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International Principles and Practice of Corporate Governance: A Study on Banking Industry in Bangladesh

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Keywords: corporate governance, transparency, accountability, international corporate governance principles, practice, BSEC etc.

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International Principles and Practice of Corporate Governance: A Study on Banking Industry in Bangladesh

Md. Rafiul Islam [α] & Zakea Afrose [σ]

Abstract- The paper endeavors to show the level of adherence to corporate governance practice to international principles regarding banking industry of Bangladesh. The study used random selected 15 banks in Bangladesh, and the research design was explanatory. The research used the percentage and average calculation and finding the gap between the international principles and practices of corporate governance. International corporate governance principles are not mentioning the corporate governance. It also indicates the organizational, cultural, legal, industry practice, political and social factors. The international corporate governance principles had nine principles. Bangladesh banking industry implements the almost seven principles based on findings. The shareholder return and the operational performance the international principles were the focus board attention on optimizing over time the returns to shareholders. BSEC (Bangladesh Security Exchange Commission) states corporate governance notifications and the independent auditor's certificate of compliance with conditions of corporate governance guidelines to the shareholder of the particular bank. The published annual reports experience our everyday excellence through the trio of phenomena - 'Transparency', 'Accountability' and 'Ethics'; the first is mirrored in the fact-sheet of our banking operations while the second persists in compliance of regulations and laws.

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I. Introduction

Corporate Governance is the process of Practicing accuracy, accountability, smart stewardship, effective internal control, customary behavior in an organization. It is the means, by which a body operates and controls. It protects the interests of all stakeholders of an organization. Financial accounting information is the product of corporate accounting and external reporting systems that measure and routinely disclose audited, quantitative data concerning the financial position and performance of publicly held firms. Audited balance sheets, income statements, cash-flow statements and supporting disclosures, form the foundation of the firm-specific information set available to investors and regulators. Developing and maintaining a sophisticated financial disclosure regime is not cheap. There are nine components of International corporate governance principles are as follows: Corporate Objective, Communications and reporting, voting rights, corporate boards, corporate remuneration policies, Strategic focus, operating performance, shareholder returns, corporate citizenship, governance implementation. And there Six factors considered (OECD) Organization for Economic Co-operation and Development are ensuring the basis for governance framework, the rights of shareholders and ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, the responsibilities of the board. Corporate governance is a term that refers broadly to the rules, processes, or laws by which businesses are operated, regulated, and controlled. The term can refer to internal factors defined by the officers, stockholders or constitution of a corporation, as well as to external forces such as consumer groups, clients, and government regulations. The governance structure specifies the distribution of rights and responsibilities among different participants in the organization (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and specifies the rules and procedures for making decisions in corporate affairs. Governance provides the structure through which corporations set and pursue their objectives while reflecting the context of the social, regulatory and market environment. It is a mechanism for monitoring the actions, policies, decisions of corporations. It involves the alignment of interests among the stakeholders.

II. Objective of the Study

a) General Objective

The objective of the study is to unearth the scenario of International principles and practice of Corporate Governance respective to Banking Industry of Bangladesh.

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b) Specific Objectives

The clear specified purpose of the paper are:

1. To find out the scenario of corporate governance principles and practices of corporate governance of banking industry in Bangladesh.
2. To identify the average value (percentage) of banks industry international corporate governance principles implementations and gap.

III. Literature of Review

Corporate governance is one of the pillars of IFC's focus on sustainability following environmental and social sustainability. Better corporate governance increases the likelihood that the enterprise will satisfy the legitimate claims of all stakeholders and fulfill its social responsibilities. Accordingly, it contributes to the long-term, sustainable growth of client companies. A company that is well-governed is one that is accountable and transparent to its shareholders and other stakeholders (such as employees, creditors, customers and the society).

The study has identified some problems in Corporate Governance practice in the Banking Industry of the country. The prospect of Corporate Governance practice is bright in Banking Industry as reported by the respondents if problems are removed by the concerned management of the Banks as well as Bangladesh Bank management as the guardian of commercial Banks [7].

To do the study, the issues were focused like rights and disclosure of information, disclosure and transparency, board issues, disclosure and transparency, financial reporting and HRM practices.7 hypotheses have been developed to identify whether the private banks are complying corporate governance issues or not. And making the study convenient an assumption was made using subjective probability technique that 70% or more of private banks of Bangladesh are maintaining 90% or more CG codes for Bangladesh [2]. Only 50% of the major issues like disclosure and transparency, financial reporting and audit practice has met the assumption. Of which 100% of the CG codes regarding financial reporting are practiced by the 70% or more private banks and it was 83.33% for audit practice [14].

This paper attempts to seek out the corporate governance practices in Bangladesh banking industry and it has been tried to know about whether the boards of directors understand their responsibilities, the different committees in the organization, the audit procedures or systems, auditors and role of independent directors. By these responses, it has been evaluated that the quality of the regulation in Bangladesh banking system stands at an unsatisfactory stage. Lack of accountability, lack of fairness and transparency in practices and faulty, incomplete and ineffective audit and disclosure have led to widespread corruption in the industry. It is also evaluated that the necessity of ensuring accountability, fairness, transparency to build sound corporate governance in the Bangladesh banking industry [13].

This study was initiated to critically observe the current Corporate Governance status and practices in the banking sector of Bangladesh. The study was descriptive. Convenient sampling method was used to select the sample banks for the study. The study found that top management influence as well as political pressure exists in the banking sector which affects the lending decisions. Corrupted bankers and dishonest officials of Bangladesh Bank were found associated with several scams. Proper documentation is mandatory, but sometimes banks show flexibility in this regards and provide extra benefits to the clients. Selection of the wrong borrower, unhealthy competition among the banks, fund diversion, inefficient auditing and insufficient collateral cause harms to the banks. Sometimes banks do not follow the rules and guidelines provided by Bangladesh Bank which were designed to protect themselves and operate business smoothly [12].

This study focused on the state of Corporate Governance (CG) in two categories of the banking industries: Conventional Banks and Islamic Banks. As Conventional Banks and Islamic Banks differ a great deal in their rules, regulations and operating procedures, the corporate governance (CG) practice of these two banking sectors is also different from each other. Here in this paper, it is tried to represent a comparative study about corporate governance (CG) practice of these two banking sectors [16].

One of the principal reasons for poor CG is that most of the organizations are family oriented and the Board of Directors is actively involved in management [9]. In the framework of Bangladesh, independent directors do not act as a supporter of majority shareholders or as a source of innovative ideas [6].

The sector observed diminishing profitability, growing non-performing assets, provision and capital shortfalls, eroded credit discipline, rampant corruption patronized by political quarters, low recovery rate, inferior asset quality, managerial weaknesses, excessive interference from government and owners, weak regulatory and supervisory role, etc. [10, 17]. Internal control system along with accounting and audit qualities are supposed to have been insufficient [18, 11, 8].

The presence of liquid assets and lack of depositors' interest to actively control and monitor banks' risky decisions as a result of the insurance guarantees simplifies the sharking in the banking firms. Banks in Bangladesh are confronted with the high risk of sharking as a result of government ownership, lack of prudential regulation, weak legal protection, and presence of special interest groups [5]. The independent regulatory agencies are essential in Bangladesh to act against the repeated collusion

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among government, businesses and bankers to serve special interest groups [15, 4].

In a study, the author argues the U.S financial crisis occurred due to regulatory governance failures. He further describes a company as non-compliant when it fails to comply with the CG codes and creates opacity in place of transparency, accountability, monitoring and oversight of their managerial practices [3].

In Bangladesh, poor bankruptcy laws, no push from the international investor community, limited or no disclosure regarding related party transactions, weak regulatory system, general meeting scenarios and lack of active shareholder participations are some of the individual constituents that have been identified as reasons for the absence of CG [1].

IV. Methodology

The research design was explanatory. The study used only secondary data that were collected from the published annual reports of randomly selected banks in Bangladesh. The selection processes of banks were randomly and also ensure all types of Bank. To examine the principles of corporate governance in bank practices, we have taken a sample of fifteen (15) banks lead in Bangladesh. All the data needed to be examined have been collected from the annual report, official website, operational manual, different database & report developed by the central bank. To analyze the tabular data format and percentage, etc. has been used.

V. Findings and Discussions

We had to discover the pathway of international corporate governance principles and practices of the banking industry in Bangladesh. Data analysis we had to mention steps. First, one is carefully observed the published annual report above nine (Corporate Objective, Communications, Reporting, Voting Rights, Corporate Boards, Corporate remuneration policies, Strategic Focus, Operating performance, Shareholder returns, Shareholder returns, Corporate Citizenship) principles whose companies have reported whose is not. We assume that there are nine international corporate governance factors had a one point value.

The table 01 had shown in the column placed by nine international corporate governance principles and the row by the bank's name. In the table yes is mention the reported the principles and zero sign refers the not reported. The table also shown in the every yes sign carry was one point value and zero sign value carry the zero value. Such as, the AB bank Ltd. was corporate governance implementations in percentage 66.66%. The AB bank Ltd. had achieved the 6 point out of 9 that means 66.66% percent implement the corporate governance of international principles.

In figure 01 had shown the all randomly selected banks were implemented of world company governance principles. Seven selected banks were 55.55%, six selected banks were 77.77%, and two banks were 66.66%, implements the international corporate governance principles.

The table 02 had shown the average value of banks industry international corporate governance principles implementations and gap. The result was 65.919% is implemented and 34.081% was a gap.

Figure 02 had shown the graphically presented the value of banks industry international corporate governance principles implemented and gap. The result was 65.919% is implemented and the 34.081% was a gap.

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Table 1: The table had shown the International Corporate governance principles and practices or corporate governance implementations of the banking industry in Bangladesh

Principles / Banks name	Corporate Objective	Communications and Reporting	Voting Rights	Corporate Boards	Corporate remuneration policies	Strategic Focus	Operating performance	Shareholder returns	Corporate Citizenship	Corporate governance implementation or (Remarks)
AB Bank Ltd.	✓	✓	✓	✓	•	✓	•	•	✓	66.66%
Mercantile Bank Ltd.	✓	✓	✓	✓	✓	✓	•	•	✓	77.77%
Southeast Bank Ltd.	✓	✓	✓	✓	•	•	•	•	✓	55.55%
IFIC Bank Ltd.	✓	✓	✓	✓	✓	✓	•	•	✓	77.77%
Dhaka Bank Ltd.	✓	✓	✓	✓	✓	✓	•	•	✓	77.77%
Prime Bank Ltd.	✓	✓	✓	✓	✓	✓	•	•	✓	77.77%
Islami Bank Bangladesh Ltd.	✓	✓	✓	✓	✓	✓	•	•	✓	77.77%
Trust Bank Ltd.	✓	✓	✓	✓	•	•	•	•	✓	55.55%
Shajalal Islami Bank Ltd.	✓	✓	✓	✓	•	✓	•	•	✓	66.66%
Eastern Bank Ltd.	✓	✓	✓	✓	✓	✓	•	•	✓	77.77%
NCC Bank Ltd.	✓	✓	✓	✓	•	•	•	•	✓	55.55%
First Security Islami Bank Ltd.	✓	✓	✓	✓	•	•	•	•	✓	55.55%
NRB Bank Ltd.	✓	✓	✓	✓	•	✓	•	•	•	55.55%
SIBL Bank Ltd.	✓	✓	✓	✓	•	✓	•	•	✓	55.55%
ICB Islami Bank Ltd.	✓	✓	✓	✓	•	•	•	•	✓	55.55%

Figure 1: Corporate governance international principles implementations of banks (in percentages)

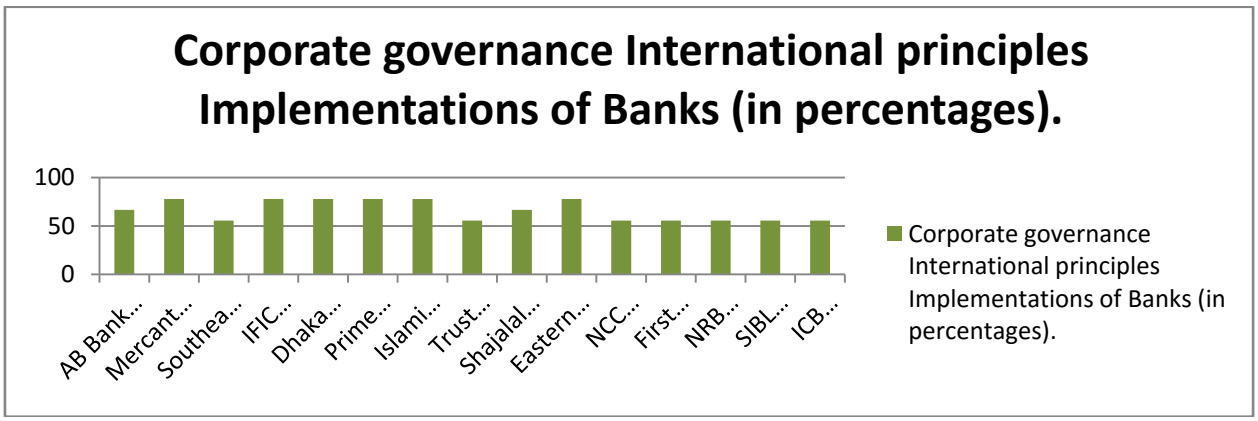

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Table 2: Had shown the average value of banks industry international corporate governance principles implementations and gap

Banks Name	International corporate governance principles (%)	
	Value of Corporate governance Implementations	Gap value of corporate governance implementations
AB Bank Ltd.	66.66%	33.34%
Mercantile Bank Ltd.	77.77%	22.23%
Southeast Bank Ltd.	55.55%	44.45%
IFIC Bank Ltd.	77.77%	22.23%
Dhaka Bank Ltd.	77.77%	22.23%
Prime Bank Ltd.	77.77%	22.23%
Islami Bank Bangladesh Ltd.	77.77%	22.23%
Trust Bank Ltd.	55.55%	44.45%
Shajalal Islami Bank Ltd.	66.66%	33.34%
Eastern Bank Ltd.	77.77%	22.23%
NCC Bank Ltd.	55.55%	44.45%
First Security Islami Bank Ltd.	55.55%	44.45%
NRB Bank Ltd.	55.55%	44.45%
SIBL Bank Ltd.	55.55%	44.45%
ICB Islami Bank Ltd.	55.55%	44.45%
Number of Banks Fifteen (15)	65.919%	34.081%
The average value of banks industry in corporate governance implementations and gap.		

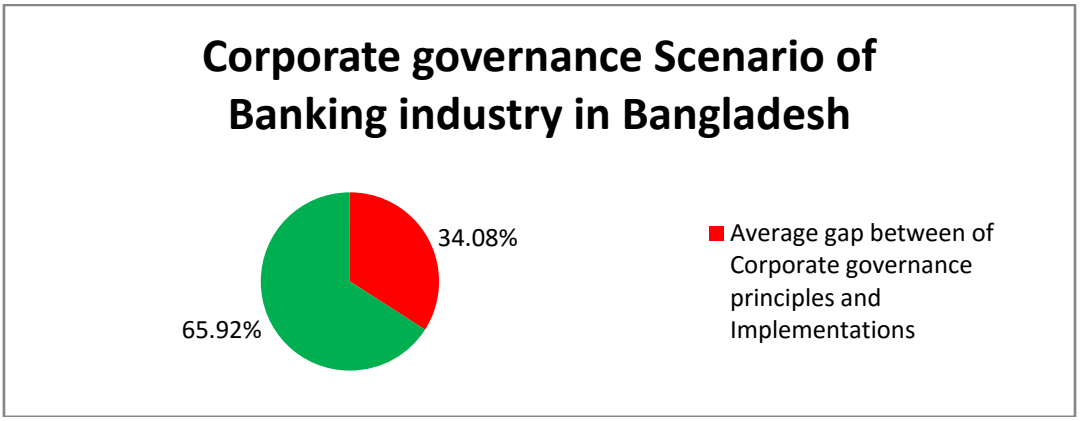

Figure 2: The pie chart had shown the average value of banks industry international corporate governance principles implementations and gap

Figure 03 had to show a pathway of bridging between international principles and practice of corporate governance: a study of the banking industry in Bangladesh. The corporate governance set by a vision, mission, objectives, smart goals, strategy all were achieved the board of directors and committees, legal and regulatory framework, organizational hierarchy, monitoring and internal control, transparency and accountability, policies and procedures.

The appendices 01 had to show the Bangladesh bank guidelines for corporate governance. Appendices 02 had to show the BSEC complains and guidelines to achieve the compliance report on SEC notification. Appendix 02 also includes the Board meeting held and director attendance, and share-holding pattern.

Appendix 03 certificates of compliance with conditions of corporate governance guidelines to the shareholder of the particular bank. All leading banks in Bangladesh are with own corporate governance policy, code of conduct; ethics and practice its.

International corporate governance principles are not mentioning the corporate governance it also states the organizational, cultural, legal, industry practice, political and social factors. The international corporate governance principles had nine principles Bangladesh banking industry implements the almost seven principles. The shareholder return and the operational performance the world principles were the focus board attention on optimizing over time the returns to shareholders. In particular, the company should strive

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to excel in comparison with the specific equity sector peer group benchmark.

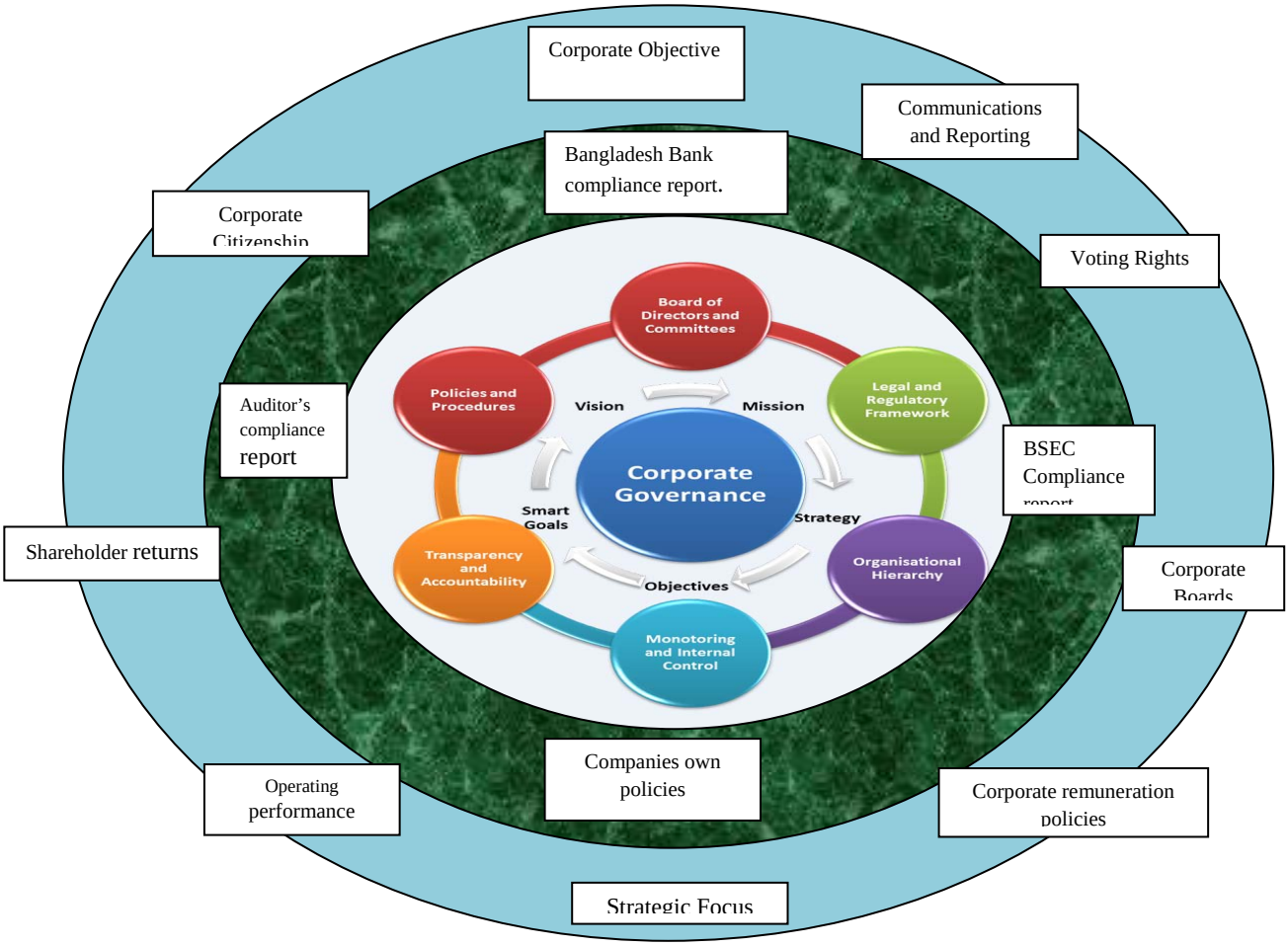

Figure 3: Elements of Corporate governance in Bangladesh in Banking Industry

VI. Conclusion

Corporate governance is of paramount importance to a company and is almost as important as its primary business plan. When executed, it can prevent corporate scandals, fraud and the civil and criminal liability of the company. It also enhances a company's image in the public eye as a self-policing company that is responsible and worthy of shareholder and debt holder capital. It dictates the shared philosophy, practices and culture of an organization and its employees. Corporate governance keeps a company honest and out of trouble.

The research study It has been found that 65.919% implementation international corporate governance principles and 34.081% average gap of the banking industry in Bangladesh. As per figure 03, the corporate governance set by a vision, mission, objectives, smart goals, strategy all were achieved the board of directors and committees, legal and regulatory framework, organizational hierarchy, monitoring and internal control, transparency and accountability, policies and procedures.

We experience our everyday excellence through the trio of phenomena -'Transparency', 'Accountability' and 'Ethics'; the first is mirrored in the fact-sheet of our banking operations while the second persists in compliance of regulations and laws. The third is inspired by our deep-rooted culture of fairness in all spheres of business.

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