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PRACTICE OF CORPORATE GOVERNANCE IN BANGLADESH: A COMPREHENSIVE STUDY ON LISTED PRIVATE COMMERCIAL BANKS IN DHAKA STOCK EXCHANGE

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ABSTRACT

The objective of corporate governance is to confirm transparency, responsibility, integrity, liability and professionalism of the corporate entities. Bangladesh, one of the least developed countries, has great opportunities to improve their corporate sector by taking proper strategy. In banking industry corporate governance is more necessary because they deal in public money. In this paper, we studied the practice of corporate governance of 20 listed commercial banks in Dhaka Stock Exchange and what are the guidelines of the corporate governance in banking industry. The study was performed focusing on the operating performance of the listed banks in DSE with other related factors like the matters of corporate governance like board size, number of independent directors, number of members of audit committee, number of sponsor directors during the year 2010-2014 of these companies. It is found that when debt financing and institutional ownership increases by 1 unit the net profit is decreased by 0.33 and 104.703 unit respectively. But when asset is increased by 1 unit that the net profit also is increased by 0.29 unit. The coefficient for Board Director (-2.238) and Ex Com (2.351) are statistically significantly because its p-value is 0.028 and 0.021, which are smaller than 0.05. The coefficient for Ind_Director, Aud_Com, Debt_Fina, Inst_Own, To_Asset are not statistically significantly because their p-value are 0.310, 0.330, 0.669, 0.915 and 0.916 respectively, which are larger than 0.05.

Key words: Bangladesh securities exchange commission (BSEC), Corporate governance guidelines, Dhaka stock exchange (DSE), independent director and executive committee

INTRODUCTION

The meaning of corporate governance differs on the perspective of different authors. The Cadbury Report (1992) states that corporate governance is the mechanism or system that directs and controls the company. The main objective of corporate governance is to increase the value of the shareholders as well as to protect the interest of the other parties who has an interest of the company's activities Biral *et al.* (2000). Fowzia *et al.* ((2010) state that corporate governance contains to build interrelationship with all its stakeholder of the firm. John and Senbet (1998) define corporate governance as the tool through which corporate insider and the management are controlled and the interest of the stakeholders are protected. They also said that stakeholder not only the shareholder but also the lender, employee, customer and other interested parties. Mallin (2003) said that due to the lack of the effective

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corporate governance, corporate collapses have occurred and it has an adverse effect on many people; shareholders, suppliers, lenders, and also the local and international communities. Lipton and Lorsch (1992) said that small board size which is efficient, lively and cohesive, and it increases the value of the firm because they require less time and cost for coordination. When the board size is large that raises greater problems in constructing their ideas, thoughts and opinions. Pathan *et al.* (2007) conducted a research and they said that in the Thai banking sector, there is a significant negative relationship between the size of board and performance. They mentioned that smaller board size is more effective to monitor and they also said that large board that creates agency problem. They found a strong positive relationship between independent board members and the performance of the bank. So they suggested that the bank should reduce its board size but involving more independent directors to improve the performance of the firm. Kutubi (2011) conducted a research and in his research he showed that individual Bangladeshi banks may enrich their performance by increasing the size of the board, up to that limit which is defined by the regulatory body of the country. He also said that there is no positive result when the ratio of the independent directors in the board is increased. Huq and Bhuiyan (2012) identified some problems such as ownership structures of the company are controlled by family members, the law about bankruptcy is insufficient, no consistency between Companies Act, Bangladesh Accounting Standard and Security Exchange Commission requirements, weak regulatory and capital market. He gave some suggestions as follows: to strength the disclosure requirement and to enhance monitoring, implementation of competition policy etc. Corporate governance refers to the set of rules, policies, guidelines and customs that a company follows to bring acceptability, creditworthiness, transparency and professionalism in its corporate function. Besley and Brigham say that corporate governance is the set of rules which a firm should follow when the firm wants to conduct its operations. The objective of the corporate governance is to fulfill the interest of the stakeholders such as stockholders, manager, employees, suppliers, creditors, customers and other parties who has an interest in the company. Shleifer and Vishny (1997) define corporate governance is to the way through which a firm should satisfy most of its stakeholder; supplier of the fund to a firm expect good return to their investment. Each firm has numerous stakeholders whose different interests must be considered. Ultimate objective of CG is to development of the long-term shareholders value while at the same time to satisfy the interests of other stakeholders. In the banking sector, corporate governance contains to set the goal of the company (vision, mission), to perform the day –to-day business operations, to protect the interest of the depositors, to maximize the value of the company, to ensure that firm follow the rules and regulation. Banks can collect and allocate the fund effectively, this lower the cost of funding to the company and it enhances the capital formation and that ensures more productivity of the country. The main focus of this study is to know the operating performance of the listed banks in DSE with other related factors like the matters of corporate governance like board size, number of independent directors, number of members of audit committee, number of executive committee, total debt finance, institutional ownership and total asset. The objective of this study are (i) to study the structure of Corporate Governance in the banks of Bangladesh, current practice of corporate governance in terms of accountability to its stakeholders, (ii) to find out the major problems hindering good corporate governance practice in the banking industry.

MATERIALS AND METHODS

To conduct the study here we collect both time series and cross sectional data, in this reason, we require a tool that will analyze the dataset and give actual scenery. Here the SPSS software has been used to do analyze. Here every company is analyzed for five years from

2010 to 2014. To get clear idea about the characteristics of the data, in this study, we also used descriptive statistics that shows clear and precise about the sample and the process.

The regressions equation for analyzing the determinants of operating performance is given below:

Net_Profit = a + b_1Board_Director + b_2Ex_Com + b_3Ind_Director + b_4Aud_Com + b_5Debt_Fina + b_6Inst_Own + b_7To_Asset

Here,

Net_Profit = Net Profit

Ex_Com = Executive Committee

Aud_Com = No. of members of audit committee

Inst_Own =Institutional ownership

Board_Director = No. of Board Members

Ind_Director = No. of independent directors

Debt_Fina =Total debt finance

To_Asset =Total asset

Correlation analysis is the statistical tool by using it anyone can analyze the association among two or more variables. It shows the degree to which one variable is linearly connected to another.

To conduct the study several steps are taken to get the analyses; these are

(i) At first in a MS excel worksheet all the data are put to make the dataset useable.

(ii) After that we use SPSS software to run regression of the dataset and here we also get intercept and different coefficient of the variables.

(iii) Thirdly, significant association between dependent variable and the independent variable has been determined.

To get the impact of board size, no. of board members, no. of independent director, no. of members of audit committee, debt financing, institutional ownership and total asset in respective years on net profit of the banks we take randomly 20 private commercial banks as samples. We take data of these companies for 5 years from 2010-2014. The quantitative data are taken annual reports published by listed commercial banks in every year.

The variables which are used in our study are as follows with a brief description.

Net profit: The net profit of the companies under banking industry is taken from annual reports of the companies from 2010 to 2014.

Board Director: At the end of the year total no. of directors on the board is considered as the board size.

Executive Committee: A committee which has executive powers to operate the operation of the company is known as executive committee and this committee plays significant role in the earning of the company.

Independent director: The director in a board who does represent neither sponsor nor shareholders of that company is taken as variables for assessing the impact on net profit.

Debt: When a company takes loans that is called debt and it is the left side component of balance sheet. It is collected from balance sheet of the annual reports of companies.

Institutional ownership: Institutional ownership characterizes how much of the share is held by the large institution and to measure the impact of it on the net profit.

Total asset: Total asset states the amount of total asset of the company and it is the right side component of balance sheet. It has been considered as a control variable.

RESULTS AND DISCUSSION

For effective Corporate Governance practice in Bangladeshi banking industry, it requires complete picture of composition of Corporate Governance in the context of banks and also a clear understanding of the respective roles of the board, members of the senior management including CEO and their relationship with others in the corporate structure. An Organogram of Islamic bank shows that, at the apex, there are two authorities namely Board of Directors, in one hand, and the Shariah Council on the other. The Board of Directors is the outcome of company law and the Shariah Council is the outcome of Quran and Sunnah. As a result, the Board of Directors guides the banks on the rules and regulations of the company law. But the Shariah council guides the banks on the principles of Islamic rules and regulations. Kiel and Nicholson (2003) express their opinion that large boards should deliver more ideas and thoughts by networking and personnel communication that ensures better performance in the company. They showed a positive relationship between the size of the board and the performance of the company. The Board of Directors is headed by the Chairman. Under the guidance and supervision of the Chairman, there are also directors. Each of the committee is headed by chairman. Under the direct control and supervision of the chairman of Executive Committee there are members. Again under the chairman of Audit committee these are members. Shariah Council is headed by the chairman under whose there are members. Organogram of conventional banks indicates that, there is a Board of Directors headed by chairman. Managing Director works directly under the supervision of chairman. Under the supervision of Managing Director, there are members. Executive Committee and Audit committee are the two departments that work under the supervision of the board of directors. Executive Committee is headed by chairman under whose direct supervision. Audit Committee is also headed by chairman under whose supervision. BSEC's some crucial guidelines on corporate Governance: The size of the board must not be less than five and more than twenty. The independent directors should be one fifth of total no. of directors. The independent director does not have any membership, directorship in any stock exchange. The board of directors appoints the independent director and that must be approved in AGM. The chairman of the board and the chief executive officer must be the distinct individuals. The responsibilities and duties of the chairman and chief executive officer are cleared by the board of directors. At least three members should be in the audit committee. In the audit committee there should be one independent director and he should be the chairman of the audit committee. Chairman of the audit committee shall remain present in the Annual General Meeting (AGM) and monitor choice of accounting policies and principles, Internal Control Risk management process. For the purpose of internal control, the company should appoint a chief financial officer and a company secretary. The external auditors should perform the activities: appraisal of the company, fairness opinion, valuation of the company. The partner or any employees of the audit firm does not pose any share of the company. The financial statement of the year should be reviewed by CEO and CFO and they also certify it. The company should collect a certificate concerning about the compliance of the CG guidelines from the professional accountant. There are some prerequisites for the effective corporate governance. The first thing is that the board of directors should have clear understanding about the respective role and responsibilities. One of the most important things is to select most qualified and ethical person as a CEO. A set of code of conduct should be in the company for effective papering. An audit committee should be in a firm. The meeting of the committee should be held continuously. There should be an internal control system that ensures efficiency of the company. Huq and Bhuiyan (2012) conducted a research and they identified so many problems faced in practicing corporate governance in banking industry in Bangladesh and some of the problems are presented. According to Huq and Bhuiyan, the structure of corporate ownership in Bangladesh are mostly dominated by the family members. This practice creates tremendous problem for transparency, fairness and accountability. They also mentioned that the Bangladesh Accounting Standard are not constructed on the basis of codified law. The role of the capital market is weak and it has not any deepness. For monitoring function corporate control market play crucial role but in Bangladesh there is no market for corporate control. Bankruptcy laws and processes are not strong in terms of execution in Bangladesh. In many cases, the Act, 1994 lacks clarity with respect to statutory requirements for the disclosures in the financial reports of listed companies. Bangladesh still follows the hybrid system of legal system which has taken from the British administration. Therefore, weak regulatory system exists in CG in the country. The role of the independent directors is to act on behalf of the minority shareholders but they don't perform their duties accurately. Shareholders' activisms are not still seen in Bangladesh. For better corporate governance, shareholders, institutional investors can play significant role but they do not raise their voice against poor performance. The auditors are not performing their duties due to their lack of quality and corruption. Andres and Vallelado (2008) studied on the topic of the corporate governance. They identified that when a firm has more independent board member that can ensure more efficiency in the monitoring and advising the company. In the organization the top executive body is the board of directors and the responsibilities of them is to develop strategy and policies to fulfill the goal of the organization. To determine the optimum no. of board of directors is a dilemma. BSEC set up the board size, they mention that the size of the board must not be less than five and more than twenty. In Bangladesh BSEC made it compulsory that the independent directors should be one fifth of total no. of directors and the minimum one independent director must to be in the firm. In the firm the duties of an independent director is to enhance the qualities. In the table-1, the information of the independent directors of 20 listed commercial banks are given and where we get that most of the banks fulfill these criteria but some of them yet not fulfill it but they mention it in their annual reports and they will fulfill it in a very short time period. In Table 2, we see that the relation between the independent directors and the net profit is positively related. In compliance with the Bank Company Act 1991 (amended up to 2013) and BRPD Circular No. 11 dated 27 October 2013, the Executive Committee (EC) must be not more than seven members. And these members are not included in the audit committee of the Board. All the banks followed these criteria. And we also see the executive committee is positively related to the net income. The role of the audit committee is to ensure the interest of the shareholders by taking control mechanism which is consistent with the agency theory. A board of audit committee consists of at least 3 members are compulsory for all the financial organization to conduct its operation. The audit committee will do the review activates of the financial reporting. All the banks maintain this criterion. We also get the positive relationship between audit committee and net profit. Institutional ownership is also important for corporate governance. The agency cost can be removed by institutional ownership and also improve the performance of the firm by reducing opportunism of the manager and the exportation of the minority. In our study, we get a negative relationship between institutional ownership and net income. In corporate governance mechanism particularly in the field of financial institutions, debt financing plays crucial role. Debt forces the manager of the

Table 1: Different Banks and their relative variables

Name	Year	Net profit (Million in tk.)	Board of Dir.	Ex. Com.	Ind. Dir.	Aud. Com.	Inst. Own.	Debt. Fin. (Million in tk.)	To. Asset (Million in tk.)
Bank Asia Ltd.	2010	1929.58	14	7	1	3	22.12	98198.24	150198.05
	2011	1916.21	14	7	1	3	23.57	105537.52	117729.41
	2012	980.12	13	5	3	3	26.87	128121.21	140361.37
	2013	1459.82	14	5	4	3	26.12	150509.77	163777.74
	2014	2218.69	16	6	4	3	30.25	167491.74	182730.94
BRAC Bank Ltd.	2010	2073.06	8	3	1	4	6.59	112249.81	122801.25
	2011	1812.44	8	3	2	4	7.23	130440.48	140922.12
	2012	699.78	8	3	2	4	7.89	168921.26	180396.33
	2013	1339.35	9	4	3	4	7.19	171702.63	185579.19
	2014	2101.57	11	4	3	5	8.23	189122.47	209733.6
City Bank	2010	1849.01	14	7	0	5	18.02	73564.23	90898.21
	2011	2018.21	14	7	0	5	9.19	95219.78	115736.35
	2012	794.45	14	7	0	5	15.09	112261.86	130313.87
	2013	490.23	14	7	0	5	9.89	129365.55	147559.56
Dutch Bangla Bank	2010	2005.7	8	3	1	3	25.68	93778.91	100782.85
	2011	2314.1	9	3	2	4	25.67	145064.06	123267.25
	2012	2313.32	9	3	2	4	25.67	145012.32	155867.75
	2013	2206.62	8	3	2	4	25.67	201476.11	215993.55
	2014	2188.86	7	3	2	3	25.67	200012.78	214498.51
Dhaka Bank	2010	1678.98	19	7	2	6	21.25	83559.75	90139.48
	2011	2242.65	19	7	2	6	17.26	95712.98	105006.78
	2012	788.63	17	7	2	5	18.25	123829.78	133616.1
	2013	1981.49	17	7	2	5	17.34	132967.28	145012.09
	2014	2098.65	17	7	2	5	18.25	146802.25	159775.32
Eastern Bank	2010	2514.2	11	4	1	5	9.77	70273.53	82530.98
	2011	2552.43	11	4	1	5	9.82	102992.58	117584.78
	2012	2392.73	11	4	2	5	12.46	129794.82	147044.45
	2013	2535.09	11	4	2	5	11.49	139604.54	158163.38
	2014	2137.87	11	4	2	5	11.49	153209.21	173443.55
Exim Bank LTD.	2010	3476.01	21	5	1	6	19.21	100596.13	113070.98
	2011	2009.37	21	5	1	6	18.75	115390.2	129874.42
	2012	2157.63	21	5	2	6	17.19	150414.77	167056.63
	2013	1913.39	21	5	2	6	16.89	174828.15	195452.52

Contd.

IFIC Bank	2010	166409	11	8	3	5	17.23	64311.979	70077.42
	2011	831.79	11	4	3	5	33.66	85110.92	91796.78
	2012	416.78	9	4	3	5	33.91	107792.55	114772.96
	2013	1629.81	10	5	3	4	18.27	124203.14	132062.63
	2014	2061.11	10	5	3	4	19.31	147147.13	156338.64
Mercantile Bank ltd.	2010	1425.34	21	7	0	5	9.79	79954.42	87140.11
	2011	1755.73	21	7	0	5	18.44	106924.4	116655.28
	2012	1811.22	14	7	2	5	13.29	117452.36	128325.91
	2013	1977.85	14	7	2	3	7.68	132469.94	145102.38
	2014	1171.81	14	7	2	3	6.73	155538.66	169100.74
Mutual Trust Bank ltd.	2010	988.36	12	5	2	5	29.44	53150.37	57529.21
	2011	404.22	12	5	2	5	27.61	71516.39	76331.37
	2012	327.87	12	5	2	5	26.51	88328.41	93162.05
	2013	573.25	12	5	2	5	22.47	95723.39	101172.54
	2014	961.55	12	5	2	5	25.04	109530.43	116300.96
National Bank Ltd.	2010	6871.56	14	4	0	3	10.38	115629.74	134748.04
	2011	6112.99	14	4	0	3	11.34	146992.83	168555.48
	2012	1430.81	14	4	0	3	12.79	182272.92	204613.87
	2013	2116.59	14	4	2	3	13.97	211244.16	235173.8
	2014	2660.93	14	4	2	3	15.96	229573.51	256537.46
Jamuna Bank Ltd.	2010	1065.02	20	7	4	5	5.52	63605.71	70013.9
	2011	1330.19	20	7	4	5	9.12	79783.62	87065.13
	2012	1042.05	20	7	4	5	9.58	101353.68	109678.51
	2013	1135.19	20	7	4	5	10.55	106282.01	115162.95
	2014	1347.12	20	7	4	5	10.82	128683.91	139494.58
NCC Bank Ltd.	2010	2112.25	14	5	0	4	12.94	74197.07	83554.18
	2011	1975.12	14	5	1	5	12.94	92740.25	104100.87
	2012	1450.03	14	5	1	5	12.37	113923.98	126068.23
	2013	1140.5	15	5	2	5	11.62	111344.34	124626.25
	2014	1494.68	15	5	2	5	10.29	121639.67	135996.55
Premier Bank Ltd.	2010	1772.02	12	8	1	5	21.05	60125.23	68240.35
	2011	510.9	12	8	1	5	21.05	68277.7	74951.11
	2012	603.41	12	8	1	5	20.95	74656.68	81733.71
	2013	785.75	12	8	2	5	11.77	80728.54	88959.31

Contd.

	2014	872.35	12	6	2	4	14.86	102025.87	111576.4
Prime Bank	2010	3152.21	19	7	3	5	21.12	138066.19	155532.79
	2011	3688.95	19	7	3	5	20.95	181733.03	200995.68
	2012	2700.41	20	7	3	5	20.12	217207.24	238169.05
	2013	2038.31	20	7	3	5	18.32	222148.51	245507.03
	2014	2245.54	20	7	3	5	21.92	231767.71	256349.31
Pubali Bank	2010	3233.09	15	6	2	4	22.23	114082.78	128462.65
	2011	3140.22	15	6	2	4	26.23	140882.35	157153.71
	2012	1761.98	16	5	2	4	21.32	175230.59	192947.93
	2013	2305.54	15	5	2	4	25.12	209167.43	228533.77
	2014	3070.13	15	5	2	5	24.97	226539.06	248386.5
United Commercial Bank Ltd.	2010	2179.23	22	7	2	3	12.65	121959.25	129774.43
	2011	2945.23	22	7	2	3	12.65	152725.36	168688.32
	2012	1585.23	16	6	2	5	11.36	189077.89	207244.35
	2013	3069.38	20	7	3	5	4.94	205115.5	225620.29
	2014	3700.33	20	7	3	5	19.38	243386.09	265912.77
Islami Bank	2010	4485.48	19	5	5	4	0	307268.9	330785.17
	2011	4624.59	19	5	5	4	0	361761.85	389375.6
	2012	4825.21	19	5	5	4	0	442988.12	482649.49
	2013	5030.67	15	5	5	4	0	502605.29	546369.37
	2014	3967.42	15	5	5	4	0	604994.93	651579.48
FSIBL	2010	548.6	12	5	3	3	12.01	59699.78	63619.8
	2011	579.94	12	5	3	3	11.32	86463.95	91012.9
	2012	762.71	12	5	3	3	13.08	124223.71	129937.81
	2013	776.48	14	5	4	3	13.16	155420.14	162033.22
	2014	694.28	14	5	4	3	14.07	196229.71	204876.46
Trust Bank Limited	2010	1294.45	9	5	3	3	19.51	53315.65	58360.67
	2011	933.45	9	5	3	3	21.13	71172.38	77036.03
	2012	182.7	9	5	3	3	18.9	89489.47	96339.25
	2013	322.38	10	5	3	3	20.39	111108.3	118308.5
	2014	1298.07	10	5	3	3	21.5	139431.42	147893.41

Source: All the data are collected from the annual report of the respective company.

A regression analysis is made through SPSS software version 16.

$$Net\_Profit = a + b_1 Board\_Director + b_2 Ex\_Com + b_3 Ind\_Director + b_4 Aud\_Com + b_5 Debt\_Fina + b_6 Inst\_Own + b_7 To\_Asset$$

Table 2: Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.302a	0.091	0.020	16488.7689

a. Predictors: (Constant), To_Asset, Aud_Com, Ex_Com, Inst_Own, Ind_Director, Board_Director, Debt_Fin

Table 3: ANOVA

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.449	7	3.498	1.287	0.266a
	Residual	2.447	90	2.719		
	Total	2.692	97			

a. Predictors: (Constant), To_Asset, Aud_Com, Ex_Com, Inst_Own, Ind_Director, Board_Director, Debt_Fin
b. Dependent Variable: Net_Profit

Table 4: Unstandardized and Standardized Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-8862.856	11880.216		-0.746	0.458
	Board_Director	-1306.530	583.727	-0.317	-2.238	0.028
	Ex_Com	3739.351	1590.348	0.315	2.351	0.021
	Ind_Director	1757.090	1719.907	0.132	1.022	0.310
	Aud_Com	1970.825	2011.752	0.111	0.980	0.330
	Inst_Own	-104.703	244.462	-0.048	-0.428	0.669
	Debt_Fin	-0.033	0.307	-0.172	-0.107	0.915
	To_Asset	0.029	0.280	0.166	0.105	0.916

a. Dependent Variable: Net_Profit

organization to take low risk and perform more efficiently to avoid the risk. In our study, we see that all the firms take debt and it has a negative relationship with net income. In table- 2, the R, R2, adjusted R2, and the standard error of the estimate, which can be used to determine how well regression model fits the data: The "R" column represents the value of R which can be considered as the correlation coefficient and it is a measure of the quality of the prediction of the dependent variable; in this case, a value of 0.302in the R column indicates a poor level of relationship between dependent variables and independent variables. The "R Square" column represents the R^2 value which is the proportion of variance in the dependent variable that can be explained by the independent variables. Here the value of 0.091 that independent variables explain 9.1 % of the variability of our dependent variable. Adjusted R^2 is a modified version of R^2that will be less than R^2. Adjusted R^2 deducts all the useless variable so here it is 2%. Standard Error is the average distance of the observed value from the regression line. Here the Standard Error is 16488.7689 which are so large. In table-3, it has been got the p- value 0.266, which is higher than 0.05 that indicates that the null hypothesis is accepted, mean square is 3.498 and residual is 2.719. In table- 4, the general form of the equation to predict, Net_Profit = (-8862.856) + (-1306.530) *Board_Director +

3739.351*Ex_Com + 1757.090*Ind_Director + 1970.825*Aud_Com + (-0.033) Debt_Fina + (-104.703) Inst_Own + 0.029*To_Asset. So, it is expected that when board member is increased by 1 unit, the profit of the company will be decreased by 1306.530 units. On the other hand, when executive committee, independent director, and audit committee is increased by 1 unit, the profit will be increased by 3739.351, 1757.09, 1970.0825 unit respectively. We also get the information that when debt financing and institutional ownership increases by 1 unit the net profit is decreased by 0.33 and 104.703 unit respectively. But when asset increase by 1 unit that the net profit also increased by 0.29 unit. The coefficient for Board_Director (-2.238) and Ex_Com (2.351) are statistically significantly because its p-value is 0.028 and 0.021, which are smaller than 0.05. The coefficient for Ind_Director, Aud_Com, Debt_Fina, Inst_Own, To_Asset are not statistically significantly because their p-value are 0.310, 0.330, 0.669, 0.915 and 0.916 respectively, which are larger than 0.05. Andres and Vallelado (2008) studied on the topic of the corporate governance. They identified that when a firm has more independent board member that can ensure more efficiency in the monitoring and advising the company.

CONCLUSION

For any company, the corporate governance is of absolute importance and the issues of corporate governance are so complex and comprehensive. It is very important for financial institution that does their business by taking public money. The governance issues are not only the concern matter for the economy like ours but also have weakness in the well-established economy. In this research the results indicates that the practice of corporate governance had mixed compliance. We use a regression models on board size, independent director, audit committee, executive committee, institutional ownership, debt financing, total assets in our private commercial banks net income. Here we take sample period that extend from 2010-2014.In the analysis we see that the board size, institutional ownership and debt financing are negatively related to net profit. The executive committee, audit committee, independent directors and total asset are positively related to increase the net profit. This result suggests that the small board size is more powerful for efficient monitoring and that reduce the agency problem. In this research we also get the thing that a statistically significant positive association between independent director and the net income. It indicates that independent directors could monitor the activities of the firm. The research also suggests that strong audit committee and the executive committee also has positive relationship with net income and it indicates these committees ensure credibility, reliability and acceptability. To attain long term viability and soundness in the organization, the organization must follow the best practices in corporate governance

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