Corporate Governance Reform and Firm Performance: Evidence from an Emerging Economy

By

Dr Tariqul Islam, Dr Shrabani Saha & Dr Mahfuzur Rahman

Lincoln International Business School, University of Lincoln, UK

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Abstract

This paper empirically examines the impact of governance mechanisms on firm's operating performance in the light of recent institutional reform in corporate governance (CG) guidelines in the context of an emerging economy, Bangladesh, over pre- (2007-2011) and post-reform (2013-2017) stages. Particular attentions are paid to discussing the effect of board size, board independence and CEO duality. It employs generalised method of moments (GMM) estimation technique to control for the possible endogeneity issues in governance-performance nexus. The results reveal that board size made a significant positive contribution in enhancing firm performance during the post-reform phase, while no significant association was found in the pre-reform stage. After the reform, the negative significance of both the CEO duality and board independence fade away, even, the negative impact of including outsiders in boardroom changed to an insignificant positive association. Our findings suggest that although the reform with increased proportion of independent directors establishes boards' resource provisioning role, it is yet to demonstrate the full-fledged monitoring contribution that improves firm performance.

Keywords: Corporate governance, CG reform, firm performance, emerging economy, Bangladesh

JEL Classification: C23, G32, G34, G38, K22

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