



PROJECT REPORT

ON

**EFFECT OF CORPORATE GOVERNANCE ON PROFITABILITY OF THE
LISTED TEXTILE COMPANIES IN BANGLADESH**

SUBMITTED BY

AFIFA HAQUE

ID: 114 151 010

BBA IN AIS

SUMITTED TO

MOHAMMAD TARIQ HASAN

ASSISTANT PROFESSOR

SCHOOL OF BUSINESS & ECONOMICS

UNITED INTERNATIONAL UNIVERSITY

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LETTER OF ACKNOWLEDGEMENT

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LETTER OF TRANSMITTAL

14th July, 2019

Mohammad Tariq Hasan

Assistant professor

School of business & economics

United international university

Subject: Submission of Project Report

Dear Sir,

Most respectfully to state that I have prepared project report on the topic of **“EFFECT OF CORPORATE GOVERNANCE ON PROFITABILITY OF THE LISTED TEXTILE COMPANIES IN BANGLADESH”**. I would like to thank you for giving me such a fantastic opportunity to make a project report on this topic. And I want to add that the process of making this paper is very helpful for me to gather knowledge about the relation between corporate governance and profitability. I have tried my best to prepare the thesis paper in consistence with the optimal standard valuable direction.

It would be grateful for me if you kindly accept this paper. I tried my heart and soul to make this paper as perfectly. I would be very honored if this paper can serve its purpose.

Yours Obediently,

AfifaHaque

ID: 114 151 010

Accounting and Information System

United International University

ABSTRACT

Corporate governance is a buzz-word in corporate world now a day as it is viewed a moral duty. It involves promoting the corporate governance and the profitability effect by it. The relationship between corporate governance and profitability has caught wide attention of researchers in the last decade. In this article we showed the effect on corporate governance on profitability of the textile industry in Bangladesh. In Bangladesh the textile industry plays an actual role in the economy. This is one of the largest industries in Bangladesh in terms of foreign earnings, employment generation, and industrial revolution. This paper's main purpose is the textile sector's profitability based on their corporate governance. The objective of this study has been to review the concept as is the problems being faced, its implication on firm profitability, being practiced and performance and lastly, to see its relevance in the context of Bangladesh, where the listed firms had the effect of their corporate governance on their profitability. And to understand up to what part textile sector has used their available resources effectively. That's why here profitability and corporate governance's tools are used of the textile companies. Here in this paper comparative, descriptive and regression analysis has used to know the effect of corporate governance in the textile companies. The result shows the profitability has positive and also negative influence by the corporate governance tools.

Table of Contents

CHAPTER- 1: INTRODUCTION.....	1
1.1. Background.....	1
1.2. Corporate governance and profitability	2
1.2.1. Textile companies all over the world.....	2
1.2.3. Textile industries in Bangladesh.....	4
1.3. Rational of the study	5
1.3.1. Corporate governance	5
1.3.2. Profitability	5
1.3.3. Effect of corporate governance on profitability	6
1.4. Scope.....	6
1.5. Limitation.....	6
CHAPTER- 2: OBJECTIVES OF THE STUDY	7
2.1. Objectives	7
CHAPTER- 3: LITERATURE REVIEW.....	8
3.1 overview.....	8
3.2 corporate governance code compliance in around the world.....	10
3.3 corporate governance code compliance in bangladesh	10
3.3.1 Corporate governance monitoring mechanisms.....	12
CHAPTER- 4: HYPOTHESIS DEVELOPMENT	14
4.1. Board size.....	14
4.2. Audit size	14
CHAPTER- 5: METHODOLOGY	15
5.1. Data design.....	15
5.2. Sample design	15
5.3. Analytical tools	15
5.4. Variable design	15
5.4.1. Dependable:	15
5.4.2. Independent:.....	16
5.4.3. Controllable:	16
5.5. Model specification.....	17
CHAPTER- 6: ANALYSIS AND FINDINGS	18
6.1. Comparative analysis	18
6.2. Descriptive analysis	28
6.3. Regression analysis.....	30
CHAPTER- 7: CONCLUSION AND RECOMMENDATION	32
7.1. Conclusion	32
7.2. Recommendation	32
CHAPTER-8: APPENDIX.....	33

8.1. Reference: 33
8.2. Company list 35

LIST OF FIGURE

FIGURE NO.	FIGURE NAME	PAGE NO.
Figure-6.1.	Textile Industries ROE compliance	18
Figure-6.2.	Textile Industries ROE compliance	19
Figure-6.3.	Textile Industries ROE compliance	20
Figure-6.4.	Textile Industries ROE compliance	21
Figure-6.5.	Textile Industries ROE compliance	22
Figure-6.6.	Textile Industries NI compliance	23
Figure-6.7.	Textile Industries NI compliance	24
Figure-6.8.	Textile Industries NI compliance	25
Figure-6.9.	Textile Industries NI compliance	26
Figure-6.10.	Textile Industries NI compliance	27

LIST OF TABLE

TABLE NO.	TABLE NAME	PAGE NO.
Table-6.1.	Summarization statistics analysis	28
Table-6.2.	Correlation statistics analysis	29
Table-6.3.	Regression analysis NI	30
Table-6.4.	Regression analysis ROE	31

CHAPTER- 1: INTRODUCTION

The purpose of this project is to understand the effect of corporate governance in profitability of the textile companies which are enlisted in Dhaka Stock Exchange. It is organized in following parts like Introduction to effect of corporate governance on profitability of the textile companies Bangladesh, a brief introduction of the textile companies in the world and Bangladesh, Rational of the study, Background of the study.

1.1. Background

Corporate governance (CG) is the set of process, customs, policies and laws that affects the way a corporation is directed, administrated or controlled. Corporate Governance is now an overheard word in today's business world. These notable corporate failures in different parts of the world during the early 2000s raised widespread community concerns about inadequate governance standards. Over the last 20 years the economy of Bangladesh has made commendable progress. Many Bangladeshi companies are now involved with international business. With the progress of economic condition many more companies are incorporating. With corresponding to the increasing number of companies the merit of corporate governance is also increasing. The global financial recession and collapses of big financial institutions such as Barings Bank in 1995, Enron in 2001, Royal Ahold in 2003, had opened the door of thinking more about the corporate governance practices in business organizations (Ullah, 2009). Therefore the scholars and policy makers raised concern about the accountability, transparency and fairness of the operating corporate firms. To counter the scandals, fraudulence and failures of the corporate firms; good corporate governance framework establishment and implementation plays significant role. Corporate governance is a very important element to improving the economic efficiency of a firm. Good quality corporate governance can help to ensure that the corporations take into account the interests of a wide range of constituencies as well as of the communities within which they operate. Further, it ensures that their Boards are accountable to the shareholders.

Furthermore Bangladesh was being pressurized by International community to ensure International compatible corporate governance framework. To follow the footsteps of the developed nations, Bangladesh had taken some major initiatives to reform its corporate governance policies, capital market and financial system. Prioritizing the global need of aligning corporate governance standards according to best practice recommendations, the first voluntary code, namely the Code of Corporate Governance for Bangladesh was developed in 2004. But due to less participation of corporate firms accepting the voluntary codes; later in 2006, to institutionalize the corporate practice of corporate governance in 10 Bangladesh, the Securities and Exchange Commission (SEC) issued a notification on Corporate Governance Guidelines for the publicly listed companies on 'comply or explain' basis. Recent scandals such as Hallmark group, Bismillah group, Sonali Bank, BASIC Bank and Share market collapse has shown the importance of proper implementation and monitoring of corporate governance practices among the various sectors. To keep up with the new frontiers of corporate governance Bangladesh Security Exchange Commission (BSEC) further amended the corporate governance guidelines on August; 2012. The new notification is issued where 'comply' is

mandatory. They prepared the codes reflecting country specific needs and which addresses international expectations corresponding with BEI and OECD codes.

So the effect of corporate governance on profitability can be profoundly positive or negative. Base on the corporate governance tools it can vary the effect on profitability. So it cannot be easy to conclude that the effect is only positive or only negative. It answer can be given by only by hypothesis based on the previous articles and thesis's.

1.2. Corporate governance and profitability

In this chapter we will found the total scenario of the Textile industrial background in the world and in Bangladesh. It will emphasis the situations in the Textile world, its performance in the world of business and its cooperation in the specific country. It will discuss the improvement of its own work and potential which gradually increase Textile industries reputation in this world.

1.2.1. Textile companies all over the world

1.2.1.1. History

The term textile comes from Latin word 'texere' (to weave). It is now a term for fibers, yarns and other material which can be made into fabrics or any other construction method. As, textiles include threads, cords, ropes, braids, lace, embroidery, nets and fabrics made by weaving, knitting, bonding, felting or tufting, etc. the Cotton silk, wool and flax fibers were used as textile materials in ancient Egypt.

India used cotton by 3000 B.C. The silk production is mentioned in Chinese chronicles dating about the same time. Yarn and cloth were dyed and printed from very early. Specimen of dyed fabrics can be found in Romanians at the 2nd century B.C. We can also found an evidence of printed textiles in India at 4th century B.C. By the early Middle Ages certain Turkish tribes were skilled in the manufacture of carpets, felted cloths, towels and rugs. In 16th and 18th century Mughal India the fine muslins produced at Dacca (Bangladesh) were sometimes painted or printed. In Sicily at 827 A.D. beautiful fabrics were produced in palace workshops at Paleromo. In 1266 after the conquest of Sicily by the French the weavers fled to Italy. French manufacture of woven silks began in 1480 and in 1520. Francis-I brought Italian Flenish weavers to Fontainebleau to produce tapestry under the direction of king's weaver. English textiles of 13th and 14th centuries were mainly linen and wool. Silk was being woven in London and Norwich in 1455 and 1564. Queen Elizabeth-I granted a Charter to Dutch and Flenish settlers in Norwich for production of damasks and flowered silk. English settlers established a cloth mill in Massachusetts in 1638 in USA. There Yorkshire weavers produced heavy cotton fustians, cotton with Jeans, etc.

1.2.1.2. Revolution

The textile industry remained essentially a cottage industry until 18th century. Co-operative groups of workers operated a mill in 1568 in Zurich and another in Derby, England, in 1717. In the north of England factory organization became most advanced and In between 1760 and 1815 the Industrial Revolution at its highest in mill sector. The woven fabric portion of the textile industry grew out of the industrial revolution in the 18th century as mass production of yarn and cloth became a mainstream industry. The flying shuttle increased the width of cotton cloth and speed of production of a single weaver at

a loom. Resistance by workers to the perceived threat to jobs delayed the widespread introduction of this technology, even though the higher rate of production generated an increased demand for spun cotton. In 1761, the Duke of Bridgewater's canal connected Manchester to the coal fields of Worsley and in 1762, Matthew Boulton opened the Soho Foundry engineering works in Handsworth, Birmingham. His partnership with Scottish engineer James Watt resulted, in 1775, in the commercial production of the more efficient Watt steam engine which used a separate condenser.

In 1764, James Hargreaves is credited as inventor of the spinning jenny which multiplied the spun thread production capacity of a single worker — initially eightfold and subsequently much further. Others credit the invention to Thomas Highs. Industrial unrest and a failure to patent the invention until 1770 forced Hargreaves from Blackburn, but his lack of protection of the idea allowed the concept to be exploited by others. As a result, there were over 20,000 spinning Jennies in use by the time of his death. Also in 1764, Thorp Mill, the first water-powered cotton mill in the world was constructed at Royton, Lancashire, and was used for carding cotton. With the spinning and weaving process now mechanized, cotton mills cropped up all over the North West of England. The stocking frame invented in 1589 for silk became viable when in 1759, Jedediah Strutt introduced an attachment for the frame which produced what became known as the Derby Rib, that produced a knit and purl stitch. In 1768, Hammond modified the stocking frame to weave weft-knitted open works or nets by crossing over the loops, using a mobile tickler bar- this led in 1781 to Thomas Frost's square net. Cotton had been too coarse for lace, but by 1805 Houldsworths of Manchester were producing reliable 300 count cotton thread.

1.2.3. Textile industries in Bangladesh

The largest manufacturing activity in Bangladesh is textile and clothing sector. This sector not grows up in a day. It provides direct employment to about 45 per cent of all industrial employment in the country. The T&C industries provide the single source of economic growth in Bangladesh's developing economy. Exports of textiles and garments are the principal source of foreign exchange earnings which has a long history.

1.2.3.1. Post 1971

From 1947 to 1971 the textile industry, like most industries in East Pakistan, was largely owned by West Pakistanis. During that period, in the 1960s, local Bengali entrepreneurs had set up their own large textile and jute factories. Until the liberation of Bangladesh in 1971, the textile sector was primarily part of the process of import substitution industrialization to replace imports. After the liberation, Bangladesh adopted EOI by focusing on the textile and clothing industry.

1.2.3.2. Post 1972

In 1972 the Bangladesh Industrial Enterprises Order to taking over privately owned textile factories and creating a state-owned enterprise called Bangladesh Textile Mills Corporation (BTMC). President Rahman promoted democracy and a socialist form of capitalism. The BTMC never managed to match the pre-1971 output and in every year after the 1975–1976 fiscal years, lost money. Until the early 1980s, the state owned almost all spinning mills in Bangladesh and 85 percent the textile industry's assets.

1.2.3.3. Post 1974

In the devastating famine in 1974, one million people died, mainly of starvation caused in part by the flooding of the Brahmaputra River in 1974, and a steep rise in the price of rice. Partly in response to the economic and political repercussions of the famine, the Bangladesh government shifted public policy away from its concentration on a socialist economy, and began to denationalize, disinvest and reduce the role of the public sector in the textile industry while encouraging private sector participation.

By 1981, 300 textile companies, many small one had been denationalized often returned to their original owners. In 1982, shortly after coming to power following a bloodless coup, President Hussain Muhammad Ershad introduced the New Industrial Policy (NPI), most significant move in the privatization process, which denationalized much of the textile industry, created export

processing zones (EPZs) and encouraged direct foreign investment. The export of ready-made garments (RMG) increased from \$USD 3.5 million in 1981 to \$USD 10.7 billion in 2007.

From 1995 to 2005 the WTO Agreement on Textiles and Clothing (ATC) was in effect, wherein more industrialized countries consented to export fewer textiles while less industrialized countries enjoyed increased quotas for exporting their textiles. Throughout the 10-year agreement, Bangladesh's economy benefited from quota-free access to European markets and desirable quotas for the American and Canadian markets.

1.3. Rational of the study

There are many things which indicate that corporate governance and the effect of corporate governance on profitability is very important. They are describing below,

1.3.1. Corporate governance

Corporate Governance is needed to create a corporate culture of transparency, accountability and disclosure. It has its own importance on the responsibilities in a company.

It's importance's are

- Corporate performance.
- Avoid agency conflicts.
- Enhance investors.
- Enter in the global market.
- Enhance valuation of the company.
- Reduce risk.

1.3.2. Profitability

Profitability is the amount of money which is the company can get after deducting their all expenses from their total revenue. In the long run, profitability is essential for a company's survival.

Importance of profitability's are,

- Reward for their shareholders.
- Compensations for owners and employees.
- Impact on stock price.

- Measure of the growth of the company.

1.3.3. Effect of corporate governance on profitability

The effect of corporate governance on profitability can be profoundly positive or negative. Based on the corporate governance tools it can vary the effect on profitability.

Importance of the effects are

- It can be a gateway to gain more profit.
- It can help to reduce the flaws of the company authorities.
- It can be a way to spread the company even outside of the country.
- It can also help the authority to acknowledge their lacking and lift up their growth too.

1.4. Scope

This project will help to get the perfect vision on the profitability and corporate governance of the textile companies enlisted in DSE. This study will add some value with the present knowledge of corporate governance code compliance and contributes to the existing literature on corporate governance comparative compliance status in Bangladesh especially in Textile sector.

1.5. Limitation

The limitations are:

- Gathering data was tough. That's why we used 45 companies as sample rather than 53 companies.
- Unable to find all the necessities. As all the annual report is from companies website it's kind of challenging to get proper information.
- Sometimes annual report can be containing illusory information about the company. For that, precautions have been taken to accept information and some data are cross-checked from other sources.

CHAPTER- 2: OBJECTIVES OF THE STUDY

2.1. Objectives

This research paper is intended to understand the importance of corporate governance in profitability in the textile companies enlisted in DSE. For the purpose of the study, this research objective has been noted down specific objectives. They are:

- ✓ To identify the trend of compliance among the Textile Industries.
- ✓ To identify the effect of CG governance mechanism on companies profitability.

CHAPTER- 3: LITERATURE REVIEW

3.1 overview

The chapter will be given the theoretical aspects of corporate governance and profitability and their effect on each other. This literature review will relate the total work with the previous and present works done in this topic. This literature review involves some sections. In the following sections discuss different theoretical approaches; mainly agency theory of corporate governance which is important for understanding the corporate governance framework in Bangladesh of the TEXTILE industry. The later sections describe the developing economies of the textile industries in Bangladesh. And in last the whole literature review will be summarized and important issues will be pointed out.

The Organization for Economic Co-operation and Development (OECD) defines corporate governance as: —a set of relationships between a company’s management, its board, its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 2004, p.11). Thus being driven from different theoretical perspectives, corporate governance has been illustrated in different ways and stylized in different structures for identifying the purpose of the corporation, deciding who should have the control, identifying the problems or finding an optimal solution. (Letza, 2008).

Also the definition of corporate governance can be found by different author’s aspects in respect of various issues. As per Sir Adrian Cadbury corporate governance —as a system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The responsibilities include setting the company’s strategic goals, providing effective leadership, supervising and reporting management issues to stewards. The board’s action is subject to laws, regulations and the shareholders in general meeting (Cadbury, 1992).

Agency theory is the common theory of corporate governance. Agency theory is a principle that used to explain and resolve issues in the relationship between business principals and their agents. Most commonly the relationship between the shareholders as the principals and the company executive as the agents. Most of the developed and developing countries are following agency theory. Share ownership is widely held and management roles are separated from

ownership functions in the modern corporation, managerial actions may depart from those required to maximize shareholder returns. (Berle, 1932).

In agency theory terms,

- ❖ Any relationship between two parties in which one, the agent, represents the other, the principal, in day-to-day transactions. The principal or principals have hired the agent to perform a service on their behalf.
- ❖ Principals delegate decision-making authority to agents.
- ❖ An agent is using the resources of a principal. The principal has entrusted money but has little or no day-to-day input. The agent is the decision-maker but is incurring little or no risk because any losses will be borne by the principal.
- ❖ Agency theory assumes that the interests of a principal and an agent are not always in alignment.

Principal-agent framework state that agency theory identifies the agency relationship where one party, the principal, delegates work to another party, the agent; the agency relationship is thus seen as a contractual link between the principals and the agents who are appointed by the principals and delegate some decision making authorities. (Shankman, 1999).

Agency conflict is a conflict of interest where one party is expected to act in another's best interests. The manager, acting as the agent for the shareholders, or principals, is supposed to make decisions that will maximize shareholder wealth even though it is in the manager's best interest to maximize his own wealth. It arises because individuals are opportunistic and individuals in an agency relationship have different interests. It is very unlikely that agents will always act in the best of the principal (Jensen, 1976). Agents want to maximize their own interests, thus the agency relationship may bring potential for losses to shareholders. Agency problems are common in fiduciary relationships. For example, between trustees and beneficiaries; board members and shareholders; and lawyers and clients. These relationships can be portrait in a legal sense, so there should be the presence of complete fairness, loyalty and fidelity is a must.

Despite of having criticism against Agency theory it has its own theoretical grounds. The significance of this model cannot be ignored; similarly this goes same for the Anglo American

model. Anglo American model have a certain weight in dealing with real life issues of good governance.

These findings provide an important understanding of the development process of the TEXTILE industries in Bangladesh; this study intends to extend the understanding through the observation of the Textile sector listed in Dhaka Stock Exchange (DSE). The companies way of working, uses of the Accounting Theories and the process of development by solving the problems.

3.2 corporate governance code compliance in around the world

Present measuring compliance with codes has gained momentum because many corporations in developing countries are not following the codes properly. Many researchers have suggested that corporate governance practices are an integral part of the overall success of a company. Measuring and evaluating company's corporate standard against the standards in developed and developing countries is increasing. In developed countries the level of compliance with the code is very high. For example, EU nations such as UK, Germany shows highest level of compliance with codes (Werder, 2005). Developing countries are far behind from using the codes than the developed countries. The compliance status in developing economies is sharply lagging behind with of the developed countries. Klapper, Love and Gompers gathered data from 14 emerging markets and finds that the level of compliance is a major issue for emerging markets. The study also indicates that there is wide variation in firm-level governance among sample companies and that the average firm level governance is lower in countries with weaker legal systems (Klapper, 2004).

Developed countries codes seem to yield positive impact on firm performance consistent with the higher degree of compliance. Greater compliance with best practices concerning board structure and functioning is also positively related with operating level performance. Empirical findings indicate that good governed companies with performance are better than the poorly governed firms. Improvement in corporate practices gives a positive impact on firm performance.

3.3 corporate governance code compliance in bangladesh

The Corporate Governance Code sets out standards of good practice in relation to issues such as board composition and development, remuneration, accountability and audit, and relations with shareholders. Country specific forces also have significant influences over the code

development; domestic pressure groups create divergence among the codes. Groups such as political, business institutions, legislators, stakeholders are the major forces which cause the existing divergence among code contents. For a code to be effective, it is vitally important that its implementation and level of compliance is monitored; measured to identify gaps between standard and reality; and amended to accommodate changes needed. That is why research on measuring code compliance is encouraged throughout the world.

Codes are providing the guidelines to follow the standard of corporate operations. Many argue that code development only cannot ensure better governance standards; nor can even a best model serve as the best solution for ever.

BSEC's Initiative for the Corporate Governance: Regulation The Bangladesh Securities and Exchange Commission (established as the Securities and Exchange Commission on 8 June 1993; renamed as the Bangladesh Securities and Exchange Commission on 10 December 2012) first issued the Corporate Governance Guidelines as the 'comply or explain' basis through a notification dated 20 February 2006 (published in the Gazette on 26 April 2006). This is the beginning of the separate regulation on corporate governance in Bangladesh for listed companies. The CGG of 2006 was replaced by a new notification dated 07 August 2012 (published in the Gazette on 30 August 2012) to be complied with by 31 December 2012. This CGG of 2012 was subject to mandatory compliance in place of "comply or explain" basis. The CGG of 2012 was once amended by another notification dated 21 July 2013 (published in the Gazette on 20 August 2013) to impose one restriction on engaging external/statutory auditors to perform audit/certification services on compliance of corporate governance. Thereafter, the compliance of CGG was made compulsory in case of rights issue from 18 August 2013 and for initial public offering (IPO) from 28 December 2015.

Corporate Governance Code Compliance in Bangladesh: Corporate governance is a growing and relatively newer concept in the context of Bangladesh; thus the area of good governance in Bangladesh has not been studied as intensively as in other developing countries. Nevertheless awareness of the importance of CG is growing. Bangladesh's small size and lack of natural resources have necessitated an open trade policy. Bangladesh also has a liberal policy towards foreign direct investment (FDI). However, when compared to those of the India, Sri Lanka, Pakistan, Thailand and Malaysia, (United Nations Public Administration Network, 2010).

However, in recent years, several scholarly papers have emerged understanding different dimension of corporate governance in the country. Most of the research has emerged in the area of accounting, auditing practices and CG model. Many other authors examining listed companies of Dhaka Stock Exchange found a lack of compliance. The non-compliance provisions were competence and independence of auditors, audit reports financial reporting quality, audit fee, ineffective enforcement mechanism, poor quality accounting education and training, and inadequate adherence to professional ethics are also considered to have contributed to the weakness of the financial reporting regime in Bangladesh. (Saima, August,2012, p. 51) Most of the studies focus on the reporting of the social disclosure, less work has been done comparing the compliance status with the codes. To put emphasize in complying the codes, regulatory institutions introduced many new steps. BEI was the first introducer of codes in Bangladesh. Those codes were voluntary. Companies didn't take them properly, resulted in poor governance in corporate operation. On 9 January 2006, the Commission issued an order requiring the listed companies to follow a number of CG related conditions. The aim was to improve the CG situation and thereby, better protect the interests of minority shareholders and develop Bangladesh capital market. The Commission revised its order by a notification dated 20 February 2006.

At last to how far the Codes has been compiled by the companies in Textile sector of Bangladesh with respect to the BSEC codes, the trend among Bangladeshi company's complying the codes, finding these answers are the prime research criteria.

3.3.1 Corporate governance monitoring mechanisms

Corporate Governance Code they are following which provided by Dhaka Stock Exchange authority for the listed companies are:

- 1) Board of Directors.
 - a) Size of the Board of Directors
 - b) Independent Directors
 - c) Qualification of Independent Director
 - d) Duality of Chairperson of the Board of Directors and Managing Director or Chief Executive Officer.
 - e) The Directors' Report to Shareholders

- f) Meetings of the Board of Directors
 - g) Code of Conduct for the Chairperson, other Board members and Chief Executive Officer
- 2) Governance of Board of Directors of Subsidiary Company.
 - 3) Managing Director (MD) or Chief Executive Officer (CEO), Chief Financial Officer (CFO), Head of Internal Audit and Compliance (HIAC) and Company Secretary (CS)
 - a) Appointment
 - b) Requirement to attend Board of Directors' Meetings
 - c) Duties of Managing Director (MD) or Chief Executive Officer (CEO) and Chief Financial Officer
 - 4) Board of Directors' Committee
 - 5) Audit Committee
 - a) Responsibility to the Board of Directors
 - b) Constitution of the Audit Committee
 - c) Chairperson of the Audit Committee
 - d) Meeting of the Audit Committee
 - e) Role of Audit Committee
 - f) Reporting of the Audit Committee
 - g) Reporting to the Shareholders and General Investors
 - 6) Nomination and Remuneration Committee (NRC)
 - a) Responsibility to the Board of Directors
 - b) Constitution of the NRC
 - c) Chairperson of the NRC
 - d) Meeting of the NRC
 - e) Role of the NRC
 - 7) External or Statutory Auditors
 - 8) Maintaining a website by the Company
 - 9) Reporting and Compliance of Corporate Governance

CHAPTER- 4: HYPOTHESIS DEVELOPMENT

4.1. Board size

Board size basically indicates the amount of member a board can have. The lowest is two and highest is 30. In other articles like (A.A, 2014) it is to be found that board size has a negative impact on profitability. When board size increases, it became difficult to make decision properly and in time. So decision making became a hazard. that's why the impact is negative. (Ahsan Akbar, 2014, p.1) (LeqaaNaife Al-Othman, 2019) (Mohammed RafiqulAlam FCMA, 2017, p.3)

Hypothesis 1: Board size has negative effect on profitability.

4.2. Audit size

Audit size basically indicates the amount of member an audit board can have. In other articles it is to be found that audit size has a negative impact on profitability. When audit size increases, it became difficult to make decision properly in time. So decision making became a big problem, that's why the impact is negative. (YayanNuryana&DwiAsihSurjandari, 2019, p.3) (Mohammed RafiqulAlam FCMA, 2017, p.4)

Hypothesis 5: Audit size has negative effect on profitability.

CHAPTER- 5: METHODOLOGY

5.1. Data design

The secondary data collection process is used in this thesis. Here the main data collection source is Dhaka Stock Exchange website, LANKA bangle and other websites.

5.2. Sample design

The sample company in this thesis is from the Dhaka Stock Exchange listed company. The main purpose of collecting sample from listed companies because these are the best companies in Bangladesh and this are more reliable for the proper annual reports. The listed companies are obliged to publish their annual report on Dhaka Stock Exchange website every year. The sample companies are,

The Dhaka Stock Exchange (DSE) located in Motijheel, Dhaka. In 2015, the combined market capitalization of listed companies on the Dhaka bourse stood at over \$40 billion. In 1976 trading restarted in Bangladesh, on 16 September 1986 DSE was started. As of 16 November 2009, the benchmark index of the Dhaka Stock Exchange (DSE) crossed 4000 points for the first time, setting another new high at 4148 points. The list of the textile companies is in the appendix chapter.

5.3. Analytical tools

The analytical tools used in the thesis are,

1. MS word
2. MS Excel
3. Strata

5.4. Variable design

5.4.1. Dependable:

Among all other profitability measurement tools in the thesis we selected ROE and NI as proxy element. Because in previous thesis papers like(Ahsan Akbar, 2014, p.1) (RadiaMasood, 2014, p.20) they used ROE and NI as proxy profitability tools.

ROE:ROE is Return on Equity which is a pointer of the ability of a firm to generate profits from its shareholders investments in the company. The formula is $ROE = \text{Net Income} / \text{Shareholders' Equity}$. (Ahsan Akbar, 2014, p.1)

NI: NI is equal to net earnings (profit) calculated as sales less cost of goods sold, selling, general and administrative expenses, operating expenses, depreciation, interest, taxes and other expenses. NI can be found on a company's income statement. The formula is $REVENUE - EXPENSE$.(Dr. MeenakshiAnand, 2014, p. 5)

5.4.2. Independent:

Among all other corporate governance measurement tools in the thesis we selected BOARD SIZE, AUDIT SIZE as proxy element. Because in previous thesis papers like(Ahsan Akbar, 2014, p.1) (Rechner& Dalton, 1991)they used BOARD SIZE, AUDIT SIZE as proxy CG tools.

Board size: Board size basically indicates the amount of member a board can have.

Audit size: Audit size basically indicates the amount of member an audit board can have.

5.4.3. Controllable:

Among all other controllable measurement tools in the thesis we selected LEVERAGE AND FIRMSIZE as proxy element. Because in previous thesis papers like(RadiaMasood, 2014, p.20)they usedLEVERAGE AND FIRMSIZE as proxy controllable measurement tools.

LEVERAGE:Leverage is an investment strategy of using borrowed money—specifically, the use of various financial instruments. . It is also indicates the negative relationship between leverage and profitability.

FIRM SIZE: Firm size indicates how a firm is big. It can be measure with asset of the company. It is also indicates the positive relationship between firm size and profitability. If firm is big profitability is also high. (RadiaMasood, 2014, p.20)

5.5. Model specification

Model: 1

$$NI = \beta_1 BDSIZE_{it} + \beta_2 BDEXP_{it} + \beta_3 BDI_{it} + \beta_4 CEOD_{it} + \beta_5 ACSIZE_{it} + \beta_6 ACI_{it} + \beta_7 ACEXP_{it} + \beta_8 LEV_{it} + \beta_9 FSZ_{it} + \epsilon_t \quad 5.1$$

Here,

BDSIZE= Board Size

ACEXP= Audit Expertise

BDEXP= Board Expertise

LEV= Firm's Leverage

BDI= Board Independency

FSZ= Firm Size

CEOD= CEO Duality

E= Error

ACSIZE= Audit Size

i= Company Position

ACI= Audit Independency

t= time/year

Model: 2

$$ROE = \beta_1 BDSIZE_{it} + \beta_2 BDEXP_{it} + \beta_3 BDI_{it} + \beta_4 CEOD_{it} + \beta_5 ACSIZE_{it} + \beta_6 ACI_{it} + \beta_7 ACEXP_{it} + \beta_8 LEV_{it} + \beta_9 FSZ_{it} + \epsilon_t \quad 5.2$$

Here,

BDSIZE= Board Size

ACEXP= Audit Expertise

BDEXP= Board Expertise

LEV= Firm's Leverage

BDI= Board Independency

FSZ= Firm Size

CEOD= CEO Duality

E= Error

ACSIZE= Audit Size

i= Company Position

ACI= Audit Independency

t= time/year

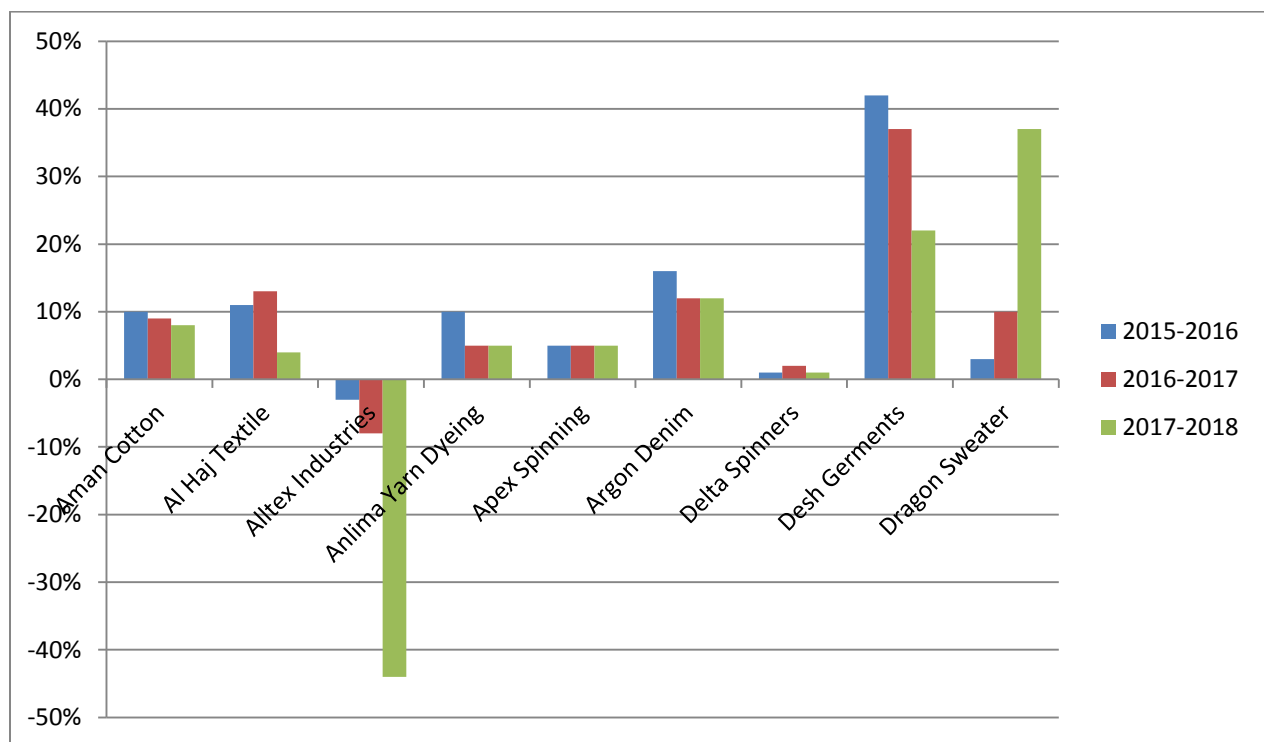
CHAPTER- 6: ANALYSIS AND FINDINGS

6.1. Comparative analysis

The textile and clothing industries one of the main sources of growth in Bangladesh's rapidly developing economy. In foreign exchange earnings exports of textiles and garments are the principal source. Foreign investors owned only 5% of textile factories, which controlled by local investors.

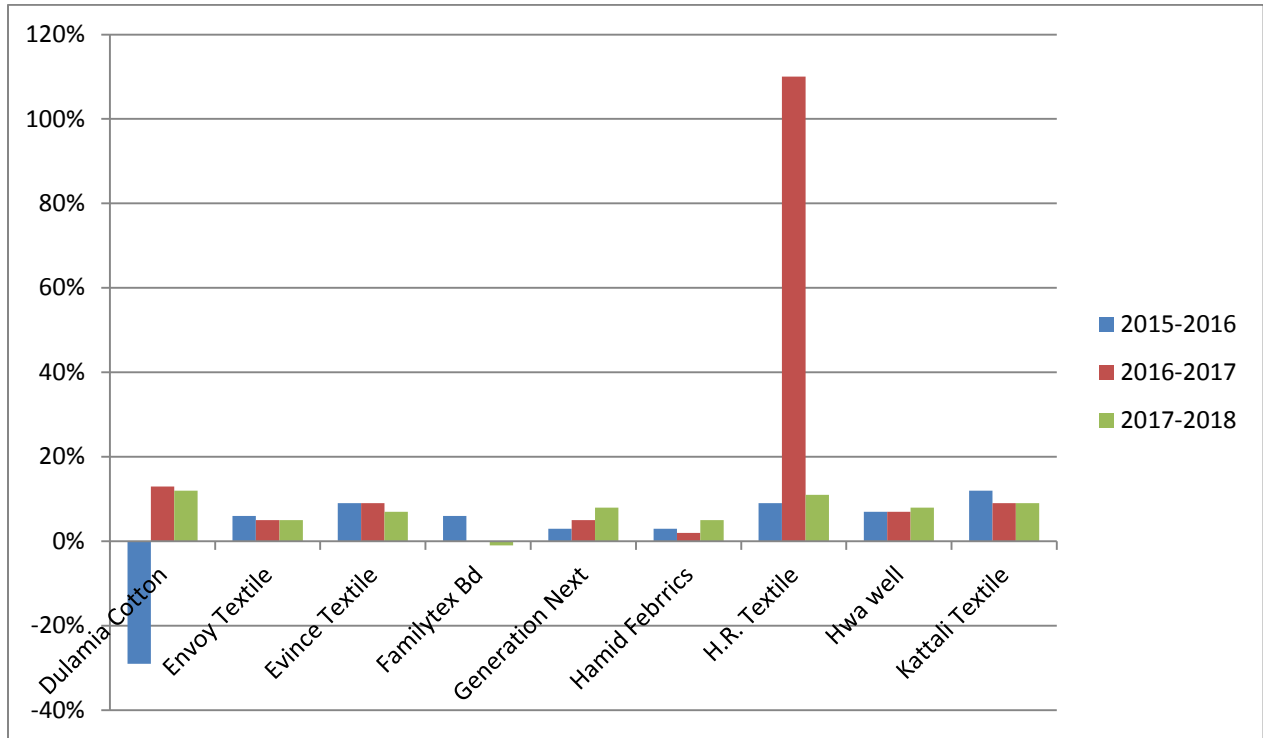
Comparability of ROE in the textile industry

Figure-6.1. Textile Industries ROE compliance



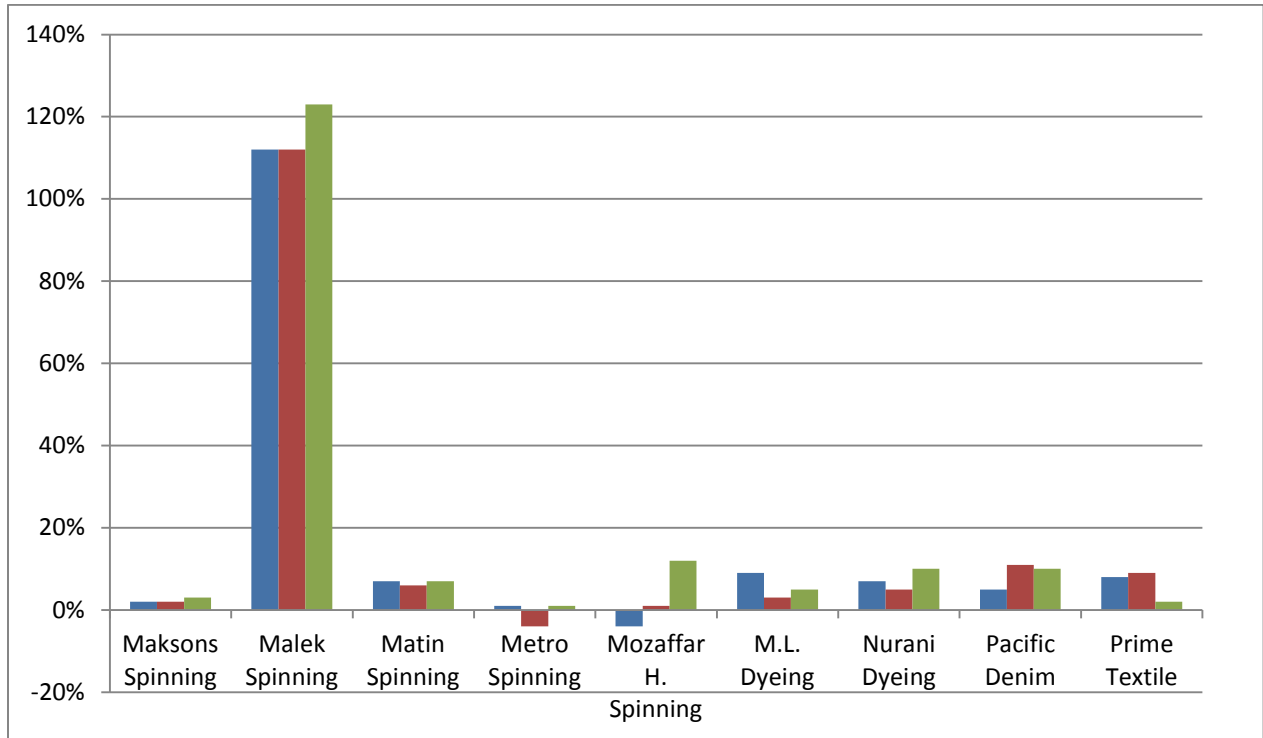
From the figure 6.1 we can see that the ROE of the first 9 companies 3 years compliance is visible. Their 2015-2016, 2016-2017, 2017-2018 years ROE fluctuation is vary from company to company. When all the companies doing positive on their profits from its shareholders investments, on the other hand Alltex industry is showing a negative profits from its shareholders investments. So we can conclude that in the compliance is not smooth within the company itself and among all the companies.

Figure-6.2. Textile Industries ROE compliance



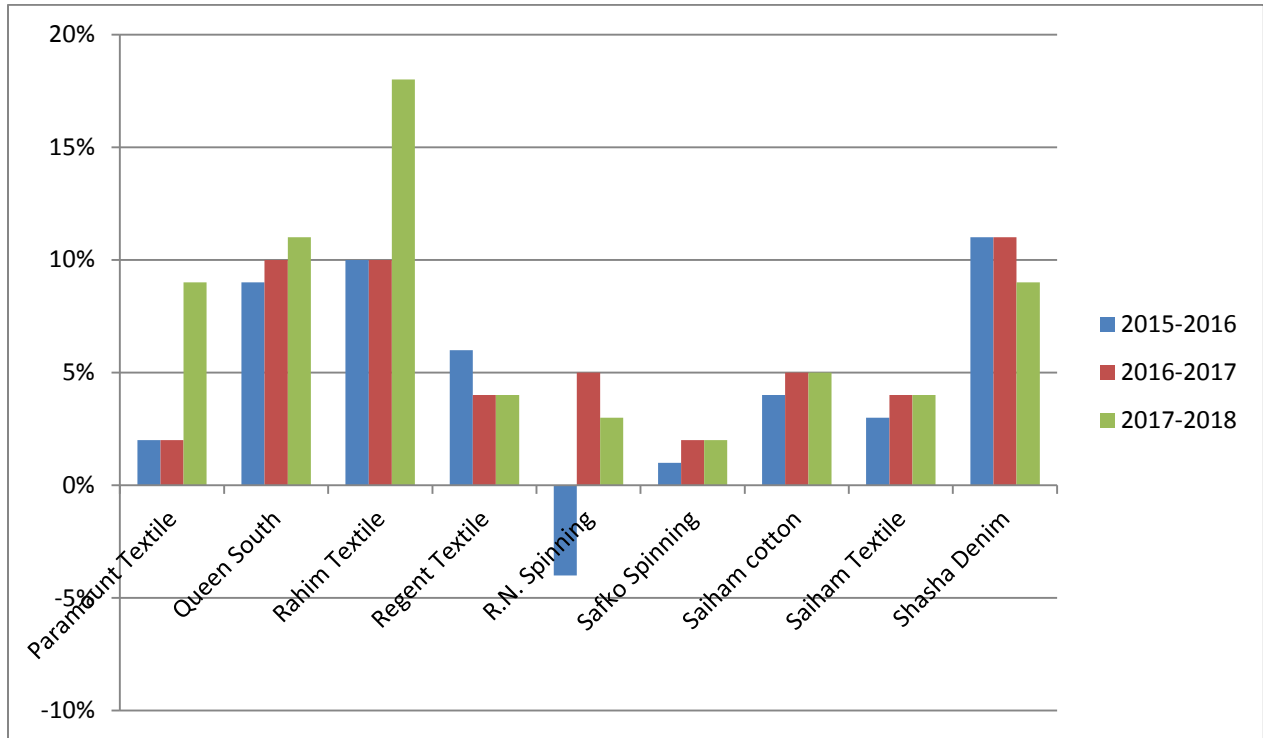
From the figure 6.2 we can see that the ROE of the first 9 companies 3 years compliance is visible. Their 2015-2016, 2016-2017, 2017-2018 years ROE fluctuation is vary from company to company. When all the companies doing positive on their profits from its shareholders investments, on the other hand Dulamia cotton is showing a negative profits from its shareholders investments in 2015-2016. So we can conclude that in the compliance is not smooth within the company itself and among all the companies.

Figure-6.3. Textile Industries ROE compliance



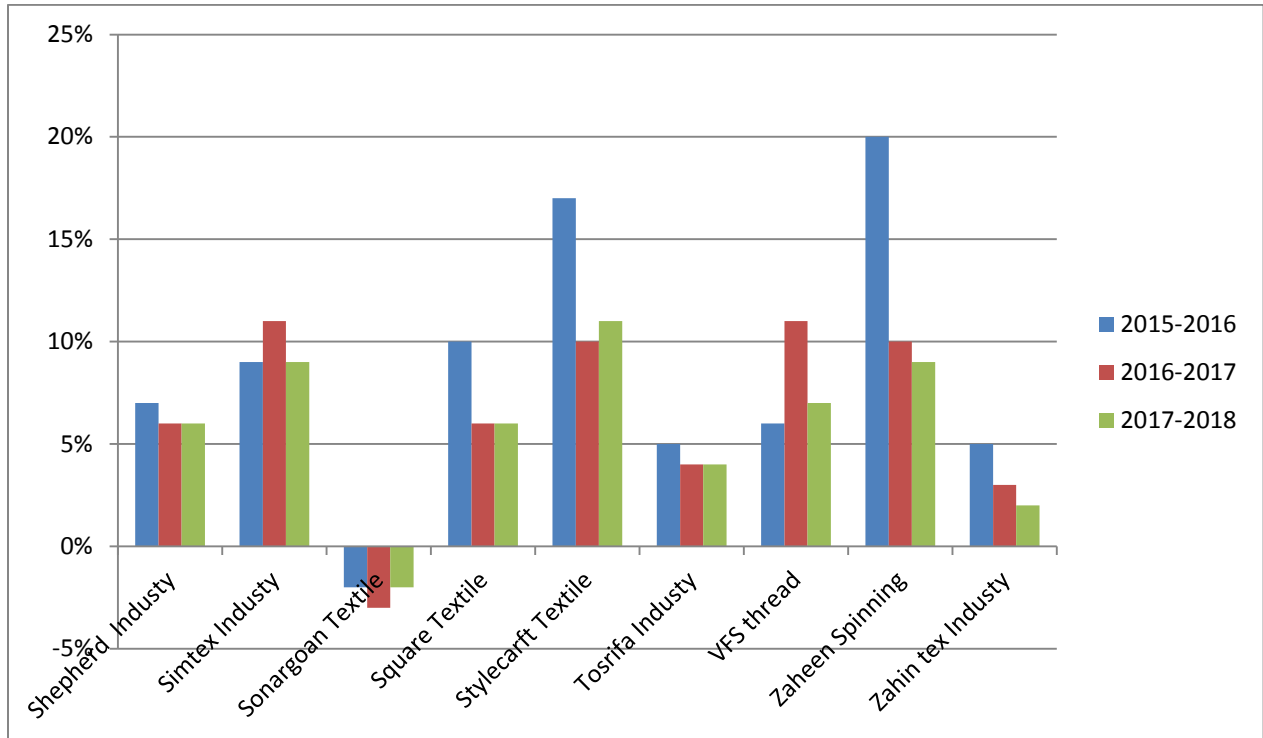
From the figure 6.3 we can see that the ROE of the first 9 companies 3 years compliance is visible. Their 2015-2016, 2016-2017, 2017-2018 years ROE fluctuation is vary from company to company. When all the companies doing positive on their profits from its shareholders investments, on the other hand Metro spinning (2016-2017) and Mozaffar H. spinning (2015-2016) are showing a negative profits from its shareholders investments. So we can conclude that in the compliance is not smooth within the company itself and among all the companies.

Figure-6.4. Textile Industries ROE compliance



From the figure 6.3 we can see that the ROE of the first 9 companies 3 years compliance is visible. Their 2015-2016, 2016-2017, 2017-2018 years ROE fluctuation is vary from company to company. When all the companies doing positive on their profits from its shareholders investments, on the other hand R.N. spinning is showing a negative profits from its shareholders investments in 2015-2016. So we can conclude that in the compliance is not smooth within the company itself and among all the companies.

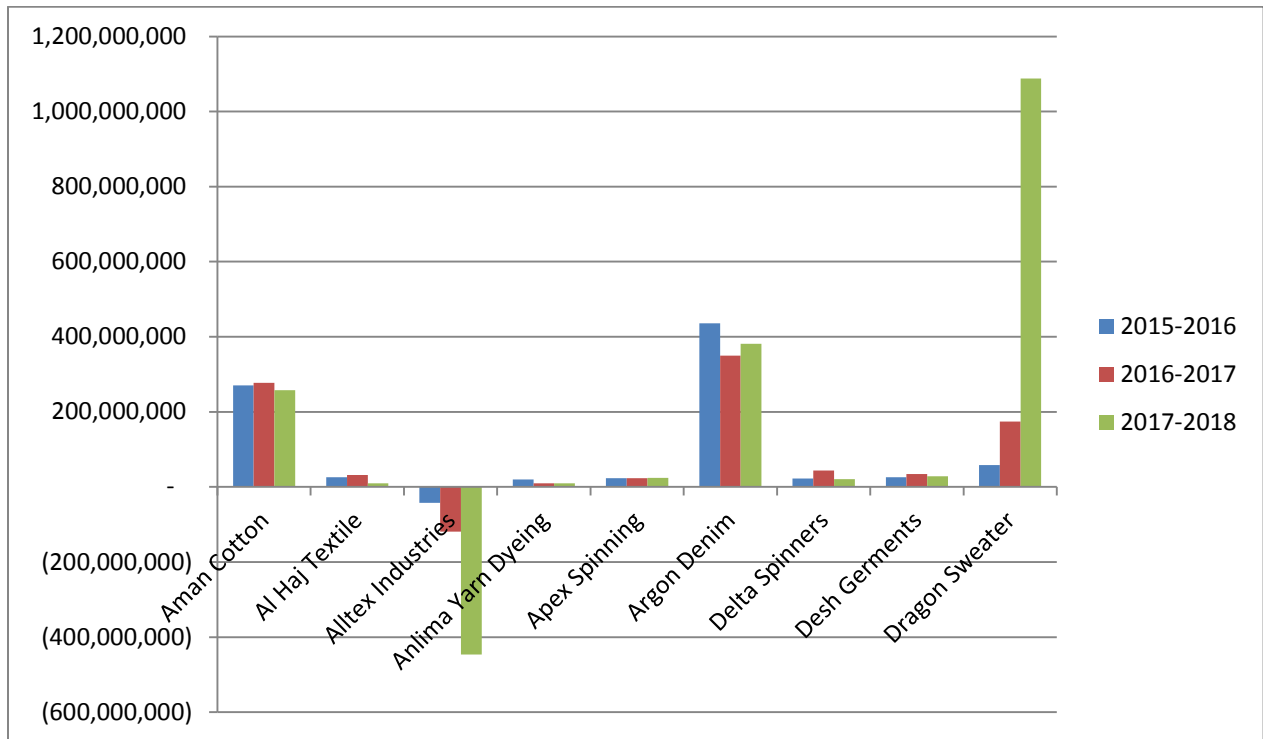
Figure-6.5. Textile Industries ROE compliance



From the figure 6.3 we can see that the ROE of the first 9 companies 3 years compliance is visible. Their 2015-2016, 2016-2017, 2017-2018 years ROE fluctuation is vary from company to company. When all the companies doing positive on their profits from its shareholders investments, on the other hand Sonargoan textile is showing a negative profits from its shareholders investments. So we can conclude that in the compliance is not smooth within the company itself and among all the companies.

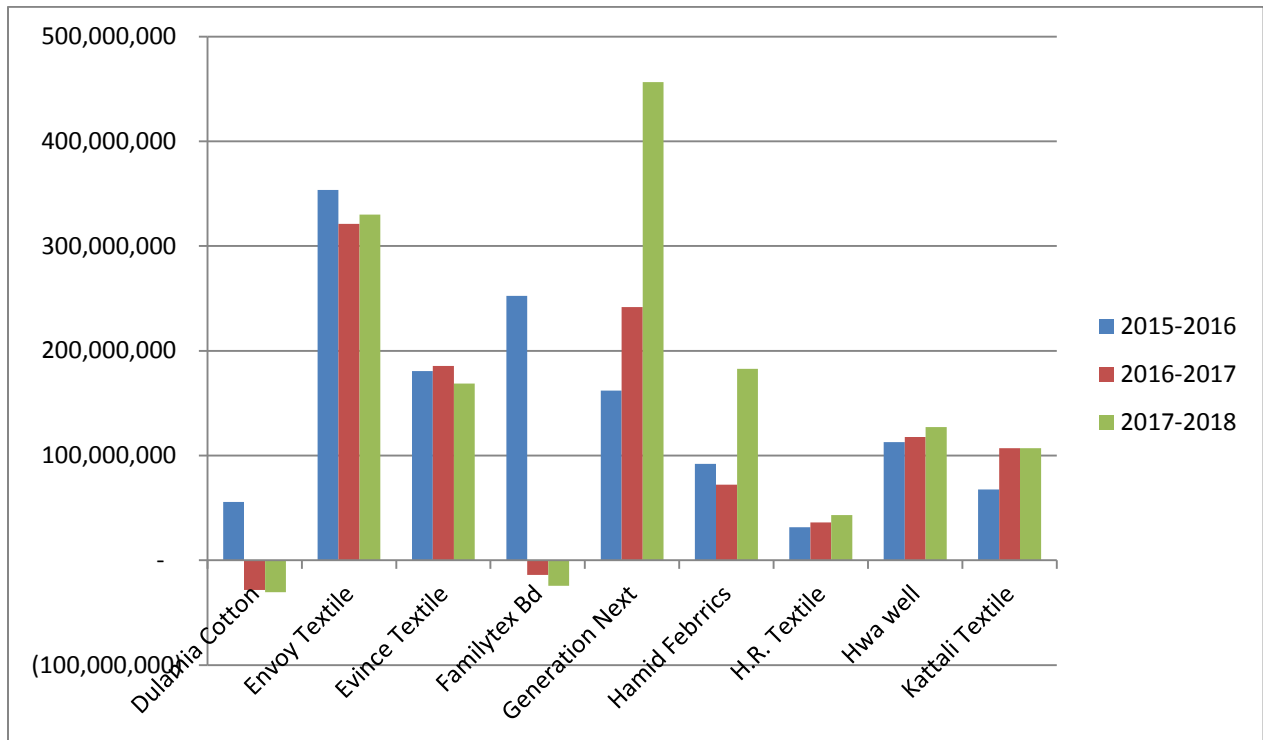
Comparability of NI in the textile industry

Figure-6.6. Textile Industries NI compliance



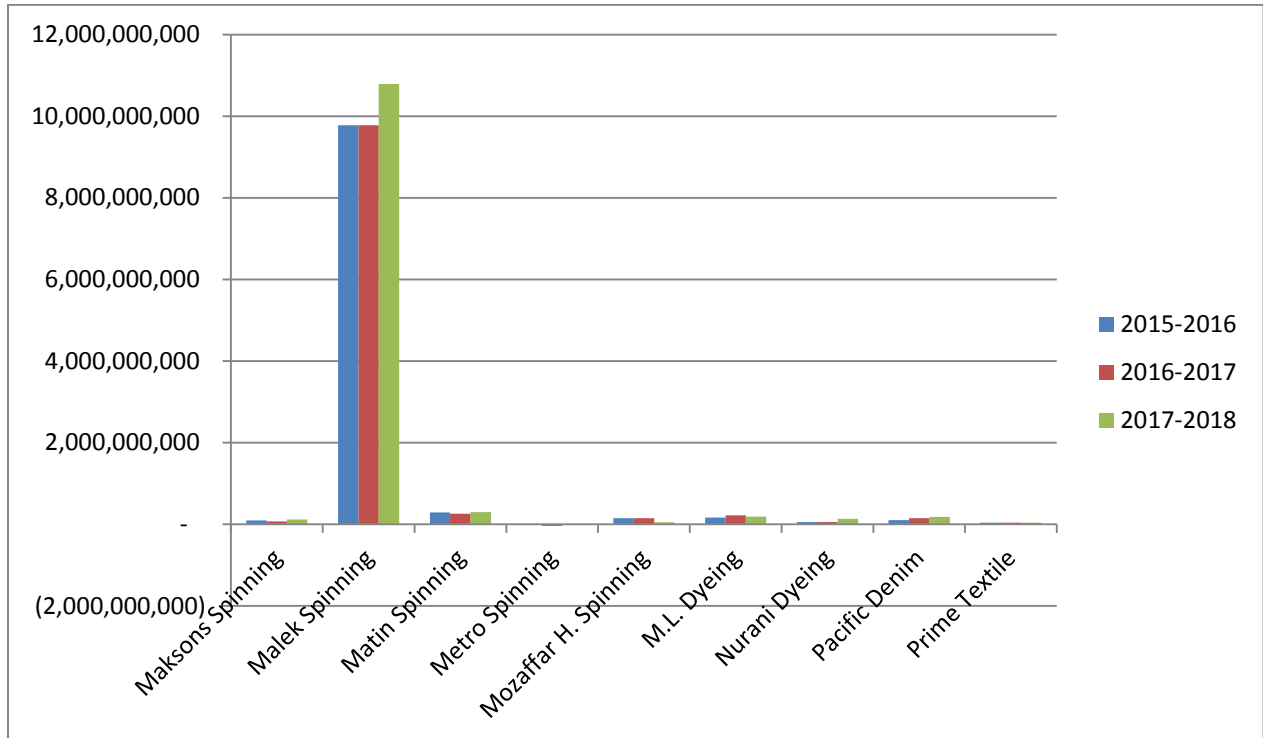
From the figure 6.6 we can see that the NI of the first 9 companies 3 years compliance is visible. Their 2015-2016, 2016-2017, 2017-2018 years NI fluctuation is vary from company to company. When all the companies doing positive on their net income from the year ended, on the other hand Alltex industries is showing a negative profits from its net income. So we can conclude that in the compliance is not smooth within the company itself and among all the companies.

Figure-6.7. Textile Industries NI compliance



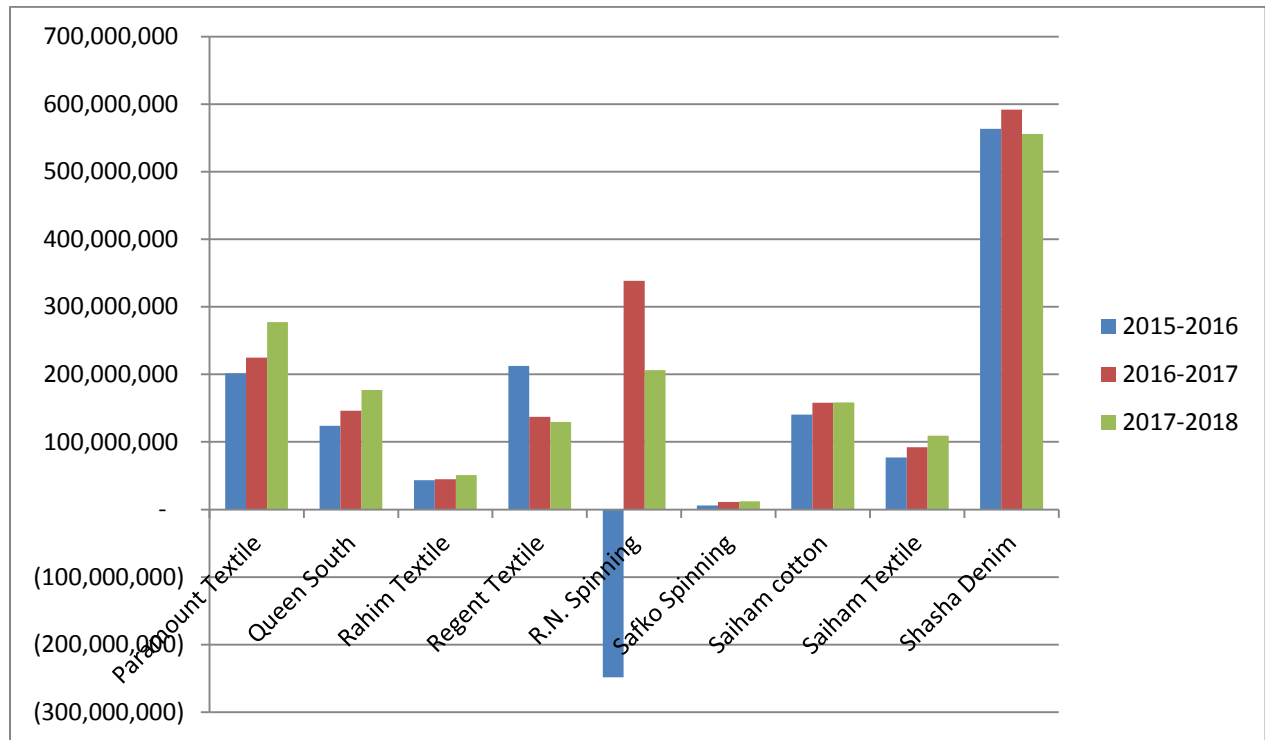
From the figure 6.7 we can see that the NI of the first 9 companies 3 years compliance is visible. Their 2015-2016, 2016-2017, 2017-2018 years NI fluctuation is vary from company to company. When all the companies doing positive on their net income from the year ended, on the other hand Dulamia cotton (2015-2016, 2016-2017) and FamilytexBd (2016-2017, 2017-2018) showing a negative profits from its net income. So we can conclude that in the compliance is not smooth within the company itself and among all the companies.

Figure-6.8. Textile Industries NI compliance



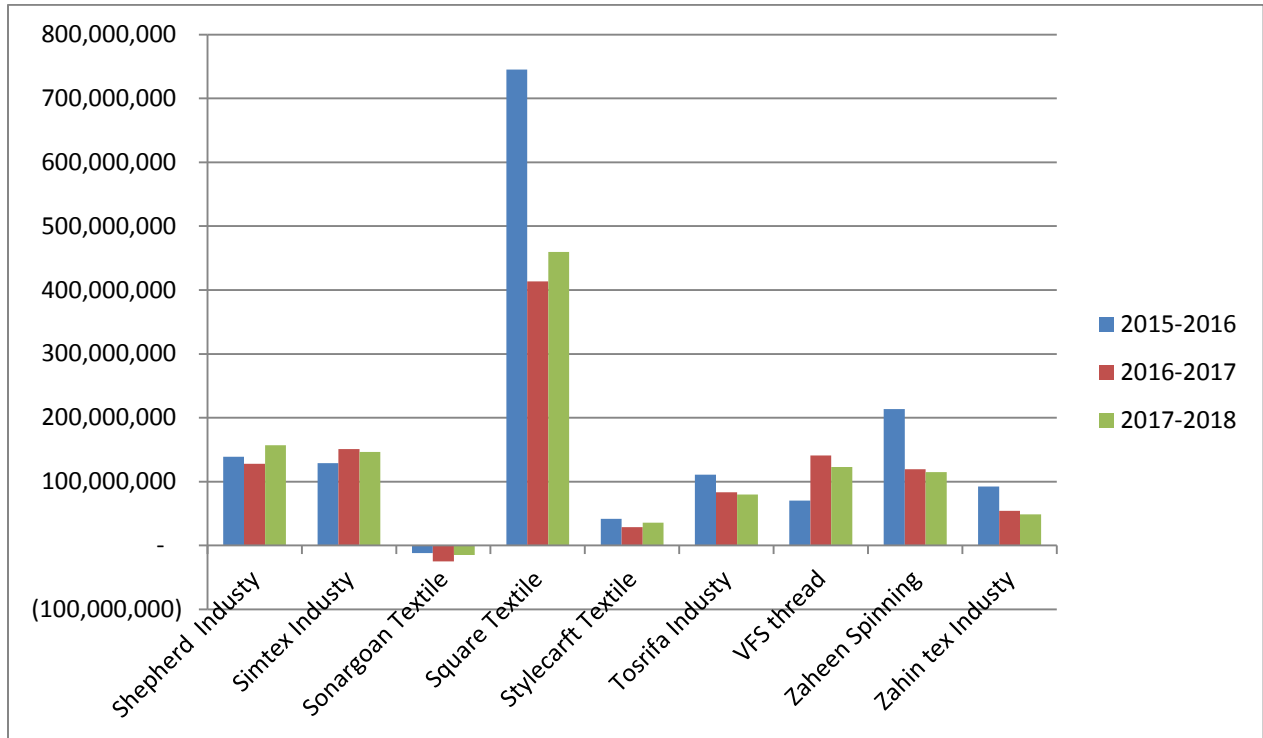
From the figure 6.8 we can see that the NI of the first 9 companies 3 years compliance is visible. Their 2015-2016, 2016-2017, 2017-2018 years NI fluctuation is vary from company to company. All the companies doing positive on their net income from the year ended. So we can conclude that in the compliance is not smooth within the company itself and among all the companies.

Figure-6.9. Textile Industries NI compliance



From the figure 6.9 we can see that the NI of the first 9 companies 3 years compliance is visible. Their 2015-2016, 2016-2017, 2017-2018 years NI fluctuation is vary from company to company. When all the companies doing positive on their net income from the year ended, on the other hand R.N. spinning (2015-2016) is showing a negative profits from its net income. So we can conclude that in the compliance is not smooth within the company itself and among all the companies.

Figure-6.10. Textile Industries NI compliance



From the figure 6.10 we can see that the NI of the first 9 companies 3 years compliance is visible. Their 2015-2016, 2016-2017, 2017-2018 years NI fluctuation is vary from company to company. When all the companies doing positive on their net income from the year ended, on the other hand Sonargoan textile is showing a negative profits from its net income. So we can conclude that in the compliance is not smooth within the company itself and among all the companies.

6.2. Descriptive analysis

To examine the relationship between corporate governance practices and firm performance Statistical Package for Social Sciences is used to assess and analyze the collected data. There are two types of descriptive analysis process. They are Correlation analysis and summarization analysis.

Table: 6.1

Summarization statistics analysis

VARIABLE	Obs	Mean	Std. Dev.	Min	Max
ComID	135	23	13.03554	1	45
NI	135	3.58e+08	1.49e+09	-4.46e+08	1.08e+10
ROE	135	10.58923	26.46868	-187.3902	81.33965
BFSIZE	135	6.785185	1.746575	5	10
ACSIZE	135	3.644444	.8764469	1	5
LOG_TA	135	9.419183	.4346812	8.159234	10.24216
Leverage	135	.4815934	.3669615	.0074466	2.711846

By testing the collected data this part is going to present the result of the analysis. Collected data has been analyzed by using the Statistical Package for Social Sciences. The descriptive statistics analysis in the study is shown in table 6.1.

In this table, the dependent tools are ROE and NI. The average ROE is 10.58923 and NI is 3.58e+09.

The independent tools are BORAD SIZE and AUDIT SIZE. BD size is between 5 and 10 members and average BD size is 6.785185 members. AC size is between 1 and 5 members and average AC size is 3.644444 members.

The controllable tools are LEVERAGE and FIRM SIZE. Leverage size is between .0074466 and 2.711846 members and average leverage size is .4815934 members. Firm size is between 8.159234 and 10.24216 members and average firm size is 9.419183 members.

Table: 6.2

Correlation statistics analysis

	NI	ROE	BSIZE	ACSIZE	LOG_TA	LEVERAGE
NI	1.0000					
ROE	-0.0511	1.0000				
BSIZE	0.1096	0.1496*	1.0000			
ACSIZE	-0.1090	0.0353	0.3202***	1.0000		
LOG_TA	0.3216**	0.0401	0.1578*	0.3062***	1.0000	
LEVERAGE	-0.0459	0.1048	0.2876***	-0.1125	-0.4939***	1.0000

***Correlation is significant at the 0.01 level (2-tailed).

**Correlation is significant at the 0.05 level (2-tailed).

*Correlation is significant at the 0.10 level (2-tailed).

In Table 6.2.theCorrelationstatistics analysis is shown. The result is negatively correlated to ROE and NI, and BSIZE is positively correlated to NI and ROE.

BSIZE is significantly correlated to ROE at 0.10 level, so if ROE changes the BSIZE will also change.

The negative correlation can be seen between ACSIZE and NI, but positively correlated to ROE AND BSIZE. ACSIZE is significantly correlated to BSIZE at 0.01 level, so if BSIZE changes the ACSIZE will also change.

LOG_TA is significantly correlated to NI at 0.05 levels, BSIZE at 0.10 levels and ACSIZE at 0.01 levels. If NI, BSIZE & ACSIZE change the LOG_TA will also change.

The negative correlation can be seen between LEVERAGE and NI, ACSIZE, LOG_TA but positively correlated to ROE AND BSIZE. LEVERAGE is significantly correlated to BSIZE at 0.01 levels and LOG_TA at 0.01 levels. If BSIZE & LOG_TA change the LEVERAGE will also change.

6.3. Regression analysis

Table: 6.3

Regression analysis NI

SOURCE	SS	df	MS	Number of obs = 135 F(4, 130) = 6.93 Prob> F = 0.0000 R-squared = 0.1758 Adj R-squared = 0.1504 Root MSE = 1.4e+09		
Model	5.2171e+19	4	1.3043e+19			
Residual	2.4463e+20	130	1.8818e+18			
Total	2.9680e+20	134	2.2149e+18			
NI	Coef.	Std. Err.	t	P> t	[95% Conf. Interval	
BFSIZE	7.17e+07	7.95e+07	0.90	0.369	-8.57e+07	2.29e+08
ACSIZE	-4.41e+08	1.49e+08	-2.96	0.004	-7.35e+08	-1.46e+08
LOG_TA	1.53e+09	3.42e+08	4.49	0.000	8.58e+08	1.31e+09
LEVERAGE	4.95e+08	4.12e+08	1.20	0.232	-3.20e+08	1.31e+09
_cons	-1.32e+10	3.13e+09	-4.21	0.000	-1.94e+10	-7.01e+09

The regression analysis results of this study are shown in table 6.3, which is presented for model 1. This regression analysis results in Table 6.3 is run by taking NI as dependent variable. The regression analysis result reveals that the dependent variable is explained by the explanatory variables in the model with R-square and adjusted R-square of 17.58% and 15.04% respectively. The F- statistic of 6.93 is also significant with P- value of zero, which suggests that the variations in the dependent variable are adequately explained by the regressors in the model. The table shows that there is a negative relationship between ACSIZE and NI.

Table: 6.4**Regression analysis ROE**

SOURCE	SS	df	MS	Number of obs = 135		
Model	2901.185	4	725.29625	F(4, 130) = 1.04		
Residual	90978.0232	130	699.830948	Prob> F = 0.3911		
Total	93879.2082	134	700.591106	R-squared = 0.0309		
				Adj R-squared = 0.0011		
				Root MSE = 26.454		
NI	Coef.	Std. Err.	t	P> t 	[95% Conf. Interval	
BFSIZE	1.63392	1.534064	1.06	0.189	-1.401771	4.668154
ACSIZE	-0.3546428	2.872561	-0.12	0.902	-6.037662	5.328376
LOG_TA	5.031602	6.58979	0.76	0.447	-8.00551	18.06871
LEVERAGE	8.174883	7.946392	1.03	0.306	-7.546103	23.89587
_cons	-50.53035	60.44802	-0.84	0.405	-170.1195	69.05884

The regression analysis results of this study are shown in table 6.4, which is presented for model 2. This regression analysis results in Table 6.3 is run by taking ROE as dependent variable. Here the R-squared = 0.0309 and Adj R-squared = 0.0011, which suggests that it's not possible to run regression analysis.

CHAPTER- 7: CONCLUSION AND RECOMMENDATION

7.1. Conclusion

In this project paper the main concern is effect of corporate governance on profitability of listed textile companies in Bangladesh. It shows an optimistic scenario of corporate governance effect on profitability.

But it is not perfectly ensured that all the listed textile companies in Dhaka Stock Exchange has good effect of corporate governance on profitability. It also indicates that regulation functions is better in the practice of corporate governance in Bangladesh. It is not easy to conclude in one answer that the effect of corporate governance on profitability is positive or negative. Not all proxy tools give one result. But we can conclude that there is an effect of corporate governance on profitability of listed textile companies in Bangladesh.

7.2. Recommendation

- After the analysis it can be recommended to textile companies to use tools like: board expertise, audit committee expertise, CEO duality, audit independency etc, which are in a positive relationship with companies' profitability. If they do so it will help their profitability grow.
- Lastly the companies should avoid the tools like: board size, audit size etc, which influence the company's profitability negatively. If they do so it will help their profitability grow.

CHAPTER-8: APPENDIX

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8.2. Company list

Dhaka Stock Exchange Listed companies as sample

Aman Cotton	M.L. Dyeing
Al Haj Textile	Nurani Dyeing
Alltex Industries	Pacific Denim
Anlima Yarn Dyeing	Prime Textile
Apex Spinning	Queen South
Argon Denim	Rahim Textile
Delta Spinners	Regent Textile
DeshGerments	R.N. Spinning
Dragon Sweater	Safko Spinning
Dulamia Cotton	Saiham cotton
Envoy Textile	Saiham Textile
Evince Textile	Shasha Denim
FamilytexBd	Shepherd Industy
Generation Next	SimtexIndustry
Hamid Febrrics	Sonargoan Textile
H.R. Textile	Square Textile
Hwa well	Stylecarft Textile
Kattali Textile	TosrifaIndustry
Maksons Spinning	VFS thread
Malek Spinning	Zaheen Spinning
Metro Spinning	ZahintexIndustry
Mozaffar H. Spinning	