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Playing the Blaming Game Good Depicting Bangladesh Perspective on Corporate Governance

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Abstract: *Corporate governance in modern times is a rising, hot-cake concept that is being introduced worldwide almost in all corporations. The main purpose of corporate governance is to ensure transparency and equality between a corporation and its shareholders. This ensures that there is efficiency in the stock market as well as better investor confidence regarding a corporation that welcomes its future shareholders. Also, financial calamities and other forms of market failures and risks can be mitigated by a large amount through the implementation of corporate governance. Injection of corporate governance policies is mainly done by corporate board provision as well as support from the government, but at first a framework must be developed. The surrounding countries of Bangladesh are already doing well in terms of corporate governance practices but Bangladesh is lagging behind by a mile. However, this does not mean that corporate governance concerns is absent in our country, rather, Bangladesh government and its many corporations are trying to improve such governance in the economy through strong monitoring mechanisms and disclosure polices as directed by the Security Exchange Commission (SEC). This is a working paper towards completion upon data collection and analysis. The objective of this paper is to assess the overall concept of corporate governance, and its practices present in financial institutions in Bangladesh.*

Keywords: *Bangladesh, Company Policy, Corporate Governance, Finance, Practices*

I. Introduction

Corporate governance is best described as a set of mechanisms and procedures through which corporations establish a foundation of principles to operate upon. Sir Adrian Cadbury in 'Global Corporate Governance Forum', defined corporate governance as a tool that creates and farms the equilibrium between economic and social goals and between individual and communal goals. Through the framework of corporate governance it is possible to engage the efficient use of resources that equally requires accountability for the stewardship of those resources. The main purpose of corporate governance is to align as nearly as possible the interests of individuals, corporations and society (Cadbury, 2000). In a broader sense, corporate governance discusses the devices, processes and relations by which corporations are controlled and directed (Shailer, Greg 2004). Governance mechanisms may include monitoring and evaluating the actions, policies and decisions of corporations and their agents. According to OECD, the corporate governance structures help to identify the distribution of rights and responsibilities between different participants (such as the board of shareholders, managers, directors, and other stakeholders in the corporation) and comprise the rules, regulations and procedures for assembling decisions in corporate dealings (OECD, 2004). Tricker and Adrian stated that corporate governance also includes the procedures and techniques through which corporations set their objectives and pursue them in context of the social, regulatory and market environment (Tricker, Adrian, 2009).

A vital notion and effort by corporate governance is to ensure accountability and responsibility through a set of principles, which should be fused into every part of the organization. The ultimate emphasis of corporate governance is to confirm better and effective protection for all stakeholders by holding the firm’s directors and mangers accountable. As a concept, corporate governance is viewed as a recent issue, but there is, in fact, nothing new about the theory. Corporate governance has existed along the origin of the corporation itself-as long as there has been significant trade, creating the need for responsibility in the handling of money and the conduct of commercial activities. Through transparency and accountability, corporate governance brings professionalism in the management system of a corporate body and enriches the credibility and acceptability of all stakeholders. Basel Committee, 1997 states that a good corporate governance model and practice involves appropriate and effective fundamentals of legal, regulatory and institutional basis. But the integrity and overall performance of the corporate governance model can be disturbed by a variety of factors including the system of business laws and accounting standards. Supervisors are therefore fortified to be conscious of legal and institutional inhibitions towards solid corporate governance, and to take steps to protect effective foundations for corporate governance where it is within their legal authority to do so (Basel Committee, 1997).

The concept, model, and the theory of corporate governance in developing economies is important for several reasons. Unfortunately, corporate governance practices in Bangladesh are quite vague in most companies and organizations. In fact, Bangladesh has lost the race to its neighbors and the global economy in corporate governance (Gillibrand, 2004). One probable reason for this absence of corporate governance is that most companies are family oriented. Companies feel reluctant to disclose information and expand governance practices. There is neither any value judgment nor any motivation and positive consequences for corporate governance practices in our country. The current system in Bangladesh does not offer any form of adequate legal, institutional and economic motivation for stakeholders to encourage and enforce corporate governance practices; hence failure in most of the ingredients of corporate governance is witnessed in Bangladesh. Fragile bankruptcy laws, no release of information regarding related party transactions, feeble regulatory system, poor general meeting scenario, inadequate number of active shareholder participations are some of the barricades to corporate governance which Mamtaz Uddin Ahmed and Mohammad Abu Yusuf have argued in their research " Corporate Governance : Bangladesh Perspective" (Mamtaz and Yusuf, 2005). However, the urgency of corporate governance in Bangladesh is growing. According to Khan, Securities and Exchange Commission of Bangladesh issued a statement on corporate governance Guidelines for the publicly listed companies of Bangladesh under Section 2CC of the Securities and Exchange Ordinance, 1969. The corporate governance Guidelines were issued on a provisional 'comply or explain' foundation, allowing some 'breathing space' for the companies to implement on the basis of their capabilities. Corporate governance practices in Bangladesh are progressively being familiarized in most companies and organizations. Among the companies, 66.7 percent of them have adopted corporate governance and 43.3 percent have agreement policy with national or international yardsticks though the fact remains that a considerable percentage of the top management does not fully understand or is willing to grasp the concept of corporate governance (Khan, 2007).

Corporate governance norms play a crucial role in the banking industry in Bangladesh. The fact that banks deal with public money makes public confidence of outmost importance for the development of banking industry in Bangladesh. However, Huq and Bhuyian argues that it is uncertain that the practice of corporate governance in banking industry in Bangladesh is effective enough, because, a number of problems is reported to exist in corporate governance practices such as board members consisting of only family members, and inadequate bankruptcy laws(Huq and Bhuiyan, 2012).

1.2 Objectives of the study

The main objective of the study is to identify and analyze the benefits and negative aspects of corporate governance practices, and how corporate governance models can help companies and organizations in Bangladesh. We also wish to detect the problems and loopholes that exist in corporate governance practices so that these problems can be examined and solutions can be constructed to overcome such problems, thereby highlighting the prospects of corporate governance practices.

In specific, the purpose of our study is to know the following:

- The current status of corporate governance practices in terms of accountability and transparency to stakeholders
- To what extent of fairness the practices of corporate governance actually is
- If corporate governance system in Bangladesh is transparent for all stakeholders in the financial institutions sector

1.3 Limitation of the study

For the preparation of this paper, we had to undergo the following limitations:

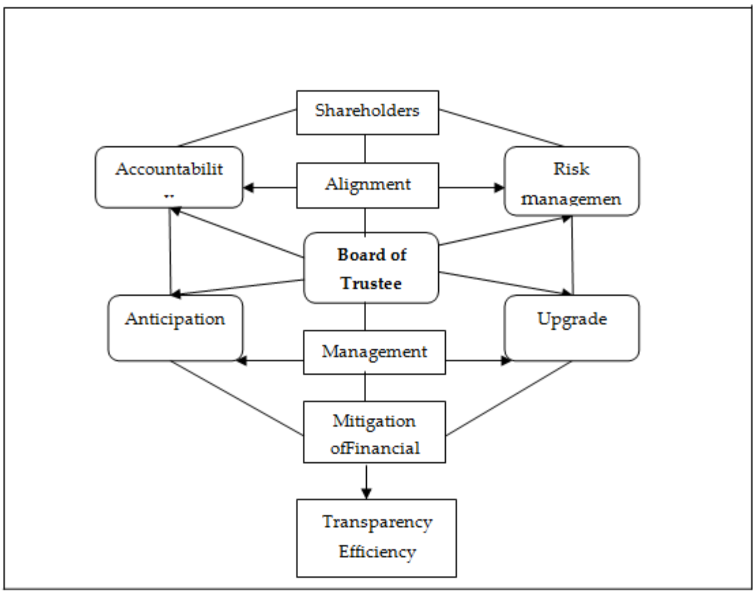
- Corporate Governance itself is a huge, complex issue to describe
- Because of tight malpractice rules and actions taken by the government, the institutions were extremely reluctant to disclose information
- For time and other resources limitation, we were able to interview only three financial institutions
- The secondary data sources regarding corporation governance in our country were also few in numbers as there is a considerable lack of studies conducted on the corporate governance landscape in Bangladesh

II. Review Of Related Literature

The core definition of corporate governance itself varies amongst authors. Sir Adrian Cadbury describes corporate governance as a "system" by which companies are directed and managed (Cadbury and Greenbury report, CFACG 1992). Another school of thought labels corporate governance as "structures and processes for decision making, accountability, control and behavior at the governing body" (Public accounts and Estimates Committee, 2002). And to others, corporate governance is about "finding alternatives" to ensure effective decision making in the corporate scenario (Pound 1995). According to The World Bank the framework of corporate governance should be based on four "pillars" – of Responsibility, Accountability, Fairness and Transparency (RAFT).

In the case of corporate governance in the banking sector, three elements of literature stand out. Prowse, Furfine, Morgan, Macey and O"Hara argued that banks are generally more opaque than non-financial firms. The second aspect of literature describes how better corporate governance practices in banks can help their financial development and growth. Bushman and Smith presented in their study a framework that separates three channels through which financial accounting information can affect the investments, productivity, and value-added of firms, namely the use of financial accounting information by managers and investors, the use of financial accounting information in corporate control mechanisms and the use of financial accounting information to reduce information asymmetries among investors (Bushman and Smith, 2003). In the third strand, Jensen and Meckling views corporate governance practices in banks from the perspective of its impact on performance and efficiency of the banks themselves (Jensen and Meckling, 1976). From the perspective of Bangladesh and the presence of corporate governance practices present in our country, Rashid et al have acknowledged six specific corporate governance characteristics in relation to current corporate governance practices in Bangladesh, namely legal and regulatory frame work, weak institutional control, pre-dominant of individual investors, limited transparence and weak disclosure practices etc. and have examined board composition and firm performance from Bangladesh perspective. The study has also examined the influence of corporate board composition in the form of representation of outside independent directors on firms' economic performance in Bangladesh. The finding of the study has provided an insight to the regulators in this quest for harmonization of internal corporate governance practices (Rashid, A et al 2007). Also, Kutubi has examined board of director's size, independence and performance in an analysis of private commercial banks in Bangladesh. His work highlighted how much impact the board size and the independent directors can have on the performance of the local private commercial banks in Bangladesh. Statistical evidence shows significance positive relationship existed between the proportions of the independent directors and the performance of the banks (Kutubi, 2011).

Figure 1: Conceptual Framework for Corporate Governance



2.2 Conceptual Framework and Definition

In the conceptual framework of corporate governance stewardship theory comes first; it suggests that the hierarchy level of a corporation prefer more meditation on extensive demand rather than personal desires (Schoorman & Donaldson, 1997). According the main theme it is clear that the corporate governance actually maintains a broad chain within the corporation. In any organization the board of trustee is the basement of all activities. They can directly give the order to the employees or indirectly command through the management to achieve the mission and vision of the entity. It makes a liaison with the outside shareholders as well and gives them priority to share their valuable decision in terms of company's development. Board of directors plays role to make alignment in the organization. Alignment is the functions, structures and cultures within the organization that comes into the action with the sound corporate governance. Good environment within the organization attracts more external potential shareholders. It is always important to build up sufficient relationship with the share market and shareholders to mitigate the entity's risk. It also helps to manage the risk within the department through the risk management framework. Directors, shareholders and management get the chance to express their opinion. They can build clear and transparent accountabilities through legislative compliance and corporate reporting. The director's decision helps management to take proper action for the employee's performance. The board of directors is also responsible for any improvements or upgrades in the framework that will result in better performance. Overall, Corporate governance will help to concrete a good anticipation for the organization. Anticipation is the individual's performance, intervention and internal control mechanism. On the other aspect, development comes through the exact risk mitigation and proper hierarchal decision. As all the elements in the framework perform in an integrated chain, financial crisis and risk are minimized, and transparency is ensured that results in a sound, efficient corporate market.

2. 2.1 Definition of Corporate Governance

The word corporate is defined as a part of the economies which is made up by the companies whereas "governance" indicates mechanism to govern the companies. Corporate governance has become an extensive term in the business world. It has direct or indirect impact on the financial process (lending and borrowing) of an organization. Corporate governance makes procession with all the departments in a company. It emphasizes on authority, accountability, stewardship (responsibilities of management), leadership, direction and control (Commonwealth Department of the Australian Prime Minister, 2009). In simpler terms, corporate governance is the mechanism to facilitate entity's longevity with the proper direction and maintain internal control for mitigating risk. It also signifies to create leadership through the strategic decisions and exact authorization power. All the financial institutions like banks, insurance companies they have a proper emphasis for corporate governance. If we talk about Bangladesh Bank, the central bank of Bangladesh has a vital role to establish corporate governance environment for all commercial banks with its accountability.

2.2.2 History of Corporate Governance

The Wall Street crash of 1929 have significant role in the construction of corporate governance theory. After the immediate result of that crisis some scholars such as Adolf Augustus Berle, Edwin Dodd and Gardiner Means had taken the first initiative to control the financial crisis. In the meantime, from the Chicago School of Economics, Ronal Coase introduced the idea about the organization structure and its formal behavior. Their initiative had made a great change in economy and help to constitute this theory of corporate governance.

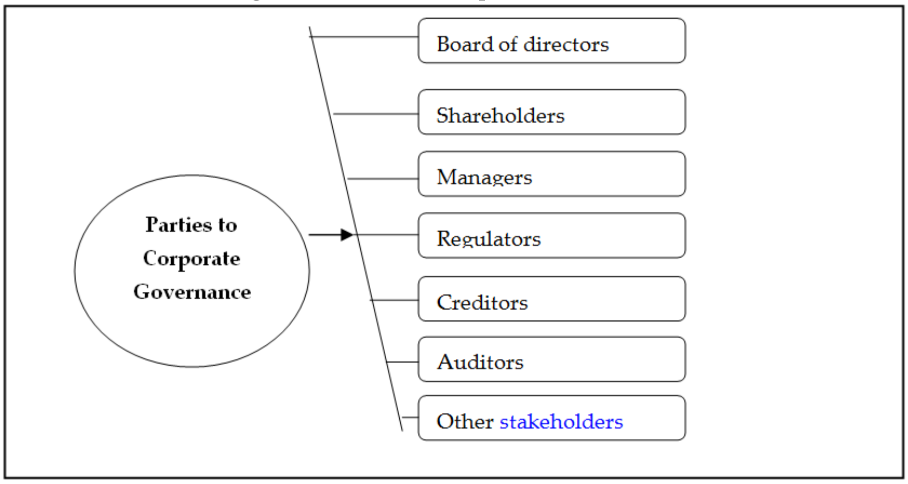
Capitalism at the beginning of 21st century was a great issue in the global economy. In America, capitalism was a method where many corporations competed with each other. In this broad, capitalist market corruption and inequality was a great issue. The business scholars created a framework and started to maintain it within the business organization. As a result a shape of corporate governance had been established at 21st century. In the 1980s, the theory got its fundamental base after the introduction of the principal-agent problem by two scholars Eugene Fama and Michael Jensen to understand the role of corporate governance (Kathleen Eizenhardt, 1989).

In Bangladesh, the financial institutions like banking and non-banking institutions have been contributing their role from then onwards. All the regulations and ownership of banks had been carried out by the government of People's Republic of Bangladesh till 1982. The mechanism of 'ownership reform' measurement started nearly 1984. At that state, there were only two banks out of six were denationalized and non-private banks got the chance to carry out their operations. From the period of 1990's the corporate governance got the exact system in the financial institutions in our country both privately and publicly. Despite, the expansion of banking sector, there were remarkable inefficiency in the operation of the banks (Sayeed, Raquib, 1999). The sectors faced some problems such as declining profitability, provision and capital shortfalls, default asset quality, corruption by political parties, increasing non-performing assets, excessive intermediation by the government and low recovery rate due to improper use of corporate governance role. Moreover, the financial crisis of 2008-2009 had made the real constitutions to develop the corporate governance and its further demonstration to mitigate the financial crisis. The corporate governance has been playing its own role throughout the world but it is yet to develop in Bangladesh for some unrest and biased environment.

2.2.3 Parties to Corporate Governance

The top level management implementation is the main key of corporate governance. There are various important parties such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders. Not only the hierarchy level but also the subordinates are taking more actions to build up company's goodwill.

Figure 2: Parties to Corporate Governance

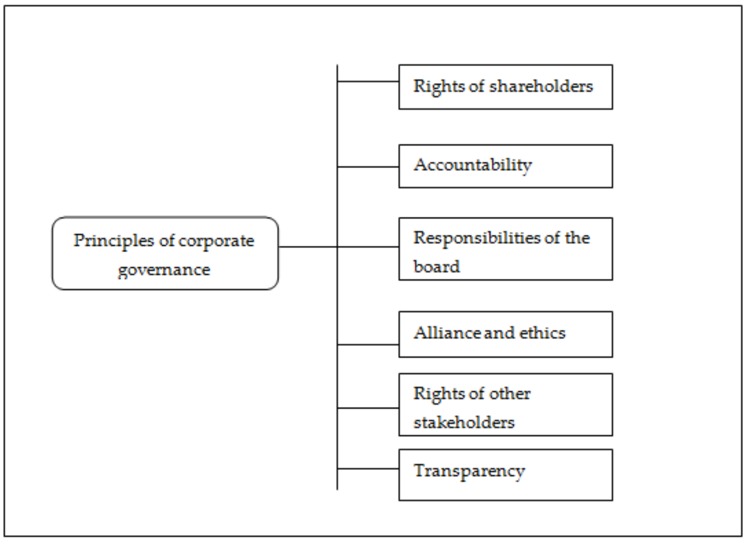


A financial institution can increase its face value with proper utilization of corporate governance. Board of directors put themselves in an upmost level. They can devise the rules and regulations and take the highest possible decision. In financial institutions it is very important to make regular reviews. The board of directors can ask for general meetings to inform all shareholders before making any changes for the organizations betterment. Moreover, they may provide directions to the management for implanting any change. Shareholders are also an important part of corporate governance. Shareholders buy the share and they become a part of the company. Therefore, they are entitled to provide their comments as well. Good regulatory factors and proper acceptability will attract more share purchasers and will mitigate risk of a financial institution. Creditors can provide loan with the proper authorization and for this they always consider the company's ability to repay the loan. Creditors focus directly on the corporate governance. They can also get help from the independent auditor, who actually does the proper internal evaluation for any organization. So the auditors, creditors, and overall stakeholders (suppliers, union and distributors) are the main concern of corporate governance.

2.2.4 Principles of Corporate Governance

Corporate governance has its own view of principles. Without proper planning and principles it is extremely difficult to establish an effective vision for an entity. According to the OECD reports, principles of corporate governance symbolize the general rules and regulations by which the financial and non-financial institutions are expected to operate in proper authority.

Figure 3: Principles of Corporate Governance



In any institution whether it is financial or nonfinancial, there are almost six principles to follow in corporate governance. As it is mentioned before corporate governance is all about making the relationship within various department and implementation of plan, action, and etc. Shareholders have the significant rights for the financial institutions. Financial institutions issues share to diversify the risk. The shareholders are the part of company's ownership. According the rules of corporate governance it is mandatory to ensure the decision making rights on the behalf of shareholders.

It is highly valued that the accountability of the board of directors works as a face value of the company. The involvement of more skilled personnel with the trustee board will ensure the shareholders rights and empowerment. Their value added strategy and administration planning will ensure the control over the general executives of the entity. Accountability in financial institutions works through the acquiring reliability on it.

Responsibilities of the board work as a key role in the financial institutions. According to the corporate governance perspective it is important to have sufficient skill and knowledge efficiency to maintain the leadership over the management body. The overall trustee board including its members, chairman and vice president always maintain the rules and implement the regulations in every financial institution. Ethics is another issue in the corporate governance of any financial institutions. It is mandatory not to be biased in terms of selecting the board members and their necessary action. Proper alignment within the financial institutions comes through the ethical constitution. Any unethical action can bring the short term benefits but it will make huge conflict in long term for the members of trustee board. Personalization works as a hyperbolic discount.

Other relevant stakeholders like suppliers, distributors, regulators have some rights to the entity. Their responsibilities are also important. In the form of financial institutions it is important to get focus on its various media sponsors and customers contentment. Transparency is the transmitter of an entity. It measures how efficient and effective you are. It is important to disclose the relevant information and clarify the responsibilities of any financial institutions. Every financial institution has some unique mechanism. It is their responsibility to disclose the relevant information to the customer as if they don't face deception. Ultimate transparency always brings you up in any aspect to the customer. Rules and regulations are variables. It may change according the economics point of view and surrounding needs. Principal helps the organization to face any form of financial crisis as well.

2.2.5 Why is it important?

A corporation without having code of corporate governance is similar to the human without essence. Corporate governance should be the governing policy of any corporation. It can significantly enhance the entity's accountability. Corporate governance will works as an indicator to avoid any decisive disaster. In modern age, to manage the corporation effectively; entities require not only good inner governance but also resonance institutional atmosphere.

In financial institution, all the principles regarding the corporate governance are very important, with the risk management as the top rated one. There is a huge risk in every financial institution and non-financial institution as well. Financial institutions try to mitigate the risk as much as they can. In this perspective the corporate governance will diversify the risk to the shareholders and stakeholders in some contents. The company or financial institutions can achieve the formal guarantee against the default shareholders and bankrupt employee. Scandals, frauds, civil and criminal intention always stimulate as a big factor for any corporation. If there is a well-managed governing body and proper implementation of the principles than these frauds will not subsist. This immense mechanism will increase the public eye image which will lead to acquire to gain more shareholders capital. If there is no shared policy and accountability or transparency than the entire financial entity will be corrupted and lead to financial crisis.

2.2.6 Why it is the top issue for financial institutions?

Sometimes the financial institutions become the top rated issues in the media for their scandals and poor operational activities. Financial scandals are occurring more frequently; therefore there is a 'question mark' about the transparency and the fairness of financial institutions. Many renowned personnel are involving with bank corruption and financial fraud. There are so many relevant cause and consequences by which the corporate governance in financial institutions gets on the crest position.

The recent scandals of Hallmark and Bismillah group were a dramatic incident in Bangladesh. In this occasion banking sectors were directly involved. Moreover, the BASIC Bank and former Oriental bank were to blame for their unconventional loan disbursements on this juncture. There is a question in the public and media as well that- why this happened? The pretty but pathetic answer is the lack of proper utilization of corporate governance in those banking financial institutions. When the bank owners or board member want to manipulate something and go beyond the principles, the unconventional situation crops up.

Apart from the banking institutions there are other financial entities where there is a lack of corporate governance activities. The condition of the capital market in Bangladesh is very inefficient. People can raise funds and express themselves as losers without any sufficient notice. Corporate personnel can raise funds and use it to repay the bank loans without any concern. These unconventional scenarios have become possible only because of the unequal practice of corporate governance in the capital market. When a corporation comes in the market it goes with the operations smoothly but the problems occurs in the long run. Sometimes they may shut down their enmity for the lacking of fairness. The corporate governance is the biggest factor in the financial institutions because of their fairness policy. The proper and effective corporate governance will stimulate the entity's value added anticipation

2.2.7 The corporate governance of Financial institutions vs. Non-financial institutions

The banking and non-banking financial institutions have been observed very deeply for the last few decades because of their activities. Since the financial crisis of 2008-2009, there are several proposed and recommends for overcoming the similar catastrophe (Hamid, 2012). The importance of corporate governance has been getting a big admiration from then. There are specific distinguishes on the corporate governance of financial institution and non-financial institutions. The substances for being differentiated are: type of organization, legal judgment, transparency, time frame of activities and accountability.

Substances	**Role of CG in Financial inst.**	**Role of CG in non-financial inst.**
Business type	Financial instruments and money or asset is the main business concern. So, the entity's concern will be the external and internal stuffs.	Business concern is about product or service oriented. On this aspect, customers have not highest direct involvement about CG.
Legal judgment	Legal issues get the highest priority for the financial claims.	Legal issues are the important for the entity's perspective not for the customer view.
Transparency	Fairness and disclose the relevant information to the customer and shareholders are the most key role in financial institutions.	In the non-financial institute the transparency is the concern of shareholders or board of directors but the customers are not goes for the inner thesis.
Time frame of activities	The services of financial institution are long term oriented; therefore, the CG of these institutions must be more specific.	Customer focus is on the short term satisfaction therefore CG effects do not stimulate them initially.
Accountability	For being the high risk oriented business; the customers go through the previous data and performances for taking decision.	For being the less risky corporation; the present cause and consequences are important.

Table 1: Roles of CG in Financial and Non-Financial institutions

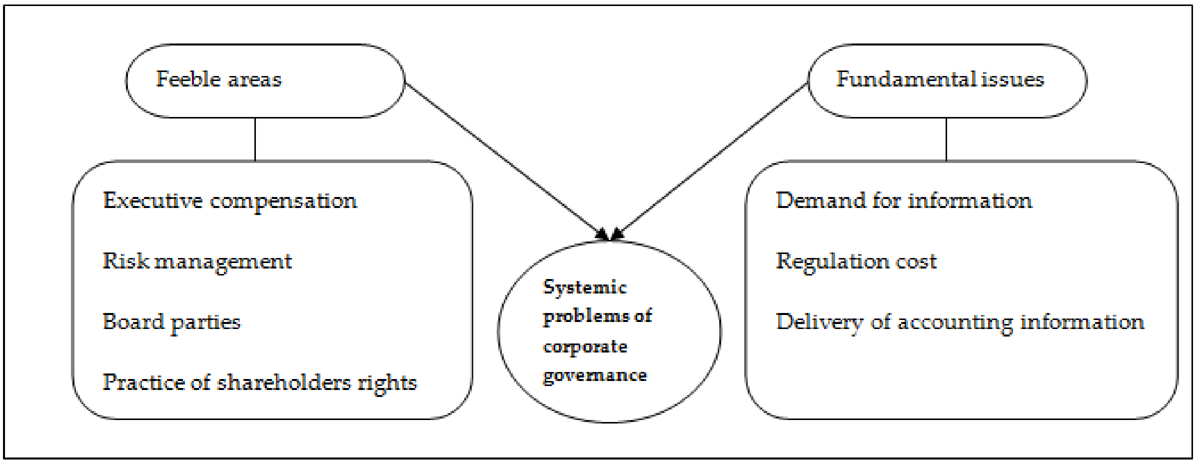
People have less faith about the financial institutions and have high consciousness about their activities. Therefore, the role of corporate governance is far more different between the financial and non-financial institutions. In the financial entity's the action of board of directors and their legal factors are given the most emphasis. On the opposite, the non-financial institution faces less critical issues. Customer can buy the product only from the outlet without taking concern the direct operations of corporate governance. All these make the differences the corporate governance of financial institutions from non-financial institutions.

2.2.8 Systematic problem of Corporate Governance

Systemic problems can be best defined as difficult issues in the system which are within controllable reach. In economic and financial perspective there is some existence of systematic problem about the corporate governance implementation. Corporate governance is well established from last two decades but did not solve its basic critical issues. This mechanism worked ineffectively to stop share price manipulation. The economic crisis in 2008 is a vital one to explain the systematic problems of corporate governance. The US banks and financial institutions took extreme risk for short term profit maximization. In some extent, the corporate governance is fully long term desired but the US fed focuses on short term. The unsolved bank and financial institutions crisis is still a high issue for systematic problem of corporate governance.

The most important point is about the inadequate execution of corporate governance principles while the present corporate governance frameworks are working well (OECD, 2009). According to the OECD, there are four feeble areas (executive compensation, risk management, board practices and the exercise of shareholder rights) for which financial crisis may occur. The manipulation of any area of these may create systematic problem of corporate governance.

Figure 4: Systemic Problems of Corporate Governance



There are three fundamental issues for the systematic problem of corporate governance: demand for information, regulation costs, and deliver of accounting information. There is a voting power rights for the shareholders within the organization. Therefore, they need some sort of detail information which may lead to the insecure resolutions for the trustee board. There is another barrier that is the regulation cost of information. The financial market should be efficient and in an efficient market they have to maintain the all relevant information to disclose for the shareholders. This is highly cost oriented for the long term. Supply of audited accounting information is the key role to provide the directors activities in future. They can anticipate and provide the direction according it. This accounting information can be manipulated by the internal auditors and accounts personnel.

III. Conclusion

In conclusion, we can witness that the philosophy of corporate governance in Bangladesh is still at the beginning stage. But the future of corporate governance is very optimistic especially in the financial institutions sector if we can overcome and outlast the problems by improving code of corporate conduct and other governance policies, by ensuring fiduciary disclosure of information, and a strong monitoring authority. The suggestions discussed in our study should also be taken into consideration but careful implementation of corporate governance mechanisms should be followed, otherwise there is the risk of backfire. For the application of strong corporate governance tools and instruments, it is not only the responsibility of the corporate body but up to the government as well. A robust, spirited, good governance helps not only the corporation and its shareholders but the society and the nation as a whole as well.

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