

# corporate governance

*better companies, better societies*

## How Bangladesh Is Making Progress

### Corporate Governance Effort Is Central to Sustainable Development

As Bangladesh makes progress in reducing poverty, achieving economic stability, and advancing the quality of its peoples' lives, corporate governance is gaining recognition as a key force in driving sustainable growth.

How the country's corporate governance supporters are negotiating the many economic, political, and cultural hurdles and achieving success – their experiences, including Lopa Rahman's own story of personal development – offer other developing countries many practical lessons.

### Home-Grown Financial Problems Trigger Interest in Reforms

Unlike other countries in Asia, it was not the Asian Financial Crisis but home-grown problems in financial markets that triggered interest in corporate governance in South Asia. Countries such as India and Sri Lanka witnessed formation of corporate governance task forces and committees in the early 1990s – even before the Asian Financial Crisis occurred.

In 2002, the Bangladesh Enterprise Institute (BEI), a private-sector research think tank, embarked on a project to examine the state of corporate governance norms and practices in the country, as compared to India, Pakistan, and Sri Lanka. This was the first such study to be conducted. Bangladesh clearly lagged behind its neighbors with

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## A Personal Journey:

### How Lopa Rahman's Work to Improve Corporate Governance Advanced Her Professional Development

After taking a relatively long break from work, I entered the world of development in 2004 at the Bangladesh Enterprise Institute (BEI), a not-for-profit center dedicated to boosting private-sector development.

My first project focused on corporate governance. Shortly before I joined, BEI had convened a national taskforce to draft the first Code of Corporate Governance for Bangladesh. The next step was to have this code incorporated within our country's regulatory framework and then facilitate the private sector's adoption and implementation.

Bangladesh's private sector is characterized by family-owned enterprises, with the families having significant control and influence over their enterprises' operations. Given that, BEI's task proved to be daunting.

The institute's strategy was to organize a series of training programs in parallel with an extensive advocacy program with practitioners

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Lopa Rahman speaking at the Annual Commonwealth Conference on Corporate Governance



Global  
Corporate  
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Forum

The Global Corporate Governance Forum is a multi-donor trust fund facility located in the IFC's Business Advisory Services. The Forum was co-founded by the World Bank and the Organisation for Economic Co-operation and Development (OECD) in 1999.

Through its activities, the Forum aims to promote the private sector as an engine of growth, reduce the vulnerability of developing and transition economies to financial crisis, and provide incentives for corporations to invest and perform efficiently in a socially responsible manner. The Forum sponsors regional and local initiatives that address the corporate governance weaknesses of middle- and low-income countries in the context of broader national or regional economic reform programs.

Donors to the Forum include the IFC and the Governments of Austria, Canada, France, Luxembourg, the Netherlands, Norway, and Switzerland.

and regulators. We would then conduct research to monitor and evaluate the impact of our training on companies' performance. The first two training programs were unsuccessful. Trainers were flown in from four different countries to address a total of seven directors and two chairmen in a room with a capacity of 40. Embarrassing as the turnout may have been, the feedback was disconcerting: corporate governance may be good for the rest of the world, but in our country, we like to do things our own way, the participants said.

As a result, we worked at BEI to have a more concerted effort in marketing and relationship-building with key associates and groups to encourage participation in our training programs. Our third training program (this time including more local materials and trainers), which was held in early 2005, showed more encouraging signs.

This year was also when I attended a Training of Trainers workshop organized by the Global Corporate Governance Forum for the South Asia Region. Through this workshop, I was able to help BEI build its network regionally and enhance the established training curriculum. BEI's core trainers – Sheela Rahman, Nihad Kabir, Farooq Sobhan and Yawer Sayed – also attended this workshop. With such expertise on board at the institute, we could develop training materials that are applicable to our local context. But, we felt that we did not have access to world-class, robust training tools and materials.

When the Forum organized a Washington, D.C. workshop on the *Corporate Governance Board Leadership Training Resources* in 2008, I was fortunate to be selected as one of a small group of experts to participate. Not only did I receive first-hand training

Through the Forum, I received first-hand training on the world-class curriculum and training design, but I also benefited tremendously from interacting with experts and champions drawn from around the world.

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I was then invited to be a faculty member for two regional workshops: one held in partnership with BEI in Dhaka in May 2008, and the second held in partnership with the Indonesia Institute of Corporate Directors in Bali in October 2008. These gave me the opportunity to apply the skills and knowledge I had acquired while strengthening my confidence to deliver quality training in an international context. The hands-on experience, supported by two co-trainers, was invaluable.

Since 2004, Bangladesh has seen the incorporation of corporate governance best practices into the listing rules. BEI is proud to have organized more than 100 workshops, roundtables, and other awareness programs. Recently, Rashed, my team member at BEI, and I designed and delivered a two-day training program for 20 selected senior officials of the Bangladesh Bank (Central Bank). All this has been possible because of the training, the *Board Leadership Training Resources*, and the opportunities for my professional development that the Forum provided.



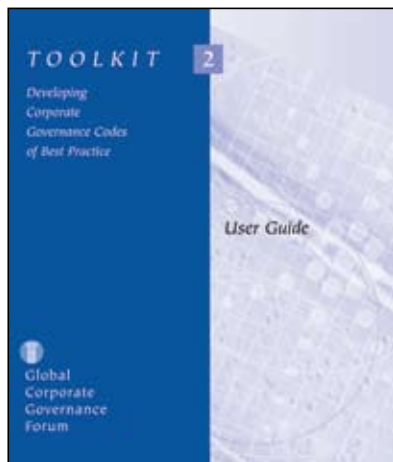
Lopa Rahman (pictured at the end, right side of the second row from the bottom) participated in a workshop organized by the Forum in 2008 to launch the *Corporate Governance Board Leadership Training Resources*.

regard to corporate governance standards and practices, and the study aimed to provide regional examples of initiatives that could be applied to Bangladesh to improve this situation. In addition to the DFID and the Commonwealth Secretariat, the Forum provided both financial support and valuable advice in drafting the report. This formed Stage One of corporate governance development in Bangladesh. This study identified, among other things, that there was an inadequate understanding about corporate governance and the country was the only one without a Code of Corporate Governance.

In Stage Two, efforts focused on code development. BEI convened a national task force for this purpose. The challenge was to develop a code that would be relevant for Bangladesh. The code would need to attract broad support from stakeholders, including regulators, and meet the highest international standards. This process began with extensive consultation with the 10-member taskforce, which met regularly to discuss each of the code's sections. The first meeting took place in August 2003. By April 2004, the code was published. The code "prescribes the principles, procedures, and process through which better corporate governance practices may gradually be introduced."

The Forum provided support and valuable suggestions, leveraging its experience, expertise, and the Private Sector Advisory Group (PSAG) to ensure that the highest standards were met.

In Stage Three, BEI worked to ensure that the Code's principles were implemented. Based on its work with the taskforce and the code, BEI launched training programs in early 2004 with the Forum's support. The first two programs received only lukewarm response and limited participation from directors and chairmen of banks. Participants said they felt that corporate governance was "good for the rest of the world, but it did not apply to Bangladesh."



*"Corporate governance can be a catalyst for change, for higher economic growth, for a more efficient use of resources, for a private sector that is accountable to investors and society, for a reduction in corruption, and for a healthy inflow of funds from domestic and foreign investors."*

#### **Code of Corporate Governance for Bangladesh**

## **STAGES OF BANGLADESH'S PROGRESS**

### **STAGE ONE: 2003 Comparative Analysis of CG in South Asia**

- Identified as priority the lack of understanding of corporate governance that needed strengthening
- Prioritized critical areas for raising corporate governance standards
- Flagged outdated, inconsistent regulations

### **STAGE TWO: Code Development**

- Code development challenges:
  - Ensure code meets highest standards
  - Relevant for Bangladesh
  - Buy-in from stakeholders including regulators
- Extensive consultations to address challenges
- Forum assistance in consultation process
- Task force convened by BEI in August 2003 with 35 members
- Code published in March 2004

### **STAGE THREE: Dissemination and Implementation**

- Capacity building
  - Board members
  - Senior management
  - Regulatory bodies' members
  - Academia and graduate and undergraduate students
- Advocacy program
  - Bring corporate governance into the regulatory framework
  - Establish need for training
- Research
  - Monitor and evaluate the training's impact

Source: BEI

In response, BEI started its advocacy programs in parallel with the training. The advocacy efforts included not only having extensive discussions with regulators, chambers of commerce, associations, and self-regulatory bodies, but also organizing several roundtables to discuss the benefits and importance of corporate governance for Bangladesh, with a wide cross-section of stakeholders participating.

Having received training from the Forum, BEI's working group on corporate governance also developed its own training modules and curriculum, engaged opinion leaders, and established private-sector leaders in the training process.

In 2005, BEI organized an international training program in partnership with the Malaysian Institute of Corporate Governance. For this, the Forum provided an internationally recognized expert.

“Leadership development is essential,” said Lopa Rahman, BEI project director. “For us to make progress now, we need board directors, for example, to make the business case for corporate governance with their other directors. We need to address the many misperceptions that business owners have. Once business leaders and board directors understand how adherence to corporate governance best practices can improve their companies’ performance and ensure the longevity of their operations, they can then exert leadership in implementing changes in line with best practices.”

Bangladesh Board Governor Fakhruddin Ahmed said that, during the Code’s launch, it is better to have a board in banks and financial institutions with a small number of members to function well and make decisions quickly. “Key to corporate governance is a well-functioning and well-informed board of directors.” Stakeholders should also be aware of their rights in a company to ensure international standards of corporate governance, he said. “As we face hurdles to go ahead with reforms, we need champions to implement good corporate governance.”

“We need to repeatedly make the point that corporate governance does not take anything away from entrepreneurs or sponsors,” said Professor M. A. Baqul Khaliq, who chairs the Centre for Corporate Governance and Finance Studies at Dhaka University. “It ensures growth and development with effective use of human and financial resources. It also increases confidence of the stakeholders, including minority stakeholders. Transparency, disclosure of relevant information, and acceptance of expert services are all part of the strategy for protecting the company’s interests.”

### **Awareness Broadens as Training Capacity is Strengthened**

BEI initiated a Corporate Governance Strengthening Project (CGSP), with the support of the Royal Netherlands Embassy in Dhaka, to raise awareness and the standard of corporate governance in Bangladesh.

“The project has served as an important platform to enhance the interaction between the business community, the regulatory agencies, the self-regulatory bodies, and the civil society, in bringing to the forefront the key challenges faced by Bangladesh in promoting and upholding the principles of good corporate governance,” said Farooq Sobhan, BEI’s president. “BEI has endeavored to facilitate the exchange of ideas and information and share cross-country experiences on the best practices on corporate governance.”

Corporate governance training and awareness programs gained momentum since 2005. So far in Bangladesh, more than 3,000 board members, senior managers of listed companies, banks, other financial institutions, and nongovernmental organizations have a greater understanding of corporate governance. Meanwhile, BEI has helped to train and deploy 50 trainers, and corporate governance is offered as a separate course in five universities. BEI organized the first regional training of trainers program, where it rolled out the Forum’s *Board Leadership Training Resources*. This workshop not only helped to develop individual trainers’ skills and knowledge but has also facilitated cross-country sharing of experiences and the building of regional networks.

Corporate governance requirements have also been introduced into the regulatory framework for banks and listed companies, including provisions for independent directors, separation of board and management responsibilities, and director rotation. The Securities and Exchange Commission (SEC) chairman said at a roundtable that “the BEI Code was an inspiration in developing the SEC’s own guidelines.”

There is growing interest, too, from outside Bangladesh to find investment opportunities in the country; private equity funds have been the most recent demonstration of this interest.

Advancement of corporate governance practices is particularly critical now as Bangladesh moves toward privatization of state-owned enterprises (SOEs). Sixty-six SOEs have been privatized since March 2005; the government plans another 81 privatizations. Further, the country’s capital markets are in an early stage of development, representing only 6.5 percent of gross domestic product (GDP), compared to 56 percent and 30

percent for neighboring countries, respectively, India and Pakistan.

Dr. Mirza Azizul Islam, a former SEC Chairman, said at a BEI conference that, of total investment over the last few years, the private sector's contribution was about three-fourths. "Without proper application of corporate governance," he said, "private-sector businesses will suffer from various challenges, including capital and resource mobilization and sustainable growth." He said that many companies are family-run and maintain few corporate practices. The directorship in many companies is still an honorary position, calling for developing the professionalism of directors. However, he expressed the hope that the BEI event would help policy planners remove bottlenecks in the application of corporate governance.

The Asian Development Bank's assessment in 2008 reaffirmed Bangladesh's need to improve governance, including curbing corruption, improving law and order and human security, and building local government capacity. "Thanks to steady progress in key sector reforms (i.e., in energy, transport, financial, and social sectors), some progress has been made in improving sector governance and building local government capacity."

### **Many Hurdles Confront Companies Implementing Best Practices**

In 2003, Chittagong University Professor Mohammad Shamsuddoha conducted a survey of 180 business leaders and others in Bangladesh. His data revealed that the Bangladeshi "corporate management suffers from transparency, independence in decision-making and accountability." Further, he wrote, "it has been identified that among the various reasons for this scenario, the important ones are absence of professionalism in management, paternal style of leadership, lack of skilled human resources, absence of dynamism in management culture, and the likes."<sup>1</sup>

Shamsuddoha's survey showed the scope of the challenges within companies that needed to be addressed for the exercise of good corporate governance practices. Once a company's directors understand the value of corporate governance, they must confront challenges in the board's

role in setting vision and strategy, the company's commercial focus, accountability, and employee incentives. (See the adjacent box.)

"Corporate sector in Bangladesh is yet to be capable enough to provide a setup for good corporate governance institutionally," observes Khalily. "Most importantly, the listed companies do not supply actual and adequate information to the investors, employees and other stakeholders. In many cases, stakeholders' interest is overlooked and not given preference. Despite some changes in rules and regulations, there are problems with corporate governance in Bangladesh."

At a BEI conference, Faruq Ahmad Siddiqi, the SEC's immediate past chairman, said that "a corporate culture has yet to take a firm shape."

## **CHALLENGES FOR SOEs IN IMPLEMENTING CORPORATE GOVERNANCE**

### **Board's role in vision and strategy**

- Lack of independent representation
- Lack of power held by CEO
- Absence of accountability structure of management to the board/shareholders
- When the Board Chairman is also a Cabinet Minister there may be a tendency to treat the SOE as a government department

### **Commercial focus**

- Procedures are set and not easy to deviate from
- Price controls are not market driven

### **Accountability and Monitoring**

- Access to accurate information is difficult: management collusion with trade unions
- Audits: Internal Audit, Government Commercial Audit, and External Audit
- Commercial audit results are doubtful, not transparent: need improvement

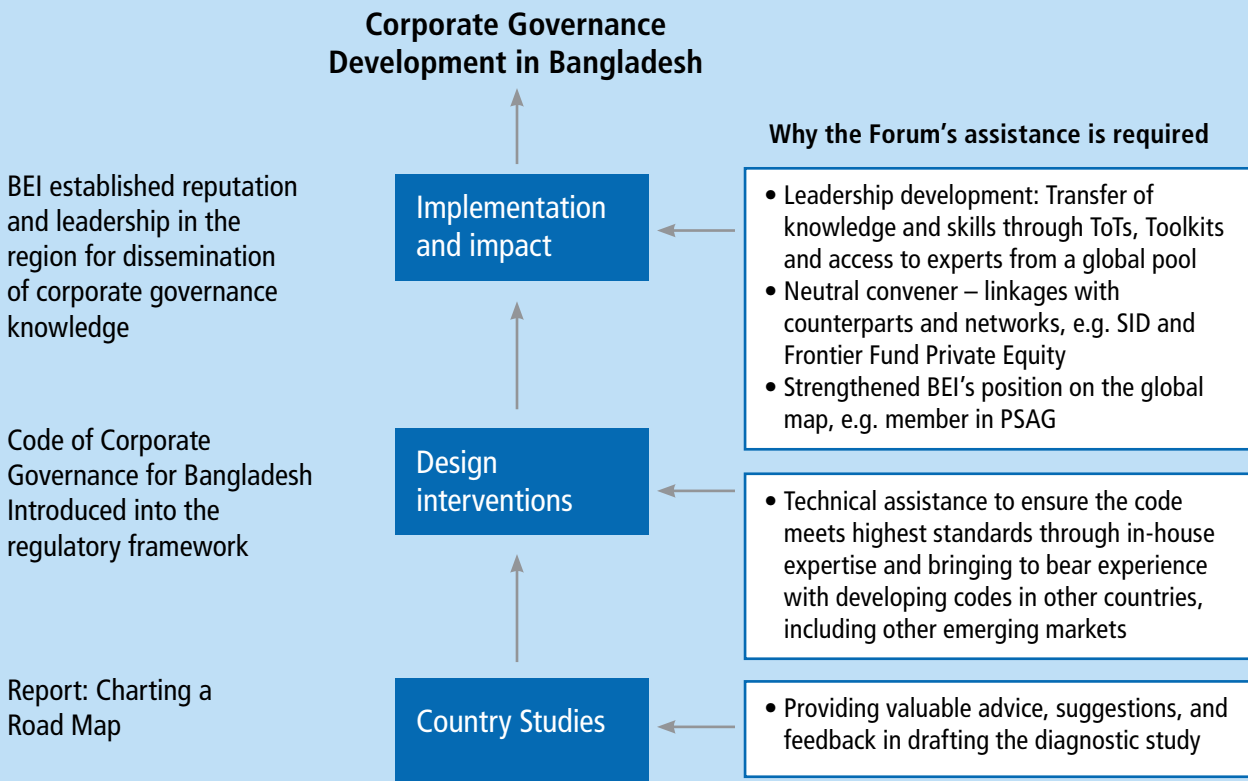
### **Employee incentives**

- No genuine incentive for better performance
- Quality people not attracted to SOEs
- Pressure from trade unions

Source: BEI

<sup>1</sup> Mohammad Shamsuddoha, "Corporate Governance Practices in Bangladesh: The New Paradigm in Management Education." August 23, 2003. Available at: <http://ssrn.com/abstract=1302265>.

## HOW THE FORUM IS HELPING BANGLADESH



## LESSONS LEARNED

- Assess the state of corporate governance and define the obstacles preventing progress
- Develop a program with many stages, each with a clear objective and achievable goal, so that you can reinforce support for the program through the achievements
- Build awareness with government decision-makers, business leaders, academia, the media, and opinion leaders
- Emphasize the business case – corporate governance ensures growth and development with effective use of human and financial resources
- Realize that progress in corporate governance is part of a larger process of modernizing businesses, which creates additional obstacles that must be removed
- Encourage forums and other means to share experiences; lessons learned from peers give others confidence that their efforts will achieve success
- Use the process to advance corporate governance as a means, too, for personal development of board directors, government decision-makers, and others

### LEARN MORE

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### NEXT ISSUE:

Through partnerships with the Securities Exchange Board of India National Institute of Securities Markets and the Confederation of Indian Industry, the Forum is reaching key players in corporate governance in India, including board directors, practitioners, academics, and the media.