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Is Corporate Governance Effectiveness Influenced by Board Composition? An Empirical Study on Bangladeshi Listed Companies

RESEARCH ARTICLE

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ABSTRACT

This study examines the impact of board composition on corporate governance effectiveness within two hundred Bangladeshi listed companies over seven years, resulting in 1,400 observations. Using regression analysis, the study explores the influence of board size, board independence, board meetings, and board diversity on audit committee independence, audit committee size, and non-financial disclosure. Data were collected from secondary sources, mainly annual reports and corporate governance reports published online. The findings reveal that audit committee independence strongly influences board independence and board diversity. Moreover, audit committee size and non-financial disclosures have a significant influence on board composition. Policy implications suggest prioritizing independent audit committees and comprehensive non-financial disclosures to improve corporate governance. Future research should consider longitudinal impacts and industry-specific variables for deeper insights

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1. Introduction

In the wake of infamous corporate collapses like Enron, One Tel, and WorldCom, academicians intensified their scrutiny of corporate governance practices across developed nations such as the US, Australia, Germany, and Japan (Aguilera et al., 2018). The critical need for further research in this field was made clear by the reflection of these failures in financial markets. Interestingly, parallels can be drawn in Bangladesh, where corporate governance frameworks are evolving but still underexplored (Awan et al., 2020; Choudhury & Petrin, 2018). In Bangladesh, business landscapes often mirror the Berle and Means model, where family ownership and management dominate, limiting external influence (Rashid et al., 2020). This structure underscores the

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centrality of board members aligned closely with company owners, safeguarding independence but potentially stifling diversity of perspective. Legally bound, board meetings there often seem procedural rather than transformative, reflecting a business culture rooted in entrepreneurial vision and self-reliance, wary of outside interference (Hasan & Rahman, 2020). Critically, the debate rages on the efficacy of board oversight: whether to rely on part-time outsiders with limited engagement or on insider executives who intimately grasp company intricacies (Hasan & Rahman, 2020). This dilemma exposes fundamental questions about governance effectiveness in emerging markets, urging stakeholders to rethink oversight strategies in a globalised economy.

Recognising the need for robust governance practices, Bangladesh has implemented various regulations and guidelines to strengthen the composition and functioning of corporate boards. The composition of a corporate board is a crucial component of an effective governance framework, as it can significantly influence a company's decision-making processes, strategic direction, and overall performance (Mehedi et al., 2020). In Bangladesh, the regulatory bodies, such as the Companies Act, 1994 and the Bangladesh Securities and Exchange Commission (BSEC), have established specific requirements regarding the composition of corporate boards, including the presence of independent directors, the ratio of executive to non-executive directors, and the qualifications and expertise of board members (Datta, 2018). However, the effectiveness of these board composition requirements in enhancing corporate governance in Bangladesh remains an area of interest for researchers and policymakers (Sheikh & Alom, 2021). This research paper aims to analyse the effectiveness of the existing board composition regulations in Bangladesh, focusing on understanding the impact on overall corporate governance practices.

2. Significance of the Study

In Bangladesh, corporate governance has gathered increasing attention over the past decades, driven by several high-profile corporate scandals and the need to attract foreign investment (Biswas, 2020). The Bangladesh Securities and Exchange Commission (BSEC) has introduced various regulations to strengthen corporate governance, specifically emphasising the composition of boards of directors (Rashid et al., 2020). These regulations are designed to enhance board independence, diversity, and expertise, thereby improving the overall governance framework (Awan et al., 2020). Despite these efforts, ongoing concerns exist about the adequacy and effectiveness of the existing board composition requirements. Critics argue that while the regulations set clear guidelines, their implementation and enforcement remain inconsistent (Dwekat et al., 2022). While there is a general acknowledgement of the importance of board composition, empirical studies that quantitatively assess the direct impact of board composition on corporate performance in Bangladesh are scarce. Most existing researches tend to be theoretical or descriptive, lacking rigorous statistical analysis to establish clear relationships. While regulations mandate the inclusion of independent directors, there is limited research on the actual effectiveness of these directors in enhancing corporate governance in Bangladesh. Although diversity in board composition is increasingly recognised as vital for effective governance, research on the specific ratio of diversity on board effectiveness and corporate governance in the Bangladeshi context is underexplored. The findings of this study will be of interest to policymakers, regulatory bodies, and corporate stakeholders in Bangladesh, as they will offer evidence-based evaluation of the existing framework and potential areas for improvement. Additionally, the study's insights may have broader implications for other developing economies that are grappling with similar corporate governance challenges and seeking to strengthen their regulatory frameworks.

3. Research Objective

The main objective of the study is to examine how corporate governance effectiveness (i.e., audit committee independence, audit committee size, and non-financial disclosures) is influenced by board composition (i.e., board size, board independence, board meetings, and board diversity) in Bangladeshi listed companies.

4. Literature Review

Board Size

Using Resource Dependency Theory, a board of directors with strong ties to the outside world should increase a company's access to a variety of resources, enhancing corporate governance and firm performance

(Bezawada & Adaelli, 2020). The Resource Dependency Theory is supported by the literature from the management discipline, which views the board as a potentially influential resource for enterprises (Nicholson & Kiel, 2007). For example, Hillman et al. (2000) and Korac-Kakabadse et al. (2001) state that the board of directors is a valuable source for firms notably in terms of the correlation with the external environment. Larger board sizes had gained much attention, lack of which led to the collapses of enormous firms (Zahra & Pearce, 1989). Empirical researches suggest that increased board size may have a positive correlation with improved corporate governance. According to Van & Levrau (2004), increasing the total number of directors enhances the availability of skills and abilities. Therefore, larger boards are more likely to possess more intellect and skill in their decision-making process compared to smaller boards. Moreover, there is strong evidence indicating that greater board size may reduce the CEO's dominance. (Goodstein et al., 1994). In addition, numerous studies anticipated an optimistic association between the size of the board and good governance (Pearce & Zahra, 1992). Supporters of this view claim that a bigger board will get together a larger intensity of intelligent wisdom and consequently increase the value of tactical decisions that eventually influence corporate governance. In extensive empirical research, Bennedsen et al. (2008) found that the correlation between size and governance can be correlated with numerous company attributes for instance dimension, age, and business affiliation including unobserved circumstances.

However, some evidences also confirm the opinion that there is a negative relationship between good corporate governance and the proportions of the board (Forbes & Milliken, 1999). Yermack (1996) exhibits proof that smaller-sized boards are more efficient than bigger boards as the enhanced size may cause additional expenses. According to Jensen (1993), when the size of the board increases, its effectiveness decreases due to the overwhelming coordination and administration issues that outweigh the benefits of having a greater number of individuals to rely on. When a board gets beyond six or nine persons, Jensen (1993) asserts that they are unlikely to perform efficiently and are difficult for the director to manage. Yermack (1996) demonstrated evidence to support these viewpoints by using Tobin's Q as an estimate of market valuation. The study discovered a negative correlation between board size and effective governance in a sample of big US manufacturing companies. Similar findings have been demonstrated by applying European data by Vanden & Levrau (2004).

In Bangladesh, legislative governance procedures have underlined both the constitute and proportions of boards of directors. Furthermore, a large number of companies in Bangladesh are family-owned which leads to a possible reduction in the influence of external directors. As the top positions are limited to mostly family members, the availability of skilled and competent resources in the top positions is restricted. Given these exclusive features of the Bangladeshi perspective, it is hypothesised that a larger board will possibly supply a firm with larger resource qualifications. Therefore,

H1: There is a significant relationship between corporate governance effectiveness and board size.

Board Independence

Corporate governance regulations and guidelines in most countries mandate that boards of directors of publicly traded firms consist of a mix of internal and external directors (Aguilera et al., 2018). The effect of outside directors on corporate governance performance is a highly contested and extensively investigated topic in the field of corporate governance (Palaniappan, 2017). From an agency standpoint, it is conceptually argued that a higher percentage of outside directors on a board serve vigilantly to track events when there is an overlap of interest between investors and management. Agency Theory suggests that there is a fundamental dispute between the interests of a company's shareholders and its management (Awan et al., 2020). Agency Theory in corporate governance necessitates the establishment of effective monitoring measures to safeguard investors from the self-serving actions of management. Consequently, having many outside directors on the board is seen as possibly beneficial for productivity (Choudhury & Petrin, 2018). The literature on the influence of board independence has exhibited a range of findings (Pranata & Laela, 2020).

The drive for increased participation of independent directors is based on the concept of separating ownership from control, which is in line with the Agency Theory. Multiple studies have acknowledged the endorsement of the agency's perspective on the beneficial correlation between board independence and the efficacy of corporate governance. For instance, Rashid et al. (2020) discovered that organisations displayed enhanced performance when their boards consisted of a higher proportion of external members. Similarly, Uddin et al. (2019) discovered that a distinct and recognisable declaration on the selection of an external director resulted in a rise in the financial value of shareholders. In particular, some studies that used Tobin's Q as a performance indicator (Hasan & Rahman, 2020) and Market Valuation (Shivdasani & Zenner, 2004) discovered that having a greater number of external members on a company's board has an adverse impact on its financial performance. Contrary to that, Mehedi et al. (2020) discovered that there is no substantial correlation between board independence and effective governance.

While previous studies have shown conflicting results on the influence of outside directors on good governance, this study attempts to analyse the relationship between board independence and corporate governance. Overall, the regulatory reforms in Bangladesh have highlighted the importance of having external directors who can work autonomously. The following hypothesis, rooted in Agency Theory, suggests that a higher percentage of external directors will effectively oversee any self-serving behaviour exhibited by executives, therefore, leading to a strong correlation with enhanced corporate governance. Thus, the following hypothesis is proposed.

H2: There is a significant relationship between corporate governance effectiveness and board independence.

Board Meetings

An aspect of Resource Dependency Theory that is associated with corporate governance is the degree of board operation, which is quantified by the number of board sessions (Datta, 2018). Sheikh and Alom (2021) propose that the increased regularity of meetings will probably lead to superior governance. Biswas (2020) argues that the chances for independent directors to exert effective influence over management are limited by the fact that routine duties consume a significant portion of a board's meeting period. Rashid et al. (2020) propose that boards must remain somewhat passive, and proof of increased board activity presumably represents a response to inadequate governance. Koufopoulos et al. (2010) conducted an analysis of 307 companies over a five-year period, which demonstrated that boards that met more often were perceived as less valuable by the market. Nevertheless, this association was eliminated when the framework was adjusted to account for prior stock prices, indicating that good governance increases with an increased number of meetings in the beginning years of a company (Awan et al., 2020). In general, prior research has shown that boards react to inadequate governance by increasing the amount of board activity, which is subsequently linked to better operational performance in subsequent years (Pearce & Zahra, 1992). According to Baysinger and Butler (2019), the literature suggests that the effect of board meetings on company governance necessitates consideration of a variety of factors including the standard of meetings which can be determined by the degree of freedom in sharing concepts and allocated time to solve severe issues during board meetings. Nevertheless, there is a consensus that board meetings can be a critical asset, and as a result, the frequency of board meetings may impact the effectiveness of corporate governance. Therefore, the subsequent hypothesis is put forth:

H3: There is a significant relationship between corporate governance effectiveness and board meetings.

Board Diversity

Board diversity is recognised as a critical component of effective corporate governance (Aguilera et al., 2018). Diversity within the board of directors encompasses various dimensions, including gender, ethnicity, age, educational background, and professional experience. The theoretical underpinning for board diversity in corporate governance draws from several perspectives, including Resource Dependency Theory, Human Capital Theory, and Social Psychology Theory (Alabdullah et al., 2021). Resource Dependency Theory suggests that diverse boards bring a wide range of resources, such as knowledge, expertise, and networks, which can enhance the board's advisory and oversight capabilities (Awan et al., 2020). Human Capital Theory emphasises the value of diverse skills and experiences that board members can bring to the organisation, leading to more innovative and well-rounded decision-making (Choudhury & Petrin, 2018). Social

Psychology Theory highlights the benefits of diverse perspectives in fostering robust discussions, which can lead to more effective problem-solving and decision-making processes (Rashid et al., 2020). Empirical evidence on the impact of board diversity on corporate governance generally supports the opinion that diversity can enhance corporate governance. In the context of Bangladesh, board diversity is particularly relevant, given the country's socio-economic landscape and the evolving corporate governance environment. Traditionally, boards in Bangladeshi companies have been dominated by family members and close associates, leading to a lack of diversity in perspectives and expertise. The regulatory framework in Bangladesh, influenced by international standards, has started to emphasise the importance of board diversity to enhance corporate governance. The Bangladesh Securities and Exchange Commission (BSEC) has introduced guidelines encouraging greater diversity in board composition. Cultural norms and societal attitudes towards gender roles can hinder the inclusion of women in boardrooms (Dwekat et al., 2022). Moreover, qualified candidates from diverse backgrounds may be limited due to educational and professional disparities. This study adopts the Resource Dependency Theory to examine the impact of board diversity on corporate governance effectiveness in Bangladesh. The hypothesis is based on the premise that diverse boards bring varied perspectives and expertise, which can improve oversight, decision-making, and, ultimately, governance outcomes. Therefore, the following hypothesis is presented:

H4: There is a significant relationship between corporate governance effectiveness and board diversity.

5. Methodology of the study

5.1 Sample Data

The research design integrates secondary data to address hypotheses. The study analyses data from publicly listed companies on the Dhaka Stock Exchange (DSE). Annual reports and corporate governance reports from these companies are the main sources of data. A multiple linear regression model is applied to assess the financial data of 200 companies for over seven years (2017-2023) resulting in 1400 observations in total.

5.2 Regression Model

The study analyses the four presented hypotheses to determine the influence of corporate governance effectiveness on board composition in Bangladesh. To achieve this objective, the researcher attempts to examine the impact of the independent variable, board composition (board size, board independence, board meeting, board diversity) on the dependent variable, corporate governance effectiveness (i.e., audit committee size, audit committee independence and non-financial disclosure). Therefore, the study suggests assessing the following models,

Model 1:

$$ACSIZE_{it} = \beta_0 + \beta_1 BSIZE_i + \beta_2 BIND_i + \beta_3 \%BIND_i + \beta_4 BMEET_i + \beta_5 BDIVER_i + \beta_6 CSIZE_i + \beta_7 AGE_i + \sum t_i + \varepsilon$$

Model 2:

$$ACIND_{it} = \beta_0 + \beta_1 BSIZE_i + \beta_2 BIND_i + \beta_3 \%BIND_i + \beta_4 BMEET_i + \beta_5 BDIVER_i + \beta_6 CSIZE_i + \beta_7 AGE_i + \sum t_i + \varepsilon$$

Model 3:

$$NFINDISC_{it} = \beta_0 + \beta_1 BSIZE_i + \beta_2 BIND_i + \beta_3 \%BIND_i + \beta_4 BMEET_i + \beta_5 BDIVER_i + \beta_6 CSIZE_i + \beta_7 AGE_i + \sum t_i + \varepsilon$$

Table 1 provides a detailed description of the variables, their related measurement methods, and relevant research.

Table 1: the definition, measurements, and theoretical relationships of the variables

Variable Category	Variable Name	Variable Description	Definition	Measurement
Dependent Variables	ACIND	Audit Committee Independence	Number of independent directors	Number of independent directors present in the audit committee
	ACSIZE	Audit Committee Size	Number of members in audit committee	Number of members in audit committee
	NFINDISC	Non- Financial Disclosure	Non-financial disclosure quality	Extent of non-financial disclosures (a binary dichotomous method has been used)

Independent Variables	BSIZE	Board Size	Total number of directors on the board	Count of board members
	BIND	Board Independence	Proportion of independent directors	Number of independent directors in board of directors
	%BIND	Percentage of Board Independence	Percentage of independent directors	Percentage of independent directors to total directors
	BMEET	Board Meeting Frequency	Number of board meetings held annually	Count of board meetings
	BDIVER	Board Diversity	Diversity of board members	Proportion of female directors
Control Variables	CSIZE	Company Size	Scale of company's operations	Natural logarithm of total assets
	AGE	Company Age	Operating Years	Number of years operating

(Source: Prepared by the author.)

6. Findings

This section describes the descriptive statistics, focusing on 1400 observations that have been presented. This part includes a correlation matrix, regression analysis, and descriptive data. Several factors have been identified as statistically significant in the correlation matrix, with several positive and significant correlations observed.

Descriptive Statistics

The analysis in this study involved a total of 1400 observations. The variables Board Size (BSIZE), Board Independence (BIND), Percentage of Board Independence (%BIND), Board Meeting (BMEET), and Gender Diversity (BDIVER) have been selected as proxy variables to represent Board Composition, which is the independent variable. The proxy variables for the dependent variable, Corporate Governance, include Audit committee independence (ACIND), Audit Committee Size (ACSIZE), and Non-Financial Disclosure (NFINDISC). Company Size and Age have been included as control variables. The descriptive statistics for these variables have been presented in table 2.

Table 2: Descriptive Statistics

Variable	Observations	Mean	Std. Dev.	Minimum	Maximum
ACIND	1,400	1.71	0.45	1	2
ACSIZE	1,400	4.42	0.91	3	5
NFINDISC	1,400	0.61	0.49	0	1
BSIZE	1,400	7.55	2.58	4	20
BIND	1,400	1.87	0.71	1	6
%BIND	1,400	0.26	0.09	0.08	1
BMEET	1,400	8.22	4.56	2	44
BDIVER	1,400	2.00	0.76	1	3
CSIZE	1,400	21.98	1.56	15.94	26.79
AGE	1,400	27.78	15.31	3	111

(Source: Developed by the authors)

Corporate governance, a broader framework encompassing practices that ensure transparency and accountability, is evaluated through three key variables in this study. Audit committee independence (ACIND) assesses the independence of the audit committee tasked with overseeing financial reporting. The average ACIND score of 1.71 indicates a moderate level of independence, the range (1 to 2) suggests some companies prioritize a greater number of independent directors in the audit committee than others. Audit committee size (ACSIZE) explores the committee's number of members, with an average of approximately 4 members reflecting a balance between efficiency and the ability to incorporate diverse expertise. Notably, all companies in the sample engage in some level of non-financial disclosure (NFINDISC = 1), signifying a commitment to transparency beyond just financial reporting.

Board composition, a critical factor influencing strategic decision-making, is assessed through five distinct factors. The average board size (BSIZE) of 8 members, with a standard deviation of 2.58, suggests variation in board composition. Some companies favour smaller, more focused board, while others utilise larger boards to incorporate diverse perspectives. Board independence (BIND) and percentage of board independence (%BIND) delve deeper, measuring the presence of independent directors on the board. The average BIND score of 2, translating to a 26% average for %BIND, suggests a moderate level of independence across the sample. However, the range highlights significant variations, with some companies boasting entirely independent boards and others lacking such independence altogether. Board meeting frequency (BMEET) sheds light on the level of engagement between directors and management. The average of 8 meetings per year suggests a relatively active level of communication, but the substantial variation (2 to 44 meetings) indicates diverse practices within the sample. Finally, gender diversity (BDIVER) scores, ranging from 1 to 3 with an average of 2.00, provide a preliminary glimpse into the inclusivity of boardrooms. Company size (CSIZE) and age (AGE) are incorporated as control variables to account for potential external influences. The standard deviation of company size suggests a relatively homogenous sample in terms of size. However, the range highlights the presence of both smaller and larger companies. Company age, averaging 28 years with a wide range (3 to 111 years), indicates a mix of established and newer companies within the sample.

Correlation Matrix

The correlation matrix presented in Table 3 explores the relationships between corporate governance and board composition variables in our study (n=1400).

Table 3: Correlation Matrix

Independent Variables	**Dependent Variables**		
	ACIND	**ACSIZE**	**NFINDISC**
BSIZE	0.4515*	0.6325*	0.7097*
BIND	0.7884*	0.4886*	0.4806*
%BIND	0.4961*	-0.0815*	-0.1583*
BMEET	0.0001	-0.0241	-0.0143
BDIVER	0.5385*	0.8379*	0.7791*
CSIZE	0.1681*	0.2025*	0.2575*
AGE	0.0519	0.2000*	0.1824*

(Source: Developed by the authors)

Board Size (BSIZE) exhibits strong positive correlations with audit committee independence (ACIND), audit committee size (ACSIZE), and non-financial disclosure (NFINDISC), with co-efficients of 0.4515, 0.6325, and 0.7097, respectively. This suggests that larger boards are associated with higher levels of audit committee independence, larger audit committees, and greater non-financial disclosures. Board Independence (BIND) shows strong positive correlations with audit committee independence (ACIND), audit committee size (ACSIZE), and non-financial disclosure (NFINDISC), with co-efficientsof 0.7884, 0.4886, and 0.4806, respectively. This indicates that boards with a higher number of independent directors are likely to have more independent audit committees, larger audit committees, and more comprehensive non-financial disclosures. Percentage of Board Independence (%BIND) demonstrates positive correlations with audit committee independence (ACIND), but negative correlations with audit committee size (ACSIZE) and non-financial disclosure (NFINDISC), with co-efficients of 0.4961, -0.0815, and -0.1583, respectively. This suggests that while a higher percentage of independent directors on the board correlates with greater audit committee independence, it may inversely relate to audit committee size and non-financial disclosure practices. Board Meetings (BMEET) show negligible correlations with all dependent variables, indicating no significant relationship between the frequency of board meetings and audit committee independence, audit committee size, or non-financial disclosure. Board Diversity (BDIVER) exhibits strong positive correlations with audit committee independence (ACIND), audit committee size (ACSIZE), and non-financial disclosure (NFINDISC), with co-efficients of 0.5385, 0.8379, and 0.7791, respectively. This implies that boards with greater gender diversity are associated with higher audit committee independence, larger audit committees, and more extensive non-financial disclosures. Company Size (CSIZE) shows positive correlations with audit committee independence (ACIND), audit committee size (ACSIZE), and non-financial disclosure (NFINDISC), with co-efficients of 0.1681, 0.2025, and 0.2575, respectively. This suggests that larger companies tend to have more independent audit committees, larger audit committees, and greater non-financial disclosures. Age (AGE) demonstrates weak positive correlations with audit committee independence (ACIND), audit committee size (ACSIZE), and non-financial disclosure (NFINDISC), with co-efficients of 0.0519, 0.2000, and 0.1824, respectively. This indicates a slight tendency for older companies to have more independent audit committees, larger audit committees, and greater non-financial disclosures.

Regression analysis

Table 4 presents the results of a comprehensive regression analysis investigating the influence of various independent variables on corporate governance effectiveness.

Table 4: Regression Analysis

Independent Variables	Dependent Variables					
	ACIND		ACSIZE		NFINDISC	
	Coefficient	P-Value	Coefficient	P-Value	Coefficient	P-Value
BSIZE	-0.010	0.190	-0.175	0.000	-0.029	0.003
BIND	0.189	0.000	0.485	0.000	0.333	0.000
%BIND	2.123	0.000	-2.082	0.000	-1.890	0.000
BMEET	0.000	0.932	0.000	0.907	0.001	0.652
BDIVER	0.318	0.000	1.224	0.000	0.370	0.000
CSIZE	0.008	0.064	-0.004	0.642	0.009	0.095
AGE	0.000	0.418	-0.001	0.443	0.000	0.983
Y2018	-0.008	0.700	-0.031	0.443	0.009	0.731
Y2019	0.003	0.905	-0.008	0.835	0.019	0.458
Y2020	0.010	0.631	-0.019	0.644	0.008	0.766
Y2021	-0.026	0.219	0.012	0.756	0.001	0.954
Y2022	-0.018	0.410	-0.020	0.621	-0.001	0.981
Constant	0.088	0.408	3.033	0.000	-0.258	0.044

(Significance level 10%.; Source: Developed by the authors.)

The independent variables considered in this analysis include board size (BSIZE), board independence (BIND), percentage of board independence (%BIND), board meetings (BMEET), and board diversity (BDIVER). These proxies provide a multifaceted view of board composition in corporate governance. The dependent variables evaluated in this study are proxies for corporate governance effectiveness: audit committee independence (ACIND), audit committee size (ACSIZE), and the extent of non-financial disclosure (NFINDISC). Control variables, such as company size (CSIZE) and the number of operating years (AGE), are included to account for potential confounding factors. The analysis reveals a statistically significant positive relationship between audit committee independence (ACIND) and board independence (BIND), with a coefficient of 0.189 and a p-value of 0.000. Similarly, ACIND significantly influences the percentage of board independence (%BIND) with a coefficient of 2.123 and a p-value of 0.000. These results suggest that an increase in independent directors within the audit committee correlates with a higher number and percentage of independent directors on the board, highlighting the critical role of audit committee composition in enhancing board independence. However, ACIND does not exhibit a significant impact on board size (BSIZE), board meetings (BMEET), or board diversity (BDIVER), indicating its influence is primarily on board independence. The size of the audit committee (ACSIZE) significantly affects board size (BSIZE) with a coefficient of -0.175 and a p-value of 0.000, indicating that larger audit committees are associated with smaller boards. Additionally, ACSIZE shows a significant positive relationship with board diversity (BDIVER) with a coefficient of 1.224 and a p-value of 0.000. However, ACSIZE does not significantly impact board independence (BIND), the percentage of board independence (%BIND), or board meetings (BMEET), suggesting that while the audit committee size can influence board composition, its effects are more distinct on the overall board size and diversity rather than the independence of the board. Non-financial disclosure (NFINDISC) significantly impacts board independence (BIND) with a coefficient of 0.333 and a p-value of 0.000 and shows significant negative relationships with the percentage of board independence (%BIND) and board diversity (BDIVER), with co-efficients of -1.890 and 0.370 and p-values of 0.000. These findings suggest that greater non-financial disclosure is associated with a higher number of independent directors and increased female representation on the board. This underscores the importance of transparency and disclosure practices in shaping effective board governance structures. The company size (CSIZE) is marginally significantly related to audit committee independence (ACIND) with a coefficient of 0.008 and a p-value of 0.064 and to non-financial disclosure (NFINDISC) with a coefficient of 0.009 and a p-value of 0.095. However, CSIZE does not significantly affect audit committee size (ACSIZE). The number of operating years (AGE) does not show any significant impact on any of the dependent variables.

7. Discussion

The findings from the regression analysis provide valuable insights into the relationships between various aspects of board composition and corporate governance effectiveness. The regression analysis shows that audit committee size (ACSIZE) significantly impacts board size (BSIZE), with a coefficient of -0.175 and a p-value of 0.000. Additionally, non-financial disclosure (NFINDISC) and company size (CSIZE) are also significantly related to board size, with co-efficients of -0.029 (p-value: 0.003) and 0.008 (p-value: 0.064), respectively. These findings support the first hypothesis (H1), suggesting that effective corporate governance mechanisms, such as larger audit committees and greater transparency, contribute to changes in board sizes. Audit committee independence (ACIND) significantly influences board independence (BIND) and the percentage of board independence (%BIND), with co-efficients of 0.189 (p-value: 0.000) and 2.123 (p-value: 0.000), respectively. Additionally, non-financial disclosure (NFINDISC) also significantly impacts BIND (coefficient: 0.333, p-value: 0.000). These results provide strong support for the second hypothesis (H2), indicating that effective corporate governance practices enhance the independence of the board. The analysis reveals that board meeting frequency (BMEET) is not significantly impacted by any of the evaluated variables. Consequently, the third hypothesis (H3) is not supported, indicating that the effectiveness of corporate governance does not significantly influence the frequency of board meetings in this particular situation. Audit committee size (ACSIZE) and non-financial disclosure (NFINDISC) significantly impact board diversity (BDIVER), with co-efficients of 1.224 (p-value: 0.000) and 0.370 (p-value: 0.000), respectively. These results support the fourth hypothesis (H4), indicating that effective governance practices promote greater female representation on boards.

8. Conclusion

This study aimed to explore the relationship between corporate governance effectiveness and board composition among Bangladeshi listed companies. The findings of this study confirm that critical elements of corporate governance—namely, audit committee independence, audit committee size, and non-financial disclosure—significantly influence various aspects of board composition, including board size, independence, and diversity. Specifically, the analysis reveals that independent audit committees and comprehensive non-financial disclosures are pivotal in enhancing board independence and diversity. Audit committee independence, reflected in the number of independent directors within the audit committee, is positively associated with the presence of independent directors on the board, highlighting the importance of having a robust and autonomous audit committee. Similarly, greater levels of non-financial disclosure are linked to increased board independence and greater female representation on the board, underscoring the critical role of transparency and comprehensive reporting in effective governance. Furthermore, the size of the audit committee significantly impacts board size and diversity. Larger audit committees tend to be associated with larger boards and a higher number of female directors, indicating that audit committee size contributes to the overall structure and inclusivity of the board. Although board meeting frequency (BMEET) did not show significant relationships with the evaluated variables, the significance of board independence and diversity remains evident. These findings highlight the critical role of effective governance structures in promoting diverse and independent boards, which are essential for robust corporate oversight and improved corporate governance. The policy implications suggest that companies should prioritize the establishment of independent audit committees and maintain high levels of transparency through comprehensive non-financial disclosures. This approach can lead to more effective board governance, enhanced decision-making processes, and potentially better corporate performance. For future research, longitudinal studies are recommended to assess the long-term impact of corporate governance practices on board composition. Such studies would provide a more detailed understanding of how governance structures evolve over time and their sustained effects on board dynamics. Furthermore, performing an analysis of industry-specific disparities might yield a more sophisticated understanding of how governance efficacy fluctuates across different industries, hence providing customised suggestions for enhancing governance procedures in certain industries. Further investigation into the interplay between board diversity and other governance factors, such as corporate social responsibility and environmental, social, and governance (ESG) criteria, would also be valuable for developing more holistic and integrated governance frameworks. This could provide a broader perspective on how different governance elements interact and contribute to overall corporate effectiveness and sustainability.

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Declaration of Interests

We, the authors of this research manuscript, declare that we have no financial interest. We have provided written consent to publish the paper in this journal.

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