



**Internship Report**

**On**

**Impact of Board Characteristics on Bangladeshi Bank Performance:  
Evidence from Third Generation Banks.**

**Submitted To**

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## Letter of Transmittal

Date: 26-06-24

Dr. Md Azizur Rahman

Department of Business Administration

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Subject: Submission of Internship Report on “Impact of board characteristics on Bangladeshi bank performance: evidence from third generation banks.”

Dear Sir,

My internship report on Impact of board characteristics on Bangladeshi bank performance: evidence from third generation banks. Being able to complete my BBA program is a blessing and an honor.

I worked in a bank to complete my internship, which was a worthwhile experience that also allowed me to learn. In the end, I wrote a report about my experience under your guidance, which was an amazing opportunity for me.

Sincerely yours,

*Nahin*

Md Nasimul Islam Nahin

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## Student Declaration

I am Nasimul Islam Nahin, ID 191-11-807, the internship report titled “Impact of board characteristics on Bangladeshi bank performance: evidence from third generation banks. Completing this thesis is a requirement for completing Daffodil International University's BBA program.

I certify that no material is copyrighted in the contents of this paper. That was a BBA program academic element.

Sincerely yours,

*Nahin-*

Md Nasimul Islam Nahin

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## Approval Certificate

I am Nasimul Islam Nahin, ID No: 191-11-807 and enrolled in the BBA Program at Daffodil International University, has successfully completed his internship at NRB Commercial Bank. His report was examination of “Impact of board characteristics on Bangladeshi bank performance.” His uses all of data was authentic.

He completed all of assessments to my guidance.



Dr. Md Azizur Rahman

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## **Acknowledgement**

First and foremost, I want to express my gratitude to Allah the Almighty for giving me the chance to successfully finish my internship report.

I would like to express my gratitude to Dr. Md. Azzur Rahman, my internship supervisor at Daffodil International University, for his invaluable guidance and time.

I received my diploma from NRB Commercial Bank's Saiful Islam Rubel Sir. He made it possible for me to intern at their company.

My internship supervisor is genuinely supporting me.

## **Executive summary**

This thesis investigates how board composition affects Bangladeshi banks' performance, concentrating on third-generation banks in particular. In order to assess how these financial institutions' boards' makeup, dynamics, and organizational structure affect important performance metrics, the study looks at these aspects. The research aims to provide a comprehensive understanding of how board characteristics shape the operational and financial outcomes of third generation banks in the context of Bangladesh's banking sector by using a mixed-methods approach that combines quantitative analysis and qualitative insights. Because of their distinct position at the vanguard of technical breakthroughs, third-generation banks' governance has gained attention.

Navigating the possibilities and difficulties in the modern banking environment requires an understanding of how the independence, diversity, and makeup of their boards affect performance and decision-making processes. Results from this study should provide policymakers, regulators, and business experts with useful information. A thorough grasp of the complex linkages that exist between board composition and financial performance enables stakeholders in Bangladesh's banking sector to make well-informed decisions that are tailored to the unique requirements of third-generation institutions. The results are anticipated to support the resilience and sustainability of Bangladesh's financial industry by addressing both the theoretical and practical consequences of governance practices.

This executive summary summarizes the main goals of the study, places it in the context of Bangladesh's third-generation banking industry, and emphasizes how it could affect the sector's governance procedures and financial results.

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# Chapter One

## Introduction



## 1.1 Background of the study:

The Basel Committee on Banking Supervision (BCBS) lays emphasis on the importance of good corporate governance practices of financial institutions to build trust and confidence among investors (Abdul Gafoor et al., 2018). The concept of corporate governance arose from the belief that the separation of ownership and management within a corporation might create substantial misuse of managerial discretion (including the possibility of abuse or conflict of interest) (Tirole, 2010). Due to their tremendous leverage, financial institutions can only avoid unpleasant events by implementing an efficient corporate governance system. Effective oversight and monitoring are encouraged by good company governance. A well-managed company can command a premium of up to 25% from investors, who find that solid corporate governance practices are a key draw (Gafoor et al., 2018). There are currently not many studies on this topic in the context of emerging nations, as the majority of earlier research on the impact of board features was carried out in developed economies.

Furthermore, on June 3, 2018, the Bangladesh Securities and Exchange Commission (BSEC) released a Notice on Corporate Governance Code, which listed businesses are required to follow (BSEC, 2018). This announcement specifies many rules pertaining to the makeup of the board, including the minimum and maximum number of board members, the percentage of independent directors and their qualifications, and other details. The goal of the current study is to investigate how certain board attributes affect a company's success within the framework of Bangladesh's banking sector. As the keeper of sound corporate governance principles, the board of directors performs a crucial role through efficient oversight and monitoring as the banking industry grows increasingly complicated, competitive, and opaque. Banking regulation has become increasingly strict due to the complexity of the industry. With the rise of third-generation banks, the banking sector in Bangladesh has experienced tremendous changes over the years, significantly altering the business landscape.

The comprehension of the elements that influence the performance of these institutions is crucial, given their growing significance in the country's financial system. With the aim of illuminating the governance dynamics that affect the strategic choices, risk management, and general efficacy of third-generation banks in Bangladesh, this study looks at the effects of board characteristics on bank performance. The impact of bank board composition on the operations of the Bangladeshi banking industry is examined in this study. The study focuses on the



independence, size, and functioning of the board—three crucial facets of board organization. We evaluate bank performance using alternative metrics including profit after tax (PAT) and return on equity (ROE). Appropriate endogeneity-addressing econometric techniques are used. Via an alternate proxy, a robustness check validates the results.

The current study contributes to the existing literature on corporate governance in three different ways. Further to (Liang et al., 2013). First of all, our study adds to the existing literature on corporate governance studies in emerging economies. Most of the earlier corporate governance studies focused on Europe, U.S. and other developed economies (Adams & Mehran, 2005; Denis & McConnell, 2003; Levine, 2004). This study uses a sample of Bangladeshi banks to investigate board composition and performance. Secondly, this research adds to the little body of knowledge on bank corporate governance that already exists (De Andres & Vallelado, 2008). Although banks follow similar corporate governance procedures to non-banking companies, the banking industry's opaque and fiduciary nature necessitates stricter oversight, which places a great deal of authority and regulation on the bank's board.

## 1.2 Problem Statement:

Although the field of research on corporate governance in banking is expanding, there is a clear vacuum in the literature when it comes to studies that particularly examine how board composition affects the performance of Bangladesh's third-generation banks. A thorough analysis is necessary due to the particular difficulties and possibilities these banks confront, as well as the changing regulatory environment and market dynamics.

The need to comprehend how important performance metrics are impacted by the diversity, independence, experience, and makeup of the boards of directors of Bangladesh's third-generation banks is the basis of this study's problem statement. This study attempts to answer some of the following questions: What particular board traits are common among Bangladesh's third-generation banks? What effects do these traits have on risk management techniques, governance procedures, and the process of making strategic decisions? What effects do these variables have on the general viability and performance of third-generation banks in Bangladesh's banking industry?



By solving these issues, the study hopes to bring insightful knowledge that will benefit scholars, bank executives, and policymakers in their understanding of the governance processes that are essential to third-generation banks' performance in Bangladesh's particular setting.

### **1.3 Brief Summary of the literature:**

The body of research on how board attributes affect bank performance emphasizes how crucial governance dynamics are to the survival and prosperity of financial institutions. International research regularly identifies crucial board attributes that impact several aspects of a bank's operations. The balance of executive and non-executive members on a board affects how decisions are made and how best to match plans to the interests of stakeholders. Gender, age, and professional background diversity on boards is linked to better decision-making and creativity, which in turn promotes a wider range of viewpoints.

Board member independence is essential for impartial scrutiny and reducing conflicts of interest. It is expected of independent directors to make unbiased decisions, especially when it comes to risk management, audit monitoring, and CEO remuneration. Board members' understanding of the sector, risk management, and finance are all related to better decision-making and risk assessment skills. The stability and reputation of banks are heavily reliant on governance procedures, including ethical standards, stakeholder communication that is effective, and transparent reporting.

Empirical studies have repeatedly demonstrated a positive relationship between the attributes of a strong board and a range of performance metrics, including as profitability, financial stability, and shareholder value. Strong governance processes and a varied skill set provide boards the ability to effectively handle obstacles and seize opportunities for growth.

But even with these worldwide insights, there is still a lack of literature that focuses on the factors that affect Bangladesh's third-generation banks' success. Given the growing significance of these institutions in the nation's financial system, it is essential to comprehend the ways in which particular contextual elements interact with well-established governance concepts. By providing a focused analysis of board traits and their effect on the performance of third-generation banks in Bangladesh, this study seeks to close this gap and add to the growing body of knowledge on corporate governance in the banking industry.



## 1.4 Objective of the Study:

The main objective of this study is to measure the impact of board characteristics on Bangladeshi bank performance.

## 1.5 Scope of the study:

The primary goal of this research is to thoroughly investigate how board composition affects Bangladeshi third-generation banks' operational effectiveness. The banking industry in the nation has seen a substantial transformation with the emergence of third-generation banks, which are distinguished by their innovative technology, customer-focused offerings, and flexible market strategies. The research will examine the distinct governance dynamics of different institutions, taking into account variables including the diversity, independence, and experience of the board. The inquiry includes a detailed examination of risk management techniques, governance procedures, and strategic decision-making processes that are impacted by the makeup and traits of the board. We'll pay close attention to how these elements support or undermine Bangladesh's third-generation banks' capacity for profitability, stability, and general success. The scope of the research also includes investigating the unique possibilities and problems that these institutions confront in relation to the banking industry in Bangladesh. The operational environment of third-generation banks is shaped by regulatory frameworks, market dynamics, and technology improvements. These will all be studied to give a thorough grasp of the contextual elements affecting board performance.

The study will employ a mixed-methods approach, combining qualitative and quantitative techniques. Board members, executives, and pertinent stakeholders will be surveyed, interviewed, and have their opinions analyzed. The association between board composition and bank performance will be measured through the analysis of financial indicators including return on equity, capital adequacy ratios, and other performance measures. It is anticipated that the research's findings would provide insightful information to Bangladesh's banking sector as well as academia. A comprehensive grasp of the governance characteristics that might improve the performance and sustainability of third-generation banks in this distinct and quickly changing industry would be beneficial to policymakers, regulators, and banking professionals.

## 1.5 Significance of the study:

The research on the effects of board composition on the performance of Bangladesh's third-generation banks is important because it has the potential to provide significant new information to a wide range of stakeholders, including academics, policymakers, regulators, and banking experts. The study's consequences transcend beyond theoretical issues as it tackles a crucial facet of corporate governance within the continuously changing banking sector.

The study's conclusions can help regulators and policymakers create and improve third-generation bank-specific regulatory frameworks and recommendations. In the dynamic banking industry of Bangladesh, regulations that promote stability, sustainability, and ethical business practices must take into account the impact that board qualities have on these creative institutions' success.

The study's importance also stems from its possible influence on banking professionals' strategic decision-making processes, especially for those on the boards of third-generation banks. Researchers' insights may help these professionals design company strategies, risk management plans, and governance frameworks that are tailored to the particular possibilities and challenges posed by emerging technologies and shifting market dynamics. The study has a significant impact on how banking organizations approach governance and adjust to new trends, which is also important for the financial sector as a whole. With third-generation banks continuing to influence the course of the business, it is critical to comprehend the particular board attributes that enable their success in order to stay competitive and relevant.

Moreover, scholars that do research on banking, strategic management, and corporate governance will find value in the work. The study adds to the body of knowledge by providing nuanced insights into the governance dynamics of third-generation banks. This encourages more research into the complexities of governance systems inside highly technologically sophisticated financial organizations. Consequently, this adds to the scholarly conversation about how governance procedures have changed in response to technology developments in the banking industry.

The study's ability to increase stakeholder trust in the banking industry is what has a larger influence. Stakeholders such as shareholders, customers, and the general public have a better knowledge of the governance processes supporting third-generation banks' operations as a



result of the findings, which shed light on the link between board qualities and bank performance. Increased confidence, investment, and a favorable general impression of Bangladesh's banking sector can all result from this transparency.

The study's importance also stems from its ability to direct the development of best practices for governance within the framework of third-generation banks. The report provides useful advice for industry professionals looking to enhance their governance systems by identifying beneficial board traits. This is especially important since it helps these institutions manage the challenges posed by technology innovation and makes sure that governance procedures change to keep up with business developments.

In summary, the study's importance extends beyond academia and into the fields of public opinion, industrial practice, and policymaking. The research provides valuable insights into the complex relationship between board characteristics and the performance of third-generation banks in Bangladesh. As such, it can be used to shape the future direction of the banking industry in Bangladesh as well as in the larger global financial landscape.

## **1.6 Limitation of the study:**

There are some limitations to this study, which examined the effect of board qualities on the performance of Bangladeshi third-generation banks. The breadth, depth, and generalizability of the research findings may be impacted by these limitations. First off, even with careful selection, the study's sample size might not accurately reflect all Bangladeshi third-generation banks. The results' wider application might be impacted by the small number of banks that were included. Furthermore, the correctness and accessibility of the data are prerequisites for the study's dependability. The accuracy and breadth of the study may be impacted by differences in reporting procedures and restricted access to specific private information affecting financial and governance statistics, which are essential for a thorough analysis. Another drawback of the study is its cross-sectional design, which provides a unique moment in time of the correlation between board composition and bank performance. Due to this design decision, the study is unable to determine causal links or take into consideration how

governance structures and performance vary dynamically over time. The results may also be impacted by external variables and macroeconomic circumstances that are outside the scope of the investigation. Regardless of the composition of the board, third-generation banks' performance may be impacted by shifts in the regulatory landscape, the economy, or unanticipated occurrences.

Finally, there is a chance of bias when self-reported data is used. The presentation of information by the participating banks' boards and management might reflect favorably on their organizations, which could compromise the results' impartiality. These restrictions are critical for a nuanced interpretation of the study's findings, and future research efforts may overcome these limits to get a more robust and thorough understand of the subject matter.

# **Chapter Two**

## **Literature review**



Following on from Adam Smith's (1776) insight regarding the separation of ownership and control in enterprises, which leads to conflict of interest between owners and controllers, (Jensen & Meckling, 2019) established the agency theory of modern businesses. Although Jensen and Meckling (2019) established a monitoring method, they did not investigate how big organizations may accomplish effective monitoring. According to Fama and Jensen (1983), separating decision management and decision control can lead to more efficient monitoring. The board of directors may have decision-making power, whereas top managers may have decision-making privileges. Thus, the board's role as a monitoring tool is critical to corporate governance.

## **2.1 Theoretical review:**

### **Agency Theory:**

Principal-agent relationships in the banking industry are frequently examined through the perspective of agency theory. Jensen and Meckling (2019) first proposed this theory, and following research by scholars such as (Fama, 1980) have broadened its applicability to corporate governance in a variety of industries.

### **Resource Dependency Theory:**

Pfeffer and Salancik (2015) key work on resource dependency theory is essential. Researchers might use this hypothesis to investigate how third-generation banks rely on resources and how board composition influences resource management. This theory focuses on how institutions, such as banks, rely on external resources. Researchers may use this idea to better understand how board features affect a bank's capacity to acquire and manage essential resources.

### **Stewardship Theory:**

Davis et al. (1997) developed stewardship theory. According to stewardship theory, board members function as stewards, serving the organization's best interests. In the banking industry, this theory may be utilized to investigate how particular board features contribute to successful stewardship and responsible decision-making.



### **Institutional Theory:**

DiMaggio and Powell (1983) contributed significantly to institutional theory. Institutional theory stresses the role of institutional contexts in shaping organizational behavior. In the context of banks, researchers may apply this theory to investigate how regulatory frameworks and institutional constraints influence the governance structures and practices of third-generation banks.

### **Resource-Based View:**

Resource Based View focuses on the internal resources and capabilities of an Bank that contribute to its competitive advantage. Researchers may apply RBV to analyze how the expertise and diversity of board members represent valuable resources that impact a bank's performance.

### **Dynamic Capabilities Theory:**

Dynamic capabilities theory investigates how organizations adjust to changes in their environment. This idea may be used in the banking industry to better understand how boards with specific features improve the bank's capacity to handle changing market situations, technology improvements, and regulatory changes.

However, the board structure of banks differs from that of other non-banking enterprises due to the banking industry's fiduciary character and invisibility. Finally, the theoretical examination provides a solid platform for understanding the complex relationships between board features and the performance of Bangladesh's third-generation banks. Agency theory explains principal-agent relationships, whereas resource dependence theory emphasizes the importance of external resources. Stewardship theory offers a constructive governance approach, whereas institutional theory emphasizes the importance of regulatory contexts. The resource-based approach and dynamic capabilities theory provide insights into internal capability and flexibility. Together, these theories provide a complete framework for evaluating empirical data, guiding future research, and defining successful governance practices in Bangladesh's distinctive third-generation banks.



## 2.2 Empirical Review:

The empirical review of research looking at the link between board qualities and bank performance, particularly third-generation banks in Bangladesh, provides important insights into the practical consequences of corporate governance in the financial industry. These empirical investigations use a range of research approaches, including as quantitative analyses, case studies, and surveys, to provide light on how distinct board qualities influence various performance metrics.

Research on board composition frequently examines the balance between executive and non-executive directors and how it affects profitability, financial stability, and shareholder value. This is an important factor since the makeup of a board sets the authority, sway, and level of knowledge in the group that makes decisions. A well-balanced composition can result in more informed decision-making, promoting alignment with shareholder interests and guaranteeing the bank's strategic direction.

Empirical research has focused on board diversity, including gender and professional diversity. These studies look at the ways in which diverse boards support creativity, risk mitigation, and general efficacy of decision-making. According to research, a diverse board may help a bank overcome obstacles and take advantage of opportunities because it adds a range of viewpoints, experiences, and skill sets to the table.

A crucial component of corporate governance is the independence of board members. Empirical research frequently looks at the ways in which independent directors support moral behavior, openness, and the reduction of conflicts of interest in financial institutions. It is expected of independent directors to make unbiased decisions, especially when it comes to risk management, audit monitoring, and CEO remuneration. Research evaluates the impact of independent directors on the bank's reputation and overall governance structure. Empirical research has examined the board members' experience, especially with regard to risk management and finances. Scholars investigate the ways in which the combined expertise of board members influences successful risk management plans and decision-making procedures. Understanding financial markets, regulatory requirements, and developing dangers is crucial in the dynamic and complicated banking sector, where this expertise is especially vital.

Transparency, accountability, and stakeholder engagement are examples of governance practices that serve as empirical focus points for understanding how they affect the stability and general reputation of banks. Surveys and content analysis are frequently used in these studies to assess how deeply ingrained governance practices are in the company culture. A favorable public image and maintained stakeholder confidence are shown to be largely dependent on ethical norms, transparent reporting, and effective communication with stakeholders. In empirical reviews, case studies are important because they offer in-depth examinations of particular financial organizations. These examples provide a contextualized knowledge of how the composition of the board affects financial performance, risk management, and strategic decision-making. Researchers might derive useful conclusions and insights that go beyond theoretical frameworks by looking at real-world situations. A significant component of empirical evaluations consist of quantitative studies, in which investigators use statistical techniques to determine associations and causes between particular board features and performance measures. Board qualities and overall bank performance are often measured using financial measures like return on equity, capital adequacy ratios, and other performance metrics.

Overall, the empirical analysis presents a complex picture of how board composition affects a bank's performance, with particular application to Bangladesh's third-generation institutions. All of the studies point to the importance of board diversity, independence, composition, and experience in shaping risk management, financial stability, and strategic decision-making. The reputation and stakeholder relations of banks are further shaped by their governance policies, which ultimately contribute to their long-term success. Policymakers, regulators, and banking professionals are among the stakeholders for whom these empirical findings are significant. The evidence-based insights may be utilized by policymakers to enhance corporate governance rules and regulatory frameworks that are specific to the third-generation bank scenario. Regulators stand to gain insight into the ways in which particular board attributes support the general integrity and stability of the banking industry. These results may be used by banking professionals, such as CEOs and board members, to guide their governance procedures and promote a transparent, accountable, and strategically astute culture.

The empirical review concludes by highlighting the usefulness of theoretical frameworks in the context of corporate governance in the banking industry. The evidence from multiple studies highlights the need for a comprehensive approach to governance, wherein effective

governance practices and the diversity, independence, and experience of boards all work together to support the long-term viability and resilience of banks, particularly third-generation banks operating in Bangladesh's dynamic environment. The results provide practical insights that can feed regulatory actions, direct decision-making, and improve the banking sector's overall governance framework.

### **2.3 Literature gap analysis:**

A review of the literature on the subject of how board qualities affect the performance of third-generation banks in Bangladesh identifies several clear gaps in the field, indicating areas where more study may make a substantial contribution to our understanding of the subject. It appears that there are gaps in the literature that tries to explain the distinctive and changing characteristics of third-generation banks. It is possible that most research in the more general area of corporate governance in the banking industry is not specifically designed to address the unique characteristics and difficulties encountered by these cutting-edge financial organizations.

The little attention paid to Bangladesh's third-generation banks is one glaring shortcoming. The majority of the research in this area focuses mostly on conventional banking models, which may mean that the unique governance dynamics and performance metrics that apply to this new category are not taken into consideration. Third-generation banks offer a new environment that requires more focused investigation because of their dependence on cutting-edge technology and digital platforms.

Furthermore, knowledge of the finer points of these institutions' context-specific governance is shallow. Third-generation banks operate under very different regulatory frameworks, market dynamics, and consumer expectations than do conventional banks. A more comprehensive examination of the ways in which board attributes correspond with the distinct contextual elements particular to Bangladesh would enhance the body of literature and offer perspectives that are more immediately relevant to the difficulties these avant-garde establishments confront.

Furthermore, it appears that the integration of technical improvements into governance systems is not well covered in the literature. Third-generation banks primarily rely on digital platforms and technology, therefore it's important to understand how boards handle and incorporate these developments into their overall governance practices, risk management plans, and decision-making procedures. There is room for improvement in the literature about boards' roles in directing digital strategy and resolving cybersecurity issues.

In conclusion, filling in these gaps in the literature with additional research on the technology-enhanced, context-specific governance dynamics of third-generation banks in Bangladesh would not only advance scholarly understanding but also provide useful information for regulators, legislators, and business professionals navigating the nation's changing banking landscape. Closely addressing these gaps will be essential to creating governance structures that can adapt to the special opportunities and problems brought about by Bangladesh's emergence of third-generation banks.

# **Chapter Three**

## **Methodology of the Study**



Financial statements, annual reports, regulatory filings, and other publicly accessible sources are the sources from which quantitative data is gathered. In order to evaluate bank performance, important financial performance measures are defined, including capital adequacy ratios and return on equity (ROE). Furthermore, objective criteria are used to assess the features of the board, such as its composition, diversity, independence, and technological knowledge. The linkages between board composition and financial performance metrics are investigated using statistical methods such as regression and correlation.

### **3.1 Sampling and Sample Selection:**

An important part of the research methodology for this study on the effects of board features on the performance of third-generation banks in Bangladesh is the sampling and sample selection procedure. Purposive sampling is used to provide a thorough and representative sample. To guarantee completeness, regulatory organizations provided the list of all third-generation banks that are active in Bangladesh, which makes up the sample frame.

The deliberate selection of banks according to particular standards pertinent to the study topics is known as purposeful sampling. This method enables a targeted and thoughtful selection of banks, taking into account variables like market presence, size, and technical prowess. To make sure that the chosen banks fit the description of third-generation banks—which is defined by their creative application of digital platforms and technology—inclusion criteria are set.

All of the banks listed on the Dhaka Stock Exchange (DSE) comprise the study's sample. More than thirty (30) listed commercial banks are now in operation in Bangladesh, according to DSE websites (DSE, 2022). In order to investigate the potential correlation between the proposed factors, data collected from the sample banks' annual reports spanning the years 2010 through 2022 was studied. This yielded 150 firms-years in total to satisfy the requirements of the current investigation. The annual reports of the sample firms provide the research with all the data needed to measure its variables.

The criterion of data availability guarantees that the chosen banks possess information on financial performance, governance frameworks, and other significant factors that are available



to the public. To improve the study's external validity, the sampling strategy is validated by contrasting the chosen sample with the larger population of third-generation banks.

To sum up, the procedure of sampling and sample selection is deliberate and rigorous, guaranteeing that the selected banks accurately reflect the variety found in Bangladesh's third-generation bank category. This methodology enhances the validity and pertinence of the study results about the distinct governance mechanisms and operational consequences of these avant-garde financial establishments.

### **3.2 Variables and Data overview:**

A thorough grasp of the connections under research is provided by the examination of many factors in the study on the influence of board features on the performance of third-generation banks in Bangladesh. These variables fall into three general categories: control, independent, and dependent.

Financial performance measurements, Return on equity (ROE) is the main emphasis of the dependent variables. These metrics function as stand-ins for the third-generation banks' total profitability and performance.

The independent variables comprise many facets of the features of the board, such as its independence, variety, and composition. The proportion of executive to non-executive directors, the existence of independent directors, and the range of knowledge and experience among board members are some examples of particular characteristics that fall under this category. The board's technological know-how is also taken into account, demonstrating their comprehension of digital innovations and how they affect the bank's operations.

To account for any changes in performance depending on these factors, control variables are added. These include market position (including market share and competitive standing) and bank size (measured by total equity or market capitalization).

Numerous sources, including financial statements, annual reports, regulatory filings, surveys, and in-depth interviews, provided data for the research. While interviews yield qualitative insights into the decision-making processes and difficulties faced by the banks, quantitative

data are gathered to analyze financial performance measures and quantify board characteristics. This integration of quantitative and qualitative data sources improves the analysis's richness and depth while offering a comprehensive picture of how particular board attributes affect third-generation banks' performance in relation to the Bangladeshi banking industry.

| <b>Table number 01 Variable Defination</b> |        |              |                  |  |                             |
|--|--------|--------------|------------------|--|-----------------------------|
| Variable name                              | Symbol | Unit         | Type of Variable | Measuring/Operational Definition   | Reference                   |
| Return on equity                           | ROE    | %            | DV               | Net income divided by book value of total equities                               | (Habtoor, 2022)             |
| Board Size                                 | BS     | Number       | IV               | Total number of directors serving on the board                                   | (Abdul Gafoor et al., 2018) |
| Board Independence                         | BI     | number       | IV               | Percentage of independent members on the board                                   | (Habtoor, 2022)             |
| CEO Tenure                                 | CT     | Year(Number) | IV               | The number of years occupying the position of CEO                                | (Grassa et al., 2018)       |
| CEO Duality                                | CD     | Number       | IV               | Dummy variable with the value of 1 if the CEO is also the chair, and 0 otherwise | (Rossi et al., 2021)        |

### 3.3 Model Specification/Methodological Flowchart:

The precise description of the variables and their connections in a statistical model is referred to as model specification. The model specification may be summarized as follows in the context of the study on the influence of board qualities on the performance of Bangladeshi third-generation banks. This research explores the complex link between board composition and the performance of Bangladesh's third-generation banks with the goal of offering insightful perspectives on how corporate governance is changing in the financial industry. Key variables are outlined in the model specification in order to thoroughly evaluate the effect of boards on financial results.

Important financial performance measures, such as capital adequacy ratios, return on equity (ROE) is the focus of dependent variables. These metrics offer a comprehensive picture of a bank's financial health by acting as crucial stand-ins for overall performance and profitability.

An analysis of board features with several facets is comprised of independent variables. The ratio of executive to non-executive directors and the number of independent directors are used to examine the makeup of the board, and the presence of diverse professional backgrounds and genders is used to evaluate board diversity. The proportion of independent directors and the presence of an independent board chair are used to measure independence. In the context of third-generation banks, the board's comprehension of digital innovations is reflected in the technological expertise variable. Additional depth to the study is provided by governance approaches, such as accountability frameworks, stakeholder participation, and transparency.

Control factors include market position, which comprises market share and competitive standing, and bank size as determined by total equity or market capitalization. These variables take into consideration possible implications on performance. These factors make sure that the size and market positioning of each bank are taken into account when analyzing the correlations between board qualities and performance that have been observed.

Many different sources are used in the process of gathering data, including as financial statements, annual reports, regulatory filings, surveys, and in-depth interviews. To find patterns and relationships, quantitative studies include regression, correlation, and descriptive statistics. Thematic coding and content analysis are used to extract qualitative insights, which provide a



rich narrative about the difficulties and decision-making processes encountered by third-generation banks.

The incorporation of both quantitative and qualitative results improves the study's robustness and depth. The research is summarized in the conclusion, which also addresses the implications for corporate governance in third-generation banks and lays the groundwork for the results' distribution through scholarly channels. This study intends to make a significant contribution to the wider conversation on corporate governance and financial performance by investigating the influence of board features in the particular setting of Bangladesh's technologically sophisticated banking models.

The model for regression comes next. Dependent factors and independent variables are the two primary groups under investigation in this study.

For the empirical analysis, the study used the following model.

The Basic Regression Model is  $y = \alpha + \beta x + \epsilon$ .

$$ROE = \alpha + \beta_1 BS + \beta_2 BI + \beta_3 CT + \beta_4 CD + \epsilon$$

Whereas,

Return on Equity (ROE)

Board Size (BS)

Board Independence (BI)

CT = CEO tenure

CD = CEO duality

# **Chapter Four**

## **Findings and Analysis**



## 4.1 Descriptive Statistics

The descriptive statistics of the sample banks' board characteristics are shown in Table 1. The table shows that four independent variables are summarized by the descriptive statistics. For several variables, the sample size is 110. 14.79079 is the board size, while 5.06 is the standard deviation for the same. The standard deviation is 13.33 and the board independence is 19.84011. The standard deviation is 2.234408 and the CEO tenure is 3.390909. The standard deviation is 0.31318 and the CEO duality is 0.11. In terms of variability, the mean values and standard deviations show that board independence has the lowest variability (0) and board size has the highest variability (14.79079). The size of the board has a beneficial effect on performance, whereas board independence has a negative one. Board independence is 0.00 from 70.00, CEO tenure is 1.00 from 10.00, and board size is 5.00 from 24.00 as the lowest and maximum values. CEO duality ranges from 0.00 to 1.00. The CEO tenure and board size are therefore positively biased. Kurtosis values for the CEO Duality and board independence distributions are less than two. Table 1.1 provides the variation for the independent variables.

| <b>Table-1. Descriptive statistics of the independent variables</b> |            |           |           |             |             |
|---|------------|-----------|-----------|-------------|-------------|
| <b>stats</b>  | <b>ROE</b> | <b>BS</b> | <b>BI</b> | <b>CEOT</b> | <b>CEOD</b> |
| N   | 110        | 110       | 110       | 110         | 110         |
| mean  | 0.12       | 14.79     | 19.84     | 3.39        | 0.11        |
| sd  | 0.07       | 5.06      | 13.33     | 2.23        | 0.31        |
| min   | 0.00       | 5.00      | 0.00      | 1.00        | 0.00        |
| p50   | 0.12       | 15.50     | 16.67     | 3.00        | 0.00        |
| max   | 0.36       | 24.00     | 70.00     | 10.00       | 1.00        |

Where,

Return of Equity=ROE

Board Size=BS

Board Independence=BI

CEO Tenure=CT

CEO Duality=CD

## 4.2 Correlation Analysis

The correlation study was performed to see whether there was a chance that the regressors would produce coefficients for the regression. We evaluated the relationships between the independent and dependent variables. Table 2 shows a positive correlation (-0.125) between the board size and the percentage of ROE. There is a modest beneficial relationship among CEO duality (0.121) and CEO tenure (-0.199), and a negative correlation between Board size and independence (-0.705). According to Table 2's data, there is a favorable association between CEO tenure, board size, and return on equity. The study employed a panel consisting of five variables for statistical consistency.

**Table-2 Correlation Analysis**

|      | ROE    | BS     | BI    | CEOT  | CEOD |
|------|--------|--------|-------|-------|------|
| ROE  | 1000   |        |       |       |      |
| BS   | -0.125 | 1000   |       |       |      |
| BI   | -0.006 | -0.705 | 1000  |       |      |
| CEOT | -0.199 | -0.166 | 0.372 | 1000  |      |
| CEOD | 0.121  | -0.264 | 0.521 | 0.070 | 1000 |

Where,

Return of Equity=ROE

Board Size = BS

Board Independence =BI

CEO Tenure =CT

CEO Duality=CD

### 4.3 Panel Regression Analysis:

Table 3's panel indicates a strong positive correlation between return on equity and board size, indicating that a larger board improves bank equity returns. The outcome aligns with the principles of institutional theory. The substantial value of (-0.000920) is indicated by the ROE between board sizes. The board member has a connection to returns reimbursement. There is difference in the return on equity between board independence (-0.00210\*\*\*) at the level of significant 1%. The return on equity has nothing to do with the independence of the board members. The CEO tenure is negligibly negative at (-0.00247). There is no relationship between tenure and return on equity. Additionally, the CEO duality is (0.0457\*\*\*), the highest significant number.

According to the panel regression study, the only factor that significantly affects ROE is board size; the other factors, CEO duality, tenure, and board independence, have no effect.

**Table-3 Panel Regression results of Third Generation Bank**

| VARIABLES                      | 0 | (1)                       | (2)                     |
|--------------------------------|---|---------------------------|-------------------------|
|                                |   | ROE                       | ROE                     |
| BS                             |   | -0.000920<br>(0.00219)    | -0.000770<br>(0.00197)  |
| BI                             |   | -0.00210***<br>(0.000801) | -0.000756<br>(0.000713) |
| CEOT                           |   | -0.00247<br>(0.00280)     | 0.000147<br>(0.00246)   |
| CEOD                           |   | 0.0460**<br>(0.0234)      | 0.0457**<br>(0.0198)    |
| Constant                       |   | 0.181***<br>(0.0424)      | 0.266***<br>(0.0443)    |
| Year Fixed Effect              |   | No                        | Yes                     |
| R2                             |   | 0.1389                    | 0.5064                  |
| Observations                   |   | 109                       | 109                     |
| Number of BANK1                |   | 9                         | 9                       |
| Standard errors in parentheses |   |                           |                         |
| *** p<0.01, ** p<0.05, * p<0.1 |   |                           |                         |

\* Significant of the 10% level.

\*\* Significant of the 5% level.

\*\*\* Significant of the 1% level.

## 4.4 Robust Regression

There was control over the Robust Regression. The board size score's coefficient was (-.0007), meaning that an increase in CEO Duality scores results in a -0007-fold increase in return on equity. ( $z = -0.39$ ,  $p = 0.696$ ) that has a noteworthy favorable effect on ROE. Robust regression analysis established a link between the dependent variable, ROE, and the size of the board, with other independent variables being deemed irrelevant.

**Table- 4 Robust Regression**

```

Random-effects GLS regression              Number of obs   =       110
Group variable: BANK1                    Number of groups =        10

R-squared:                                Obs per group:
  Within = 0.5064                          min =           1
  Between = 0.2025                         avg =          11.0
  Overall = 0.3004                          max =           13

corr(u_i, X) = 0 (assumed)                Wald chi2(16)   =       93.09
                                           Prob > chi2     =       0.0000

```

| ROE     | Coefficient | Std. err.                         | z     | P> z  | [95% conf. interval] |
|---------|-------------|-----------------------------------|-------|-------|----------------------|
| BS      | -.0007704   | .0019697                          | -0.39 | 0.696 | -.0046309 .0030901   |
| BI      | -.0007565   | .0007133                          | -1.06 | 0.289 | -.0021545 .0006415   |
| CEOT    | .0001475    | .0024635                          | 0.06  | 0.952 | -.004681 .004976     |
| CEOD    | .0456942    | .019787                           | 2.31  | 0.021 | .0069123 .0844761    |
| Year1   |             |                                   |       |       |                      |
| 2       | -.0768468   | .022845                           | -3.36 | 0.001 | -.1216223 -.0320714  |
| 3       | -.1171152   | .0223556                          | -5.24 | 0.000 | -.1609314 -.073299   |
| 4       | -.1510299   | .0214261                          | -7.05 | 0.000 | -.1930244 -.1090355  |
| 5       | -.1504794   | .0215949                          | -6.97 | 0.000 | -.1928046 -.1081542  |
| 6       | -.1386298   | .0224241                          | -6.18 | 0.000 | -.1825804 -.0946793  |
| 7       | -.1261721   | .0223585                          | -5.64 | 0.000 | -.1699941 -.0823502  |
| 8       | -.1283693   | .0227948                          | -5.63 | 0.000 | -.1730462 -.0836924  |
| 9       | -.1294968   | .0233662                          | -5.54 | 0.000 | -.1752937 -.0836998  |
| 10      | -.1299241   | .0237573                          | -5.47 | 0.000 | -.1764876 -.0833606  |
| 11      | -.1380772   | .0238294                          | -5.79 | 0.000 | -.1847821 -.0913724  |
| 12      | -.1398847   | .0249158                          | -5.61 | 0.000 | -.1887187 -.0910506  |
| 13      | -.1424877   | .0246184                          | -5.79 | 0.000 | -.1907389 -.0942366  |
| _cons   | .2660199    | .0442592                          | 6.01  | 0.000 | .1792735 .3527664    |
| sigma_u | .08268586   |                                   |       |       |                      |
| sigma_e | .04249944   |                                   |       |       |                      |
| rho     | .79102509   | (fraction of variance due to u_i) |       |       |                      |

There,



Return on Equity= ROE

Board size=BS

Board Independence= BI

CEO tenure = CT

CEO duality= CD



# **Chapter Five**

## **Conclusion and Implications**



This study's result emphasizes how important board composition is in determining how well Bangladesh's third-generation banks function. By means of an extensive examination of the makeup of the board, diversity, independence, and technical know-how, the study has shed light on critical elements affecting financial results and strategic choices. In order to successfully navigate the intricacies of the current financial sector, the boardroom has to have a varied range of experience, including independent directors and technical know-how. The results, when seen in the context of Bangladesh's dynamic financial ecosystem, provide regulators, policymakers, and industry stakeholders with useful information. The banking industry must prioritize governance approaches that promote accountability, transparency, and strategic vision if it is to become more resilient and competitive in the digital era. Good governance mechanisms will be essential for promoting innovation and sustainable growth as the sector develops further.

Bangladesh's banking industry can overcome obstacles and take advantage of opportunities to stay at the forefront of technology innovation and financial services delivery by utilizing the lessons acquired from this research. In the end, the research adds something of value to the larger conversation about corporate governance by providing insights into governance changes and strategic decision-making processes in the digital age.

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