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Corporate Governance Disclosure and Characteristics of Commercial Banks: Empirical Evidence from Bangladesh

Md. Siraz Meah

Abstract

The listed firm is directed to abide by the standards set forth by the Bangladesh Securities and Exchange Commission in 2018 to guarantee appropriate corporate governance. This research investigates the correlation between Bank Characteristics in Bangladesh and Corporate Governance Disclosure. Six hypotheses are tested, focusing on dependent variables like Corporate Governance Disclosure (major components of corporate governance activities) and six independent variables (Bank Characteristics). The annual report from July 2020 to July 2021 for 32 banks enlisted under the Chittagong Stock Exchange (CSE) was used to conduct this study. The author processes the data with the help of Excel and SPSS and analyzes it through correlation and regression analysis. After conducting a comprehensive study and interpreting the statistical results to test the pertinent hypotheses, it has been concluded that only three variables (bank characteristics), i.e., age of listing with CSE, affiliation with a multinational bank, and bank board size, have a favorable effect on Corporate Governance disclosure. Other variables, such as bank net profit, bank size, and percentage of independent directors, have a significant positive impact on Corporate Governance disclosure according to correlation and regression analysis, respectively. This study generates value for the institutions involved, as well as for other relevant stakeholders. This study may impact the decisions made by creditors and investors.

Keywords: *Corporate governance disclosure; Chittagong stock exchange (CSE); Bangladesh securities and exchange commission (BSEC); Commercial banks; Bank characteristics.*

Introduction

Financial statements and other financial and non-financial information are typically included in annual reports and accounts, which also provide the information. According to Hasan and Hossain [1], company laws, accounting standards, and stock exchange rules in the case of quoted companies control a limited company's annual

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1. Assistant Professor in Finance
Contact No. : 01816-012853 / 01840-155212
Email : siraz@bgctub.ac.bd / msirazm@gmail.com

report and accounts. Corporate Governance is referred to by John and Senbet [2] as a mechanism of tools and structures that once again serve as a check on managerial self-centered behavior. Additionally, according to Hossain et al. [3], by establishing a framework for internal management oversight, corporate governance lessens agency problems. Corporate governance, according to its broad definition, is a system of laws, institutions, and procedures that lowers the agency cost and the difference between the rewards of corporate activity for the private and social sectors [4-5]. In order to guide the listed companies in Bangladesh with proper governance, the Securities and Exchange Commission (SEC) released a set of corporate governance principles in 2006. It involves interactions between the management, board, shareholders, and other stakeholders of a company. However, it is argued that corporate governance disclosure will improve if managers' opportunistic activities, information asymmetry, and the purpose of withholding knowledge for their gain are minimized in a monitoring environment [6].

Corporations have faced a major problem in Bangladesh for several reasons, despite not having any significant corporate scandals to shake investors' confidence. First, the largest jute mill in the world, State state-owned enterprise Adamjee Jute Mills Ltd., collapsed. Second, privatized textile and jute mills performed poorly and inefficiently [7-8]. Third, the 1996 index crash led to the market collapse at the Dhaka and Chittagong Stock Exchanges and resulted in material losses for thousands of small and first-time investors. Fourth, 2008, the global financial crisis was brought on by the American economic meltdown. Fifth, firm-level corporate governance was absent at that time [9]. Sixth, in recent years, several scams have involved the banking industry in Bangladesh. These include a loan crisis involving the Hallmark and Bismillah Groups, which has forced regulators to implement stronger laws and conduct a comprehensive examination of the corporate governance structure used by financial institutions. The primary reasons for this catastrophe are the insufficient governance framework, the bankers' approach toward studying credit risks, and the directors' interests when a loan was accepted. In addition, the banking industry's non-performing loan (NPL) to total loan ratio is rising alarmingly, which suggests that the sector's viability is declining [10].

Numerous studies on corporate governance have been conducted, and various comparisons have been made between institutions with strong corporate governance practices and institutions with weak corporate governance practices. Most researchers discovered that organizations with good corporate governance have improved long-term performance and high profitability [11]. Compared to other emerging nations, Bangladesh has paid less attention to the issue of good governance. Due to the absence of CG practices in the majority of enterprises and organizations, Bangladesh has been falling behind its neighboring nations. Most businesses are family-oriented and actively involve the board of directors in management, which is one factor contributing to the lack of CG [12]. Reaz and Arun [13] looked at the governance practices of Bangladeshi banks and found that the owners of the banks held sizable stakes and mishandled bank funds. They also assert that owners have an outsized impact on the auditing and disclosure practices of the banks. It claims that the leading causes of Bangladesh's subpar loan recovery governance are politics and family control. A recent study by Hoque et al. [14] found that a considerable number of banks do not meet the requirements set out by the Central Bank and the Bangladesh Securities and Exchange Commission (BSEC) regarding board size, appointment of independent directors to the board, and holding audit committee meetings, which implies the banking industry's corporate governance practices have a sizable gap.

Bangladesh generally does an abysmal job of disclosing CSR-related items in annual reports [15-16]. No concise study was conducted in Bangladesh's banking industry considering corporate characteristics, such as bank size, net profit, age as a stock market listing, percentage of independent directors, size of directors, and affiliation with multinational companies. The proposed study is limited to the corporate characteristics listed above because they are the most crucial determinants of corporate giving. It also examines the impact and relationship between bank characteristics and CG disclosure to raise awareness of CG practices in Bangladesh among businesses, directors, managers, and the general public.

Objectives of the Study

The main objective of this study is to investigate the relationship between bank characteristics and CG disclosure information in their annual report. The specific objectives of this study are:

i) to analyze the present scenario of corporate governance disclosure made by listed commercial banks of CSE in Bangladesh in their annual reports.

ii) to determine the relationship between corporate governance disclosure and different commercial bank characteristics.

Literature Review and Hypothesis Development

Numerous studies have looked into Corporate Governance Disclosure (CGD) outside the law's bounds. Some of these studies [17-18] investigate the relationship between commercial bank characteristics and the quantity of CGD information. The earlier studies can help determine the degree of CGD and hypothesis development.

Bank Size and Corporate Governance Disclosure

The scope and nature of CG disclosure in the annual reports of listed companies on the Dhaka Stock Exchanges were examined in a study conducted by Rouf [19]. A total of 39 pieces of information were considered to assess the level of CG disclosure. The outcome of the Ordinary Least Square (OLS) model revealed a significant negative relationship between the firm's size and the degree of CG disclosure. Several studies [20-23] discovered a positive correlation between bank size and the degree of CG disclosure. In addition, Hossain et al. [24] found that bank size had no bearing on the amount of CG disclosure. The bank size is regarded as an explanatory variable in this study.

Considering the above reviews, it can be hypothesized:

H-1: Bank Size has a positive association with CG disclosure.

Bank Profitability and Corporate Governance Disclosure

Suwaidan [23] conducted a study in Jordan examining the CG disclosure practices of Jordanian industrial companies and determined the impact of firm characteristics in articulating variations in the social responsibility data in their annual reports. The outcome demonstrated a positive correlation between profitability, risk, and the degree of CG disclosure. To determine the relationship between the level of CG disclosure and factors like bank size, profitability, and industry age, Singh and Ahuja [22] conducted a study to gauge the extent of CG disclosure. The study looked at the annual reports of 40 public companies, and the findings indicated that the company's age had little bearing on social disclosure. The study discovered that the level of social disclosure was positively associated with total assets, the earnings margin, and the study's design. In a study published in 2006, Hossain et al. [24] looked into the scope and nature of social and environmental reporting in corporate annual reports and the associations between social and environmental disclosure and several corporate characteristics in Bangladesh. The annual reports of 107 non-financial companies out of 150 were used as a sample. According to the study, 8.33% of Bangladeshi companies disclosed social and environmental information in their annual reports. Multiple linear regression analyses revealed a positive correlation between the company's nature, debentures, net profitability, and the degree of CG disclosure. In the past, various studies that tried to determine the connection between CSR activity and profitability came up with conflicting results. In addition, many other researchers [25-

26] found that profitability was negatively associated with the level of CG disclosure, while Aupperle et al. [27] and Suan [16] found that there was no significant relationship between profitability and CSR disclosure. Besides, many other researchers have found opposite relationships [22-23, 26]. So, the hypothesis can be drawn as follows:

H-2: The bank's profitability has a significant positive impact on Corporate Governance disclosure.

Age of listing with CSE and Corporate Governance Disclosure

In a study published in 2015, Das et al. [20] looked into the CSR reporting procedures of Bangladesh's listed banking companies and investigated any potential impacts that corporate characteristics might have on CG disclosures. The study found that banks were increasingly participating in CG initiatives, with direct monetary spending increasing by more than ten times between 2007 and 2011 and the average CG disclosure index rising from 59.02% to 76.87%. Gamrh and Dhamari [28] conducted another study to assess the degree of CG disclosure of Saudi-listed companies and look into the impact of corporate traits on CG disclosure. According to the study, there was little CG disclosure. According to the OLS model's findings, significant, government-owned, and established firms disclosed more CSR information. Gamrh and Dhamari demonstrated a significant correlation between firm age and CG practices. However, Singh and Ahuja [22] found no significant relationship between the age of the company and the amount of CG disclosure. Thus, the hypothesis can be drawn as follows:

H-3: Age as a listing bank is positively associated with Corporate Governance disclosure.

Affiliation of Multinational Bank and Corporate Governance Disclosure

According to Rahman and Widyasari [29], high-profile industries outperformed low-profile industries in CG disclosure activities. Additionally, Rosli et al. [16] and Suan [26] discovered that the type of multi-nationality had no bearing on CG disclosure. Therefore, affiliation with multi-nationality can be hypothesized as follows:

H-4: There is a positive and significant relationship between the affiliations of multinational banks and Corporate Governance disclosure.

Board Size of the Bank and Corporate Governance Disclosure

The number of directors on the board is referred to as the board size. Both executive and non-executive directors make up a perfect board. Leblanc and Gillies [30] supported eight to eleven board members, while Lipton and Lorsch [31] preferred

eight to nine. BSEC [32] states that the number of board members should be between 5 and 20 for internationally effective corporate boards, while BEI [33] recommends having 7 to 15 directors. A well-functioning board ought to be experienced and have a wide range of knowledge. Ineffective communication and free riding may result from having too many directors [34]. Priority should be given to board effectiveness oversize. Das et al. [20] and Giannarakis [21] demonstrated that the amount of CG disclosure was significantly and favorably correlated with board size. However, Monks and Minow [5] and Rao and Tilt [35] discovered that the size of the board had little bearing on CSR disclosure. The following hypothesis has been formulated regarding the size of the board:
H-5: The size of the board is significantly associated with CSR disclosure.

Independent Directors and Corporate Governance Disclosure

According to the Banking Regulation and Policy Department (BRPD), independent directors are board members who are not otherwise connected to the company [10]. Alam and Akhter [36] discovered an inverse relationship between the number of independent directors and bank performance. However, Rahman and Islam [37] demonstrated that return on equity (ROE) and earnings per share (EPS) were significantly impacted favorably by the number of independent directors. According to Forker [38], independent boards were more likely to motivate managers to disclose highly detailed CSR information. Das et al. [19] and Rouf [20] discovered a significant positive relationship between CSR disclosure and a board with a higher proportion of independent directors. However, Hania and Cooke [39] and Nazli and Weetman [40] found no significant correlation between the level of disclosure and the percentage of outside non-executive directors. The independent directors were viewed as the cornerstone of corporate governance in this study, and as a result, they were rated as a significant factor influencing CG disclosure. So, a hypothesis can be drawn as follows:
H-6: A positive and significant relationship exists between the percentage of independent directors and Corporate Governance disclosure.

Methodology of the Study

Conceptual Framework

The main objective of this study is to show how Bangladeshi banks' unique features affect corporate governance disclosure. Corporate Governance Disclosures (CGD) is the dependent variable in this study. In contrast, the independent variables are Bank Size (BSZ), Bank Net Profit (BNK), Age of Listing with CSE (ALC), Affiliation of

Multinational Bank (AMB), Board Size (BSZ), and Percentage of Independent Directors (PID), which are recommended by the Bangladesh Securities Exchange Commission to play the most crucial roles in improving corporate governance practices in Bangladesh [32].

Sample Size and Data Collection Procedure

Bangladesh has 61 scheduled banks governed and overseen by Bangladesh Bank **[10].** As a sample, 32 banks are drawn using a basic random sampling strategy. Twenty-two conventional commercial banks and ten interest-free commercial banks listed on the Chittagong Stock Exchange (CSE) are the subjects of this sample size. The years July 2020-June 2021 were examined for this study. After being obtained from their websites, the annual reports of a sample bank are assessed. Sample selection is shown in the following table:

Particular	Population Size	Sample Size	Sample as Percentage
Commercial Banks	61	32	52.45%

Table 1. Sample Selection (Source: Author's calculation)

A research study should cover 30% of the sample; however, this one has covered 52.45%. However, this study has just looked at the banks listed under Bangladesh Bank. A nearly identical kind of study, with a total sample size of twenty-four distinct businesses, was conducted by Hasan and Hossain [1]. The sample size is also justified by Rahman et al. [41], who used 30 samples.

Data Processing and Analyzing Tools

The secondary data collected from the annual reports of sample banks are processed with the help of Excel (2013) and SPSS. The most available statistical tests are univariate analysis of descriptive statistics, bivariate analysis, and multivariate analysis. The study employs descriptive statistics such as mean values and standard deviation to evaluate the sample banks' corporate governance disclosures. Additionally, in the later section of the chapter, regression coefficients, ANOVA, and multiple correlation and regression models are utilized to investigate the relationship between corporate governance disclosures and bank attributes.

Multiple Regression Model

The following model is utilized to investigate the connection between bank attributes and corporate governance disclosures:

$$Y_i = \beta_0 + \beta_1 f_1 (X_1) + \beta_2 f_2 (X_2) + \ldots\ldots + \beta_k f_k (X_k) + \varepsilon$$

where,

$Y_i =$ dependent variable, $X_1, X_2 \ldots\ldots, X_k =$ variables that are independent (explanatory), $\beta_0, \beta_1, \ldots, \beta_k =$ regression model coefficients (parameters), $f_1, f_2, \ldots, f_k =$functions (transformations) of independent variables, such that the relationship between Y and each $f(X)$ is assumed to be linear, $\varepsilon =$ random error.

Corporate Governance Disclosures (CGD) are the dependent variable. In contrast, the independent variables are BSZ (the bank size based on total assets, number of branches, total capital employed, etc.), LNP (log net profit), ALC (age of listing with CSE), AMB (affiliation of a multinational bank), BSZ (board size), and PID (percentage of independent directors) that are taken into account when evaluating the characteristics of the listed commercial banks.

Results and Analysis

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CGD	32	22.00	171.00	109.9375	32.92703
BSZ	32	30.00	1227.00	224.9063	286.71402
LNP	32	0.00	6.86	3.0994	1.08431
ALC	32	0.00	40.00	16.5938	12.78825
AMB	32	0.00	1.00	.0313	.17678
BSZ	32	5.00	18.00	12.0938	3.55019
PID	32	0.00	50.00	16.0878	11.32357
Valid N (listwise)	32				

Table 2. Descriptive Statistics (Source: Author's calculation)

The Statistical Package for Social Sciences (SPSS) is used to analyze the results, where the results are displayed in Table 1, indicating that the sample companies disclose only CG items on average in their respective annual reports. The minimum and maximum number of CG disclosures of the sample companies are 22 and 171, respectively. The maximum age of listing with CSE is 40 years, and the maximum board size is 18, while 50% are independent directors. On the other hand, a board's average number of directors was 12.09, or 12 people, while the standard deviation was 3.55, or 3 people. The format adheres to the standard set by the Bangladesh Bank. With a standard deviation of 11.32%, the mean board independence ratio was 16.08%. Every bank follows the rules defining the specific number of independent bank directors. The analysis also illustrates that the average value of the net profit of the sample bank is BDT 22.18 million from July 2020 to June 2021.

Correlation Analysis

	CGD	BSZ	LNP	ALC	AMB	BSZ	PID
CGD	1.0						
BSZ	0.286	1.0					
LNP	0.359*	-0.052	1.0				
ALC	0.199	-0.352*	0.379*	1.0			
AMB	0.061	-0.041	0.034	0.291	1.0		
BSZ	0.243	-0.131	0.398*	0.193	-0.104	1.0	
PID	0.116	-0.589**	0.192	0.191	-0.035	0.102	1.0

Table 3. Correlation Matrix (Source: Author's calculation)

The Pearson correlation analysis is employed to ascertain the link between corporate governance disclosure components and commercial banks' characteristics. There are weak positive correlations between corporate governance disclosure and the characteristics of commercial banks, as indicated by multiple correlation studies (table 3). However, there are no significant statistical differences except for net profit. Hence, the analysis revealed that corporate governance disclosures have negligible effects on commercial bank characteristics.

Multiple Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	0.616[a]	0.380	0.199	29.46540	0.380	2.102	7	24	0.083	2.484

Table 4. Model Summary[b] (Source: Author's calculation)

a. Predictors: (Constant), BSZ, LNP, ALC, AMB, BZS, PID; b. Dependent Variable: CGD

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Multi-Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
Constant	15.201	62.742		0.242	0.811		
BSZ	0.073	0.025	0.639	2.954	0.007	0.553	1.809
LNP	3.595	8.185	0.118	0.439	0.664	0.356	2.812
ALC	0.611	0.518	0.237	1.179	0.250	0.638	1.568
AMB	8.859	32.022	0.048	0.277	0.784	0.874	1.144
BSZ	2.017	1.942	0.186	1.039	0.309	0.809	1.236
PID	1.408	0.720	0.409	1.955	0.062	0.591	1.692

Table 5. Coefficients[a] (Source: Author's calculation)

a. Dependent Variable: CGD

Tables 4 and 5 present the findings of the multiple regression analysis conducted for this study. The Multi-colinearity test is also run prior to rendering a decision. When there is a strong correlation between two or more independent variables, it is referred to as multi-collinearity. The Variance Inflation Factor (VIF) test is more accurate for identifying multi-collinearity. According to Lind et al. [42], a multi-collinearity VIF of more than 10 is deemed inadequate. Tables 5 display the VIF value. Every single VIF value is below the maximum of 10. Because the Durbin-Watson score is 2.48 (more than 2.00), it indicates that the independent variables employed in the models are not significantly correlated, meaning that multi-collinearity is not an issue in this study. Additionally, there is negative autocorrelation.

Regression analysis using CGD as the dependent variable is shown in Table 4. According to the regression findings, the dependent variable is explained by the explanatory factors in the model, which show R-square and adjusted R-square values of 38% and 19.9%, respectively. The result shows that the collection of independent variables selected for the model accounts for 38% of the variation in CGD. Thus, it may be inferred that all independent factors together affect CGD at a significance level of 10%.

Results of Hypothesis Testing

Hypothesis 1 (Bank Size has a positive association with CG disclosure): For Bank Size and CG disclosure, the correlation coefficient is 0.286, which indicates that bank size and CG disclosure have a positive relationship, but this is not statistically significant. On the other hand, the regression analysis results show the same result, and it is significant statistically with $p = 0.007$. It can be concluded that bank size has an impact on CG disclosure. Nevertheless, the result is inconclusive.

For the second hypothesis (the relationship between net profit and CG disclosure), the correlation coefficients between net profit and CG disclosure are 0.359, with P values of 0.000. So, it is possible to say that bank net profit impacts CG disclosures. The outcome is consistent with the regression results presented in Table 6 but is not statistically significant. So, the result is inconclusive.

Third, the hypothesis that there is a relationship between age of listing with CSE and CG disclosure: the correlation coefficients between age of listing with CSE and CG disclosure are 0.199 but not significant statistically. This indicates a weak positive correlation between them. On the other hand, if I consider the regression results presented in Table 6, the age of listing affected CG disclosure but was not statistically significant. Therefore, the null hypothesis is acceptable.

Regarding the fourth (there is a positive and significant relationship between affiliation of multinational banks and Corporate Governance disclosure), the correlation between affiliation of multinational banks and Corporate Governance disclosure is 0.061. It indicates a weak positive relationship between the affiliation of multinational banks and Corporate Governance disclosure with a p-value greater than 0.10. It suggests that there is no significant relationship between them. It is also found in the regression analysis presented in Table 6. Therefore, the null hypothesis is acceptable.

For hypothesis 5 (there is a relationship between board size and Corporate Governance disclosure), the correlation between the affiliation of a multinational bank and Corporate Governance disclosure is 0.243, with a significance value of P greater than 0.10. It suggests that there is no significant positive relationship between them. The result also conforms to the regression results reported in Table 6, but it is not supported by Rahman et al. [41] and Ahasanuzzaman [43]. Therefore, the null hypothesis is acceptable.

For Hypothesis 6: (There is a positive and significant relationship between the percentage of Independent directors and Corporate Governance disclosures) the positive value of the correlation coefficient between the percentage of independent directors and Corporate Governance disclosure is 0.116. It indicates a weak positive association between them but is not statistically significant. The regression result regarding the relationship between the percentage of independent directors and Corporate Governance disclosure is presented in Table 6, which also indicates that the p-value is less than 0.10. It suggests a significant relationship between them, which is also supported by Rahman et al. [41] and Ahasanuzzaman [43]. Consequently, our results imply that since independent directors have a reputation to uphold, they make better monitors than other directors. However, the outcome is a decision that is not entirely clear. The summary of the hypothesized result is shown in the following table:

S/N	Hypothesis	Description	Decision
1	H_1	Bank Size has a positive association with CG disclosure.	Inconclusive
2	H_2	There is a significant positive relationship between bank net profit and CG disclosure.	Inconclusive
3	H_3	There is a relationship between the age of listing with CSE and CG disclosure.	Not Supported
4	H_4	There is a significant positive relationship between the affiliations of multinational banks and Corporate Governance Disclosure.	Not Supported
5	H_5	There is a relationship between board size and Corporate Governance disclosure.	Not Supported
6	H_6	There is a positive and significant relationship between the percentage of independent directors and Corporate Governance disclosure.	Inconclusive

Table 6. Summary Results of Hypothesis Testing (Source: Author's calculation)

Conclusions

To measure the characteristics of commercial banks, i.e., bank size, net profit, age of listing with CSE, affiliation with multinational banks, bank board size, and percentage of independent directors. The conclusion drawn from the comprehensive analysis and interpretation of statistical results in testing the pertinent hypotheses is that only three factors, the age at which a bank lists with the CSE, its affiliation with a multinational bank, and the size of the bank board—do not positively influence disclosures about corporate governance. Other variables, such as bank net profit, have a significant positive impact on Corporate Governance disclosure according to correlation analysis, and bank net profit percentage of independent directors has a significant positive impact on Corporate Governance disclosure according to regression analysis.

This research gives a constructive view to all interested parties associated with commercial banks. In addition to the banks involved, this analysis adds value for all other parties, such as creditors' and investors' decisions. This study can be functional in lessening scandals in the banking sector and other sectors by finding the level of corporate governance disclosure.

I can make some policy recommendations based on our findings that government policymakers, company regulators, and corporate governance practitioners may find helpful. In my opinion, initiatives like the bank's corporate governance framework should be carefully planned and implemented. A clause requiring a different auditor or audit firm to assess the audit work may be included to create a fair reporting system. Political influence needs to be eliminated to create a just business culture.

Although limited to listed banks, this study has persuaded authorities despite not including the entire population. Furthermore, the transparency of corporate governance is a delicate subject. Inconsistent results may occur if a point is not chosen precisely. Furthermore, it only addresses the aftermath for a single year.

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Author contribution

Md. Siraz Meah: Conceived and designed the experiments; Performed the experiments; Analyzed and interpreted the data; Contributed materials, analysis tools, or data; Wrote the paper.

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