[Cover page]

Policy Analysis Unit (PAU)

Policy Note Series: PN 0801

Corporate Governance:
An essential mechanism to curb malpractices by Organizations

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July 2007

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I. Background

During the last decades, some debacle and corporate failures both in the developed and developing economies brought considerable attention of corporate governance to regulators, government, think tank, analysts, individuals and other parties. They thought what went wrong? Why a corporation falling apart? What did turn a successful organization into a failure one? All this questions made feel all the related parties that there should be a mechanism, a guideline, a roadmap that will protect an organization from falling apart and ensuring the stake of all related parties. Regulators and governance advocates argue that the stock price collapse of such former corporate stalwarts as Adelphia, Enron, Parmalat, Tyco, and WorldCom was due in large part to poor governance (Brown and Caylor, 2004). Corporate governance is a set of control mechanisms through which the suppliers of finance assures themselves of getting return on their investment. Protecting the interest of minority stock holders, ensuring transparency and accountability of managerial activities, appointing independent outside directors to let a look from the outside, reporting the financial activities in a desired manner are some of the basics of corporate governance.

Corporate governance is a set of internal and external arrangements that define and enforce the discipline in relations between managers and shareholders. In the internal side, the company's policies, strategies, reporting system, board of directors, appointment of independent non sponsored directors in the board, establishing audit committee, establishing executive committee are vital contrivances to ensure good governance. At the external level, corporate governance comprises market, legal and institutional arrangements that reduce costs of the principal-agent problem. The corporate governance mechanisms are market, institution and legal settings that protect outside investors from opportunistic behavior of managers or controlling shareholders. In the absence of such protection, asymmetries of information and difficulties of monitoring faced by outside investors enable managers to misallocate corporate resources, often at the expense of the long-term performance. Therefore, efficient corporate governance provides better corporate performance, while poor corporate governance leads to bad corporate performance.

II. Bangladesh Perspective:

In Bangladesh, the issue of corporate governance came into light in the wake of stock market debacle in the 1996 by organizing seminars, conferences and discussion by OECD, SEC and other scholars of corporate culture. In March, 2004 Bangladesh Enterprise Institute (BEI) published code of corporate governance for Bangladesh suited for private sectors, financial institutions, State Owned Enterprises (SOEs) and NGOs. In Bangladesh capital market, banking industry is performing better than other

industries. Banking sector consists 54% of market capitalization and 57% of total turnover in DSE (December 2006). The credit of better performance goes to the strenuous monitoring, supervision and guidance by Bangladesh Bank; the banks are more transparent in the case of accounting and business activities. Though some banks are performing badly, the scenario is getting changed. Lately, Bangladesh Bank issued a circular where it has restricted the number of board of directors to maximum thirteen. According to the Bangladesh Bank circular the role of CEO and the role of chairman of the board have to be clearly set forth. As per the circular the chairman of the board of directors (or chairman of any committee formed by the board or any director) does not personally possess the jurisdiction to apply policymaking or executive authority, he shall not participate in or interfere into the administrative or operational and routine affairs of the bank. Whereas the CEO will be responsible to implement the policies taken by the board and look after administrative works. Bangladesh bank has directed the bank to establish an audit committee comprised by the board of directors. Lots of reforms have been taken into consideration by Bangladesh Bank to ensure good governance in the financial sectors except the insurance. As per law, insurance companies have to float shares within 3.5 years of operation. But only 31 companies (both life and non-life) have followed through. The rest 29 companies have fallen behind through operating more than five years. Insurance industry will have to go a long way, the performance is not satisfactory yet, average board size is much larger than that of other sectors. Though banks have audit committees, the committee mostly chaired by sponsor director. It will be more useful and rational that the audit committee should be chaired by proficient non-sponsor director. A chronology of financial reforms is given:

December, 2002
Instruction has been given by the BB requiring banks to constitute Audit Committee of the Board to assist the Board in fulfilling its oversight responsibilities.

March, 2003
Provision for two independent directors representing the depositors' interest has been included in the amendments to the Bank Company Act.

April, 2003
Number of directors in Bank's board restricted to a maximum of 13 for more effective direction of these banks.

June, 2003
Disclosure requirements of financial information were substantially enhanced for banks as per the Internal Accounting Standard (IAS).

July, 2003
With a view to ensuring proper CG, the responsibilities and accountabilities of the Board of Directors, chairman of the Board of Directors and the CEO of the banks outlined clearly.

September, 2003
No defaulter could be appointed as a Director to any financial institution and if any director becomes defaulter he would be removed from the position.

March, 2004
Proper guidelines provided to ensure transparency and accuracy in the information regarding profits and dividends of the banking companies.

January, 2006
Number of the Board members (5-20), appointment of independent non-shareholder directors, abolishing CEO duality (chairman and CEO are same person), appointment of Chief Financial Officer, Head of internal audit and company secretary, and establishment audit committee.

February, 2006
Banks/FIs have been advised to follow the guidelines by BB regarding the salary-allowances and other facilities of the chief executive.

III. Concluding Remarks:

It should be kept in mind that the main objective of good governance is not to deter the growth prospect of the corporations, rather to assist them to grow in a rational and transparent way. In finale, some of the major issues that should be taken care of to ensure good governance are recommended:

a) Developing infrastructural facilities of the total systems. Government, development partners, NGOs, private sectors should work together to build the infrastructural facilities that will ensure maximum availability of information, reducing the asymmetries of information, ensuring the availability of information at minimal cost.
b) Building the awareness among the corporations, public, beneficiaries and other related stakeholders about consequences of the good governance. A platform should be crated where different interest group can post their concerns, issues and updates.
c) International standard for financial reporting system should be incorporated gradually into all corporations, where option for adjustment/tuning up will be kept open for indigenous need.
d) Coordinating different laws, acts, regulations that handle the same category of issues. It has been observed that most of the malpractice cases escaped due to lack of uniformity of laws, rules and acts. A high powered coronation committee can be formed in this regard, who will align the dissimilarities of existing laws regarding the issues.
e) Forming a central watchdog to dig into the complaint, non-compliance, misrepresentation, malpractices, window dressing and other negative matters. It should be headed by the experts form different streams of expertise and knowledge.
f) Privatization of SOEs has to be implemented gradually and with cautions, as the motive of SOE and the motive of private one differs. To safeguard the benefits of mass people and to be a profitable at the same time, the standard operating procedure (SOP) of the privatized SOE will have to be designed with collaboration of regulatory authorities and watchdogs.
g) The good wishes from the government part are indispensable in this regard.

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