CORPORATE GOVERNANCE IN BANGLADESH: AN OVERVIEW

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ABSTRACT

Following a large number of corporate collapses around the world, for example Enron, WorldCom, Ansett, Harris Scarfe, HIH Insurance, One Tel and Parmalat, the ensuing profound impact on investors resulted in considerable attention been given to studying corporate governance in developed countries such as the United States, the United Kingdom, Australia, Germany and Japan. However, there is a dearth of studies on corporate governance practice in emerging economies such as Bangladesh. This study attempts to examine the corporate governance practice in Bangladeshi companies in the light of two dominate models of corporate governance, first the Anglo-American Model and second, the German-Japanese Model. This study reduces the dearth of literature on corporate governance in Bangladesh. This study finds that many of the characteristics of the Bangladeshi context align with the German-Japanese model, such as a concentration of shareholdings by the banks and financial institutions or dominant shareholders leading to a high degree of ownership control, a less liquid capital market, weak shareholders' rights, a dominant agency conflict between controlling and minority shareholders, and a limited capacity for boards of directors. The study also identifies six specific corporate governance characteristics in relation to current corporate government practices in Bangladesh, first a weakly enforced legal and regulatory framework, secondly weak institutional controls, thirdly a lacuna of professionals to develop a sound corporate governance culture, fourthly a predominance of individual investors, fifthly a dearth of foreign or institutional investors, and sixthly limited transparency and weak disclosure practices.

Keywords: Bangladesh, Board, Collapse, Control, Corporate Governance, Emerging Economy, Governance Model.

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1. Introduction

Corporate governance constitutes the laws, institutions and mechanisms by which corporations are managed and controlled. It is built on the premise that good corporate governance in any sector serves the efficient and effective allocation of scarce resources. There are many definitions of corporate governance from a broad societal definition to a market specific one. For example, Sir Cadbury proposes a broad understanding of the concept, stating

> "Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society" *(Sir Adrian Cadbury, 2000).*

An alternate and narrower understanding emerging from financial market approaches to defining corporate governance is found in the finance literature. This is typified by the definition of corporate governance given by the Asian Development Bank (ADB), which describe corporate governance as,

> "(i) a set of rules, that define the relationship between shareholders, managers, creditors, the government and stakeholders, (ii) a set of mechanism that help directly or indirectly to enforce these rules" *(Asian Development Bank 2000, p.5).*

Following the large number of corporate collapses around the world, considerable research on corporate governance is conducted within the developed countries context, such as the United States, the United Kingdom, Australia, Germany and Japan. However corporate governance in emerging economy has not been studied as intensively as in the developed markets (Shleifer and Vishny, 1997; Gibson, 2003; Denis and McConnel, 2005). Similarly, several reactionary structural changes have been instigated to prevent such events happening again in the developed markets context, such as the introduction of the Sarbanes-Oxley Act, 2002 in the United States; however the reaction in the emerging market is almost absent. This study contributes to the ongoing researches on accounting and/or finance literatures and contributes to reducing the dearth of literatures on corporate governance in emerging economies and Bangladesh. The detail organization of this study is as follows.

First, the two dominant models of corporate governance are examined, these being the Anglo-American model and the German-Japanese model, to question whether these models which are built on the assumptions of economic rationalism and so privilege considerations of providers of capital, are sufficient or appropriate to achieve effective corporate governance in Bangladesh. It is examined whether such dominant western advanced market models of corporate governance privilege the economic considerations while neglecting the balancing interests and considerations of social, individual and communal goals of Bangladesh, as identified as good corporate governance by Cadbury definition that emerged from the World Bank Global Corporate Governance Forum in 2000. Secondly, given the relevance of the geographic location of Bangladesh to ADB's Asia-centric focus and influence, this study investigates the adequacy of the ADB's definition and two of the financial models embracing of its constructs to explain the Bangladesh specific needs and context. Thirdly, this paper contributes to reducing the dearth of literature on corporate governance in Bangladesh.

The following section two of this paper will provide background to this study. Section three of the paper will describe and compare and contrast two corporate governance models, the Anglo American model and the German-Japanese model. Section four of the paper will describe the Bangladeshi corporate governance practices in the light of the features in the corporate governance models described in section three of the paper together with a critique on the current corporate governance practices in Bangladesh. The last section will draw conclusions on the attributes of a suitable model to achieve good corporate governance in Bangladesh, consistent with the broad view of the Cadbury definition of corporate governance.

2. Background to the study

Although there was no serious corporate scandal in Bangladesh to undermine investors' confidence, corporate governance is a prevailing issue in Bangladesh for few reasons. First, the collapse of State Owned Enterprise Adamjee Jute Mills Ltd[1], the largest jute mills in the world, second, the inefficiencies and underperformance of privatized textile and jute mills (Bhaskar and Khan, 1995; Uddin and Hopper, 2003) and third, the 1996 index crash and thereby collapse of the market at Dhaka and Chittagong Stock Exchanges causing material losses of thousands of small and first time investors, where the absence of firm level corporate governance was identified. It can be inferred from recent events that the operation of good corporate governance is essential to the financial health of Bangladesh. A proactive approach to corporate governance from Bangladesh requires the implementation and enforcement of an appropriate corporate governance model.

However, it must first be determined, what is an appropriate corporate governance model for Bangladesh, an emerging market? There is a dearth of studies and no study has yet identified the blue print of a corporate governance model for an emerging economy such as Bangladesh (Machold and Vasudevan, 2004; Rwegasira 2000). Most research on corporate governance has concentrated on the mature market situations of the West, and a flow of empirical research subsequently investigated whether a control mechanism promotes accountability in the developed countries. It can be argued that these research is not of direct use to Bangladesh, for example Charkham (1992) suggests that systems and models of corporate governance reflect the history, assumptions and value systems whence they came, and that while universal principles underpin good corporate governance structures, transplanting any specific system or model into alien contexts from which they were developed is problematic. Similarly, Paredes questions whether the Anglo-American market based model of corporate governance is appropriate or even possible to implement in developing countries that lack advanced markets, second-order institutions such as experienced investment bankers, lawyers and accountants to monitor markets, and an effective judicial system that is given discretion and legitimacy to apply fiduciary duties (Paredes 2005, p 36).

3. Two Alternate Corporate Governance Models

Much literature emerged in the 1990s focusing on the two most dominant corporate governance models, the 'Anglo-American' model and the 'German-Japanese' model. This literature compared the two models and documented them as control mechanisms to reduce the agency problems (Prowse 1994; Aoki 1995; Prowse 1996; Shleifer and Vishny 1997; Berglöf 1997; Alba *et al,* 1998; Rajan and Zingales 1998; La Porta, Lopez-de-Silanes, Shleifer and Vishny[1] 2000; ADB 2000; Modigliani and Perotti, 2000; Levine 2001 and Bhasa 2004). The two models emerged from different ownership financing patterns and hence have fundamental differences. These differences will be discussed in the next two sections.

3.1 The Anglo-American Model.

The Anglo-American model is recognized as a "market based" system of corporate governance, and is distinguished both by the attributes of the prevailing legal and regulatory environment (Prowse 1996), and by its "arm's length" financing arrangements which is most common in the Anglo-American countries (such as United States, United Kingdom, Canada, Australia and New Zealand). Under this model share ownership is widely dispersed. Shareholders are protected by explicit contracts and managers are monitored by an external market for corporate control. Boards of directors are usually dominated by outsiders known as independent directors (Kaplan 1994).

It is argued that due to the dispersed nature of the shareholding, and typically strong management control over a firm, it is very hard for shareholders to be successful in bringing a vote to remove management, or to achieve a threat of removing the management by the shareholders (Brigham and Gapenski, 1993, p 24). In companies identified with the Anglo-American model, strong management control leads to a high degree of information asymmetry[2]. Therefore the protection of shareholders' interests in this model is very poor because shareholders' influence on management is weak. Consequently, jurisdictions where this model of corporate financing prevails rely heavily on laws and transparency to enforce shareholders' rights. Shareholders' rights under this model are protected largely by a liquid equity market, and regulations on information disclosure etc.

Under the Anglo-America model 'finance is provided by large number of investors' and unsatisfactory firm performance often ends up in shareholders selling shares or 'takeovers play[ing] a key governance role' (Prowse, 1994, p 35; LLSV, 2000, p 17; Denis and McConnell, 2003, p 26). As a result, institutional relationships matter less and the market becomes a more dominant medium of governance, hence its identification as a "market based" system of corporate governance.

3.2 The German-Japanese Model.

The German-Japanese model or "bank centered relationship based model" of corporate governance is distinguished as "control-oriented" financing (Prowse 1996). This model is common in Europe and East Asia, and uniquely emphasizes the long term relationship between firms and investors. This model allows corporations to use both a large portion of debt and a large portion of equity in the same firm (Prowse, 1990). In these situations the "main bank provides a significant share of finance and governance"

(LLSV, 2000, p 17). As corporations under this model keep a close relationship with banks and the banks provide a significant share of funds and governance, the banks are in the position to monitor the corporation. Hence, this model is also known as the 'bank centered relationship based model' (Kaplan, 1994; Levine, 2001).

Countries fitting with this model typically have concentrated ownership and less liquid financial markets (Prowse, 1996; ADB, 2000). Under this model, managers are supposedly monitored by the core investors; it may be a bank, a combination of banks, a non-bank financial institution, other corporations, large corporate shareholders or other inter-corporate relationships (ADB, 2000). Even under this model some of the banks hold the supervisory position of the corporate boards (Cable, 1985). Therefore, this system reduces the cost of acquiring information about the firms, and so assists in reducing the information asymmetry.

It is argued that since the financial markets are usually underdeveloped in emerging market countries, banks are typically the most important source of external financing, and hence this German-Japanese model is most suited to this environment (Zysman, 1983; LLSV, 2000; Arun and Turner, 2004).

3.3 Comparison Between the two Corporate Governance Models.

The Anglo-American Model or market based system, and the German-Japanese Model or bank centered relationship based system of corporate governance System is compared in Table 1 below, which has been adapted from (1994, p 3), Berglöf (1997), Khan (1999) and Cernat (2004, p 150).

Table 1: Market and Bank Based Corporate Governance System

Mechanisms	**Types of Corporate Governance System**	
	Anglo-American **Arm's Length**	***German-Japanese*** **Control Oriented**

Ownership Structures	Widely dispersed	Concentrated in the hands of banks, financial institution, other corporations or dominant shareholders
Share of Control Oriented Finance	Low	High
Financial Markets	Large, highly liquid	Not necessarily small, but less liquid
Monitoring by financial institution	Little	Substantial
Monitoring by individual shareholder	Little	Substantial
Shares of all firms listed on the stock exchanges	Large	Small
Ownership of debt and equity	Dispersed	Concentrated
Investor's Orientation	Portfolio Oriented	Control Oriented
Shareholder's Right	Strong	Weak
Use of mechanism for separating control and capital base	Limited	Frequent
Dominant Agency Conflict	Between Shareholders and Management	Between Controlling and Minority Shareholders
Creditor's right	Strong	Strong for close creditors, weak for arm's length creditors
Role of board of directors	Important	Limited
Role of Insolvency and Bankruptcy	Potentially important	Quite limited
Board Independence/ Power over management	Little	More
Market for corporate control	Hostile takeover is the correction mechanisms	Takeover restricted

4. Corporate Governance in Bangladesh: An overview.

This section will first discuss the context in which corporate governance must operate in Bangladesh. Section 4.1 will describe the historical, political, and social that culturally informs the current corporate governance environment. Section 4.2 will specifically describe the business environment of Bangladesh with respect to the ownership, financing and debt of corporations in the country. Section 4.3 will describe the existing corporate governance enforcement regime in Bangladesh from legal, regulatory and accounting and auditing standards perspectives. Final section provides a critique on the corporate governance practices in Bangladesh.

4.1 The Historical, Political and Social Background of Bangladesh.

Bangladesh is a developing country in Asia. It was liberated in 1971 after fighting a long war. Soon after the independence the then government adopted socialism as the economic and political framework to ensure the so called *'economic justice'* or *'distributive justice'*. Socialism was constitutionally accepted as one of the four fundamental principles of the state. Government of Bangladesh in an order (the Government of Bangladesh Nationalization Order, 1972) nationalized all large and medium sized industries including the banking and insurance sectors. Application of the Companies Act 1913 was suspended. Through nationalization, the government gained control over 92% of the total industrial assets in the country (Islam, 1999; Uddin and Hopper, 2003). These industries were most commonly known as the State Owned Enterprises (SOEs) or 'Public Sector Enterprises'. By 1974, there were 350 such enterprises on which the government exercised control. Consequently the activities of the Dhaka Stock Exchange, the symbol of capitalism, were suspended. The government preserved the right to nationalize any private enterprise whenever felt necessary (Ahamed 1978; Banglapedia 2006). As a result, there was no provision for growing the private sector enterprises. The economy was similar to that of a socialist country. Bangladesh became one of the poorest countries and its economy one of the slowest growing economies in the world.

Socialism and the nationalization policy of the then government in Bangladesh failed. State Owned Enterprises (SOEs) suffered from huge accumulated losses because of corruption, mismanagement and a lack of effective monitoring. The World Bank (1995, p 89) stated that the biggest public failure in Bangladesh was due to the SOE sectors in Bangladesh. The socialist experience only lasted until the change of regime on 7th November 1975. Socialism was then omitted from the constitution and the market economy policy was adopted as an economic phenomenon. The new regime took steps to rehabilitate the private sector and facilitate industrialization, such as a revision of investment policy, and a reduction of charges on industrial loans by the Development Financing Institution (DFI) to help the private sector entrepreneurs on a priority basis. Export oriented industries and agricultural production were encouraged as a new development strategy (Ahamed, 1978). These strategies encouraged both the domestic and foreign private entrepreneurs. The denationalization of the public sector enterprises and adoption of the market economy by that government brought in the new era of industrialization. The activity of Dhaka Stock Exchange (DSE) resumed in 1976 only with nine (9) listed companies (SECB, 2001-02). The new regime denationalized a number the state-owned enterprises; which were nationalized immediately after the independence. It continued until in recent years and within the period of 1976-1992 about 500 state owned enterprises (SOEs) were denationalized (Privatization Commission, 2007).

4.2 The Business Environment of Bangladesh

Since the inception of privatization in 1976, many of the corporate bodies, including major portions of the banking and jute sectors, paper and textile mills, telecommunications, railways and airlines industries were either reserved for the government sector or could not be denationalized due to various difficulties, and so they continued to remain under government control. These enterprises presented a very painful experience to the nation. For example, The Adamjee Jute Mills Corporations Ltd., the largest jute mill in the world collapsed in 2002 costing the jobs of 17,000 workers, because of a failure of corporate governance in terms of mismanagement and corruption. In the last 30 years that enterprise had an accumulated loss of Taka 11,080 million, approximately equivalent to 221.6 million Australian dollars (Star, 2002). Soon after the adoption of market economy and the 'rehabilitation' of the private sector, it experienced a huge growth. For example the industrial GDP increased from 7.19% in 1974 to 10.88% in 1980 (Alauddin, 2004). It increased to 27.8% in 2004 (Bangladesh Bank, 2003-04).

Although the performances of the State Owned Enterprises (SOE) were very poor even before the growth of private sector, the SOE's could not survive the competition from the huge growth in private sector enterprises over this period. Consequently the focus of corporate governance has shifted from the public sector to the private sector. This was also encouraged by other environmental factors such as the stock market collapse in 1996 at Dhaka and Chittagong Stock Exchanges, along with inefficiencies and underperformance causing collapses of some privatized jute and textile mills (Bhaskar and Khan, 1995; Uddin and Hopper, 2003). These failures highlighted greatly the importance of good corporate governance in the private sector in Bangladesh.

The spread of share ownership in public limited companies in Bangladesh is not wide, and the economic power of the businesses is concentrated in dominant shareholder groups. A few shareholders account for a significant portion of total share value and most companies are managed and owned primarily by founding family members, holding company (or cross shareholding) or institutional investors leading to very high degrees of concentration of ownership control. Apart from the controlling ownership by foreign investors, government and institutions, the joint stock companies in Bangladesh are mainly controlled by founding family members.

Due to underdeveloped, poor and less liquid stock market operations, there is a lack of effective corporate governance practice, poor legal enforcement and an excessive reliance on bank financing. Consequently, the control of the companies remains in the hands of sponsors, directors, and founding family members leading to a concentrated shareholding and control. Most of these concentrated owners hold a position in the company management and board, leading to poor monitoring of corporate governance practices. Haque *et al* (2006) documented that the boards of the Bangladeshi firms are mostly family dominated and executive management is family aligned. This is typical of circumstances found in the countries affected by the Asian Crisis as ADB (2000, p 2) documented that,

> "……weaknesses in corporate governance in these countries appear to owe much to highly concentrated ownership ……. under-developed capital markets, and the weak legal and regulatory framework for investor protection"

4.3 The Existing Corporate Governance Regime in Bangladesh

LLSV[3] (1998) suggest that like many developing countries the enforcement of law in Bangladesh is either very poor or difficult to enforce. The degree of compliance with existing financial regulation is historically very low in Bangladesh (Ahmed and Nichollas 1994). An independent survey in late 2006 with the help of Securities and Exchange Commission, Bangladesh revealed that about 55 percent of companies do not comply with the good practice guidelines and only about of 33 percent companies appointed the independent directors (Jai Jai Din, 2006). Such poor law enforcement is exemplified by occurrences of the 1996 Bangladesh stock market collapse, in which a syndicate of company directors and brokers had proceedings brought against them by the Securities and Exchange Commission of Bangladesh. Subsequently there is no evidence of punishment to these company directors and the brokers of the syndicate, because the proceedings were abandoned due to poor enforcement of the law. This example suggests that the investor's protection is very low in Bangladesh, and so poor corporate governance is of increased concern.

The first instance of corporate governance disclosure in Bangladesh is Padma Textile, a subsidiary of the BEXIMCO group of companies, who published two pages in their annual report on corporate governance, stating "recognizing the importance of it, the board and other senior management remained committed to high standards of corporate governance". Thereafter the report contains a series of statements about "internal financial control", "management structure of the company", "financial reporting", etc. (cited in Haque, 2002). However companies in Bangladesh are not required to report information on corporate governance in their financial reports (OECD, 2003). The corporate governance practices were only made mandatory for the first time in Bangladesh following the SECB announcement of "Corporate Governance Notification" in 2006.

Section 4.3.1 to follow will describe the existing corporate governance enforcement regime from a legal perspective. Section 4.3.2 will describe the regulatory regime, while section 4.3.3 will give an overview of prevailing accounting and auditing contributions to the corporate governance environment in Bangladesh. Section 4.3.4 will describe the capital markets in Bangladesh.

4.3.1 Corporate Legal Environment in Bangladesh

The corporate legal framework in Bangladesh consists of certain Acts and Ordinances, numerous subordinate legislative instruments such as orders, notifications, rules, regulations and circulars, which are issued by the Government, the Bangladesh Bank, the Securities and Exchange Commission (SECB), the National Board of Revenue (NBR)[4] and other governmental agencies. Moreover the stock exchanges, chambers of commerce and other self-regulatory agencies in the private sector also form a part of the legal and regulatory framework for corporate governance in Bangladesh.

On 1st January 1995, the new Companies Act of 1994 came into effect. Among several types of legislation, the ‘Companies Act 1994’ is the main governing law for the companies in Bangladesh. This law was put in effect to provide more accountability and openness in managing the companies, leading to greater confidence in the corporate environments. However, that Act does not say anything regarding the ultimate share ownership, director’s qualifications, age, composition of the board and the leadership structures in the board and management, particularly the role of chairperson[5] and CEO, director’s responsibility etc. Rather, the law is very much related to the formation, management and liquidation of companies.

The capital markets in Bangladesh are regulated by several types of legislation, including the Trust Act 1882, Capital Issues (Continuance of Control) Act 1947, Securities and Exchange Ordinance 1969, Securities and Exchange Rules 1987, Securities and Exchange Commission Act 1993, Securities and Exchange Commission (Amendment) Act 1993, Securities and Exchange Commission (Brokers, Stock-Dealers, Stock-Brokers and Authorized Representative) Regulation 1994, Securities and Exchange Commission (Merchant Bankers and Portfolio Managers) Regulation 1994, Securities and Exchange Commission (Mutual Funds) Regulation 1994, Prohibition of Insider Trading Regulation 1995, Initial Public Offering (IPO) Rules 1998, The Depository Act 1999 and Margin Rules 1999. Moreover, there are some specific rules and regulations which are issued by SECB from time to time for controlling the operation of stock exchanges, companies and share markets.

4.3.2 Regulatory Control of the Securities and Exchange Commission of Bangladesh.

The Securities and Exchange Commission, Bangladesh (SECB) was established on 8th June 1993 under the Securities and Exchange Commission Act, 1993. The SECB holds very wide-ranging powers and regulates the activities of the capital market in Bangladesh including licensing and regulation of capital market participants and intermediaries such as stock exchanges, brokers and dealers, merchant banks and portfolio managers. Much of the powers of the SECB are aimed at proper disclosure to investors, which is at the heart of good corporate governance. It provides policy direction to the industry and administers the securities legislation and acts as an administrative tribunal for decisions on the capital markets (SECB, 2000-01). Listed companies are required to submit the copy of their Annual Report and the proceedings of their annual general meeting to the SECB.

Besides regulating the capital markets, the SECB has the other objectives of promoting investors' awareness including investment guidelines and the correct format for lodging a complaint, caution notices regarding the circulation of fake shares, an investors' education program and the provision of training for intermediaries of the securities market (SECB, 2005).

4.3.3 Financial Reporting, Accounting and Auditing Standards

Two professional accounting bodies, the Institute of Chartered Accountants of Bangladesh (ICAB) and the Institute of Cost and Management Accountants of Bangladesh (ICMAB) regulate the accounting profession in Bangladesh. ICAB is the national professional accounting body of Bangladesh established under the Bangladesh

Chartered Accountants Order (Presidential Order Number 2 of 1973). The Institute of Cost and Management Accountants of Bangladesh (ICMAB) was established in 1977 under the 'Cost and Management Accounting Ordinance' mainly to regulate the Cost and Management Accounting profession in Bangladesh. Both the accounting bodies are fostering the acceptance and observance of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and their adoption as Bangladesh Accounting Standards (BASs). The Companies Act 1994 allows the members of both ICAB and ICMAB to audit companies to ensure that their accounts conform to all Bangladesh Accounting Standards.

To ensure the transparency, accountability and good governance in the corporate sector effective from February 2000, the Securities and Exchange Commission Bangladesh by a notification on 29th December 1997 required all listed companies to abide by 'Accounting Standards' adopted by ICAB and ICMAB as Bangladesh Accounting Standards (BASs). Thus these accounting standards are mandatory for all companies listed in Dhaka and Chittagong Stock Exchanges.

4.3.4 Capital Markets in Bangladesh

The Bangladeshi capital market is one of the smallest in Asia, and has a lot of problems including a non-developed securities market, investor non-awareness, a lack of research, non-professionalism of the brokerage business and market intermediaries, and a tendency towards unethical gains by insider trading and a lack of transparency (Chowdhury, 2000 and SECB, 2002-03).

By the end of June, 2006 there were 303 securities of 256 companies listed on the DSE with a market capitalization of Taka 225.30 billion (SECB, 2006). The 'All Share Price Index' at Dhaka Stock Exchange was introduced on 16th September 1986. The

Dhaka Stock Exchange is a self regulated non-profit organization. Its activities are regulated by its 'Articles of Association' and 'rules and regulations' and 'by-laws' along with the Securities and Exchange Ordinance, 1969, Companies Act 1994 and Securities and Exchange Commission Act, 1993.

The Chittagong Stock Exchange (CSE) was established as a Public Limited Company in April 1995. Similar to Dhaka Stock Exchange, the activities of Chittagong Stock Exchange are regulated by its 'Articles of Association' and 'rules and regulations' and 'by-laws' along with the Securities and Exchange Ordinance, 1969, Companies Act 1994 and Securities and Exchange Commission Act, 1993. By the end of June 2006 there were 213 securities of 196 companies listed with CSE with a market capitalization of Taka 196.34 billion (SECB, 2006).

In view of the features of the corporate governance practices described in this section, the characteristics of the Bangladesh corporate governance situation are summarized in Table 2 below.

Table 2: Characteristics of the Bangladesh Corporate Governance

Corporate Governance Characteristics	Bangladesh Situation
Ownership Structures	Concentrated in the hands of banks, financial institution, other corporations or dominant shareholders
Share of control oriented finance	High concentration of control by a small number of shareholders. These are predominately either from family investors or financial institutions.
Financial Markets	Small, not very liquid.
Monitoring by financial institutions	Supposed to be extensive, but really very little.
Monitoring by individual shareholders	Yes, if family or financial institution because in a position of power and knowledge to do so. No, for smaller investors as they are not educated to do so. No formal policing of structures – regulations.

Shares of all firms listed on the stock exchanges	Small – still a large number state owned enterprises not listed. In 2005 only 20 privatized through sale of shares (Rahman, 2007).
Ownership of debt and equity	Concentrated.
Investor's Orientation	Control, not portfolio – family owned.
Shareholder's Rights	Weak – lack of knowledge about their rights.
Dominant Agency Conflict	Between Controlling and Minority Shareholders.
Creditor's Rights	Strong for banks, weak for commercial.
Role of Board of Directors	Limited.
Role of Insolvency and Bankruptcy	Limited – high debt financing involvement.
Board Independence / Power Over Management	Therefore, there is an absence of any accountability structure of management to the board. In case of State Owned Enterprises (SOEs), when the Chairperson of the Board is also a cabinet minister, there is a tendency to treat the SOE as a government department rather than a corporate entity (Rahman, 2007).
Market for corporate control	Takeovers are absent as the ownership is highly concentrated in the hands of family and lack of takeover regulations and due to non-efficient market.

From the above description of the Bangladeshi context, it can be concluded that many of the characteristics of the Bangladeshi context align with the German-Japanese model. However, beyond this analysis, five themes of corporate governance characteristics are identified as specific to Bangladesh. The study also identifies six specific corporate governance characteristics in relation to current corporate government practices in Bangladesh, first a weakly enforced legal and regulatory framework, secondly weak institutional controls, thirdly a lacuna of professionals to develop a sound corporate governance culture, fourthly a predominance of individual investors, fifthly a dearth of foreign or institutional investors, and sixthly limited transparency and weak disclosure practices.

Temple (2002) argues that Bangladesh's public sector operates with weak accountability and poor transparency, suggesting that this is conducive to corrupt and inefficient practices. He also makes recommendations to improve the corporate governance including the establishment of Audit Committees in all listed companies having adequate shareholder participation, the computerization of operations and the strengthening of the Company Registrar. Similarly, the World Bank (2003) *Report on the Observance of Standards and Codes Bangladesh* argues that both accounting and auditing practices in Bangladesh are institutionally weak in terms of their regulation, compliance and their enforcement of the accounting standards and professional rules. Often, audits are not conducted in accordance with international best practice. They suggest this problem is further aggravated because graduates do not join the Bangladeshi accounting profession because it is not given the prestige of a rewarding career. Also, in the environment of superseded legal requirements, general noncompliance with standards and ineffective policing mechanisms, an absence of professional ethics, and poor quality professional education all contribute to an unsatisfactory corporate governance regime in Bangladesh.

5. Conclusions

The weaknesses in corporate governance in Bangladesh identified in the discussion section above require an explanation beyond a market framed analysis as used in the Asian Development Bank definition of corporate governance. Indeed, as the German-Japanese model is identified as going part way to explaining the corporate governance situation of Bangladesh, the Asian Development Bank itself is a complicit player in the situation. It could be argued that a mechanistic approach to corporate governance as described in its definition in the introductory section of this paper facilitates its position of power and influence as a key creditor of corporations in Bangladesh. Rather, the broader definition of Cadbury (2000) is sensitive to the Bangladesh context. Given the limited resources of an emerging economy, Bangladesh must find a balance between economic efficiency and community stewardship inherited in the form of its State Owned Enterprises. Alignment of stakeholders is difficult given wide gaps in both opportunity and education of investors. A wide share ownership is possible only through egalitarian wealth distribution, which is a characteristic of both models described, but not one of the Bangladesh context.

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Notes:

[1] Hereinafter referred to as LLSV

[2] This is the situation, when firm managers will know more about the firm than that of shareholders. Managers will try to use the information about the firm, which is not available to the shareholders, for their own benefit.

[3] Rafael La Porta, Florenzio Lopez-de Silanes, Andrei Shleifer and Robert Vishny- sometimes referred to as the "gang of four"

[4] Entities in dealing with the taxation affairs of the country

[5] Instead of using the term chairman, the chairperson is used throughout this study as it will cover both the male and female leader.