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Board Characteristics, Audit Committee Attributes and NBFIs Performance: Empirical Evidence from Tanzania

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Abstract

This study investigates the relationship between corporate governance (CG) practices and the performance of listed NBFI's on the Dar es Salaam Stock Exchange (DSE). Fourteen (14) non-bank financial institution companies were selected. Data was collected from annual reports for eight years, from 2015 to 2022. The results reveal that the existence of women directors on the board, audit committee independence and the long tenure of the CEO in the office resulted in a significant increase in NBFI performance. However, board meetings, chief executive officer – duality, audit committee size and audit committee meetings were insignificant does not improve the performance of listed NBFIs. In this regard, are not important and did not influence the profitability of listed NBFIs in Tanzania. The findings also revealed the existence of non-executive directors and board size significantly and negatively related to the performance of listed NBFIs. This study contributes to the literature that investigates the relationship between CG and the performance of listed NBFIs in Tanzania. The results are important for non-bank financial institution companies, policymakers and other stakeholders.

Keywords: *Audit Committee Characteristics, Corporate Governance Practices, Non-banks Financial Institutions, Performance*

1. Introduction

The matters surrounding corporate governance (CG) have garnered global attention, becoming a widespread topic of discussion in growing economies, especially in Europe and America (Ofoeda, 2016). This heightened focus is a direct result of CG scandals and failures that led to the high-profile failure of several big corporations (Parker et al., 2002). Notable corporate failures, including Enron Corporation in the USA, Barings Empire in the United Kingdom, Parmalat in the European Union, and Perwaja and Pan Electric Inc in Malaysia, as well as the bank collapses in Nigeria, all trace their roots to the absence of a proper governance system (Omokhudu and Amake, 2018).

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The Enron collapse and similar corporate failures not only raised the significance of the term CG but also posed threats to global financial stability and eroded shareholders' confidence in the marketplace and corporations (Claessens & Yurtoglu, 2013). These events drew international attention, both in practical terms and in academic research (Blue Ribbon Committee Report 1999; Ramsay Report 2001). In response to corporate scandals and collapses, governments, regulators, and corporate boards have collaborated to establish task forces dedicated to formulating a voluntary, explicit strategy for a code of best practices in CG (Nyaki, 2013).

Corporate governance has been defined in different ways by various researchers (see for example Dey and Sharma (2020) and Love, 2010), Even though they explain CG with multiple terminologies, certain key features consistently emerge, shaping the understanding of the concept. For instance, Dey and Sharma (2020) defined CG as a process through which management operates in the best interest of shareholders and stakeholders. Another perspective, as articulated by Love (2010), describes CG as the system through which companies are directed and controlled, to safeguard the interests of minority shareholders. How systems of CG are designed is different between countries, depending on the economic, political and social contexts (Ghosh, 2006, Denis and McConnell, 2003).

For a long time, the subject of CG and firm performance has been extensively researched. Corporate governance has been linked with aspects like earnings management (Assenso-Okofo, Ali and Ahmed,2021; Al-Abbas,2009); corporate social responsibility (Omar and Alkayed, 2021; Fahad and Nidheesh, 2018; Muttakin and Subramaniam, 2015); value relevance of accounting information (Almujamed and Alfraih,2020; Toumi and Hamrouni,2023); Sustainability disclosure (Arif et al., 2020; Alodat, Saleh and Hashim,2022); firm’s performance (Boachie,2021; Arora and Sharma,2016; Solomon and Makuya, 2022); capital structure (Javaid, Nazir and Fatma,2021).

Improvement in CG practices is an important ingredient in improving the long-term economic performance of corporations (Ibrahim, Rahma and Raoof, 2010). A large body of literature has addressed the issue of CG and firm performance and indicated that CG is important and it improves

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the long-term performance of the firms (Klapper and Love, 2002; Ofoeda, 2016; Ibrahim, Rehman and Raoof, 2010). However, Bathala and Rao (1995) and Hutchinson (2002) reported a negative relationship, while Prevost et al. (2002) and Singh and Davidson (2003) reported no relationship.

In Tanzania, unlike other countries, the CG initiative was not triggered by any serious nationwide financial, banking and economic collapse (Kiure, 2002). Directors' Association and the Institute of Directors in Tanzania initially drove the CG initiative (CMSA, 2002). Thereafter, with effect from 2000, key measures were taken in the promotion of good governance plus other reforms (Bank of Tanzania, 2008). CG studies have been conducted in listed financial institutions on the Dare Salaam Stock Exchange (Mori and Olomi, 2012), and unlisted financial institutions including Microfinance Institutions (Solomon and Makuya, 2022). Perhaps, little attention has been paid to linking CG and the performance of non-bank financial institutions. Therefore, this study fills this gap by investigating the effect of CG on the profitability of non-bank financial institutions (NBFI) listed on the Dar es Salaam Stock Exchange (DSE) in Tanzania. Using a sample of 14 NBFI, the findings revealed that the existence of women directors on the board, audit committee independence and the long tenure of the CEO in the office resulted in a significant increase in NBFI profitability. The existence of non-executive directors and board size were significantly and negatively related to the performance of listed NBFIs. However, board meetings, chief executive officer –duality, audit committee size and audit committee meetings do not improve the performance of listed NBFIs in Tanzania.

The contribution of this study is varied: first, this study delivers new evidence on CG and performance in the Tanzanian context; second, it integrates and contributes to the CG literature by considering CG internal variables (such as board meetings, board size, board independence, gender diversity, CEO duality and tenure) and audit committee activity (such as audit meetings, audit committee independence and audit committee size) as measures influencing profitability of NBFI's. The practical implications of this study offered direction to managers in maintaining robust corporate governance mechanisms, assist policymakers in formulating as well as implementing effective guidelines for corporate governance, and, importantly, instil confidence among individual investors, influencing their decisions to invest in companies with sound and robust corporate governance practices.

The rest of the paper is organized as follows: Section 2 provides a review of existing literature concerning the impact of corporate governance (CG) on firm performance. Section 3 presents the chosen methodology, while Section 4 presents and discusses the results of the study. Finally, Section 5 concludes the study.

2. Literature Review

2.1 Theoretical Literature

2.1.1. Agency Theory

Agency theory is one of the most popular academic framework in CG literature (Roudaki,2018),which emphasizes that the board of directors must have their degree of independence to monitor the manager's behavior and protect shareholders' interest (Fama and Jensen,1983).Generally, managers tend to act in their own individual best interest rather than those of shareholder's interest (Jensen and Meckling,1976).This is due to the fact managers are those who aware of the company performance and have ability to hide bad performance and mislead shareholders and other stakeholders (Belkhir,2004).This behavior occurs when shareholders lack the confidence, knowledge and necessary power to supervise the action of the manager (Macey and O'Hara,2003).

The agency theorists have discussed various CG mechanisms in relation to protecting the shareholder interests, minimizing agency costs, and ensure alignment of the agent-principal relationship (Nahar Abdullah, 2004).CG structures are among the mechanisms that have received substantial attention, and are within the scope of this study (Davis, Schoorman & Donaldson 1997)

2.1.2 Stakeholder Theory

Research in CG also discussed stakeholder theory in relation to not only in the shareholder's wealth but also company' responsibility to the wider community (Berle and Means,1932).The theory is the expansion of agency theory introduced by Milton Friedman (Dmytriyev et al., 2021),where the role of the board of directors is added from investors to other broader group of stakeholders attached to the company (Freeman, Wicks & Parmar 2004).The theory postulates the importance of a company's relation with group of stakeholders such as employees, customers and the community (Hill and Jones, 1992).The theory also emphasizes that if policies are applied properly, all rights of shareholders will be covered and the business life cycle of the company's performance will improve (Donaldson & Preston 1995).

2.1.3. Resource Dependency Theory

Another theory reviewed in corporate governance literature is resource dependency theory. Theory. This theory linked in CG literature by Lawrence and Lorsch (1967), which explain that the inner structure of the company needs to be linked with the external resources to reduce uncertainty (Gales & Kesner 1994). The theory supports the appointment of directors to multiple boards because of their skills, knowledge, talent and opportunities to gather information and network from outside world to the company (Pfeffer's (1987).

2.1.4. Stewardship Theory

Stewardship theory is the final supporting theory of CG that relies in our study. The theory focus on the structures and considers the managers as good overseer who work in the favor of the company(Davis, Schoorman and Donaldson,1997).Therefore, linked and support the appointment of a single person for the position of chairman and CEO and the improvement of firm performance(Clarke,2004).Earlier research by Rechner and Dalton (1991) report that companies combined the position of chairperson and CEO have stronger performance relative to other companies.

2.2. Empirical literature on CG and Firm Performance and hypothesis development

Several studies have tested for the effect of CG on performance (see, for example, Farooque et al., 2019; Ofoeda, 2016; Boachie,2021; Arora and Sharma,2015; Amjad et al.,2021; Abor and Fiador,2013;Klapper and Love, 2002; Ibrahim et al., 2010;Adeabah et al.,2019).However, these studies have focused on some of the CG variables used in this study. For example, Farooque et al (2019) concentrated on 452 firms listed on Thai Stock Exchange.Ofoeda (2016) investigate the influence of CG on performance of NBFI's listed at Ghana stock exchange. Boachie (2023) tested the moderating effect of CG on the performance of banks listed in the context of Ghana.Amjad et al (2021) examine the relationship between board independence, education level of board representative, firm size and CEO duality on performance.

Arora and Sharma (2015). From the majority of the studies reviewed, it is evidenced that there are mixed results, which necessitates the need for a study in Tanzanian context. The following sections below present previous findings and hypotheses development for each variable used in our study.

2.2.1. Board Size and Profitability

Board size is an important part from CG variables considered as the ultimate governing body of the company (Connely and Limpaphayom(2004),which seek to protect the interest of all stakeholders (Boachie, 2021).From the resource dependency theory point of view, a larger board considered as an appropriate tool for providing important information ,skills and secured resources for strategic decision making (Pfeffer,1987).The issue of board size and firm performance has received considerable attention from academics, regulators and market participants (Lipton and Lorsch, 1992).Accordingly, it is widely argued that larger boards increases the cost of coordination, processing problems and making decision more difficult (Coles et al.,2008;Anderson and Reeb,2003).However, another argument posits that smaller boards improve firm performance and reduce the possibility of free riding (Yermack,1996).Empirical research reports conflicting results concerning the relationship between board size and firm performance. For instance, Arora and Sharma (2016) reports positive relation. This association is inconsistent with Garanina and Kaikova (2016) who report a negative relationship. Conversely, Black et al (2006) report no significant association between board size and performance. Based on the above discussion, the first hypothesis of this stud y is as follow

H_1 = *There is a positive relationship between the Board size of the board and the profitability of NBFIs listed at Dar es Salaam Stock Exchange.*

2.2.2. Board meeting and Firm Performance

Board meeting is also named as board activity intensity (Conger and Lawler, 2009) which is structured as number of board meetings in a fiscal year (Bhagat and Bolton, 2008).A number of studies, such as Brick and Chidambaran (2010), Brenes et al. (2011) and Brown and Caylor (2006), reported that when board of directors meet frequently, they are more likely to improve firm

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ISSN 2522-3186

performance. Further, Farooque et al. (2010 and Ntim and Osei (2013) suggested similar findings where boards that meet frequently tend to improve corporate performance. In contrast, other studies consider the frequency meeting of the board is not necessary. Christensen et al. (2010) documented that a high frequency of board meetings is an indication of potential problems which demand urgent remedy. In a related study by Ofoeda (2016), John et al. (2006) and John et al. (2015) find a negative relationship between frequency of board meetings and firm performance. However, given the mixed results reported by previous researchers we suggest that;

H_2: There is a positive relationship between the board meeting frequency and the profitability of NBFI's listed at DSE.

2.2.3. Proportion non-executive directors on board and Firm Performance

Typically, the board consists of inside and outside directors (Iqbal and Stron, 2010). There is general thinking that the presence of non- executive directors on the board is highly essential as they may be used to ameliorate the principle –agency problem (Fama and Jensen, 1983).This is because of their independence from management (Dalton et al. 1998).A significant relationship between the proportion of non-executive directors and firm performance is traced in the earlier literature. Boachie (2021)'s findings show that presence of non-executive directors on board have a positive impact on the firm performance of Ghanaian banks. Similar findings have been reported by other scholars, such as Hossain et al (2000) and Chung et al (2003). However, Bhagat and Black (2002), Bokpin (2013) found a negative effect of proportion of non-executive directors on firm performance. On the other hand, Bukair and Rahman (2015); Prevost el at. (2002) and Connely and Limpaphayom (2004) do not find any statistically significant relationship between board independence and firm performance. Therefore, based on the discussion above, the second hypothesis of this study is as follows:

H_3 = There is a positive relationship between the proportion of non-executive directors on the board and the profitability of NBFI's listed at DSE.

2.2.4. Proportion of women directors on board and Firm Performance

The proportion of women directors on the board is one of the CG attributes frequently used in CG literature (Shrader et al.,1997).Throughout the history, women are responsible for varieties of roles in the families and societies (Ofoeda,2016) ,and they have not been strongly represented in the corporate boards (Gupta and Mahakund,2020).Later ,in 1990s the situation began to change slightly when the number of women directors serving on the board began to increase(Farrell and Hersch,2005).According to proponents of gender diversity, women have ability to communicate as they deal with strategic issues than men (Adam and Ferreira,2003).In a related study by Ofoeda (2016) find that the composition of women on board have a negative relationship with the performance of NBFI's. Contrary to previous study by Shrader et al. (1992) reported that no significant relation between composition of women on board and company performance. Therefore, we have the following hypothesis to test:

H_4. There is a positive relationship between the proportions of women directors and the profitability of NBFI's listed at DSE.

2.2.5. Chief executive officer-Chairman duality and Firm Performance

The leadership structure on a board is among the most contemporary and contentious issues in CG literature (Gupta and Mahakud,2019).However ,the board may either be unitary or dual in structure, and varies from one country to another (Ghosh and Sirman, 2003).When the position of CEO and chairman are combined and one person is holding are called CEO duality (Goyarl and Park,2000),while in dual structure, the position of CEO and chairman are separated (Mallin,2007).As noted earlier, if the same person holds the position of the chief executive officer and chairman in a business the principal–agent problem is more obvious (Fama and Jensen, 1983).However, stewardship theorists argues that, if one person holds both roles the firm's performance improved (Finkelstein and D'Alene, 1994).On the other hans, Yermack (1996) and Jensen (1993) argue that combining the role of chairman and CEO in one person has monitoring implication. Empirical studies by Rechner and Dalton (1991) report that companies combined the position of chairperson and CEO have stronger performance relative to other companies. In related studies, Kyereboah-Coleman (2007), Ehikioya (2009), Bhagat and Bolton (2008), Yammeesri and Herath(2010),Abor and Biekpe (2007) and Erah et al.(2012) report a negative relationship CEO duality and firm performance. While, Dey et al. (2011); Boonlert-U-Thai and Pakdee (2018) document that CEO-chairman duality has a positive relation with firm performance. In line with Agrawal and Knoeber (1996) and Feng et al. (2005), the CEO-Chairman duality is included in our

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ISSN 2522-3186

regression model as a dummy variable 1 if the CEO sits as a chairman on the BoD. Based on this discussion we hypothesize that:

H_5: There is a positive relationship between CEO-Chairman duality and the profitability of NBFI's listed at DSE.

2.2.6. Chief executive officer tenure and Firm Performance

CEO tenure is an important CG element for academic researchers and management has searched for the answers. (Gupta and Mahahud, 2019). It is measured as the average number of years the CEO can hold office (Baysinger and Hoskisson, 1990). Researchers like Hrebiniak and Alutto (1975) found a positive connection between longer-tenured CEOs and commitment toward their results, which leads to higher enticement to perform well. Earlier studies confirmed an inverse relationship between CEO tenure and firm performance (Finkelstein et al.,2009; Al-Matari et al.,2012; Nguyen et al.,2018); and Kaur and Singh (2019). In contrast, Peni, (2014) and Baysinger and Hoskisson, (1990) find a positive relationship. Even though the earlier findings are mixed, we expect that the long tenure of the CEO is beneficial for the firm performance. Thus, we posit the following hypothesis:

H_6 = There is a positive relationship between CEO tenure and the profitability of NBFIs listed at DSE.

2.2.7. Audit committee size and Firm Performance

The audit committee serves as one of the most important mechanisms in CG (Dalton et al.,1999), which fulfil the role of monitoring and maintaining the credibility and integrity of financial information prepared by the company (Tornyera and Wireko,2012.).Previous researchers reported that the effectiveness of an audit committee is dependent on its size and independence (Herdjiono and Sari, 2017; Dellaportas et al., 2012). For instance, Pucheta-Marti nez and De Fuentes (2007) found that audit committee size affects companies' profitability by receiving audit reports with errors and non-compliant qualifications. However, the committee must have enough numbers of members to control and monitor the manager's behaviour and activities (Vicknair et al., 1993). This would allow members to use their experience and expertise in the best interest of shareholders (Menon and William, 1994).

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ISSN 2522-3186

Research by Menon, and Williams (1994) found a weak relationship between audit committee size and company performance. Besides, Al-Mataria et al. (2022); Boachie (2021); and Ofoeda (2016) revealed a positive and significant relationship between audit committee size and the company's performance. However, Aldamen et al. (2012) concluded that audit committees with small size and more experience and financial expertise positively and significantly improve company performance. On the other hand, Romano et al. (2012) and Brick and Chidambaram (2010) reported that there is no significant relationship between the audit committee size and firm performance. Moreover, Al-Matari et al. (2022) show a significant negative relationship. Given the competing arguments above, our study formulated the following research hypothesis.

H_7: Audit committee size has positive and significant effect on the profitability of NBFI's listed at DSE.

2.2.8. Audit committee independence and Firm Performance

The audit committee independence represents other audit committee characteristics whose impact is to increase the effectiveness of the board's function (Kyereboah-Coleman, 2007). When an audit committee works independently leads to better firm performance (Klein,1998), enhances efficiency of working capital (Kyereboah-Coleman,2007) and shareholder's wealth accumulation (Klein,1998).To ensure the audit committee works independently its composition should consist of a majority of outside independent directors (Bealey and Salterio, 2001), and a minimum size of three members (Kyereboah-Coleman,2007). Carcello et al (2011) reported that a company with more independent directors on the audit committees have better performance. Tornyeva and Wereko (2012) show that the audit committee's independence is positively related to the performance of the company. Consistent with the above arguments, we expect a positive relationship between audit committee independence and the company's profitability. The study formulates the following hypothesis:

H_8: There is a positive relationship between the audit committee independence and the profitability of NBFI has listed at DSE.

2.2.9. Audit committee meeting and Firm Performance

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ISSN 2522-3186

Audit committee meetings are estimated as the number of meetings of the audit committee (Menon and William, 1994). It is considered one of the audit committee characteristics that resulted in a higher auditor's role to improve firm performance (Vicknair et al., 1993); protecting shareholders' interest and the public at large (Ofoeda, 2016). Audit committees hold regular meetings at least twice annually (Abbort, 2000), which results in a reduction of fraud in the firm (Beasley et al., 2000). Several studies, such as Ofoeda (2016); Faroque et al. (2019); and Kyereboah-Coleman (2008) report the frequency of meetings of audit committees resulted in improving firm performance. Given the competing arguments, the study formulates the following research hypothesis:

H_9: There is a positive relationship between the audit committee meeting frequency and profitability of NBFI's listed at DSE.

2.2.10. Control variables (i.e. Firm size, age and leverage).

Our study, in line with others (Arora and Sharma2015; Ofoeda, 2016) includes firm size, firm age and leverage as the variables and therefore control for them. These control variables are considered, because of the following reasons (i) they are widely used in the literature on corporate governance and significantly affect profitability (Sufiane and Chon, 2008); (ii) to minimize specification bias (Ofoeda,2016) ;(iii) to minimize the problem of potential variables (Warfield et al.,1995).

The impact of firm size on its profitability is not uniform, for example, studies by Bikker and Hu (2002) and Ofoeda (2016) reported that firm size positively and significantly influences profitability. However, Sufian and Chong (2008) found that the size of the firm negatively related to the profitability of banks in Phillippines. Prior studies by Beck et al (2005) and Ofoeda (2016) controlled for age and found positive results. Various studies (Goddard et al., 2004; Staikouras and Wood, 2004) suggested that a company with a higher level of capital improves the company's profitability. However, Alkassim (2005) finds that the leverage has a negative relationship.

H_{10}: There is a positive relationship between firm size, age and leverage on the profitability of NBFI's listed at DSE.

 http://journals.uonbi.ac.ke/index.php/adfj
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3. Research Methodology

3.1. Sample

The sample population is composed of non-bank financial institution firms listed in the DSE. The banks and other financial institutions are excluded from the sample and their analysis is done separately due to the following reasons (i) have different governance codes and regulatory requirements (Alodat et al., 2021) ;(ii) have different nature, conditions and characteristics (Al Sharawi,2021). The study period consisted of 8 years from 2015 to 2022. Firms with incomplete data were excluded. Thus, the final sample of this study was 14 non-financial firms listed on the DSE. Table 1

Table 1. Sample Selection Procedure

Firms listed in the DSE	28
Less: Banking and Financial institutions	14
Remaining non-banks financial institutions	**14**

3.2. Source of data

All the data, including variables of corporate governance and firm performance, were obtained from the audited published annual financial reports for listed firms on DSE for 8 years starting from 2015 and ending at year 2022. Our selection of the listed non-bank financial institutions was primarily based on the availability of the variables required for this study.

3.3. Measurement of variables

*3.3.1. Dependent variable-**Return on Assets***

The primary measure used as a dependent variable was the return on assets (Ofoeda, 2016; Arora and Sharma, 2015; Farooque et al., 2022). The decision to use ROA instead of other proxies from accounting-based measures and market-based measures is due to its better distributional properties (Gentry et al., 2004). Our study uses accounting-based measures as a proxy for corporate performance due to the following reasons (i) the accounting data is audited and likely to be authentic and credible (Bodhanwala and Bodhanwala, 2018) ;(ii) is not influenced by the market perceptions or speculations (Hongming et al., 2020) ;(iii) and is thus considered less noisy in comparison to market-based indicators (Rahi et al., 2022).

3.3.2. Independent variables

The variables related to CG characteristics include board size, board meetings, the composition of non-executive directors, and the composition of women directors, CEO-Chairman duality, and CEO tenure. Following earlier studies (Arora and Sharma,2015; Ofoeda,2016), we have considered the following audit committee characteristics namely audit committee size, audit committee independence, and audit committee meeting The construction of independent variables with control variables tested in this study and their measurement techniques are shown in table 2.

Table 2 Construction of variables and their measurement techniques

Independent variables	Measurement
Board Size (BSIZE)	The number of members on the board
Board Meetings (BMET)	The number of times the board meets in a year
Composition on non-executive directors (COMPNED)	Proportion of non-executive directors to total directors on board.
Composition of women directors (COMPWD)	Proportion of women directors to total directors on board
CEO duality (CEOD)	Dummy variable equals 1 when CEO doubles as board chair and 0 otherwise
CEO Tenure (CEOT)	The average number of years the CEO can hold office
Audit Committee Size (ACSIZE)	Number of members on the audit committee.
Audit Committee Independence (ACIND)	Ratio of non-executive directors on the audit committee to the size of the committee.
Audit Committee Meeting (ACMET)	Number of times the audit meets annually
Control variables	
Firm Size (FSIZE)	Natural logarithm of total assets
Firm Age (FAGE)	Number of years since establishment (Log (Current year – year of establishment)
Leverage ratio (FLEV)	The ratio of equity to total assets

3.4 Study Model

The degree of relationship between CG and profitability was investigated using a multiple regression model previously used by Ofoeda (2016). Our regression model also includes some control variables to minimize specification bias following Ofoeda (2015); and Arora and Sharma (2016). To test this linkage, we use FEM (fixed effect model) and REM (random effect model). However, the Hausman test was used to select the most suitable model following (Ofoeda, 2016).

 http://journals.uonbi.ac.ke/index.php/adfj
ISSN 2522-3186

$$\mathbf{ROA_{it}} = \alpha + \beta_{1BSIZEit} + \beta_{2BMETit} + \beta_{3COMPNEDit} + \beta_{4COMPWDit} + \beta_{5CEODit} + \beta_{6}X_{CEOTit} + \beta_{7}X_{ACSIZEit} + \beta_{8ACINDit} + \beta_{9ACMETit} + \beta_{10FSIZEit}\ \beta_{11FAGEit} + \beta_{12FLEVit} + e_{it}$$

Where; ROA_{it} is the profitability on the basis of return on assets disclosed for firm i at time t, $BSIZE_{it}$ is the board size; BMET is the board meeting; $COMPNED_{it}$ is the proportion of independent directors to total directors on the board, $COMPWD_{it}$ is the proportion of women directors to total directors on board; $CEOD_{it}$ is the CEO duality. $CEOT_{it}$ is the COE tenure; ACSIZEit is the audit committee size; ACIND is the audit committee independence; ACMET is the audit committee meeting; FSIZE is the size based on the natural logarithm of total assets, FAGE is the firm age; FLEV is the adequacy ratio, and e_{it} is the disturbance term, $\beta_{1....}$ B_{12} is the beta coefficient.

4. Empirical results

4.1. Descriptive Statistics

The average value of profitability of NBFIs is 10 per cent, which implies that the providers of capital make an average of 10 per cent on their investments, which is on the low side. The average value of board size is two, meaning on average, the firms have a board membership of about two directors. However, a standard deviation of 0.29 suggests that some firms have relatively small board sizes. With board composition, an average of about 83 per cent of directors are chosen from outside the firms (non-executive board members), which implies that most of the boards are deemed independent. Similarly, only 13 per cent of the board members are female, which implies that there is minimal participation of females on the boards of Tanzanian NBFIs. The results reveal that about 4 per cent of the NBFIs considered in the study had the CEO also acting as chairperson of the board. This phenomenon may imply minimal implications on the performance of the board as well as the profitability of the NBFIs. Further, the results show that the average length of time the CEO holds office is 5 years and the board meets about two times a year. Furthermore, the average audit committee size is four members. This is equal to the recommended minimum number of four members. In addition, about 20 per cent of the audit committee members are made up of non-executive directors, which implies a relatively high level of independence of the audit committee in NBFIs listed in DSE when performing their duties.

March Vol 8 No.3, 2025 PP 14-45 ISSN 2522-3186

For audit committee meetings, the results indicated that the audit committee of listed NBFIs meet an average of four times, which implies that the listed NBFIs hold meetings every three months in a year. This is equal to what is suggested by corporate governance theories (Ofoeda, 2016). The average financial leverage of the sampled NBFIs is 24 per cent, which implies that shareholders' funds from about 76 per cent of the total capital of NBFIs and this means that NBFIs are moderately dependent on debt for their operations. Then, the likelihood of leverage affecting their profitability is minimal relative to equity capital. Again, the average age of NBFIs in Tanzania is 4 years. This shows that the Tanzanian NBFIs industry is quite young and that probably explains the poor performance exhibited by NBFIs over the years.

Table 3. Descriptive Statistics

Variable	Mean	SD	Minimum	Maximum	Observations
ROA	0.10	0.17	-0.45	0.52	80
BSIZE	2.14	0.29	1.61	3.04	80
BMET	1.58	0.50	0.69	2.49	80
COMPNED	0.83	0.12	0.50	1.00	80
COMPWD	0.13	0.11	0.00	0.36	80
CEOD	0.04	0.19	0.00	1.00	80
CEOT	5.01	5.66	0.00	23.0	80
ACSIZE	3.76	1.02	3.00	6.00	80
ACIND	1.99	0.57	1.00	4.00	80
ACMET	3.99	1.70	1.00	10.0	80
FAGE	3.7	0.58	2.71	4.61	80
FSIZE	18.84	4.57	11.89	26.8	80
FLEV	0.24	0.27	-0.27	0.95	80

4.2 Pearson Correlation Matrix between independent variables

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ISSN 2522-3186

Table 4 shows the results of Pearson correlation matrices among independent variables used in the study. The findings indicated that there is a relatively low level of collinearity among variables except correlation between ACMET and BMET (at 0.644) and between ACSIZE and BSIZE (at 0.640). However, based on the indicated point of 0.80 (Gujarati, 1995), we may conclude that there is a non-existence of multicollinearity between independent variables used in the study.

Table 4. Pearson Correlation

Variable	BSIZE	BMET	COMPNED	COMPPWD	CEOD	CEOT	ACSIZE	ACIND	ACMET	FAGE	FSIZE	FLEV
BSIZE	1.000											
BMET	0.489	1.000										
COMPNED	-0.042	-0.101	1.000									
COMPWD	0.362	0.588	-0.073	1.000								
CEOD	-0.124	-0.171	-0.501	-0.238	1.000							
CEOT	0.006	-0.153	0.230	-0.141	-0.036	1.000						
ACSIZE	0.640	0.595	-0.137	0.427	-0.148	-0.374	1.000					
ACIND	0.451	-0.033	0.554	-0.024	-0.228	0.463	-0.272	1.000				
ACMET	0.495	0.644	0.034	0.372	-0.232	-0.141	0.711	-0.100	1.000			
FAGE	-0.067	-0.412	0.039	-0.089	0.060	0.435	-0.146	0.055	-0.233	1.000		

FSIZE	-0.166	0.164	0.167	0.159	-0.279	0.083	-0.032	-0.063	0.029	-0.074	1.000	
FLEV	-0.138	-0.270	0.146	-0.348	0.098	0.347	-0.243	0.172	-0.160	0.0672	-0.026	1.0000

4.3 Regression Results

The results of the fixed effect regression model (FEM), exhibit a sufficient degree of relevance as reflected by the significance of F-statistics. The model well explains the performance as indicated by a very good level of Adj. R-Square of 0.898. This signifies that the internal corporate governance proxies, audit committee characteristics, and control variables can account for 89.9% of the profitability of listed Non-Bank Financial Institutions (NBFIs) in the Dares Salaam Stock Exchange (DSE).

Table 5. Regression results

Variable	Coefficient	Significance	t-statistic
Constant	2.6641	0.004	3.03
BSIZE	-0.3725	0.015	-2.51
BMET	0.0298	0.568	0.57
COMPNED	-0.3427	0.006	-2.82
COMPWD	0.3412	0.026	2.82
CEOD	-0.0163	0.757	-0.31
CEOT	0.0214	0.000	3.61
ACSIZE	0.0570	0.098	1.68
ACIND	0.1562	0.013	2.58
ACMET	0.0109	0.266	1.12
FAGE	-0.5418	0.019	-2.41
FSIZE	-0.0122	0.000	-5.86

FLEV	0.0807	0.025	2.29
Effects Specification			
Cross-section fixed (dummy variables)			
R-Squared	0.8999	Mean dependent var	0.1875
Adjusted R-squared	0.8574	S.D.dependent var	0.3014
F-statistic	21.660	Durbin –Watson stat	1.8616
Prob (F-statistic)	0.0000		

The findings indicate that the coefficient of COMPWD and CEOT have a positive significant relationship with profitability (ROA), which implies that a change in COMPWD and CEOT will lead to an increase in profitability represented by 0.3412 and 0.0214 respectively. Further, the coefficient of BSIZE and COMPNED was negative and statistically significant at a 1% significance level. This implies that a unit change in the BSIZE and COMPNED with other things being equal will result in a decrease in profitability (ROA) by 0.3725 and 0.3427 respectively. As far as BMET and CEOD, the coefficient results showed an insignificant relationship with profitability (ROA).

Further, the results shows a positive coefficient of 0.1563 implies that for every unit change in the ACIND then NBFI's profitability increases by 15.63%. As far as ACSIZE and ACMET are concerned, the results showed an insignificant relationship with profitability (ROA). In terms of control variables used; only FLEV was positive and statistically significant at a 1% level of significance with a coefficient of 0.0807. Finally, in the case of FSIZE and FAGE, the finding reveals a negative and statistically significant relationship with ROA with the coefficient of 0.0122 and 0.5417 respectively.

5. Discussion of the Results

The study illustrates that the proportion of non-executive directors to total directors (COMPNED) has a significantly negative relationship with the profitability of listed NBFI in the DSE. This result implies that the presence of non-executive directors on the board of directors does not affect profitability of NBFI. One of the possible reasons could be that inside directors have access to information that is relevant to the operation and management of the firm effectively (Ofoeda, 2016). These findings do not support hypothesis 3, however, the results are consistent with some of prior research i.e. Ofoeda, 2016; Bhagat and Black, 2002; Bokpin, 2013 and Weng et al. 2002. On the other hand, our result is contrary to the findings of Boachie (2021) who reported a positive relationship between the composition of non-executive directors on board and profitability.

Regarding the proportion of women directors to total directors on board (COMPWD), the result was found to be positive and significant. This means that the increasing number of women directors on board members results in a significant increase in NBFI profitability. Results as presented in Table 3 show that only 13 percent of females make up the boards of listed NBFI. This means that their influence on the board of listed NBFI is not minimal and improves the performance. Our result is consistent with Kang et al (2010), who indicated that more female board member improves the performance and corporate image. On the other hand, contradicts the findings of Ofoeda (2016) which reveals that the presence of women directors on the board leads to poor performance. Perhaps, the positive impact of the female board member is not solely due to gender but rather the diversity of thoughts and experiences the women bring on board.

Board meetings which are measured by the number of times the board meets in a year (Davidson et al.,1998), are considered as important channels through which directors on board can perform their role (Ofoeda,2016). Board frequent meetings are reported as significant factor on profitability of the firms (Godard and Shatt, 2004; Davidson et al., 1998). However, our finding as presented in Table 5 show the insignificant relationship. This implies that the board frequency of the meetings is not the key variable in increasing the profitability of listed NBFI. One of the possible reasons could be that a majority of the board members of the listed NBFI are insiders as reported in our study. Our findings do not confirm the findings of Godard and Shatt (2004) and Davidson et al. (1998) who find a positive relationship between board meetings and a firm’s profitability. Our findings also differ from the findings of Ofoeda (2016) who reports a negative relationship between the frequency of board meetings and a firm’s profitability.

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Board size shows a negative and significant relationship with the profitability of listed NBFIs in Tanzania. The negative relationship suggests that larger boards do not perform better compared to small boards. This may perhaps be attributed to the fact that large board size may lead to a complex decision process, but also lower accountability as it is difficult to attach decisions and performance to individuals. Moreover, the large board size may lead to increased administrative costs and hence reduce profitability. The findings here do not support H_1 and are inconsistent with Ofoeda (2016); Kyereboah-Coleman (2006) and Abor (2007).

CEO duality has an insignificant relationship with the profitability of NBFIs. This does not agree with the stewardship theory. This implies that the managers who play the role of chairman of the board have no incentive to provide strong supervision that may maximize profit. Perhaps this insignificant relationship may be attributed to other good governance attributes which mitigates the potential negative impact of CEO duality where the CEO serves as a board chair. However, our finding is not similar to Boachie (2021), who had a positive and significant relationship between CEO duality and profitability. Again, the findings do not support H_5.

Regarding the CEO tenure, the result was found to be significant. This implies that the long tenure of the CEO in the office is beneficial for increasing performance of listed NBFIs in Tanzania. These findings support hypothesis 6, also in line with those of Peni, (2014), Baysinger, and Hoskisson, (1990).

Corporate governance opined that when an audit committee works independently leads to better firm performance (Klein, 1998). The study finds a positive and significant relationship. This implies that the more independent audit committee tend to increase profitability as compared to the audit committee dominated by executive directors. This finding may be attributed to the fact that independent audit committees may be unbiased which will allow them to make objective and impartial oversight over financial reporting and internal control systems. However, our findings differ seems to be contrary to that of Ofoeda (2016) and Kyereboah-Coleman (2007). Again, the results of the study no longer guide stewardship theory and research hypothesis number $_8$.

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Audit committee size was found to have no significant relationship with the performance of listed NBFIs. This finding may suggest that different firms may have different optimal sizes of audit committees which may work effectively and efficiently. However, this finding may also suggest that the number of members in the committee does not matter but rather the quality of the members of the committee. However, our results do not support H_7 but are in line with Romano et al. (2012) and Brick and Chidambaram (2010). Moreover, the other possible reason for inconsistent results in audit committee size could be that an audit committee with a small size may have more experience in internal control systems than larger audit committee.

Audit committee meetings, which are measured as the number of meetings of an audit committee (Azam et al., 2010), have shown an insignificant relationship with the listed NBFIs's profitability. These findings may suggested depth and quality of the discussion may matter relative to the number of meetings. Not only may that, but the implementation of the outcome of the meetings matter a lot relative to the number of audit committee meetings. This means the frequency of the audit committee meetings may not matter and may have no improvement on the performance if there is no quality discussion as well as effective implementation of the outcome of the meetings. However, our findings do not support research hypothesis number 8 and the study of Ofoeda (2016); Faroque et al. (2019); and Kyereboah-Coleman (2008), who found frequency of meetings of the audit committee resulted in improved profitability.

Furthermore, our study examined the effect of firm size, age and leverage on profitability to ensure the model is well specified. The study's results reveal a positive and significant relationship between financial leverage and the profitability of NBFI. This result implies that low-geared NBFIs perform better than highly geared firms. One of the possible reasons could be that geared NBFIs are seen to have low cost and low insolvency risk (Ofoeda, 2016). The findings of this study are consistent with Ofoeda (2016); Goddard et al. (2004) and Staikouras and Wood (2004). This is however contrary to the findings of Alkassim (2005), who found a negative and significant relationship between financial leverage and profitability. Firm size has a negative and important relationship with the profitability of listed NBFIs. This implies that larger firm size decreases the profitability of listed NBFIs. Our study confirms the findings of Sufian and Chong (2008) and differs from Ofoeda (2016) and Bikker and Hu (2002), who find a positive relationship between firm size and profitability. Finally, firm age has a negative and significant relationship with the profitability of NBFIs.

6. Conclusion

This study investigates the effect of CG on the performance of non-bank financial institutions listed at the Dar es Salaam Stock Exchange. The study concludes as follows. The existence of women directors on the board, audit committee independence and the long tenure of the CEO in the office resulted in a significant increase in NBFI performance. The existence of non-executive directors and board size were significantly and negatively related to the performance of listed NBFIs. Whereas board meetings, chief executive officer –duality, audit committee size and audit committee meetings do not improve the performance of listed NBFIs, that means they are not important and did not influence the profitability of listed NBFIs in Tanzania.

The study contributes to both theory and practice on corporate governance and performance literature in Tanzania. It considers the influence of internal corporate governance variables and audit committee characteristics on the profitability of NBFIs, which have been sidelined, in the existing literature in Tanzania. Further, our findings have important implications for non-bank financial institutions, managers, researchers, investors, and policymakers. It shows the importance of appointing women directors on the board, the composition of independent directors on the audit committee, and ensuring the long tenure of the CEO in the office resulting in to increase the NBFI profitability.

This study has several limitations. First, the study is based on a small sample of listed non-bank financial institutions at the Dar es Salaam Stock Exchange for the period covered for the study which means the results should be generalized with caution. In this sense, it would be interesting to extend and cover other non-financial firms which are not listed in the Dar es Salaam stock market to get a large sample. Second, it should be noted that this work has focused on a set of Tanzanian companies, in this sense it would be interesting to replicate the study in other East African countries. Third, other industries such as banks and insurance should be extended to cover

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ISSN 2522-3186

other industries. Another line of research is to go deeper in exploring the real or qualitative reasons behind the positive effect of women directors on the board and performance of listed NBFIs and consider more elements such as the level of female CEO on board, educational background, nationality and age.

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