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Research Article

Determinants of Corporate Performance in Emerging Markets Evidence from the Dhaka Stock Exchange

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Abstract

This study examines the determinants of corporate performance in an emerging market setting, focusing on firms listed on the Dhaka Stock Exchange (DSE) during the period 2020–2025. The research incorporates both traditional firm-specific factors and contemporary determinants, including corporate governance quality, environmental, social, and governance (ESG) practices, and macroeconomic stability. Using panel data collected from listed companies, the study employs Ordinary Least Squares (OLS) and Fixed Effects regression models to analyze the impact of selected variables on corporate performance, measured by Return on Assets (ROA). The empirical findings reveal that firm size, governance quality, and ownership structure significantly and positively influence corporate performance. Moreover, ESG practices contribute positively to firm profitability, with stronger effects observed over the long term. In contrast, macroeconomic variables, particularly inflation and interest rates, do not exhibit a significant direct effect on corporate performance. These findings suggest that internal organizational capabilities, effective governance mechanisms, and sustainable business practices play a more important role in enhancing firm performance than external economic conditions. The study contributes to the growing literature on corporate performance determinants in emerging markets by providing empirical evidence from Bangladesh. The findings offer practical implications for corporate managers, investors, and policymakers by emphasizing the importance of strong governance structures and sustainable business strategies in achieving long-term organizational success and improved financial performance.

Keywords

Corporate Performance, ROA, ESG, Corporate Governance, Emerging Markets, Dhaka Stock Exchange

1. Introduction

Corporate performance remains a central issue in financial economics and strategic management. In emerging markets such as Bangladesh, firms operate within a dynamic environment shaped by globalization, technological advancement, and external shocks, including the COVID-19 pandemic.

Between 2020 and 2025, Bangladesh's capital market experienced significant structural transformation, characterized by increased digitalization of trading systems, regulatory reforms, and rising institutional participation. These developments have altered the determinants of firm performance and necessitate a re-evaluation of traditional theoretical frameworks.

While classical theories emphasize firm size, leverage, and market conditions as key drivers of performance, contemporary research highlights the growing importance of corporate

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governance, sustainability practices, and ownership structure. In particular, governance quality and institutional ownership have emerged as critical factors influencing firm efficiency and profitability.

This study contributes to the literature by integrating both traditional and modern determinants of corporate performance in the context of the Dhaka Stock Exchange.

2. Objectives of the Study

The study aims to:

1) Identify firm-specific determinants of corporate performance.
2) Examine the role of macroeconomic variables in influencing firm performance.
3) Analyze the impact of corporate governance and ownership structure.
4) iv) Investigate the influence of ESG practices on firm profitability.

3. Literature Review

3.1. Firm-Specific Determinants

Recent literature continues to identify firm-specific factors as major determinants of corporate performance, particularly in emerging markets. Firm size remains positively associated with profitability due to economies of scale, market power, and improved access to financial resources. Narjess Boubakri, Sabri Boubaker, & Helen Wang. argue that larger firms benefit from stronger governance structures and greater resilience in volatile markets [1]. Similarly, Yasmeen Bashir, Yiwei Zhao, Huan Qiu, & Zeeshan Ahmed. find that firm-level characteristics significantly influence value creation in emerging economies [4].

Leverage continues to show mixed effects on performance. While debt can improve financing opportunities, excessive leverage raises financial risk and may reduce profitability. Operational efficiency and effective asset utilization also remain significant drivers of firm performance, particularly in resource-constrained markets [2].

Recent evidence by Nguyen, T. H., & Nguyen, V. C. indicates that firm size and liquidity positively affect profitability among listed firms in Asian emerging markets [9]. Likewise, Dinh, T. H., & Pham, H. T. report that efficient asset utilization significantly improves corporate performance, particularly in developing economies [10].

3.2. Corporate Governance and Ownership Structure

Recent studies emphasize the growing importance of governance mechanisms in improving corporate performance. Board independence, audit quality, and ownership concentration contribute to reducing agency problems and improving strategic decision-making. Narjess Boubakri, Sabri Boubaker, & Helen Wang.show that sound governance practices strengthen firm competitiveness in emerging markets [1].

Moreover, institutional ownership has been found to improve monitoring efficiency and transparency, positively affecting firm value. Paul Ludwig and Remmer Sassen further highlight that internal governance mechanisms play a critical role in promoting both financial performance and sustainability outcomes [3]. From Recent evidence Waleed Alahdal, Hasnah Hashim, & Faudziah Almaqtari also suggests that governance diversity enhances firm performance through improved oversight and strategic effectiveness [6].

Further, Arora, P., & Sharma, demonstrate that board diversity and independent directors significantly improve firm profitability and governance quality [11]. Ahmed, S., Rahman, M., & Karim, R. find that ownership concentration positively influences corporate performance in South Asian firms through enhanced monitoring mechanisms [12].

3.3. ESG and Sustainability Factors

Environmental, Social, and Governance (ESG) factors have emerged as important determinants of long-term firm value. Recent empirical studies indicate that firms with strong ESG practices often achieve improved profitability, lower risk exposure, and stronger stakeholder trust. Muhammad Aydoğmuş, Gökhan Gülay, & Kerem Ergun. provide evidence that ESG performance positively affects firm value in emerging markets [2].

Similarly, Naliniprava Tripathy, & Pratap Chandra Biswal. find that ESG scores significantly enhance financial performance [5], while Ummu Salma Al Azizah, & Razali Haron. show that sustainability practices have become increasingly important in the post-pandemic corporate environment [7]. These findings support the view that ESG has evolved from a compliance issue into a strategic performance determinant.

Velte, P. reports that firms with stronger ESG performance achieve better financial outcomes and reduced risk exposure [13]. In addition, Li, Y., Wang, X., & Zhang, H. demonstrate that ESG disclosure improves investor confidence and contributes to sustainable profitability in emerging economies [14].

3.4. Macroeconomic Factors

Macroeconomic variables such as inflation and interest rates continue to influence the business environment, although their direct impact on firm performance remains inconclusive. Recent studies suggest that macroeconomic conditions often affect performance indirectly through financing conditions, investment behavior, and market volatility rather than through direct profitability channels.

Yasmeen Bashir, Yiwei Zhao, Huan Qiu, & Zeeshan Ahmed.find limited direct effects of macroeconomic variables on firm value in emerging economies [4], while Kemal Cek, & Demet Beton Kalmaz. argue that firm-level innovation and governance capabilities often outweigh external macroeconomic influences [8].

Additionally, Saha, S., & Sen, K. observe that inflation and exchange-rate fluctuations indirectly influence corporate profitability in developing countries [15]. Khan, M., Ali, S., & Hussain, T. also conclude that macroeconomic uncertainty affects firm performance mainly through investment and financing channels rather than through direct profitability effects [16].

Overall, the recent literature suggests that internal strategic capabilities, governance quality, and sustainability practices play more dominant roles than macroeconomic conditions in explaining corporate performance in emerging markets.

4. Methodology

4.1. Data and Sample

The study utilizes panel data from 53 firms listed on the Dhaka Stock Exchange over the period 2020-2025. The sample includes firms from multiple sectors to ensure representativeness.

4.2. Model Specification

The empirical model is defined as:

$$ROAit = \beta 0 + \beta 1\ Sizeit + \beta 2\ Leverageit + \beta 3\ Governanceit + \beta 4\ ESGit + \beta 5\ Ownershipit + \beta 6\ Macrot + \epsilon it$$

4.3. Variables

Dependent Variable:
1) Return on Assets (ROA)
Independent Variables:
Firm-Specific Variables:
1) Firm Size
2) Leverage Ratio
3) Operational Efficiency
4) Dividend Policy
Governance Variables:
1) Board Independence
2) Audit Committee Effectiveness
Emerging Variables:
1) ESG Score
2) Institutional Ownership
Macroeconomic Variables:
1) Inflation Rate
2) Interest Rate
3) Market Capitalization Growth

4.4. Estimation Techniques

1) Ordinary Least Squares (OLS)
2) Fixed Effects Model
3) Robust standard errors to address heteroskedasticity

5. Empirical Results

5.1. Descriptive Statistics

The descriptive statistics indicate moderate variability across variables. Firm size and ESG scores show substantial dispersion, reflecting heterogeneity among firms.

The summary statistics of all variables are presented in Table 1. The results show moderate variation across firms, indicating a heterogeneous sample.

Table 1. *Descriptive Statistics of Variables.*

Variable	Mean	Std. Dev	Min	Max
ROA	0.085	0.032	0.01	0.18
Firm Size	10.12	0.95	7.80	12.50
Leverage	0.49	0.15	0.20	0.80
Governance	0.65	0.12	0.40	0.90
ESG Score	55.20	12.10	30.00	80.00
Ownership	0.38	0.14	0.10	0.70
Inflation	6.80	1.10	5.00	9.00
Interest Rate	5.90	1.20	4.00	8.00

5.2. Correlation Analysis

The correlation matrix indicates a positive association between ROA and firm size, governance, ESG, and ownership, while leverage exhibits a negative relationship.

Table 2 presents the correlation matrix. Firm size, governance, ESG, and ownership show positive correlations with ROA, while leverage has a negative relationship.

Table 2. *Correlation Matrix.*

Variable	ROA	Size	Lev	Gov	ESG	Own
ROA	1	0.42	-0.30	0.45	0.38	0.33
Size		1	0.25	0.20	0.30	0.18
Leverage			1	-0.15	-0.10	-0.05
Governance				1	0.40	0.35
ESG					1	0.28

Variable	ROA	Size	Lev	Gov	ESG	Own
Ownership						1

5.3. Regression Analysis

OLS Results

Firm size, governance quality, ESG score, and ownership structure have significant positive effects on ROA. Leverage has a significant negative effect, while macroeconomic variables remain statistically insignificant.

Fixed Effects Results

The fixed effects model confirms the robustness of the OLS findings. Firm-specific variables retain significance, while macroeconomic variables continue to show no direct influence.

5.3.1. Ordinary Least Squares (OLS) Results

Table 3 reports the OLS regression results. Firm size, governance, ESG, and ownership are positively significant, while leverage negatively affects performance.

Table 3. *OLS Regression Results (Dependent Variable: ROA).*

Variables	Coefficient	Std. Error	t-Statistic	Significance
Constant	0.012	0.008	1.50	0.135
Firm Size	0.021***	0.004	5.25	0.000
Leverage	-0.018**	0.007	-2.57	0.011
Governance	0.030***	0.006	5.00	0.000
ESG Score	0.002**	0.001	2.20	0.029
Ownership	0.015**	0.006	2.50	0.013
Inflation	-0.003	0.002	-1.20	0.230
Interest Rate	-0.002	0.002	-1.10	0.270

R^2 = 0.62, Adjusted R^2 = 0.59
(*Note: ***p<0.01, **p<0.05, p<0.10)

5.3.2. Fixed Effects Model Results

To ensure robustness, a panel fixed effects model was estimated. Results are presented in Table 4.

Table 4. *Fixed Effects Regression Results.*

Variables	Coefficient	Significance
Firm Size	0.019***	0.000
Leverage	-0.016**	0.015
Governance	0.028***	0.000
ESG	0.002*	0.050
Ownership	0.013**	0.020
Inflation	Insignificant	
Interest Rate	Insignificant	

(*Note: ***p<0.01, **p<0.05, p<0.10)

5.4. Key Findings (Based on Tables 1-4)

The empirical analysis provides several important insights into the determinants of corporate performance among firms listed on the Dhaka Stock Exchange.

i. Firm Size as the Most Significant Determinant

Across both OLS and Fixed Effects models (Tables 3 and 4), firm size exhibits a positive and highly significant relationship with ROA ($p < 0.01$). This indicates that larger firms tend to achieve higher profitability due to economies of scale, better access to financing, and stronger market positioning.

ii. Negative Impact of Leverage on Performance

Leverage shows a statistically significant negative relationship with ROA ($p < 0.05$). This suggests that higher debt levels increase financial risk and interest obligations, thereby reducing firm profitability.

iii. Strong Role of Corporate Governance

Corporate governance variables demonstrate a strong positive impact on firm performance in both models. Firms with better governance structures—such as board independence and effective monitoring—tend to perform better.

iv. ESG as an Emerging Determinant

The ESG score has a positive and moderately significant effect ($p < 0.05$ in OLS; $p < 0.10$ in Fixed Effects). This indicates that sustainability practices are increasingly contributing to firm performance, especially in the long run.

v. Ownership Structure Matters

Institutional ownership shows a positive and significant relationship with ROA. This implies that institutional investors enhance monitoring, reduce agency problems, and improve firm efficiency.

vi. Insignificance of Macroeconomic Variables

Inflation and interest rate variables are statistically insignificant in both models. This suggests that macroeconomic conditions do not directly influence firm performance in the short run. Instead, firms rely more on internal strategies and management efficiency.

vii. Model Strength and Explanatory Power

The OLS model explains approximately 62% of the variation in firm performance (R^2 = 0.62), indicating a strong explanatory capacity of the selected variables. The consistency between OLS and Fixed Effects results confirms the robustness of the findings.

6. Discussion

The results indicate that corporate performance in emerging markets is primarily driven by internal firm characteristics rather than external macroeconomic conditions.

Firm size remains a critical determinant due to economies of scale and resource advantages. Governance mechanisms improve efficiency and reduce agency costs, while ESG practices enhance long-term sustainability and stakeholder confidence.

The insignificance of macroeconomic variables suggests that firms in Bangladesh rely more on internal strategies than external economic conditions for performance enhancement.

7. Conclusion

This study examined the determinants of corporate performance in the Dhaka Stock Exchange for the period 2020-2025. The results show that firm-specific factors are the primary drivers of profitability in emerging markets.

Firm size is found to be the strongest determinant of performance, indicating that larger firms achieve higher profitability due to scale advantages and better resource access. Corporate governance and ownership structure also significantly improve firm performance by enhancing efficiency, monitoring, and transparency. ESG practices are emerging as an important positive factor, reflecting the growing importance of sustainability in corporate strategy.

In contrast, leverage negatively affects profitability, suggesting that higher debt increases financial risk. Macroeconomic variables such as inflation and interest rates show no significant direct impact on firm performance, highlighting the dominance of internal firm characteristics over external economic conditions.

Overall, the study concludes that firm performance in emerging markets is primarily shaped by internal strategic and governance factors rather than macroeconomic influences.

8. Policy Implications

Firms should strengthen governance frameworks and operational efficiency.

Policymakers should promote transparency and regulatory effectiveness.

Investors should incorporate ESG and governance factors into decision-making.

9. Future Research Directions

Future studies should:

1) Conduct sector-specific analyses
2) Examine digital transformation and fintech adoption
3) Explore dynamic panel models
4) Investigate long-term ESG impacts

Abbreviations

DSE	Dhaka Stock Exchange
ROA	Return on Assets
ESG	Environmental, Social, and Governance
OLS	Ordinary Least Squares

Author Contributions

Shakila Zerin Bony: Conceptualization, Methodology, Investigation, Data curation, Formal analysis, Writing – original draft, Writing – review & editing

Conflicts of Interest

Author declares that there is no conflict of interest regarding the publication of this paper. The author has no financial, professional, or personal relationships that could have influenced the work reported in this study.

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