

Corporate governance reforms in emerging countries: A case study of Bangladesh

Received (in revised form): 28th May 2013

Pallab Kumar Biswas

is currently working as an Assistant Professor in the Department of Accounting & Information Systems, Faculty of Business Studies, University of Dhaka. He obtained a PhD in Accounting & Finance from the University of Western Australia, Australia (2013) and an MBA in Accounting from the University of Dhaka. His research interests include corporate governance in emerging countries, audit committee, corporate social responsibility and disclosures in annual report.

ABSTRACT This article considers three related research questions, all in the context of an emerging economy, Bangladesh: What is the history of corporate governance (CG) reform in Bangladesh? What explains the introduction of CG guidelines in Bangladesh? and How have the country-level initiatives to improve CG influenced the firm-level practices of CG? By analysing the agency environment and CG reforms in Bangladesh, this article finds that, in spite of the number of reform initiatives undertaken since the early 1990s, there is substantial scope for further improvement, particularly in monitoring and enforcement by regulators, both external bodies, particularly the International Financial Agencies, and domestic forces have both affected the extent of CG reform in Bangladesh; and CG regulations take effect over time as companies gradually update their CG practices to comply with the national guidelines. The introduction of annual awards by the professional institutions also seems to have motivated companies to improve their governance practices.

International Journal of Disclosure and Governance (2015) 12, 1–28. doi:10.1057/jdg.2013.31; published online 12 September 2013

Keywords: corporate governance reforms; international financial agencies; ticking the box; compliance

INTRODUCTION

Governance arrangements observed today in a particular country have evolved over many years, even over centuries, although country-wide changes may be introduced in response to a spate of corporate failures or a systemic crisis. For example, a well-documented governance failure in the 1700s, the South Sea Bubble, revolutionized the then business laws and practices in England while much of the securities laws in the United States date from the stock

market crash of 1929 and the accounting scandals of 2001 (Iskander and Chamlou, 2000; Thompson, 2003). Although corporate failures or systemic crises are often considered to be the major drivers of corporate governance (CG) reforms in many countries, it would be unreasonable to think that, in order for change to happen, there must be a crisis. In addition to scandals and corporate crises, Steger and Amann (2008), for example, identified a number of drivers of CG reforms in France, Germany, the United Kingdom, and the United States: (a) internationalized capital markets; (b) the harmonization of capital markets through political power; (c) the growing emphasis on investment for a broader part of the population and

Correspondence: Pallab Kumar Biswas,
Department of Accounting & Information Systems,
University of Dhaka, Dhaka, Bangladesh
E-mail: pallab@univdhaka.edu

(d) privatization. It is to be noted that drivers of CG reforms extend beyond these factors (Hermes *et al*, 2006).

The factors identified by Steger and Amann (2008) and others apply across jurisdictions. As countries differ in terms of their economic, social, cultural, political and legal development, the drivers of CG reforms may also differ from one country to another. Interesting questions, therefore, remain as to how CG reforms take place, which factors are driving such reforms and how firms adapt to developments at the national level. Consequently, some researchers have examined the worldwide diffusion of CG codes (Aguilera and Cuervo-Cazurra, 2004; Cuervo-Cazurra and Aguilera, 2004; Zattoni and Cuomo, 2008; Aguilera and Cuervo-Cazurra, 2009; Haxhi and van Ees, 2010) while others have examined the degree of compliance by firms with national CG standards (Werder *et al*, 2005; Arcot and Bruno, 2006; Goncharov *et al*, 2006; Gupta and Parua, 2006; Nowak *et al*, 2006; Cleyne, 2008; Arcot and Bruno, 2009; De Castro, 2009; Arcot *et al*, 2010; Henry, 2010) and some have concentrated on drivers of CG reforms in the context of a mature capital market (Hermes *et al*, 2006). Understanding the diffusion of CG standards in emerging markets is also important, since they can present strikingly different socio-political and economic environments in comparison with developed countries and therefore the drivers of CG reform may differ (Daniel *et al*, 2011; Adegbite, 2012).

Because little is known about the drivers of CG reforms in an emerging markets, this article addresses three related research questions: (i) What is the history of CG reform in Bangladesh? (ii) What explains the introduction of CG guidelines in Bangladesh? and (iii) How have the country-level initiatives to improve CG influenced the firm-level practices of CG? This study is important in the sense that it will contribute to our understanding on how reform takes place, the principal drivers and how they affect firm-level CG practices, in an emerging market.

The remainder of this article is organized as follows. The next section discusses the agency environment and different country-level CG reforms undertaken in Bangladesh. Drivers of CG reforms in Bangladesh are discussed in the subsequent section. The latter section discusses the implications of external CG reforms for firm-level practices. The last section concludes the article.

THE AGENCY ENVIRONMENT AND CORPORATE GOVERNANCE REFORMS IN BANGLADESH

Most publicly listed companies in Bangladesh are controlled by families.¹ Family members in Bangladesh tend to exercise control through direct and indirect (sometimes called 'beneficial') ownership, and by being actively involved in company management either personally or through family ties. Different reasons have been offered in the literature for such extensive family control. Burkart *et al* (2003), for example, propose three broad theories to explain family control. The first is called the 'amenity potential' of family control, where the founder, typically a male, enjoys mental satisfaction when he finds his children running the business bearing the family name or when the business sponsors or influences major social, political or cultural events. In such circumstances, families will try to maintain control as long as they can. The second is 'reputational benefits', which would be diluted if control is surrendered to outsiders. The third theory relates to the possibility of expropriation of ownership rights by professional managers when control is surrendered.

As the controlling owner and the manager are often the same person in family-controlled firms, their shareholders may be better protected from managerial abuses. In addition, a controlling family is likely to commit more talented human capital to the firm, and generally cares more about the firm's long-term



prospects (Bertrand and Schoar, 2006). Although some of the more common agency conflicts between owners and managers may not arise in family-controlled firms, there is another type of agency problem involving the controlling shareholder(s) and the minority shareholders, which is likely to appear because of managerial entrenchment. Through the board of directors (BOD), ownership concentration enables controlling shareholders to exercise their authority and to use corporate resources for their own personal benefit. Examples are tunnelling via related party transactions not at arm's length, inappropriate allocation of intangible assets and liabilities, and excessively generous compensation paid to family members (Enriques and Volpin, 2007). At the same time, the controlling families cannot be ousted through normal mechanisms such as a hostile takeover bid or by being voted out of office at a shareholders' meeting (Rousseau, 2003; Enriques and Volpin, 2007).

In such an environment, private contracting and social norms are unlikely to resolve the agency problems. Consistent with the predictions in the literature (La Porta *et al*, 2002), weak investor protection in Bangladesh has resulted in a less-developed financial market which is likely to have resulted in a higher cost of capital.

Enriques and Volpin (2007) indicate a number of legal tools that can be applied in situations like this to protect minority shareholders' interests. These tools are discussed in the following sub-sections, with particular reference to reform initiatives introduced in Bangladesh.

Strengthening internal governance mechanisms

The BOD is generally considered to be the primary institution of CG. It hires and monitors management on behalf of the shareholders and can monitor related party transactions. However, in a family-controlled firm, the board members may not regard themselves as representing the interests of the minority shareholders; rather, they represent the interests of the controlling owners who appointed them.

Regulations give the BOD power to challenge controlling owners by: requiring a higher proportion of independent directors on the board; defining the board's roles, responsibilities and authority, particularly in relation to auditing; determining the form and amount of executive compensation; monitoring related party transactions; and disclosing information (Enriques and Volpin, 2007). However, uncertainty remains about the extent to which these reforms do curb abuse of other shareholders' rights by controlling shareholders. Chen *et al* (2011), for instance, report that governance reforms, such as appointing an active BOD, separating the chairperson from the position of Chief Executive Officer (CEO) or appointing a majority of outside directors, fail to deal effectively with the negative consequences of controlling owners' expropriation of the rights of others in China. They expected this result because reforms like these tend to resolve conflicts between shareholders and management but not between controlling and minority shareholders. Chen *et al* (2011) suggest that reforms that aim at improving the independence and monitoring power of boards of directors can be more effective in curbing expropriation by controlling shareholders.

In Bangladesh, a number of steps have been taken over the last 10 years to improve internal CG. Table 1 summarizes the main points. Of the various steps taken, the CG reform of 2006 is noteworthy. In 2006, the Securities and Exchange Commission Bangladesh (SECB) issued its 'Corporate Governance Guidelines',² which sought to improve internal CG by requiring listed firms in Bangladesh to comply with several governance conditions on the size, composition and leadership of the board; employment of a Chief Financial Officer (CFO), Head of Internal Audit (HIA), and Company Secretary (CS); the establishment, size, composition and activities of an Audit Committee (AC); and restrictions on the employment of statutory auditors in some activities. According to the guidelines, the board size should be between five and 20 with

Table 1: Internal corporate governance reforms in Bangladesh

<i>Areas</i>	<i>Salient features</i>	<i>Regulation</i>
Board effectiveness	<ul style="list-style-type: none"> • Board size within 5–20 • Separation between Chairman and CEO roles • At least 1/10th independent directors (a minimum of one) • Strict requirements for independent directors • At least four board meetings during the year • Appointment requirements of CFO, HIA and CS 	CG Guidelines, 2006 CG Guidelines, 2006 CG Guidelines, 2006 CG Guidelines, 2006 The CA of 1994 CG Guidelines, 2006
<i>Board committee</i>	<ul style="list-style-type: none"> • Audit committee (AC) with at least one independent director • Professional qualification requirement for the Chairman of the AC • AC's regular reporting requirement to the board of directors • AC's authority to report to the SEC Bangladesh 	CG Guidelines, 2006 CG Guidelines, 2006 CG Guidelines, 2006 CG Guidelines, 2006
<i>Internal control (IC) system</i>	<ul style="list-style-type: none"> • Board's responsibility to implement sound system of IC • Board's responsibility to monitor effectiveness of IC 	CG Guidelines, 2006 CG Guidelines, 2006
<i>Auditor independence</i>	<ul style="list-style-type: none"> • Restriction on the external auditor's engagement in certain activities • AC's authority to restrict auditors from engaging in any activity • Rotation of audit partners after 3 consecutive years of auditing 	CG Guidelines, 2006 CG Guidelines, 2006 SECB Order, 2002b

Notes: This table presents the internal corporate governance reforms in Bangladesh in four areas: board effectiveness, board committee, internal control system and auditor independence, along with the relevant regulation.

Abbreviations: CA, Companies Act; CEO, Chief Executive Officer; CFO, Chief Financial Officer; CG, corporate governance; CS, Company Secretary; HIA, Head of Internal Audit; SECB, Securities and Exchange Commission Bangladesh.

at least one-tenth (a minimum of one) being an independent director. To be independent, the guidelines provided that a director:

- must hold less than 1 per cent of the total paid-up shares of the company;
- must not have any family relationship with the company's promoters, directors or shareholders holding at least 1 per cent of shares in the company;

- must not have any relationship (pecuniary or otherwise) with the company or its subsidiary or associated companies;
- must not be a member, director or officer of any stock exchange;
- must not be a shareholder, director or officer of any member of any stock exchange or of an intermediary in the capital market.



The guidelines suggest a clear division between the roles of Chairman and CEO, and a clear definition of their respective roles. The guidelines require listed companies in Bangladesh to appoint a CFO, an HIA and a CS, and to clarify their respective roles, responsibilities and duties (guidelines 2.1 & 2.2). Regarding board committees, the CG guidelines require the establishment of an AC to 'assist the BOD in ensuring that the financial statements reflect a true and fair view of the state of affairs of the company and in ensuring a good monitoring system within the business' (guideline 3.00). In Bangladesh, a listed company's AC should comprise three members with at least one independent director. The guidelines require a professional qualification on the part of the Chairman of the AC but do not specify any similar requirement for the other committee members (guideline 3.2(ii)):

The Chairman of the audit committee should have a professional qualification or knowledge, understanding and experience in accounting or finance.

The guidelines require the AC to play an important role in ensuring a sound CG system within the firm. In addition to its regular reporting to the board, the AC is required to report immediately to the board any findings of a conflict of interest, deficiency in internal control systems, suspected infringement of laws and regulations, and any other matter the committee considers appropriate. The committee is also authorized to report its findings to the SECB when the board fails to act upon the committee's findings within a reasonable time (after reporting to the board three times or 9 months from the date of first reporting to the board, whichever is earlier).

In relation to internal control, the CG guidelines require the board to be held responsible for implementing and monitoring an effective system of internal control. Following the guidelines, the board needs to declare that the system of internal control is sound in design and has been effectively implemented and monitored (guideline 1.4(e)).

To ensure independence of the external auditor(s), the CG guidelines restrict listed companies from employing statutory auditors in a number of other services, such as appraisal or valuation services or providing fairness opinions, accounting information system design and implementation, book-keeping or other accounting-related services, broker-dealer services, actuarial services, and internal audit services (guideline 4.00). Also, the SECB has prohibited the appointment of an auditor for more than three consecutive years (condition (b) in):

The issuer company shall not appoint any firm of chartered accountants as its statutory auditors for a consecutive period exceeding three years.

However, the SECB has added an interesting proviso:

Provided further that the issuer may continue with the existing statutory auditor subject to the clearance of the Commission if it recommends at least 10% dividend on the face value/paid-up capital or 7.5% on the net-worth whichever is higher for the year immediately preceding the year for which the statutory auditor is appointed.

It seems that the SECB views disbursement of a minimum percentage of dividend as a reasonable substitute for auditor independence. However, auditor independence could be compromised even if a company meets these dividend criteria. A similar view is also expressed in the World Bank Report (2003), and by Kabir (2006) and Rashid (2011).

There remain a number of challenges to internal governance reforms. For example, the existing CG guidelines are not ideal by international standards. Regarding board independence, the current provision requires the inclusion of a minimum of one independent director (in practice, it has been found that except in rare circumstances companies adopt

the minimum requirement), raising questions about their ability to be an effective monitor.³ In addition, the guidelines only require the establishment of an AC, with no requirement to establish, say, a remuneration or nomination committee. Hence, a company in Bangladesh can comply with the guidelines by appointing just one independent director to the board and appointing that independent director to the AC. Such a committee structure raises the question of the AC's independence as the board Chairman and any other executive director, including the CEO, can be the AC Chairman. In addition, there is no qualification requirement in the guidelines for AC members or for a rotation policy for its members. Furthermore, there is no specific requirement regarding directors' educational and service background (Rahman and Azim, 2007).

Whistle-blowers (such as employees) can be a critical source of corporate information because of their ability to reveal improper conduct in the organization but they need adequate legal protection to become effective. Neither the CG guidelines nor other CG reforms recognize the role of employees and there is little legal protection for them (Kabir, 2006; World Bank, 2009). The perhaps inevitable outcome is that few employees risk revealing misconduct by their employers in Bangladesh (World Bank, 2009).

Minority shareholder protection and shareholder empowerment

The law generally empowers shareholders by enhancing their rights to sell, sue and have a say in their company's affairs (Enriques and Volpin, 2007). Where ownership is dispersed, the shareholders' right to sell their shares allows for the emergence of a market for corporate control that limits abuse by insiders. In countries like Bangladesh, with concentrated ownership, an active market for corporate control does not exist. The law may empower shareholders by giving them the right to sue the company and its directors in specified situations. The effectiveness of such a possibility will depend

on the incentives of the minority shareholders, the cost of litigation and the efficiency of the legal system. The law can also empower shareholders by giving them a say over key issues, such as the appointment and remuneration of directors and auditors, approval of dividends, the issuance of additional shares, or the sale of substantial parts of the company.

In Bangladesh, different steps have been taken in this regard. For example, stock exchange trading of securities was fully automated in 1998, replacing the 44-year-old 'outcry' system. Automation has facilitated trading of securities from decentralized places and enhanced the volume of transactions (Siddiqi, 2007). It has been further facilitated by the creation of the Central Depository of Bangladesh Limited (CDBL), which is entrusted with '... the efficient delivery, settlement and transfer of securities through computerized book entry system, that is, recording and maintaining securities accounts and registering transfer of securities; changing the ownership without any physical movement or endorsement of certificates and execution of transfer instruments' (<http://www.cdbl.com.bd/overview.php>, accessed 16 December 2011).

Shareholders in Bangladesh have rights under the Companies Act (CA) of 1994 to attend and participate in company meetings either in person or by proxy. They elect and remove directors [Sections 91 and 106], appoint the company's auditor and approve their remuneration [Sections 210 and 211], and their approval is needed to change the company's articles of association [Section 20], authorize new share issues or reductions of share capital [Sections 56 and 59], authorize the amount of dividend recommended by the directors [Section 96 of Schedule I], and vote on major governance issues [Section 12]. Shareholders with a minimum of 10 per cent ownership can request an extraordinary general meeting to discuss any issue of concern [Section 84]. They can also go to court to protect their interests [Section 233], or request the Registrar of Joint Stock Companies (RJSC) to investigate the affairs of their

**Table 2:** Share categorization criteria of the Dhaka Stock Exchange and effective date

<i>Category</i>	<i>Effective date</i>	<i>Criteria</i>
A	2 July 2000	<ul style="list-style-type: none"> • Regular holding of AGM • At least 10 per cent dividend declared and paid during the Gregorian calendar year
B	2 July 2000	<ul style="list-style-type: none"> • Regular holding of AGM • Less than 10 per cent or no dividend has been declared and paid during the Gregorian calendar year
Z ^a	26 September 2006	<ul style="list-style-type: none"> • Irregular holding of AGM • No dividend • Not in operation for more than 6 months • Accumulated loss exceeds the paid up capital
G	30 June 2002	<ul style="list-style-type: none"> • Greenfield companies
N	3 July 2006	<ul style="list-style-type: none"> • All newly listed companies except greenfield companies

^aAt present, Z-category shares are only traded on the Over-The-Counter (OTC) market, under the OTC Market Rules, 2001.

Abbreviation: AGM, annual general meeting.

company [Section 195]. Furthermore, shareholders have the pre-emptive right to subscribe to any additional capital the company wishes to raise [Section 155].

Besides shareholders' rights to sell, sue and to have a say, other reform programmes have been instituted by the regulators in Bangladesh. For example, a credit rating was made mandatory for all public offers of debt instruments and any public issue of shares (including a rights issue) at a premium by a publicly listed company, through 'Credit Rating Companies Rules, 1996'.⁴

The Dhaka Stock Exchange (DSE) classifies securities into different groups based on their regular holding of annual general meetings (AGMs) and their dividend payment record. A total of five categories have been introduced at different points in time. The categorization is intended to help general investors to choose appropriate securities based on their risk-taking preferences. The criteria for different categories and their settlement system are shown in Table 2 (DSE, 2007).

Under the current SEC regulation (Acquisition and Takeover Rules, 2002), a public notice is necessary if a person is trying to obtain more than 10 per cent ownership interest. At the end of the offer, if less than 10 per cent of the issued shares remain with the public, the person is bound to buy those shares when offered. Moreover, ownership of more than 10 per cent must be disclosed to the company, the Stock Exchange and the SEC.

To ensure effective functioning of the AGM, the SECB has issued a notification and an order. According to the notification, no gift or benefit in cash or kind other than a cash and/or stock dividend shall be paid to equity holders for attending the AGM (BSEC, 2000). The SECB has also instructed companies to submit an audio visual recording of the AGM to the Commission (condition (c) in):

The issuer shall make continuous and uninterrupted audio visual recording of the entire proceedings of its annual general

meeting and shall furnish a copy of the same in unedited form within the shortest possible time but not later than three working days from the date of the said annual general meeting to the Commission and the Stock Exchange(s).

One important reform in the Bangladesh capital market to empower shareholders is the availability of education and training courses. Currently, the SECB, the stock exchanges and merchant bankers arrange regular training programmes for investors in related areas (BSEC, 2011). To conduct a deeper level of training, an institute named 'Bangladesh Institute of Capital Market' was approved on 25 May 2008 and it began training operations on 9 December 2010 (Chowdhury, 2010).

In order to involve the investment community and other stakeholders more in the rule-making process, the SECB from time to time seeks comments on its amendment proposals. According to the SECB website (www.secdbd.org/comments_page.htm), from 2009 to 27 April 2012, comments have been sought on a total of 27 amendment proposals, including a proposal to amend the current CG guidelines.

Despite the above reforms designed to protect basic shareholder rights, Bangladesh lags behind other jurisdictions in a number of ways (World Bank, 2009). For example, related party transactions do not need approval by shareholders, and there has been no prosecution for insider trading. An ownership threshold of 10 per cent to take legal action against the company is relatively high for a country with highly concentrated ownership. The World Bank Country Study report identifies other areas where weakness remains (World Bank, 2009, p. 3):

The information that shareholders can demand is not always free and easily accessible. The process to elect directors is rarely clear and shareholders do not approve director remuneration...Shareholders cannot vote in the GMS [general meetings] electronically or by post...The rules [for taking control of a company] are

proscriptive, and many have limited certain control transactions. There is no general requirement for control offers to be for all shares in the company. Their scope is also narrow. The CA [Companies Act] has distinct, and not entirely harmonized, rules for mergers and acquisitions. There is little guidance on board members' duties during control transactions or when a major shareholder wishes to sell a large block of shares.

Table 3 summarizes the relevant reforms in the area of investor empowerment.

Enhancing disclosure requirements

Shareholders' ability to sell, sue and have a say depends on their access to information (Enriques and Volpin, 2007). It is generally argued that an extensive regime of disclosure can help alleviate agency problems. For example, mandatory disclosure requirements for related party transactions and directors' compensation can be an important tool for alleviating self-dealing. Disclosure of price-sensitive information also helps prevent insider trading (Enriques and Volpin, 2007), with Kothari (2001) reporting that mandatory disclosure through financial reports provides new and relevant information to the investment community.

Regulatory reforms to disclosure requirements in Bangladesh mainly cover four spheres: (1) CG arrangements; (2) financial reporting and timeliness; (3) self-dealing and insider trading; and (4) executive compensation. These are discussed in more detail below.

Under the CG guidelines, directors of listed companies in Bangladesh are required to disclose additional material in the annual report. This includes, among other things, information concerning fair presentation in the financial statements, maintenance of proper books of accounts, consistent application of accounting policies, adoption of all applicable international accounting standards, implementation and monitoring of a sound system of internal

Table 3: Minority shareholder protection and shareholder empowerment reforms in Bangladesh

<i>Reforms</i>	<i>Salient features</i>	<i>Legal reference/effective date</i>
<i>Reforms relating to shareholders' rights to sell</i>		
Automation of stock exchanges	More transparent and efficient share trading	1998
Introduction of CDBL	Better shareholder recordkeeping	The Depositories Act, 1999
<i>Reforms relating to shareholders' rights to sue</i>		
Legal remedy for minority shareholders	Shareholders with minimum 10 per cent ownership may exercise legal rights	The CA of 1994
<i>Reforms relating to shareholders' rights to have a say</i>		
Right to vote in person or in proxy	Shareholder can appoint proxy to attend company meetings and vote on his behalf	Regulation 68 of Schedule-I in the CA of 1994
Shareholder approval required on different issues	Shareholders' approval is required on corporate governance issues	The CA of 1994
<i>Other reforms facilitating minority shareholders' protection</i>		
Mandatory credit rating	Mandatory credit rating of any public issue of shares (including rights share) at a premium and any issue of debt security	Credit Rating Companies Rule, 1996
Share categorization	Based on criteria such as regular holding of AGMs, dividend percentage, commencement of operation, shares are categorized	2000
Mandatory bid rule	The acquirer of a control block must offer to acquire all the remaining shares	Acquisition and Takeover Rules, 2002
Timely payment of dividend	Companies must pay dividend within 30 days of declaration or approval, as the case may be.	SECB Notification Dated 1 June 2009
Pre-emptive rights	Pre-emptive rights to subscribe any additional capital that company decides to raise	The CA of 1994
Effective functioning of AGMs	Except for a dividend, gifts or other benefits to the shareholders at the AGM in kind are prohibited, and an audio visual recording of the AGM must be submitted to the SECB	SECB Notification, 2000 and SECB Order, 2002
Investor Education Program	To facilitate training of capital market participants and intermediaries	30 June 2009
Bangladesh Institute of Capital Market	To facilitate training of capital market participants and intermediaries	9 December 2010
Investor opinion on amendment proposal	SECB solicits public opinion before introducing an amendment to any existing regulation	Ongoing

Abbreviations: AGM, annual general meeting; CA, Companies Act; CDBL, Central Depository of Bangladesh Limited; SECB, Securities and Exchange Commission Bangladesh.



control, ability of an entity to continue as a going concern or the reasons for not being able to continue as a going concern, any significant deviation in operating results from the prior year, and reasons explaining the non-payment of any cash or stock dividend. Key operating and financial data for at least the three previous financial years, number of board meetings held during the year and attendance by individual director at those meetings, and the pattern of shareholdings⁵ must also be disclosed by the directors under the governance guideline conditions. An AC report (signed by the AC Chairman) mentioning the committee's activities should be disclosed in the annual report. Minority shareholders and general investors are expected to benefit from such reporting.

Like many countries, Bangladesh has adopted International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). The local name of IAS is Bangladesh Accounting Standards (BAS) and IFRS is Bangladesh Financial Reporting Standards (BFRS). According to the ICAB website (www.icab.org.bd), as of 15 December 2011, Bangladesh has adopted 28 IASs and 8 IFRSs. Under the Securities and Exchange Rules, 1987, 'the financial statements of an issuer of a listed security shall be prepared in accordance with the requirements laid down in the Schedule and the International Accounting Standards as adopted by the Institute of Chartered Accountants of Bangladesh' [Rule 12(2)].

Timely reporting by listed companies in Bangladesh is governed by the provisions of the Companies Act of 1994, the Listing Regulations of the DSE Limited of 1996 and the Securities and Exchange Rules of 1987. Currently a listed company in Bangladesh is required to have its financial statements audited within 120 days of the financial year-end date, and to hold its AGM and to have the audited accounts approved at the AGM within nine months of its financial year-end date under normal circumstances. A listed company is also required to prepare and communicate quarterly financial statements to the SECB and security holders (BSEC, 2009).

'Related Party Disclosures' is one of the adopted IASs (BAS 24) in Bangladesh. This standard requires detailed and specific disclosure of related party transactions. The effective date of BAS 24 is 1 January 2007. In addition to the provisions in BAS 24, several other stipulations exist in Bangladesh. Rule 10 of Public Issue Rules, 2006, requires a company to disclose all related party transactions that have taken place during the 2 years prior to the issue of a prospectus. Under Section 37 of the Listing Regulations of the DSE, all listed companies are required to disclose all related party transactions in the annual published accounts.

Insider trading is prohibited in Bangladesh. Insiders of a company are not allowed under the Listing regulations of the DSE Limited [Section 43(6)] to buy or sell the company's shares based on material information generated within 5 market days following public dissemination and evaluation of such information. According to Section 43(7) of the Listing Regulations of DSE of 1996, insiders of a company must give at least 4 market days' notice to the Exchange and the Commission before trading in the company's shares. Listed companies in Bangladesh are required to submit the month ending shareholdings of their insiders (sponsors and/or directors) and 10 per cent or greater owners in the company by the 10th day of the following month. Such statements must include an explanation for the difference in shareholding, if any, from the information provided for the previous month (SECB order dated 29 August 2004).

The BOD of a listed company must not meet as a board to consider price-sensitive information during trading hours (11:00 to 15:00 as of 31 March 2012) of the stock exchanges (BSEC, 2009). Listed companies are required to publish price-sensitive decisions in two widely circulated daily newspapers, one in Bangla and the other in English (BSEC, 2000).

Disclosure regarding the compensation of directors and executives is governed by the Securities and Exchange Rules, 1987 and Public Issue Rules, 2006. Rule 11 of Public Issue Rules, 2006 requires a company to disclose in



its prospectus information on: (a) the total amount of remuneration paid to the top five salaried officers in the company in the last accounting year; (b) aggregate amount paid to all directors and officers as a group in the last accounting year; (c) amount of remuneration paid to any non-executive director; (d) future compensation contracts with any director or officer; and (e) the intention of the issuer to substantially increase the remuneration of directors and officers with sufficient explanation. According to Rule 4(i) in Part II of the Securities and Exchange Rules, 1987, listed companies in Bangladesh are required to disclose separately the full particulars of the aggregate amounts paid during the past financial year to the directors including the managing director, managing agents and officers under appropriate headings such as fees, remuneration, pensions, gratuities, company's contribution to provident, superannuation and other staff funds, compensation for loss of office and in connection with retirement from office, allowances, commission, perquisites or benefits in any other form or manner and for any services rendered.

Table 4 summarizes major governance reforms over the past several years in Bangladesh.

Monitoring and public enforcement

The success of any reform depends on the effectiveness of the monitoring and enforcement mechanisms. Enriques and Volpin (2007) argue that public enforcement such as by a fine or imprisonment may be an effective tool in preventing specific forms of expropriation, such as insider trading.

In Bangladesh, enforcement of corporate and securities laws is generally shared by the SECB, the DSE, the RJSC, professional accounting bodies and the judiciary.

Bangladesh has reshaped and strengthened its enforcement structures over the past 40 years. Most of the reforms have taken place in the area of its supervisory authority's power to supervise the securities markets. The SECB regulates the securities market through the Securities and

Exchange Ordinance of 1969 and the Securities and Exchange Rules of 1987, and various orders and notifications issued under the Securities and Exchange Ordinance of 1969. The DSE mainly regulates companies through its Listing Regulations of 1996. The RJSC is entrusted to administer and enforce the relevant statutory provisions of the Companies Act 1994. The Institute of Chartered Accountants of Bangladesh (ICAB), on the other hand, is responsible for ensuring that its members maintain the highest professional standards in conducting their professional duties.

Under the Securities and Exchange Commission Ordinance, 1969, the SECB is empowered to impose administrative sanctions as well as penalties for non-compliance with securities laws. If a party is found guilty after investigation, a show cause notice is sent. Where the explanation is not satisfactory, the accused party is provided with an opportunity to be heard under the Code of Civil Procedures, 1908, and, finally, depending on the severity of violation, the Commission may either impose administrative sanctions or a penalty or both (Siddiqi, 2007). The minimum penalty is set at Tk. 100 000 where the party fails to furnish any document, paper or information required under the Ordinance [Section 22]. In case of continuing default, a further penalty of Tk. 10 000 per day is imposed. The penalty for market manipulation of security prices has been increased from 3 years to 5 years' imprisonment and the penalty from 10 000 Taka to a minimum of 500 000 Taka [Section 23].

Under the Securities and Exchange Commission Rules of 1987, the Commission (the SECB) has made provision to discipline statutory auditors in case of their failure to discharge their professional responsibilities [sub-rule 3(B) of Rule 12]. Under this sub-rule, the Commission can declare a Chartered Accounting firm ineligible to conduct an audit in a listed security for a period of a maximum 5 years if the Commission finds the audit firm to be seriously liable for not conducting an audit in the legally prescribed manner.

Table 4: Reforms relating to disclosure requirements in Bangladesh

<i>Nature of reform</i>	<i>Salient features</i>	<i>Legal reference/effective date</i>
Corporate governance arrangements	<ul style="list-style-type: none"> • Additional disclosure requirements on part of BOD in relation to CG arrangements 	CG Guidelines, 2006
	<ul style="list-style-type: none"> • Number of board meetings during the year and name-wise attendance 	CG Guidelines, 2006
	<ul style="list-style-type: none"> • AC reports signed by its Chairman 	CG Guidelines, 2006
	<ul style="list-style-type: none"> • Disclosure of pattern of major shareholdings in the firms 	CG Guidelines, 2006
Financial reporting and timeliness	<ul style="list-style-type: none"> • Need to comply with the BAS/BFRS as adopted by ICAB 	On or after 1 January 1999
	<ul style="list-style-type: none"> • Need to have its financial statements audited within 120 days of the financial year-end date 	The SECB Rules, 1987
	<ul style="list-style-type: none"> • Need to hold AGM and have the audited accounts approved within nine-months of the financial year-end date 	The Listing Regulations of the DSE, 1996
	<ul style="list-style-type: none"> • Prepare and communicate quarterly financial statements 	The SECB Notification, 2009; The SECB Order, 2010
Executive compensation	<ul style="list-style-type: none"> • Annual disclosure of compensation paid to directors (including managing director), managing agents, and officers under appropriate headings. 	The SECB Rules, 1987; Public Issue Rules, 2006
Self-dealing and insider trading	<ul style="list-style-type: none"> • Price-sensitive information to be immediately disclosed 	BAS 24; Sections 43(6) & 43 (7) of the Listing Regulations of the DSE, 1996, The SECB Notification, 2009
	<ul style="list-style-type: none"> • Disclosure of related party transactions 	
	<ul style="list-style-type: none"> • Board meetings involving price-sensitive information must be held outside the normal trading hours of the exchanges 	

Abbreviations: AC, audit committee; AGM, annual general meeting; BAS, Bangladesh Accounting Standards; BFRS, Bangladesh Financial Reporting Standards; BOD, board of directors; CG, corporate governance; DSE, Dhaka Stock Exchange; ICAB, Institute of Chartered Accountants of Bangladesh; SECB, Securities and Exchange Commission Bangladesh.

To monitor and ensure the publication of quarterly reports on company websites as well as on stock exchange websites, the SECB has instructed the stock exchanges (at present there are two stock exchanges in Bangladesh: the DSE and the Chittagong Stock Exchange) to submit compliance reports in this regard to the Commission on a quarterly basis (BSEC, 2010).

The above discussion suggests there are some monitoring and enforcement mechanisms in place in Bangladesh to support CG reform initiatives. Whether they are effective in carrying out the intended functions is an open question. Although the SECB, the exchanges and the ICAB have taken legal actions against wrongdoers from time to time, these actions are viewed by some as insufficient since many who



break the law are believed to go undetected (World Bank, 2002, 2003; Mir and Rahaman, 2005; Solaiman, 2006; Uddin and Choudhury, 2008; World Bank, 2009; Rashid, 2011). Perhaps it is best described in the World Bank Country Study report (2002, p. 99): ‘... the gap between international standards and national standards is not as serious [in Bangladesh] as the gap between national standards and national practices. Laws and regulations exist, but are not enforced. At present there are few visible sanctions for wrongdoing. As laws and regulations have not been enforced they have fallen into disuse and often been forgotten’. The situation has been serious enough for the World Bank (WB) to impose conditions that require improvements in CG if Bangladesh is to continue to receive financial assistance (World Bank, 2005).⁶

DRIVERS OF COUNTRY-LEVEL CORPORATE GOVERNANCE REFORMS IN BANGLADESH

‘Country-level CG reforms’ encompass all activities aimed at improving the legal and institutional framework of a country to enhance investors’ confidence in its capital market operations, and to better protect minority shareholders from the likely expropriation of their interests by insiders and controlling shareholders. In this context, the legal framework of a country helps ensure that relevant legal mechanisms are in place; and the institutional framework helps ensure that existing rules and legal provisions are kept up to date to match relevant new developments elsewhere, that national practices are monitored to ensure they conform to the national standards, and, most importantly, that the national standards are uniformly enforced.

It is argued in the literature that CG reform initiatives at the country-level in general and the initiative to develop a code of CG in particular are influenced by a number of exogenous (external) and endogenous (domestic) factors that address deficiencies in a country’s CG system (Aguilera and Cuervo-Cazurra,

2004; Hermes *et al*, 2006). The extent to which such initiatives are successful is strongly influenced by the country’s political, cultural and economic forces (Li and Harrison, 2008; Steger and Amann, 2008; Haxhi and van Ees, 2010; Brown *et al*, 2011; Daniel *et al*, 2011).

External forces include globalization, opening up of financial markets, and the actions of foreign institutional investors and international donor agencies who seek to acquire legitimacy in capital markets (Aguilera and Cuervo-Cazurra, 2004). For example, when countries increasingly open up their economy to external influences and foreign capital, or when countries (particularly emerging countries) depend heavily on donor support for funds, they are more likely to be confronted with pressures from these external agencies to signal the country’s commitment to improve its CG system, such as by implementing international best practice adopted elsewhere.

Domestic forces, on the other hand, influence the way in which the CG reforms are undertaken in a particular country. While it is commonly argued that domestic forces aim to increase efficiency in the system (Aguilera and Cuervo-Cazurra, 2004), it may not be universally true. Within a country, influential parties can exert pressure in both directions, that is, for and against the reform. Domestic forces such as the growth of active institutional investors, privatization and rising shareholder activism tend to exert positive pressure towards reform. These domestic forces increase the perceived need for more effective monitoring mechanisms and appropriate incentive schemes to improve existing CG systems (Aguilera and Cuervo-Cazurra, 2004). However, other key domestic players, such as controlling shareholder groups, rent-seeking politicians and bureaucrats whose interests are likely to be hampered by reform, may all oppose a reform, slowing down the reform process, and affecting the content, timing and sustainability of reform initiatives (Grindle and Thomas, 1989). In a recent study, Haque *et al* (2011) find evidence supporting the notion that broad-based interest

groups contribute significantly to the less than efficient state of CG in developing economies.

The success of CG reform in a given country and the state of the country-level CG framework at a given point in time depends on a host of legal, institutional, political, social, cultural and economic factors. Since these factors differ across countries, differences tend to exist among countries in terms of the type of reform undertaken, and more specifically the contents of any CG codes that are adopted (Hermes *et al*, 2006). As argued above, differences in the balance of power among stakeholders within a country may also result in differences in governance codes across countries.⁷

Using the above framework, the development of CG guidelines in Bangladesh can be explained by referring to both external and domestic forces. In the following two sub-sections, external and domestic forces influencing the development of CG guidelines are discussed.

External forces influencing the development of corporate governance guidelines in Bangladesh

While forces like globalization, the opening up of financial markets and the actions of foreign institutional investors are often cited as major factors influencing country-level CG reforms, in the context of Bangladesh the International Financial Agencies (IFAs)⁸ such as the Asian Development Bank (ADB), the International Monetary Fund (IMF) and the WB has greatly influenced CG reform since the early 1990s (Mir and Rahaman, 2005; Siddiqui, 2009; Rashid, 2011).⁹

The ADB approved a loan of US\$80 million on 20 November 1997 for the Capital Market Development Program (CMDP) in Bangladesh, the aim being to broaden the market and to develop a fairer, transparent and efficient domestic capital market that would attract larger amounts of investment to augment financing by the banking system (ADB, 2005a). In so doing, the key aim of the CMDP was to restore

investor confidence, which had been significantly damaged when the Bangladesh stock market crashed in 1996, blamed on excessive speculation aggravated by widespread irregular activities (ADB, 2005a).¹⁰

In the project performance audit report, the Operations Evaluation Mission (OEM) of the ADB considered the CMDP was partly successful in achieving its objectives. One reason why the CMDP was considered only partly successful is that it did not give balanced support to some key elements in establishing a regulatory system based on 'fair' disclosure. Lack of support for good CG practice was one of these key elements (ADB, 2005a). Based on interviews of key stakeholders in the Bangladesh capital market,¹¹ the OEM reported that irrespective of successes in some areas, the CMDP had failed to improve investor confidence in listed companies' financial statements. Weak CG contributed to the lack of confidence, as pointed out by interviewees (ADB, 2005a).

It was, therefore, no surprise that the OEM considered the need to focus on strengthening CG as a key issue for ADB's follow-up actions (ADB, 2005a, p. 22):

The foundation for any regulatory regime relying on the principle of full and fair disclosure to investors rests on the quality of financial statements and the reliability of independent audit. Such requirements will only be effective if they are complemented by sound corporate governance practices and proper oversight of the accounting and audit profession. In Bangladesh, deficiencies remain in these areas.

Consistent with the above observation, a technical assistance (TA) grant was made for a project titled 'Capacity building of the Securities & Exchange Commission & selected capital market institutions'. It focused on promoting CG in listed companies and market intermediaries and strengthening the quality of financial reporting, and was approved on 9 November 2000 (ADB, 2005b). As part of the project, a 'National Workshop on Corporate

Governance' was held on 12 and 13 July 2003. In its TA completion report, ADB (2005b, p. 2) said:

The Corporate Governance Workshop was high-level, with the Finance Minister giving the opening remarks, and it was widely attended, with 80 participants from the government, capital market institutions, private sector companies, universities, and donor institutions. The corporate governance and shareholders' rights manuals and the proposed amendments to the Companies Act were discussed at the National Workshop on Corporate Governance ... the SEC Chairman proposed that in every general meeting, there should be at least one independent director representing minority shareholders.

In the TA completion report, it was pointed out that future ADB assistance and policy dialogue along with donor coordination should be directed at strengthening institutional mechanisms for implementing the CG reform provisions in the Companies Act (ADB, 2005b). As a consequence, the ADB reached an understanding with the Government of Bangladesh to jointly finance the ADB's TA titled 'Financial Markets Governance Program'.¹² One focus was on assisting capital market regulators to strengthen CG by adopting best practices with respect to: (i) the structure of the BOD and the role of independent directors; (ii) protection of minority shareholders; (iii) transparency; (iv) setting up a commission to revise the Companies Act 1994; and (v) formulating a code of CG (ADB, 2003b).

Under the above-mentioned TA, a day-long workshop titled 'SEC Governance and Corporate Governance' was conducted on 30 May 2005. Apart from four executive directors of SECB, 12 persons representing exchanges, banking, non-banking financial institutions and non-financial institutions took part in the workshop.¹³ At the workshop, three relevant sources of CG materials were distributed to participants: the OECD Corporate Governance

Principles 2004 (considered to be the benchmark of international best practice), the Malaysian Code of Corporate Governance of March 2000 (since the Malaysian stock market was not highly developed, and its market characteristics resemble the Bangladesh capital market) and the Hong Kong Stock Exchange Rules of Corporate Governance Disclosure in Annual Reports (since Hong Kong also has a common law tradition and is characterized by family-controlled corporate ownership) (ADB, 2007). It was expected that stock exchanges in Bangladesh and the SECB would require listed companies to adopt similar CG provisions to those in Malaysia and Hong Kong (ADB, 2007).

While the WB was not directly involved in the development of CG guidelines in Bangladesh due to its mutual understanding with the ADB (World Bank, 2002; ADB, 2003a, 2005a), the WB has, nonetheless, taken an active role in promoting good governance around the world, including in Bangladesh, by helping emerging countries to evaluate their current CG practices and upgrade them to international levels (Aguilera and Cuervo-Cazurra, 2009). The country study report of WB (2009) is such an attempt. CG has been adopted as one of 12 core best-practice standards by the international financial community. As part of the WB and the IMF programme on Reports on the Observance of Standards and Codes, WB assessed the CG of companies listed on the stock exchanges in Bangladesh, and the study report is the outcome of this assessment. Using the OECD Principles of Corporate Governance as the benchmark, the study identified major weaknesses in the existing CG system and provided policy recommendations in this respect. One recommendation was that 'a new CA [Companies Act] should be introduced as part of broader reform to make the legal framework for corporate governance more coherent and effective. This reform should strengthen shareholder rights and the accountability of directors' (executive summary in World Bank, 2009).

The above discussion shows clearly how external forces such as the ADB and the WB

can exert a major influence on the development of CG guidelines and practices in countries like Bangladesh.

Domestic forces influencing the development of corporate governance guidelines in Bangladesh

While the market for corporate control barely exists in Bangladesh, and institutional investors mostly play a passive role in exerting pressure for CG reform, a number of domestic factors have influenced the development and content of CG guidelines in Bangladesh. Local bodies such as the Bangladesh Enterprise Institute (BEI), a private-sector think-tank, the ICAB, and the Metropolitan Chamber of Commerce and Industry (MCCI), Dhaka, have influenced the development of CG guidelines. The experience of other countries also seems to have been an important factor.

Before the SECB's CG guidelines were issued in 2006, a number of attempts had been made to develop CG voluntary codes. For example, a private consulting firm, BEI, started a project in 2002 to examine the current state of CG norms and practices in four South Asian countries: India, Pakistan, Sri Lanka and Bangladesh. It published a report titled 'A Comparative Analysis of Corporate Governance in South Asia: Charting a Roadmap for Bangladesh' in August 2003 (BEI, 2003). The report identified a number of reasons for developing CG standards in Bangladesh (BEI, 2003, p. 16):

First: Bangladesh should strive to reach international standards with regard to corporate governance practices not only as a prerequisite to attracting international capital, but also to enhance the commercial reputation of the country generally. Second: good corporate governance practices can be an important tool in improving domestic economic efficiency, business management, and risk

management, which will assist in the development of the private sector. Finally, the corporate sector should strive to improve corporate governance as a mechanism to demonstrate corporate responsibility and attain trust and support of the public.

Consistent with the above notion, in August 2003, the BEI formed a National Taskforce (comprising individuals from the private sector, the Government, non-governmental organizations (NGOs) and other relevant bodies, including the SECB Chairman) to draft the 'Code of Corporate Governance for Bangladesh' (BEI, 2004). The Taskforce prepared and published 'The Code of Corporate Governance for Bangladesh' in March 2004. In November 2004, BEI initiated the 'Corporate Governance Strengthening Project' (CGSP), supported by the Royal Netherlands Embassy, with an aim to implement good governance practice in the public, private and NGO sectors of Bangladesh.¹⁴

The ICAB prepared a 'Draft Code of Corporate Governance-Bangladesh' in November 2004.¹⁵ Earlier, in January 2003, ICAB had published the results of a study funded by the WB that examined CG in Bangladesh, which included recommendations for improvement (ICAB, 2003).

As mentioned before, the current CG guidelines in Bangladesh came into effect through a notification on 20 February 2006. The notification replaced an order dated 9 January 2006.¹⁶ There are two differences between the notification and earlier order: first, the number of independent directors was reduced from a fifth to a tenth of the board size and second, in the earlier order there was a requirement to disclose one additional statement by the board concerning the firm's significant plans and decisions such as corporate restructuring, business expansion and discontinuance of operations along with future prospects, risks and uncertainties surrounding the company (guideline 1.4(j)). While it is difficult to explain why the SECB



changed the CG regulation after just 42 days, the news on the MCCI, Dhaka website is worth mentioning: 'The Committee [Commercial Legislations Sub-Committee of MCCI] reviewed the new guidelines finalised by the Securities and Exchange Commission (SEC) with regard to Independent Directors, Audit Committee, etc... As decided by the Committee, a delegation met the Securities and Exchange Commission's Chairman and other high officials and submitted the proposals. The SEC later made amendments to the relevant Circular in accordance with the points submitted by the Chamber' (MCCI, 2006).¹⁷

Experience in other countries also seems to have influenced the development of CG guidelines in Bangladesh. It is evident from the news appearing in the quarterly publication of the SECB (BSEC, 2006, p. 5): 'after corporate debacle in Western countries like other regulators of capital markets, the Commission has issued "Corporate Governance Guidelines" on a comply or explain basis to elevate corporate governance scenario in Bangladesh'.¹⁸

The above discussion suggests that apart from donor agencies' initiatives, the development of the CG guidelines was influenced by a small number of domestic bodies. One relevant question, therefore, arises: is there any way to determine to what extent the CG guidelines are driven by external or domestic forces?

A similar question has been addressed by Hermes *et al* (2006) in the context of countries in the European Union (EU). By comparing the contents of codes with the priorities set by the European Commission, they show the majority of the codes in the EU did not comply fully with the priorities of the European Commission. They interpret this finding as indicating CG codes are driven by both external and domestic forces.

Following Hermes *et al* (2006), I expect that if domestic forces are influential in the CG reform process, the resulting CG regulations need not converge fully with international best practice; rather it is likely there will be a divergence from international best practice

because of differences in countries' legal, institutional, political, social, cultural and business environments.

Since I am focusing on a single country, I have effectively only one set of formal CG guidelines to consider. Moreover, the CG guidelines are unlikely to reflect all CG reforms in a country, as other rules and regulations can include potentially important aspects of CG reform. Therefore, I take an alternate route. In a recently published CG assessment study report by the WB, a summary of observance of the OECD Corporate Governance Principles in Bangladesh is provided (World Bank, 2009, pp. 13-14). The level of observance is classified into one of five categories: fully implemented, broadly implemented, partly implemented, not implemented and not applicable.¹⁹ Using this publicly available WB report (available at: http://www.worldbank.org/ifa/rosc_cg_bgd09.pdf), I have further examined whether external or domestic forces are important in explaining CG reforms in Bangladesh. Table 5 is constructed using the information contained in the WB report.

Table 5 shows that out of the 63 applicable indicators covering six broad CG principles, 13 indicators are broadly implemented (20.64 per cent), 45 indicators are partly implemented (71.43 per cent), 5 indicators are not in place (7.93 per cent) and none of the indicators is fully implemented (0 per cent).

Using a weighting scheme, providing weights of 3, 2, 1 and 0 for full implementation, broad implementation, partial implementation and non-implementation, respectively, the total compliance score is shown in the last row of Table 5. Using this approach, the total compliance score is 71 out of a possible maximum of 189. The large difference between the actual total compliance score and maximum possible score suggests that the current state of CG regulation in Bangladesh does not fully reflect international best practice. While I have not explicitly investigated the full range of determinants of the CG reforms, this result provides at least partial support for the notion

Table 5: Summary of observance of OECD corporate governance principles in Bangladesh

	OECD corporate governance principle	N	Implementation status in Bangladesh				
			FI	BI	PI	NI	Total ^b
I.	Ensuring the basis for an effective corporate governance framework	4	0	0	4	0	4
II.	The rights of shareholders and key ownership functions	19	0	8	10	1	26
III.	Equitable treatment of shareholders	7	0	2	5	0	9
IV.	Roles of stakeholders in corporate governance	5	0	0	4	1	4
V.	Disclosure and transparency	13	0	1	12	0	14
VI.	Responsibilities of the board	15	0	2	10	3	14
Total ^a		63	0	13	45	5	—
Total (in percentage)		100	0	20.64	71.43	7.93	—
Total compliance score		189	0	26	45	0	71

^aTotal is the sum score of implementation with respect to each OECD CG Principle.

^bTotal compliance score and Total is calculated by assigning weights to each level of implementation: $FI=3$, $BI=2$, $PI=1$ and $NI=0$.

Using the information contained in the World Bank Country Study report (2009, pp. 13-14), this table presents a summary of the implementation status of OECD Corporate Governance Principles in Bangladesh. *N* is the total number of indicators with respect to each CG principle applicable to Bangladesh. *FI* refers to 'Full Implementation'. *BI* refers to 'Broad Implementation'. *PI* refers to 'Partial Implementation'. *NI* refers to 'No Implementation'.

that apart from external forces, domestic forces also affect CG reform. A comment by the ICAB President (ICAB, 2004) that 'over the years, ICAB has followed a regular approach to adoption of new Standards, after a process of stringent technical review and considering their applicability to our country' supports this line of thinking.

INFLUENCE OF EXTERNAL CORPORATE GOVERNANCE REFORM ON FIRM-LEVEL PRACTICES

In the previous section, I discussed various forces affecting the development of CG guidelines in Bangladesh. CG guidelines are likely to be more effective when firms comply with the

'spirit' of the guidelines; that is, when they are more than an exercise in 'ticking the boxes'. In this section, I examine how developments taking place outside the firm affect the firm's governance choices. In the context of Bangladesh, four developments are considered here: (1) the CG guidelines issued by the SECB in 2006; (2) ICAB's decision to give 'ICAB National Awards for Best Published Accounts and Reports' beginning in 2001, (3) SAFA's decision to give 'SAFA Best Presented Accounts Awards' beginning in 2002; and (4) ICMAB's (the Institute of Cost and Management Accountants of Bangladesh) decision to introduce 'ICMAB National Best Corporate Award' beginning in 2007. The CG guidelines issued by the SECB in 2006 are not mandatory. The guidelines are to be applied on a 'comply

or explain' basis, whereby listed companies should include a compliance statement in their annual reports, stating specifically which guidelines they have complied with and which they have not, giving reasons for any non-compliance.

I collected data on the level of compliance with the CG guidelines from published annual reports of listed companies in Bangladesh from 2005–2006 to 2008–2009. Table 6 presents summary results of the level of compliance with the CG guidelines.

In the first year following the issue of CG guidelines, of 227 sample companies from all listed companies on the DSE, about two-thirds (65 per cent) included compliance statements in their annual reports. About 35 per cent of the sample companies did not provide any information on their compliance with the guidelines. Inclusion of a compliance disclosure statement increased to 96 per cent of cases in 2008–2009 from 65 per cent in 2005–2006. In nine instances out of the total sample of 232 companies in

2008–2009 there was no compliance statement. In year 2005–2006, 13 companies (9 per cent of complying companies) achieved the maximum score of 39. In 2008–2009, 42 companies achieved the maximum score of 40 (19 per cent of complying companies). The overall compliance level has increased from 62 per cent in 2005–2006 to 85 per cent in 2008–2009, meaning that compliance with the CG guidelines continued to increase. This is evidenced by the fact that the proportion of firms reporting exceeded 80 per cent in relation to 28 out of 40 conditions in 2008–2009. However, less than 51 per cent compliance was found for one guideline condition: a report by the AC to the shareholders. Table 6 suggests that listed companies in Bangladesh have gradually adopted the CG guidelines, indicating that the issuance of CG guidelines has influenced CG practices in Bangladesh.

Question, however, remains whether such reform is really changing the way business is

Table 6: Summary of the level of compliance with the SECB corporate governance guidelines by listed public limited companies during 2005–2006 to 2008–2009

	2005–2006	2006–2007	2007–2008	2008–2009
Sample size	227	232	246	232
Number of companies including a compliance statement	147	204	226	223
Percentage of total sample including the compliance statement	65	88	92	96
Minimum score obtained	10	8	10	10
Maximum score obtained	39	40	40	40
Number of companies achieving maximum score	13	26	40	42
As a % of companies providing compliance statement	9	13	18	19
Overall compliance level (in %)	62	76	82	85
>90% compliance level (out of 40 conditions)	7	7	9	21
81–90% compliance level (out of 40 conditions)	3	5	19	7
71–80% compliance level (out of 40 conditions)	5	17	7	9
61–70% compliance level (out of 40 conditions)	8	6	3	1
51–60% compliance level (out of 40 conditions)	1	4	1	1
<51% compliance level (out of 40 conditions)	16	1	1	1

This table presents a summary of the level of compliance with the SECB CG guidelines of 2006 by listed public limited companies in Bangladesh from 2005–2006 to 2008–2009. In preparing the table, the CG guidelines have been classified into 40 yes/no questions.

Abbreviations: CG, corporate governance; SECB, Securities and Exchange Commission Bangladesh.

undertaken in Bangladesh. Alternatively, have the listed companies embraced the genuine spirit of the guidelines rather than only following the letter of the guidelines?

In Bangladesh, listed companies are required to disclose additional statements and report in support of their compliance statement. For example, the BOD need to disclose additional statements and information following CG guidelines conditions 1.4(a)–1.4(k). Besides, the AC report must also be published as a part of the annual report [Condition 3.4]. I collected data on whether the listed companies are disclosing additional information in support of their compliance with 11 guidelines conditions.²⁰ Absence of any such disclosure is interpreted as: the firm is complying with the guidelines condition in letter but not in spirit and the firm is simply ‘ticking the box’. Table 7 presents summary results:

As the table shows, in nine out of the 11 conditions, the tendency of ‘ticking the box’ has decreased from 2005–2006 to 2008–2009, while in another condition, the tendency remained almost at the same level. These conditions are related to the requirement to disclose additional statements in the directors’ report. In relation to CG guideline condition 3.4 (a firm is required to publish AC report to the shareholders in the annual report), the exercise of ‘ticking the box’ is the most frequent, with 40 per cent (19 per cent in 2005–2006) of the sample companies failing to publish an AC report. Except for two conditions, such exercise is followed by at least one-fourth of the sample firms in 2008–2009 as suggested in Table 7.

While the above finding provides some insight that a number of companies are not following the guidelines conditions in letter, not in the true spirit, the findings should be interpreted cautiously. For example, the content analysis technique used to construct Table 7 suffers from the limitation that it merely indicates what firms say they are practising which may substantially differ from what they actually are practising (Cochran and Wood, 1984). Nonetheless, Table 7 suggests that the

box-ticking exercise exists and therefore, enforcement of CG guidelines should be in place.

It can be reasonably expected that firm’s governance practices are likely to improve due to the reputational effects of being awardees of ICAB, ICMAB and SAFA. When selecting the winners, these professional bodies use specific selection criteria, one being the information disclosed on CG practices in the company’s published annual report. For example, in the 2000 selection round, ICAB allocated 10 points (out of 200) for CG practices: statement of directors (4 points), AC information (4 points) and remuneration committee information (2 points) (ICAB, 2010).

The weights on disclosure of CG practices were doubled in 2010 (10 points out of 100) (ICAB, 2010). Similarly, ICMAB’s ‘Questionnaire for ICMAB Best Corporate Award 2007’ included five questions relating to CG practices: number of board meetings held during the year, number of Executive Committee (EC) members and the name of the Chairman of the EC, number of EC meetings held during the year, name of the Chairman of the AC and number of AC meetings held during the year. Beginning in 2005, SAFA introduced a new category titled ‘Corporate Governance Disclosure Award’. One of the main aims of these awards by professional bodies is to encourage listed companies to act and report in a more informative, transparent and accountable manner, which are often viewed as essential for good CG.

Table 8 provides a name-wise list of the winners of ‘ICAB National Awards for Best Published Accounts & Reports’. As the table shows, 12 companies from the non-financial sector have won the award since its inception in 2001. One important point to note is that except for one company (Singer Bangladesh Ltd.), no company has won first prize in two consecutive years, suggesting that companies compete for the awards. Competition is likely to be stronger among larger companies, since they can devote greater resources to implementing costly governance structures to

Table 7: Ticking the boxes

CG condition	2005–2006		2006–2007		2007–2008		2008–2009	
	N = 147	%	N = 204	%	N = 226	%	N = 223	%
1.4 (a)	53	36	65	32	66	29	63	28
1.4 (b)	52	35	65	32	66	29	63	28
1.4 (c)	52	35	65	32	66	29	63	28
1.4 (d)	52	35	64	31	65	29	62	28
1.4 (e)	50	34	65	32	67	30	64	29
1.4 (f)	52	35	67	33	69	31	66	30
1.4 (g)	54	37	82	40	89	39	84	38
1.4 (h)	9	6	3	1	3	1	2	1
1.4 (j)	38	26	54	26	56	25	56	25
1.4 (k)	27	18	39	19	40	18	37	17
3.4	28	19	79	39	83	37	90	40

This table summarizes the practice of ‘box ticking’ by companies in Bangladesh for provisions where the company should disclose details to support their compliance statement. *N* indicates number of instances where the company does not disclose the required additional details but ‘ticks the box’ in the compliance statement. % measures the percentage of ‘box ticking’ companies in the sample. 1.4 (a): the directors’ statement that the financial statement prepared by the management of the issuer company presents fairly its state of affairs, the result of its operations, cash flows and changes in equity. 1.4 (b): the directors’ statement that proper books of account of the issuer company have been maintained. 1.4 (c): the directors’ statement that appropriate accounting policies have been consistently applied in preparation of the financial statements and that the accounting estimates are based on reasonable and prudent judgement. 1.4 (d): the directors’ statement that International Accounting Standards, as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure has been adequately disclosed. 1.4 (e): the directors’ statement that the system of internal control is sound in design and has been effectively implemented and monitored. 1.4 (f): there are no significant doubts upon the issuer company’s ability to continue as a going concern. If the issuer company is not considered to be a going concern, the fact along with reasons thereof should be disclosed. 1.4 (g) significant deviations from last year in operating results of the issuer company should be highlighted and reasons thereof should be explained by the directors. 1.4 (h): key operating and financial data of at least preceding 3 years should be summarized in the directors’ report. 1.4 (j): the number of board meetings held during the year and attendance by each director should be disclosed in the directors’ report. 1.4 (k): the pattern of shareholding should be reported in the directors’ report to disclose the aggregate number of shares by selected individuals. 3.4: report on the activities carried by the Audit Committee, including any report made to the Board of Directors during the year, should be signed by the Chairman of the Audit Committee and disclosed in the annual report of the issuer company.

improve their governance practices, and to disclosing those practices.

CONCLUSIONS

Prior literature suggests that a number of domestic and external forces influence CG reform, which tends to evolve over a prolonged period of time, often in response to corporate failures or other systemic crises. As the political

and socio-economic environments differ across countries, factors driving CG reform are also likely to differ from one country to another, setting a platform for a new line of research: which factors influence CG reform in a country in general, and the contents of the country’s CG standards in particular. I address these questions by examining the relevant CG reforms in an emerging country, Bangladesh. This article also examines how country-level

Table 8: Yearly winners (from the non-financial sector) of 'ICAB National Awards for Best Published Accounts & Reports'

<i>Name of company</i>	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Beximco Pharmaceuticals Ltd.	1	—	3	—	—	3	—	—	—	—	—
Beximco Textile Mills Ltd.	—	2	—	—	—	—	—	—	—	—	—
Padma Textile Mills Ltd.	2	1	2	—	—	—	—	—	—	—	—
GalxoSmithKline Bangladesh Ltd.	3	3	1	3	2	1	—	3	2	1	3
Square Pharmaceuticals Ltd.	—	—	—	1	3	—	1	—	—	—	—
ACI Ltd.	—	—	—	2	—	—	—	—	—	3	—
BOC Bangladesh Ltd.	—	—	—	—	1	—	—	—	—	—	—
Berger Paints Bangladesh Ltd.	—	—	—	—	—	2	2	—	3	—	—
Singer Bangladesh Ltd.	—	—	—	—	—	—	3	1	1	2	—
Renata Ltd.	—	—	—	—	—	—	—	2	—	—	—
RAK Ceramics (Bangladesh) Ltd.	—	—	—	—	—	—	—	—	—	—	1
Summit Power Ltd.	—	—	—	—	—	—	—	—	—	—	2

Note: This table presents the names of the companies from the non-financial sector (excluding banks, non-banking financial institutions and insurance companies) that won the 'ICAB National Awards for Best Published Accounts & Reports' from 2001 to 2011. The numbers 1, 2 and 3 refer to first, second and third prize, respectively.

developments affect firm-level governance practices.

As in some other countries, most companies in Bangladesh are either family controlled or controlled by one or a few substantial shareholders, paving the way for the interests of minority shareholders to be expropriated by corporate insiders. Weak investor protection has resulted in a less-developed capital market, and weak insider trading legislation and enforcement would have been associated with a higher cost of capital. Recognition of these outcomes has contributed to a number of CG reforms, such as the introduction of guidelines and laws to strengthen internal governance, protect and empower minority shareholders, enhance disclosure requirements, and monitor corporate behaviour and enforce the law.

A number of steps have been taken since the early 1990s, mostly with support from the IFAs, but according to key observers there is scope for further improvement. One area for attention is monitoring and public enforcement, since many contraventions are believed to remain undetected and unpunished, as pointed out by

different studies and the WB reports. The importance of further CG reform has been highlighted by the WB requiring improvement in CG in order to secure the continuity of financial assistance from the IFAs.

In this article, I have examined the drivers of the CG guidelines issued in 2006 which are an important outcome of CG reform initiatives. Consistent with prior literature, I have focused on the roles of both domestic and external forces. Consistent with the relatively undeveloped state of the Bangladesh capital market, I find that factors such as globalization, opening up of financial markets and foreign institutional investors have not played as significant a role as the IFAs. Since CG is one of the development goals of the IFAs, their supportive actions and communications have contributed to a number of CG reforms, including the development of the 2006 CG guidelines in Bangladesh. Domestic players such as the BEI, the ICAB, the MCCI, and experience from other countries, have influenced the guidelines too.

I have also examined whether both external and domestic forces are drivers of CG reform.



In so doing, I have followed an approach similar to Hermes *et al* (2006) and used information from the WB country study report of 2009. The results show that out of the 63 applicable indicators of good governance, covering six broad CG principles of OECD, 13 indicators are broadly implemented (20.64 per cent), 45 are partly implemented (71.43 per cent), five are not in place (7.93 per cent) and none is fully implemented (0 per cent). Using a self-constructed weighting scheme, the total compliance score is found to be 71 out of a possible maximum of 189. I interpret my analysis as providing some support for the notion that apart from external forces, domestic forces do affect the nature of CG reform in an emerging market.

Finally, I have examined how country-level development affects firm-level governance practices. Using information disclosed in companies' annual reports in relation to compliance with the SECB CG guidelines, I find evidence of an increasing trend in the overall level of compliance, from 62 per cent in 2005–2006 to 85 per cent in 2008–2009. Thus there is evidence that companies in Bangladesh are gradually changing their CG practices, based on compliance with the national guidelines. However, closer examination suggests that many companies are complying only in letters not in its true spirit, suggesting that enforcement of CG guidelines should be in place to increase its effectiveness.

I have also examined the influence of other voluntary national and regional developments on firms' CG practices. In this respect, I have considered the selection criteria of three professional institutions (ICAB, ICMAB and SAFA) in relation to their annual awards for the best published annual reports. The results show that except for one company, no company has won first prize in the ICAB's national award in two consecutive years. I interpret this result as evidence that the introduction of the annual corporate awards has motivated companies to improve their governance practices.

This article is not intended to provide a comprehensive study of why CG reforms

diverge from the principles identified by the OECD. Future research could explore whether and to what extent domestic forces do indeed determine CG reforms, and if so, which country-level forces have greatest influence. In this connection, there is a growing literature focusing on whether an Anglo-Saxon governance model, as promoted by the IFAs, adequately captures the political and socio-economic environments within which firms operate. Future research might also focus on that line of enquiry.

ACKNOWLEDGEMENTS

The author would like to thank Emeritus Professor Philip Brown of the Western Australia and an anonymous reviewer for their helpful comments on the earlier version of this article.

NOTES

- 1 Imam and Malik (2007) report that the top 3, top 5 and top 10 shareholders in Bangladesh own on average 32.33 per cent, 36.96 per cent and 41.06 per cent of shares in listed public limited companies, respectively. They note that these top shareholders are mostly members of controlling families.
- 2 Through Notification No. SEC/CMR/RCD/2006-158/Admin/02-08, dated 20 February 2006.
- 3 The proposed amendment to the Corporate Governance Guidelines in Bangladesh suggests that at least one-third of the board should be independent directors (BSEC, 2012).
- 4 Apart from the Credit Rating Companies Rules, 1996, the SECB's Asset Backed Security Issue Rules of 2004 require a credit rating report for asset pools to be securitized. In addition, Bangladesh Bank (the Central Bank of Bangladesh) requires annual mandatory credit ratings of all commercial banks and non-banking financial institutions in addition to mandatory credit ratings during an initial public

- offering (BRPD (Banking Regulation and Policy Department) Circular No. 18, dated 11 December 2005). Similarly, the Office of the Chief Controller of Insurance requires a mandatory rating on part of general insurance companies on an annual basis and for life insurance companies on a biennial basis (circular No: 21/21/98-376 dated 12 March 2007).
- 5 Pattern of shareholdings includes shareholdings by the parent/subsidiary/ associated companies and other related parties, and name-wise details of shares held by directors, the CEO, company secretary, Chief Financial Officer, Head of Internal Audit and their immediate family members, the other top five salaried executives, and holders of at least 10 per cent ownership in the company.
 - 6 The World Bank (2005) required the Bangladesh Government to present to Parliament by June 2005 a 'Financial Reporting Act', including provision for an independent oversight body named 'Financial Reporting Council' (FRC). The council is expected to monitor how auditors are conducting their professional duties (Byron, 2005). More than 6 years have passed but the Act is still to come into effect. This is a clear example of the administrative bureaucracy that is likely to hamper effective monitoring and enforcement in Bangladesh. After the stock market crash of 2010-2011, the Government again expressed its intention to formulate the 'Financial Reporting Act' to make qualitative improvement in accounting and auditing disclosures by listed companies (Chowdhury, 2011). There has been disagreement, however, as to whether the FRC is necessary (Kabir, 2006).
 - 7 Consistent with Rosser (1999), Haque *et al* (2011) note that the dominant section of 'politico-bureaucrats' of the developing countries, with their access and authority to allocate resources, tends to oppose or slow down accounting reform measures out of the fear that increased transparency and accountability could limit their rent-seeking opportunities in state-owned enterprises and from private conglomerates with which they are connected.
 - 8 In the mid-1990s, these IFAs began to look at good governance as a condition necessary for development of countries and suggested their member nations adopt CG best practices in both country- and firm-levels (Collier and Zaman, 2005; Aguilera and Cuervo-Cazurra, 2009). In many cases, the codes issued by these IFAs, particularly the one by the OECD, serve as the basis for the creation of codes of governance in individual countries.
 - 9 On 22 July 1988, ADB approved a technical assistance (TA) grant of \$430 000 to study capital markets in selected developing member countries, including Bangladesh. The study report laid the foundation for future loans on programmes like the Capital Market Development Program (CMDP) in 1997.
 - 10 The Dhaka Stock Exchange (DSE) all share price index rose to 3627.018 on 15 November 1996 starting from 859.88 on 31 May 1996, that is, a 322 per cent increase in 168 days. Afterwards, the index fell to 957.48 on 30 April 1997, a 279 per cent decrease in 166 days. The decline continued and the index reached 472.6497 on 22 December 1999. *The Economist* (1997) stated that at the time of the boom, an estimated 300 000 small investors rallied the market and subsequently 'thousands of small and first-time investors have lost their shirts' (*The Economist*, 1997, p. 70).
 - 11 Persons interviewed were the representatives of the Ministry of Finance (MOF), Bangladesh Bank, SECB, two exchanges, Department of Insurance (DOI), Privatization Commission, Investment Corporation of Bangladesh (ICB), ICAB, and other financial institutions and market observers (ADB, 2005a).

- 12 The estimated cost of the programme was \$690 000 and the understanding was that ADB would finance \$550 000 (as a loan) and the remainder would be financed by the Bangladesh Government. The programme was approved by ADB on 12 December 2003.
- 13 The Chairman of SECB spoke in the workshop (ADB, 2007), which indicates its importance.
- 14 Under the CGSP, BEI conducted an opinion survey to examine the awareness and practice of CG among the business community from December 2004 to January 2005 and published the study report titled 'Baseline Study on Corporate Governance Practices in Bangladesh' (Rahman and Rahman, 2005).
- 15 By being a part of the South Asian Federation of Accountants (SAFA) Corporate Governance Group, ICAB also was involved in the development of the 'Best Practices on Corporate Governance for South Asian Countries' of December 2005.
- 16 Order No. SEC/CMRRC/2006-158/Admin/02-06.
- 17 From personal communication, I came to know that the meeting took place on 8 February 2006.
- 18 The SECB Chairman's comment to the press that recent worldwide developments on corporate governance practices and non-availability of any guideline in the country prompted the capital market watchdog to take initiatives for preparing a set of guidelines (The Daily Star, 2006) supports this view.
- 19 The assessment criteria used in classifying the level of observance into one of the five categories are: 'Principles are Fully Implemented if the OECD Principle is fully implemented in all material respects with respect to all of the applicable Essential Criteria. Where the Essential Criteria refer to standards (that is, practices that should be required, encouraged or, conversely, prohibited or discouraged), all material aspects of the standards are present. Where the Essential Criteria refer to corporate governance practices, the relevant practices are widespread. Where the Essential Criteria refer to enforcement mechanisms, there are adequate, effective enforcement mechanisms. Where the Essential Criteria refer to remedies, there are adequate, effective and accessible remedies. A Broadly Implemented assessment is likely appropriate where one or more of the applicable Essential Criteria are less than fully implemented in all material respects. A Partly Implemented assessment is appropriate when (1) one or more core elements of the standards described in a minority of the applicable Essential Criteria are missing, but the other applicable Essential Criteria are fully or broadly implemented in all material respects (including those aspects of the Essential Criteria relating to corporate governance practices, enforcement mechanisms and remedies); and (2) the core elements of the standards described in all of the applicable Essential Criteria are present, but incentives and/or disciplinary forces are not operating effectively to encourage at least a significant minority of market participants to adopt the recommended practices; or the core elements of the standards described in all of the applicable Essential Criteria are present, but implementation levels are low because some or all of the standards are new, it is too early to expect high levels of implementation and it appears that the reason for low implementation levels is the newness of the standards (rather than other factors, such as low incentives to adopt the standards). A Not Implemented assessment likely is appropriate where there are major shortcomings' (World Bank, 2009, p. 19).
- 20 Other CG guidelines conditions are not required to be supported by additional disclosures, hence they are omitted.

REFERENCES

- ADB. (2003a) *Program Completion Report on the Capital Market Development Program Loan (Loan 1580-BAN) in Bangladesh*. Manila, Philippines: Asian Development Bank.
- ADB. (2003b) *Technical Assistance to the People's Republic of Bangladesh for Preparing the Financial Markets Governance Reform*. Manila, Philippines: Asian Development Bank.
- ADB. (2005a) *Project Performance Audit Report for Bangladesh*. Manila, Philippines: Asian Development Bank.
- ADB. (2005b) *TA (3533-BAN: Capacity Building of the Securities & Exchange Commission & Selected Capital Market Institutions) Completion Report*. Manila, Philippines: Asian Development Bank.
- ADB. (2007) *Bangladesh: Financial Markets Governance Program (Project Number: 36197; Technical Assistance Number: 4246)*. Manila, Philippines: Asian Development Bank.
- Adegbite, E. (2012) Corporate governance regulation in Nigeria. *Corporate Governance* 12(2): 257–276.
- Aguilera, R.V. and Cuervo-Cazurra, A. (2004) Codes of good governance worldwide: What is the trigger? *Organization Studies* 25(3): 415–443.
- Aguilera, R.V. and Cuervo-Cazurra, A. (2009) Codes of good governance. *Corporate Governance: An International Review* 17(3): 376–387.
- Arcot, S. and Bruno, V.G. (2006) In letter but not in spirit: An analysis of corporate governance in the UK. *SSRN eLibrary*.
- Arcot, S. and Bruno, V.G. (2009) Silence is not golden: Corporate governance standards, transparency, and performance. *SSRN eLibrary*.
- Arcot, S., Bruno, V. and Faure-Grimaud, A. (2010) Corporate governance in the UK: Is the comply or explain approach working? *International Review of Law and Economics* 30(2): 193–201.
- BEI. (2003) *A Comparative Analysis of Corporate Governance in South Asia: Charting a Roadmap for Bangladesh*. Dhaka, Bangladesh: Bangladesh Enterprise Institute.
- BEI. (2004) *The Code of Corporate Governance for Bangladesh*. Dhaka, Bangladesh: Bangladesh Enterprise Institute.
- Bertrand, M. and Schoar, A. (2006) The role of family in family firms. *The Journal of Economic Perspectives* 20(2): 73–96.
- Brown, P., Beekes, W. and Verhoeven, P. (2011) Corporate governance, accounting and finance: A review. *Accounting & Finance* 51(1): 96–172.
- BSEC. (2000) *Notification No. SEC/SRMI/2000-953/1950, gazetted on 7 November 2000*. Dhaka: Bangladesh Securities and Exchange Commission.
- BSEC. (2002a) *Order No-SEC/CFD-71/2001/Admin/02/05, dated 3 January 2002*. Dhaka: Bangladesh Securities and Exchange Commission.
- BSEC. (2002b) *Order No. SEC/CFD-71/2001/Admin/02/05, dated 3 January 2002*. Dhaka: Bangladesh Securities and Exchange Commission.
- BSEC. (2006) *Quarterly Review (January - March 2006)*. Dhaka: Bangladesh Securities and Exchange Commission.
- BSEC. (2009) *Notification No. SEC/CMRRCD/2008-183/Admin/03-34, dated 27 September 2009*. Dhaka: Bangladesh Securities and Exchange Commission.
- BSEC. (2010) *Directive No. SEC/CMRRCD/2009-193/09, dated 17 January 2010*. Dhaka: Bangladesh Securities and Exchange Commission.
- BSEC. (2011) *Annual Report 2010-2011*. Dhaka: Bangladesh Securities and Exchange Commission.
- BSEC. (2012) *Comments Requested on Amendment Proposal*, http://www.secdb.org/comments_page.htm, accessed 20 April 2012.
- Burkart, M., Panunzi, F. and Shleifer, A. (2003) Family firms. *The Journal of Finance* 58(5): 2167–2202.
- Byron, R.K. (2005) Corporate sector to be accountable to JS. *The Daily Star* 9 March 2005, Dhaka.
- Chen, V., Li, J. and Shapiro, D. (2011) Are OECD-prescribed 'good corporate governance practices' really good in an emerging economy? *Asia Pacific Journal of Management* 28(1): 115–138.
- Chowdhury, S.A. (2010) Capital Market Institute comes into being. *The Daily Star* 8 December 2010, Dhaka.
- Chowdhury, S.A. (2011) Small investors to get stimulus. *The Daily Star* 24 November 2011, Dhaka.



- Cleyn, S.H.d. (2008) Compliance of companies with corporate governance codes: Case study on listed Belgian SMEs. *Journal of Business Systems, Governance and Ethics* 3(1): 1–16.
- Cochran, P.L. and Wood, R.A. (1984) Corporate social responsibility and financial performance. *The Academy of Management Journal* 27(1): 42–56.
- Collier, P. and Zaman, M. (2005) Convergence in European corporate governance: The audit committee concept. *Corporate Governance: An International Review* 13(6): 753–768.
- Cuervo-Cazurra, A. and Aguilera, R.V. (2004) The worldwide diffusion of codes of good governance. In: A. Grandori (ed.) *Corporate Governance and Firm Organization*. Oxford, UK: Oxford University Press.
- Daniel, S.J., Cieslewicz, J.K. and Pearson, T.C. (2011) State regulation's significant impact on corporate governance practices, earnings management, and disclosure. *Asia-Pacific Journal of Accounting & Economics* 18(2): 105–124.
- De Castro, L.R.K. (2009) Corporate governance codes: Understanding compliance in UK, Germany and Spain. *SSRN eLibrary*.
- DSE. (2007) *Monthly Review*. Dhaka, Bangladesh: Dhaka Stock Exchange Limited.
- Enriques, L. and Volpin, P. (2007) Corporate governance reforms in continental Europe. *Journal of Economic Perspectives* 21(1): 117–140.
- Goncharov, I., Werner, J.R. and Zimmermann, J. (2006) Does compliance with the German corporate governance code have an impact on stock valuation? An empirical analysis. *Corporate Governance: An International Review* 14(5): 432–445.
- Grindle, M.S. and Thomas, J.W. (1989) Policy makers, policy choices, and policy outcomes: The political economy of reform in developing countries. *Policy Sciences* 22(3): 213–248.
- Gupta, A. and Parua, A. (2006) An enquiry into compliance of corporate governance codes by the private sector Indian companies. *SSRN eLibrary*.
- Haque, F., Arun, T. and Kirkpatrick, C. (2011) The political economy of corporate governance in developing economies: The case of Bangladesh. *Research in International Business and Finance* 25(2): 169–182.
- Haxhi, I. and van Ees, H. (2010) Explaining diversity in the worldwide diffusion of codes of good governance. *Journal of International Business Studies* 41(4): 710–726.
- Henry, D. (2010) Agency costs, ownership structure and corporate governance compliance: A private contracting perspective. *Pacific-Basin Finance Journal* 18(1): 24–46.
- Hermes, N., Postma, T.J.B.M. and Zivkov, O. (2006) Corporate governance codes in the European Union: Are they driven by external or domestic forces? *International Journal of Managerial Finance* 2(4): 280–300.
- ICAB. (2001) *ICAB National Awards – 2000 for Best Published Accounts and Reports*. Dhaka, Bangladesh: ICAB.
- ICAB. (2003) *Corporate Governance in Bangladesh*. Dhaka, Bangladesh: ICAB.
- ICAB. (2004) *Bangladesh Accounting Standards (BAS)*. Dhaka, Bangladesh: The Institute of Chartered Accountants of Bangladesh.
- ICAB. (2010) Evaluation Criteria for Adjudication of ICAB National Awards for Best Published Accounts and Reports 2010, <http://www.icab.org.bd/images/stories/download/download/safa%20bpa%20criteria%20general>, accessed 20 April 2012.
- Imam, M.O. and Malik, M. (2007) Firm performance and corporate governance through ownership structure. *International Review of Business Research Papers* 3(4): 88–110.
- Iskander, M.R. and Chamlou, N. (2000) *Corporate Governance: A Framework for Implementation*. Washington DC: The World Bank Group.
- Kabir, M.H. (2006) Corporate governance and the auditors: Bangladesh perspective, Paper presented at the CPE Seminar Organized by the ICAB, Dhaka.
- Kothari, S.P. (2001) Capital markets research in accounting. *Journal of Accounting and Economics* 31(1–3): 105–231.
- La Porta, R., Lopez-De-Silanes, F., Shleifer, A. and Vishny, R.W. (2002) Investor protection and corporate valuation. *The Journal of Finance* 57(3): 1147–1170.
- Li, J. and Harrison, R. (2008) Corporate governance and national culture: A multi-country study. *Corporate Governance* 8(5): 607–621.
- MCCI. (2006) New Guidelines of the S.E.C.: Meeting with the SEC, <http://www.mccibd.org/events2006.php>, accessed 8 February 2012.

- Mir, M.Z. and Rahaman, A.S. (2005) The adoption of international accounting standards in Bangladesh: An exploration of rationale and process. *Accounting, Auditing & Accountability Journal* 18(6): 816–841.
- Nowak, E., Rott, R. and Mahr, T.A. (2006) The (ir)relevance of disclosure of compliance with corporate governance codes – Evidence from the German Stock Market. *SSRN eLibrary*.
- Rahman, L. and Rahman, M.R. (2005) *Baseline Study on Corporate Governance Practices in Bangladesh*. Dhaka, Bangladesh: Bangladesh Enterprise Institute (BEI).
- Rahman, S. and Azim, M.I. (2007) Implementation of the new corporate governance guidelines in Bangladesh: A critical evaluation. *The Cost and Management* 35(5): 35–43.
- Rashid, A. (2011) Corporate governance in Bangladesh: A quest for the accountability or legitimacy crisis? *Research in Accounting in Emerging Economies* 11: 1–34.
- Rosser, A. (1999) *The Political Economy of Accounting Reform in Developing Countries: The Case of Indonesia*. Asia Research Centre Working Paper No. 93. Perth: Murdoch University, Australia.
- Rousseau, S. (2003) Canadian corporate governance reform: In search of a regulatory role for corporate law. In: J. Sarra (ed.) *Corporate Governance in Global Capital Markets*. Toronto, Canada: UBC Press, pp. 3–39.
- Siddiqi, F.A. (2007) Regulatory frame works of Bangladesh capital market. *Monthly Review: a monthly publication by the Dhaka Stock Exchange* 22(6): 112–117.
- Siddiqui, J. (2009) Development of corporate governance regulations: The case of an emerging economy. *Journal of Business Ethics* 91(2): 253–274.
- Solaiman, S.M. (2006) Recent reforms and the development of the securities market in Bangladesh: A critique. *Journal of Asian and African Studies* 41(3): 195–228.
- Steger, U. and Amann, W. (2008) *Corporate Governance: How to Add Value*. West Sussex, UK: John Wiley & Sons, Ltd.
- The Daily Star. (2006) SEC launches guidelines on corporate governance. *The Daily Star* 25 January.
- The Economist*. (1997) Emerging stockmarkets: Revenge of the innocents. *The Economist* 12–18 April, 343(8012), 74.
- Thompson, R.B. (2003) Corporate governance after Enron. *40 Houston Law Review* 2003–2004: 99–118.
- Uddin, S. and Choudhury, J. (2008) Rationality, traditionalism and the state of corporate governance mechanisms: Illustrations from a less-developed country. *Accounting, Auditing & Accountability Journal* 21(7): 1026–1051.
- Werder, A.v., Talaulicar, T. and Kolat, G.L. (2005) Compliance with the German corporate governance code: An empirical analysis of the compliance statements by German listed companies. *Corporate Governance: An International Review* 13(2): 178–187.
- World Bank. (2002) *Bangladesh: Financial Accountability for Good Governance, A World Bank Country Study*. Washington DC: The World Bank.
- World Bank. (2003) *Report on the Observance of Standards and Codes (ROSC) Bangladesh: Accounting and Auditing*. Washington DC: The World Bank.
- World Bank. (2005) *Simplified Implementation Completion Report: Development Support Credit 2 to the People's Republic of Bangladesh*, pp 1–14.
- World Bank. (2009) *Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment – Bangladesh*. Washington DC: The World Bank.
- Zattoni, A. and Cuomo, F. (2008) Why adopt codes of good governance? A comparison of institutional and efficiency perspectives. *Corporate Governance: An International Review* 16(1): 1–15.