

Scenario of Corporate Governance Practices in Bangladesh: A Study on Dutch Bangla Bank Limited (DBBL)

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Abstract

The study addresses the scenario of corporate governance practices in listed companies with any stock exchange in Bangladesh. DBBL has been taken as a case and data has been collected from the secondary sources. The study revealed that the corporate governance compliance practices in DBBL with SEC notification is better than average practices by the companies listed in stock exchanges of Bangladesh. Comparatively DBBL has been strictly followed the SEC's guidelines, Bangladesh Bank's guidelines, others regulatory bodies' guidelines and legal obligations. But this Bank has no separate code of corporate governance, code of conduct for the board, and no any written performance evaluation system of CEO. More initiatives can be taken for ensuring corporate governance compliance in every companies listed in any stock exchange to increase foreign direct investment, enhance confidence of stakeholders, and moreover ensure transparency, accountable, reliability and fairness.

Keywords: Scenario, Corporate Governance, Dutch-Bangla Bank Limited, Annual Report, Bangladesh.

1. Introduction

Corporate governance (CG) is the set of process, customs, policies, laws, and institutions affecting the way a corporation is directed, administrated or controlled. The term CG is now a buzz word in today's business world (Ullah, 2009). The term CG was introduced in terms of responsibility, accountability, transparency and effective internal control. Fundamental objective of CG is the enhancement of the long-term shareholders value while at the same time protecting the interests of other stakeholders [SEBI (Kumar Manhalam Birla) Report on corporate governance, January, 2000, cited in Mallin, 2003]. It also includes the interrelationship of the stakeholders, i.e., shareholders, management, and the board of directors, employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large (Karim, Sarkar, and Fowzia, 2010). The global financial recession and collapses of big financial institutions such as Barings Bank in 1995, Enron in 2001, Royal Ahold in 2003, had opened the door of thinking about the corporate governance practices in business organizations (Ullah, 2009). These corporate collapses have had an adverse effect on many people: shareholders, employees, suppliers of goods or services, and the economic impact on the local and international communities. Scholars and researchers linked those problems with lack of effective corporate governance (Mallin, 2003). There are 47 scheduled banks in Bangladesh of which 4 are state-owned commercial bank, 30 are private commercial bank, 9 are foreign commercial bank, and 4 are state-owned specialized bank (Bangladesh Economic Review 2011, *Bangle*, p-54). The importance of CG is extremely high in the banking organization because it deals with peoples' money (Ullah, 2009). Banks' corporate governance is particularly important in less developed countries like Bangladesh because economic development and growth is dependent on a large extent of well functioning, stable and soundly managed banking system. Most of the companies depend on the banks as their major sources of financing. Capital market is relatively underdeveloped with the market capitalization only 6 percent of GDP (Dhaka Stock Exchange 2006). In India, Pakistan and Sri Lanka, the market capitalization is 56 percent, 30 percent and 18 percent of their GDP respectively (Ullah, 2009). It should be mentioned here that all private commercial banks i.e., 30 banks are listed in Dhaka Stock Exchange (DSE Website). The CG issue came to front line in Bangladesh after Oriental Bank was taken by Bangladesh Bank [central bank of Bangladesh] in 2006 because of liquidity crises and miss management (Aims of Bangladesh, 2006). This study is attempted to find out the scenario of CG in Bangladesh with a special reference to Dutch Bangla Bank Limited, Bangladesh.

2. Rationale of the Study

The study is important for several reasons. First, the study will add some value with the present knowledge of corporate governance and contributes to the existing literature on corporate governance in Bangladesh especially in the field of banking sector. Some existing literature supports that improved corporate governance practice in banks leads to better allocation of resources within an economy and contributes to economic growth (Ullah, 2009). Second, the findings of the study would help the policy planner to take suitable policy measures to further strengthen the corporate governance of banks in Bangladesh. It is also expected that findings of the study might be helpful to the banking industry in Bangladesh to further strengthen the corporate governance practices so as to achieve world's best practices.

3. An Overview of Dutch-Bangla Bank Limited

Dutch-Bangla Bank started banking operation in Bangladesh as first joint venture bank. The bank was an effort by local shareholders and the Dutch company FMO. DBBL was the first fully automated bank in Bangladesh. The Electronic-Banking Division was established in 2002 to undertake rapid automation and bring modern banking services into the field. Full automation was completed in 2003 and hereby introduced plastic money to the Bangladeshi masses. Since 2004, DBBL has introduced mobile and SMS banking. DBBL has the largest ATM network in Bangladesh and has been provide DBBL's clients full access to 'anytime anywhere' banking nationwide. All international and many local banks use the ATM network of DBBL for their own clients (DBBL Website). There are 111 Branches, 1,940 ATM Units, and 153 Fast Track of DBBL (Annual Report 2011). DBBL allows seamless internet banking, allows reviewing account, statements, paying bills as well as making some transactions. Because of local banking regulations, DBBL is not allowed to provide some types of transactions even though it is fully capable (DBBL Website).

4. Literature Review

Some relevant literatures have been reviewed in order to find out the research gap. Since the early 1990s, corporate governance has been receiving increasing attention from regulatory bodies and practices worldwide (Ullah, 2009). There have been a number of high profile corporate bodies collapses after 1990s in UK, USA such as Barings Bank in 1995 (England's oldest established banks), Enron in December 2001 (USA's fortune top 10 list of companies), Royal Ahold in 2003 (Dutch retail group), Worldcom etc. These corporate collapses have had an adverse effect on many people: shareholders, employees, suppliers of goods or services, and the economic impact on the local and international communities. Scholars and researchers linked those problems with lack of effective corporate governance (Mallin, 2003). The issue of corporate governance came into light in the wake of stock market debacle in Bangladesh in 1996 by organizing seminars, conferences and discussion by Organization for Economic Co-operation and Development (OECD), SEC and other scholars of corporate culture (Talukdar, 2007). Bangladesh Enterprise Institute in March 2004 introduces the code of corporate governance for Bangladesh. The corporate governance issue came to front line in Bangladesh after Oriental Bank had taken by Bangladesh Bank in 2006 (Aims of Bangladesh, 2006). The Securities and Exchange Commission (SEC) in February 2006 issued a notification and by this notification the SEC imposes condition 'comply or explain' to all companies listed with any stock exchange. After introducing SEC guidelines the corporate governance practices are gradually increasing in Bangladesh, but it is in initial stage till now. 100 companies within 107 disclosed according to SEC's guidelines, only 18 companies fully complied with all the conditions of SEC corporate governance guidelines, in their annual report and another 7 did not disclosed according to SEC format of corporate governance (Uddin and Begum, 2012). The position of corporate governance compliance gives the poor state of disclosure as well as compliance with corporate governance in Bangladesh need to made compulsory instated of 'comply or explain' (Uddin and Begum, 2012). The trust bank has no corporate governance code, code of conduct for the board, board does not have any written performance evaluation systems to evaluate the performance of CEO, and the board is in charge of evaluating the performance of the CEO verbally (Ullah, 2009). The mean disclosure of compliance is 85.81 percent with the corporate governance guidelines of SEC in Bangladeshi listed companies and in insurance companies are in lowest level of disclosure (Karim, Sarkar, and Fowzia, 2010). Most of the company does not fully follow the corporate governance guidelines issued by SEC and the average compliance score is 85 percent, and a large number of companies' compliance score is below average compliance (Uddin and Begum, 2012). Most of the companies are under poor compliance condition and were not reportedly in a position to full fill the conditions imposed by SEC (Uddin, 2008). The scenario of corporate governance practices in Bangladesh is not satisfactory (Ullah, 2009). The investors are willing to invest in companies where there is good corporate governance practice (Sharoar, Zahirul, and Arafat, 2009). Many companies listed in CSE are making satisfactory compliance with the code of corporate governance, but there are still many companies that failed to comply with the main aspects of corporate governance (Muhiuddin, Abdullah, and Hossain, 2008). The reasons for non-compliance could be attributed to the lack of statutory requirement, less awareness, and an under developed corporate culture (Muhiuddin, Abdullah, and Hossain, 2008).

Against the above background, the principal aim of the study is to overview the present scenario of corporate governance practices in Bangladesh especially in Dutch-Bangla Bank Limited, Bangladesh, after certain years from introduction of the code of corporate governance and corporate governance guidelines.

5. Objectives of the Study

The general objective of the study is to overview the scenario of corporate governance in Bangladesh with special reference to the Dutch Bangla Bank Limited. The specific objectives of the study are as follows:

1. to have an overview of the present status of corporate governance practices by listed companies of Bangladesh;

2. to analyze the present status of corporate governance compliance practices in Dutch Bangla Bank Limited;
3. to examine the bank's corporate governance code, code of conduct for the board, and performance evaluation systems of CEO of Dutch Bangla Bank Limited.

6. Methodology

This paper is mainly based on secondary sources of information and necessary data have been collected from the annual report 2009 and 2011 of Dutch Bangla Bank Limited, different published research articles, books, code and guidelines issued by concerned bodies of corporate governance. The Corporate Governance Code had introduced in the year 2004 and to enhance corporate governance, Securities and Exchange Commission (SEC) issued a notification in February, 2006. DBBL has been selected for the study considering its rapid expansion, modern banking facilities, concerned with different social activities, etc.

7. Result and Discussion

7.1. Corporate Governance Practices in Bangladesh

After reviewing different literature on corporate governance it is found that corporate governance has been received increased attention from regulatory bodies and practices worldwide since early 1990s. The thinking on corporate governance in progress after 1990s when a number of high profile corporate bodies collapses in UK, USA such as Barings Bank in 1995 (England's oldest established banks), Enron in December 2001 (USA's fortune top 10 list of companies), Royal Ahold in 2003 (Dutch retail group), Worldcom etc. The issue of corporate governance came into light in the wake of stock market debacle in Bangladesh in 1996 by organizing seminars, conferences and discussion by Organization for Economic Co-operation and Development (OECD), SEC and other scholars of corporate culture (Talukdar, 2007). Bangladesh Enterprise Institute in March 2004 introduces the code of corporate governance for Bangladesh. The Securities and Exchange Commission (SEC) in February 2006 issued a notification to enhance the practices of corporate governance and by this notification the SEC imposes condition 'comply or explain' to all companies listed with any stock exchange in Bangladesh. The corporate governance issue came to front line in Bangladesh after Oriental Bank had taken by Bangladesh Bank in 2006 (Aims of Bangladesh, 2006). After introducing SEC guidelines the corporate governance practices are gradually increasing in Bangladesh, but it is in initial stage till now. After reviewing different research work it is clear that the scenario of corporate governance compliance is not satisfactory level in Bangladesh. Some companies tried to follow it strictly, but a major part of listed companies is not disclosing corporate governance condition according to SEC's prescribed format. The compliance condition of corporate governance is good in financial companies, but poor compliance in insurance companies of Bangladesh. After passing half of a decade from the issue of corporate governance guidelines by SEC, most of the researcher findings revealed that the condition of corporate governance compliance is not exceeds 85 percent.

7.2. Compliance Analysis of DBBL

7.2.1. Board's Size

The board of DBBL is made up of 8 directors including a non-executive chairman and 3 non-executive directors representing shareholders, one independent director, two directors from depositors and one executive managing director (Annual Report 2011). The board size of DBBL was made up of 9 directors in 2009. In 2009 there were 4 non-executive directors representing shareholders (Annual Report 2009). According to the Securities and Exchange Commission's (SEC) guideline, the number of board member of a company should be between from 5 to 20. So DBBL comply the condition of board size with the Securities and Exchange Commission's (SEC) guideline in both the year of 2009 and 2011.

7.2.2. Independent Directors

According to the SEC's guideline, at least one tenth (1/10) of the total number of the Company's Board of Directors, subject to a minimum of one, should be independent directors and the independent director(s) should be appointed by the elected directors. The board of DBBL includes one independent director in both the years of 2009 and 2011. So DBBL comply the condition of the Securities and Exchange Commission's (SEC) guideline in the case of appointment of independent director in 2009 and 2011. Appoint process of independent director has not mentioned in the annual report of 2009 and 2011. Appoint process of independent director should be included in the annual report, because it increases the transparency and accountability. It should be mention here that the independent director was same person in 2009 and 2011.

7.2.3. Chairman and Chief Executive Officer (CEO)

According to the SEC's guideline, the positions of the Chairman of the Board and CEO of the Company should preferably be filled by different individuals. The non-executive Chairman of the Board is fully independent from the Managing Director or CEO of the Bank. The condition of chairman and CEO has complied with the Securities and Exchange Commission's (SEC) guideline.

7.2.4. Directors' Report to Shareholders

According to the SEC's guideline, every condition in the case of director's report to shareholders has complied in DBBL in 2011 and 2009. Nine meeting of the board of directors had held in 2011 and eleven meeting of the board of directors had held in 2009. In the annual report 2011 of DBBL mentioned that financial statement give a true and fair view of the bank. The corporate governance systems are designed by DBBL to ensure adequate internal control in operational process, transparency and accountability in doing business. Bangladesh Accounting Standards (BASs) and Bangladesh Financial Reporting Standards (BFRSs) adopted by Institute of Chartered Accountant of Bangladesh (ICAB) has been complied for preparation of financial statements of the Bank.

7.2.5. Chief Finance Officer (CFO), Head of Internal Audit and Company Secretary

According to the SEC's guideline, every condition in the case of chief finance officer (CFO), head of internal audit and company secretary has complied in DBBL in 2011 and 2009.

7.2.6. Audit Committee

DBBL has one audit committee in 2011 and 2009 and the duties and responsibilities of audit committee has specified in annual report. Audit committee comprises three members in 2011 and four members in 2009, and includes one chairman and all other member in audit committee. One independent director included in the committee as member. The audit committee had report to the board of directors and shareholders in 2011 and 2009. So, according to the SEC's guideline, every condition has complied in DBBL in the case of audit committee in 2011 and 2009.

7.2.7. External/ Statutory Audit

In 2009 Hoda Vasi Chowdhury & Co. and in 2011 A. Qasem & Co. Charter Accountant had performed activities as external/ statutory auditors in DBBL. According to the SEC's guideline, every condition has complied in DBBL in the case of external/ statutory audit in 2011 and 2009.

7. 3. Corporate governance code, code of conduct for the board, and performance evaluation systems of CEO

DBBL has no separate and own corporate governance code. It has some internal policies, rules, techniques for operating business properly. All of this is not publicly disclosed and all of this is not unchangeable and bank takes initiative to change this rules and policies when needed. DBBL has been regulated and supervised by Bangladesh Bank under Bank Companies Act 1991 and rules and regulations made there under. DBBL also adequately complied with corporate governance guideline of Bangladesh Bank (BRPD circular No. 06 dated February 04, 2010) in terms of overall business activities of the bank including credit and risk management, internal control, human resource management as well as income and expenses. As a listed company DBBL has been regulated by Securities and Exchange Commission (SEC) and as a publicly traded company it followed every conditions and instructions issued by both Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). DBBL has been strictly followed the corporate governance guidelines issued by SEC.

Performance evaluation system of CEO has not mentioned in the annual report of DBBL. Moreover the performance of CEO of DBBL has been evaluated depending on some indicators such as success or failure in strategy implementation, benchmarking with peers, outsiders assessments such as shareholders, customers, vendors, government agencies' evaluation, and financial evaluation in terms of profitability, ROI, cash flow, growth and financial stability. The board of DBBL has not any written performance evaluation system to evaluate the CEO's performance.

8. Findings and Recommendations

From the study it is revealed that compliance condition as per Securities and Exchange Commission's Notification, Corporate Governance Guideline of Bangladesh Bank and Bangladesh Bank's Regulations has strictly and properly followed in DBBL. But overall corporate governance compliance condition in Bangladesh has not so satisfactory. As a corporate organization DBBL's is better position of corporate governance compliance practices with SEC's guidelines than overall Bangladesh perspective. The notification issued by Securities and Exchange Commission's (SEC's) in February, 2006 and the study has conducted based on the Annual Report of 2009 and 2011 and contemporary literature. On the other hand Bangladesh Enterprise Institute (BEI) published code of corporate governance for Bangladesh in March, 2004 suited for private sectors, financial institutions, State Owned Enterprises (SOEs) and NGOs. DBBL should try to continue the practice of corporate governance compliance with SEC guideline, Bangladesh Bank guideline, Bangladesh Bank regulations etc. Compliance practices of corporate governance guidelines can be increase through make mandatory to follow the guideline from a specific period of time instead of the option of 'comply or explain'. For rapid and sustainable economic development of Bangladesh, the investors, internal and external, level of confidence need to increase. Proper practices of corporate governance ensure transparency, accountable, reliability and fairness.

9. Conclusion

The study examined the present status of corporate governance practices in Bangladesh as well as in Dutch-Bangla Bank Limited, Bangladesh after certain years from introducing the Securities and Exchange Commission's (SEC's) Notification. The SEC's condition has imposed on the basis of 'comply or explain'. The SEC's Notification is a timely attempt to improve the qualities of corporate governance practices in Bangladesh. The companies listed with any stock exchange in Bangladesh have to comply or shall have to explain the reasons for non-compliance in accordance with the condition of SEC's Notification. DBBL can be made an example because the bank already comply with every conditions of SEC's guideline, Bangladesh Bank Corporate Governance guidelines, Bangladesh Bank and others regulations. In an emerging investment market like Bangladesh, the SEC can enforce conditions to ensure compliance of corporate governance practices in every corporate organization especially private banks in Bangladesh instead of 'comply or explain'. It should be kept in mind that the main objective of good corporate governance is not to deter the growth prospect of the corporations, rather to assist them to grow in a rational and transparent way.

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