





## DOES GOOD GOVERNANCE PRACTICE LEADS TO SOUND FINANCIAL PERFORMANCE? EVIDENCE FROM RMG COMPANIES ENLISTED IN DHAKA STOCK EXCHANGE (DSE)

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### ABSTRACT

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The purpose of the study is to investigate the impact of good governance on financial performance as well as internal and external financial performance. The population of the study consists of 56 readymade garments companies enlisted in Dhaka Stock Exchange. 40 companies of the total population were conveniently selected as sample size for conducting the research. The data used in the study was collected from basically secondary source mainly extracted from the annual reports of the sampled companies during the study period of 2019. For performing the data analysis, rigorous econometric tools such as descriptive statistics, normality statistics, correlation test, multiple OLS regression analysis were used with the support of SPSS software (Version-23.0). The results of the study found that, companies' board structure, ownership structure and audit committee structure have significant impact on ROA used as proxy of internal financial performance and MBR used as a proxy of external financial performance. The study also found positive impact of firm specific control variable firm size on financial performance whereas institutional ownership affects financial performance of the studied companies inversely.

**Contribution/Originality:** This study contributes to existing literature about the role of sound corporate governance practice on companies' financial performance especially in reference to Readymade Garments industry sector which is the most export oriented industry in Bangladesh.

### 1. INTRODUCTION

Corporate governance may be defined as the process of promoting the compliance of law in written word, spirit and representing ethical conduct. Corporate Governance can be attributed as the structure by which organizations are directed and monitored (Cadbury, 1992). A sound corporate governance system plays a significant role in attaining the Millennium Development Goals and also considered as the prerequisite for sustainable economic development of an entity as well as for nation. A sound corporate governance system is not only required for attaining sustainable development but also crucial for solving of interest conflicts between majority and minority shareholders, managers and shareholders, stakeholders and shareholders to reduce agency problems. The corporate governance plays vital role in improving financial performance in any organization which is proved by the last financial distress over the world. Many accounting scandals and numerous cases of corporate governance malpractice brought about more attention to corporate governance along with business integrities issues.

Good corporate governance is also required for enhancing of profitability of organizations as well as for the attainment of corporate objectives. [Ahmed and Hamdan \(2015\)](#) examined the impact of corporate governance characteristics on firm performance in Bahrain Stock Exchange during the period of 2007 to 2011. They found that there is a positive influence of corporate governance principles on performance for the entire firm in Bahrain Stock Exchange. [Almoneef and Samontaray \(2019\)](#) explored the impact of corporate governance on performance of Saudi banking for the period of 2014 to 2017. Their findings demonstrate that board size, audit committee meeting and bank size has a positive impact in Return on equity on the other hand board independence has negative relationship with ROE. They also found that board size and bank size have a positive relation with ROA and board meeting's relation with ROA is opposite.

The current study is designed to investigate the impact of good governance practice on enhancing firms' financial performance especially in reference to the readymade garments companies enlisted in Dhaka Stock Exchange (DSE), Bangladesh. The findings and output will play a crucial role in resolving the agency problems in between management and shareholders. The information derived from the findings of the study will help management board of the respective industries to take decision regarding existing corporate governance practices in order to resolve the agency problems and improve the financial performance of the organization as well. The study is also valuable for future empirical and conceptual review to the researchers for conducting extensive study. In the first part of the study the statement of problems, purposes of the study are mentioned. Then researchers pointed out all the related literatures in relation to the study. In the next part the methodological aspects of the study are described. The following part consists of data analysis and findings. Finally, at the last part of the study mentioned major findings and made some recommendations in order to improve the current scenario.

## 2. RESEARCH PURPOSES

The study aims to attain the following purposes:

1. To present an overview of corporate governance practices in the RMG sector in Bangladesh.
2. To examine the impact of corporate governance practices on financial performance of selected RMG industries.
3. To make some recommendations for improving the current scenario of corporate governance practices in the selected RMG industries in Bangladesh.

## 3. LITERATURE REVIEW

A large number of prior studies were conducted by several researchers to investigate relationship between corporate governance and firm financial performance. Some of these literatures are stated below:

[Akdogan and Boyacioglu \(2014\)](#) tested 100 companies which are listed in Istanbul Stock Exchange (ISE) to find the relation between corporate governance and firm's performance, they found that, a significant and positive relationship available among the companies' application level of corporate governance with ROA & ROE. Another researchers ([Gupta & Sharma, 2014](#)) studies some Indian and South Korean companies based on corporate governance and performance of the firm. Their results illustrate that corporate governance has slightly a limited effect on both company's share price and on their financial performances. [Shahwan \(2015\)](#) examined the quality of corporate governance in Egyptian listed companies and their impact on firm performance and financial distress. His result shows the negative association between corporate governance and financial performance. [Javaid and Saboor \(2015\)](#) has conducted another study and selected 58 textile companies from Karachi Stock Exchange to determine the relationship between corporate governance index (CGI) and financial performance. The result says that CGI and firm performance has positive significant correlation for each index in dependent upon the measurement of financial performance. The study also confirms that companies having corporate governance mechanism has higher chance to acquire finance.

Azhar and Mehmood (2018) investigated top 10 listed textile companies on Pakistan Stock Exchange (PSE) and revealed that there is no direct relationship of board size, board composition & audit committee composition with the return on assets and net profit ratio. In another study (Velnamby, 2013) analyzed 28 manufacturing companies in Sri Lanka over five years and found no association in measuring performance with the governance. Dabor, Isiavwe, Ajagbe, and Oke (2015) evaluated 248 companies listed on Nigerian Stock Exchange (NSE) and finally came to a decision that there is no relation between board size and firm's financial performance. Independent board, ownership structure and board gender diversity didn't have any significant impacts on the performance. They also suggested that statutory bodies should imply the laws that will mandate all firms to maintain precise board size.

Many researchers tried to draw relationship between corporate governance specific factors and firms' financial performance. Brief overviews of previous literatures are described below:

### 3.1. Board Structure and Financial Performance

Yasser, Entebang, and Mansor (2011) examined the relationship between corporate governance elements (board size, board composition, CEO duality) with two financial performance measures (ROE & PM) of 30 textile companies which are listed in Karachi Stock Exchange. They found a positive correlation among ROE and PM with board structure governance elements (board size, board composition). Their study found no such relation between CEO duality and financial performance measures (ROE & PM). Their results are consistent with the prior empirical evaluations. In another study (Goel, 2018) observed that the main goal has been achieved by making the board more responsible to all stakeholders. Having at least one women director on board creates a significant development for Indian textile companies. Independent director also has more positive impact for the financial performance. This study reported a significant positive relationship between integrated framework of total corporate social performance and financial performance. Haider, Khan, and Iqbal (2015) discussed the effects and relationship between corporate governance practices and firm's financial performance in Islamic banking sector. They conducted their study using three (board size, number of meeting and audit committee size) variables for corporate governance and three (ROA, ROE, EPS) for indicating performance. Study reveals the positive significance of corporate governance variables on financial performances. Large board size helps to achieve more financial success for the selected companies.

Wei (2007) used 276 sample from china-listed companies to conduct a study and to find out the relation between state owned shareholding and corporate performance. He found that the portion of independent directors and supervisory directors, size of board, managers' incentives and audit committee have no such significant effects on company's financial performance. In another study (Christensen, Kent, & Stewart, 2010) tested the adaptation of Australian best practice of corporate governance with financial performance measured through ROA and Tobin's Q. The result shows that recommended corporate governance structure relating to the board subcommittee are right policy. On the other hand, the independence on board guidelines has a negative impact on ROA and Tobin's Q. Also, there is a conflicting result between the accounting and market measures for having CEO duality. Narwal and Jindal (2015) conducted an empirical study on Indian textile industry based to find out the relationship between corporate governance and firm's financial performance. Their study results that board size, board meeting and non-executive directors have no significant association with the profitability.

*H<sub>1</sub>=Board Structure significantly affect the financial performance of studied companies.*

### 3.2. Ownership Structure and Financial Performance

Qasim and Mohammad (2014) examined 281 firms which were listed in Abu Dhabi Stock Exchange to find out the relation between corporate governance (institutional ownership, governmental ownership, board size, audit quality) and firm's performance (ROA, Tobin's Q score). His result showed that there is a significant positive impact

of corporate governance on firm's performance except audit quality. He also suggested to extent the attitudes of shareholders to good corporate governance. Other researchers (Ciftci, Tatoglu, Wood, Demirbag, & Zaim, 2019) studied about the linkage between international corporate governance and performance of firm within Turkey. They found that when ownership is more concentrated and often in the hands of family then the performance is better. There was a positive impact between foreign ownership and larger board. But if there is cross-ownership they didn't found any influence in market performance and negatively associated with accounting performance. Lastly, they found that a higher part of family board member has no discernable impact in firm's performance. In another study (Filatotchev & Toms, 2003) studied the influences of organizational diversity, structure of ownership and board characteristics on strategic responses to industrial decline in UK textile industry. They showed that the surviving companies tended to have a higher level of organizational diversity. These companies also have larger institutional ownership and diverse boards. Higher investment, financial performance, and growth is related with these factors. Their results confirmed that these are consistent with the resource and service roles of the corporate governance factors.

Wei (2007) used 276 samples from china-listed companies to conduct a study and to find out the relation between state owned shareholding and corporate performance. He found that when state owned share is small there is positive correlation but when the portion is above 50 percent, it has significant negative impacts on performance. The portion of independent directors and supervisory directors, size of board, managers' incentives and audit committee have no such significant effects on company's financial performance. Another researcher (Shahwan, 2015) examined the quality of corporate governance in Egyptian listed companies and their impact on firm performance and financial distress. His result shows the ownership concentration and institutional ownership is not related to firm's performance. The study also shows the opposite effects on the corporate financial situation of a large book-to-market ratio.

*H<sub>2</sub>=Ownership Structure significantly affect the financial performance of studied companies.*

### 3.3. Audit Committee Structure and Financial Performance

Yasser et al. (2011) examined the relationship between corporate governance elements (audit committee structure) with two financial performance measures (ROE & PM) of 30 textile companies which are listed in Karachi Stock Exchange. They found a positive correlation among ROE and PM with audit committee structure. Their results are consistent with the prior empirical evaluations. In another study (Narwal & Jindal, 2015) conducted an empirical study on Indian textile industry based to find out the relationship between corporate governance and firm's financial performance. They observed a highly positive relationship between director's remuneration and profitability. Profitability of these companies is negatively associated with audit committee. Haider et al. (2015) showed in his study that there is a significant positive relationship between audit committee structure and financial performance of a firm. Reddy, Locke, and Scrimgeour (2010) tried to find out the effect of corporate governance practices on the financial performance of large publicly listed companies in New Zealand's capital market. Their findings indicate that the NZSC recommendations have positive effects on firm performance measured by Tobin's Q, Market to book ratio and ROA. The presence of a remuneration committee has a greater influence on financial performance.

*H<sub>3</sub>=Audit Committee Structure significantly affect the financial performance of studied companies.*

## 4. METHODOLOGICAL ASPECTS OF THE STUDY

### 4.1. Research Design and Sampling Techniques

The present study is quantitative in nature which has basically designed to explore the impact of good corporate governance practice on corporate financial performance of RMG companies. The population of the study consists of 56 RMG companies enlisted in Dhaka Stock Exchange (DSE). The study considered convenient

sampling method<sup>1</sup> for choosing the sample size. Forty (40) garments companies are conveniently selected from the total population.

4.2. Data Collection Procedures

The study is based on secondary data source. Necessary data required for conducting the study has been collected from the annual report of the respective companies for the time period of 2019. Data has been also collected from related articles, manuals and research papers.

4.3. Data Analyzing Technique

To analyze the collected data, the study has used the checklist of the selected sample companies. Normality test has been run to check the normality of the data. Various statistical tools such as: Descriptive Statistics, multiple regressions, correlation and collinearity statistics have been performed using IBM SPSS software (Version-23.0) to interpret the data.

4.4. Model Specification

The following regression equations are estimated to draw relationship between dependent and independent variables:

$$ROA = \alpha + \beta_1 BS + \beta_2 BI + \beta_3 CEOdu + \beta_4 Dil\_BOD + \beta_5 BP + \beta_6 MNO + \beta_7 IO + \beta_8 FO + \beta_9 ACS + \beta_{10} Dil\_AC + \beta_{11} FS + \varepsilon \text{-----}(1)$$

$$MBR = \alpha + \beta_1 BS + \beta_2 BI + \beta_3 CEOdu + \beta_4 Dil\_BOD + \beta_5 BP + \beta_6 MNO + \beta_7 IO + \beta_8 FO + \beta_9 ACS + \beta_{10} Dil\_AC + \beta_{11} FS + \varepsilon \text{-----}(2)$$

4.5. Variables Description

Table-1. Variables description.

Nature	Variables	Acronyms	Measurement
Dependent	Return on Assets	ROA	Profit before interest and Tax as a percentage of Total Assets.
	Market to Book Ratio	MBR	Market Capitalization divided by Net Book Value.
Independent	Board Size	BS	Total number of directors sits in the board.
	Board Independence	BI	The ratio of number of only total independent directors to the total number of directors on board.
	CEO Duality	CEO_du	The same person holds dual responsibility as Chair and CEO (It is taken as 1 if the CEO is chairman; otherwise it is taken as 0) (Dummy Variable)
	Diligence of BOD	Dil_BOD	Total number of board meetings held.
	Board Participation	BP	Rate of participation of directors in board meetings.
	Managerial Ownership	MNO	The ratio of shares held by CEOs, directors, and their immediate family members to total outstanding shares.
	Institutional Ownership	IO	Percentage of shares held by the institution.
	Foreign Ownership	FO	Percentage of shares owned by foreigners.
	Audit Committee Structure	ACS	Number of members in the audit committee.
	Diligence of Audit Committee	Dil_AC	Total number of meetings held by the audit committee.
Control	Firm Size	FS	Natural logarithm of total assets.

<sup>1</sup>A purposive sampling method is a non-probability sampling method which is selected by the researcher based on characteristics of a population and objective of the study. The purposive sampling is also known as judgmental, selective, or subjective sampling.

4.6. Conceptual Framework of Corporate Governance

The study used three independent variables namely Board Structure, Ownership Structure and Audit Committee Structure to measure the corporate governance practices of the sampled companies. Board Structure is measured by board size, board independence, CEO duality, diligence of BOD and board participation. Ownership structures of the companies are measured by managerial ownership, institutional ownership and foreign ownership of the respective companies. Audit committee structure of the companies measured by audit committee structure and diligence of audit committee. Furthermore, the study used two dependent variables namely internal performance and external performance for measuring financial performance. Return on Assets is used as a proxy of internal financial performance whereas Market to Book ratio is used as proxy of external financial performance of the sampled companies.

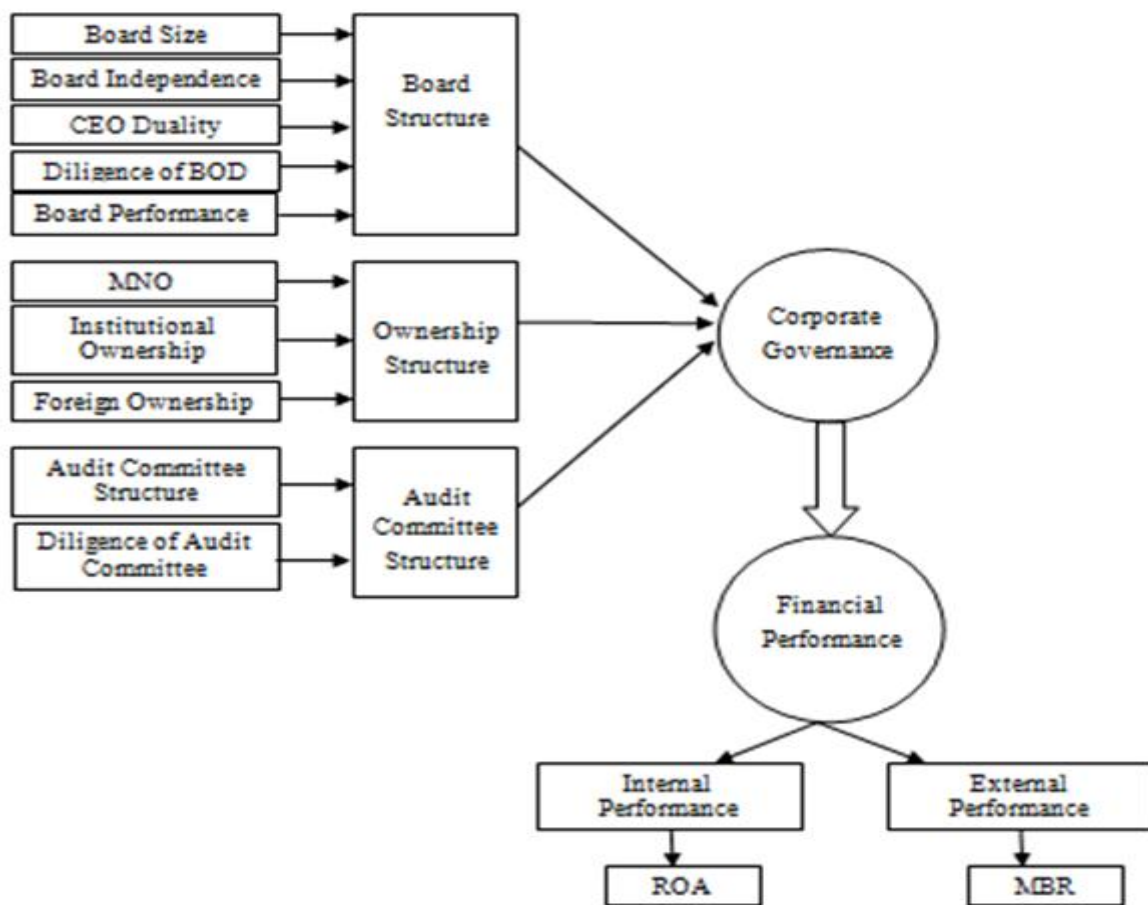


Figure-1. Conceptual framework.

5. DATA ANALYSIS AND FINDINGS

5.1. Descriptive Statistics

Table 2 (Descriptive Statistics) showed that, mean value for board size is 7 with minimum 4 and maximum 10 belong standard deviation of 1.73. The researcher found that, the mean value for board independence is .26 with minimum value .11 and maximum value of .60 with standard deviation .09. The mean value for CEO duality was .02 with minimum value of 0 and maximum value of 1 and standard deviation .16. The table also showed that, the mean value for diligence of Board of Directors was 8.44 with minimum value of 4 and maximum value of 23 whereas for the variable board participation rate the mean value was .83 with minimum value of .33 and maximum value of 1 belonging standard deviation .15. From the table we can also see that, mean value for managerial ownership variable is .42 with minimum .04 and maximum .72 belong standard deviation of .14. The mean value for



institutional ownership and foreign ownership are respectively .18 and .02. In case of audit committee structure and diligence of audit committee the mean value was 3.84 and 4.21 respectively with standard deviation of .59 and .66 respectively.

Table-2. Descriptive statistics of the variables

Descriptive Statistics						
Variables	N	Minimum	Maximum	Mean	Median	Standard Deviation
Board Size	40	4	10	7.05	7	1.73
Board Independence	40	.11	.6	.26	.25	.09
CEO Duality	40	0	1	.02	0	.16
Diligence of BOD	40	4	23	8.44	8	3.63
Board Participation	40	.33	1	.83	.85	.15
Managerial Ownership	40	.04	.72	.42	.43	.14
Institutional Ownership	40	.03	.55	.18	.17	.11
Foreign Ownership	40	0	.21	.02	0	.05
Audit Committee Structure	40	3	5	3.84	4	.59
Diligence of Audit Committee	40	3	6	4.21	4	.66
Firm Size	40	424780780	17791620483	5367993143.68	4219846737	3987145892.430
Return on Assets	40	.02	10.03	3.42	2.76	2.25
Market to Book	40	0.000000067	0.000111702	.00000825455	0.000000624	.000023261566
						Valid N (listwise)

## 5.2. Normality Statistics of Data

Table-3. Tests of normality.

Tests of Normality						
	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
BS	.197	38	.101*	.917	38	.208*
BI	.288	38	.056*	.721	38	.130*
CEO_du	.538	38	.200*	.152	38	.219*
DBOD	.207	38	.231*	.768	38	.366*
BP	.134	38	.004	.892	38	.002
MNO	.116	38	.200*	.973	38	.488*
IO	.170	38	.107*	.880	38	.401*
FO	.437	38	.120*	.400	38	.305*
ACS	.342	38	.213*	.756	38	.217*
DAC	.440	38	.030*	.638	38	.126*
FS	.169	38	.004	.878	38	.002
ROA	.130	38	.102*	.938	38	.213*
MB	.438	38	.070*	.394	38	.136*

Note: \*. This is a lower bound of the true significance.

a. Lilliefors Significance correction.

Table 3 represents the results from two well-known tests of normality, namely the Kolmogorov-Smirnov Test and the Shapiro-Wilk Test. The Shapiro-Wilk Test is more appropriate for small sample sizes (<50 samples). For this reason, the Shapiro-Wilk test as numerical means of assessing normality has been used by the study as our sample size was less than 50. If the Sig. value of the Shapiro-Wilk Test is greater than 0.05, the data is normal. If it is below 0.05, the data significantly deviate from a normal distribution. The table showed that, for the all the variables except board participation (BP) and Firm size (FS) the Sig. value is greater than 0.05 which means that all the data collected for conducting the study except BP and FS are normally distributed and not deviated from normal distribution of data.

### 5.3. Correlation Test

The Pearson Product Moment Correlation Coefficient is used by the study to explore the influence of independent variables and firms' specific control variables on the dependent variables. Correlation coefficient test is so much crucial which plays a significant role in determining whether there presents any association among the variable or not, before further analysis by regression analysis. The basic criterion for correlation coefficient matrix which is explained by the several researchers after observation that, coefficient value of 0.70 and above 0.70 denotes strong correlation, whereas coefficient ranged from 0.40 to less than 0.50 denotes moderate correlation and coefficient ranged from 0.00 to less than 0.40 denotes weak correlation among the variables. If the correlation coefficient will be greater than 0.90, there exists high multi-collinearity which may lead to unreliable regression analysis (Mirie, 2014).

Table-4. Correlation matrix (financial performance and board structure).

		ROA	MB	BS	BI	CEO_du	DBOD	BP
ROA	Pearson Correlation	1						
	Sig. (2-tailed)							
	N	40						
MB	Pearson Correlation	.648**	1					
	Sig. (2-tailed)	.000						
	N	40	40					
BS	Pearson Correlation	.719**	.747*	1				
	Sig. (2-tailed)	.000	.001					
	N	40	40	40				
BI	Pearson Correlation	.817**	.769**	.234	1			
	Sig. (2-tailed)	.001	.004	.013				
	N	40	40	40	40			
CEO_du	Pearson Correlation	.652*	.756**	.111	.187	1		
	Sig. (2-tailed)	.000	.000	.017	.003			
	N	40	40	40	40	40		
DBOD	Pearson Correlation	.867**	.487	.326.	.675*	.126	1	
	Sig. (2-tailed)	.003	.006	.017	.000	.006		
	N	40	40	40	40	40	40	
BP	Pearson Correlation	.888**	.671*	.523**	.101	.367*	.555**	1
	Sig. (2-tailed)	.000	.001	.002	.008	.001	.004	
	N	40	40	40	40	40	40	40

Note: \*\*Correlation is significant at the 0.01 (2 tailed).

\*Correlation is significant at the 0.05 (2 tailed).

Table 4 shows that, there is a strong and positive correlation between companies' internal financial performance (ROA) and board size ( $r = .719$ ,  $p$  value =  $0.000 < 0.005$ ). The table also shows that, companies external financial performance measured by the market to book ratio (MB) is also significantly influenced by the board size of the respective companies ( $r = .747$ ,  $p$  value =  $0.001 < 0.005$ ). Independence of the board has also noteworthy impact on ROA ( $r = .817$ ,  $p$  value =  $0.001 < 0.005$ ) and MBR ( $r = .769$ ,  $p$  value =  $0.004 < 0.005$ ). The table also reflects that, ROA of the sampled companies are moderately affected by CEO\_du ( $r = .652$ ,  $p$  value =  $0.000 < 0.005$ ) and MBR is



highly affected by the CEO\_du ( $r = .756$ ,  $p \text{ value} = 0.000 < 0.005$ ). The correlation between DBOD and ROA of the studied companies is significant ( $r = .867$ ,  $p \text{ value} = 0.003 < 0.005$ ) which means the internal financial performance of the companies are highly influenced by the number of meeting held by the board whereas there is no significant relationship between DBOD and companies' external financial performance measured by MBR ( $r = .487$ ,  $p \text{ value} = 0.006 > 0.005$ ). From the analysis the researchers also found there is a significant and positive correlation between ROA and BP ( $r = .888$ ,  $p \text{ value} = 0.000 < 0.005$ ) and moderate correlation between MBR and BP ( $r = .671$ ,  $p \text{ value} = 0.001 < 0.005$ ).

**Table-5. Correlation matrix (financial performance and ownership structure).**

		ROA	MB	MNO	IO	FO
ROA	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	40				
MB	Pearson Correlation	.787**	1			
	Sig. (2-tailed)	.000				
	N	40	40			
MNO	Pearson Correlation	.859**	.647*	1		
	Sig. (2-tailed)	.000	.001			
	N	40	40	40		
IO	Pearson Correlation	-.817**	-.769**	.234	1	
	Sig. (2-tailed)	.001	.002	.000		
	N	40	40	40	40	
FO	Pearson Correlation	.321*	.483**	.111	.187	1
	Sig. (2-tailed)	.001	.000	.011	.006	
	N	40	40	40	40	40

Note: \*\*Correlation is significant at the 0.01 (2 tailed).  
\*Correlation is significant at the 0.05 (2 tailed).

Table 5 shows that, there is a strong and positive correlation between companies' internal financial performance (ROA) and Managerial Ownership (MNO) ( $r = .859$ ,  $p \text{ value} = 0.000 < 0.005$ ). The table also shows that, companies' external financial performance measured by the market to book ratio (MBR) is moderately influenced by the managerial ownership of the respective companies ( $r = .647$ ,  $p \text{ value} = 0.001 < 0.005$ ). The researchers found institutional ownership has negative influence on ROA ( $r = -.817$ ,  $p \text{ value} = 0.001 < 0.005$ ) and MBR ( $r = -.769$ ,  $p \text{ value} = 0.002 < 0.005$ ) which denote that, institutional ownership may cause agency problems and consequently decreases the financial performance of the companies. The analysis also depicts that, there is no significant relationship between ROA and foreign ownership (FO) ( $r = .321$ ,  $p \text{ value} = 0.001 < 0.005$ ) whereas the market to book ratio (MBR) is moderately influenced by foreign ownership ( $r = .483$ ,  $p \text{ value} = 0.000 < 0.005$ ).

**Table-6. Correlation matrix (financial performance and audit committee structure).**

		ROA	MB	ACS	Dil_AC
ROA	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	40			
MB	Pearson Correlation	.893**	1		
	Sig. (2-tailed)	.001			
	N	40	40		
ACS	Pearson Correlation	.773**	.452*	1	
	Sig. (2-tailed)	.000	.003		
	N	40	40	40	
Dil_AC	Pearson Correlation	.771**	.753**	.435	1
	Sig. (2-tailed)	.000	.000	.010	
	N	40	40	40	40

Note: \*\*Correlation is significant at the 0.01 (2 tailed).  
\*Correlation is significant at the 0.05 (2 tailed).

Table 6 shows that, there is a strong and positive correlation between companies' internal financial performance (ROA) and Audit Committee Structure (ACS) ( $r = .773$ ,  $p$  value =  $0.000 < 0.005$ ) whereas companies external financial performance measured by the market to book ratio (MBR) is moderately influenced by the Audit Committee Structure of the respective companies ( $r = .452$ ,  $p$  value =  $0.003 < 0.005$ ). The researchers also found diligence of audit committee structure has significant influence on ROA ( $r = .771$ ,  $p$  value =  $0.000 < 0.005$ ) and MBR ( $r = .753$ ,  $p$  value =  $0.000 < 0.005$ ) which depicts that, companies' financial performance is highly influenced by the number of meetings held by the audit committee of the sampled companies.

#### 5.4. Regression Analysis

Table-7. Model Summary-1.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.817 <sup>a</sup>	.759	.777	.036

a. Predictors: (Constant), BS, BI, CEO\_du, DBOD, BP, MNO, IO, FO, ACS, Dil\_AC, FS

Table-8. ANOVA<sup>a</sup>.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	473.76	4	105.54	19.957	.000 <sup>b</sup>
	Residual	21901.77	35	426.17		
	Total		39			

Note: a. Dependent Variable: ROA

b. Predictors: (Constant), BS, BI, CEO\_du, DBOD, BP, MNO, IO, FO, ACS, Dil\_AC.

Table-9. Coefficients Model.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	35.137	4.316		7.855	.000		
	BS	.544	.137	.301	5.318	.000	2.187	5.189
	BI	1.137	.537	1.056	2.167	.001	1.627	3.634
	CEO_du	.567	.059	.514	4.561	.001	2.627	5.876
	DBOD	1.278	.613	1.563	3.756	.000	1.569	3.778
	BP	1.762	.666	.378	2.454	.000	3.726	5.637
	MNO	1.984	.938	1.247	1.671	.003	2.737	4.856
	IO	-1.531	.637	.972	-1.267	.000	2.846	3.468
	FO	.962	.056	.563	1.635	.001	2.747	6.363
	ACS	1.548	.762	1.436	2.437	.000	1.547	5.738
Dil_AC	.783	.726	.724	1.637	.000	2.648	3.758	
FS	1.562	.436	1.653	2.536	.001	2.647	4.564	

Note: a. Dependent Variable: ROA

Table 7 (Model Summary-1) formulated on the basis of equation 1 showed that, the multiple regression model of the study had an adjusted  $R^2 = 0.817$  and standard error of 0.036 which reveals that the mean deviation of Return on Assets (ROA) predicted resultant regression model at 95% confidence level corporate governance responsible for 81.7% variance in Return on Assets (ROA) as a proxy of internal financial performance of sampled readymade garments companies. The Table 8 finds that, the variable had a significant goodness of fit between variable as F calculated as 19.975.

The result in the Table 9 showed that, the ROA of the sampled companies are significantly and positively predicted by the board size of the respective companies ( $\beta = 0.544$ ,  $p$  value =  $0.000 < 0.005$ ,  $t = 5.318$ ). The results depicted that, board size has a significant impact on companies ROA. From the table researchers also found that, ROA of the sampled companies are significantly and positively predicted by the board independence ( $\beta = 1.137$ ,  $p$  value =  $0.001 < 0.005$ ,  $t = 2.167$ ). CEO duality position has positive impact on ROA ( $\beta = 0.567$ ,  $p$  value =  $0.001 < 0.005$ ,  $t = 4.561$ ). The study found that, the impact of diligence of BOD and board participation have also noteworthy

influence on the ROA of the studied companies ( $\beta = 1.278$ ,  $p \text{ value} = 0.000 < 0.005$ ,  $t = 3.756$ ) and ( $\beta = 0.6 = 1.762$ ,  $p \text{ value} = 0.000 < 0.005$ ,  $t = 2.454$ ) respectively.

Table 7 also pointed out that, two variables of ownership structure namely managerial ownership ( $\beta = 1.984$ ,  $p \text{ value} = 0.003 < 0.005$ ,  $t = 1.671$ ) and foreign ownership ( $\beta = 0.962$ ,  $p \text{ value} = 0.001 < 0.005$ ,  $t = 1.635$ ) have significant positive impact on companies' internal financial performance ROA whereas institutional ownership has inverse relation with ROA ( $\beta = -1.531$ ,  $p \text{ value} = 0.000 < 0.005$ ,  $t = -1.267$ ). Researchers also found that, audit committee structure ( $\beta = 1.548$ ,  $p \text{ value} = 0.000 < 0.005$ ,  $t = 2.437$ ) and diligence of audit committee ( $\beta = 0.783$ ,  $p \text{ value} = 0.000 < 0.005$ ,  $t = 1.637$ ) significantly influences the Return on Assets of the respected companies whereas companies' specific control variable firm size is also positively related with ROA ( $\beta = 1.562$ ,  $p \text{ value} = 0.001 < 0.005$ ,  $t = 2.536$ ).

Table-10. Model Summary-1.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.873 <sup>a</sup>	.738	.783	.038

a. Predictors: (Constant), BS, BI, CEO\_du, DBOD, BP, MNO, IO, FO, ACS, Dil\_AC, FS

Table-11. ANOVA<sup>a</sup>.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	467.89	4	187.67	19.671	.000 <sup>b</sup>
	Residual	22896.56	35	467.13		
	Total		39			

Note: a. Dependent Variable: MBR

b. Predictors: (Constant), BS, BI, CEO\_du, DBOD, BP, MNO, IO, FO, ACS, Dil\_AC

Table-12. Coefficients model.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	36.562	3.647		6.872	.000		
	BS	1.673	1.354	.767	4.563	.001	2.187	5.189
	BI	1.836	.647	1.648	2.647	.000	1.627	3.634
	CEO_du	.778	.648	.536	3.648	.000	2.627	5.876
	DBOD	.728	1.567	1.574	3.892	.000	1.569	3.778
	BP	1.536	.852	.967	2.456	.002	3.726	5.637
	MNO	.679	.467	1.344	1.783	.000	2.737	4.856
	IO	-1.893	.788	.628	-1.992	.000	2.846	3.468
	FO	.561	1.325	1.354	1.637	.001	2.747	6.363
	ACS	1.739	1.678	1.345	2.738	.001	1.547	5.738
Dil_AC	.671	.588	.322	2.638	.000	2.648	3.758	
FS	1.742	1.253	1.532	2.836	.000	2.647	4.564	

Note: a. Dependent Variable: MBR

Table 10 (Model Summary-2) formulated on the basis of equation 2 showed that, the multiple regression model of the study had an adjusted  $R^2 = 0.873$  and standard error of 0.038 which reveals that the mean deviation of Market to Book Ratio (MBR) predicted resultant regression model at 95% confidence level corporate governance responsible for 87.3% variance in Market to Book Ratio (MBR) as a proxy of external financial performance of sampled readymade garments companies. The Table 11 finds that, the variable had a significant goodness of fit between variable as F calculated as 19.671.

The result in the Table 12 showed that, the MBR of the sampled companies are significantly and positively predicted by the board size of the respective companies ( $\beta = 1.673$ ,  $p \text{ value} = 0.001 < 0.005$ ,  $t = 4.563$ ). The results depicted that, board size has a significant impact on companies' MBR. From the table researchers also found that, MBR of the sampled companies are significantly and positively predicted by the board independence ( $\beta = 1.836$ ,  $p \text{ value} = 0.000 < 0.005$ ,  $t = 2.647$ ). CEO duality position has positive impact on ROA ( $\beta = 0.778$ ,  $p \text{ value} = 0.000 < 0.005$ ,

t= 3.648). The study found that, the impact of diligence of BOD and board participation have also noteworthy influence on the MBR of the studied companies ( $\beta = 0.728$ , p value=  $0.000 < 0.005$ , t= 3.892) and ( $\beta = 1.536$ , p value=  $0.002 < 0.005$ , t= 2.456) respectively.

Table 7 also pointed out that, two variables of ownership structure namely managerial ownership ( $\beta = 0.679$ , p value=  $0.000 < 0.005$ , t=1.783) and foreign ownership ( $\beta = 0.561$ , p value=  $0.001 < 0.005$ , t= 1.637) have significant positive impact on companies' external financial performance MBR whereas institutional ownership has inverse relation with MBR( $\beta = -1.893$ , p value=  $0.000 < 0.005$ , t= -1.992). Researchers also found that, audit committee structure ( $\beta = 1.739$ , p value=  $0.001 < 0.005$ , t=2.738) and diligence of audit committee ( $\beta = 0.671$ , p value=  $0.000 < 0.005$ , t= 2.638) significantly influences the MBR of the respected companies whereas companies' specific control variable firm size is also positively related with MBR ( $\beta = 1.742$ , p value=  $0.000 < 0.005$ , t= 2.836).

### 5.5. Summary of Findings

Table-13. Tests of Hypotheses.

Hypothesis	Variables	Statements	Decision
H <sub>1</sub>	Board Structure	Board size has significant impact on companies' financial performance	Accepted
		Board independence has significant impact on companies' financial performance	Accepted
		CEO duality has significant impact on companies' financial performance	Accepted
		Diligence of BOD has significant impact on companies' financial performance	Accepted
		Board participation has significant impact on companies' financial performance	Accepted
H <sub>2</sub>	Ownership Structure	Managerial ownership has significant impact on companies' financial performance	Accepted
		Institutional ownership has significant impact on companies' financial performance	Rejected
		Foreign ownership has significant impact on companies' financial performance	Accepted
H <sub>3</sub>	Audit Committee Structure	Audit committee size has significant impact on companies' financial performance	Accepted
		Diligence of audit committee size has significant impact on companies' financial performance	Accepted

## 6. RECOMMENDATIONS

The research study found that, companies' corporate governance practice has noteworthy impact on influencing companies' overall financial performance including internal and external financial performance. On the basis of findings showed in Table 13, the study suggests that managers and higher authorities of the sampled companies should come forward to formulate effective corporate governance practices for improving the financial performance. The study also recommends that, the companies should pay more concentration in their board structure, ownership structure and audit committee structure as the study found significant influence of all these variables in improving the financial performance of the concerned companies. The study found that, institutional ownership has an inverse relationship with companies' performance as because when a firm's ownership is hold by another institution, there may be a high potentiality of agency problem. So, it is suggested to the concerned organizations that, they should give concentration to the institutional ownership. The study also recommends that top management of the companies should attempt for initiating the measures that would enlarge companies' size in assets as the large companies in size are more capable in earning more profits in comparison to those companies which are small in size. So, the companies should give more concentration in increasing their size in terms of assets.

## 7. CONCLUSION

The study has found that, corporate governance practices significantly and positively affects financial performance of readymade garments companies enlisted in Dhaka Stock Exchange (DSE). The findings implied that, board structure has a significant influence on financial performance thereby providing evidence supporting Guest (2009); Julizaerma and Sori (2012); Brick and Chidambaran (2010); Nikomborirak and Tangkitvanich (2001) and Joseph, Madugba, and Okpe (2015). The study also found that, companies ownership structure and compensation structure are also positively correlated with financial performance excepts institutional ownership providing evidence supporting Brick and Chidambaran (2010); Nikomborirak and Tangkitvanich (2001) and Puni (2015). So, the companies should ensure that they practice corporate governance practice for ensuring financial performance. The study concluded by drawing a conclusion that, corporate governance practices and companies' size has positive relation with financial performance whereas institutional ownership has negative relation with the companies' financial performance

## 8. LIMITATIONS AND SCOPE FOR FUTURE RESEARCH

The present study was essentially designed to investigate the influence of corporate governance on financial performance of readymade garments companies which are enlisted in Dhaka Stock Exchange. Therefore, the findings of the study were limited to DSE listed readymade garments companies and could not be generalized to other industries or companies currently operating in Bangladesh. Another limitation of the study was that, the study considered 2019 as the study period for conducting the study which is small period. The time period is not sufficient for observing the changes in targeted variables over time. The study considered only secondary data source which were collected from annual reports of the respective companies. It is another limitation of the study as because secondary data source may be historical in nature and may not be reflective in current situation. For overcoming the limitations of the current study, future researches may be conducted by several researchers in more extensive approach. There is also scope for future researchers to conduct study by taking long study period and consider more variables like compensation structure and other factors of corporate governance. The researchers may also inspect the impact of corporate governance practices is not only financial performance but also in firms' value of organizations from different segments.

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