholder rights. Existing literature could not furnish conclusive evidence on the affinity between AC size and firm profitability. It is useless if the size of the AC is too small or too large (Musallam, 2020). If the AC is too small, it lacks skills and expertise (Abdul Rahman and Mohamed Ali, 2006). Conversely, a too-large AC tends to be less participative than a too small one (Kamarudin, Wan Ismail, and Alwi, 2014). No study, however, has yet talked about the suitable size of an

AC. It depends on several conditions, such as cultural cognitive view, economic structure, legal structure, board member skills and knowledge, and the nature of firm operations. The resource dependency theory supports that an AC with more numbers should increase financial performance because more members increase the monitoring efficacy based on their shared skills and expertise (Sultana, Singh, and Van der Zahn, 2015). Thus, this study proposes that:

H4: AC size has a considerable impact on bank profitability

AC freedom has a role in confirming proper control in the audit process. Mohid Rahmat, Mohd Iskandar, and Mohd Saleh (2009) observed that an AC with a high ratio of non-manager members is more independent than one with a higher proportion of executives. Abdullah, Uli, and José Tarí (2008) found that committee formation relies on the balance between free and elected directors. Autonomy of an AC helps remove agency issues (Musallam, 2020). The agency and resource dependence hypotheses argued that freedom encourages AC members to make decisions without hindrances. Abdullah, Uli, and José Tarí (2008) found that a firm with many executive members on the board and non-autonomous AC may promote financial fraud. The freedom of an AC can influence business performance. Musallam (2020) observed that the ratio of autonomous members in the AC to its total number of members affects abnormal accruals. Thus, the study proposes that:

H5: AC freedom has a substantial positive impact on bank profitability.

Frequent AC meetings foster the use of accounting practices that, in turn, boost firm performance (Abbott, Parker, and Peters 2004). Musallam (2020) argued that AC meetings assist a board in reviewing the progress and fixing problems faced by accountants and auditors. According to Jackling and Johl (2009) and Musallam (2020), board meeting frequency helps improve business monitoring performance. Abdul Rahman and Mohamed Ali (2006) found that more AC sessions help boost the firm performance. Also, Kyereboah-Coleman (2007) observed that AC meetings have a positive and consequential effect on performance. However, Bansal and Sharma (2016) found that AC meetings have an insignificant influence on firm performance. The AC financial expertise has a positive and considerable impact on firm performance, as Sultana et al. (2015)

argued. Lipton and Lorsch (1992) noted that infrequent board meetings might prevent directors from wasting too much time debating petty issues. Hence, the study develops the following hypothesis:

H6: AC meeting frequency has a significant influence on bank profitability.

The AC members should be competent to monitor internal control and compliance for outstanding financial reporting, and as such, it is essential to check the finance, governance, and company-specific knowledge while selecting the AC members (Mansour et al. 2022). The most influential factor is to confirm the background and qualifications of AC members in finance and accounting. Giacomino, Akers, and Wall , (2009) argued that schooling and skills are essential for a finance and accounting professional. Academicians, however, remain silent while noting the skills of Audit Committee (AC) members in accounting and finance. There is limited research on the affinity between AC expertise and firm profitability. Sultana et al. (2015) observed that AC skills in accounting and finance have a positive and consequential impact on a bank profitability. Based on the preceding discussion, it is assumed that:

H7: AC finance and accounting expertise have a substantial impact on bank profitability.

3. METHODOLOGY

This study is quantitative since it aims at quantifying social phenomena and analyzing how a small number of attributes relate to one another over a large sample. It used the positivist paradigm-based deductive research methodology. The DSE-listed Bangladeshi banks constituted the sample. As of December 31, 2022, 32 banks were listed with DSE. Out of these 32 banks, the annual reports of two banks were inaccessible for some years of the study. As such, the final sample size was 30 listed banks. Based on data from 2016 to 2022, the study considered annual reports from all 30 sample banks, producing a total of (30*7) = 210 sample-year observations (Mehedi, Kuddus, and Maniruzzaman, 2017). The narratives of the study variables are in Table 2.

TABLE 2
Variable Measurement

Dependent variable	
Return on Asset (ROA)	Ratio of operating profit and total assets
Independent variables	
Board Characteristics	
Ownership concentration (OC)	Percentage of share capital owned by directors
Board size (BS)	Total number of members in company i in year t.
Board Independence (ID)	Total independent members on the board
Audit Committee(AC) attributes	
AC size (ACS)	Total members in the AC
AC independence (ACIND)	Total independent members in the AC
AC meetings (ACM)	Total AC meetings held throughout the accounting year
AC's financial expertise (ACFE)	Total accounting and financial experts in the AC.
Control variables	
Firm age (FAGE)	Total operating experiences since listing at DSE
Firm size (FAGE)	Natural log of entire assets of the sample banks

3.1 MODEL'S SPECIFICATIONS

The current study develops the following regression model to measure the hypothesized relationships:

$$
\begin{aligned}
\mathrm{Y_{it}} = \alpha + \beta_1 \times \mathrm{OC_{it}} \\
&+ \beta_2 \times \mathrm{BS_{it}} + \beta_3 \times \mathrm{ID_{it}} + \beta_4 \times \mathrm{ACS_{it}} \\
&+ \beta_5 \times \mathrm{ACIND_{it}} + \beta_6 \times \mathrm{ACM_{it}} + \beta_7 \times \mathrm{ACFE_{it}} \\
&+ \beta_8 \times \mathrm{FAGE_{it}} + \beta_9 \times \mathrm{LOGFSIZE_{it}} + \beta_j \mathrm{Con_{it}} + \varepsilon_{it}
\end{aligned}
$$

Where:

$\mathrm{Y_{it}}$: to firm performance, which is assessed as ROA, i.e., return on assets.

OC: the percentage of board members' shareholding.

BS: the board size, which is the figure of the total board members.
ID: the board freedom assessed as the sum of non-administrative members on the bank's board.
ACS: the extent of the AC, which is the sum of the total memberships of AC.
ACIND: the sum of the self-governing directors of AC.
ACM: the sum of board meetings of the AC held in a year.
ACFE: the sum of AC members having financial expertise (see Table 2).
FAGE: the total operating experiences since listing at DSE.
LOGFSIZE: the natural log of the entire assets of the sample banks.
Con: the control variables used in this study.

4. RESULTS AND ANALYSIS

The current study plans to observe the effects of board qualities and characteristics of the AC on banks' financial success. In order to get a holistic view, this study has used both descriptive and inferential statistics. Descriptive statistics clarifies the general pattern of the phenomena (see Table 3), while inferential statistics enable us to catch the effects of repressors on the regressed variable.

Table 3 reports the descriptive statistics for the sample variable. The average value of return on assets (ROA) is 0.00669, with a minimum and maximum value of -4.25% and 2.45%, respectively. The mean ownership concentration (OC) value is 0.3928, ranging from 0% to 87%. The average board size (BS) is 13.9111, from six to 22. In some Bangladeshi banks, the extent of the board is too high. The descriptive statistics also show that the number of independent directors (ID) varies from one to eight, with a mean value of 2.5. In this case, this paper finds a compliance crisis to the mandatory CG guidelines 2012 and 2018, where there is a provision to retain the independent directors in the ratio of 5:1. The audit committee size (ACS) spans from three to six, with an average of 4.2833. Audit committee independence (ACIND) shows that some banks have minimum CG requirements.

In contrast, others ensure more freedom in the board audit committee, as in Table 3, where some banks set only one independent director in the audit committee while others appoint more. The presence of experts in connection to the business and financial expertise (ACFE) in the audit committee ranges from one to five, following the CG guidelines for banks in Bangladesh. In addition, the number of board meetings of the audit committee spans from four to 19.

TABLE 3
Descriptive Statistics for All Variables

Variables	N	Minimum	Maximum	Mean	Std. Deviation
ROA	210	-0.0425	0.0245	0.00669	0.008096
OC	210	0.00	0.87	0.3928	0.14938
BS	210	6.00	22.00	13.9111	4.30965
ID	210	1.00	8.00	2.5000	1.06493
ACS	210	3.00	6.00	4.2833	0.95294
ACIND	210	1.00	3.00	1.8444	0.57724
ACFE	210	1.00	5.00	1.5419	0.94345
ACM	210	4.00	19.00	8.3944	3.21918
FAGE	210	9.00	49.00	22.4460	9.44833
FSIZE	210	9.33	14.16	12.4530	0.78803

Correlation aids in determining the strength or depth of the relationship between variables since high levels of correlation among independent variables can cause multicollinearity that can produce false conclusions. Multicollinearity is present when the correlation is more than 0.8 or 0.9 (Rahman and Hossain, 2022). Table 4 shows that VIFs that do not exceed the threshold of 10 suggest the multicollinearity problem is absent.

TABLE 4
Correlation Matrix for All Variables

	ROA	OC	BS	ID	ACS	ACIND	ACFE	ACM	OC	FAGE	FSIZE
ROA	1										
OC	-0.075	1									
BS	0.129	-0.120	1								
ID	0.297**	0.061	0.407**	1							
ACS	-0.104	-0.208	0.530**	0.161*	1						
ACIND	-0.120	0.090	0.138	0.236**	0.247**	1					
ACFE	0.039	-0.117	0.399**	0.124	0.402**	0.249**	1				
ACM	0.050	-0.297	0.274**	0.040	0.185*	-0.039	0.183*	1			
FAGE	-0.144	0.024	-0.271	-0.091	-0.236	-0.075	-0.164	-0.030	0.024	1	
FSIZE	0.586	0.160	0.032	0.364	0.439	-0.061	-0.033	0.128	0.160	0.152	1

4.1 REGRESSION RESULTS

To gain an insight into the affinity between the dependent and independent variables, a pooled regression model is used in this research. The Durbin-Watson statistics (see Table 5) of the pooled regression model, however, show the presence of autocorrelation in the data set. The Durbin-Watson test score spans from 0 to four and stays between 1.5 and 2.5 if observations are assumed to be independent (Husaeni, 2018), but in this case, the Durbin-Watson test score is 0.605143 (see Table 5). In addition, The Breusch-Pagan Godfrey test (p-value = 0.0732) reveals that the data distribution is heteroscedastic, which can be eliminated by using the generalized method of moments (GMM) for panel data analysis (Lajmi and Yab, 2022). Therefore, this paper adopts GMM for regression analysis; OLS regression results are presented for reader understanding only.

Table 5 presents the outcomes of the GMM estimator. The hypotheses developed in this study have found both positive and negative affinities, but most are statistically insignificant. The GMM estimator (see Table 5) reveals that some explanatory variables (such as board size, boardroom autonomy, AC size, and the number of AC meetings) and ROA are positively associated, but none are statistically significant.

On the other hand, other CG variables (OC, ACIND, and ACFE) are associated inversely with ROA, where only ACINDis connected substantially at 10%. In addition, among the control variables, both FS and FA are related positively to ROA, and NPA is negatively associated with ROA. The association between NPA and ROA is statistically significant at the 1% level.

5. DISCUSSIONS

The regression results imply that the OC is inversely related to ROA, but the relationship is not significant. This affinity indicates that controlling shareholders fail to influence bank performance. Such a negative relationship could be the potential practice of "tunneling," which is the transfer of properties and revenues out of a firm for controlling stockholders (Yoon and Jin, 2021). Tunneling is straightforward when the dominant shareholders also serve as board members. In addition, through self-dealing or related party transactions, controlling stockholders may redirect their one firm’s income to other firms (Yoon and Jin, 2021).

TABLE 5
Regression Results for ROA

Variables	GMM t-value	GMM P-value	OLS t-value	OLS P-value	Collinearity Statistics VIF	Collinearity Statistics Tolerance
OC	-1.342790	0.1816	-0.968061	0.3344	1.420	0.704
BS	0.598764	0.5503	-1.627489	0.1055	2.422	0.413
ID	0.890663	0.3747	2.119922	0.0355	1.764	0.567
ACS	1.293627	0.1980	-1.230368	0.2203	1.953	0.512
ACIND	-1.683233	0.0947	-0.475374	0.6351	1.324	0.755
ACFE	-0.166818	0.8678	0.557704	0.5778	1.527	0.655
ACM	0.188574	0.8507	-1.019938	0.3092	1.425	0.702
LOGTA	0.401177	0.6889	-1.239331	0.2170	5.944	0.168
LOGLA	0.680234	0.4975	-1.369842	0.1726	1.949	0.513
NPA	-2.296274	0.0232	-10.92891	0.0000	5.259	0.190
R^2	0.880267		0.711940			
Adj. R^2	0.839755		0.692966			
F Statistics			37.52181			
Prob.			Sig.			
Durbin-Watson stat.	1.556785		0.605143			
J-Statistic	1.88E-15					

Through minority-disadvantageous operations such as dilutive share offerings or freeze-outs (bulk shareholders pressure minority shareholders to sell their shares), the dominant shareholders can enhance their ownership stakes without relocating assets (Choi, Han, and Lee, 2014). Also, by fixing their compensation beyond the market level and without considering their efforts, leading stockholders who are also board members can manipulate minority stockholders. These issues are obvious despite a negative link between the board shareholdings and bank performance.

The link between board size and ROA is positive but insignificant, suggesting that the board of almost all Bangladeshi banks hardly influences corporate financial performance. The findings corroborate earlier research by Ferrer (2012). In addition, some concepts, such as the agency assumption and resource dependence viewpoint, have confirmed that a large-size board does not agree with the study outcome (Tukur and Balkisu, 2014). The results are also against the findings of some researchers such as Black and Kim (2012) who noted that a diverse group of individuals with various specialties matters more. The findings imply that the absence of a variety of expertise and knowledge may make a board unproductive. In Bangladesh, because of a highly concentrated shareholding pattern, family members are appointed as board members, disregarding the level of education and expertise in a different context, which may account for such a low affinity between corporate board composition and financial performance.

In addition, the relationship between boardroom autonomy and ROA (see Table 4) is positive but inconsequential, which further signals that boardroom freedom in most of the listed banks in Bangladesh has failed to reinforce corporate financial performance. The results agree with earlier research by Ferrer (2012) . But the results are incompatible with a few other studies, for example**,** Malik and Makhdoom (2016). The findings refute the entitlement of the agency theory that a substantial number of autonomous board members is required to oversee the company administration to reduce principal-agent problems (Jensen and Meckling, 1976). In Bangladesh, outside directors are appointed based on family relationships ignoring the skill and expertise levels, which may cause an insignificant association between boardroom freedom and corporate financial success.

This result also misrepresented the view of resource dependence theory as it portrays that a more lavish AC size renders more power and resources to the members to complete their jobs successfully (Salehi, Tahervafaei, and Tarighi, 2018; Jensen and Meckling, 1976). However, a committee with more members would likely take more time to coordinate and make decisions than one with fewer members. In Bangladesh, AC members are appointed based on the will of sponsor directors because they hold significant boardroom control. The representation from institutional investors and block-holders in the corporate boardroom is negligible, which makes the sponsor directors more powerful in corporate decision-making. So, the extent of the AC size becomes irrelevant in modifying corporate financial performance.

The AC autonomy is inversely associated with ROA, and the affiliation is statistically significant at the 10% level. The association signifies that AC autonomy in most of the listed commercial banks in Bangladesh reduces firm performance. It may be related to the idea that independent directors are not heavily involved in corporate affairs, which might hinder their holding of relevant information about such activities. Audit procedures may have a detrimental influence on the firm development and performance if the AC lacks full understanding of the business and its operations. Besides, instances are available where board chairs or CEOs held the AC chairs, which could have reduced the degree of freedom (Sharma and Lawrence 2009). A board chair or CEO on the AC, according to Beasley and Salterio (2001), reduces the AC's effectiveness; they concluded that a CEO on the AC undermines its freedom and results in less adequate monitoring.

Accounting knowledge of the AC members is negatively associated with ROA, but the association is insignificant. This relationship reveals that the knowledge and expertise of the AC members failed to add value to most of the listed banks in Bangladesh. The inverse relationship could be the outcomes from sub-standard CG devices in the banks in Bangladesh. Based on the literature, boards with effectual control tend to have more qualified accountants, which enhances the AC oversight and promotes conservatism (Krishnan and Visvanathan 2008). In Bangladesh, the adoption of CG gadgets depends on the desire of founding family members. In this case, knowledge and skills are given low consideration.

Again, it is debatable whether experience influences AC member efficacy if the members hold several directorships and may become overburdened and less able to perform their fiduciary duties. Vafeas (2003) found that the more directorships the AC members have, the more unproductive AC becomes. Experience alone is not enough to confirm financial expertise. One needs training and education to become a finance and accounting expert (Giacomino et al., 2009). As such, regulators should require that every AC member is able to read and understand the financial reports.

This research also finds that bank size and bank age are positively linked but not statistically significant. This situation implies that large and old banks fail to contribute to value addition in Bangladesh. The affinity between non-performing assets and ROA is negative, and the relationship is statistically significant. This reveals that the greater the amount of NPA, the lower the corporate financial performance in most banks in Bangladesh. Thus, the policy planners in the money market, particularly bankers, recognized the services, products, demands, and value chains that help expand the ability to produce upscale shared value for all stakeholders in an emerging country context, especially Bangladesh (Islam and Hossain 2019).

6. CONCLUSIONS

This study aimed at determining the effect of the board and AC characteristics on bank financial performance measured as return on assets (ROA) in an emerging economy. The study collected data from annual reports of the sample banks covering the period from 2016 to 2022. In total, 30 banks remain in the scope of the study based on the data availability criteria. For panel data analysis, the study used GMM as the pooled regression model is inappropriate for the study because of some autocorrelation problems in the dataset. An influential BOD is a basis for sound CG because the former strengthens the latter. Most significant business failures and financial scandals have arisen because of agency issues created by inadequate boards (Black and Kim, 2012).

The leading CG theory, known as the agency theory, asserts that an efficient Board is a vital element of CG that helps minimize agency issues. To increase board effectiveness, reforms in CG codes, rules, and laws should be appropriately enforced (Ujunwa 2012). Most CG studies offer insights into the alliance between the board and financial performance in developed nations; still, there is little knowledge regarding the same in emerging economies (Ararat, Claessens, and Yurtoglu, 2021), particularly in Bangladesh. As such, this study examined the affinity between board attributes (board size, board independence, and ownership concentration), and AC characteristics (size, freedom, financial expertise, and corporate financial performance) signifying that this study is unique in Bangladesh.

The outcomes of this study reveal that board features (for example, size, freedom, and ownership concentration) and AC attributes (such as AC size, AC freedom, AC meetings, and AC financial expertise) fail to enhance bank performance in Bangladeshi banks. The question arises: what variables matter for bank performance, and what variables do not help maximize bank value? This study thought that the appointment procedures of some key personnel in some vital positions follow the classic CG guidelines, which need to be reviewed and revised, particularly for banks that do business by collecting money mostly from depositors. In Bangladesh the CEOs, CFOs, outside directors, and the head of the AC are appointed by the BOD, mainly by the dominant shareholding directors, based on, in most cases, family connections, favors, and choices, ignoring the level of skills and expertise (Rashid and Hossain 2022). CG of Bangladeshi banks has become a family-based governance practice, where most bank board members are from controlling families. Thus, the regulatory body should rethink the selection strategy of these key leadership personnel.

This research recommends that the central bank and the ministry of finance should retain the power to nominate some key personnel, such as CEOs, CFOs, and the head of the AC, based on a pre-established level of talent and expertise, particularly for the Bangladeshi banks; otherwise, public money holds no guarantee. Besides, there should be at least one independent director on the bank board from the depositors to oversee their interests, and the central bank or the Ministry of Finance should develop such an appointment strategy. The effect of institutional or founding family members on the bank board is assertive in most cases. The excess controlling power of the founding families/ institutional directors enables them to tunnel the resources from one company to another through related party transactions or other forms, which reduces the bank value (Al-Jalahma, 2022). In addition, the head of the AC, in some cases, is the board chair or CEO. In those cases, the AC cannot work freely and, as such, leads to a decrease in bank value. This paper recommends rectifying CG gadgets, especially in the banking sector, when Bangladesh aspires to ensure morality and transparency in business.

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