

A modern conference room with a long, light-colored wooden table and several grey office chairs. The room has large windows on the right side, providing a view of a cityscape. The ceiling is white with recessed lighting. A semi-transparent grey box with a red border is overlaid on the image, containing the title text.

# Corporate Governance in NBFIs and It's Impacts on Company's Performance

Internship Report  
on  
“Corporate Governance in NBFIs and It’s Impacts  
on Company’s Performance”

**Prepared for:**

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Date: May 4, 2017

## **Approval Letter**

This is to certify that **Taposh Roy**, ID: 12304054, Student of the Bachelor of Business Administration (BBA), BRAC Business School, BRAC University, has successfully completed his assigned Internship Report on “**Corporate Governance in NBFIs and It’s Impacts on Company’s Performance**” within the given time period.

He was placed in Corporate Business and Finance & Accounts Departments at IPDC Finance Limited, one of the leading Financial Company in Bangladesh. He got an opportunity to experience the corporate culture and have experiences related to accounting and finance such as- accounting entry, loan proposal, vendor payment, bank reconciliation, etc.

The report has been prepared following the internship report guideline for BBA students and instructions from me.

I wish for his career prosperity and happiness in life.

Supervisor,

**Dr. Suman Paul Chowdury**

Assistant Professor

BRAC Business School

BRAC University

## Letter of Transmittal

May 4, 2017

Dr. Suman Paul Chowdury  
Assistant Professor  
BRAC Business School  
BRAC University

**Subject: Submission of Internship Report on “Corporate Governance in NBFIs and It’s Impacts on Company’s Performance”**

Dear Sir:

This is to inform you with pleasure and respect I am submitting my internship report on “Corporate Governance in Non-Banking Financial Institutions in Bangladesh and its impacts on Company’s Performance”. In the last few months of my internship period at IPDC Finance Limited, I was introduced to corporate culture and had opportunity to learn some new things. It is a requirement as per BRAC University policy for the students to submit the reports on given topic after the internship period ends. However, it is indeed another good opportunity to work under you for the purpose of this report completion. I have tried hard to write the report and I gone through some research and analysis in doing this report, which was a good learning curve for me.

Even though I put great efforts on preparing the report, I am glad to address with you for any mistakes and flaws or lacking regarding this report. Your assistance is highly acknowledged and I am very thankful for the opportunity to work under your advices.

Yours Faithfully,

Taposh Roy  
ID: 12304054  
BRAC Business School  
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## Acknowledgement

At the first place, I am very grateful to my academic supervisor Dr. Suman Paul Chowdury, Assistant Professor at BRAC University, for the guidance he provided to me regarding this report. His cooperation has contributed to the effectiveness of the report.

I would like to thank Mr. Emran Khan, Executive, and Corporate Business, IPDC Finance Ltd., who was my line manager and organizational supervisor during my internship period. I also thank the Mr. Rafiq, Manager of Finance and Accounts, IPDC Finance Ltd., other respected employees of IPDC with whom I have had a good communication and for giving opportunity to learn new things and giving advices regarding this report.

In addition, I am grateful to The Supreme Personality- Godhead for keeping me mentally focused, and giving me strength to complete the report.

## Executive Summary

The study examines the impact of Corporate Governance on performance of Non-Banking Financial Institutions (NBFI) in Bangladesh. Security and Exchange Commission (SEC) has a certain guideline for the Corporate Governance in our country for the listed companies. A total of four (04) hypotheses, taking Corporate Governance Mechanisms and Firm Characteristics into consideration as independent variables, are developed in order to find out the impacts on Firm Performance. Since the focus of the study is on the NBFI, a total thirteen (13) number of institutions' data, exerted from annual reports, and 65 of firm's years have been observed. For the purpose of data analysis, regression analysis has been conducted using the statistical applications- SPSS and MS Excel. The study has found that there is no impact of female member inclusion in boardroom , and the same time Independent Director does not have influence on the performance of the NBFI in Bangladesh. In contrast, the results support the hypotheses, relationship of Board of Director and Audit Committee with the performance of the company. Even though many researchers have suggested independent director and female member dictate good performance, this study refutes and concludes opposite view. The study have also seen the leverage, one of the firm characters, has strong relationship with the performance of NBFI. This study gives an insight of the corporate governance in NBFI in Bangladesh, gives limitations and proposes some recommendations to improve the corporate governance for the better financial performance.

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# Chapter 1

# Introduction

## 1.1 Rationale of the Internship Report

After the completion of Academic courses in BBA, internship at a company is very effective way to be introduced with practical and relevant knowledge, skills, and experience. It also help build network, commination skill, gain self-confidence, beat odds in life, and many more. However, as per BRAC University internship policy, with a view to getting field exposure and getting an opportunity for translation of theoretical concepts in real life situation, students are required to have internship programs in which there should be a 10 weeks of organizational attachment and 2 weeks of report finalization work. Through the internship report, a student can apply his/her analytical and critical abilities on a given topic and it is an important aspect of the internship experience in professional field.

## 1.2 Timeline of the Report

From January 01, 2017 to April 30, 2017

## 1.3 Methodology

All the data have been collected from the secondary sources, such as- Annual Reports, Research Articles on Internet, and websites.

## 1.4 Limitations

- Unable to collect bigger sample size due to insufficient time
- Confidentially, of IPDC had to maintain.
- Not much of Primary Sources of Information

## Chapter 2

# IPDC- at a Glance

## 2.1 Background

IPDC Finance Limited, previously known as Industrial Promotion and Development Company of Bangladesh Limited, is one of the leading Non-Banking Financial Institutions in Bangladesh. The company is a public limited Company incorporated in Bangladesh under The Companies Act 1913 (now the Companies Act 1994), listed with the Dhaka and Chittagong Stock Exchange Limited since December 3, 2006. IPDC got the license as Financial Institution under the Financial Institutions Act 1993 on February 7, 1995. At the end of October 2015, BRAC, Ayesha Abed Foundation and RSA Capital Limited have acquired substantial shareholding in IPDC through a Strategic Alliance Agreement with Aga Khan Fund for Economic Development (AKFED). Since then, the reconstituted Board of IPDC started to provide governance level leadership to the management with a reinvigorated business expansion model. Since its inception in 1981, IPDC has played a pivotal role in reshaping the private sector industrialization of the country through innovative financial products and services. Today IPDC is a diversified financial institution with a wide range of products and services covering corporate finance and advisory services, SME finance supply chain finance, retail wealth management and retail finances. The principal businesses of the Company are related to finance and finance associated activities. These businesses include deposits mobilization; credit to corporate organizations; Retail and SMEs, factoring finance; project finance; leases; hire purchase; equity/quasi-equity investments and advisory services.

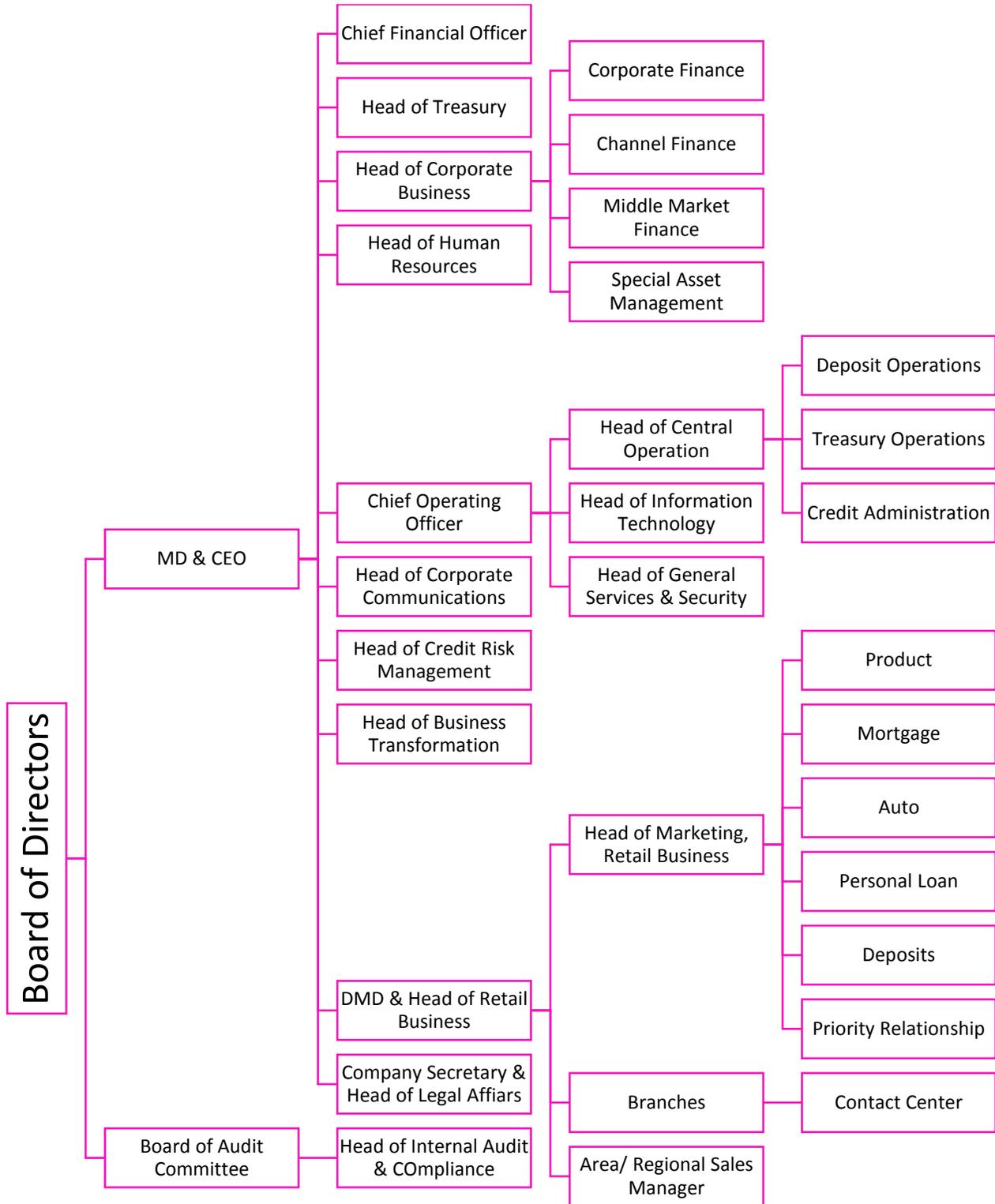
## 2.2 Branches

Currently, IPDC Finance Limited has been providing multiple business services through its 9 branches including Head Office, and those are-

<b>Outside Dhaka</b>	<b>Inside Dhaka</b>
Chittagong	Motijheel
Sylhet	Dhanmondi
Narayangonj	Uttara
Gazipur	
Bogra	

*Source: IPDC Website*

## 2.3 Organizational Structure



Source of Data: Annual Report of IPDC, 2016

## 2.4 Board of Directors of IPDC

The current Board of Director, consists of eleven (11) members-

Dr. Muhammad Musa	Chairman – Nominated by BRAC
Mr. Amin H. Manekia	Vice Chairman- Nominated by AKFED
Mr. Mohammad Mamdudur Rashid	Nominated by BRAC
Mr. Asif Saleh	Nominated by BRAC
Mr. Shameran Abed	Nominated by Ayesha Abed Foundation
Mr. Sameer Ahmad	Nominated by RSA Capital Limited
Mr. Sadaruddin Ahmed	Nominated by GoB
Mr. Md. Enamul Hoque	Nominated by GoB
Ms. Nasreen Sattar	Independent Director
Mr. Salahdin Irshad Imam	Independent Director
Mr. Mominul Islam	Managing Director - Ex Officio

Source: Annual Report 2016, IPDC

## 2.5 Distribution of Shareholding

IPDC has a total 1,515,005,670 shareholders with 88.95% domestic holding and 11.05% foreign holding. Details of shareholding structure are as follows:

	As of December 31, 2016	
	Number	% of holding
<b>Foreign</b>		
AKFED	<b>16,744,132</b>	<b>11%</b>
<b>Domestic</b>		
BRAC	37,875,141	25%
Ayesha Abed Foundation	15,150,057	10%
RSA Capital Limited	7,575,028	5%
GoB	33,147,664	22%
General shareholders	41,008,545	27%
	<b>134,756,435</b>	<b>89%</b>
	<b>151,500,567</b>	<b>100%</b>

Source: Annual Report 2016, IPDC

## 2.6 Mission

To enable our customers and communities to rise unbound, to live up to their fullest potential by extending innovative financial solutions in a friendly, timely, transparent and cost-effective manner.

## 2.7 Vision

To become the most passionate financial brand in the country with special focus on youth, women and underserved areas.

## 2.8 Products and Services

IPDC provides services to Corporate, SME and Individual clientele for their finance and savings needs. Besides, IPDC also offers easy and customized solutions and advisory services to Corporate and SME clients for their new undertaking under the structured finance wing.

Following is the list of products and services offered by IPDC under the Corporate, SME and Retail business segments:

### □ **Corporate Business:**

Products under corporate finance/business are-

- **Lease Finance;** against industrial machineries, commercial equipment, engines, etc.
- **Term Loan;** provided to meet various capital or fixed expenditures
- **Project Financing;** large-scale investment, raise funds through syndication as being the lead arranger for the financing, for setting up of a new unit as addition to the existing product line and capacity, a new concern of an existing group, a new Joint Venture project of an existing company, etc.
- **Short Term Financing;** for the working capital needs of a company.
- **Investment in Preference and Common Share;** financing and getting payments through redemption of the preferred shares over the tenure and receiving dividend from equity shares.

### □ **Small and Medium Enterprises (SME) Business:**

For the growth and development of Small and Medium Enterprises, IPDC provides credit support to potential entrepreneurs. With the belief of 'Jago Uchase', IPDC has focused on SME business

in order to alleviation of poverty, creation of employment opportunities, women empowerment and equitable distribution of income as well as diversification of industrial sector in Bangladesh.

Followings are the short description of SME products-

- **Lease Finance;** offered to small/medium size business for fixed assets procurement.
- **Long Term Finance;** to meet various regular capital/fixed asset expenditures.
- **Short Term Finance;** to meet urgent fund requirement for any interim period.
- **Financing Women Entrepreneurs;** giving credit support for women empowerment
- **Factoring;** providing advance cash against invoices or bills to meet their liquidity needs.
- **Work Order Financing;** to bridge the gap between time of processing the order and receipt of payment.

#### □ **Retail Business**

A short description of products under Retail business segment is given below:

- **Savings Schemes;** deposit premium, millionaire deposit, ultiflex deposit schemes.
- **Deposit Schemes;** annual profit, cumulative profit, fixed deposit general, monthly profit, double money deposit, quarterly profit schemes.
- **Home Loan;** to meet the individual needs for housing solutions.
- **Auto Loan;** car financing for individuals and institutions.
- **Personal Loan;** loans for personal need.
- **Club Royal;** personal financial advice to the high-value customers.

Source of list of products and services: Annual Report, 2016 (IPDC)

## Chapter 3

# Responsibilities as an Intern

### 3.1 Me at IPDC

My internship at IPDC was started from January to April 2017. I had been in Corporate Business for almost 1.5 months and then I switched to Finance and Accounts Department for the rest of the internship period.

The first few days, I had not been assigned any works but reading documents, files, credit proposal, etc.

- In both departments, I was involved in regular clerical jobs like *Photocopying, Stapling, Cheque Signing from Signatories, Punching documents, Making Files, Searching Files from Wooden Boxes, Proof Reading, and Scanning Documents etc.* Apart from those works, I had typed annual report and data from hard copy to MS Word and Excel for the help of the credit proposal making by the designated employees of IPDC.
- At the same time, I was fortunate to engage in the process of Annual Report making for the year of 2016, while I was in Finance and Accounts Departments. Some of the responsibilities were- Horizontal and Vertical Analysis, Generating Charts, Proof Checking, Communicating with Corporate Communication etc.
- I had also involved in Making Vendor Payments and keeping records of that.
- In Finance and Accounts Department , I did perform Bank Reconciliations for some Banks concerned with IPDC.
- Sometimes, I had posted entries into Bank Ultimus, for some accounting entries such as- provision creation, advances, adjustments etc.

Apart from the work responsibilities, I was very fortunate to meet and communicate with wonderful-minded employees in the company. They helped me with advice, teaching properness. Initially, I was culturally shocked but quickly I recovered from and accepted as normality in corporate life.

After All, my association with IPDC for the three months of Internship, I got a glimpse of Corporate Culture, the People, Behaviors which would be helping for professional life in future.

**Chapter 4**

**Corporate Governance and  
Firm Performance**

## 4.1 Introduction

Corporate Governance is a guideline and system to govern a company. It also adjusts the interest between the management and the shareholders that helps reduce the agency problem. In order to make better decisions, ensure the flow of right information to the right people in right time, ensure transparency as well as achieve the goal of a company, the importance of corporate governance in any company is profound. The maintenance of good corporate governance standards in financial institutions is considered significant in monitoring corporate and managerial performance due to their high (debt or equity) stake in a large number of companies (Datar, 2004). At this point, the question arises how to practice and safeguard Corporate Governance in a company. There are some mechanisms of corporate governance, including internal and external aspects, such as – Inclusion of Female Board Members, Audit Committee, External Auditor, Number of Board Size, Independent Directors, Ownership Patterns and many other ways (Chowdhury, 2015).

## 4.2 Objective of the Study

This study is based on the quest of finding the answers to the issue of corporate governance and its importance on performance and impact on Earning Management of Non-Banking Financial Institutions in Bangladesh. Is there any impact (positive or negative or none) of Gender Diversity, Board Size, Independent Director, and Audit Committee on Firm's performance? At the same time, is there any relationship with Earning Management and Corporate Governance mechanisms? There are vast number of empirical researches conducted regarding this issue on different countries and international perspectives. However, in Bangladesh research on Corporate Governance especially in NBFIs has not done much in number. Using the last 5 years (year 2010 to 2015) of data from numbers of Non-Banking Financial Institutions in Bangladesh, the study has tried to run regression analysis in order to find out the answers raised above.

## 4.3 Methodology and Limitation

Data Analysis tool- *Regression* on excel has been used to analyze the variables. This study focuses on how independent variables influence or relate with dependent variable. Corporate Performance (measurement variables- Net Sales Turnover/Net Income/ROE/ROA/EPS/Total Assets) and Earning Management (measurement variable- REO) are the two separate dependent

variables. On the other hand, the Corporate Governance Mechanisms ( such as- Board Size, Gender Diversity, Independent Director, Audit Committee) are taken as the dependent variable for the regression analysis.

Along with regression, correlation and descriptive statistics analysis have been conducted in this study.

For the analysis, a sample size of thirteen (13) Non-Banking Financial Institutions in Bangladesh, listed in DSE (Dhaka Stock Exchange) has been taken, for the financial years from 2011 to 2015, totaling (13\*5) 65 number of observations. All the data sets related to dependent and independent variables are collected from the annual reports published by those NBFIs.

#### **Sample Description**

<b>Year</b>	<b>Industry</b>	<b>Number of Firms in the sample</b>	<b>Observed Firm Years</b>
2011	NBFI	13	13
2012	NBFI	13	13
2013	NBFI	13	13
2014	NBFI	13	13
2015	NBFI	13	13
<b>Total Observations (Firm Years)</b>			<b>65</b>

#### **Limitation**

One of the biggest limitations of the study is lack of Female Board Members in Non-Banking Financial Institutions in our country. In some cases, it has been found there is zero (0) representation of female directors, as a results the study has found it difficult or could not support the notion of female inclusion as a positive impact for the firm performance. At the same time, the study contradicts with some assumptions based on researched data, I anticipate, due to lack of widespread and proper implication Corporate Governance in NBFIs. Another limitation, or must say , a constraint, is most of the variables especially corporate governance mechanisms have almost same number of (say BOD, Independent Director etc.) members over the five observed years in a company. Thus, the results may not reflect the corporate governance in other

countries apart from Bangladesh. Moreover, increase in sample size could result in better results than that of this study.

#### 4.4 Rationale of the Study

Corporate governance constitutes the laws, institutions and mechanisms that serve the efficient and effective allocation of scarce resources in a company. In Bangladesh corporate governance is a prevailing issue and essential to the financial health of the country with a proactive approach to implement and enforce an appropriate corporate governance model (Rashid, Zoysa, & Zoysa, 2007). However, the Non-Banking Financial Institutions (NBFI) in Bangladesh are not having full banking license and not overseen by any banking regulatory agency, who are providing bank related financial services, such as investment, risk pooling, contractual savings, and market brokering. Apparently, NBFIs need to have a good corporate governance system (Moudud-Ul-Huq, 2014). Thus, there could ensure and promote a fairer and trustworthy management in NBFIs. This is the reason, through this study, it has been tried to find out the corporate governance in financial institutions in Bangladesh and the impacts on the performance, that can result in a message for importance of implementation of proper corporate governance in the NBFI industry.

#### 4.5 Literature Review and Hypothesis Development

##### **Board Size**

Board size is an important aspect in Corporate Governance and many studies have examined the impact of board size on firm performance. Mohapatra (2017) has conducted an empirical study on the influence of board size on the firm's financial performance in India which has been concluded there is a significant impact of Board size on firm value and performance. However, Jensen; Yermack; Garg; Eisenberg, Sundgren & Wells (as cited in Mohapatra, 2017) argue on smaller board size to be more efficient than the big size of board member.

Fama and Jensen; and Stulz (As cited in Ming & Gee, 2008) on the issue of board size, suggested having a tightly controlled shareholding by a few directors lead to expropriation of corporate wealth through excessive compensation package which subjects a company to adverse selection problems. The small number of board member may choose to deploy internally generated funds

to finance non-productive projects without thinking of returning excess cash to shareholder in terms of higher dividend and share repurchase. Abed et al., (As Cited in Abbadi, Hijaz, & Al-Rahahleh, 2016) found that the size of board of directors is the only variable among the existence of independence members within the board of directors, the size of the board of directors, the role duality (CEO/chairman), the percentage of insider ownership that has a significant relation with earnings management.

*Hypothesis 1: Increase in Board Size can increase the firm performance*

### **Independent Director**

The one way of power distribution can be indicated by the composition of the board of directors. The composition of the board members may infer the inclination of strategic change through a positive payoff in a firm can be gained, Golden and Zajac, (as cited in Luan & Tang, 2007). According to Gul and Leung (as cited in Luan & Tang, 2007), with the lack of Independent director, a company leading by insiders can hamper the function of the board and jeopardize the wealth of the shareholders. They also pointed out the importance of having independent directors in the board composition for the sake of monitoring the management more efficiently and effectively to reduce agency costs, building good network ties with other institutions and with the involvement of external parties and insuring significant financial transparency. Weisbach; Byrd and Hickman; Dechow, Sloan and Sweeney; Peasnell, Pope and Young (as cited in Osma, 2008) confirm that the independent directors influence the board decisions and are capable of spotting and constraining the practices of earning management. There is an evidence consistent with independent directors being expert monitors of management that emphasize the monitoring role of independent directors and it can be concluded that the inclusion of independent directors may improve company's long-term performance (Osma, 2008). Therefore, Mittal ( as cited in Kishore, 2017) points out the increased presence of Independent directors in the boardroom can insure effective deterrent to fraud and mismanagement, inefficient use of resources, inequality and unaccountability of decisions . Besides, Clarke (As cited in Kishore, 2017) says Independent directors have long been viewed as a solution to many corporate governance problems.

*Hypothesis 2: Independent Directors may affect company's performance*

## **Audit Committee**

Klein's study ( As Cited in Abbadi, Hijaz, & Al-Rahahleh, 2016) has found that firms with boards and/or audit committees composed of independent directors are less likely to have large abnormal accruals and the boards structured to be more independent of the CEO may be more effective in monitoring the corporate financial accounting process. Another study by Ghosh et al., (As Cited in Abbadi, Hijaz, & Al-Rahahleh, 2016) reported that earnings management does not vary with board composition and structure, or with audit committee composition, expertise, and ownership. In contrast, board size and audit committee size, activity, and tenure are associated with earnings management. Liu et al (As Cited in Abbadi, Hijaz, & Al-Rahahleh, 2016) suggested that independence of audit committee, the frequency of meetings and the presence of nomination committee are negatively related to earnings management. However, the independence of the board and firm size are positively related to earnings management. Swastika's (As Cited in Abbadi, Hijaz, & Al-Rahahleh, 2016) results showed a significant and negative relationship between audit quality and firm size on one hand and earnings management on the other, a significant and positive relationship between board of director and earnings management.

*Hypothesis 3: Audit committee has positive relationship with firm performance*

## **Gender Diversity**

Gender Diversity in Boardrooms has received a great attention in recent years, on the issue of value creation by the presence of women leadership in the company There have been several studies to find out the relationship between Gender Diversification in Board of Directors with the firm performance and earning management , however past empirical evidence is not conclusive on this matter (Dang & Nguyen, 2016). Some researchers, such as Carter, Simkins, & Simpson (2003), Shrader and Blackburn (As cited in Dang & Nguyen, 2016) have found a possitive relationship , and others such as., Francoeur et al; Rose ( As cited in Dang & Nguyen, 2016) show no effects of women directors or even , study by Adams and Ferreira (As cited in Dang & Nguyen, 2016), shows negative impact of gender diversity on company's performance. On the other hand, Nguyen, Locke, & Reddy (2015) have conducted a research finding out the number of female directors in the boardroom that actually make a difference in Firm's Performance. Their study says, increase in number of female has stronger effect than the less number of female board

members. Both theoretical and empirical findings in agreement with the perspectives of agency theory and resources dependence theory regarding the positive influences of board diversity on board effectiveness hold even after taking into account dynamic indigeneity, simultaneity, and unobserved time-invariant heterogeneity inherent in the corporate governance and firm performance relationship.

*Hypothesis 4: Inclusion of Female Directors may positively affect firm’s performance*

## 4.6 Model

The basic function for the analysis , the study has been used-

*Firm Performance is the Function of = (Corpotate Governance , Firm’s Characteristics )*

Independent Variables (X) = Corporate Governance, Firm’s Characteristics

Dependent Variable (Y) = Firm Performance

### Regression Model Specification

$$roa2 = a + bdsiz + indir2 + femldir2 + acsize + tassets + growth + leverage$$

Where,

Code	Variable Name
<b>Independent Variables: Corporate Governance Mechanisms</b>	
bdsiz	Board Size
indir2	Percentage of Independent Directors against Board Size
femldir2	Percentage of Female Directors in Board
acsize	Audit committee size
<b>Independent Variables: Firm’s Characteristics</b>	
growth	Growth of Company’s’ Total Assets
leverage	Debt-Asset Ratio
<b>Dependent Variables: Firm Performance</b>	
roa2	Return on Assets

## 4.7 Analysis & Findings

### Descriptive Statistics

**Table 1 : Descriptive Statistics**

<i>Variable</i>	<i>N</i>	<i>mean</i>	<i>sd</i>	<i>min</i>	<i>p25</i>	<i>p50</i>	<i>p75</i>	<i>max</i>
<b>roa2</b>	65	0.0130065	0.0156713	-0.0517138	0.0062359	0.0151869	0.0211366	0.0511246
<b>bdsiz</b>	65	11.24615	1.159617	9	11	11	12	15
<b>acsiz</b>	65	4.8	0.731439	3	5	5	5	7
<b>tassets</b>	65	1.74E+10	1.45E+10	2.66E+09	6.76E+10	1.33E+10	2.34E+10	7.34E+10
<b>indir2</b>	65	0.1639829	0.0629307	0	0.1428571	0.1666667	0.2	0.3333333
<b>femldir2</b>	65	0.1214614	0.0873149	0	0.0769231	0.1	0.1818182	0.3333333
<b>leverage</b>	65	0.8370736	0.167093	0.5962291	0.7339981	0.8283369	0.889221	1.827937
<b>growth</b>	50	0.0382611	0.48864	-0.769724	-0.245303	-0.129121	0.2730035	1.583664

The above table shows the average firm performance is 1.30%, minimum of 0.517% to maximum positive 0.5112%, considering 'Return on Asset' as the measurement variable for firm performance.

The average number of board size in NBFIs, as per the table, is about 11 Members in Boardroom. Minimum has been counted as Nine (09) and maximum member is up to 15. On an average roughly 11, close to 12, is pretty much in the range of Security and Exchange Commission guideline for the Board Size (min 5, Max 20).

According to the Security and Exchange Commission (SEC) guideline for Corporate Governance, it is a requirement to have at least one-fifth (1/5) Independent Director(s) of the total number of Board of Directors in a company. Unfortunately, in our Non-Banking sector, some company do not comply the law since the above table indicates the minimum independent director's is zero (0) and the average percentage (%) of Independent Director is less than one (1).

On the other hand, the audit committee size is on an average- 4.8, almost 5 members per company that is 2 more than the requirement of SEC. The law says, there should be at least three members in an audit committee, and the table shows the minimum size of audit committee is three (03). Therefore, it can be said, NBFIs in Bangladesh do follow the rules for Audit committee size.

The above table also shows that the number of female member, on an average, in a non-banking financial institution is 12.1% against the board size that indicates most of the firms do not have enough female directors.

The leverage (debt-asset ratio) has seen 0.837 (average), ranging from 0.596 to 1.828. Besides, the average total assets growth over the five years (2011-2015) is 3.827%, having negative minimum growth (-7.679%) to good positive maximum growth (15.84%).

## Correlation

**Table: 2 Correlation matrix of the explanatory variables**

	<i>roa2</i>	<i>bdsiz</i>	<i>acsiz</i>	<i>tassets</i>	<i>indir2</i>	<i>femldir2</i>	<i>leverage</i>	<i>growth</i>
<i>roa2</i>	1							
<i>bdsiz</i>	0.1285	1						
<i>acsiz</i>	-0.3052	0.2529	1					
<i>tassets</i>	0.1803	0.2237	0.1894	1				
<i>indir2</i>	-0.0554	-0.0319	0.078	0.2336	1			
<i>femldir2</i>	0.0684	-0.365	-0.1555	0.0007	0.1614	1		
<i>leverage</i>	-0.5045	0.1079	0.0848	0.074	0.2493	-0.0274	1	
<i>growth</i>	0.0374	0.3481	0.1881	0.1229	0.1312	0.0965	-0.1449	1

The above correlation matrix shows, Return on Asset (roa) has relationship with Audit committee size (acsiz) and leverage (considering  $> |.25|$  for determining any form of relationship). Besides, growth of Total Assets and Female Directors correlate with Board Size, scoring 0.348 and -0.365 respectively.

## Regression

The results of regression analysis is given below-

**Table 3 : Summary of Regression Analysis**

<i>road2</i>	<i>Coef.</i>	<i>Std. Err.</i>	<i>t</i>	<i>p&gt;  t  </i>	<i>[95% Conf. Interval]</i>	
<b>bdsiz</b>	0.0048776	0.0021246	2.3	0.027	0.0005899	0.0091652
<b>indir2</b>	0.018062	0.031967	0.57	0.575	-0.04645	0.0825741
<b>femldir2</b>	0.0244607	0.026169	0.93	0.355	-0.02835	0.077718
<b>acsiz</b>	-0.0077446	0.0027224	-0.84	0.007	-0.013239	-0.002581
<b>tassets</b>	2.74E-13	1.50E-13	1.7	0.082	-3.61E-14	5.84E-13
<b>growth</b>	-0.0048768	0.0045924	-1.06	0.294	-0.014145	0.0043911
<b>leverage</b>	-0.0532343	0.0115297	-4.62	0.000	-0.076502	-0.299664
<b>_Cons</b>	0.0313295	0.0268523	1.17	0.25	-0.002861	0.0855196

For the analysis of the regression model, SPSS (stata) has been used. The results indicates the mixed relationship with our hypotheses, refuting the relationship Independent Director and Gender Diversity with Firm's performance. This implies that Independent Director and Inclusion Female member in Board cannot influence the firm's performance. Oppositely, there is significant relationship with Board Size and Audit committee size with Firm Performance.

Another aspect- Leverage, one of Firm Characteristics (used three measurement variables: 'Total Assets, Growth, and Leverage) has significant impact on Firm Performance.

With regard to *Hypothesis 1*, the results support the assumption that the Increase in Board Size increase the firm performance [ $p= 0.027 < .05$ ]. The result contradicts with Jensen; Yermack; Garg; Eisenberg, Sundgren & Wells ( as cited in Mohapartra, 2017), who suggested bigger board size do not impact on Firm performance. However, Mohapartra; Abed et al. (As Cited in Abbadi, Hijaz, & Al-Rahahleh, 2016) support the above finding.

Hypothesis 2 has proposed that Independent Directors may affect company's performance, but the evidence found here does not back the hypothesis, showing the P value is 0.575 which is less than .05. Surprisingly , this result generates utterly opposite view of many authors such as Golden and Zajac, (as cited in Luan & Tang, 2007); Gul and Leung (as cited in Luan & Tang, 2007);Weisbach; Byrd and Hickman; Dechow, Sloan and Sweeney; Peasnell, Pope and Young (as cited in Osma, 2008); Mittal ( as cited in Kishore, 2017).

Hypothesis regarding the audit committee with firm performance, it has been evident that there is a significant impact of audit committee ( $p= 0.007 < 0.05$ ). The result is very consistent with the study results of Klein (As Cited in Abbadi, Hijaz, & Al-Rahahleh, 2016); Swastika.

The regression do not support the *Hypothesis 4*, which gives the P value  $0.355 > 0.05$ . This implies that there is no impact of the Inclusion of Female Directors on the performance of the non-banking financial institution in Bangladesh. The results oppose the findings of Dang & Nguyen; Carter, Simkins, & Simpson, Shrader and Blackburn (As cited in Dang & Nguyen, 2016); Nguyen, Locke, & Reddy. However, Francoeur et al; Rose (As cited in Dang & Nguyen, 2016); Adams and Ferreira (As cited in Dang & Nguyen, 2016) study are well supported by the results.

## 4.8 Corporate Governance and Firm Performance: Perspective of IPDC Finance Limited

**Table 4: Descriptive Statistics**

	<i>roa2</i>	<i>bdsiz</i>	<i>acsiz</i>	<i>tassets</i>	<i>indir2</i>	<i>femldir2</i>	<i>leverage</i>	<i>growth</i>
Mean	0.0206	10.8	4.6	7516080036	0.186	0.221	0.714	0.05002
Standard Error	0.002204541	0.374165739	0.24494897	256187328.4	0.006	0.0360194	0.006	0.01922
Median	0.018	11	5	7743863131	0.182	0.25	0.72	0.05572
Standard Deviation	0.004929503	0.836660027	0.54772256	572852281.3	0.014	0.0805419	0.0134164	0.03844
Sample Variance	2.43E-05	0.7	0.3	3.2816E+17	0.000200	0.006487	0.00018	0.00148
Kurtosis	3.088451964	-0.612244898	-3.33333333	-1.285442902	-1.212	-0.168668	-2.407407	1.76523
Skewness	1.77732255	0.512240833	-0.60858062	-0.324117495	-0.299	-0.935326	-0.165635	-0.85399
Range	0.012	2	1	1440927299	0.033	0.2	0.03	0.09252
Minimum	0.017	10	4	6761089327	0.167	0.1	0.7	-0.00194
Maximum	0.029	12	5	8202016626	0.200	0.3	0.73	0.09058
Sum	0.103	54	23	37580400180	0.930	1.105	3.57	0.20007
Count	5	5	5	5	5	5	5	4

The above table shows the Return of Total Assets (roa2) is 2.06% ranging from 1.7% to 2.9% over the observed five financial years of IDPC Finance Limited. The average board size is close to 11, which goes maximum of 12 in a year. Independent Director's percentage against board size is only 18.6%, which is very poor comparing the Security of exchange commission regulation for corporate governance required size- 20% of Board Members. Audit committee size is also on an average, almost, 5 members each year (required as per SEC regulation is minimum of 3 members). Female Directors percentage is 22.1% against the board size which is pretty much greater than the number of group (industry, considering 13 NBFIS) average which is 12.1%. The same better picture than NBFIs combined average can be seen in Growth of IDPC's total fixed assets which is almost 5% each year. However, on an average, leverage ratio is 0.714 which is lower than the NBFIs combined results.

**Table 5: Correlations**

	<i>roa2</i>	<i>bdsiz</i>	<i>acsiz</i>	<i>tassets</i>	<i>indir2</i>	<i>femldir2</i>	<i>leverage</i>	<i>growth</i>
<i>roa2</i>	1							
<i>bdsiz</i>	-0.449	1						
<i>acsiz</i>	-0.444	0.873	1					
<i>tassets</i>	0.795	-0.173	0.055	1				
<i>indir2</i>	0.454	-0.998	-0.899	0.149	1			
<i>femldir2</i>	0.722	0.263	0.238	0.738	-0.264	1		
<i>leverage</i>	-0.764	0.312	0.272	-0.515	-0.311	-0.696	1	
<i>growth</i>	0.158	0.247	0.237	0.448	-0.249	0.198	0.447	1

Analyzing the correlation of Firm performance with Corporate Governance and Firm Characteristics of IPDC Finance, it has found as remarkable that ROA ( Return on Assets) , for

measuring firm performance, has quite strong relationship (taking more than |0.25| for relationship measurement) with most of the variables- Board Size, Audit Committee Size, Total Assets, Independent Directors, Female Directors and Leverage. Beside, Board size has relationship with audit committee, independent director, female members and leverage. Similarly, Audit committee has relationship with independent director and leverage. Moreover, total assets have relationship with female directors and leverage, so does independent director with female members, growth and leverage. However, female director has relationship with leverage and leverage has relationship with growth.

**Table 6: Regression**

<i>Regression Statistics</i>	
Multiple R	1
R Square	1
Adjusted R Squa	65535
Standard Error	0
Observations	5

<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	7	0.0000972	1.39E-05	#NUM!	#NUM!
Residual	0	0	65535		
Total	7	0.0000972			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	0.010011979	0	65535	#NUM!	0.010011979	0.010012	0.010012	0.010011979
bdsi	8.06212E-05	0	65535	#NUM!	8.06212E-05	8.06E-05	8.06E-05	8.06212E-05
acsiz	-0.005493658	0	65535	#NUM!	-0.005493658	-0.00549	-0.00549	-0.005493658
tassets	3.6679E-12	0	65535	#NUM!	3.6679E-12	3.67E-12	3.67E-12	3.6679E-12
indir2	0	0	65535	#NUM!	0	0	0	0
femldir2	0.03357408	0	65535	#NUM!	0.03357408	0.033574	0.033574	0.03357408
leverage	0	0	65535	#NUM!	0	0	0	0
growth	0	0	65535	#NUM!	0	0	0	0

The regression analysis is not depicting the actual scenario of IPDC due to very small sample size.

### **Recommendation for IPDC**

In some aspects, IPDC has been maintaining good corporate governance such as- they have greater number of female representation in Board. However, they do not meet the minimum average independent directors' percentage against board size recommended by the SEC. They fall short on 18.6% to meet 20%.

## 4.9 Recommendation

The study found the lack of required percentage (%) of Independent Director against Board Size in many NBFIs in Bangladesh. To comply with the Security and Exchange Commission (CSE), there should at least 20% of Board of Directors be Independent. Besides, gender diversity in NBFIs in boardroom is not satisfactory. Since, in the hypothesis, it has been evident in many countries that inclusion of female members can improve firm performance; our NBFIs should promote this practice of bringing more female as board of directors, which could eventually make a different in company's overall performance. It is also recommended that since audit committee, as per this study results, affect positively, therefore, companies should increase more members to audit committee, instead of just maintaining the minimum requirement margin set by SEC. In addition, Board Size could have been played around, like increasing a bit, with a view to finding the optimal board size. Finally, all of the NBFIs should focus on more better implication of corporate governance in any other possible way for the smoothness of company's characteristics and performance.

# Chapter 5

# Conclusion

## 5.1 Conclusion

Corporate Governance has got large amount of attention these days. This study focuses on the Non-Banking Financial Institutions in Bangladesh in order to see the impact of corporate governance and impact on firm performance. Using some mechanism of corporate governance and firm characteristics, the study has tried to run regression model to find out the impacts. It has been found that Board Size matters- size has positive impact on firm performance. At the same time, Audit committee can lead to better results in financial performance in NBFIs. However, with surprise, the results show there is no impact of Female members inclusion in Boardroom and Independent Directors on the performance. In many companies, it has been seen a less number of female representation and not much number of average audit committee size. The study also indicates a strong impact of leverage and growth on company's performance.

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