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Compliance With Corporate Governance As A Mandatory Disclosure: A Study On Square Pharmaceuticals Plc.

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Abstract:
After occurring the accounting scandals in 2001, the Corporate Governance (CG) issue has been becoming a pivotal importance since 2006. Code of CG has been released first and made its compliance mandatory for the corporation in 2012 after making revision of the code. Now-a-days, it is much-talked issue in Bangladesh. Not only that the government of Bangladesh has taken different steps in compliance with CG by the corporations. This study focuses compliance with CG that explored in the Annual Reports (ARs) of Square Pharmaceuticals PLC which is among Bangladesh's reputable pharmaceutical industries. This paper is based on secondary data. The main conclusions are as follows: first, we discover that the Square is required to disclose certain information regarding CG. Second, it is discovered that the user groups of Square support these kinds of disclosures. Nevertheless, the disclosures fall short of fulfilling CG objectives.

Key Words: *Board of Directors, Compliance, Corporate Governance, Disclosure, Mandatory, Square.*

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I. Introduction

It is obvious that the industrial revolution in the eighteenth century developed the concept of large-scale business which brought about important modifications to ownership, management, and financing practices in the business arena. For successful operation of the business heavy equipments as well as new technologies are required that requires also large investment. As the best way of collecting capital, issuing of stocks has become popular through joint stock companies that diversified the ownership of the company as well. It paves the way the people to invest their funds as their freedom and capacity. They become owner of the company and they can appoint the manager from their own or from outsiders to operate and oversee the company on behalf of them. Since there is no scope to engage all the shareholders in doing such function i.e. decision-making activities, so they have to be entrusted on professional manager and in consequence the appointed manager works as the agent of the residual shareholder-claimant. Thus the agency theory came. According to the agency theory the managers want to be benefited more usually after protecting the interest of the owners. But if situation comes, the managers take their benefit even not looking at the interest of the owners and the company and then conflict arises between owner and manager.

The conflict between owner and manager is very much detrimental to the firm in particular and ultimately for the country at large. So, there should have an effective way to solve the conflict. Compliance of CG and timely and fair reporting to the owners may be a way of mitigating the conflict between owners and managers. But before the talks of the compliance of CG, in 2006 or making it mandatory in 2012, the owners of the company were not so much aware of this. It is because of disclosing the FS, returns were overt. So, it didn't need to pay much attention behind the scenes i.e. how was the business run. But from happening of several scandals such as BCCI scandal, the United States' saving and loan crisis, it was made clear by the Asian financial crisis and the most recent failure of several big businesses, including Enron, WorldCom, and others, that corporate managers had little motivation to follow good management practices. This was made worse by inadequate CG. So to mitigate the agency problem through compliance with CG had become a prime concern today in the business arena of the world.

This paper presents on the mandatory disclosure on compliance with CG in the ARs of a large business firm in the corporate level. Usually, disclosure of facts of the corporation as the compliance of CG may be in two forms: both the monetary and non-monetary elements. This essay solely addresses non-financial issues. It is appropriate that Square Pharmaceuticals PLC began requiring disclosure on the grounds of CG compliance under a different section in the ARs. This is a relatively new and dynamic practice that is carried out by any business concern in Bangladesh and has been mandated for all BSEC listed companies starting in 2012.

Definition of Corporate Governance

"Different authors and organizations have defined CG in different ways. They have viewed it in different perspective. Some have thought it in narrow perspective. They include only shareholders in it. On the other hand, another group includes all the stakeholders in it. Some consider it as a vital instrument of a country to achieve the viable economic emancipation whereas others point out it as a strategy for attaining long-term and healthy image. It provides another dimension to the corporate ethics and social responsibility of the business" (A.C. Fernando: 1:23). The process of leading and managing a company by making decisions that will benefit all stakeholders in the enterprise is known as Corporate Governance. A corporation upholds its moral standards, defends legal rights, and supervises the responsibilities of its many stakeholders, both current and prospective. As per the authority delegation, the owners and managers are involved in an ongoing decision-making process in every aspect. In the management echelon, authority is typically delegated in most cases accountability is determined through bottom-up reporting and top-down delegation of authority. It is related to the procedures and systems in place at the governing body for behavior, accountability, control, and decision-making (Public accounts and estimates committee, 2002). It is clear from the discussion above that different authorities have different definitions of CG. All things considered, however, CG is a means to an end—long-term shareholder value, and above all, stakeholder value. The "Organization of Economic Cooperation and Development" (OECD) principles (Rashid, 2003) can be taken into consideration in order to have a clear understanding of the CG system.

i. ***Rights of shareholders*****:** Actually, shareholders are the owners, not just investors. So, shareholders right refers to have the ownership, full disclosures of information, voting rights, especially exercising the voting right of institutional investors, participation in decision making and sale of any asset and issue of new share. They have the right to know capital structure, fundamental changes of the corporation as well as the efficiency and transparency in markets for the control of the corporation.

ii. ***Equitable treatment of shareholders:*** The liberties of the minority shareholders are being protected in this case by the OECD. All shareholders, particularly minority and international owners, should get equitable treatment under the CG framework (Rashid, 2003). A useful self-dealing and insider trading are expressly forbidden. All material interests that board members may have in deals or situations that have an impact on the organization should be disclosed.

iii. ***Role of shareholders in CG:*** The OECD acknowledges that, in addition to shareholders, there are other stakeholders who have a significant impact on how businesses function and make choices, including banks, bondholders, regulatory agencies, suppliers, and staff. The legal rights of shareholders should be acknowledged in the CG framework, which should also promote shareholder engagement.

iv. ***Disclosure and transparency:*** The OECD recommends making provisions for the disclosure and communication of all relevant information, both financial and non-financial. The CG structure should make sure that all information about the firm is disclosed promptly and accurately. In this framework, yearly audits by impartial auditors are also necessary.

v. ***Responsibility of the board:*** The duties of a BODs to safeguard a firm, its shareholders, and other stakeholders are of great interest to the OECD. The CG framework should make sure that the board effectively oversees management and is answerable to the organizations and shareholders.

The shareholders, BODs and management should be the primary actors in CG in light of the aforementioned principles. Auditors, bank and creditor suppliers and regulatory agencies should all be considered auxiliary participants (Rashid, 2003).

According to Vittal (2000), CG includes three factors:
1. The openness of decision-making.
2. Transparency leads to accountability because it makes it easier to assign blame for deeds done or not done.
3. Accountability entails defending the interests of the organization's investors and shareholders.

The Growth of Modern Ideas of Corporate Governance

The Watergate crisis that occurred in the US during the Nixon Presidency most likely planted the seed for contemporary concepts of CG. Later investigations into the issue showed that several big corruptions were being controlled and stopped from bribing government officials and making unlawful political contributions by the regulators and investigative organizations. In America, the Foreign and Corrupt Practices Act of 1977 was passed in response to the need to halt this detrimental trend. It requires that internal control systems be maintained and reviewed in any establishment. In the same year, the Securities and Exchange Commission (SEC) suggested making reporting on internal financial controls mandatory. The US was rocked by a slew of prominent company failures in 1985, including the fall of Savings and Loans. The government created the Treadway Commission with the goal of identifying the primary reasons for financial report misinterpretations and making recommendations for how to lessen these occurrences. In its 1987 report, the importance of independent ACs, an efficient control environment, and a goal-oriented internal audit system was highlighted. The Treadway Report stressed the need for published reports on the efficacy of internal controls and urged the sponsoring organizations to develop an integrated set of internal control criteria in order to assist businesses in strengthening their control mechanisms. This suggestion led to the formation of the committee of Sponsoring Organizations. A control structure was established in COSO's Report from 1992 to ensure the smooth operation of companies (A.C. Fernando 1:20).

Importance of CG for Developing and developed Economies

The population of different nations throughout the world is significantly impacted by large enterprises that are transnational and/or transitory in nature. Several nations will be impacted if something goes wrong, though some more so than others. It is important to consider the global situation, including the challenges posed by noncompliance with CG, and to consider potential global remedies. So, to have the clear picture about CG, the importance of it in developed and developing economies are required to present.

To develop a corporate culture and consciousness, as well as transparency and openness within the organizations, CG is required. It alludes to the mix of laws, regulations, guidelines, policies, and other elements that enables businesses to maximize long-term value for shareholders. Customer happiness, shareholder value, and wealth should all rise as a result. As people become more conscious of government, the emphasis is shifting from the economic to the social realm, and conditions are being put in place to guarantee more accountability and openness. It is essential to the business's very survival (A.C. Fernando:27). Any developing economy needs a solid CG base. Adherence to appropriate laws, checks and balances, good financial and accounting procedures, and corporate practices that are compliant with international standards are all necessary components of strong CG. The judicial system must be transparent, timely, and uniformly applied. A robust market economy and a thriving corporate sector are both dependent on the establishment of competent CG, which is especially crucial for developing nations. (Tricker, 2010). Krugman (1994) conducted a case study on Soviet Union and It was suggested that a nation could attain and maintain high rates of output and income growth for many years—many decades even—by engaging in a process of significant factor of production mobilization. A number of coercive saving techniques, significant and ongoing investments in the education of the populace, high rates of rural-urban migration, the mobilization of women into modern manufacturing, the agricultural and service sectors, and other tactics can all be used to achieve this kind of factor mobilization. However, factor mobilization alone cannot support growth forever, as diminishing returns to further factor mobilization must eventually materialize. Therefore, productivity growth, which can be attained through CG, is the key to achieving sustainable development over the long term. A developing nation like Bangladesh needs CG to play a significant role in its economy. In developing nations, there are a number of socio-cultural and legal factors that Oman (2001) identified as warranting a higher standard of CG.

Theoretical Basis of Corporate Governance (CG)

The relatively new field of CG has been shaped by theories from a variety of disciplines, including finance, economics, accounting, law, management, and organizational behavior. Agency theory is the main theory that has influenced its growth and given it a framework within which it seems to most naturally exist. The stakeholder theory is more applicable today, though, since companies with a growing shareholder base also have to consider a broader range of stakeholders. It is accurate to state, nevertheless, that CG lacks a theoretical foundation. According to Tricker (2009), " There isn't currently a single, broadly acknowledged theoretical underpinning or a dominant paradigm for CG, nor is there a conceptual framework that sufficiently describes the reality of CG."To clarify and provide an explanation for CG, there are four main theories. These are i. Agency theory; ii.Stewardship theory; iii. Stakeholder theory; iv.Shareholder theory.

Agency Theory

A substantial amount of research has accumulated in this field using principal-agent frameworks. Particularly the work of Jensen and Meckling (1976) and Fama and Jensen (1983) is noteworthy. According to agency theory, an agency relationship exists when one party (the principal) assigns another party (the agent) to complete certain tasks. There are several drawbacks to an agency relationship, including the agent's self-interest or opportunism and an inconsistent level of information possession between the principal and agent and both parties have access to varying degrees of information; however, in actuality, the principal is at a disadvantage since they are acknowledged to have less information while the agent has more. (C.A. Mallin:4th edition:17). Adverse selection and moral hazard are the two agency problems that these circumstances expose businesses to. When a principal is unable to verify whether an agent truly represents their capacity to perform the work for which they are compensated, adverse selection takes place. However, moral hazard refers to a situation in which a principal is unsure if an agent has made the greatest effort possible (Eisenhardt, 1989). The agency theory states that professional managers have an advantage over business owners because they have access to better information. The justification for this is that senior managers of a company might be more concerned with advancing their own interests than those of the company's stockholders (Berle & Means, 1967). According to the agency theory, CG should be implemented to reduce the possibility that managers will act against the interests of shareholders.

"According to agency theory, the BODs is one of the most important oversight bodies in a corporation's CG framework. Its purpose is to minimize potential problems arising from principal-agent relationships with regard to corporate control" (C.A. Mallin:2013:17).

Agency cost theory has shaped the way that strategic management and business policy are thought about these days, but its origins can be found in Adam Smith's (1838) identification of an agency problem in joint stock companies—managerial profusion and negligence. Agency costs form the core theoretical foundation of CG. Any limited liability company or joint stock company's principals are known as shareholders. Although it is frequently not the case, the principals typically believe that the agent will always accomplish their predetermined goals. There are numerous examples in this context. The principals, or shareholders, might not be aware of such a decision if the chief executive uses company funds to finance an unrelated diversification that could lower long-term shareholder value rather than increase the agent's interest. This is because the agent's initiative may not have been disclosed. The cost incurred as a result of such objective dissonance is referred to as the agency problem. In order to reduce agency costs and prevent a conflict of interest within the company, the goals of the two parties must be identical or as similar as possible. (A. C. Fernando:2012:46).

The primary tenet of agency theory is that managerial decisions in contemporary corporations, where share ownership is widely held, deviate from those necessary to maximize shareholder returns. Mechanisms that lessen agency loss are outlined by agency theory.

Separation of ownership and Control

The separation of ownership and control of the corporation is very much necessary for ensuring and protecting the minority shareholder's interest in the corporation. Usually, the interest of the stakeholders other than small investors is well protected through the contract made among them. Smith (1838) noted in the eighteenth century that "because ownership and control are separated, the directors of these joint stock companies, being the managers of the public's money rather than their own, may face difficulties. It is not reasonable to expect them to guard it with the same anxious attention to detail (as if they were their own). The work of Barle and Means (1932), nearly a century later, is frequently cited as offering one of the basic explanations for investor or corporate relationships. Barle and Means' research demonstrated how ownership and control of corporations separated as nations industrialized and expanded their markets. This was especially true in the United States and the United Kingdom, where the legal systems have. Consequently, encouragement has been given to have a more diverse shareholder base. (C.A. Mallin:17).

Transaction cost Economics (TCE)

Coase looks at the justification for a company's existence within the framework of internal versus external contracting efficiencies. According to him, running a market has expenses, but some of these can be avoided by creating an organization and giving an authority figure—an entrepreneur—the power to allocate resources. The entrepreneur must perform this task as cheaply as possible, keeping in mind that he might be able to purchase production-related components or factors at a lower cost than the transactions he replaces (C.A. Mallin:19).

Differently, there exist specific financial advantages for the company when it comes to conducting internal transactions as opposed to external ones. A company will grow larger the more transactions it conducts, and it will continue to do so until it becomes more cost-effective or efficient to conduct the transaction externally. Therefore, Coase suggests that businesses may become less effective as they grow in size. He also claims that any challenges that enhance managerial effectiveness will inevitably result in a larger business (C.A. Mallin:19).

Stakeholder Theory

Stakeholder theory is used in opposition to agency theory. Rather than concentrating on shareholders, stakeholder theory considers a larger range of stakeholders. When a broader group of stakeholders, including employees, credit providers, suppliers, the government, local authorities, and tax authorities, are taken into consideration, the result is that maintaining or increasing shareholder value becomes the top priority (C.A. Mallin:20).

Stewardship Theory

A BODs composed primarily of company insiders is supported by the stewardship theory of CG, which also reduces the possibility of conflicts between owners and corporate management. The underlying premise of this theory is that managers value their own reputations highly and are trustworthy. Higher-profile managers are paid more, and the market for managers with strong personal reputations serves as the main mechanism for behavior control. It is a fundamental principle that these mechanisms are necessary to verify the inherent reliability of management, even though financial reporting, disclosure, and auditing continue to be important mechanisms. (A.C. Fernando, 1st impresion:2012:47):

By having a BODs separate from the CEO and employing incentives to tie the CEO's interests to those of the shareholders, you can highlight how managerial "opportunism" can be controlled. Stewardship theory emphasizes the positive effects of facilitative authority structures—which unify command by having the same person hold the roles of CEO and chair—on shareholder returns. Protecting returns to shareholders might be achieved by giving management more autonomy to take independent executive action rather than by giving owners more control over management. (C.A. Mallin:20-21).

Shareholder Theory

According to shareholder approaches, a corporation's only real obligations are to maximize shareholder wealth and comply with the law. The fundamental claim is that corporations maximize societal utility by concentrating on the interests of their shareholders. This position's fundamental defense, which is predicated on the shareholder model's capacity to maximize utility, is dubious since it relies on the idea of perfect competition. The case falls apart as long as the requirements for perfect competition are not met. More precisely, corporations will no longer be maximizing societal utility by solely pursuing shareholder interests as deviations from the conditions of perfect competition (i.e., imperfect markets, incomplete contracts, information asymmetries, etc.) increase beyond a certain point. The CG model that aligns most logically with the shareholder approach is the Anglo-American model.

Objectives of the Study

Examining Square Pharmaceuticals PLC's compliance with CG requirements for disclosure and reporting is the primary goal of the study. In addition to these, the study has the following particular goals:

i. To research the various laws and guidelines that Square Pharmaceuticals PLC must abide by.

ii. Assessing Square Pharmaceuticals PLC.'s practices regarding the selection of an ID, the appointment of family members as directors, the division of ownership and control, interactions with the public and shareholders, etc.

iii. To examine the duties of Square Pharmaceuticals PLC's ID.

iv. To conduct a careful examination of the auditor's report regarding Square Pharmaceuticals PLC's adherence to CG.

v) To develop some practical steps to close the gaps in CG compliance, especially for Square Pharmaceuticals PLC and the Bangladeshi pharmaceutical sector as a whole.

Methodology

Square Pharmaceuticals PLC, which is listed on both the Dakha Stock Exchange and the Chittagong Stock Exchange (CSE), has submitted ARs for the study's consideration. Secondary sources of information about Square Pharmaceuticals PLC., have included relevant websites and published data. This paper is solely focused on the information found in Square Pharmaceuticals PLC's ARs under the "Corporate Governance" section. The researcher has studied a few books, periodicals, and articles to improve comprehension, clear interpretation, and rich presentation of various terms.

Scope of the study

Nearly all of Square Pharmaceuticals PLC's required disclosures regarding CG reporting and compliance are covered in this study. The data from the audited financial records was used to conduct the study. The company's audited financial records are found in its ARs. The researcher attempts to assess the company's reporting on and adherence to CG, which covers the shareholders, management, internal control, audit, and assurance provided on the company's behalf. The study analyzes Square Pharmaceuticals PLC's ARs covering the 12-year period from 2012–2013 to 2021–2022.

Limitations of the study

The study is severely limited in several ways. Actually, the secondary data used in this study came from Square Pharmaceuticals PLC's ARs. Furthermore, the AR does not contain all the required data. For example, certain ratios have not been disclosed or presented in the ARs in a clear manner. Aside from this, the company's executives suggested depending solely on the ARs and expressed reluctance to provide this kind of information.

Square's point of view on CG

Presently, Square Pharmaceuticals PLC stands as one of Bangladesh's biggest private sector enterprises. This paper examines Square Pharmaceuticals PLC, which is listed in the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE). This paper is solely focused on the information found in the AR's "CG" section.

Square Pharmaceuticals PLC outlines its opinions on the topic of "CG" in its reports. Here is a synopsis of their points of view:

Square Pharmaceuticals PLC thinks that upholding sound CG ought to be the company's top priority. It is a way for directors to fulfill their duty to the shareholders by making sure that there is appropriate "accountability" at every stage of CG and "transparency" in all areas of business operations. It must be centered on business goals, which ought to be backed by clearly defined policies and procedures. It ought to give the management of the company the right direction regarding internal control and day-to-day operations. Additionally, as required by their ethical business guidelines, Square Pharmaceuticals PLC reports on and complies with CG issues. Square Pharmaceuticals PLC's AR addresses key topics such as shareholders, committee board members, management, internal control, audit, and the company's guarantee that it will be able to continue operating as a going concern for the foreseeable future. The primary players in CG are all covered by Square Pharmaceuticals PLC's compliance and reporting. Other than this, Square Pharmaceuticals PLC has been fulfilling its goals while adhering to CG.

II. Analyses and interpretations

As the study is based on secondary data, Square Pharmaceuticals PLC's annual reports serve as the primary source of data. Thus, the data found in the company's annual reports has been examined and construed to provide a true picture of the company's compliance with the CG. The study's findings, together with the rules and regulations specific to each stage, have been presented separately for easier comprehension and clear presentation. Here, "compliance" refers to the findings drawn from each step.

Rules and Regulations that to be complied and complied with corporate Governance for mandatory disclosures

Formation of Board of Directors (BODs)

The highest level of management in a company is the BODs. Five and one-half of the total number of Independent Director (ID) should be the minimum and maximum number of directors on the board, respectively according to condition 1(5) (xxvii) of the CGC. In addition, this code specifies their qualifications, experience, and other requirements.

Compliance

The business complied with this code in full. In addition to the seven other directors, the company has two IDs. The IDs are not affiliated with the company in any way. Additionally, they do not own any shares in the business. When it comes to their appointment, the qualifications, experience, and other requirements listed in condition 1(5) (xxvii) of the CGC are fully met. Their varied backgrounds and experiences are useful in helping the company make decisions. Every year at the annual general meeting, when 1/3 of the members step down from their position and run for reelection, the directors of this board is chosen. A director may be removed from the board when the Articles of Association's terms and conditions are violated.

Role and Responsibilities of BODs

The BODs, being the highest authority within the organization, oversees and manages all business operations and provides oversight in all areas to guarantee the organization's chain of command, proper delegation, and highest level of accountability. The protection of the interests of stakeholders, shareholders, the government, and society falls entirely within the purview of the BODs' accountability. By law, this company's highest body convenes on a regular basis—at least once every quarter—to make decisions and give instructions on matters pertaining to financial results, operational performance, review of the budget, suggestions for capital expenditures for BMRE or new initiatives, branches, or product lines; obtaining funds through the sale of stock or loans; buying machinery, supplies, and discounted products; hiring, promoting, and training officers; approving audited accounts; paying dividends; and other matters of interest to the Executive Management (EM).

Relationship of BODs with Shareholders and Public

Maintaining relationships with the public and shareholders is the responsibility of a certified chartered secretary, also known as a Company Secretary (CS). The company is owned by its shareholders. They therefore have a right to be informed about the company's operations on a quarterly and annual basis, following the holding of an annual general meeting. In addition, the Company Affairs Division will answer common questions from shareholders about dividends, share transfers, and other matters. However, in accordance with BSEC regulation, the Board is accountable to the public for disclosing any price-sensitive information.

Compliance

The Director's Report (DR) to shareholders and public under condition 1(5) of CGC that complied with rules and regulation as stated under:

i. The industry's outlook and potential future developments have been discussed.

ii. Performance data by product or segment has been provided.

iii. Reports have been made regarding the risks overall and the risk factors that are involved.

iv. The report now includes a discussion on the continuation of any extraordinary activities and their implications.

v. The report provides a thorough analysis and statement on transactions involving related parties.

vi. A detailed analysis and statement on transactions involving related parties are provided in the report.

vii. It has also been reported that there have been no profits from public or rights-related issues, or from any other sources.

viii. Additionally, it has been reported that there hasn't been a decline in the company's financial performance following its attempts at an IPO, RPO, rights offer, direct listing, etc.

ix. All directors, including IDs, receive compensation, and the shareholders are informed of this information.

x. The management explains any significant discrepancies between the quarterly and annual financial performance in the report.

xi. In the DR to shareholders, it is stated that the issuer's FSs, which were prepared by its management, accurately portray the state of the business, operational results, cash flows, and changes in equity.

xii. The issuer's accounting records are accurate.

xiii. The application of proper accounting policies has resulted in a consistent preparation of the FSs, and the accounting estimates are backed by sound and reasonable judgment.

xiv. In compliance with the IFRS, BAS, and IAS, as applicable in Bangladesh. Any deviations from these standards have been appropriately disclosed.

xv. The internal control system has been put into place, monitored, and is soundly designed.

xvi. A declaration stating that minority shareholders have effective channels for redress and have been protected from abusive acts by either direct or indirect controlling shareholders.

xvii. Notable departures from the issuer company's operating results from the previous year will be emphasized, along with an explanation of the reasons behind them.

xviii. A summary of the most important operational and financial data from the last five (five) years has been provided.

xix. Information about the number of board meetings held annually and the attendance of each director has been made public.

xx. Disclosure of aggregate and name-based shareholding patterns.

xxi. Disclosure of Parent/Subsidiary/Associated Companies' and other related parties' aggregate shareholding by name.

xxii. The report includes a list of the individual names of the directors, CEO, CFO, CS, and Head of Internal Audit and Compliance (HIAC)—that is, the various executives along with their spouses and small children.

xxiii. The names of the voters in the company whose shareholders own ten percent (10%) or more shares are disclosed.

xxiv. The director's brief resume is requested in the event of an appointment or reappointment.

xxv. Describe the extent of his or her experience in particular functional domains.

xxvi. List the names of the businesses where the individual is a director as well as their memberships in board committees.

Board Committee

The Board is divided into two committees. (a) Audit Committee (AC) and (b) Nomination and Remuneration Committee (NRC).

Audit Committee (AC)

Formation of AC

AC is established by the BODs with the non-executive directors of the company. The Committee holds meetings four times a year and submits its report to the BODs as needed in order to fulfill its legal obligations. The formation of the AC as per condition 5(2) of CGC is given below:

5(2) (a) The AC must consist of three (3) persons at the very least.

5(2)(b) The AC 's non-executive members will be chosen by the Board.

5(2)(c) It requires that each AC member be "financially literate" and that minimum one member has prior experience in accounting or a closely related field of financial management.
5(2)(d) When the service-term of the Committee members expires or there is any circumstance causing any Committee member to be unable to hold.
5(2)(e): The CS shall serve as the secretary of the AC.
5(2)(f). A quorum meeting of the AC requires two or three members, whichever is greater with the presence of at least one ID.
5(3)(a). The ID of the AC chair will be chosen by the Board.
(5(3)(b)). The members of the AC who are not present will select the chairperson
5 (3) (c). Attendance at the AGM is required of the AC's Chair.

Responsibility of AC to the BODs:

The AC places greater emphasis on establishing sufficient internal checks and balances that are backed by sufficient MIS than it does on finding errors, frauds, and other shortcomings. The AC's duties include preventing conflicts of interest between the business and its officials, directors, clients, vendors, the government, and any other interested parties, as well as identifying and eliminating any possibility of insider trading in the business's stock. The BSEC and other agencies' requirements are also monitored for compliance by the AC. The responsibility of AC to the BODs as per condition 5(1) is given below:
5(1)(a). The business established the AC as a Board sub-committee.
5(1)(b) The Board will get help from the AC to make sure the company has a good supervision arrangement in place and that the FSs accurately depict its situation.
5(1) (c) The BODs shall receive an AC report detailing its operations.

Meeting of the AC

5(4)(a): During a fiscal year, the AC must hold a minimum of 4 meetings.
5(4)(b) The AC Quorum shall consist of two or three members, whichever is greater.

Role of the AC

5(5)(a) Manage the process of financial reporting.
5(5)(b) Keep an eye on the accounting principles and policies selected.
5(5)(c). To guarantee that the Internal Audit and Compliance process has sufficient resources, refer to
5(5)(d) External Auditor Performance.
5(5)(e) Before submitting the annual FSs for the Board's approval, go over them in person with the auditors.
5(5)(f) Before presenting the annual FSs for board approval, review them with management.
5(5)(f) Before presenting the annual FSs for board approval, review them with management.
5(5)(g) Before submitting the financial reports for board approval, review the management declarations and the quarterly and half-yearly reports.
5(5) h. The sufficiency of the internal audit function is assessed.
5 (5)(i) Examine the management's deliberation and evaluation prior to publishing in the yearly report.
5(5)(j) Review the related party transaction statement that management has submitted.
5(5)(k) Review letters from statutory auditors or management that point out gaps in internal controls.
5(5)(l) Oversee the audit fees' calculation according to the audit's scope and size.
5(5)(m) Verify that IPO proceeds are not at all being used in accordance with the published prospectus.

Reporting of the AC

5(6)(a)(i))(a). The Board will receive an update on the AC's operations from document conflicts of interest
(5(6)(a)(ii)(b) Fraud, irregularity, or material defect suspected or assumed and found during the procedure for internal auditing and compliance.
(5(6)(a)(ii)(c).Suspected violation of legal requirements, including securities-related laws, regulations, and relies
5(6)(a)(ii)(d) Any other information that the AC determines is required must be given to the Board right away.
5.6(b) Reporting to the Authorities.

Reporting to the Shareholders and General Investors.

a) AC properly reports the Shareholders and General Investors.

Nomination and Remuneration Committee

Formation of the NRC

Constituted entirely of non-executive directors, the NRC is one of the most important committees that the BODs have ever established. The Formation of NRC as per condition 6(2) is furnished below:

6(2)(a) The Committee must consist of a minimum of three members, one of whom must be an ID.
6(2)(b) Every Committee member must be a non-executive director.
6(2)(c) The Board will designate and nominate Committee members.
6(2)(d)). Any committee member may be nominated and removed by the board.
6(2)(e): In the event that a vacancy arises within the Committee, the Board will designate a replacement within 180 days.
6(2)(f) The committee chairperson may assign or co-opt any outside expert.
6(2)(g). The CS will be the committee secretary.
6(2)(h) A minimum of one ID is required for any NRC meeting to have a quorum.
6(2)(i) states that no NRC member may receive compensation or advice from the company in addition to director's fees or honorarium.

Responsibility of NRC to the BODs

This committee's responsibilities include creating the company's executive director compensation policy, recommending, reviewing, or approving the compensation for full-time directors, reviewing and approving the company's remuneration policy, developing standards and qualifications for the appointment, assessment, and removal of IDs, board members, and senior management personnel. The NRC also decides which duties should be carried out, assigned, and performed by the various officers at various levels. Beside these, there are other responsibilities as per 6 (1), which is presented below:
6(1)(a) The company will have an NRC, which will function as a Board subcommittee.
6(1)(b) The NRC will work with the Board to develop the nomination standards or qualification policy.
6(1)(c) The NRC's Terms of Reference must be spelled out in detail in writing.

Chairperson of the NRC

6(3)(a) The Board will choose one NRC member to serve as the Committee Chair.
6(3)(b) In the event that there is no chairperson, the other members may choose a substitute.
6(3)(c) The NRC Chairperson is required to attend the AGM.

Meeting of the NRC

6(4)(a): Each fiscal year, the NRC is required to hold a minimum of one meeting.
6(4)(b) The NRC Chairperson may call a meeting in case of emergency.
6(4)(c): A quorum of two or three members, whichever is greater, is required for an NRC meeting.
6(4)(d) The NRC meeting's proceedings must be documented in the minutes, which must then be verified at the following meeting.

Roles of NRC

NRC performs some roles in order to comply with CGC 6(5) that is provided below:
6(5)(a) NRC will be accountable to the shareholders as well as the Board, and it will function independently.
6(5)(b)(i)(a) The amount and makeup of compensation are appropriate and sufficient to draw in, keep, and inspire qualified directors to manage the business profitably.
6(5)(b)(i)(b) There is a clear and acceptable performance benchmark relationship between compensation and performance.
6(5)(b)(i)(c). Top-level executives and directors receive a mix of fixed and incentive compensation that accounts for both short- and long-term performance.
6(5)(b)(ii) Developing a diversity policy for the board that considers age, experience, and other relevant factors.
6(5)(b)(iii): Finding people who fit the requirements and recommending to the Board that they be appointed or removed.
6(5)(b)(iv) Developing standards for assessing the Board's and IDs' performance.
6(5)(b)(v): Assessing the organization's needs for employees at different levels and choosing who to hire, promote, or replace them.
6(5)(b)(vi) Creating, endorsing, and evaluating the organization's training and human resources policies on a yearly basis.
6(5)(c) The company's AR must include a brief description of the NRC's activities, evaluation standards, and nomination and compensation policy.

Separate Role of the Chairman and Managing Director

The BSEC's CGC stipulates under the condition of 1(4) that the chairman and MD have separate responsibilities. As a result, the two prestigious positions are held by different individuals, each of whom operates in the company separately and independently. In addition, they are not eligible to hold executive positions with any other company. Two different people are appointed to the two prestigious positions in accordance with the requirement. The MD, who serves as the CEO of Square Pharmaceuticals PLC. and the Board are overseen by the Non-Executive Chairman of the Company.

Chief Financial Officer (CFO), Company Secretary (CS) and Head of Internal audit Committee (HIAC)

In compliance with the guidelines of the BSEC's CGC, the organization has appointed a CFO, a CS, and a HIAC.

Executive Management

The BODs appoints a number of Senior Executives, led by the MD (CEO), for a five-year term (renewable) with the consent of the shareholders at the yearly general meeting. Making wise choices and assessing performance for rewards and sanctions fall under the purview of the EM. For every cost and profit center, the EM is in charge of creating budgetary segment plans and sub-segment plans. They are also accountable for the plans' execution. A number of committees and subcommittees support the EM in carrying out its mandate.

Independent Director

IDs are chosen by the BODs in accordance with the BSEC's Good Governance Regulations. From the AR of Square Pharmaceuticals PLC., it is experienced that the company complied with the condition 1(2) and 1(3) of CGC in determining the various conditions and qualifications in case of appointment of ID of the company, which are given below:

General Conditions

1.2.(a) 1/5th of total as ID
1.2 (b) (i) Does not hold any share of less than 1% shares in the Company
1.2(b) (ii) Not a Sponsor of the Company
1.2 (b)(iii) Who has not been an executive of the company
1.2 (b)(iv) Does not have other relationship
1.2 (b)(v) Not a Member or TREC, Director or Officer of any Stock Exchange
1.2 (b)(vi) Not a Shareholder/Director/Officer of any Member/TREC holder of Stock Exch.
1.2 (b)(vii) Not a partner or an Executive or was not a partner or an Executive during the preceding 3 (Three) years of the concerned Company's statutory audit firm.
1.2 (b)(viii) Not an ID or in more than five listed Companies.
1.2 (b)(ix) Not Convicted by a court of competent jurisdiction as a defaulter in payment of any loan/advance to a Bank or a Non-Bank Financial Institution.
1.2 (b)(x) Not convicted for a Criminal Offence
1.2 (c) Appointed by the Board and approved by the shareholders in AGM.
1.2 (d) Post cannot remain vacant more than 90 days.
1.2 (e) Tenure of the Independent Director.

Qualification of I D

1.3(a) ID shall be a knowledgeable individual.
1.3(b)(i) Business Leader who is or was a promoter or director of an unlisted company.
1.(3)(b)(ii) Should be a Corporate Leader/Business Leader.
1(3)(b)(iii) Former official of government.
1(3)(b)(iv) University Teacher who has educational background in Economics or Commerce or Business Studies or Law.
1(3)(b)(v) Professional Chartered Accountant/ Secretary or equivalent qualification.
1 (3) (c) The ID shall have at least 10(ten) years of experiences.
1 (3) (d) Relaxation in special cases. Not required to relax.

Other Governance Apparatus

The organization implements good CG in collaboration with a limited number of highly esteemed professional service providers. These experts include technicians, bankers, attorneys, and insurers. They assist the BODs and EM in appropriately fulfilling their obligations to all shareholders, stakeholders, the government, and the public as described below:

Financial Auditors

The auditors will certify a company's FS if the most important aspects of CG are followed and investors' interests are appropriately safeguarded. The ARs demonstrate the company's strict adherence to all applicable laws requiring the disclosure of FSs and accounts, like the IASs, IFRSs code, International Standard of Auditing (ISA), Companies Act, BSEC Rules, and listing requirements. The appointed chartered accountancy firm's exceptional ability and integrity have made all of this possible. Their unwavering performance has been instrumental in safeguarding the investors' interests.

Compliance Auditors

The compliance auditors will vouch for the degree to which the terms of the 2018 CGC of the BSEC and the pertinent Bangladesh Secretarial Standards of the Institute of Chartered Secretaries of Bangladesh are being adhered to. Square Pharmaceuticals PLC's compliance auditors are chartered accountants employed by the company and chosen by the shareholders at a general meeting.

Legal Advisers

Ensuring the company provides the best legal service is necessary for establishing Good CG. The following top-tier legal professionals have been assembled by the company to form a panel in order to provide the best possible legal service. They have been providing the company with long-term, essential support while utilizing their highest level of expertise to guarantee and sustain the company's efforts in good CG.

Bankers

An organization's ability to operate efficiently is ensured by its banking services. It is a well-established fact that effective banking services can reduce operating expenses. In addition, finance costs, or the bank's processing fees and lending interest, must be minimal.

Compliance

In order to achieve this goal, the company has established enduring business relationships with multiple banks. The shareholders gain from these banks' most effective services, which are offered at the lowest possible cost or interest. The business has never fallen behind on a commitment to its bankers or become involved in a courtroom battle.

Relationship with Government

The BODs bears the responsibility of fulfilling all financial obligations to the government, including import duties, custom duties, port charges, VAT, corporate taxes, and other levies, based on actual operations and free from corruption.

Relationship with Suppliers

Nearly all of the company's equipment, machinery, and raw materials are imported from overseas. Thus, the business needs to keep up positive relations with both local and foreign suppliers. This cordial relationship will support the company's reputation as a good customer while assisting in addressing and mitigating unforeseen and contentious issues at the local and international levels.

Shareholders' Relationship

Put succinctly, the three most important aspects of a corporation are power, influence, and CG. Maintaining an acceptable and reasonable ownership structure may help a corporation preserve the power balance among its shareholders. The shareholders are, in actuality, the largest stakeholder. Ordinary resolutions and special resolutions, which are important for changes to the business purpose, sales of profitable assets, mergers and amalgamations, closing down or dissolving, as well as changes to the articles of association and memorandum to protect minority interests up to 49.9% of the shareholdings, must be passed by a majority of shareholders.

Compliance

As of June 30, 2021, the CG section of the company's AR shows that the sponsors do not possess the necessary shareholdings (75%) to pass special resolutions, despite the fact that this holding is crucial for safeguarding the legal corporate rights of the shareholders. Square Pharmaceuticals Ltd. endeavors to adhere to the principles of CG, which include the following:

i. In accordance with the law, the Company regularly calls its annual general meeting and provides sufficient notice and disclosures. In addition, the business maintains an updated website with notices, disclosures, financial reports, price-sensitive information, and other information for its shareholders and investors.

ii. The resolutions, directors' report, and auditors' report on the accounts and notes are passed by unanimity or consensus.
iii. The General Meeting upholds the due notice periods for passing Special Resolutions.
iv. A certified chartered secretary oversees all CS duties.
v. The Board is accountable to the shareholders and investors for disclosing information that is price-sensitive under the regulations of the BSEC. The Internal AC investigates significant merit cases for the BODs, MD, AC of the Board, or MC, as applicable.

Dividend Policy

Ethics, which establishes, is good and wrong and discusses things to pursue and things to avoid in relation to one's manner of living and passing away, is a component of good governance. Ethics calls for the management of our working environment from a wider, though clearly inclusive, perspective than just the current generation. Since, in theory, shareholders own a finite number of shares in an infinitely living corporate environment, a governance ethic should reflect a system that meets the needs of the current ownership while safeguarding the company's capacity to operate and benefit future generations.

Efficient co-existence with the environment is a necessary component of the corporate ethic, as it fosters equity and improves the quality of life for the current generation without adversely affecting future generations through the decisions made. Similarly, with regard to environmental ethics, individuals alive today would instinctively support dividend payouts tomorrow, disregarding the sacrifices we make today to allow for their higher consumption tomorrow, just as individuals alive today would naturally support dividend payouts today, disregarding the consequences tomorrow. Based on this idea, the company is committed to showcasing a stable policy of sharing profits (accretional wealth) between current and future generations of shareholders. This would help the current generation as well as the next generation by enabling the business to grow its capital value and last forever.

Compliance

1(5)(xx) The issuer company must provide an explanation if it has not declared a dividend (in the form of cash or stock) for the year that is not required to comply with.

1(5)(xxi) that there would be no interim dividend paid in the form of bonus shares or stock dividends that is not required to comply with.

III. The duty of the director to prepare and present the FSs

In Western Developed Countries, the responsibility of the director for the preparation and presentation of FSs is overseen by a subcommittee of the Governing Body made up of non-executive directors named AC. Owners, not management, are represented by this subcommittee of the board. The committee's primary goal is to supervise the financial reporting and auditing procedures. Most of the interactions between the governing body and the auditors are managed by this committee. This impartial committee has the power to improve the governing body's capacity to uphold its legal obligations and to forbid unethical, dubious, or unlawful activity. Financial reports may gain more objectivity and credibility as a result. Because it advocates for increased transparency and shareholder rights, this committee is a very good guarantee for CG in an organization. The corporations report on their AC, as the disclosure of fact has been made mandatory in Bangladesh. Above all, this reporting helps corporations define the duties assigned to directors in terms of preparing and presenting FSs. In Bangladesh today, the concept of an AC is widely recognized. There is no doubting that directors have adequate authority to prepare and present FSs, though, as a chairman's or DR is included in every AR.

Findings

A concise and efficient audit report that guarantees the company's transparency and satisfies the needs of both internal and external users can be found in the ARs of Square Pharmaceuticals PLC companies. "Statement of Director's Responsibility for preparation and presentation of FSs" is a separate heading included in this report. The following points have been highlighted in this section:
1. The company's financial reports are prepared in compliance with the Securities and Exchange Commission Rules of 1987 as well as the Company Act of 1994.
2. The directors choose the "appropriate" accounting policies, implement them consistently, and, when needed, make reasonable approximations.
3. They take the required actions to "detect" and "prevent" fraud and other anomalies.
4. The directors declare that the company has sufficient resources to manage its operations for the foreseeable future, based on pertinent inquiries (Going Concern).

Some other findings

While reporting on CG in ARs—which have been required since 2012—is not a particularly novel idea, there may be some weaknesses in the reports. The directors, management, and shareholders—the three primary players in CG—have all been covered in these reports. However, these do not outline the advantages and disadvantages of the three primary players that are necessary for the company to operate with the highest level of CG transparency. For instance, the report provides information on the number of shares held by the general public as well as the sponsors. The percentage of shares held by these two groups indicates the potential for safeguarding "general shareholder's rights" in a number of crucial situations. It can be argued that there is less likelihood of the directors making rash decisions if the general public owns a larger percentage of the company than the promoters or sponsors. Moreover, a detailed description of the number and composition of board committees could be provided.

IV. Conclusions

These days, CG is the most important topic in society. For limited companies, compliance with CG has become mandatory as of 2012. The main justification for CG is that, by guaranteeing increased transparency and defending the rights of shareholders, it can assure significant benefits to society. Enough information provided to shareholders in this regard may be the best way to fortify the CG system as a whole. The results of this study indicate that Square Pharmaceuticals PLC.'s companies report on the key players in CG in their yearly reports. By including a statement about the duties of the directors and how they are carried out in their organizations, it is attempting to uphold transparency. However, Square Pharmaceuticals PLC.'s disclosures do not go far enough toward accomplishing the goals that Oman (2001) outlined. It is possible to infer that shareholders support CG disclosures and typically have a tendency to believe the information disclosed based on compliance with CG. They would prefer to have as much information as possible when making an investment decision, but they may not have the knowledge, so they disagree with the assertion that such disclosures improve transparency and ensure better relationships between management and stakeholders of Square Pharmaceuticals PLC. prefer to have as much information as possible at their disposal when making investment decisions, but they might lack the knowledge or experience necessary to properly interpret the data supplied by these disclosures. Reckers and Pany (1988).

Concentrated ownership, the existence of vested interest groups, and the shift from a rule-based to an interest-based system characterize Bangladesh's corporate environment. However, Square Pharmaceuticals PLC's corporate disclosures do not guarantee that the OECD's development economy goals will be met (Rashid 2003). Since 2012, compliance with CG has been mandatory for large business corporations, and this disclosure is an attempt to comply with that requirement. In Bangladesh, CG disclosure is not a recent development. This endeavor aims to enhance CG compliance with rules and regulations and raise reporting standards.

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