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IMPACT OF GOOD GOVERNANCE ON THE CORPORATE GOVERNANCE IN BANGLADESH

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ABSTRACT

The purpose of this study is to explore and analyze the impact of good governance on the corporate governance in Bangladesh and to find out the corresponding strengths or weaknesses of financial market of Bangladesh. The study is exploratory in nature and the article is prepared based on secondary data and information that have been collected and analyzed from different published reports, research articles, daily newspaper and websites. The study finds out that good governance in Bangladesh is rare in real practice because both the public and private officials are not accountable and their decision-making processes are not transparent in most of the cases. Corruption is a big obstacle in the pave of good governance in Bangladesh. To ensure good governance, the first and foremost prerequisite is to minimization of corruption. Therefore, Bangladeshi corporate sectors should follow the model of good governance to improve their present practices with transparency.

KEYWORDS

Good governance, Corporate governance, Corruption, Red-tapism.

INTRODUCTION

The term good governance can be defined as power exercised for effective implementation of national economy and social resources as a whole. Mainly the governance is then good when it is able to achieve the goal. Good governance plays supreme role for a transparent, healthy and independent economy of a country. In an economy, there are three major organs on which the economy survives that are economic, political and administrative. The responsibility of the government then implies careful nursing of these three organs. The commitment of good governance lies on economic welfare, removing political unrest and ensuring the basic needs for the nation through effective administration.

OBJECTIVES OF THE STUDY

The main objective of this study is to explore and analyze the impact of good governance on the corporate governance in Bangladesh especially considering the strengths or weaknesses of financial market of Bangladesh. In addition, the aim of the study is to recommend regarding the implication of good governance that can assist a lot for developing corporate sectors in Bangladesh.

METHODOLOGY OF THE STUDY

The study is exploratory in nature. The study is conducted mainly based on secondary data. Data and information have been collected and analyzed from various published reports of Asian Development Bank, Bangladesh Enterprise Institute, Centre for Policy Dialogue, and World Bank. Moreover, the secondary data for the study have been gathered from different articles published in different journals, daily newspaper and websites.

UNDERSTANDING CORPORATE GOVERNANCE

The main objective of 'good' corporate governance related with the *maximizing long term shareholder value*. Since shareholders are residual claimants, this objective follows from a premise that, in well performing capital and financial markets, whatever maximizes shareholder value must necessarily maximize corporate prosperity, and best satisfy the claims of creditors, employees, shareholders, and the State. Over the past decade, corporate governance has been the subject of increasing stakeholder attention and scrutiny. These concerns have given rise to a powerful shareholder movement. Shareholder activists, composed primarily of large multi-billion-dollar pension funds, religious and socially responsible investment groups, and other institutional investors, are now using a variety of vehicles to influence board behavior, including creating corporate governance standards of excellence and filing shareholder resolutions. So corporate governance is involved with the following three factors:

- i. Transparency in decision-making process;
- ii. Accountability which comes from transparency because responsibilities could be fixed easily for actions taken or not taken, and;
- iii. The accountability is for the safeguarding the interests of the stakeholders and the investors in the organization.

GOOD GOVERNANCE: ISSUES IN CORPORATE GOVERNANCE IN BANGLADESH

Most of the companies in Bangladesh are dependent on the banks for their major source of financing. Till now Capital market in Bangladesh is at an emerging stage with market capitalization amounting to only 6.5% of GDP with low investor confidence on corporate governance and financial disclosure practices in many companies listed in the stock exchanges (Du, 2006). The neighboring countries are well ahead as Bangladesh in terms of depth of capital market. For instance, neighboring countries can be reviewed, in India, Pakistan and Sri Lanka, the market capitalization is 56%, 30% and 18% of their GDP respectively. Nevertheless, the past few years have witnessed a silent inclination towards corporate governance due to a variety of forces that are acting today and would become stronger in years to come. These forces are the followings:

a) LACK OF PROPER REGULATION

Economic reforms not only increase growth prospects but also make markets more competitive which means to survive efficiently. For the purpose of stimulating the economic growth, the government regulatory bodies play a vital role, where in Bangladesh the authority fails to retain the balanced regulatory system and the intelligence over a period.

B) DISINTERMEDIATION

The elimination of intermediaries in the supply chain is also referred to as "cutting out the middlemen"- the prospect where the level of the market efficiency is degrading. The intermediaries go through maintaining the two major goals- i) To facilitate the market transactions; and ii) To facilitate the capital formation; i.e. to channelize more funds, where at present financial sector reforms have made it imperative for firms to rely on capital markets to a greater degree for their needs of additional capital.

C) INSTITUTIONALIZATION

Simultaneously, the increasing institutionalization of the capital markets has extended the pure disciplining and authentication power of the market.

D) IMPACT OF GLOBALIZATION

Globalization of Bangladesh's markets has exposed issuers, investors and intermediaries to the higher rate of return.

INADEQUATE BANKRUPTCY LAWS

In terms of enforcement in Bangladesh, bankruptcy laws and processes are inadequate in terms of provisions and not strong. No country can have good corporate governance standards with poor bankruptcy laws and processes but in present situation in Bangladesh the bankruptcy laws and processes are controlled and maintained by the government and the supporting bodies. Besides, inefficient foreclosures and securitization processes have compounded the problems in Bangladesh (Hossain, 2005).

LACK OF INITIATIVES TO DRIVE FOR CORPORATE GOVERNANCE FROM THE INTERNATIONAL INVESTOR COMMUNITY

Most of the companies in Bangladesh do not take vigorous attempt in attracting foreign investment. However, environment of foreign direct investment (FDI) in Bangladesh is not enough conducive. Consequently, there is a lack of drive from the international investor community for better corporate governance. Level of Market penetration of Bangladeshi companies in the foreign stock exchanges is also very low.

INCONSISTENCY BETWEEN COMPANIES ACT, IAS AND SEC REQUIREMENTS

According to The Companies Act 1994, it provides provisions regarding preparation and publication of financial statements disclosures and auditing. However, in many cases the Act has lack of clarity with regard to statutory requirements on disclosures in the financial statements of the listed companies (Ahmed and Yusuf, 2005). On the other hand, there are some Accounting requirements mentioned in the Companies Act which are incompatible with the International Accounting Standards (IAS) which is specially required by the Securities & Exchange Commission (SEC). But for the prospect of Bangladesh, government always makes the regulations considering its present situation. Another inconsistency is that the Companies Act does not require a consolidated balance sheet for a holding company but it is required under the IAS. Inconsistencies between IAS and the Companies Act need to be eliminated. So hereby only the government can pacify the gap of inconsistency (World Bank, 2003).

LIMITED OR NO DISCLOSURE REGARDING RELATED PARTY TRANSACTIONS

Related party transactions are not disclosed properly in the financial statements. These types of companies get always a shade from the higher political leaders or political parties for continuing this process. It is an impediment towards achieving good corporate governance in Bangladesh (World Bank, 2003).

WEAK REGULATORY SYSTEM

Bangladesh still follows the hybrid system of legal system which inherited from the British administration. Currently, the Companies Act of 1994 is the law that governs the incorporated domestic corporations and institutions which are also not compatible with the current economic regulatory system. For the efficient corporate governance, Government should take the proper regulation for the modern economy and market.

NO MARKET FOR CORPORATE CONTROL

A market deals with the corporate control plays an important monitoring function in corporate governance, but in Bangladesh due to as poorly managed companies will become takeover targets (Morrison, 2004). In Bangladesh, there seems to have no market for corporate control. So today's burning question is that how stakeholders can be ensured about the considerations of Government on the corporate governance.

WEAK PRESSURE GROUPS

The major elements of the stock markets are shareholders, investor associations, institutional investors and the financial press can play significant role for the implementation of corporate governance. But in the economy and stock market, each of these potential pressure groups is frail. The numbers of journalists who possess knowledge on financial reporting are limited and there are suffers from the investigative reports. On the other hand, public shareholders are not well organized under a common platform (such as shareholder associations) to demand better corporate governance.

LACK OF AUDITOR INDEPENDENCE

Independency of the auditors is an important factor for ensuring the good corporate governance. In Bangladesh the auditors are not sufficiently qualified to attest to the validity of the financial statements of corporate entities. The study of Bangladesh Enterprise Institute (2003) shows that 64.4 percent of the companies conduct regular audit for effective implementation of the core labor policies. Of the companies which audit the implementation of core labor policies, 91.1 percent meet their labor policy objectives. Only 2.2 percent of the confessed that they violated labor laws in the last 5 years. Around 67 percent of companies have a formal policy to ensure clean, healthy and safe working conditions. Procedures to implement policy and specific assignment to senior management for implementation are found only in 26.7 percent of the companies (Raihan, 2003).

POOR AUDIT REPORT

In Bangladesh it is considered that the audited financial reports are rarely reliable and free from the control of the owners. Despite irregularities in the audit report, the auditors issue unqualified audit report on the financial statements. Bribe system is one of the reasons for the poor and unreliable reports in the concept of audit reporting

in Bangladesh (World Bank, 2003). No proper mechanism to ensure the quality financial statements and audit report. Institute of Chartered Accountants of Bangladesh (ICAB) and Institute of Cost & Management Accountants of Bangladesh (ICMAB) do not have the power to ensure good financial report.

LACK OF GOOD GOVERNANCE AND CORRUPTION MIXING ECONOMY OF BANGLADESH

Traditionally, national governance and corruption challenges in the developing countries like Bangladesh have been seen as-

- i. Particularly daunting in the poorer countries like Bangladesh, with the richer world viewed as example or benchmark,
- ii. Anchored within a legalistic framework and focused on the quality of formal financial institutions,
- iii. A problem of the public sector and consequently impacts on private sector, and
- iv. Divorced from global governance or security issues, which are regarded as separated from the refined governance based country.

Corruption is a supreme impediment in the pave of good governance in Bangladesh. The most crucial prerequisite of good governance anywhere in the world is the minimization of corruption in the government machinery. Few years ago, the World Bank cancelled and demanded refund of BDT 68 million from three projects on the ground of corruption. The general lack of political wills to fight against corruption in government is evident from the fact that after more than 40 year of independence of Bangladesh, only at present the independent Anti-corruption Commission is continuing its operation but still its performance has not been up to the mark. Corruption prevented a fair distribution of national wealth and broadened the gap between rich and poor. As a result, the relevant regulatory authorities cannot control and maintain stock market mechanism efficiently due to red tapism and unexpected biasness to take the matter into action positively.

RECOMMENDATION

In Bangladesh considering the current situation, for creating the concept of stock market, creating awareness among people about market mechanism and necessary distribution networks and infrastructure, some positive changes are needed to be implemented. At first authority needs to reduce the corruption and biasness and then it will be somewhat easy to create a positive market. On the other hand, imposing the correct and strict bankruptcy laws and implementing proper regulatory system, authority can cope with the current situation. For the transparency, authority has to give the full independence for the market auditors for expressing their analysis and views, and the authority must implement the effective corporate control in the market.

CONCLUSION

After overcoming a critical time in 1996, Bangladesh has been successful in creating the concept of market, creating awareness among people about market mechanism and necessary distribution networks and infrastructure. In Bangladesh, recently the stock markets have been failed to maintain their operations and performances properly. Consequently, a large number of investors are in a fix about their investment and fate. In the mean time, more than .5 million investors have closed their accounts, which point out the lack of good governance of Bangladesh.

In Bangladesh the latest problem is directly linked with proper governance issues particularly the lack of implementation of appropriate regulations and rules of law and which in turn are linked with other indicators of governance, such as corruption, lack of accountability etc. To ensure good governance, the first and foremost prerequisite is to minimization of corruption. Both public and private corporate sectors of Bangladesh should follow the model of good governance to improve their present practices with transparency. Finally, the whole process also needs sincere political commitment and cooperation from the donor agencies.

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