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Board Size, Independent Director, Concentrated Ownership and Return on Asset an Analysis on Al-Arafah Islami Bank (AIBL)

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an Analysis on Al-Arafah Islami Bank (AIBL)

By

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ID: 0820014

An Internship Report Presented in Partial Fulfillment
Of the Requirements for the Degree Bachelor of Business Administration (BBA)

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Has been approved

April, 2012

Shawgat S. Kutubi
Lecturer, Finance
School of Business
Independent University, Bangladesh.

LETTER OF TRANSMITTAL

April 29th, 2012

To

Ms. Shawgat S. Kutubi

Lecturer of Finance,

Independent University, Bangladesh

Sub: **Submission of Internship Research Paper on Board Size, Independent Director, Concentrated Ownership and Return on Asset an analysis on Al-Arafah Islami Bank (AIBL)**

Dear Madam,

Here is my internship Research paper on .**Al-Arafah Islami Bank (AIBL)**. I am submitting this report as the part of my internship (BBA-499A) in **Al-Arafah Islami Bank (AIBL)**. While preparing this paper, I tried my level best to follow your directions and the instructions that have given to me by my organization supervisor.

The entire report is based on Changes in performance by board size, independent directorship and concentrated ownership. I have tried my level best to provide what I have learned during the internship program at Al-Arafah Islami Bank, Gulshan, Dhaka.

I shall be highly encouraged if you are kind enough to receive this report. If you have any further enquiry concerning any additional information, I would be very pleased to clarify that.

Thanking you.

Sincerely yours,

____

MD. Onyrul Anam

ID# 0820014

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Abstract

Purpose- The purpose of this paper is to provide a meaningful explanation of how performance vary with the concentrated ownership, independent directorship and board size. This topic also covers AIBL corporate governance.

Design/methodology/approach- By taking 5 years as a sample size of each variable, followed by the co-relational study and probability sampling show the real scenario of the firms corporate governance. By analyzing Descriptive statistics, perason co-relation, regression and Z-test all of the null hypothesis has been proved.

Findings - in the end the research show there is a relationship between the variables. Further analysis is possible in context of Bangladeshi banks. Though our law is weaker than the other developed country. A little flourish in the Corporate governance can minimize the agency cost and good for the small investors.

Keywords: Corporate governance, Return of Asset, Independent Directorship, concentrated ownership, Board Size. Al-Arafah Islami Bank Limited

1. Introduction

In the recent years issue of ownership structure and firm performance has been widely researched (Davies et al., 2005; Morck et al., 1988). Further, for a long time, it was a common view that ownership structures of corporations are diversified. However, research during the last decade has come to completely change this picture. In fact, looking at the ownership structure around the world, most firms have large shareholders, who in many cases are powerful enough to control firm decisions (La Porta et al., 1999). These shareholders are commonly referred to as controlling shareholders. An important group of controlling shareholders in particular is families. These shareholders might, for example, be the founders of the firms, their wife, husband, son, daughters or private investors.

The issue of ownership structure and firm performance has been widely researched (Davies et al., 2005; Morck et al., 1988). Further, for a long time, it was a common perception that ownership structures of corporations are diversified. However, research during the last decade has come to completely change this picture. In fact, looking at the ownership structure around the world, most firms have large shareholders, who in many cases are powerful enough to control firm decisions (La Porta et al., 1999). So this refers towards the family based shareholders they are the important group for the company.

Research in the field of family business has drawn significant attention in recent times indicating the growing recognition of the importance of family-controlled business in economic activity including their role in generating GDP, creating jobs and financing new ventures (Glassop and Waddell, 2005). For example, in United States and Latin America 80 per cent to 95 per cent and in Europe and Asia, about of business 80 per cent enterprises are family-owned and family-controlled (Poza, 2007). This has given me a good rapport on the family based organization which has developed a country and make contribution to the GDP. But this also arises the agency problem, because the larger the firm and more control over the shareholders and more distance with the managers.

Since Bangladesh is considered as the developing countries so it is obvious that everything in the country is not perfect and there is lag in the law enforcement so these is the advantage for the firm to make things regarding to their own interest. But there are some examples In the US, family firms tend to have higher valuations and profitability than nonfamily firms (McConaughy et al., 1998; Anderson and Reeb, 2003. Villalonga and Amit 2004) find that the US family premium is mainly due to founding family CEOs. (Anderson and Reeb 2003) show that the gains from family control start to taper off when the ownership stake exceeds about 30%. In contrast to family premiums, (Faccio et al. 2001) report that family control may harm minority shareholders in East Asian firms where transparency is low. Several researches have shown both the positive and negative relationship among the family based organizations and independent organization. Some of the research shown that in Asia is performing well by following family based organization, also they are blaming that this must be stop, but on the other hand when Europeans have risen they have solely followed family based firm structure and after that they have formed independent organizations (Benjamin Maury et al. 2005). So that’s indicating that we are in the era of economic development as the Europeans have developed their economic condition and it is not a bad thing to run an firms as family based until there is no conflict of interest is there.

So now I it is important to search how board size, independent directorship affects the firms performance and how corporate governance make a firm more ethically sound minded. This study may show diversified result. It may show strong relationship also it may be show negative relationship.

1.1 Corporate governance of AIBL

In August 2003, Bangladesh Enterprise Institute (BEI) invited a number of prominent individuals from the private sector, the government, NGOs and other relevant bodies to begin the process of formulating a Code of Corporate Governance for Bangladesh. Convening this Taskforce on Corporate Governance was an outcome of BEI's ongoing research and advocacy work on strengthening corporate governance in Bangladesh.

Members of the Taskforce provided essential guidance and direction to the development of the Code. In addition, distinguished guest experts invited to certain Taskforce meetings provided invaluable input and expertise on specific aspects and sections of the Code. Also, greatly appreciated for lending their valuable time and encouragement to the project are Dr. Fakhruddin Ahmed, Governor of the Bangladesh Bank, Mr. Muhammed Ali Rumee, Deputy Governor of Bangladesh Bank, and Dr. Mirza Azizul Islam, Chairman of the Securities and Exchange Commission, all of whom offered significant insight and comments to the Code.

The system used to direct and control a corporation is referred to as corporate governance. It defines the rights and responsibilities of the key corporate participants such as shareholders, board of directors, officers and managers, and other stakeholders, and the rules and procedures for making corporate decisions. It also typically specifies the structure through which the company sets objectives, develops plans for achieving them, and establishes procedures for monitoring performance.

Bangladesh has recognized the importance of corporate governance and is taking definite steps to improve its corporate governance performance. As such, implementation of a programme of corporate governance can make significant contributions to economic growth.

1.2 Present Status of AIBL Corporate governance

Good corporate governance system is vital for efficient and effective business operation, long-term stability, and sustainable growth for any organization. The corporate governance system in AIBL is designed to ensure transparency and accountability at all levels in doing business. It also ensures that duties and responsibilities are appropriately segregated between the board and management to provide sufficient check and balance and flexibility for smooth business operations with Islami Shariah. The board provides leadership and direction for the management, approves strategic and major policy decisions and oversees management to attain predetermined goals and objectives of the bank. Integrity and compliance throughout AIBL are encouraged by the board. The board also ensures that adequate internal control systems are in place and that it is consistently complied with to provide reasonable assurance that financial records are reliable for preparation of financial statements. The board further ensures that quality of financial reporting is maintained, assets of the bank are safeguarded against unauthorized use or disposition and accountability for assets and business transactions is maintained. On the other hand, AIBL has many things to improve regarding BRPD Circulars and in social side. The bank should increase emphasis on woman empowerment. There are no directors in the board. It is noticeable. And the bank should focus on the workability of transparency and stakeholders' rights. Bank should improve in risk management and lending.

Issues involving corporate governance principles include:

- ✓ Effective boardroom performance
- ✓ Control and regulation
- ✓ Executive leadership
- ✓ The role and contribution of external (non-executive) directors

- ✓ The growing importance of governance in the wake of ever-greater corporate scandals
- ✓ Redefinitions and reassessments of corporate governance models
- ✓ The role of business in society
- ✓ The changing nature of the relationship and responsibilities of the firm towards various stakeholders
- ✓ The incentives required to encourage more socially- and environmentally responsible corporate action
- ✓ The role and impact of local and international regulatory agencies and regimes on corporate behavior

Analyzing on Corporate Governance with Al-Arafah Islami Bank Limited I founded some facts to recommend. If these recommendations are followed well enough then this bank could follow Corporate Governance fully. And economy will better off from this governance.

- ✓ To become more shariah compliant.
- ✓ Thurst in SME investment.
- ✓ Support the huge investment in IT platform, branch and ATM network.
- ✓ Expand & diversify customer base.
- ✓ Efficient and productive resources and better risk management
- ✓ Woman empowerment is necessary
- ✓ Up-gradation of online banking.
- ✓ Development skill manpower through imparting training as part of CSR activities.
- ✓ Provide support to expand agricultural sector
- ✓ Sustainable growth with improved asset quality in corporate governance system.

2. Problem Statement

Previous research has been conducted based on family structure and board performance some of them are focused, based on Bangladeshi firms. But there are no researches in Islamic sharia based banks. The need of this research arises from the conflict of interest arises from the investors perspective and it changes the corporate structure. Also there are some limitations in finding out those facts because the primary data is not disclosed in the annual report so these remains the secret that who is holding the rights of voting and is the decision is fair or not in the stakeholders perspective.

The findings of (Imam and Malik. 2007) suggest that family dominance is very common in Bangladesh. They find that ownership in Bangladesh is largely concentrated in the hands of a few people and top shareholders belong mostly to controlling families. In most cases controlling families dominate the board and take important decisions. The boards for 73 per cent of the non-financial companies listed on the Dhaka Stock Exchange are dominated by close family members (Sobhan and Werner, 2003). Hence, there is a risk of expropriation of minority shareholders' wealth by families. Given that minority shareholders rely on corporate board to monitor and control family's opportunism, board characteristics of a firm is an important issue of internal governance mechanism especially for family firms in Bangladesh. Banks plays more vital role in shaping good economy and it also makes economy more efficient. In some empirical studies show that board size and performance are negatively related (Yermack, 1996; Eisenberg, Sundgren and Wells, 1998). However, (Kiel and Nicholson. 2003) find a statistically significant positive association between corporate board size and firm performance among the top Australian firms. Similarly, for US bank holding companies, board size and performance are found to be positively related (Adams and Mehran, 2003; Belkhir, 2005).

All these study and research were happen either in Bangladesh or in other countries, but none of the research conducted in Islamic sharia based banks. According the Central Bank of Bangladesh, more than 45% of the total financial institutions in the country have already gone over to the Sharia finance system and most of them are banks so these factors has put a focus in the area that family based banking system in the Islamic sharia based banking system can put some effect because the more the organization are moving towards the Islamic sharia based banking system it leads to the facts that people are moving towards to the Islamic sharia based banks. So these leads towards an investigation, how family based Islamic banks put an effect on the performance and whether these facts leads towards the positive or negative relation among the performance. Also similarly does independent directorship lead to better firm performance and how monitoring can solve the conflict of interest. Corporate governance is also important as board size and independent directorship; because by this firms are regulated and controlled and how it is increasing firm's performance. It is more or less internal factors of the firm.

Also SEC has imposed an act on 2010 that All sponsors or promoters and directors of a company listed with any stock exchange shall all time jointly hold minimum 30% shares of the paid-up capital of the company. The sponsors or promoters and directors holding less than 30% shares shall acquire the rest amount within 6 (six) months of issuance of that Notification. So this has lead towards the research more clearly that how directors have hold their shares and did they buy back their share and what was the impact on the performance after buying back their share.

In my next section of this paper is structured as follows on my 3rd section briefly examines the literature that applies a development of 3 null hypothesis which shows relationship among the ownership and performance. On the 4th section the demonstration of methodology and data. Section 5 describe analysis of data and the output from the data. Finally, Section 6 provides the conclusions of the paper.

3. Literature Review

3.1 Theoretical Background and Development of Hypotheses

3.1.1 Board Size and performance

Dalton et al. (1999) described that board size is a significant determinant of effective corporate governance mechanism. Board size is important as its size is a function of the costs and benefits involved with the board functioning. While inclusion of more directors increases the boards monitoring capacity, the incremental cost of poor communication and decision making associated with larger groups may outweigh the benefits. Accordingly, (Lipton and Lorsch 1992) argue that a larger board may face poor coordination due to the large number of potential interactions among group members and free riding problem. They recommend limiting the board member to a maximum of ten people, with a preferred size of eight to nine. Similarly, (Jensen 1993) argues that larger boards can be less effective and are easier for the CEOs to control when board composed of more than seven to eight people. The empirical evidence supports this contention by showing an inverse relation between board size and firms performance (Yermack, 1996).

Some other research studies find a negative relation between board size and measures of firm performance (Hermalin and Weisbach, 2003, p.8). (Lipton and Lorsch 1992) and (Jensen 1993) argue that large boards are generally less efficient than smaller ones. A small board of directors can effectively controls, protects the interests of all stakeholders, aligns the decisions between directors and managers of the firm and reduces agency costs between board members. These authors add that it is difficult for large boards to organize meetings, to reach consensus and to quickly react because of the costs of communication and coordination.

There is some other factors which has create an argument that board size and performance are negatively related with each other, (Yermack 1996) was the first to study the correlation between board's size and firm performance measured by Tobin's Q on a sample of 452 U.S. firms over the period going from 1984 to 1991. So, he concludes that there is a statistically significant relationship between board of directors' size and performance. In this regard, the board of directors' size was proved to be negatively associated with companies' profitability. So here all those research shows that, board size and performance are related to the each other because board size may put an impact in the bank's performance, because as said above the smaller the board size the more efficient. But on the other hand other researchers have found that there is no relation in the board size and the firms performance and the researchers also indicate that the board directors' size is negatively related to performance.

So from the above findings and the previous document and mixed evidence I therefore, hypothesize

H0: There can be a significant relation between the size of the board and performance in banking firms.

3.1.2 Independent directorship and Performance

There have been some mixed evidence about the independent directorship and firms performance. According to the (Andres et al., 2005) argued that a higher proportion of independent directors should lead to better firm performance since it reduces the conflict of interests between controlling shareholders and minority shareholders and makes management more effective through better monitoring. Indeed, (Fama 1980) and (Fama and Jensen 1983) argue that independent directors have more incentives to protect shareholders interest because they consider that maintaining their reputation in the market for outside directorships to be important. This reputation argument is also supported by (Farrell and Whidbee 2000). However, the empirical findings on board independence and firm performance have been mixed. Significantly, independent directors are viewed as people who can provide a better quality and assurance of reasoned corporate judgment (Ferris, Jagannathan & Pritchard 2003). Whilst managers, who have to face the pressures of day-to-day events, may overlook some of the decisions made and/or avoid making risky choices (Firstenberg & Malkiel 1980). Similarly, having general wisdom alone is not sufficient for independent directors to contribute productively. They need to be competent and capable of understanding the firm's business operations (Gupta, Otley & Young 2008; Lessing 2009; Delgado-García, de Quevedo-Puente & de la Fuente-Sabaté 2010).

On some other studies shows that, Prior studies show that independent/outside directors protect shareholders' interest in specific instances – such as reducing the possibility of a hostile takeover (Shivdasani, 1993) or providing more return to the target firms (Cotter, Shivdasani and Zenner, 1997). Others find no relationship or even a negative relationship between independent directors and firm performance (Hermalin and Weisbach, 1991; Bhagat and Black, 1999; Kiel and

Nicholson, 2003; Agrawal and Knoeber, 1996). (Dehaene, Vuyst and Ooghe, 2001) suggest that firms with more outside directors perform better. Nevertheless, they fail to find any consistent significant relationship between outsiders and firm performance. This diversity of findings may be attributed to the endogeneity problems with the selected variables, such as reverse causality (Kole, 1997). So they argue that independent directors can mitigate conflicts between controlling shareholders and minority shareholders through better monitoring in family firms. Also according to (Anderson and Reeb, 2004) on some non-US studies, on the other hand, suggest that board independence do not have any significant impact on performance of family firms which is in contrast to the findings. So based on these arguments, our second testable hypothesis is developed as follows

H0: There can be a significant relation between the board independence and firm performance.

3.1.3 Concentrated ownership and performance.

Corporate ownership structures around the world are very diverse but there seem to be two distinct groups (La Porta et al., 1999). In the Anglo-Saxon (British) countries, majority of the shares are widely held or diffuse, whereas in continental Europe shares tend to be concentrated in the hands of a few large shareholders. When ownership is diffuse, agency problems stem from conflicts of interest between managers and shareholders (Jensen and Meckling, 1976; Roe, 1994). As ownership concentration increases to a level where an owner obtains effective control of the firm, the nature of agency problems shifts away from the manager-shareholder conflicts to conflicts between the controlling owner and minority shareholders (Shleifer and Vishny, 1997).

(La Porta et al. 2000) defines corporate governance as a set of mechanisms through which outside investors protect themselves against expropriation by corporate insiders. Among a variety of governance devices suggested in the literature to minimize agency costs and correspondingly increase performance under the condition of market imperfection and/or incomplete nature of contracts, ownership concentration is considered to be a key one. (La Porta et al. 1999) surveys corporate ownership around the world and find that many listed firms in countries other than the US and the UK have a controlling shareholder owning more than 20% or

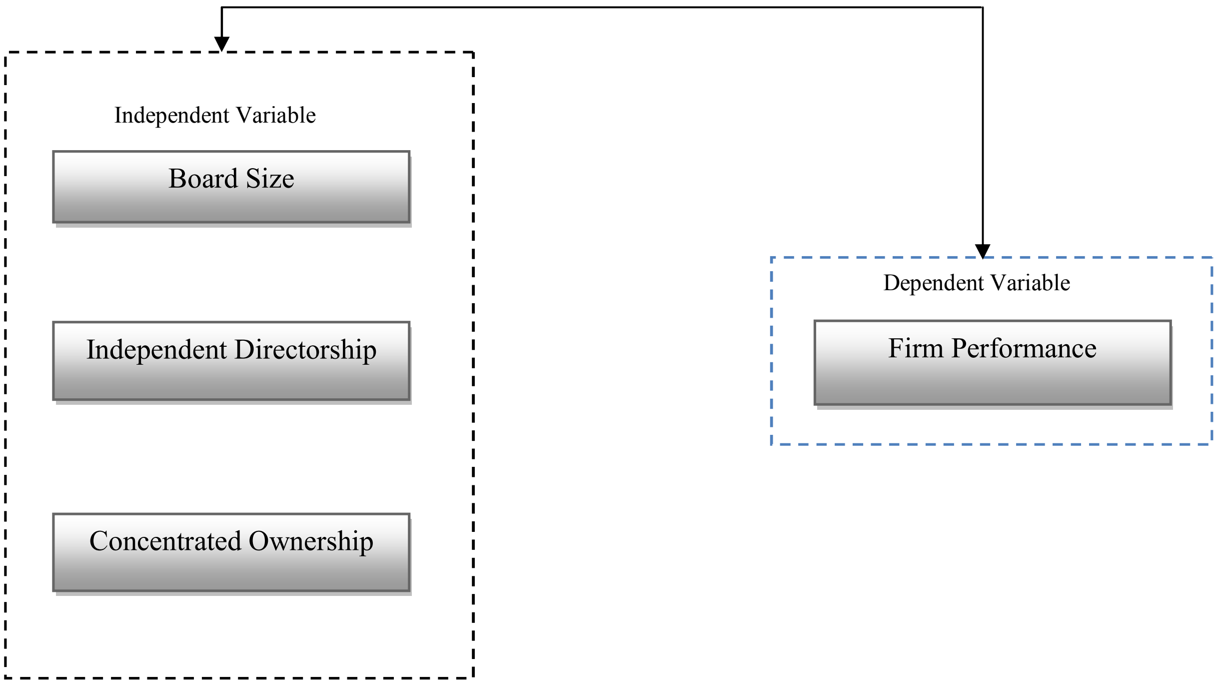
30% of firm's outstanding shares. According to them, heavily concentrated shareholdings and a predominance of controlling ownership seems to be the norm of corporate governance around the world. They argue that a large shareholding may be an alternative means of reducing agency costs. Concentration is possible in the hands of founder, family, promoters, board, management or institutional investors and other corporate firms. Concentrated owners (measured by primary shareholder(s) - top-1, top-5, top-10 or top-20 shareholders' shareholdings or a Herfindahl index) may have an active or passive role in the managerial decision making process. A concentrated ownership may have two mutually exclusive effects: as a controlling shareholder may (i) have more incentive and power to monitor management, therefore reducing agency costs or (ii) abuse the power to benefit themselves at the expense of minority shareholders, especially when there is divergence between voting rights and cash-flow rights (La Porta et al. 1999).

The primary benefit of ownership concentration by outsiders is that the large shareholder gainsthe power and incentive to monitor the actions of the manager (Shleifer and Vishny, 1997). An offsetting cost is that, at some point, the outside shareholder himself gains enough power to pursue personal objectives that may not coincide with the objectives of minority shareholders.

The expected performance effect of ownership concentration is thus unclear in the agency literature and there appears to exist a trade-off between the costs and benefits of concentrated ownership. Therefore, ownership concentration and performance relationship can only be clarified empirically in light of efficient monitoring (for outsider) or convergence-of-interest (for insider) and conflict-of-interest (for insider) or strategic-alignment (for outsider) hypotheses. So based on these arguments, our second testable hypothesis is developed as follows

H0: There can be a significant relation between the concentrated ownership and firm performance.

3.2 Research Framework



4.0 Methodology

4.1 Type of Research

In this research the board objective is to find out whether there is any relationship between the firms performance and BS, ID,CO. this research is more or less theoretical based but variables can be measure throughout the secondary data. The study applied co-relational research. Cor-relational studies are used to look for relationships between variables. There are three possible results of a cor-relational study: a positive correlation, a negative correlation, and no correlation.

4.2 Sampling Plan

A sampling plan is a detailed outline of which measurements will be taken at what times, on which material, in what manner, and by whom. Sampling plans designed in such a way that the resulting data will contain a representative sample of the parameters of interest and allow for all questions, as stated in the goals, to be answered. In the subsequent section sampling plan is showed.

4.3 Target Population

The dataset covers the only Al-Arafah Islamic Bank over the five year period 2006-2010. Five years data has selected for getting more reliable results from the data analysis. Return on Asset illustrate the firm performance and other independent variables shows is there is any relationship among them and how the firm is performing based on those dependent variable. The process of measure quantitative research because it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationships.

AIBL is DSE stock listed bank for that, Most of the data collected from the Audited Annual report, which is secondary data. Return on asset given in the annual report. The core purpose ogf the research is to find out there is any relationship between the ROA with BS, ID, CO

ROA taken form the annual report and other variables calculated and putted into the data sheet directly and on the analysis part used both SPSS and Microsoft Excel 2010. Board size (BS) is given in the annual report as Board of directors and independent directorship (ID) has been calculated according to the board size where board size is bigger the independence in the independent directorship is less. So this percentage on the independent directorship has plotted based on the Board size. So the bigger the Board size the less interferences in the independent directorship. Concentrated ownership (CO) calculated by number of directors are holding shares divided by the total number of shares outstanding.

4.4 Formulation of Data

The formula is used to calculate Independent directorship and Concentrated Ownership. The figures are shown in the percentage.

Independent directorship = $\frac{\text{Independent Director}}{Board\ Size} \text{ x } 100$

Concentrated Ownership = $\frac{Shares\ holding\ by\ Board\ of\ direcItors\ of\ year\ X}{Total\ no\ of\ shares\ outstanding}$

The core of the methodology is to show that, is there any relationship between the independent variable and the dependent variable or not by using descriptive statistics, correlation, covariance, regression. So this has been shown in the Data analysis part based on the null hypothesis on the literature review, which is in the next part

5.0 Data Analysis

The following model is used to test Hypotheses *H1, H2 and H3* to study the relationship analysis of bank board size, Independent director, ownership concentration and performance.

$$\{Performance\ (ROA)\} = \{\alpha + \beta 1\ (BS) + \ \beta 2\ (ID) + \ \beta 3\ (CO)$$

Where performance is represented by return on asset and α is 0.05. Following prior studies (such as (Belkhir, 2004), and (Adams and Mehran, 2005) measures of bank return on average total assets (ROA) are used in our study. ROA is computed as the ratio of earnings before interest and taxes to the average total asset as at the end of each year. In the data analysis part, to show the relationship Correlation, covariance, ANOVA, T-test, z-Test: Two Sample for Means used for showing the relationship among independent variable and dependent variable and to prove the hypothesis.

This is the main data which is used in the research for analysis as discussed in the previous methodology chapter. Except the board size all of the data is in percentage form. Board size and ROA is given in the annual report directly

5.1 Descriptive Statistics analysis

In the descriptive statistics mean is the average figure of the data which is total sum of the data divided by no of data so here mean for the ROA is (1.8740), BS (16.6) , ID (20.00) and CO (1.82160). The standard is showing what is the possibility of making distance in each variables. Median show the medium values of that data and it is shown in the table accordingly. Mode is shown which value in the data have occurs most frequently.

How distance the data is and to measure the risk standard deviation is used. It means the standard deviation is a numerical value used to indicate how widely individuals in a group vary. If individual observations vary greatly from the group mean, the standard deviation is big; and vice versa, so apart from the ROA and CO. BS and ID is higher in the standard deviation. Square root the variance is standard deviation. Skewness is showing is there is any possibility to go into the right side or lest side and kurtosis is showing what the possibility of changing each variable.

5.2 Correlations analysis

In the correlation shows is there is any relationship between the variables or not. Correlation analysis will allow identifying the relationship among the measured variables. A two-tailed of statistical significance at one level of highly significant ($p < .01$) pearson correlation was conducted for this purpose there are some conditions in the Correlations analysis

So on the correlation ROA is positively related with BS, ID and negatively related with CO. also on 2nd variable BS is positively related with ROA and BS is negatively related with ID and CO. on 3rd variable ID is negatively related with the BS and ID positively related with the CO. 4th variable is CO is negatively related with ID, BS, CO.

Also by the data the relationship can be shown when board size is big the ROA is 2.20%. also when BS is 14 ROA is 1.15%. when BS is 13 ROA has increased by 1.80 but as the pattern ROA should be less than 1.15% but it is not so this is negatively related. So by using main data Correlation can be shown.

5.3 Regression analysis

In the SPSS linear regression The coefficient of determination is 0.932; therefore, about 93.2% of the variation in data is explained by BS, ID, CO. The regression equation appears to be very useful for making predictions since the value of R Square is close to 1. Std error is 25.764% is the possibility of having error. In the ANOVA table $\alpha = 0.05$ and Reject the null hypothesis if p-value ≤ 0.05. so here p-value≥ 0.05 which is 0.161 so there is a relationship between ROA with BS, ID and CO. also in the coefficients table BS, ID, CO sig. is showing p-value≥ 0.05 so in there also null hypothesis is proved that, there is relationship between ROA and CO, ID, BS.

So At the $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that the slope of the population regression line is not zero and, hence, that ID, CO, BS is useful as a predictor of ROA.

5.4 z-Test: Two Sample for Means

Here all the $P(Z<=z)$ two-tail value is p value > $\alpha = 0.05$ (1.57652E-14> 0.05) so accept null hypothesis.

So by the data analysis proves that, there is a positive relationship between the firms ROA with BS, IS, CO and by analyzing the data concludes that though there is some negative correlation between the variable. But the beta and the equation is showing positive in null hypothesis that they are connected with each other.

Further data can be analyzed by using same equation. Instead of ROA , ROE can be used to measure the performance with those dependent variable.

6.0 Conclusion

This paper shows Board size, Independent directorship and concentrated ownership is equally important for measuring firms performance. Small board size is more preferable for the Independent directorship, so that every ones decision is more preferable for the firms. Also in the research has highlighted some other factors that has came up after taking the main data for the data analysis that. Though the firm board size is getting smaller and smaller the ROA is fluctuating and also Independent directorship is increasing and also the important factor is board of directors is all over holding less than 5%, but they are board of directors. Also while analyzing board of directors shares. They are increasing their shares but gradually.

The specific nature and the key role of banks in the economy justify the necessity of bank governance. Bank board characteristics play a central role in high-quality bank governance. This paper investigates whether board characteristics relate to bank performance and bank risk taking behavior of AIBL. Here in the AIBL ROA with BS, ID and CO has some vise versa relationship.

If the BS increased Independent directorship is less significant but ROA is showing some interesting results that in some cases ROA has increased , even BS is increased but this should be decreased. As the previous year pattern. BOD is still holding minimum no. of shares but they are in the directorship, so there is less in the ownership concentration. Though all of the directors are independent but as the board size changes Independent directorship changes and also concentrated ownership is still minimum they are holding less than 5% but they are BOD.

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First of all I would like to thank our honorable supervisor Miss. Shawgat S. Kutubi, without her help and proper guideline the research would not be possible. Then I would like to thanks Rubel Ahmed, he helped me a lot to analyzing the data. Last but not the least Rafiqul islam (DMD) and Shariful Islam (Executive officer) of AIBL. Their information helped me a lot to form a genuine research. Throughout this research i have learned a lot and the experience i have gathered is a life time opportunity for me.

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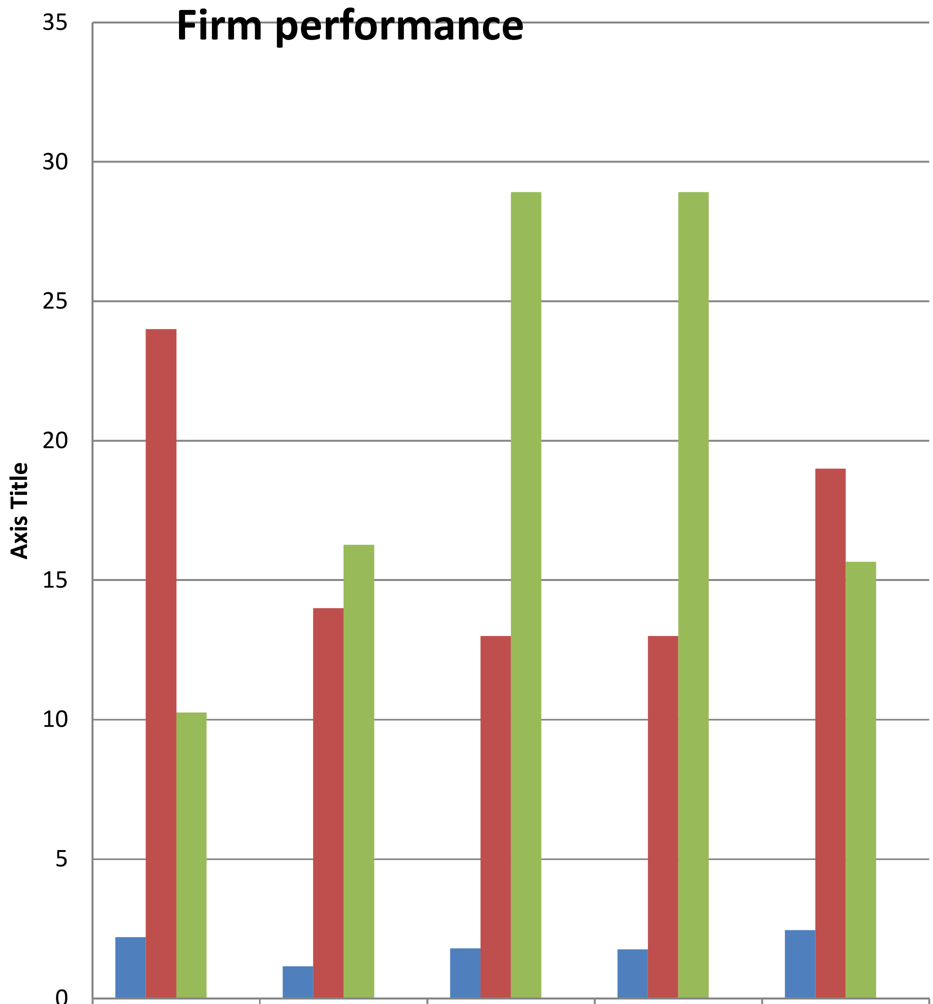
Appendix

A 1:



	2006	2007	2008	2009	2010
Return on Asset %	2.2	1.15	1.8	1.77	2.45
Board size	24	14	13	13	19
Independent directorship	10.26	16.26	28.91	28.91	15.66
Concentrated ownership	0.417%	2.399%	2.153%	1.790%	2.349%

A 2:

5 year financial highlights

Particulars	2006	2007	2008	2009	2010	Growth%
Income Statement						
Investment Income	1,701.40	2,243.15	3,456.34	4,004.54	4,143.30	3.47
Profit paid on Deposit	819.71	1,628.63	2,220.47	2,667.34	3,133.69	17.48
Net Investment Income	881.69	614.52	1,235.87	1,337.20	1,009.61	(24.50)
Non Investment Income	471.09	712.46	936.81	1,301.10	3,378.95	159.70
Non Investment Expenses	383.00	570.80	644.59	908.47	1,328.61	46.25
Net Non Investment Income	88.09	141.66	292.22	392.63	2,050.34	422.21
Profit Before Tax & Provision	969.78	756.18	1,528.09	1,729.83	3,059.95	76.89
Provision For Investment	114.30	173.34	269.20	140.59	370.80	163.75
Profit Before Tax	855.48	582.84	1,258.89	1,589.24	2,689.15	69.21
Provision For Tax (including Deferred Tax)	385.45	235.53	590.66	730.25	873.01	19.55
Profit After Tax	470.03	347.31	668.23	858.99	1,816.14	111.43
Balance Sheet						
Authorized Capital	2,500.00	2,500.00	2,500.00	5,000.00	5,000.00	0.00
Paid up Capital	854.20	1,153.18	1,383.81	1,798.95	4,677.28	160.00
Reserve Funds & Other Reserve	536.00	653.00	905.33	1,223.18	1,746.42	42.78
Shareholders' Equity (Capital & Reserve)	1,690.18	2,037.50	2,705.74	3,564.73	9,647.45	170.64
Deposits	16,775.34	23,009.13	29,690.12	38,355.50	52,973.97	38.11
Investment	17,423.19	22,906.37	27,742.57	36,134.08	53,582.96	48.29
Investment in Shares & Securities	2.00	868.58	1,090.23	1,502.00	2,178.83	45.06
Fixed Assets	215.10	334.48	396.76	466.30	655.39	40.55
Total Assets (Excluding off-balance sheet items)	21,368.16	30,182.32	37,177.22	48,515.79	74,005.01	52.54
Foreign Exchange Business						
Import Business	18,821.40	27,042.72	32,685.13	34,074.80	55,934.10	64.15
Export Business	9,142.70	12,714.91	20,176.64	23,546.10	32,042.40	36.08
Guarantee Business	520.15	601.88	784.49	2,841.32	3,081.15	8.44
Inward Foreign Remittance	1,346.54	1 ,843.94	2,672.04	2,832.28	4,431.90	56.48
Capital Measures						
Core Capital (Tier-I)	1,623.52	1,970.84	2,639.08	3,498.07	9,582.85	173.95
Supplementary Capital (Tier-II)	207.13	274.29	410.26	567.89	929.96	63.76
Tier-I Capital Ratio	9.50	9.59	9.70	9.68	13.21	36.47
Tier-II Capital Ratio	1.21	1.33	1.51	1.57	1.28	(18.47)
Total Capital	1,830.65	2,245.13	3,049.34	4,065.96	10,512.81	158.56
Total Capital Ratio	10.71	10.92	11.21	11.25	14.49	28.80
Investment Quality						
Volume of Non-Performing investment	569.03	854.41	817.90	608.14	610.48	0.38
% of NPIs to Total investment	3.68	3.72	2.75	1.68	1.14	(32.14)
Provision for Unclassified investment	1 72.78	220.48	298.09	409.19	666.95	62.99
Provision for Classified investment	122.75	246.48	329.78	173.13	137.58	(20.53)
Provision for Off Balance sheet Exposures	-	19.45	77.80	124.35	230.71	85.53
Share Information						
Number of Shares Outstanding	8,542,040	11,531,754	13,838,104	17,989,536	467,727,936	2,500.00
Earning per Share (Taka)	5.50	2.51	3.72	2.00	4.14	107.00
Book Value per Share (Taka)	23.26	19.67	19.55	19.82	16.47	(16.89)
Market Price per Share (Taka)	24.20	44.00	44.40	53.63	66.88	24.72
Price Earning Ratio (Times)	4.89	14.62	9.53	11.23	13.24	17.90
Price Equity Ratio (Times)	1.04	2.24	2.27	2.71	4.06	50.06
Dividend per Share						
Cash Dividend (%)	-	-	-	-	-	-
Bonus Share	35	20	30	30	26	(13.33)
Operating Performance Ratio						
Net Profit Margin%	6.81	3.69	4.87	4.11	1.82	(99.56)
Credit /Deposit Ratio (CDR)	103.86	99.55	93.44	94.2	93.43	(0.83)
Return on Equity (ROE)%	27.81	17.05	24.70	24.10	18.83	(21.88)
Return on Assets (ROA)%	2.20	1.15	1.80	1.77	2.45	38.61
Cost of fund %	9.11	10.99	10.46	11.08	9.72	(12.27)
Cost /Income ratio in operating business (%)	55.36	74.52	65.17	67.40	59.32	(11.99)
Other Information						
Number of Branches	46	46	50	60	78	30
Number of Employees	912	1,033	1,080	1,296	1,711	32.02
Number of Shareholders	4,487	12,013	10,664	11,382	49,386	333.90

A 3: descriptions of variables

ROA-Return on Assets

ID- Independance in directorship

BS-Board size

CO-Concentrated ownership

BOD-Board of directors

A 4:

Status of compliance of corporate Governance

Status of compliance with the condition imposed by the commission's notification no.sec/cmrrcd/2006 158/admin/ 02-08 dated 20th February 2006 issued under section 2cc of the securities and exchange ordinance, 1969.

no. Condition	**Title**	**Compliance status (put in the appropriate column)**		**Explanation for non-compliance with the condition**
		Yes	No	
1.1	Board's size	Yes		
1.2 (i)	Number of independent director	Yes		
1.2 (ii)	Appointment of independent director	Yes		
1.3	Chairman of the Board and CEO	Yes		
1.4 (a)	FS presents fairly its state of affairs, result of its operation, cash flows & changes in equity.	Yes		
1.4 (b)	Proper books and accounts maintained	Yes		
1.4 (c)	Appropriate accounting policies consistently applied in FS preparation and accounting estimates are based on reasonable & prudent judgment	Yes		

1.4 (d)	International accounting standards as applicable in Bangladesh followed in financial statements preparation & any departure adequately disclosed.	Yes		
1.4 (e)	The system of internal control is found in design and effectively implemented and monitored	Yes		
1.4 (f)	No significant doubt upon its ability to continue as a going concern	Yes		
1.4 (g)	Significant deviation from last year in operating result.	Yes		
1.4 (h)	Key operating and financial data of at least preceding three years	Yes		
1.4 (i)	If the company has not declared dividend	Yes		
1.4 (j)	Number of Board meeting	Yes		
1.4 (k)	Pattern of shareholding	Yes		
2.1	Appointment of CFO, Head of Internal audit & company secretary.	Yes		
2.2	Requirement to attend Board meeting	Yes		
3.1	Constitution on Audit committee	Yes		
3.1 (i)	Number of member of Audit committee	Yes		
3.1 (ii)	Inclusion of independent director in the audit committee	Yes		
3.1 (iii)	Fill in the casual vacancy in audit committee	Yes		
3.2 (i)	Selection of the Chairman of audit committee	Yes		
3.2 (ii)	Qualification of the chairman of audit committee	Yes		
3.3.1(i)	Report by the audit committee on its activities to the board of directors	Yes		

3.3.1 (ii)	Report to the board by the audit committee on:	Yes		
3.3.1 (ii)	(a)Conflicts on interests	Yes		
3.3.1 (ii)	(b)Suspected or presumed fraud or irregularities or material defect in the internal control system.	Yes		
3.3.1 (ii)	(c)Suspected infringement of laws	Yes		
3.3.1 (ii)	(d)Any other matter	Yes		
3.3.2	Reporting to the regulators by the audit committee	Yes		
3.4	Reporting to the shareholders and general investors	Yes		
4.00	Statutory auditors not engaged in:	Yes		
4.00(i)	Appraisal or valuation services or fairness opinions.	Yes		
4.00 (ii)	Financial information system design and implementation	Yes		
4.00 (iii)	Book-keeping or other services related to the accounting records or financial statement	Yes		
4.00 (iv)	Broker -dealer services	Yes		
4.00(v)	Actuarial services	Yes		
4.00 (vi)	Internal audit services	Yes		
4.00(vii)	Any other services that the audit committee determines.	Yes		

A 5:

BRPD Rules followed by Al-Arafah Islami banks

Next section only focus on the BRDP circulars of Bangladesh Bank. These circulars are like Bible of Banks. Banks must follow these circulars. With this ongoing analysis of AIBL's Corporate Governance, here I mention some Circular aspects and analyze the AIBL's sincerity of following these:

1. The bank shall determine the objectives and goals and chalk out strategies and work plans on annual basis.

   AIBL is following this aspect and published it in Annual Report.

2. Lending and risk management should be in proper process.

   This bank still has to improve in this side.

3. The board shall be vigilant on the internal control system of the bank in order to attain and maintain satisfactory qualitative standard of its loan/investment portfolio.

   The bank has strong internal control but it should follow the audit committee's report more efficiently.

4. Policies relating to recruitment, promotion, transfer, disciplinary and punitive measures, human resources development etc. and service rules shall be framed and approved by the board.

   Only policies should be made by the board and CEO would take decisions. This bank tries to balance in this issue.

5. The annual budget and the statutory financial statements shall finally be prepared with the approval of the board.

   This is well followed by AIBL

6. There shall be no committee or sub-committee of the board other that the executive committee and the audit committee. No alternate director shall be included in these committees.

   AIBL has two sub committees: Executive Committee and Audit Committee as the Circular said.It also have another committee which is Shariah Council.

7. The board shall appoint a competent CEO for the bank with the approval of the Bangladesh Bank.

   This bank appointed CEO with the permission of Bangladesh Bank.

8. In terms of the financial, business and administrative authorities vested upon him by the board, the CEO shall discharge his own responsibilities.

   It is a order from Bangladesh Bank and AIBL's CEO discharge his responsibilities.

9. The recruitment and promotion of all staff of the bank except those in the two tiers below him shall rest on the CEO.

   This is well followed by AIBL The bored or the chairman of any committee of the board or any director shall not get involved or interfere into such affairs.

10. Man and woman should work parallel. But in the board there are no woman directors. It was found from the board and committees members' name.

    AIBL should focus on this more.

A 6: Tables

Table 1: Main data

Year	Return on Asset %	Board size	Independent directorship%	Concentrated ownership%
2006	2.20%	24	4.17%	0.417%
2007	1.15%	14	7.14%	2.399%
2008	1.80%	13	7.69%	2.153%
2009	1.77%	13	7.96%	1.790%
2010	2.45%	19	10.52%	2.349%

Table 2: Descriptive Statistics analysis

Statistics

		ROA	BS	ID	CO
N	Valid	5	5	5	5
	Missing	0	0	0	0
Mean		1.8740	16.6000	7.4412	1.82156
Std. Error of Mean		.22119	2.15870	1.01046	.367102
Median		1.8000	14.0000	7.6900	2.15278
Mode		1.15[a]	13.00	7.69	.417[a]
Std. Deviation		.49460	4.82701	2.25945	.820866
Variance		.245	23.300	5.105	.674
Skewness		-.535	1.142	-.215	-1.805
Std. Error of Skewness		.913	.913	.913	.913
Kurtosis		.277	-.141	1.829	3.269
Std. Error of Kurtosis		2.000	2.000	2.000	2.000
Range		1.30	11.00	6.35	1.983
Minimum		1.15	13.00	4.17	.417
Maximum		2.45	24.00	10.52	2.399
Sum		9.37	83.00	37.21	9.108

a. Multiple modes exist. The smallest value is shown

Table 3 Correlations analysis

Correlations

		ROA	BS	ID	CO
ROA	Pearson Correlation	1	.662	.197	-.366
	Sig. (2-tailed)		.224	.751	.545
	N	5	5	5	5
BS	Pearson Correlation	.662	1	-.409	-.739
	Sig. (2-tailed)	.224		.494	.154
	N	5	5	5	5
ID	Pearson Correlation	.197	-.409	1	.825
	Sig. (2-tailed)	.751	.494		.085
	N	5	5	5	5
CO	Pearson Correlation	-.366	-.739	.825	1
	Sig. (2-tailed)	.545	.154	.085	
	N	5	5	5	5

Strength of relationship

0.0-0.2 = very week

0.2-0.4 = weak

0.04-0.07 = moderate

0.07-0.09 = Strong

0.9-0.1 = very strong

And * = $p<0.05$ (95% significance and 5% error)

**= $P< 0.01$ (99% significance and 1% error)

*** = $P<.001$ (99.99% significance and 0.01% error)

Table 4 Regression analysis

Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	CO, BS, ID[a]	.	Enter

a. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.965[a]	.932	.729	.25764	.932	4.580	3	1	.328

a. Predictors: (Constant), CO, BS, ID

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.912	3	.304	4.580	.328[a]
	Residual	.066	1	.066		
	Total	.979	4			

a. Predictors: (Constant), CO, BS, ID

b. Dependent Variable: ROA

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.658	1.040		.632	.641
	BS	.024	.047	.237	.520	.695
	ID	.310	.119	1.415	2.607	.233
	CO	-.819	.443	-1.359	-1.849	.316

a. Dependent Variable: ROA

Table 5 z-Test: Two Sample for Means

	ROA	***BS***	***ROA***	***ID***	***ROA***	***CO***
Mean	0.01874	16.6	0.01874	0.2	0.01874	0.018216
Known Variance	0.000024463	23.3	0.000024463	0.007162	0.000024463	0.007162
Observations	5	5	5	5	5	5
Hypothesized Mean Difference	0		0		0	
z	7.681116337		4.781117102		0.013831856	
P(Z<=z) one-tail	7.88258E-15		8.71619E-07		0.494482064	
z Critical one-tail	1.644853627		1.644853627		1.644853627	
P(Z<=z) two-tail	1.57652E-14		1.74324E-06		0.988964127	
z Critical two-tail	1.959963985		1.959963985		1.959963985	