The Impact of Corporate Governance on Stock Performance: Evidence from Bangladesh

Mohammad Abu Sufian[1]

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ABSTRACT

Purpose: This explanatory study aims to examine the compliance status of corporate governance mechanisms and their effect on stock performance of textile industry in Bangladesh.

Methodology: Fifty annual reports of listed textile companies for the year 2019 have been taken as the sample to find the empirical result of this study. The statistics for description and interpretation of cross-sectional data have been used to explore and examine the causal relationship among variables under study.

Findings: From the statistical analysis of governance variables, it is seen that 30% of the sample company have a minimum (5) member in the Board, whereas only 2% companies have more than 10 directors. Moreover, five companies having negative and low return on asset (ROA) do not comply with the governance code provision regarding independent directors. In addition to these, 18% companies have no female director on the Board and are violating the Board diversity policy of corporate governance. This study shows a significant and positive association between the gender diversity and the stock performance, which supports the lens of stakeholder and resource dependency theories and proves that the presence of female directors is an effective mechanism to protect the interest of outside resource providers and. But it infers that the presence of the independent director negatively affects the dependent variable, stock performance that is also statistically significant.

Originality: The main value of the study is that it is the first paper in Bangladesh, which has considered the stock price change as proxy for stock performance as per author best knowledge.

Practical Implications: The outcome of the paper is most likely to benefit the top managements and directors in formulating a suitable Board dimension, and policy makers in regulating the capital market in Bangladesh for making more informative decisions towards improving their surveillance and monitory systems and ensuring the compliance level of issuer.

Research Limitations: This is cross-sectional study, which is limited to textile companies and does not consider primary data.

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[1] Associate Professor, Department of Business Administration, Pabna University of Science and Technology, Pabna-6600, Bangladesh. E-mail: Sufian_dba@pust.ac.bd

1. Introduction

The Sustainable Development Goals (SDGs)-2030 were originated from the Millennium Development Goals in 2015 by the United Nations to transform the world sustainable for the current and future generations. In line with the development agenda, the SDG 9: development of industry, innovation and infrastructure and SDG 16: the peace, justice and strong institutions call for an urgent action for capital market development and good corporate governance. In particular for developing nations, the study (Claessens & Yurtoglu, 2013) on corporate governance practices in emerging markets stated that understanding corporate governance practices against the best practices is essential because it helps to improve the governance standard, which benefits companies by improving access to financing, lowering the cost of capital, improving performance, and treating all stakeholders more favorably. The capital market development can be measured by the three aspects of stock performance i.e., stock return, stock price volatility and trading volume (Hsu & Liao, 2022). The rise in stock prices is a positive indicator of stock performance (Nursasi, 2017). Moreover, corporate governance structure is one of the key players of capital market development of a country. The impact of corporate governance is inconsistent in explaining stock performance of firms (Hsu & Liao, 2022 and Ding et al., 2021). However, the governance structure of corporation may influence the performance of capital market (Munir et al., 2019; Latifah et al., 2019 and Laskar & Maji, 2016). Nawawi et al. (2020) did not find any influence of corporate governance mechanisms on stock return of Indonesian corporations. Therefore, the empirical evidences of prior research (Manawaduge, 2012; Arora & Sharma, 2016; Pillai & Al-Malkawi, 2018; Dang, Houanti & Vu, 2018) identified a causal relationship between corporate governance (CG) and stock performance (SP) and inferred that a good level of CG compliance is a good signal for corporate performance and capital market development. The effectiveness of corporate governance can improve the stock performance or firm performance during COVID-19 crisis (Zeremba et al., 2021) in US stock market.

Over the last decade, Bangladesh experienced some significant financial scandals, such as two-time debacles of capital markets and collapses of some banks and non-banks corporations including Rana Plaza Tragedy. The financial scandals of Modern Food Ltd., Destiny 2000 Ltd., the Hallmarks, and the Farmers Bank Ltd. are mentionable. The lack of transparency, poor accountability and the weak pressure of stakeholders are responsible for such financial failures and the breakdown of economic development of a country (Belal & Owen, 2007 and Carney, 2008). In Bangladesh, the ethical roles and responsibility of directors become questionable after the financial scandal of a giant online shopping mall named 'Evaly' has been public. As CG regulates the behaviors of directors and managements in order to ensure corporate transparency, accountability, fairness and responsibility for creating trust among different stakeholders and has become a panacea to corporate managerial illness and a tool used to restore the confidence of investors.

Following the crash of stock market in 1996, Bangladesh Bank, the country's central bank, took the lead by establishing a brief CG guideline for private banks on September 17, 1996. This guideline was later revised on July 24, 2003, to ensure strong CG in bank administration. After then, the Bangladesh Securities and Exchange Commission (BSEC) has published a number of notifications to improve listed companies' good governance practices and to safeguard investors' interests and the capital market. However, in 2010–2011, the Bangladeshi economy had to face a second time financial collapse and a number of corporate failures consequently. Recently, BSEC issued a more comprehensive CG Code in 2018, which consists of 166 conditions covering 9 areas of corporate governance. The compliance of these conditions is mandatory for companies listed on any stock exchange in Bangladesh. After 2018, the CG practices have become an eye-catching issue to researchers of business and many studies have been conducted by different researchers from various theoretical perspectives (agency theory, stakeholder theory, stewardship theory, political cost theory; capital needs theory, signaling theory, dependency theory, legitimacy theory, and social contract theory) with the aims of protecting capital market failure and interest of stakeholders. In developing nations, corporate governance concerns are still unclear or unexplored (Manawaduge, 2012), while they are thoroughly investigated in developed nations (Alali, Anandarajan, & Jiang, 2012 and Lee, 2012). On the other hand, the research findings of the developed countries have limited use in making policies in developing countries as these countries are operating in different cultural, legal, social and economic environments. The findings of Bhowmik and Islam (2013) reported a poor response of listed companies to follow the corporate rules and norms for the disclosure of corporate information in Bangladesh. Besides, the protection of interests of different stakeholders and the efficiency of a capital market depend on a country's national culture and business environment (Senaratne, 2011). Still the Bangladeshi capital market could not restore the confidence of the stakeholders as indicated by the stock price volatility and the unusual trading performance of firms. A number of studies (Alam & Akhter, 2017; Ferdous, 2013; Abdullah-Al-Mamun, 2013; Debnath & Sarkar, 2013; Biswas, 2012; Das & Sufian, 2012; Rouf, 2012; Kabir, Hoque & Islam, 2011) have been carried to investigate the practices of corporate governance in Bangladesh. Most of the works are disclosure checklist based, which require more empirical research on this field. Besides, the cultural, legal, social, economic and financial systems of Bangladesh are also different from other countries. Thus, there is an urgent call to fill up these gaps and examine how stakeholder and resource dependency theories might be used to examine how corporate governance affects the stock performance of Bangladeshi companies.

In this context, the examination of the governance system of textile industry and its effect on firms' stock performance is a great interest because of two reasons. In one hand, by affecting the lives of 10% of Bangladesh's population, the textile sector helps the government of Bangladesh attain some Sustainable Development Goals and accounts for nearly 83% of all export revenue in Bangladesh in 2020–2021 (Bangladesh Economic Review, 2022). This

industry is a home of female employees and of international buyers on the other hand. Moreover, available research works neither fill the literature gap on the examination of CG impact on stock performance for the development of capital market in the developing country context nor cover the highest export earnings oriented industry in Bangladesh.

Therefore, there is a scope to investigate the effects of the corporate governance issues for the sustainable stock performance of textile companies listed with Dhaka Stock Exchange in Bangladesh.

2. Research Question and Objectives

The present research is conducted on the basis of one main research question (RQ). The research question is: "Do governance mechanisms have any effect on stock performance of listed textile companies in Bangladesh"? This main question is further investigated in the following specific questions:

a) How is the current status of CG elements of textile sector in Bangladesh?

b) Is there any relation among other corporate attributes with stock performance of stock exchange listed Bangladesh textile companies?

The main objective of this study, which is conducted in accordance with the main research question, is to determine the effects of corporate governance mechanisms, such as board governance, board independence, gender diversity, and board responsibility, on the firm's stock performance. To achieve the main objective, this study is carried out the following objectives by representing the above research questions:

a) To examine the compliance status of Board diversity related CG elements of listed textile companies in Bangladesh.

b) To investigate the relationship among corporate attributes with stock performance of listed textile companies in Bangladesh.

3. Theory, Literature Review and Hypothesis Development

The empirical results of prior studies revealed that a good number of theories had been used to examine the effect of corporate governance on stock performance (return), firm performance, corporate values, and sustainability practices (Masud, Bae & Kim, 2017; Kilic & Kuzey, 2017; Masud, Nurunnabi & Bae, 2018; Masud, Hossain & Kim, 2018; and Mahmood, Kouser & Masud, 2019). The essence of these theories, such as agency theory, legitimacy theory, institutional theory, stakeholder theory, resource dependency theory and enlightened self-interest theory has been used for the conceptual framework in different country and cultural context. Some scholars have used a single theory for formulating their theoretical framework. Mehadi (2019) examined the determinants of climate change

disclosure by using institutional theory. But a single theory as a framework of reporting cannot be universally acceptable for providing motivations to disclose corporate social, environmental and ethical information (Hackston & Milne 1996). Prior studies (Chan, Waston & Woodliff, 2013; Comyns, 2016; Masud, Bae & Kim, 2017; Kilic & Kuzey, 2017; Masud, Nurunnabi & Bae, 2018; Masud, Hossain & Kim, 2018; and Mahmood, Kouser & Masud, 2019) have used more than two theories for their conceptual framework. Although a variety of theories have been applied to examine the efficacy of corporate governance components, the application of the agency theory in corporate governance studies is given importance. Manawaduge (2012) reported that the assumptions underpinning agency theory are valid mainly in the context of developed countries and the agency theory is not applicable to Bangladesh (Siddique, 2010) and Mir & Rahman, 2005). Stakeholder theory and resource dependency theory are used in the current study has examined and analyzed the effects of Bangladeshi governance code on stock performance of textile sector.

Stakeholder theory

Stakeholder theory explains a legitimate relationship between executive managers and resource providers where an organization depends on the various stakeholders to get continuous support from them for its long-term survival and success. The resource dependency of an organization empowers the external stakeholders over the behavior and responsibilities of managements in conducting business. In stakeholder theory, the external pressure of various stakeholders ensures the effective control system for good governance. Stakeholder management theory works with a network of connections between different stakeholders and management to balance and meet competing demands and accomplishing corporate goals (Freeman, 1984).Thus, stakeholder's pressure is the main determinant of corporate actions and predicts a positive association between economic performance and corporate social responsibility (CSR) disclosure (Chan, Waston & Woodliff, 2013). In addition to stakeholder's pressure, an organization can value its stakeholders in case of its strategic, investment and policy decisions in exchange of continuous support for resources. Based on this supposition, it is expected that the behavior and responsibilities of management is affected by stakeholder's pressure, involvement, awareness and perception. Thus, a socially responsible behavior instigates good corporate governance practices, which lead to maximize the firms' value in terms of stock return. Comyns (2016) and Dissanayake, Tolt and Xydias-Lobo (2016) noted that stakeholder's pressure groups can reduce the information gap regarding corporate strategic investment and policy information among the various stakeholders. The condition of corporate governance code (2018) represents a tool for guiding the actions of the board of directors and managers for improving the firm stock performance. Thus, the various conditions of corporate governance build an effective control system, which can monitor the functions of executive directors and managers for reducing information asymmetry and the moral hazard of business failure. Stakeholder theory supports the governance mechanisms and ensures the effectiveness of the Board as it takes responses for formulating business strategies and plans and monitors the actions of Chief Executive Officer

(CEO) and other directors, and the profitable operations of the firm with good ethics. Therefore, the application of stakeholder theory can protect the interest of stakeholders and maximize the expected stock performance.

Resource dependency theory

According to resource dependency theory, businesses must depend on outside parties to provide advice and counsel, secure preferential access to resources, create a channel of communication with outside parties, and establish the legitimacy of the firm to protect the interests of external stakeholders (Pfeffer & Salancik, 1978). The theory also explains that firms have to obtain others' resources by maintaining a relationship among different stakeholders for their survival, and the directors of the firms must show responsible behavior with third parties for the access of outsiders' resources by offering a maximum stock return. This theory provides a basis for understanding corporate governance practices as it establishes and controls managerial actions and decisions regarding scarce resources within corporate structure (Muttakin et al., 2016).

From these two theoretical perspectives, it is argued that there is a causal link among corporate governance mechanisms and stock performance as CG creates social obligations and dependency of corporate directors on outside resource providers of a firm, which meets more social needs and interests of stakeholders. An independent variable affects the dependent variable and acts as determinant or predictor of the outcome (dependent variable). This study has considered the governance mechanisms such as board governance, board independence, gender diversity, and board responsibility as independent variables and the change of stock price as a dependent variable.
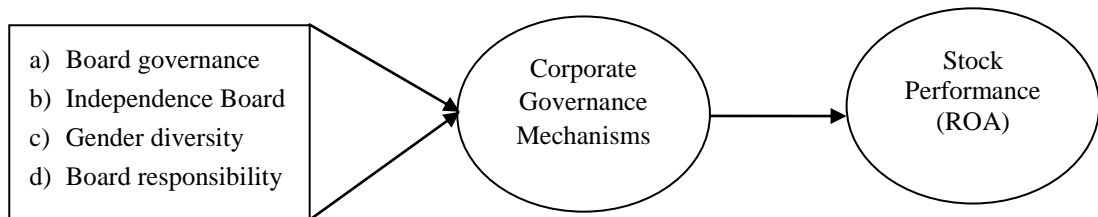

Figure: Conceptual Framework

Firms with stronger governance structure is responsible to the market than firms with weaker governance structure and the result efficient capital market that can collect more funds with the low cost of capital (Beekes & Brown, 2006). The firm's governance structure can mitigate the conflict of interests and can reduce the imbalanced power and control between stakeholders by affecting the disclosure practices (Aboagye-Otchere, Bedi & Ossei Kwakye, 2012). The disclosure quality (DQ) affects the stock return as the high level of disclosure reduces the cost of capital (Hussainey & Mouselli, 2010). Prior studies (Greuning & Bratanovic, 2009; Shank, Hill, & Stang, 2013) revealed that a corporation with effective

governance system can increase the stock performance by enhancing the capital market efficiency, attracting foreign investments and minimizing the vulnerability to financial crises. The financial performance of a corporation is affected positively by the level of monitoring of the CEO (Bonazzi & Islam, 2007). According to empirical research by Bauwhede (2009), disclosure of compliance not only benefits the stock market but also boosts company performance. Prior studies (Wahab, How & Verhoeven, 2007; Klapper & Love, 2004; Durnev & Kim, 2005) inferred that stock performance is positively and significantly related to corporate governance. However, corporate governance does not affect the stock performance (Ding et al., 2021; Hsu & Liao, 2022). From the above discussion, it is clear that the findings of prior researches are mixed. Thus, it is necessary to revisit the effects of corporate governance mechanisms on stock performance.

Board governance

Board governance refers to the size of the Board. Stakeholder theory builds a legitimate contract between board members and the stakeholders. Stakeholders want to have more legitimate directors on the Board for protecting their interests and for creating a social bonding between corporations and outside stakeholders. The more members on the board can reduce agency conflict (Ntim et al., 2013 and de Villiers et al., 2011) as they can maintain communications with various stakeholders and can solve the political and critical issues (Masud, Nurunnabi & Bae, 2018). As per CG code 2018, a board must have at least 5 directors and at most 20 directors on it for monitoring corporate actions to protect the interest of stakeholders. A large board can advise managements for the optimum usage of resources in effective way from their personal skills and experiences, which can lead to the higher stock return. Prior studies (de Villiers et al., 2011; Mahmood et al., 2018; Ganapathy & Kabra, 2017; Shamil et al., 2014) have investigated that the corporate board positively affects the organization's resources, reputation, and performance. In line with the findings of prior studies, a directional hypothesis can be formulated as:

H_1: Board governance has a positive impact on corporations' stock performance.

Board Independence

As outside director, independent director (ID) represents the independency of the board, he is a competent person with integrity who can assure compliance with financial rules, regulatory standards, and corporate laws and who can make a significant contribution to the business through sustainable interests of the stakeholders. The required number of ID is at least 1/5th of the total number of directors on the Board, and for any fraction, shall be next integer (CG Code, 2018). An ID is an expert and a resourceful representative member of the Board, and makes a bridge between stakeholders and other directors for enhancing commitment of managements towards organizational betterment. As an expert member, an ID can monitor the actions of management and provide effective opinions on corporate strategies and plans for the better performance of corporations (de Villiers et al., 2011).

Prior studies (Khan et al., 2013; Sharif & Rashid 2014; de Villiers et al. 2011) have examined that the board independence positively affects corporate social and environmental disclosures.

Based on the above discussion and empirical results, it is expected that the role of independent director is positive in explaining stock performance. Thus, a hypothesis can be developed as follow:

H_2: *Independent director positively affects the stock performance.*

Gender diversity

Board member should be from a diversified area considering gender, age, ethnicity, occupation, education, and work experience. The directors of a diversified board possess a versatile knowledge on the different fields and can suggest the best strategic decision. A board having female director(s) is called a gender diversified board. Due to their softer beliefs and higher moral standards, female directors (or directors) have greater wisdom and capacity (Huse & Solberg, 2006) and can manage the boardroom atmosphere with efficacy (Gul et al., 2011; Huse & Solberg, 2006). Resource dependency theory suggests to make a social link with the Board member and resource provider as a diversified and knowledgeable board can advise management to collect necessary resources through societal actions (Verbeeten, Gamerschlag & Moller, 2016). The female directors become more responsible to attend in the annual general meeting or extraordinary general meeting, and their attendance can increase the effectiveness of the board. The presence of a woman director is positively associated with firm performance (Carter, Simkins & Simpson, 2003). From the above discussion, a hypothesis may be stated as:

H_3: *The gender diversity has positive links between corporate governance mechanisms and corporate stock performance.*

Board Responsibility

A Board is said to be responsible if there exists two sub-committees, such as, Audit Committee (AC) and Nomination and Remuneration Committee (NRC), and a declaration from CEO and CFO about the fair policy and code of conduct for the Chairperson of the Board, the other board members and the CFO of the company, and a certification about compliance of accounting standards and practices. As the status of governance compliance published in annual reports of sample companies indicates that all 50 companies have ensured the existence of AC, NRC, a declaration report and a separate position for CEO and Chairperson of the company, only the attendance of IDs in the Board meeting is considered as a proxy for responsible board. Thus, a responsible board ensures the compulsory attendance of all IDs in the Board meeting. Corporate governance ensures a lawful behavior of directors (Munir et al., 2019) and makes responsible to society. The social contract between directors and resource providers influences strategic decisions of corporations, which stride corporations to profitable investments for their survival in the society. Government and other resource providers pressurize on profitable corporations to involve

more social issues. Based on the above discussion, an alternative hypothesis can be stated as follows:

H₄: Board responsibility positively affects the firms' stock performance.

4.   Research Methods and Design

To explain the causal relationship among variables, the explanatory research is conducted based on positivism, and its research approach is deductive to confirm the theories applicable for improving the performance of firms' stock listed with the Dhaka Stock Exchange through hypothesis testing. This quantitative study is considered the secondary data of textile companies listed with DSE in 2019. From the database of the Dhaka Stock Exchange, it is seen that there were 58 companies in total listed at the end of the December 2019. The CG code, 2018 requires a functional website of each listed company that must have a link with the database of DSE and shall keep available annual reports from the date of listing as per listing regulations, 2015.   An investigation of online annual reports indicates that eight companies do not have functional websites and do not keep available annual reports in the websites. Hence, they are excluded from the sample. Finally, the study has considered 50 companies as the sample. The sources of the data relating to corporate governance elements and stock performance were company annual reports, corporate web sites, and other supplementary reports stating CG compliance. The ground of selecting the year 2019 is that the BSEC issued a mandatory CG Code in 2018 by repealing all notifications and guidelines relating to corporate governance. The performance of sampled companies in 2020 might be different because of Covid-19 impact. Cross-sectional data have been analyzed using statistical tools i.e., correlation and multi-regression to investigate and examine the cause-effect link among the variables being studied.

Measuring variables

Dependent variable

Stock performance is the important measure for investors to make better investment decisions. Share price, stock return, fluctuation of share price, trading volume and stock price volatility can be used as proxies for Stock performance. Stock return, trading volume and stock price volatility are the important aspects of stock performance (Hsu & Liao, 2022). Bistrova and Lace (2011), and Shamsudin, Mahmood and Ismail (2013) find positive association between share price and corporate governance. A corporate performance can be measured by stock price because the price of a stock backed by demand of stock represents the wealth of corporation. Thus, the higher demand increases the stock price and vice versa (Shamsudin, Mahmood & Ismail, 2013). The profitability, efficiency and liquidity have the strongest impact on the stock performance (Shamsudin, Mahmood & Ismail, 2013). Rahman (2011) reported that Price Earnings (PE) ratio measures the performance of Bangladesh's stock market, but in practice, Bangladeshi investors pay more attention to the share price

information for their trading decision. Sharifi (2017) investigated that stock price speculation is the latest trading information for investors, which represents the stock return in the capital market. In line with Sharifi (2017), the study has used the stock price change to measure the stock performance of a company, which is computed mathematically as follows:

$$Change\,of\,stock\,price = \frac{Stock\,Price_{end} - Stock\,Price_{begin}}{Stock\,Price_{begin}} \times 100$$

Independent variables

An independent variable affects the dependent variable and acts as determinant or predictor of the outcome (dependent variable). Board governance, Board independence, Gender diversity, and Board responsibility have been considered as explanatory variables for the study. The variable 'Board governance' and 'Board independence' are quantified by the number of Board member and the number of independent director on the Board respectively. Gender diversity is quantified by the number of women director on the Board. Board responsibility is measured by the existence of corporate AC and NRC, a separate position for CEO and Chairperson, the attendance of ID in the Board meeting and a declaration from CEO and CFO. As the status of governance compliance published in annual reports of sample companies indicates that all 50 companies have ensured the existence of AC, NRC, a declaration report and a separate position for CEO and Chairperson of the company. So, the attendance of independent director in the Board meeting is considered as a proxy for responsible board. Thus, a responsible board ensures the compulsory attendance of all IDs in the Board meeting.

Control variables

The current paper has considered different corporate attributes i.e., assets size, listing age, net asset value per share (NAV) and return on assets (ROA) as control variables. Prior studies indicate that some control variables have a linked with stock performance of a firm.

ASIZE: Assets size, Total revenues and Market capitalization can be used as proxies for company size, and here, assets size is considered as the size of the firm. It is expected that the larger firm is likely to have good governance practices.

LAGE: Listing age is computed from the year of listing. It is expected that the old and experience firm is likely to have good governance practices.

ROA: ROA is obtained by dividing the net profit by total assets. It is expected that the more profitable firm is likely to have good governance practices.

NAV: The total assets are divided by the number of outstanding shares to attain at the net asset value per share. It is inferred that the firm with the higher NVA is likely to have good governance practices. A regression model can be created by taking into account these variables to test the following hypotheses:

STOCKPERFORM=$\beta_0+\beta_1$BGOVERN+β_2BINDI+β_3BGD + β_4BDISRES+ β_5ASIZE + β_6LAGE + β_7ROA + β_8NVA+ ε

Expected sign (+) (+) (+) (+) (+) (+) (+) (+)

Where

STOCKPERFORM = Performance of sample firm measured by the fluctuation (change) of stock price during a year.

BGOVERN =Board governance measured by the number of directors on the board.

BINDI = Board independence represented by the number of independent director on the board.

BGD = Gender diversity of the Board measured by the number of female directors on the board.

BDISRES = Board responsibility measured by the Presence of Independent Director (s) in the board meeting.

CSIZE = Assets size considered as the size of the company.

LAGE = Listing age represents the age of the company computed from the year of listing.

ROA = ROA is obtained by dividing the net profit by total assets.

NAV = The total assets are divided by the number of shares outstanding to get at the net asset value per share.

β_0 = The constant

ε = The error term

5. Results and Discussion

The Statistical Package for Social Sciences (SPSS) has been used to compute the various statistics in order to assess the study's hypotheses.

Descriptive Statistics

Table-1: Descriptive statistics of variables

Variables	N	Mean	Std. Dev.	Min.	Q1	Median	Q3	Max.
ND	50	7.24	1.80	5	5.00	7	8	12
NID	50	1.78	0.76	0	1.00	2	2	4
PID	50	78.16	27.75	0	63.00	87.23	100	100
GD	50	1.46	1.07	0	1.00	1	2	4
TA (Fig. in lac)	50	48545.36	38803.78	1286.73	19508.50	37906.53	61806.61	177916.2
ROA	50	2.87	6.20	-13.38	0.53	2.7	5.0425	27.77
NAV	50	12.58	11.37	0	3.75	7	23.25	36
LAGE	50	27.16	19.61	-34.97	16.94	23.05	40.115	100.56
SPC	50	95.46	55.82	44.92	67.35	78.68	105.017	387.8

Source: Data compiled by author

Variables: Stock Price Change, Listing Age, Presence of Independent Director (%), Net Assets Value Per Share, No. of Independent Director, Gender Diversity, Return on Assets, Total Assets, and Number of Directors.

Table-1 reports the different descriptive statistics i.e., mean, median and standard deviation for the dependent, independent and control variables. The statistics on stock price change (SPC) indicate that the average stock price of sample companies is 95.46 with a great fluctuation between Tk. 387.8 – Tk.44.92. The stock price of 75% textile companies is Tk. 105, which is greater than the mean value. The mean values of governance variables i.e., the number of directors on the Board, the number of IDs on the Board, the number of female directors on the Board, and the percentage of meeting attendance of IDs on the Board are 7.24, 1.78, 1.46 and 78.16 respectively. The average values of control variables i.e., assets size, listing age, net asset value per share (NAV) and return on assets (ROA) are Tk. 4854.54 million, 27.16 year, Tk. 12.58 and 2.87 percent respectively. From the critical analysis of the frequency tables for governance variables, it is seen that 30% of the sample company has minimum (5) members on the Board, whereas only 2% companies has more than 10 directors. Moreover, two companies namely Mithun Knitting and Dyeing Ltd and Regent Textile Mills Ltd. have no IDs on the Board and other three companies do not have required number of IDs on the Board. They do not comply with the governance code, 2018 and have negative and low ROA. In addition to these, 18% companies have no female director the Board and 40% companies have only one female on the Board. The most of them are the

family member of other directors. These companies are violating the Board diversity policy of corporate governance.

Table-2: The relationship among variables

Variables	ND	NID	PID	GD	TA	ROA	NAV	LAGE	SPC
ND	1								
NID	.469**	1							
PID	.023	.163	1						
GD	.311*	.001	-.022	1					
TA	.394**	.093	.018	.105	1				
ROA	.051	.028	.157	.147	.122	1			
NAV	-.030	.008	-.175	-.037	-.324*	-.205	1		
LAGE	.046	-.149	-.069	.118	.266	.277	.090	1	
SPC	-.023	-.196	-.418**	.249	-.272	-.184	.431**	.097	1

Source: Data processed by SPSS, version 22

** and * refer that this test is significant at the 0.01 level and 0.05 level (2-tailed). Number of variables (N):50; Dependent Variable: Stock Price Change; Independent Variables: Listing Age, Presence of Independent Director (%), Net Assets Value Per Share, No. of Independent Director, Gender Diversity, Return on Assets, Total Assets, Number of Directors

Table-2 shows the results of the relationship among variables under study. Gender diversity, net assets value per share and listing age are positively correlated, and return on assets, total assets, and the number of directors, the number of independent director and the presence of independent director are negatively correlated with the Stock Price Change. The coefficients of correlation indicate that the highest correlation is found between the number of directors and the number of independent directors on the Board.

Multivariate Test

Multicollinearity Test

Multicollinearity explains the degree of collinearity between two independent variables to which any variable's effect can be predicted by the other variable. The existence of multicollinearity hinders to detect the effect of independent variable on dependent variable. So, it is necessary to identify the multicollinearity problem before running multiple regressions. Table-3 reports two advanced measures of detecting multicollinearity problem are the variance inflation factor and the tolerance value. The variance inflation factor and the tolerance value for all independent variables are <10 and <1 respectively, which represent no existence of multicollinearity problem between the independent variables (Nurunnabi, 2016).

Multiple Regressions

Table-3: Result of Multiple Regressions including Multicollinearity Diagnostics

Independent Variables	Dependent Variable: Stock Price Change			
	Coefficients	t-statistics	Sig. level	Variance Inflation Factor
Intercept	122.319	3.448	.001***	
Number of Directors	2.119	.440	.662	1.753
No. of Independent Director	-10.464	-1.024	.312	1.419
Presence of Independent Director (%)	-.630	-2.555	.014**	1.089
Gender Diversity	13.611	2.057	.046**	1.174
Total Assets	.000	-1.543	.130	1.510
Return on Assets	-.989	-.854	.398	1.200
Net Assets Value Per Share	1.409	2.159	.037**	1.282
Listing Age	.237	.623	.537	1.293
F-value	3.942			
P-value of *F*-test	.002			
Adjusted R^2	.324			
R^2	.435			

Source: Data processed by SPSS, version 22

*** and * indicate significance at 5% and 1% levels respectively (2-tailed).

a. Dependent Variable: Stock Price Change
b. Independent Variables: Listing Age, Presence of Independent Director (%), Net Assets Value Per Share, No. of Independent Director, Gender Diversity, Return on Assets, Total Assets, Number of Directors

The study's model summary, which displays the combined impact of the explanatory factors on the explained variable, is presented in Table 3. The F-ratio reveals that the CG elements have significant impacts on the stock performance of listed textile companies in Bangladesh at 1% level. The coefficient of determination (R^2) of the model indicates that firm's governance mechanisms can influence the stock performance of the sample companies in 43.5% cases, while the remaining 56.5% is controlled by other factors. It is concluded that firm's governance mechanisms do not play a significant role in determining the stock performance.

The analysis of the t-statistics of null hypothesis infers that gender diversity, net assets value per share, the number of directors, and listing age are positively associated with stock

performance. Thus, these are the important factors of explaining stock performance. So, they conform to our expectation of the role of stakeholders. The stock price cannot be changed by the return on assets, total assets, and the number of independent director and the presence of independent directors. The t-statistics of the Board independence and the Board governance do not support the hypotheses, H_1 and H_2. The significant positive association is found between the gender diversity and the stock performance, i.e., a diversified board can affect the stock performance of the firm. This result supports the hypothesis, H_3 and the lens of stakeholder and resource dependency theories. It proves that the female directors are more responsible to outside resource providers and their participation can increase the effectiveness of the board. This result is consistent with the result of Carter, Simkins & Simpson (2003). The control variable, net assets value per share can also affect the stock performance of the company. Secondly, the regression result shows the inverse relationship between the presence of independent directors (PID) and the stock performance that is statistically significant at 5% level. It indicates that the explanatory variable, representing the Board responsibility affects negatively the dependent variable, stock performance and does not conform to our expectation as stated in hypothesis, H_4. This study has investigated the different dimensions of board diversity with the lens of resource dependency and stakeholder theories. The findings of the study can be a guide for policy makers in designing the company's boardrooms and the Board will play a prudent role to achieve some Sustainable Development Goals (SDGs) by developing of industry, innovation and infrastructure (SDG 9), and creating responsibility of consumption and production (SDG 12) for the peace, justice and strong institutions (SDG 16).

6. Conclusion

At present, the investigating compliance level based on indexing technique is not relevant research arena in the developed countries. But, the most of the studies of developing countries showed the compliance level of corporate governance practices by examining the disclosure index of different elements of corporate governance. In addition to this, the impact of corporate governance variables on stock performance is a negligible topic in Bangladesh. Thus, this study has taken an attempt to explain a causal relationship between corporate governance elements and stock performance of textile companies in Bangladesh. To explain the causal relationship among variables, the deductive research is conducted based on positivism with a aim to confirm the theories applicable for improving the stock performance of firms listed with the Dhaka Stock Exchange. This quantitative study is considered the secondary data of textile companies listed with DSE in 2019. Descriptive and inferential statistics such as correlation and multiple regression analysis of cross-sectional data have been used to explore and examine the causal relationship among variables through hypothesis testing.

This explanatory study also aims to examine the compliance status of some selected corporate governance elements of listed textile companies in Bangladesh. The mean values of

governance variables i.e., the number of directors on the Board, the number of independence directors on the Board, the number of female directors on the Board, and the percentage of meeting attendance of independence directors on the Board are 7.24, 1.78, 1.46 and 78.16 respectively. From the critical analysis of the descriptive statistics for governance variables, it is seen that 30% of the sample company has minimum (5) members in the Board, whereas only 2% companies has more than 10 directors. Moreover, two companies namely Mithun Knitting and Dyeing Ltd and Regent Textile Mills Ltd. have no independent director on the Board and other three companies, namely Monno Fabrics, Prime Textile Spinning Mills and Sonargaon Textiles Ltd. do not have the required number of independent directors. They do not comply with the governance code and have negative and low ROA. In addition to these, 18% companies have no female director the Board and 40% companies have only one female on the Board. The most of them are the family member of other directors. These companies are violating the diversity policy of corporate governance.

The analysis of the t-statistics of null hypothesis infers that gender diversity, net assets value per share, the number of directors, and listing age are positively associated with stock performance. They conform to our expectation of the role of stakeholders. The return on assets, total assets, the number of independent director and the presence of independent directors are not playing any role in explaining stock performance of listed companies. The t-statistics of the Board independence and the Board governance do not support the hypotheses, H_1 and H_2. But, a significant positive association is found between the gender diversity and the stock performance, i.e., a diversified board can affect the stock performance of the firm. This result supports the hypothesis, H_3 and the lens of stakeholder and resource dependency theories and consistent with the study (Hosny & Elgharbawy, 2021). It proves that the female directors are more responsible to outside resource providers and their participation can increase the effectiveness of the board. This result is consistent with the result of Carter, Simkins and Simpson (2003). But the regression result shows a negative relationship between the proxy variable, the attendance of independent directors (PID) and the stock performance that is statistically significant at 5% level. It indicates that the presence of independent directors negatively affects the dependent variable, stock performance. Therefore, the responsibility of the Board negatively affects the firms' stock performance and does not conform to our expectation as stated in hypothesis, H_4. The main value of this paper is that it is the first study in Bangladesh, which has considered the stock price change as proxy for stock performance as per author best knowledge. This study has investigated the different dimensions of board diversity with the lens of resource dependency and stakeholder theories. The findings of the study can be a guide for policy makers in designing the company's boardrooms and the Board will play a prudent role to achieve some SDGs by developing of industry, innovation and infrastructure (SDG 9), and creating responsibility of consumption and production (SDG 12) for the peace, justice and strong institutions (SDG 16). The outcome of this paper is most likely to benefit the policy makers in regulating the capital market in Bangladesh for making more informative decisions towards improving their

surveillance and monitory systems and ensuring the compliance level of issuer. Though the study offers some practical benefits, but it is not free from some limitations. This is cross-sectional study, which is limited to textile companies and does not consider primary data. Another limitation is that it does not consider all CG elements and performance indicators.

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