

Does Corporate Governance Quality Influence Bank Debt Financing? Evidence from Bangladesh

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Abstract

Corporate governance quality plays a crucial role in managing debt financing. The objective of this study is to examine the impact of corporate governance quality on debt financing. The study uses balanced panel data from 10 banks covering the period from 2015 to 2024. The data were collected from the Dhaka Stock Exchange (DSE). An Ordinary Least Squares (OLS) regression model is employed to estimate the relationship between the dependent and independent variables. The finding shows corporate governance quality impact debt financing. Board size, audit committee size, board independence, and firm size, positive impact debt financing while board meeting, board remuneration, annual general meetings, and current ratio negatively impacts debt financing. Despite the fact that, the firms of Bangladesh mainly followed with a good corporate governance style if compared with developing countries, the results still recommend further improvement for the firms in both countries in order to improve the financial position. Future research should concentrate on overlooked corporate governance metrics that could have an impact on debt financing. Additionally, it is advised to concentrate on financial companies and compare them to banks

Keywords: Corporate Governance Quality, Debt Financing, Board Characteristics, Banks, Bangladesh.

1. INTRODUCTION

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Corporate governance is the structure of rules, practices and processes by which a company is directed and controlled. Corporate governance refers to the method in which companies are governed and to what purpose. It identifies who has power and accountability, and who makes decisions. Examples of corporate governance in action include a board of directors discussing the potential risks and rewards associated with a decision, such as an acquisition or merger, or conducting employee assessments (Adel et al., 2019). It is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholder's role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The general responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their assigned responsibilities.

Good governance can have a wider impact on the non-listed sector because it is fundamentally about improving transparency and accountability within existing systems. One of the interesting developments in the last few years has been the way in which the corporate governance label has been used to describe governance and accountability issues beyond the corporate sector (Ullah et al., 2025; Ullah, 2024). Corporate governance plays a major role in macroeconomic stability and provides the appropriate environment for economic growth as well as society welfare (Ali, & Ahmed, 2021). Good corporate governance practices are important in reducing risks for investors, attracting investment capital and enhancing performance of firms (Elamer et al., 2020). Several attributes such as investor confidence, improving creditworthiness, lowering the cost of borrowing, effective oversight by the management and risk management are enhanced by quality corporate governance. Conversely, weak governance mechanisms may lead to poor debt management, increased financing costs and financial instability (AlHares, 2020). Understanding the relationship between corporate governance quality and debt financing is, therefore, essential for strengthening financial stability and promoting sustainable growth in the banking sector of Bangladesh.

Corporate governance plays a crucial role in ensuring transparency, accountability and efficiency within financial institutions, particularly in the banking sector (Granado-Peiró, & López-Gracia, 2017; Cadbury, 2024). In Bangladesh, the banking industry significantly influences economic growth by mobilizing savings and channeling funds into productive investments. Sound corporate governance practices not only enhance transparency and accountability but also build trust among lenders, thereby improving access to debt capital at favorable terms. Financial stability and sustainable growth are influenced by corporate governance, especially in the banking sector (Ullah et al., 2024; Nor et al., 2022). Banks play

a central role in the economy by mobilizing savings and channeling funds into productive investments. However, weak governance structures can lead to excessive risk-taking, poor debt management and ultimately financial crises. In Bangladesh, the banking sector has often been criticized for governance-related weaknesses, including lack of transparency, inadequate accountability, insider lending, political influence and weak monitoring mechanisms. These deficiencies not only erode investor confidence but also affect the banks' ability to secure and manage debt financing effectively. The main objective of the study is to evaluate the impact of corporate governance quality on debt financing of banking sector in Bangladesh. By examining this relationship in the Bangladeshi context, the study provides valuable insights into how governance mechanisms can influence financing opportunities in a developing economy with weak regulatory enforcement, concentrated ownership, and evolving capital markets.

2. LITERATURE REVIEW

2.1 Theoretical Underpinning

Agency theory

Agency theory was the theoretical foundation for debt finance (Mehran, 2024). According to Ali and Ahmed (2021), and Alam and Chouaibi (2022), agency theory is thought to be one of the most crucial concepts in figuring out the interaction between the firm's management (agents) and shareholders (principals). It can also be used to show how governance and debt finance are related (Jensen & Meckling, 1976). Agency theory states that conflicts of interest result in agency costs that affect debt financing decisions (Agyei & Owusu, 2024; Harris & Raviv, 1991). The classic agency conflict occurs when managers, directors, and owners all have competing interests (Alfaraih et al., 2022). When making decisions, managers must also consider the interests of shareholders (Feng et al., 2020). However, agents may disregard the interests of principals, resulting in an issue known as agency cost (Jensen & Meckling, 1976; Sheikh & Wang, 2022). According to Gyimah et al. (2021), firm debt strategy is often seen as an essential corporate governance tool for minimising agency problems between agents and principals. By reducing free cash flow, debt financing can reduce agency conflict (Jensen, 1986), but it also increases the probability of bankruptcy (Haque et al., 2021). Larger investors therefore have the chance to collect information and keep a careful watch on the management (Jensen & Meckling, 1976).

Pecking order theory

Pecking order theory was devised by Myers and Majluf (1984), who suggested that commercial organisations will first rely on internal finances, such as non-distributed income.

In the absence of asymmetric knowledge and the need for additional capital, they will turn to borrowing debt (Agyei & Owusu, 2024; Sewpersadh, 2019). Finally, they will release stocks to cover any further capital requirements (Abdullah & Tursoy, 2021). However, if internal finance (free cash flow) is chosen as the preferable source of additional capital, the pecking order hypothesis ignores the observed agency concerns (Sewpersadh, 2019). As a result, Jensen's (1986) theory of free cash flow addresses executive boards' agency difficulties, which entice them to invest more of the company's internal resources in low net present value activities. Furthermore, the pecking order hypothesis states that enterprises will favour retained income above external finance as a source of financing (Jiraporn et al., 2022). This is corroborated by evidence indicating a negative association between leverage ratio and profitability (Haque et al., 2021). Conceptual expectation accepts that firm size has a positive impact on debt ratios. This suggests that large corporations have an advantage over small businesses in terms of obtaining short and long-term bank loans because they have a different economic environment, such as the ability to release information and the potential for growth and expansion (Fama & Jensen, 1983).

2.2 Empirical Underpinning

The Debt-to-Equity (D/E) ratio is a financial metric that reveals how much debt a company uses to finance its assets relative to its shareholders' equity, calculated as $\text{Total Debt} / \text{Shareholders' Equity}$. A high D/E ratio suggests greater financial risk due to more reliance on borrowed funds, while a low ratio indicates less debt and potentially lower risk, though interpretation depends heavily on the industry (Modigliani, & Miller, 1958). The ratio helps assess a company's leverage and can be compared to industry averages and its own history to identify significant changes or risky levels of debt. The debt-to-asset ratio is a financial metric that indicates the proportion of a company's assets financed by debt rather than equity. It's calculated using the formula: $\text{Debt-to-Asset Ratio} = \text{Total Debt} / \text{Total Assets}$. A higher ratio suggests greater financial risk, as more assets are funded by borrowing, while a lower ratio indicates better financial health and stability (Modigliani, & Miller, 1958). The size of a firm's supervisory board has been a crucial aspect in previous governance study, and it also influences the firm's capital structure (Dimitropoulos, 2024). This is because the supervisory board is the firm's primary decision-making authority, and they are responsible for providing strategic direction to ensure the firm's growth and increase investment return (Sheikh & Wang, 2022). In addition, the supervisory board controls and monitors senior management. This could be because large boards allow managers to be closely supervised and have access to a vast scale of assets (Reddy et al., 2010). The previous study found a different relationship between board size and debt financing. Feng et al. (2020) investigated the association between corporate governance and capital structure using data from 119 Chinese real estate listed businesses and 595 firm observations as a panel. They discovered a

positive relationship between a large board and a debt ratio, which is a measure of debt financing. Similarly, Agyei and Owusu (2024); Bokpin and Arko (2019); and Sheikh and Wang (2022) discovered a positive and substantial association between the relationships. According to resource dependence theory, corporations with a big supervisory board have an easier time raising funding from outside sources, which can improve firm performance. On the other hand, Sewpersadh (2019) investigated 130 JSE-listed enterprises over a six-year period and discovered a negative and substantial relationship between board size and leverage ratio. The study found that organisations with a big board size have a low leverage ratio.

According to Doan and Nguyen (2018), eight supervisory board sessions are economically significant per year. According to the data obtained in this study, the average number of board meetings for German and Norwegian banks was less than seven per year. Regular board meetings could indicate that the board is actively monitoring the firm as a whole (Conger et al., 2023). When meetings are held more regularly, executive management is more strictly monitored. Thus, agency expenses can be lowered, resulting in improved business performance (Tien, 2023). Very few studies tested the association. This could be because the matter is more intricate than it appears. Vafeas (2022) discovered a negative correlation between the number of board meetings and firm performance. However, by controlling for the impact of business leverage, Bashir and Asad (2018) discovered a positive and substantial relationship between board meetings and firm performance. Similarly, Grove et al. (2021) and Bansal et al. (2023) discovered that the above association is both positive and significant. Corporate governance can be strengthened when the supervisory board meets on a regular basis, which has a direct impact on the organisation. Board remuneration is a source of concern among financial experts and scholars, particularly because it is viewed as a barrier to the economic collapse that has rattled firms over the last three decades. According to agency theory, the factors influencing board remuneration vary depending on the level of control shareholders have over the board and executive management. Prior research has yielded conflicting conclusions about the effects of board compensation. Barontini and Bozzi (2021) investigated the relationship between board remuneration, ownership structure, and corporate performance of listed corporations on the Milan stock exchange from 1995 to 2022. The study discovered that board remuneration is inversely proportional to company performance. Bryan et al. (2023) also discovered a negative relationship between board remuneration and firm leverage. Doucouliagos and Haman (2017) investigated the relationship between directors' salary and corporate performance. The results showed that there is no substantial relationship between board compensation and performance. However, using two years of data, they discovered a favourable association between board remuneration, return on equity, and earnings per share. Research has shown a positive correlation between board remuneration and firm success (Brick et al., 2016; Crespi-Cladera & Gispert, 2023; Main et al., 2024).

Some suggest that a big supervisory board may be greater to handle the firms demand and to expand the business network in order to improve the firm's performance, which could affect on board remuneration to be increased.

CEO remuneration is typically defined as a combination of financial and non-financial advantages, including a set salary and short- and long-term incentives (Bezuidenhout, 2016). Numerous studies have focused on the relationship between CEO salary and debt financing; however, less attention has been paid to the associations with banks in the Bangladeshi economy. According to Berger et al. (2017), Mehran (2024), and Jensen and Meckling (1976), there is a positive relationship between CEO salary and business financial leverage. However, Friend and Hasbrouck (2023), Friend & Lang (2023), and Wen et al. (2022) found a negative link between CEO salary and business debt financing. This may be because managers who hold a larger share of the company may desire a higher level of debt to maintain the firm's control under their power. Researchers define tenure as the number of years that the Chief Executive Officer (CEO) has been in this post (Shah et al., 2019). "Agency theory predicts that CEOs become increasingly entrenched as they gain experience in their positions" (Ndaki et al., 2018). As a result, this analysis anticipates a negative relationship between CEO tenure and the debt-to-assets ratio, a debt financing metric. According to prior research, (Pascal Ndaki et al., 2018) discovered a positive and significant link between the aforementioned relationships. In contrast, Wen et al. (2022) discovered a negative association between CEO tenure and loan financing. Berger et al. (2017) also discovered a negative link between the variables mentioned above but statistically insignificant with leverage based on book value. Executive entrenchment has an impact on corporate leverage to be lower, particularly if the tenure of CEO is long. It is often considered that an audit committee is an important component of strong corporate governance, particularly in increasing the supervisory board's ability to control senior management (Detthamrong et al., 2017). According to Li et al. (2022), a big audit committee will provide better monitoring and supervision, allowing for the identification and resolution of potential issues in the firm's annual report. According to pecking order theory, organisations with a larger and higher audit committee have superior free cash flows due to better monitoring and reduced associated costs (Benjamin & Karrahem, 2023). This suggests that expanding the audit committee's size will boost trust. Gerged and Agwili (2020) and Li et al. (2022) found a favourable and substantial association between audit committee size and business performance, as well as intellectual capital disclosure. On the other hand, Ahmed et al. (2019) and Detthamrong et al. (2017) have explained negative and substantial relationships between audit committee size, business leverage, and performance.

Managerial ownership is the percentage of shares in a company held by its top executives and directors who actively participate in corporate decisions. Managerial ownership is the

percentage of shares in a company held by its top executives and directors who actively participate in corporate decisions. (Feng et al., 2020). This ownership stake can serve as a corporate governance mechanism, aligning managers' interests with shareholders' by giving them "skin in the game," incentivizing them to maximize firm value and act in the company's best interest. However, a high concentration of managerial ownership can also lead to an "entrenchment effect," where managers prioritize their own interests over those of external shareholders, potentially harming firm performance. The audit committee meets with management and the independent auditor to discuss the quarterly and audited annual financial statements of the company. They also review the news releases on earnings, along with the financial details and recommendations given to external rating agencies and analysts. Number of meetings held in a financial year of audit committee. Number of meetings held in a financial year of audit committee (Sheikh & Wang, 2012). An Annual General Meeting (AGM) is a meeting conducted annually where the members of an organization gather to discuss and vote on key issues. Number of General Meeting held in a financial year (Berger et al., 2017). Board Independence measured as independent directors divided with total directors. It is calculated by the percentage of the number of the independent board of commissioners' members to the total number of the board of commissioners' members (Feng et al., 2020). Business size can be characterised as a natural logarithm of total assets, and trade-off theory predicts a positive link between business size and debt ratio (Feng et al., 2020). Current ratio is calculated as total current assets divided by total current liabilities (Detthamrong et al., 2017 and Uwuigbe, 2024). Studies have revealed a negative relationship between current ratio as a control variable and company leverage as an explanatory variable. However, trade-off theory predicts a positive relationship between liquidity and leverage (Neves et al., 2020).

Based on the previous studies, the following hypotheses (Table 1) are designed and developed.

Table 1: Research hypothesis

Hypothesis	Relationship
H₁	Large board size is positively related with Debt financing.
H₂	Number of board meetings annually is positively related with Debt financing.
H₃	Board remuneration is positively related with Debt financing.
H₄	CEO compensation is negatively related with Debt financing.
H₅	CEO Tenure is negatively related with Debt financing.
H₆	The size of audit committee is positively related with Debt financing.
H₇	Managerial Ownership is positively related with Debt financing.
H₈	Audit Committee Meeting is positively related with Debt financing.

H₉	Annual General Meeting is positively related with Debt financing.
H₁₀	Board Independence is positively related with Debt financing.
H₁₁	Firm Size is positively related with Debt financing.
H₁₂	Current Ratio is positively related with Debt financing.

2.3 Conceptual framework

Based on the theoretical foundations and empirical evidence from previous studies, the research framework (Figure 1) of this study has been designed and developed to examine the relationship between corporate governance quality and debt financing of Islamic banks in Bangladesh.

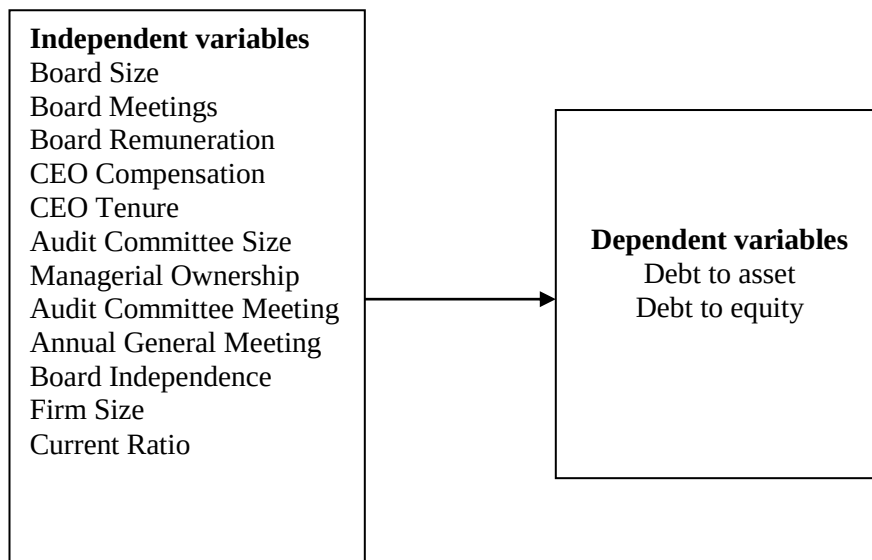


Figure 1: The conceptual framework of corporate governance quality and debt financing

3. METHODOLOGY

3.1 Data and Sources

Balanced panel data of 10 banks from 2015 to 2024 are used in the study. Data is collected from the Dhaka Stock Exchange (DSE). The selected banks are AB Bank PLC, BRAC Bank PLC, City Bank PLC, Bank Asia PLC, Dhaka Bank PLC, Eastern Bank PLC, Mercantile Bank PLC, United Commercial Bank PLC, Premier Bank PLC, and Mutual Trust Bank PLC.

3.2 Variables

Debt to asset and debt to equity are used as the dependent variables (debt financing). While, a number of independent variables are used such as Board size (BS), Board meetings (BM), Board remuneration (BR), CEO compensation (CEOC), CEO tenure (CEOT), Audit committee size (ACS), Managerial Ownership (MO), Audit Committee Meeting (ACM), Annual General Meeting (AGM), Board Independence (BI), Firm size (FS) and Current ratio (CR). Table 2 implies variable descriptions and measurements.

Table 2: Details of the variables

Variables	Abbreviation	Measurements	Source
Dependent variables:			
Total Debt to Assets Ratio	DTA	Total liabilities divided by total assets	(Sheikh & Wang, 2022)
Total Debt to Equity Ratio	DTE	Total debt divided by total equity	(Li et al., 2022)
Independent variables:			
Board Size	BS	Natural logarithm of number of supervisory board	(Feng et al., 2020)
Board Meetings	BM	Number of meetings that held by board of directors annually	(Bashir & Asad, 2018)
Board Remuneration	BR	Natural logarithm of board remuneration	(Crespí-Cladera & Gispert, 2023)
CEO Compensation	CEOC	Natural logarithm of CEO compensation	(Wen et al., 2022)
CEO Tenure	CEOT	Number of years that CEO employed in this position	(Berger et al., 2017)
Audit Committee Size	AUCS	Number of audit committee members	(Li et al., 2022)
Managerial Ownership	MO	Managerial ownership is the percentage of shares in a company held by its top executives and directors who actively participate in corporate decisions.	(Feng et al., 2020)
Audit Committee Meeting	ACM	Number of meetings held in a financial year of audit committee.	(Sheikh & Wang, 2022)
Annual General Meeting	AGM	Number of General Meeting held in a financial year.	(Berger et al., 2017)
Board Independence	BI	Board Independence measured as independent directors divided with total directors. Percentage of the number of the independent board of commissioners' member to the total	(Feng et al., 2020)

		number of the board of commissioners' member	
Firm Size	FS	Natural logarithm of total assets	(Uwuigbe, 2024)
Current Ratio	CR	Ratio of total current assets divided by total current liabilities	(Detthamrong et al., 2017)

3.3 Research Strategy & Design

The study examines corporate governance quality and debt financing. There are two fundamental research methods: qualitative & quantitative research method. The qualitative research method is best fitted to analyze descriptive data collected through the application of in-depth interview among the respondents of research. Where the quantitative research method is best fitted for the numeric data gathered through the conduction of survey among the respondents can best be described through the application of quantitative method. This research work is quantitative in nature. The study is mainly based on secondary data.

3.4 Research Models

Model 1: debt financing (Debt to Asset)

$$D/A = \alpha + \beta_1 BS + \beta_2 BM + \beta_3 BR + \beta_4 CEOC + \beta_5 CEOT + \beta_6 ACS + \beta_7 MO + \beta_8 ACM + \beta_9 AGM + \beta_{10} BI + \beta_{11} FS + \beta_{12} CR + \varepsilon \dots \dots \dots \text{Eq-1}$$

Model 2: debt financing (Debt to Equity)

$$D/E = \alpha + \beta_1 BS + \beta_2 BM + \beta_3 BR + \beta_4 CEOC + \beta_5 CEOT + \beta_6 ACS + \beta_7 MO + \beta_8 ACM + \beta_9 AGM + \beta_{10} BI + \beta_{11} FS + \beta_{12} CR + \varepsilon \dots \dots \dots \text{Eq-2}$$

Where, D/A = Debt to Asset Ratio, D/E = Debt to Equity Ratio, α = constant term, BS= Board Size, BM = Board Meetings, BR = Board Remuneration, CEOC = CEO Compensation, CEOT = CEO Tenure, AUCS = Audit Committee Size, MO = Managerial Ownership, ACM = Audit Committee Meeting, AGM = Annual General Meeting, BI = Board Independence, FS= Firm Size, CR= Current Ratio, ε = Error term.

4. RESULTS AND DISCUSSION

Table 03 presents the descriptive results of dependent (debt financing) and independent (corporate governance). The mean of D/A is 0.538 and the mean of D/E is 0.555 respectively. The mean value of the variables is the same, meaning robust between the variables that measure for debt financing. The mean value of all explanatory variables is positive. Initially descriptive statistics imply an initial understanding of the distribution and variability of the variables used in the study before conducting further analysis.

Table 03: Descriptive Statistics

Variables	DTA	DTE	BS	BM	BR	CEOC	CEOT	AUCS	MO	ACM	AGM	BI	FS	CR
Mean	0.538	0.555	3.738	6.785	13.480	0.310	14.340	6.862	0.890	14.810	17.600	29.860	21.411	2.657
Std. Dev.	0.185	0.174	1.421	4.027	0.980	0.105	0.892	6.638	2.010	8.950	18.870	12.870	2.101	4.072
Minimum	0.089	0.112	2.000	1.000	11.302	0.040	11.805	0.500	0.010	2.000	2.000	0.000	16.803	0.250
Maximum	0.956	0.826	8.000	21.000	16.038	0.490	16.789	33.000	8.400	27.000	105.000	61.330	25.735	54.930
Observations	100													

Table 4 implies correlation matrix. Correlation analysis is performed to identify the strength and direction of the relationship between the dependent variable (e.g., Debt to Asset Ratio & Debt to Equity Ratio) and independent variables. It shows the strong correlation between each peer, however, does not highly correlate with other peer. Basically, it is a table that shows the correlation coefficients between many variables. Each cell in the table shows the relationship between two variables, helping us understand how they move together. Pearson correlation coefficients are presented and interpreted to detect multi-collinearity and preliminary associations between variables.

Table 04: Correlation analysis between independent and dependent variables

Variables	DTA	BS	BM	BR	COEC	CEOT	AUCS	MO	ACM	AGM	BI	FS	CR
DTA	1												
BS	0.469**	1											
BM	-0.140*	0.101	1										
BR	0.139*	0.5963*	0.197**	1									
COEC	0.044	0.3341*	0.210**	0.274**	1								
CEOT	-0.070	-0.201**	-0.042*	-0.219**	-0.137*	1							
AUCS	0.482**	0.593**	-0.241**	0.319**	0.062	0.018	1						
MO	0.102**	0.126	-0.018*	0.033**	0.158	0.328	0.102**	1					
ACM	-0.206	-0.150	0.131*	-0.061	0.163***	0.155*	-0.206	-0.150	1				
AGM	0.328	0.222	-0.182	-0.038	-0.048*	0.106	0.328	0.222	-0.018*	1			
BI	0.145	0.040	0.071**	-0.313	0.527	0.133	0.531	0.059**	0.145	0.040	1		
FS	0.372**	0.582**	0.210**	0.694*	0.538**	-0.105	0.376**	-0.070	-0.201**	-0.042*	-0.061	1	

CR	-0.362**	-0.232**	0.025	-0.098	-0.040	0.039	-0.214**	0.482**	0.593**	-0.241**	-0.038	-0.182*	1
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Table 5 states the regression result on debt financing as measured by the debt-to-asset ratio. The value of R-squared is 0.693 that states debt financing is variance by corporate governance quality. Higher the value of r-squared that implies the better fit between corporate governance quality and debt financing. Board size positively impacts debt financing that is the coefficient of board size (BS) is 0.556 that is significant at 1% implying that 1 unit change to the board size that would increase the debt financing by 0.556 unit. The finding supports first research hypothesis that the large board size positively impacts the debt financing. The findings are further supported by Feng et al. (2020); Bokpin & Arko (2019); Sheikh & Wang (2022); Agyei & Owusu (2024); Uddin (2021) while oppose of Sewpersadh (2019). Board meeting (BM) states negative relation with debt financing, that is if board meeting is increased by 1 unit that would change debt financing by 0.005 unit and it was significant at 5% level. However, the finding does not support the second research hypothesis that is number of board meeting annually positively impact debt financing. Findings are consistent with Vafeas (2022) while opposed to Grove et al. (2021); Bansal et al. (2023); Bashir and Asad (2018). Board remuneration (BR) shows negative relationship with debt financing, that is if board remuneration increases by 1 unit that would reduce debt financing by 0.072 unit and it is significant at 1% level. The finding does not support third research hypothesis that is board size positively impact debt financing. This is consistent with Barontini and Bozzi (2021) while Brick et al. (2016; Main et al. (2024; Crespi-Cladera & Gispert (2023) found opposite direction. Audit committee size (AUCS) states positive relation with debt financing implying that is 1unit changes to audit committee size that would change the debt financing by 0.028 unit. The finding supports sixth research hypothesis that is audit committee size positively impact debt financing. The results are supported by Gerged and Agwili (2020) while inconsistent with Detthamrong, U., et al. (2017); Ahmed et al. (2019); Neves et al. (2020). Annual general meeting (AGM) has negative effect on the debt financing, that is if 1-unit changes to AGM that would reduce debt financing by 0.026 unit. The finding is opposite of the tenth research hypothesis. Board independence shows positive impact on debt financing implying that 1 unit change to board independence that would change debt financing by 2.168 unit which is significant at 1% level. The finding supports tenth research hypothesis. The findings are supported by Ahmed and Hossain (2019) and Muttakin (2022). Control variables namely firm size and current ratio also indicate statistically significant impact on debt financing. Firm size positively impacts debt financing, that is 1 unit change to firm that size that would change debt financing by 0.029 unit and it is significant at 1% level. Accordingly, current ratio states negative relation with debt financing implying that 1 unit change to current ratio that would change debt financing by 0.009 unit and it is significant at 1% level. The

results support eleventh and twelfth research hypothesis respectively. And further supported by (Uwuigbe, 2024 and Detthamrong et al., 2017).

Table 05: Ordinary Least Squares regression on debt financing (Debt/Asset)

Variables	Coefficient	Std. Error	t-Statistic	Prob.
BS	0.556***	0.148	3.759	0.000
BM	-0.005**	0.003	-2.004	0.047
BR	-0.072***	0.019	-3.822	0.000
CEOC	0.006	0.017	0.376	0.707
CEOT	-0.002	0.002	-0.927	0.355
AUCS	0.028***	0.010	2.848	0.005
FS	0.029***	0.007	4.202	0.000
MO	-0.1	0.106	-0.941	0.346
ACM	-0.026	0.018	-1.429	0.153
AGM	-0.007***	0.002	-3.333	0.000
BI	2.168***	0.693	3.128*	0.001
CR	-0.009	0.003	-3.828	0.000
C	0.579***	0.177	3.269	0.001
R-squared	0.693			
Adjusted R-squared	0.670			
S.E. of regression	0.144			
F-statistic	18.426			
Prob (F-statistic)	0.004			
*** Significant at 1% level; ** Significant at 5% level & * significant at 10% level				

[Note: BS= Board Size, BM = Board Meetings, BR = Board Remuneration, CEOC = CEO Compensation, CEOT = CEO Tenure, AUCS = Audit Committee Size, MO = Managerial Ownership, ACM = Audit Committee Meeting, AGM = Annual General Meeting, BI = Board Independence, FS= Firm Size, CR= Current Ratio]

Table 6 states regression result of debt financing as measured by debt-to-equity ratio. As on Table 6, it is observed that corporate governance quality significantly impacts the leverage decision which is supported by Claessens and Yurtoglu (2023) and Sleifer and Vishny (2017). The value of R-squared is 0.593 that states debt financing is variance by corporate governance quality. Higher the value of R-squared that implies the better fit between corporate governance quality and debt financing. Board size positively impacts debt financing that is the coefficient of board size (BS) is 1.666 that is significant at 1% implying that 1 unit change

to the board size that would increase the debt financing by 1.666 unit. The finding supports first research hypothesis that the large board size positively impacts the debt financing. The findings are consistent with the findings of Feng et al. (2020; Bokpin and Arko (2019; Sheikh and Wang (2022; Agyei and Owusu (2024; Uddin (2019, 2021) while of oppose of Sewpersadh (2019). Board meeting (BM) states negative relation with debt financing, that if board meeting is increased by 1 unit that would reduce debt financing by 0.040 unit and it was significant at 10% level. However, the finding does not support the second research hypothesis that is number of board meeting annually positively impact debt financing. The result is supported by Vafeas (2022) while inconsistent with the findings of Grove et al. (2021); Bansal et al. (2023); Bashir & Asad (2018). Audit committee meeting (ACM) states significant negative impact on the debt financing implying that if 1-unit changes to ACM that would reduce debt financing by 0.093 unit. The finding is opposed of the ninth research hypothesis which is ACM positively affects debt financing. The result is consistent with Sheikh and Wang (2022). AGM implies negative effect on the debt financing that is if 1-unit changes to AGM that would reduce debt financing by 0.025 unit. The finding is opposite of the tenth research hypothesis. Finding is consistent with Berger et al., (2017). Board independence shows positive impact on debt financing implying that 1 unit change to board independence that would change debt financing by 6.575 unit which is significant at 1% level. The finding supports tenth research hypothesis that is board independent is positively impact debt financing. The findings are supported by Ahmed and Hossain (2019) and Muttakin (2022). Control variables namely firm size and current ratio also indicate statistically significant impact on debt financing. Firm size negatively impacts debt financing that is 1 unit change to firm that size that would reduce debt financing by 0.006 unit and it is significant at 10% level. The result is not supported by research hypothesis. Accordingly, current ratio states negative relation with debt financing implying that 1-unit changes to current ratio that would increase debt financing by 0.043 unit and it is significant at 10% level. The result supports twelfth research hypothesis respectively. The findings are supported by Uwuigbe (2024) and Detthamrong et al. (2017).

Table 06: Ordinary Least Squares regression on debt financing (Debt/Equity)

Variables	Coefficient	Std. Error	t-Statistic	Prob.
BS	1.666***	0.506	3.296	0.002
BM	-0.04*	0.024	-1.690	0.099
BR	0.055	0.061	0.920	0.364
CEOC	-0.012	0.010	-1.283	0.207
CEOT	-0.15	0.425	-0.353	0.726

AUCS	-0.015	0.046	-0.330	0.744
MO	-0.325	0.281	-1.158	0.248
ACM	-0.093**	0.048	-1.938	0.053
AGM	-0.025***	0.006	-4.434	0.000
BI	6.575***	1.822	3.609*	0.000
FS	-0.006*	0.003	-1.935	0.061
CR	0.043*	0.022	1.948	0.059
C	-0.125	0.208	-0.598	0.553
R-squared	0.593			
Adjusted R-squared	0.472			
S.E. of regression	0.770			
F-statistic	22.126			
Prob (F-statistic)	0.025			
*** Significant at 1% level; ** Significant at 5% level & * Significant at 10% level				

[Note: BS= Board Size, BM = Board Meetings, BR = Board Remuneration, CEOC = CEO Compensation, CEOT = CEO Tenure, AUCS = Audit Committee Size, MO = Managerial Ownership, ACM = Audit Committee Meeting, AGM = Annual General Meeting, BI = Board Independence, FS= Firm Size, CR= Current Ratio]

To assess the robustness of the findings, debt financing is measured using two alternative proxies, namely Debt-to-Asset Ratio (DTA) and Debt-to-Equity Ratio (DTE). The regression results obtained from both measures reveal broadly consistent findings regarding the impact of the independent variables on debt financing. Although some differences may exist in the magnitude or statistical significance of individual coefficients, the overall direction and nature of the relationships remain largely similar across the two alternative measures. This consistency indicates that the main findings are not dependent on a particular measurement of debt financing and therefore provides evidence of the robustness and reliability of the empirical results.

5. CONCLUSION

This study examined the impact of corporate governance quality on debt financing using balanced panel data from 10 listed banks in Bangladesh over the period 2015–2024. Debt financing was measured using the debt-to-asset and debt-to-equity ratios, while corporate governance quality was assessed through various boards, executives, audit committee, ownership, and firm-specific characteristics. The findings demonstrate that corporate governance quality significantly influences debt financing decisions. Board size and board independence consistently exhibit positive relationships with debt financing across both

measures, while board meetings and annual general meetings show negative effects. Other governance mechanisms, including CEO compensation, CEO tenure, managerial ownership, and audit committee meetings, do not demonstrate consistent significant effects across the alternative measures of debt financing. The findings further indicate that firm size and current ratio also play an important role in shaping banks' financing decisions.

The study contributes to the growing literature on corporate governance and capital structure by providing evidence from the banking sector of Bangladesh. The findings suggest that effective governance mechanisms, particularly a well-structured and independent board, are important for influencing banks' access to and reliance on external debt financing. Accordingly, regulators and bank management should strengthen board independence, transparency, accountability, and monitoring mechanisms to support sound financing decisions and financial stability. However, the study is subject to limitations arising from its relatively small sample of 10 banks and 100 firm-year observations and its focus on a selected set of governance variables. Future research could extend the sample, incorporate additional governance and institutional variables, and employ advanced panel-data techniques to provide further insights into the governance–debt financing relationship in emerging economies.

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