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Corporate Governance in Bangladesh: Issues and Importance

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Abstract:
In business, corporate governance is a broad term. It is the framework for decision-making, implementation, and procedure that governs and controls an organization. It indicates who has authority and accountability for making decisions. (Chartered Governance Institute UK and Ireland, N.A). Corporate governance is built upon four pillars: fairness, accountability, transparency, and responsibility. The importance of corporate governance in Bangladesh is important due to a variety of reasons. Good corporate governance ensures transparency, accountability, fairness in a business operation and helps to create confidence in investors. However, a company's stock value decreases due to poor corporate governance. It is less likely to receive investment because of the absence of corporate governance. It thereby reduces the capital of a company. This leads to a company failure to maintain and prosper. (Ibrahim, 2024) According to the Bertelsmann Transformation Index (BTI) Bangladesh state of governance has dropped significantly in 2024. Bangladesh was 4.57 in 2022 and 3.66 in 2024. Bangladesh has a downward trend and still has a long way to go in terms of governance index. The paper aims to examine the notion and principles of corporate governance, as well as its significance from Bangladesh's perspective. After that the issues and challenges of corporate governance will be discussed.
Key words: *Governance, Corporation, Executives, Ethical*

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I. Introduction

Corporate Governance is the mechanism, process and relations by which corporations are directed and controlled. Corporate Governance is essential as it helps to foster cooperation and accountability internally. It provides reassurance to shareholders and enhances the image of the stakeholders and the public. Moreover, corporate governance contributes to enhancing business and investment frameworks. Thereby, supporting ethical business practice and responsible business. (Factsheet, 2024) Corporate governance is determined by many factors: legal and regulatory framework, corporate environment in a country and each organization's articles of association. In each country, corporate governance has a few characteristics that distinguish its structure from one country to another. Researchers have identified various models of corporate governance in developed countries which are (i) Anglo-US model (ii) the Japanese model, and

German Model. Each model identifies the following elements: the share ownership pattern in a country, composition of board of directors, key players in the corporate environment, the regulatory framework of corporate actions which requires approval of shareholders, disclosures, etc. Corporate governance practices are affected by striving to align the interests of a particular stakeholder. In Bangladesh, corporate governance is quite absent in many companies. In comparison to neighbor countries, Bangladesh lags in corporate governance and globally. (Gillibrand, 2004)

Principle of Corporate Governance

1. Fairness: The board of directors must give equitable and fair treatment to communities, vendors, employees, and shareholders.
2. Transparency: The board should notify shareholders and other stakeholders in a timely, accurate, and understandable manner about matters including financial performance, conflicts of interest, and hazards.
3. Risk Management: The board and management are responsible for identifying potential risks and determining the most effective ways to mitigate them. In order to manage risks and notify all pertinent parties about the presence and status of risks, they must implement those guidelines.
4. Responsibility: The board is responsible for overseeing business concerns and management activities. It must be aware of and support the successful, ongoing performance of the company. One of its responsibilities is to find and hire a chief executive officer. The company's and its investors' best interests must be its first priority.
5. Accountability: The board must describe the goals of an organization's operations and the outcomes of its behavior. It is responsible for evaluating a company's capability, potential, and performance, along with the leadership of the organization. Shareholders must be informed about important problems. (Chen, 2024)

II. Literature Review

Ahasanuzzaman (2022) conducted research on Corporate Governance and Financial Performance of Commercial Banks: A Bangladesh Perspective. The author used three relevant board of directors' characteristics: the number of independent board members, the size of the board, board meetings, two aspects of the audit committee (the number of audit committee members and the audit committee meeting), and finally two aspects of the risk management committee. His research suggests that board independence improves financial performance while board meetings have a detrimental influence. The Anova statistics show that the corporate governance of sample banks is not uniform.

Hossain and Rahman (2013) argue that Bangladesh's implementation of the Anglo-American shareholder model in corporate governance is commensurate with that of other emerging countries. However, it is unclear whether broad adoption is appropriate given Bangladesh's economic, legal, and corporate environment. Bangladesh is distinguished by its concentrated ownership structure, bank financing, weak legal framework, and lack of supervision. The research paper concluded that Bangladesh corporate governance is somewhat different than Western countries since most Bangladesh listed companies are controlled by shareholders where management is effectively an extension of those large owners.

Hossain (2011) concluded that commercial banks of Bangladesh have been heavily involved in the stock market. Banks have become key players in the stock market. Therefore, any policies to control banks would have a significant impact on the capital market.

III. Objectives of the Study

- To gain insights in corporate governance
- To understand the importance of corporate governance
- To study the issues and challenges of corporate governance

IV. Research Methodology

The paper is descriptive in nature. The study was conducted using secondary data obtained from a variety of sources, including newspapers, publications, articles and research papers published by numerous organizations or individual websites.

Importance of Corporate Governance

1. Changing ownership and company structure: Companies' ownership structures have seen significant changes in recent years. Most significant corporations now have public financial institutions and mutual funds as their single greatest shareholders.
2. Corporate social responsibility: In today’s era corporate social responsibility is significantly important. Businesses rely on society for everything, and society expects something in return. Corporate social responsibility refers to the obligation of corporations to meet their expectations. Social responsibility demands the board to protect the rights of all stakeholders, including consumers, employees, shareholders, suppliers, and local communities.
3. Globalization: Many large corporations are now marketing their products in international markets. To maintain and grow, companies must recruit global investors and customers, as well as comply with foreign legislation. Corporate governance is necessary for all of these activities. Corporate governance is required for entry and survival in the global market.
4. Legal Binding: Companies are incorporated by the Company Act 1994. This act is supplemented by the corporate governance code.

Issues and Challenges of Corporate Governance

1. Board diversity: Many corporations still struggle to achieve diverse representation on their boards. More gender, racial, and ethnic diversity is required to provide a broad range of opinions and avoid group thinking. Companies can address this difficulty by implementing policies that promote diversity and inclusion, setting targets or quotas for board composition, and aggressively seeking talented personnel from underrepresented groups.
2. Executive Compensation: Excessive executive remuneration packages and a misalignment of incentives with long-term value development are sources of concern.
3. Shareholder Activism: Activist shareholders are using their influence to force changes in business strategy, governance standards, and environmental/social issues. Companies must be attentive to shareholder concerns and engage in constructive conversation to resolve possible disputes. Effective shareholder engagement can assist organizations in understanding and meeting investor expectations while safeguarding their long-term interests.
4. Cybersecurity and Data Privacy: With increased reliance on technology, cybersecurity and data privacy have

emerged as key challenges in corporate governance. Companies must implement strong cybersecurity safeguards, educate their boards and workers on cyber dangers, and develop clear rules for data privacy protection. Regular audits and assessments can assist in detecting weaknesses and assure regulatory compliance. (Akhter, 2023)

V. Conclusion

This paper discusses the necessity of excellent corporate governance. As the period of globalization progresses, there may be numerous short-term obstacles. However, if the concept is implemented properly, Bangladesh will have good corporate governance. It will contribute to the organization's growth and build stakeholder confidence.

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