



Portrait of Bangladesh's Independent Directors



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This document was prepared in good faith, based on information collected through annual report disclosures of companies that were listed on the Dhaka Stock Exchange as of June 30, 2018. The Dhaka Stock Exchange categorizes all listed companies and financial products into 22 sectors. Four sectors which covered only financial products (corporate bonds, debentures, mutual funds, and treasury bonds) were excluded from this report.

In total, the report reviews data of 294 companies and 610 independent directors as follows:

Company's Fiscal Year	Annual Report	Number of Companies
July 2015 - June 2016	2017	3
July 2016 - June 2017	2017	17
Jan 2017 - Dec 2017	2017	107
April 2017 - March 2018	2018	2
July 2017 - June 2018	2018	165
TOTAL:		294

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- Syed A. Mamun, PhD, FCMA
- Tareq Rafi Bhuiyan
- Sujon Ahamed
- S M A Awal
- Md. Atiqul Islam
- Md J. F. Nayeem

FOREWORD



Investors view corporate governance as an important indicator of firm quality and an important determinant of investment decisions. As an investor, IFC understands that companies with better governance practices tend to make better business decisions over time, have better risk management and internal controls, and enjoy greater access to capital. A recent study by IFC exploring the link between the quality of IFC clients' corporate governance and their financial and economic performance further confirms the thesis that corporate governance has a statistically significant correlation with firm performance.

The board lies at the heart of a company's corporate governance framework. Highly committed, diverse independent directors with the right skills and qualifications are essential to ensuring all other governance components are working effectively. *Portrait of Bangladesh's Independent Directors* is part of IFC's effort to recognize the skills, qualifications, and time commitment made by independent directors in Bangladesh in addition to raising awareness and stimulating discussion on the importance of independent directors in ensuring that the board acts in the best interests of the company. The role of independent director is even more critical in markets with highly concentrated ownership, such as Bangladesh, to provide assurance to minority shareholders that their rights are being adequately protected. On behalf of IFC, I would like to thank the Bangladesh Securities Exchange Commission and the Dhaka Stock Exchange for their support and commitment to developing a more vibrant capital market in Bangladesh. I would also like to thank every independent director who works tirelessly to promote better corporate governance practices in Bangladesh.

Wendy Werner

IFC Country Manager
Bangladesh, Bhutan and Nepal

KEY HIGHLIGHTS

Across industries, board size varies between 6 and 17 with an average of 9. Independent directors make up 24 percent of boards on average, which is just slightly above the Code's requirement.

The average frequency of board meetings is 9.75, with a higher frequency in larger companies. The average attendance rate of independent directors is 76 percent. Companies typically hold an average of 4.8 audit committee meetings annually. The attendance rate of independent directors at audit committee meetings is much higher compared to board meetings (93 percent).

Sixty-eight percent of all independent directors are also members of the audit committee in their respective company. This indicates that most independent directors are hired primarily to serve on audit committees.

Only 5 percent of all independent directors are women. However, the percentage of total board seats held by female directors in Bangladesh (17.7 percent) is high compared to other countries in South Asia.

Across all sectors, the average age of Bangladeshi independent directors is 64, which is quite high compared to the average age of board members in Asia (61.1) and globally (60.8). Only 4 percent of all independent directors are younger than 45.

Independent directors have impressive academic qualifications and professional experience. The majority (58 percent) have a master's degree, with an average of 37 years of professional experience.

The average director remuneration does not seem to be commensurate with their qualifications and responsibilities. Across all sectors, the average remuneration is BDT 147,778 (\$1,759) annually. By comparison, the average remuneration of independent directors in India in FY2017 was INR 682,000 (\$10,656).

The average tenure across sectors is 2.4 years. Ninety-nine percent of independent directors have a tenure of less than six years.

Almost all independent directors are serving in only one listed company. Only 4 percent have concurrent directorships in two listed companies or more.

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1

CHAPTER

INTRODUCTION

Portrait of Bangladesh's Independent Directors is an informative study of independent directors of publicly listed companies in Bangladesh. This report utilizes annual report disclosures of 294 companies that were listed on the Dhaka Stock Exchange (DSE) as of June 30, 2018. This report uses the Corporate Governance Code of 2012 issued by the Bangladesh Securities and Exchange Commission (BSEC) as the benchmark for our findings.

The report is divided into two main parts:

- *The Presence of Independent Directors* provides an overview of the distribution of independent directors across industries, company sizes, and board-level committees. In addition, this chapter also analyzes board practices, such as board meetings and audit committee meetings.
- *Characteristics of Independent Directors* outlines the profile of Bangladeshi independent directors, including age, gender, education and professional qualifications/experience, tenure, other directorships, and remuneration.

1.1

Bangladesh's Market Profile

In 2018, Bangladesh's real GDP growth rose to 7.9 percent placing it among the fastest growing economies in South Asia. Its impressive growth has been fueled by export earnings from the ready-made garment sector and large inflows of remittances. In 2015, the country transitioned from low-income to lower-middle income status based on the World Bank's classification. Recently, Bangladesh fulfilled the eligibility criteria to graduate from the UN's classification of Least Developed Country status.¹

Bangladesh has two stock exchanges, the Dhaka Stock Exchange (DSE) and the

Chittagong Stock Exchange (CSE). As of 2018, a total of 593 companies were listed on both exchanges with a total market capitalization of around \$77.39 billion.² DSE, the major stock exchange, was first established in 1954. As of December 31, 2018, 311 companies were listed on the DSE with a total market capitalization of \$47.34 billion. The CSE was established in 1995. Compared with other countries in the region, the capital market is relatively small. In 2018, Bangladesh's market capitalization to GDP ratio was 28.2 percent compared to 70.6 percent in South Asia as a whole.³

The BSEC classifies listed companies based on their governance practices and the level of dividends paid to shareholders, as follows:⁴

¹ International Monetary Fund, "2019 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Bangladesh," IMF Country Report No. 19/299, (September 2019): 4.

² World Bank Open Data, <https://data.worldbank.org/indicator/CM.MKT.LDOM.NO?locations=BD>

³ World Bank Open Data, <https://data.worldbank.org/indicator/CM.MKT.LCAP.GD.ZS>

⁴ World Bank, "Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment Bangladesh," (March 2009): 1.

Pallab Kumar Biswas, "Corporate Governance Reforms in Emerging Countries: A Case Study of Bangladesh," *International Journal of Disclosure and Governance* 12, No. 1 (2015): 7.

Category	Criteria
A	Regular holding of annual general meeting of shareholders
	At least 10 percent dividend declared and paid during the calendar year
B	Regular holding of annual general meeting of shareholders
	Less than 10 percent or no dividend declared and paid during the calendar year
Z	Irregular holding of annual general meeting of shareholders
	No dividend
	Not in operation for more than six months
	Accumulated loss exceeds the paid-up capital
G	Greenfield companies
N	All newly listed companies (except greenfield companies)

The ownership structure of Bangladesh listed companies is highly concentrated, with the majority of securities held by individual shareholders (either controlling families or members of the public) rather than institutional investors or other companies.⁵ In Bangladesh, the top three, top five, and top ten shareholders owned an average of 32.33 percent, 36.96 percent, and 41.06 percent of shares in listed companies, respectively. These top shareholders were mostly family members of controlling shareholders.⁶ Another study of DSE listed companies shows that the founding families typically had between 30 percent and 50 percent ownership. The average total shareholding of the largest 5 and 10 shareholders was 50 percent and 60 percent,

respectively.⁷ In line with highly concentrated ownership is the prevalence of family-aligned boards among Bangladeshi firms. More than 60 percent of the board members in non-financial firms were comprised of family representatives, although the proportion was much lower in financial companies (around 18 percent).⁸

The Bangladeshi banking sector has long been plagued by a high level of non-performing loans (NPL), which is partly due to insufficient internal control and risk management. The NPL ratio has hovered above 9 percent for the past three years,⁹ compared to less than 5 percent for most Asian economies following the Asian Financial Crisis.¹⁰ Most NPLs are held by State-Owned Commercial Banks (SOCBs), with an NPL ratio of 30 percent at the end of 2018.¹¹

Following the stock market crash in 2011,¹² the BSEC embarked on various reform initiatives, including mandatory compliance with the new Corporate Governance Code 2012 for all listed companies. The previous Corporate Governance Code of 2006 was applied on a “comply or explain” basis. The 2012 Code mandates that at least one-fifth of the total number of directors in a listed company’s board shall be independent directors. The Code specifies in detail the definition and qualifications of an independent director. In essence, an independent director should have no shares or hold less than one percent of the total paid-up shares of the company. In addition, an independent director should not be a sponsor of the company or connected with

⁵ OECD, “Survey of Corporate Governance Frameworks in Asia,” (2017): 5.

⁶ Mahmood Osman Imam and Mahfuja Malik, “Firm Performance and Corporate Governance Through Ownership Structure: Evidence from Bangladesh Stock Market,” *International Review of Business Research Papers* 3, No. 4 (2007): 92.

⁷ Faizul Haque et al., “The Political Economy of Corporate Governance in Developing Economies: The Case of Bangladesh,” *Research in International Business and Finance* 25 (2011): 175.

⁸ Ibid.

⁹ Economist Intelligence Unit, “What lies ahead for the banking sector,” (Sept. 25, 2019).

¹⁰ Junkyu Lee and Peter Rosenkranz, “Nonperforming Loans in Asia: Determinants and Macrofinancial Linkages,” ADB Economics Working Paper Series No. 574 (March 2019): 1.

¹¹ IMF, “2019 ARTICLE IV CONSULTATION,” 10.

¹² Neel Chowdhury, “The Rise and Fall of One of the World’s Worst-Performing Stock Markets,” *Time*, Feb. 2, 2012.

the company's sponsor/director/shareholder holding one percent or more shares of the company. The tenure of an independent director is limited to a period of three years and can be extended for one term only. An independent director is required to have at least twelve years of corporate management/professional experience. He or she is not allowed to hold concurrent positions as an independent director in more than three listed companies.

The BSEC further revised the Corporate Governance Code in 2018, which became effective on January 1, 2019. A major addition in the 2018 Code is the requirement for listed companies to have a nomination and remuneration committee; previously, listed companies were only required to form an audit committee. As there were mostly minor changes in the provisions related to independent directors, the findings of this report remain relevant in the context of the newly revised 2018 Code.

1.2

The Business Case for Independent Directors

Good corporate governance starts with a well-functioning board of directors. The board lies at the heart of a company's corporate governance framework and is crucial to ensuring all other governance components (e.g., the company's control environment, shareholder practices, disclosure policies) are working effectively. According to the G20/OECD Principles of Corporate Governance, "the board is chiefly responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing

competing demands on the corporation."¹³

The G20/OECD Principles further specify the key functions of the board of directors as follows:¹⁴

Guiding strategy and overseeing major corporate actions

1. Reviewing and guiding corporate strategy, major plans of action, risk management policies and procedures, annual budgets, and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions, and divestitures.

Monitoring the company's governance practices

2. Monitoring the effectiveness of the company's governance practices and making changes as needed.
3. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.
4. Aligning key executive and board remuneration with the longer-term interests of the company and its shareholders.
5. Ensuring a formal and transparent board nomination and election process.

Ensuring appropriate risk management and controls

6. Monitoring and managing potential conflicts of interest of management, board members, and shareholders, including misuse of corporate assets and abuse in related party transactions.
7. Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular systems for risk management,

¹³ OECD, "G20/OECD Principles of Corporate Governance: OECD Report to G20 Finance Ministers and Central Bank Governors," (Sept. 2015): 51.

¹⁴ OECD, "G20/OECD Principles of Corporate Governance," 53-57.

financial and operational control, and compliance with the law and relevant standards.

Overseeing disclosure

8. Overseeing the process of disclosure and communications.

In order for boards to effectively fulfill their responsibilities to the company, shareholders, and stakeholders, they must be able to exercise objective and independent judgement. Thus, the board should be comprised of a sufficient number of independent directors, so that no individual or small group of individuals can dominate the board's decision-making process. Furthermore, directors with ties to management may be more reluctant to critically evaluate and scrutinize company strategy and performance, since they have inherent conflicts of interest.¹⁵

Independent directors have no direct or indirect material relationship with the company beyond their directorship. An independent director is, therefore, characterized as being independent in conduct, character, and judgement. There should be no relationships or circumstances that could affect, or may appear to affect, the director's independent judgement.¹⁶

Independent directors offer the following benefits to a company:

- They help ensure that situations are assessed openly and objectively while bringing an unbiased view to board deliberations.
- They are better positioned to act in the best interests of the company (and not just of the shareholder(s) who nominated them).
- They help ensure that the long-term interests of the company are being considered (and not being influenced solely by the near-term strategy of majority

shareholders).

- They help ensure that board members with the right qualifications, skills, experience, and commitment are appointed.
- They provide assurance to minority shareholders that their views are being represented (and that the board of directors is not merely comprised of representatives of majority shareholders). Their role is even more salient in family-controlled firms, state-controlled firms, and other firms in which ownership is highly concentrated.

1.3

How Do Firms Ensure that Independent Directors Drive Performance?

According to agency theory, the presence of independent directors can help to alleviate conflicts of interest between management and controlling shareholders (Principal-Agent conflicts) or between majority and minority shareholders (Principal-Principal conflicts). However, an integrative study of independent directors in Asian firms identified different barriers that limit independent directors' ability to play their oversight and advisory roles effectively. Independent directors' ability to influence board decisions and subsequently their effect on firm performance is less pronounced in family-controlled firms, state-controlled firms, and other firms in which ownership is highly concentrated,¹⁷ such as is the case in Bangladesh. Firms with high ownership concentration tend to appoint inactive independent directors or only appoint directors whom they believe will be more likely to support their decisions. In addition, these firms often set constraints on independent directors' participation in the decision-making

¹⁵ Institutional Shareholder Services, "ISS Governance QuickScore 3.0," (Oct. 2015): 8.

¹⁶ International Finance Corporation, "IFC Corporate Governance Board Toolkit," (2013): 20.

¹⁷ Wei Wei et al. "Independent Directors in Asian Firms: An Integrative Review and Future Directions," *Asia Pacific Journal of Management* 35 (2018): 686.

process. The role of independent directors in these cases is mostly to fulfil legal requirement. The effectiveness of independent directors is also more limited in countries with a weak regulatory environment. Coupled with the lack of influence, activism, and expertise of minority shareholders (including public and institutional investors) in Bangladesh, family-aligned boards are negatively associated with the overall quality of corporate governance.¹⁸ The ability of independent directors to influence decision making in these environments is therefore quite limited, regardless of their commitment and qualifications.

Having an adequate proportion of independent

directors is necessary, but insufficient in itself to drive firm performance. To positively influence the decision-making process, alleviate fraudulent and opportunistic behaviors, and act in the best interests of the company (not just represent the interests of the majority/controlling shareholders), the appointment of committed and qualified independent directors needs to be accompanied by two external factors: 1) a consistent and coherent legal framework to protect shareholders' rights and ensure the equitable treatment of all shareholders; and 2) better overall governance to monitor and enforce compliance and allow shareholders to obtain effective redress for rights violations.

WHAT MAKES A GOOD BOARD MEMBER?

A company's success is not easily attributable to the contributions of individual board members. The effectiveness of the board as a whole is determined by more than the sum of its parts. Nevertheless, there is broad agreement on certain qualities that any good board member must have in order for the board to function more effectively, including:

Engagement and commitment: Engagement can be measured partly in terms of attendance, but merely attending board meetings is not enough. A good board member must come prepared, aware of the challenges and opportunities facing the firm, and understand both formal and informal mechanisms in which they can influence decision-making in the best interest of the firm.

Diversity: Experience is vital to being an effective board member. However, even newcomers can make valuable contributions by bringing new perspectives, skills, and qualifications that existing board members might not have. Ensuring diversity among board members is critical to ensure a better decision-making process, avoid the trap of groupthink and other cognitive biases, and deliver greater value.

Mentorship: Assuming the role of mentor is crucial for board members, who must take it upon themselves to identify and nurture talent within their firm. Good board members are committed to passing on their expertise and experience to future generations.

Be brave! A good board member must be willing to speak out, question, and challenge each other and management. However, humility is also a good trait because board membership is a continuous learning experience.

¹⁸ Faizul Haque et al., "The Political Economy of Corporate Governance in Developing Economies," 179.

2

CHAPTER

The Presence of Independent Directors

All data in this report was collected from annual report disclosures of 294 companies that were listed on the Dhaka Stock Exchange as of June 30, 2018. The DSE categorizes all listed companies and financial products into 22 industries. Four industries which only cover financial products (corporate bonds,

debentures, mutual funds, and treasury bonds) were excluded from this report. The largest industries in Bangladesh are banks, pharmaceuticals, and fuel & power with a total market capitalization of 23 percent, 19 percent, and 13 percent, respectively.

Table 1:
Market Capitalization by Industry as of June 30, 2018

Industry (number of companies)	Total Market Capitalization (in USD million)	Percentage of Market Capitalization	Average Market Capitalization per company (in USD million)
Bank (n=30)	7,595	23%	253.15
Pharmaceutical (n=28)	6,371	19%	227.55
Fuel & Power (n=18)	4,379	13%	243.27
Food & Allied (n=16)	2,878	9%	179.9
Financial Institution (n=23)	2,730	8%	118.68
Engineering (n=36)	2,408	7%	66.88
Cement (n=7)	1,643	5%	234.75
Textile (n=46)	1,288	4%	27.99
Miscellaneous (n=11)	1,171	4%	106.48
Insurance (n=46)	1,084	3%	23.55
Ceramics (n=5)	350	1%	69.95
IT Sector (n=8)	203	1%	25.41
Service & Real Estate (n=4)	289	1%	72.22
Tannery Industries (n=6)	325	1%	54.23
Telecommunication (n=2)	206	1%	102.78
Travel & Leisure (n=3)	235	1%	78.37
Jute (n=3)	19	0%	6.46
Paper & Printing (n=2)	24	0%	11.94

In total, there are 2,872 directors across 294 companies included in this report. Eighty-eight percent (2,529) are non-executive directors, including 610 independent directors. The

independent directors make up around 21 percent of the total number of directors. Out of 610 independent directors, only 5 percent are female.

Table 2:
Directors by Industry as of June 30, 2018

Industry	Number of Listed Companies	Total Number of Directors	Total Number of Non-Executive Directors	Total Number of Independent Directors	Total Number of Female Independent Directors
Bank	30	406	375	76	4
Pharmaceutical	28	196	160	54	2
Fuel & Power	18	173	155	36	2
Food & Allied	16	101	83	23	3
Financial Institution	23	253	223	68	5
Engineering	36	270	222	66	2
Cement	7	59	50	15	0
Textile	46	319	271	78	1
Miscellaneous	11	89	75	21	1
Insurance	46	763	711	112	8
Ceramics	5	33	26	10	1
Tannery Industries	6	37	29	11	0
Service & Real Estate	4	41	35	9	0
Travel & Leisure	3	27	24	6	0
Telecommunication	2	24	22	4	1
IT Sector	8	49	41	13	0
Paper & Printing	2	14	12	3	0
Jute	3	18	15	5	0
Total	294	2872	2529	610	30

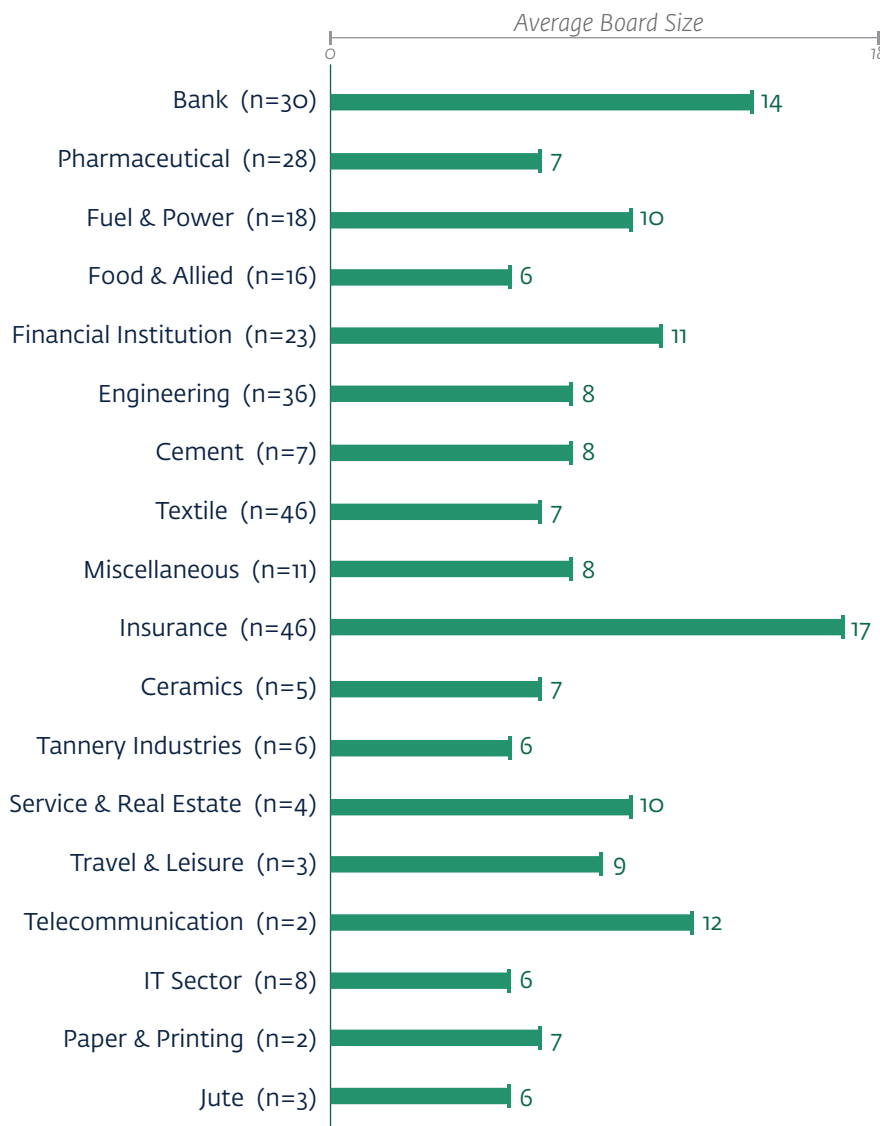
2.1

Average Board Size

The Corporate Governance Code 2012 prescribes that a listed company's board size should not be less than 5 or more than 20.¹⁹ Across industries, board size varies between 6 and 17 with an average of 9. On average, insurance companies have the

largest board size (17), followed by banks (14), telecommunication companies (12), and financial institutions (11). Generally, financial institutions have larger than average board sizes due to higher regulatory requirements.

Figure 1:
Average Board Size



*n=number of companies
Total number of companies = 294

¹⁹ Section 1.1 of Corporate Governance Code 2012.

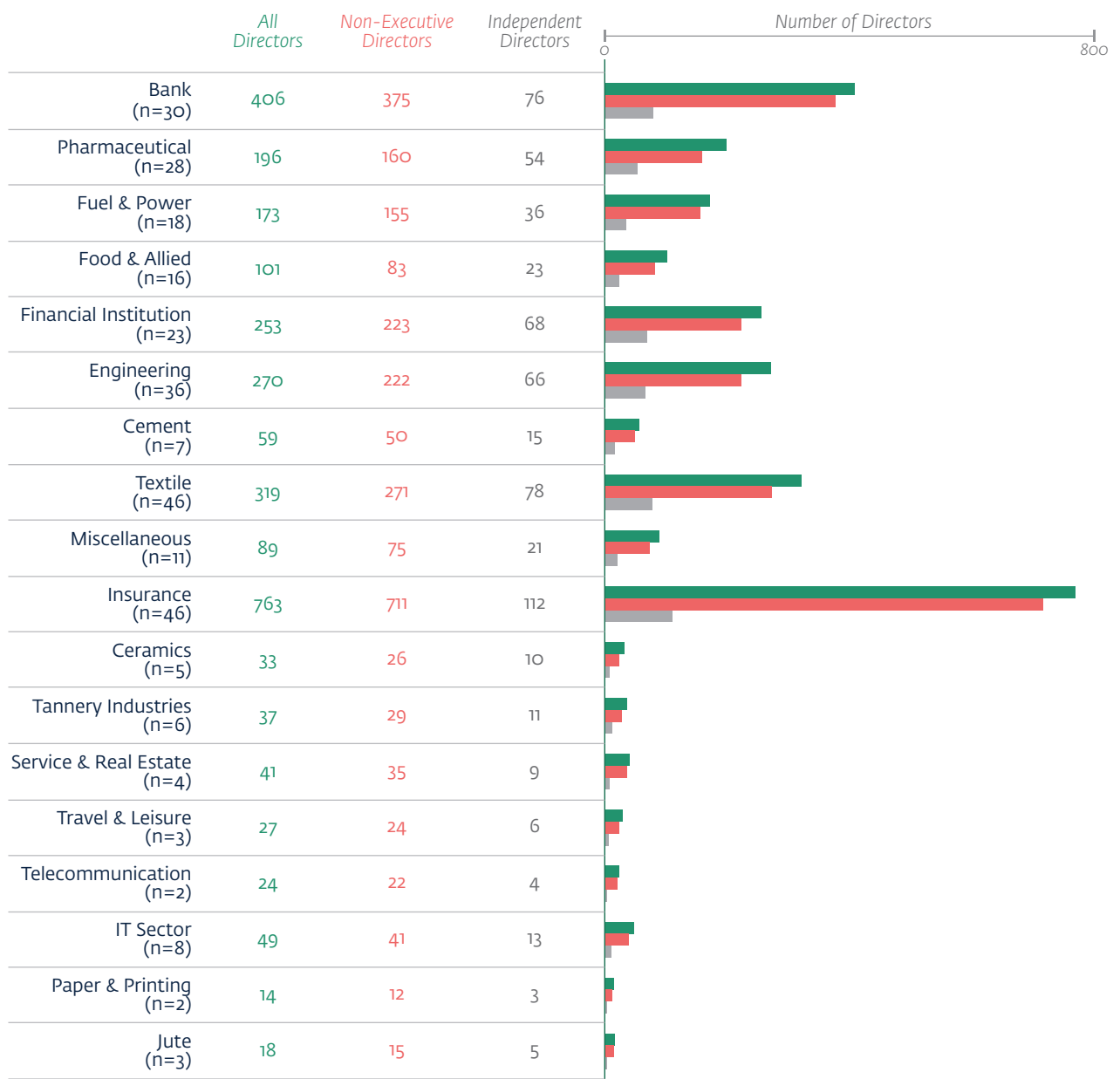
2.2

Independent Directors by Industry

In total, there are 610 independent directors distributed among 294 companies. Insurance, textile, and banking have the highest total number of independent directors, respectively,

although their market capitalization (except for banks) is relatively small. Paper & printing, telecommunication, and jute have the lowest total number of independent directors.

Figure 2:
Distribution of Independent Directors by Industry

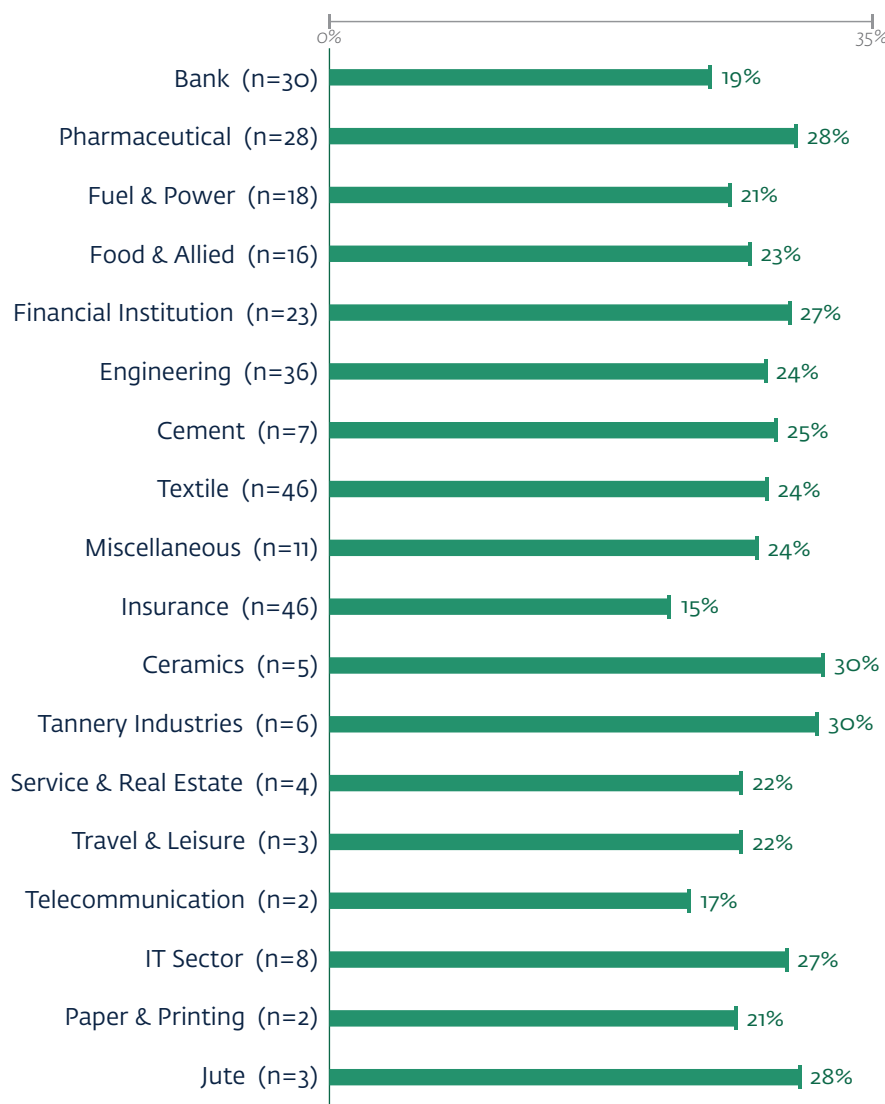


*n=number of companies
Total number of companies = 294
Total number of independent directors = 610

The Code mandates that at least one-fifth of the total number of directors shall be independent directors. Across all sectors, the average percentage of independent directors is 24 percent, which is just slightly above the Code's requirement. Industries with the largest percentage of independent directors include ceramics and tannery (at 30 percent) followed by pharmaceutical and jute (at 28 percent).

Interestingly, the insurance sector, which has the largest board size and the highest total number of independent directors, in fact has the lowest percentage of independent directors (at 15 percent). Three sectors have less than the minimum 20 percent requirement of independent directors (insurance, telecommunication, and banking).²⁰

Figure 3:
Percentage of Independent Directors by Industry



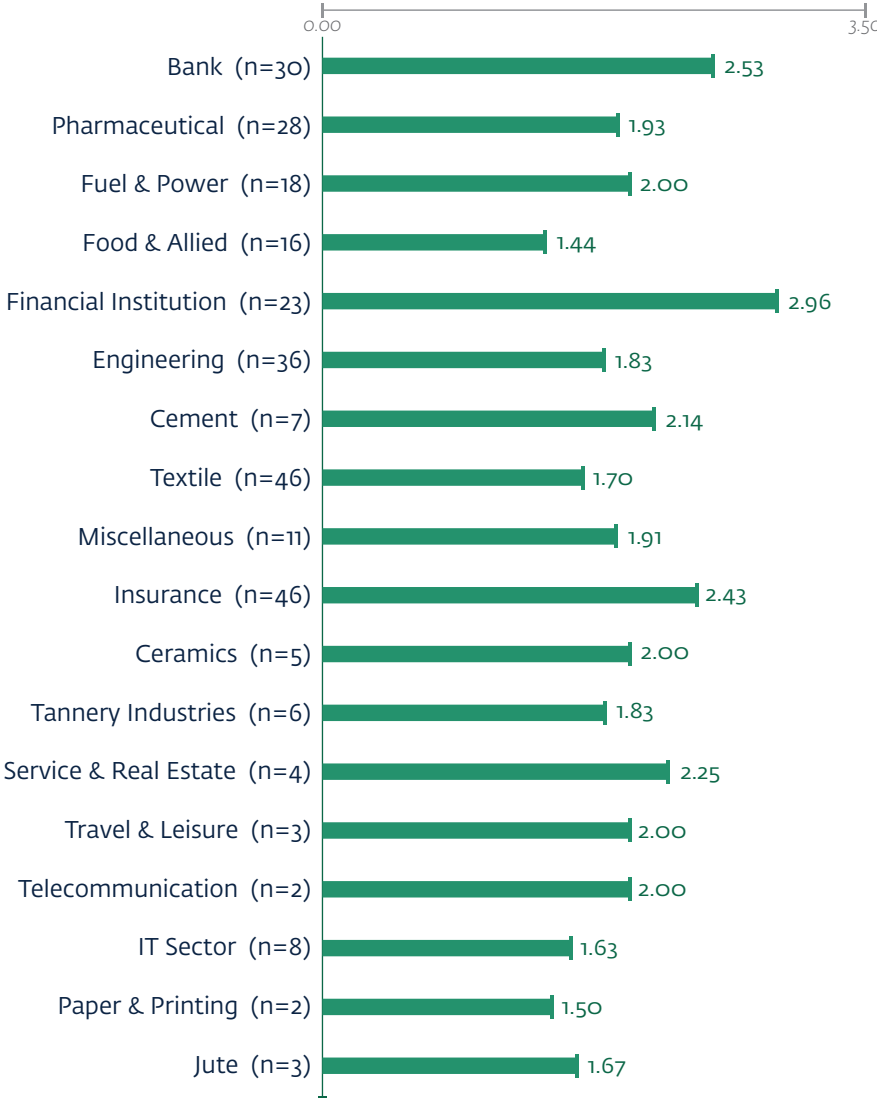
*n=number of companies
Total number of companies = 294
Total number of independent directors = 610

²⁰ However, we cannot simply assume that all companies in sectors with less than 20 percent of independent directors fail to meet the BSEC requirement, since the actual percentage of independent directors varies between companies within each sector. The average figures in this report refer to the number of independent directors divided by the total number of all directors in each sector.

Overall, the average number of independent directors is two. Financial institutions have the highest average of independent directors (2.96)

followed by banks and insurance companies, while food & allied sector has the lowest average (1.44).

Figure 4:
Average Number of Independent Directors by Industry



*n=number of companies
Total number of companies = 294
Total number of independent directors = 610

2.3 Independent Directors by Company Size

This report uses total assets as a proxy for company size. Sixty-eight percent of Bangladeshi companies (200 companies)

have total assets of less than \$119 million, 10 percent (28 companies) have between \$119 to \$238 million in total assets, and 22 percent (66

companies) have total assets greater than \$238 million.

The average percentage of independent directors by company size is around 23 percent.

Interestingly, the percentage of independent directors varies most significantly (between 10 to 90 percent) among the largest companies (those with total assets greater than \$238 million).

Figure 5:
Number of Companies by Total Assets

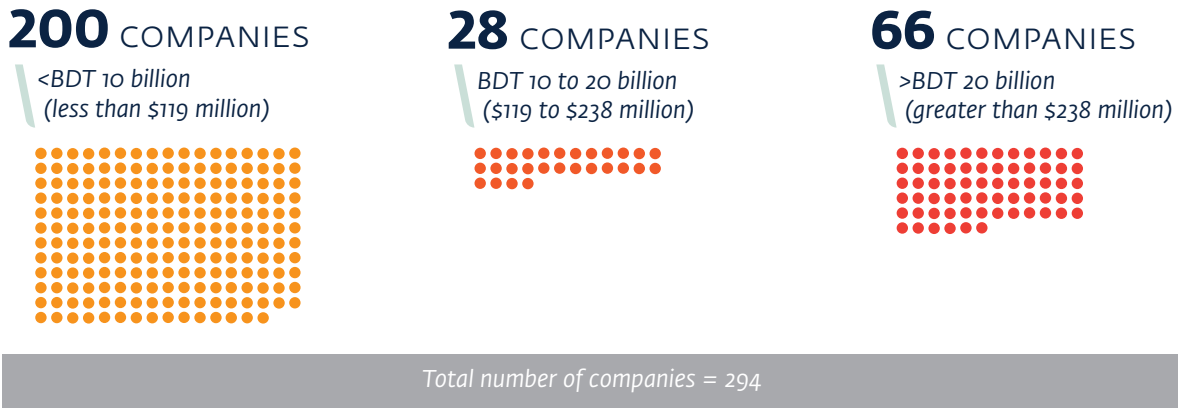
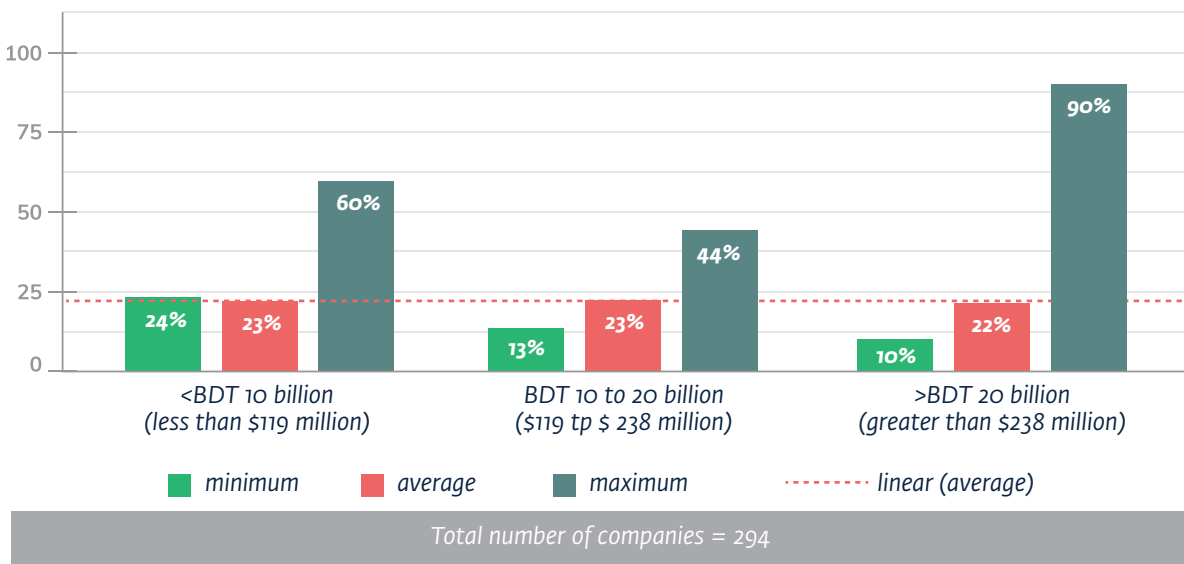


Figure 6:
Percentage of Independent Directors by Company Size



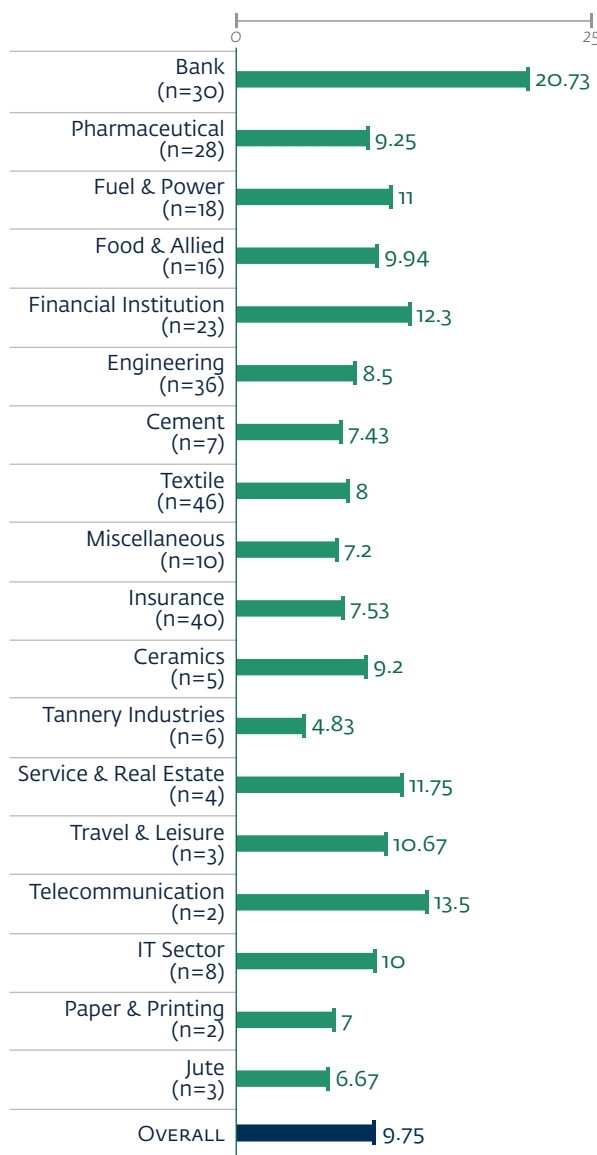
2.4

Board Meeting

The Code does not specify requirements related to board meetings. However, the Companies Act mandates the board to hold at least one meeting quarterly.²¹ The average number of board meetings conducted annually varies between 4.83 (in tannery industries) and 20.73

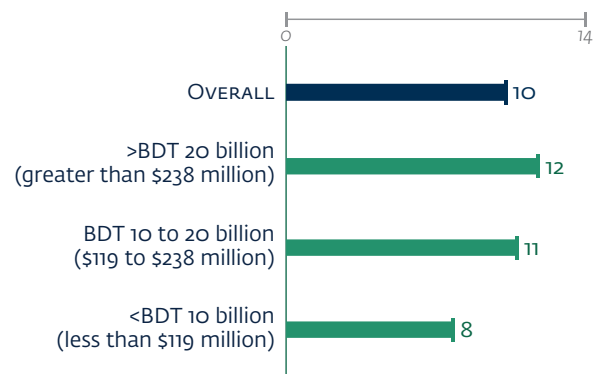
(for banks). Across all sectors, the average is 9.75, which is significantly higher than the legal requirement. The frequency of board meetings is higher in larger companies, as shown in *Figure 8. Average Board Meetings by Company Size*.

Figure 7:
Average Board Meetings by Industry



*n=number of companies
Total number of companies = 287

Figure 8:
Average Board Meetings by Company Size



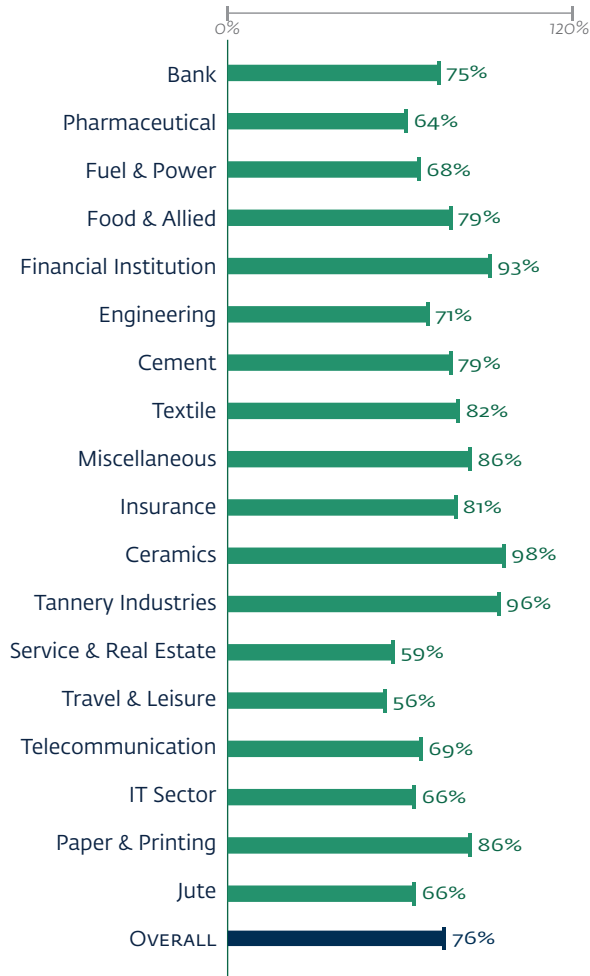
*n=number of companies
Total number of companies = 287

The attendance rate of independent directors varies between 56 percent (in tannery industry) and 98 percent (in ceramics). The average attendance rate is 76 percent. Board meeting attendance is critical particularly for independent directors as they are able to exercise their fiduciary duties through the board meetings and may not have other opportunities to interact with key management personnel. The investor community generally considers an attendance rate of less than 75 percent as insufficient for directors to fulfill their obligations in representing shareholders and providing oversight and direction to management.²² Unfortunately, eight sectors have an attendance rate of less than 75 percent, including pharmaceutical, fuel & power, engineering, service & real estate, travel & leisure, telecommunication, IT sector, and jute.

²¹ Section 96 of Companies Act 1994

²² International Shareholder Services, "ISS Governance QuickScore 3.0," 19.

Figure 9:
Board Meeting Attendance Rate of Independent Directors



Total number of independent directors = 561

2.5 Independent Directors on Audit Committees

The audit committee is the only mandatory board-level committee in the 2012 Code. The audit committee is responsible for overseeing the financial reporting process, internal controls, risk governance, and internal and external audit, and as such is considered one of the most important committees across many jurisdictions. The Code requires an audit

committee to have at least three members, including one independent director (33 percent). Furthermore, an audit committee should be chaired by an independent director. Ideally, an audit committee should include only independent directors to reduce the risk of conflicts of interest with regard to the company's accounts. The Code specifies the role of the audit committee as follows:

Financial supervision

- Overseeing the financial reporting process
- Monitoring the choice of accounting policies and principles
- Reviewing financial statements
- Reviewing significant related party transactions

Internal audit and controls

- Monitoring the internal control risk management process
- Reviewing the adequacy of the internal audit function
- Reviewing management letters/letters of internal control weakness issued by statutory auditors

External auditor selection and monitoring

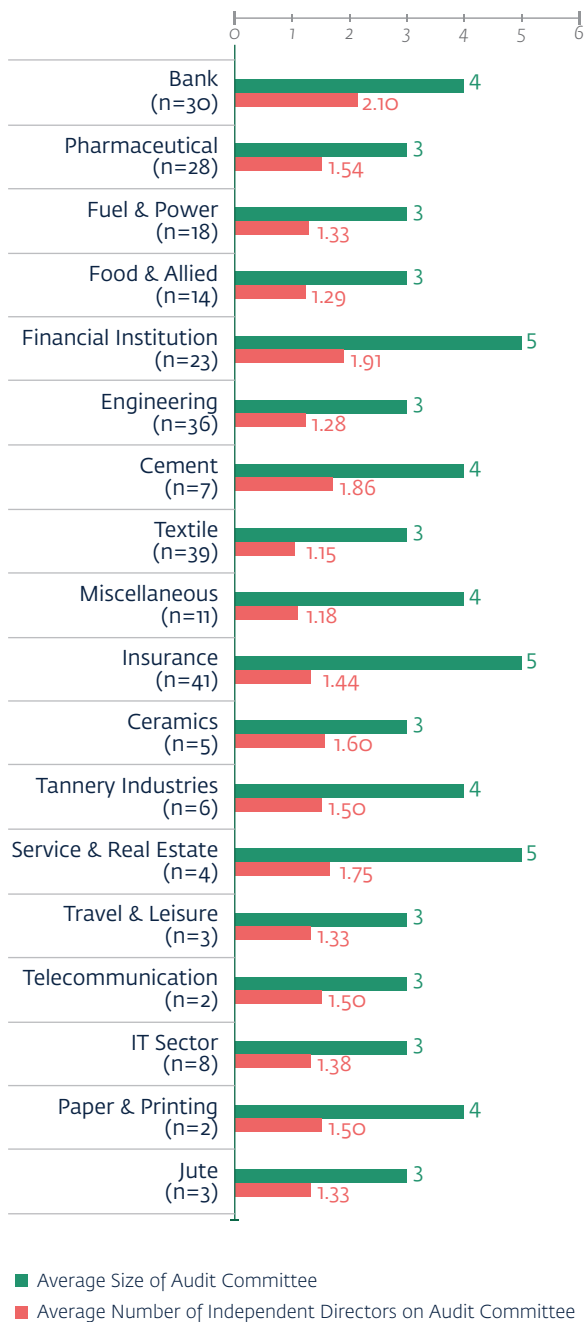
- Overseeing hiring and performance of external auditors

In total, there are 417 independent directors serving on the audit committee of 280 companies.²³ The size of an audit committee among Bangladeshi listed companies varies between 3 and 5, with at least 1 independent director sitting on the committee. Most companies have between 3 and 4 members (including 1 to 2 independent directors) on their audit committees. Financial institutions, insurance companies, and service & real estate companies have the largest size of audit committee.

²² International Shareholder Services, "ISS Governance QuickScore 3.0," 19.

²³ There are a total 280 listed companies included in this indicator (compared to 294 companies in previous indicators) since not all companies provided this information.

Figure 10:
Distribution of Independent Directors on Audit Committee by Industry

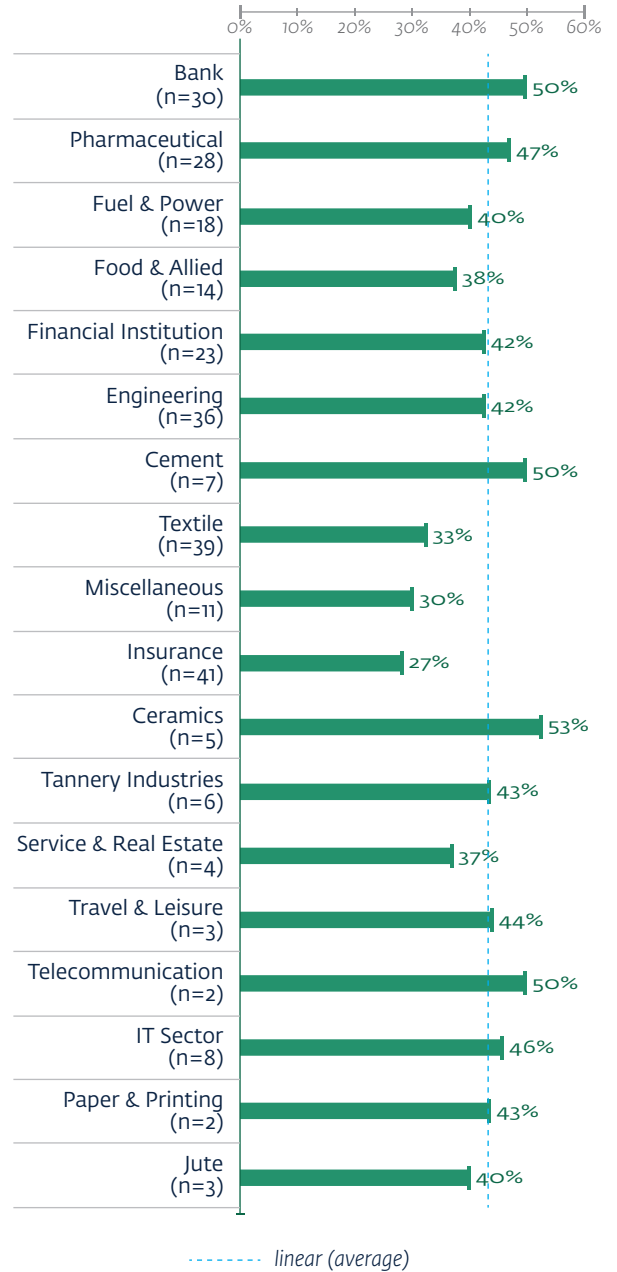


*n=number of companies
 Total number of companies = 280
 Total number of independent directors = 417

Across sectors, the average proportion of independent directors sitting on the audit committee is 42 percent, which is higher than the Code requires. At 53 percent, the ceramics industry has the highest proportion of

independent directors on the audit committee, whereas insurance has the lowest proportion.

Figure 11:
Percentage of Independent Directors on Audit Committee



*n=number of companies
 Total number of companies = 280
 Total number of independent directors = 417

Sixty-eight percent of all independent directors are also members of the audit committee in their respective company. This indicates that most independent directors are hired primarily

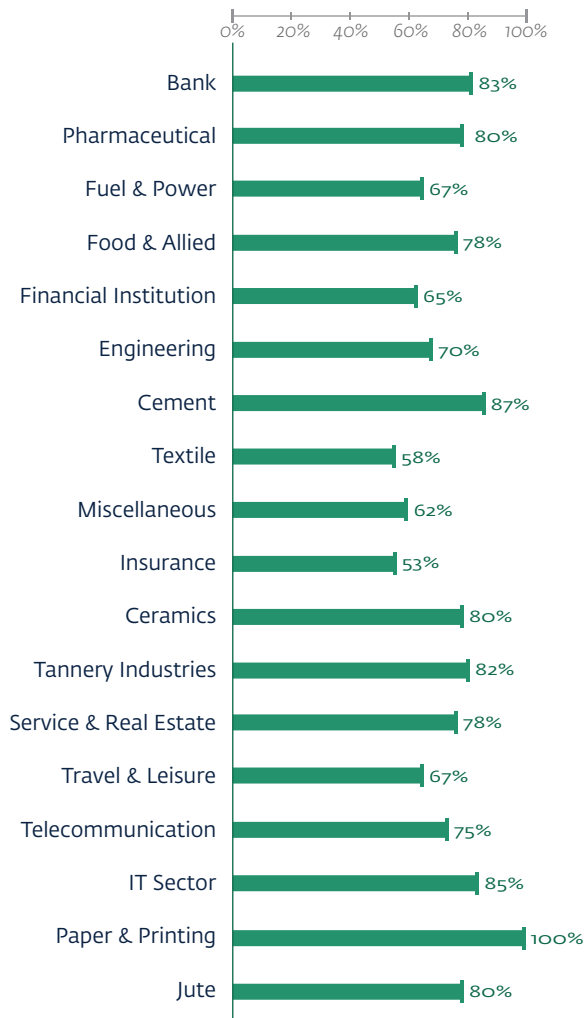
to serve on audit committees. Of all board committees, the audit committee requires the greatest time commitment of directors and the greatest level of expertise.

Figure 12:
Number of Independent Directors on Audit Committee



Total number of independent directors = 610
Total number of independent directors on audit committee = 417

Figure 13:
Percentage of Independent Directors on Audit Committee



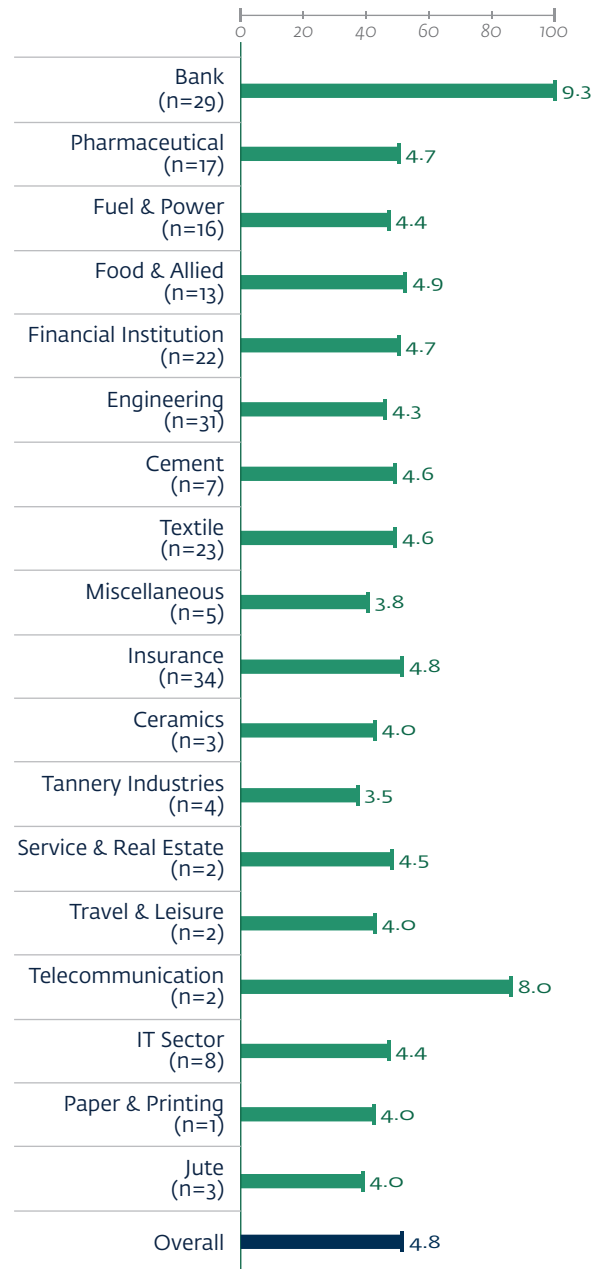
Total number of independent directors = 610
Total number of independent directors on audit committee = 417

2.6 Audit Committee Meeting

Companies across industries typically hold an average of 4.8 audit committee meetings annually. Banks and telecommunication companies hold on average 8 to 9 meetings. Overall, the attendance rate of independent directors at audit committee meetings is 93

percent, which is much higher compared to board meetings. This might be partly due to the Code's requirement that the quorum of audit committee meetings must include the presence of at least one independent director.²⁴

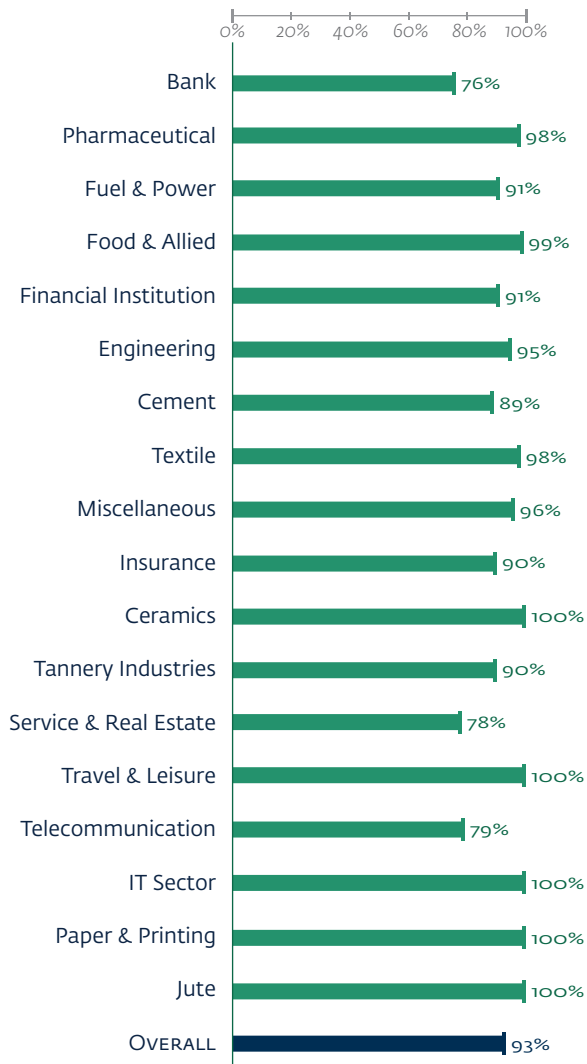
Figure 14:
Average Audit Committee Meetings by Industry



*n=number of companies
Total number of companies = 222

²⁴ Section 3.1 (vi) of Corporate Governance Code 2012.

Figure 15:
Audit Committee Meeting Attendance
Rate of Independent Directors



Total number of independent directors = 203

3

CHAPTER

Characteristics of Independent Directors

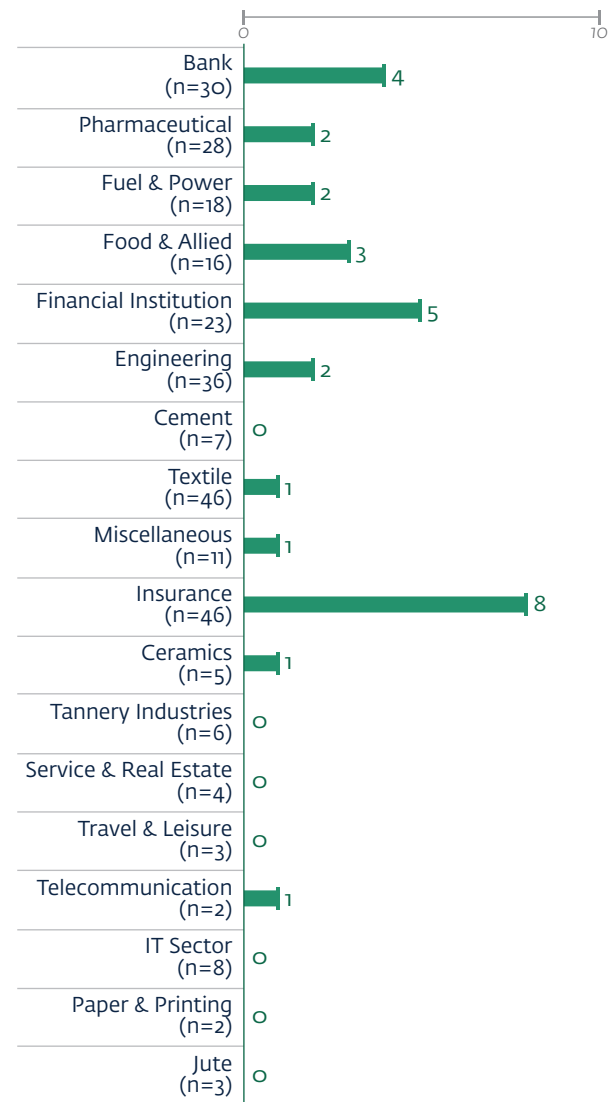
3.1 Gender

Out of 610 independent directors, there are only 30 female independent directors (5 percent).²⁵ Overall, there were 507 women (including executive, non-executive, and independent directors) on the boards of DSE-listed companies in 2018 out of more than 2,871 directors (17.7 percent).²⁶ There are no references to gender diversity or women’s representation on boards in the Corporate Governance Code 2012. However, in absence of such requirements, the percentage of total board seats held by female directors in Bangladesh (17.7 percent) is higher compared to other countries in South Asia. In India, 16.7 percent of board seats in companies listed on the National Stock Exchange of India are held by women.²⁷ In Sri Lanka, women hold only 8.2 percent of board seats in companies listed on the Colombo Stock Exchange.²⁸

The insurance sector employs the highest total number of female independent directors (8), since it has the largest average board size and the highest total number of independent directors. Financial institutions and the banking sector employ 5 and 4 female independent directors, respectively. The telecommunication sector has the highest percentage of female independent directors compared to the total number of independent directors. (It should be noted that the absolute number is quite low since this sector comprises only two companies. There is only 1 female out of 4 independent directors in this sector). Meanwhile, in 7 sectors there are no female independent directors (cement, tannery industries, service &

real estate, travel & leisure, IT sector, paper & printing, and jute).

Figure 16:
Number of Female Independent Directors by Industry



*n=number of companies
Total number of companies = 294
Total number of independent directors = 610
Total number of female independent directors = 30

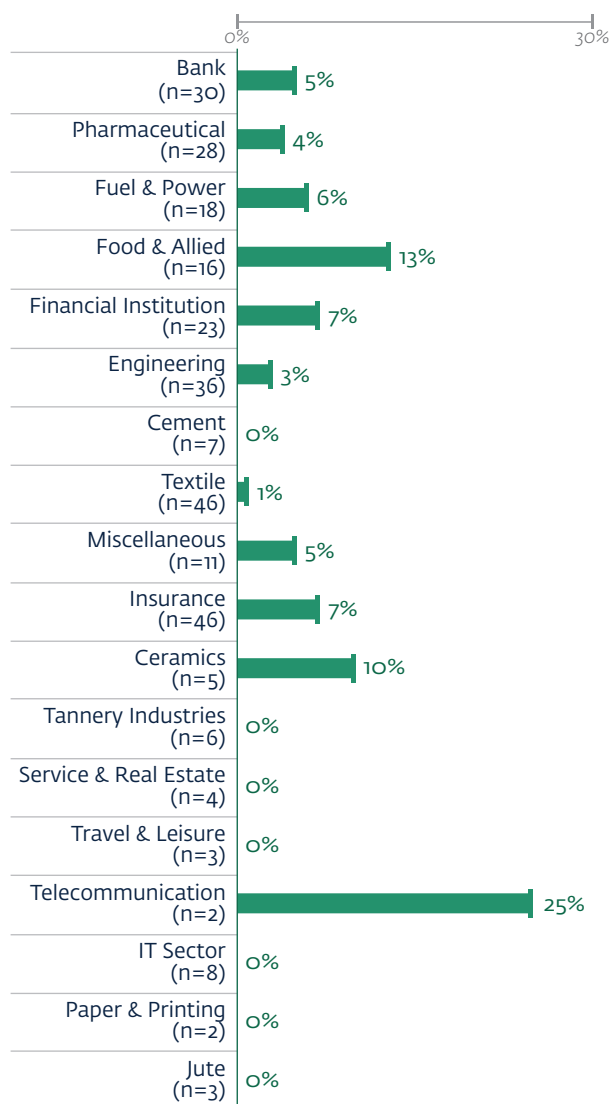
²⁵ Statistics in other countries typically refer to the percentage of all women on the board of directors (combining executive, non-executive, and independent directors) while this indicator refers only to women who are also independent directors. Since this excludes executive and non-executive female directors, the proportion is naturally much lower. Please see Annex I for the list of women independent directors.

²⁶ International Finance Corporation, “Women on Boards of Companies Listed on the Dhaka Stock Exchange,” (2019): 5.

²⁷ Deloitte, “Women in the Boardroom: A Global Perspective (6th ed.),” (2019): 201.

²⁸ International Finance Corporation, “Realizing Sustainability Through Diversity: The Case for Gender Diversity Among Sri Lanka’s Business Leadership,” (2019): 17.

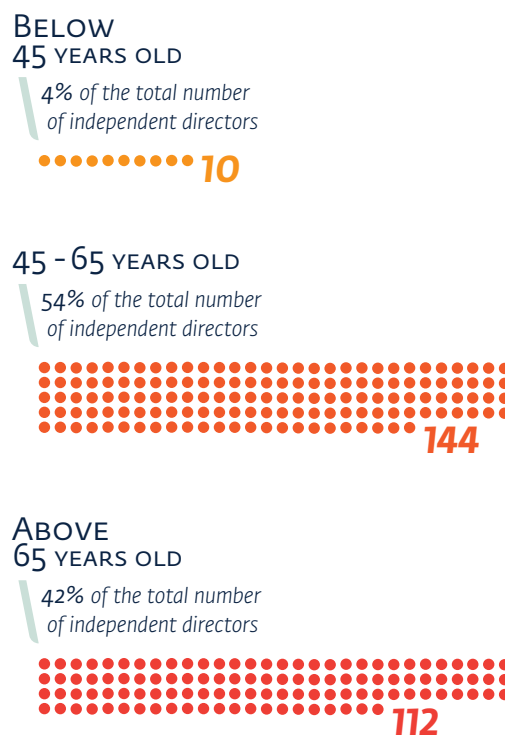
Figure 17:
Percentage of Female Independent Directors



*n=number of companies
 Total number of companies = 294
 Total number of independent directors = 610
 Total number of female independent directors = 30

independent directors (54 percent) are between 45-65 years; 42 percent are above 65 years. Only 4 percent of all directors are younger than 45. This preference for older board members partly reflects the Code’s requirement for independent directors to have at least 12 years of professional experience. While experience is a critical qualification for any board member, a strong preference for older members may inhibit the board’s ability to effectively manage and cope with rapid and disruptive changes in their respective sector. In addition, health issues may impede some directors’ ability to effectively discharge their responsibilities.

Figure 18:
Age of Independent Directors



Total number of independent directors = 266

3.2 Age

The Code does not specify any age restrictions for board members. Ninety-six percent of Bangladeshi independent directors are at least 45 years or above.²⁹ The majority of

Figure 19 below shows the age distribution of independent directors across sectors. Across all sectors, the average age of Bangladeshi independent directors is 64, which is quite high

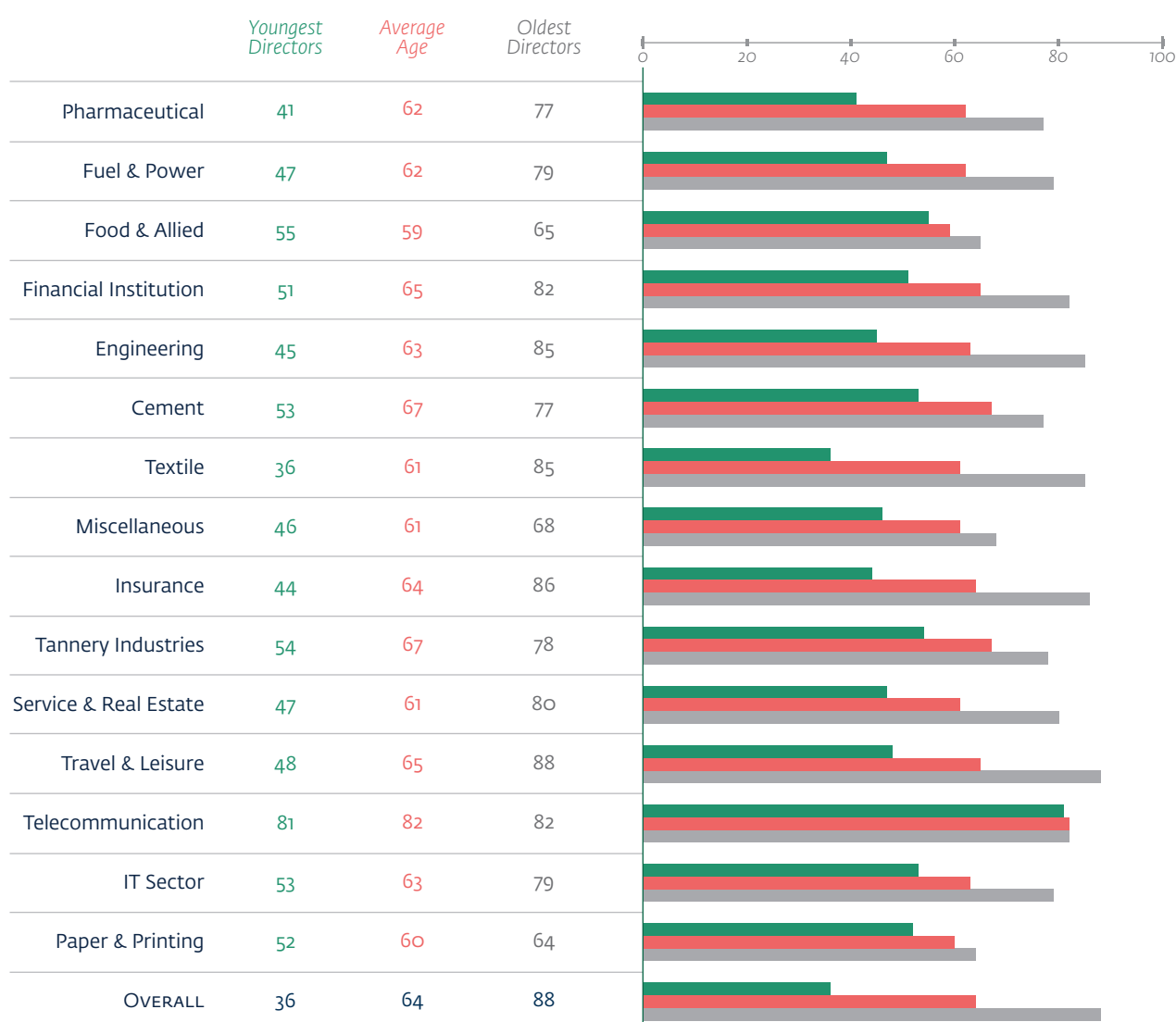
²⁹ Age information was available for 266 independent directors.

compared to the average age of board members in Asia (61.1) and globally (60.8).³⁰ The textile sector employs the youngest independent director (aged 36), whereas the travel & leisure sector employs the oldest director (aged 88). Travel & leisure has the largest standard deviation in the age of its independent directors (this sector employs directors between 48 and 88 years).

3.3 Education and Professional Qualifications

There is no specific education requirement for independent directors. The Code only requires that an independent director should

Figure 19: Age Distribution of Independent Directors



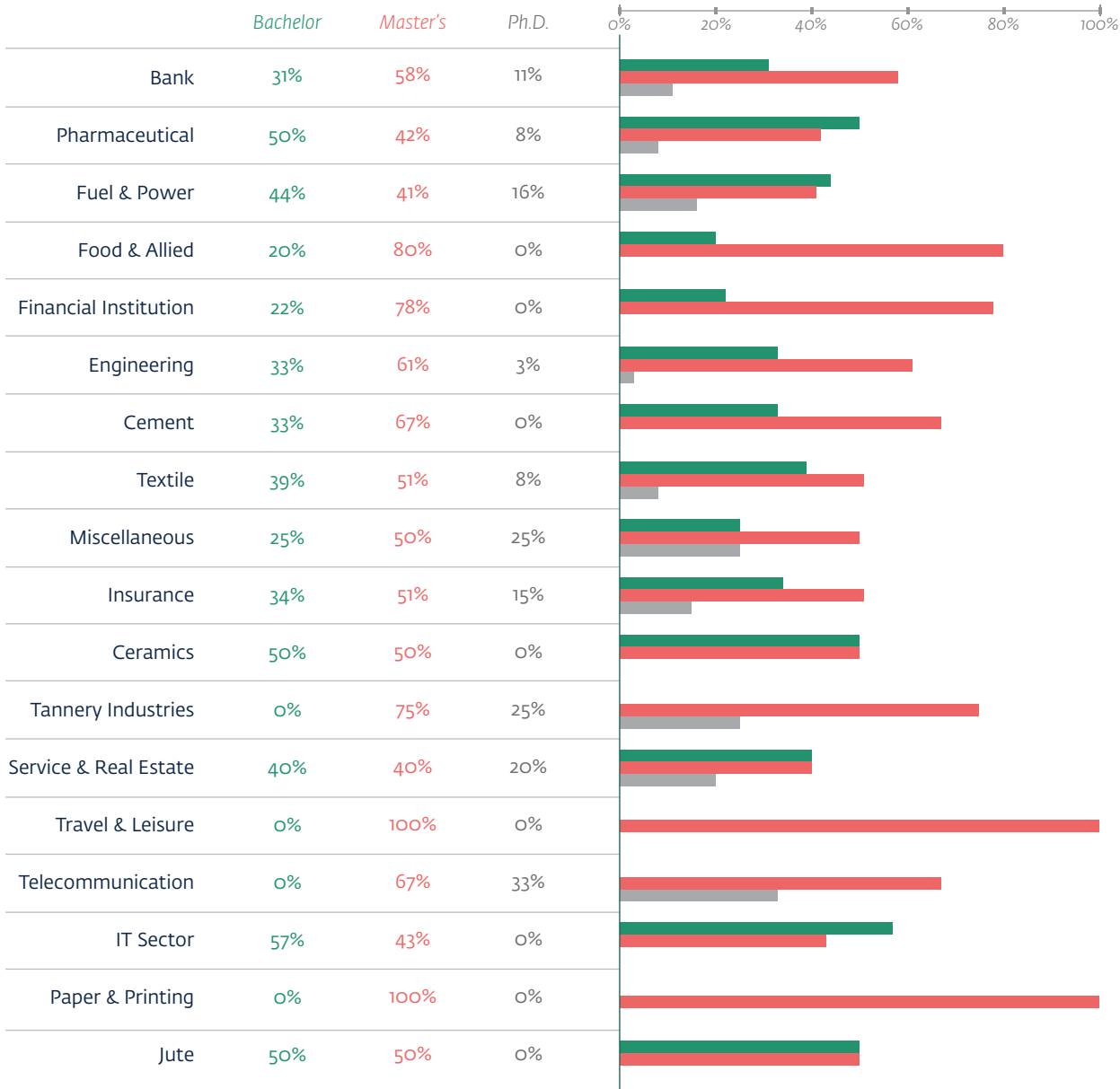
Total number of independent directors = 266

³⁰ Egon Zehnder, *Global Board Diversity Tracker 2018*, accessed on January 6, 2020 at <https://www.egonzehnder.com/global-board-diversity-tracker/customize-the-data>.

“be able to ensure compliance with financial, regulatory and corporate laws and can make meaningful contribution to business.”³¹ The majority (58 percent) have a master’s degree, 33 percent have a bachelor’s degree, and 9

percent have a Ph.D.³² Overall, Bangladeshi independent directors have impressive academic qualifications, particularly given that the country’s gross enrollment ratio for tertiary education is around 20 percent.³³

Figure 20: Education Level of Independent Directors by Industry



Total number of independent directors = 419

³¹ Section 1.3 (i) of Corporate Governance Code 2012.

³² Education information was available for 419 independent directors.

³³ UNESCO, Bangladesh Sustainable Development Goals, accessed on January 6, 2020 <http://uis.unesco.org/en/country/bd>.

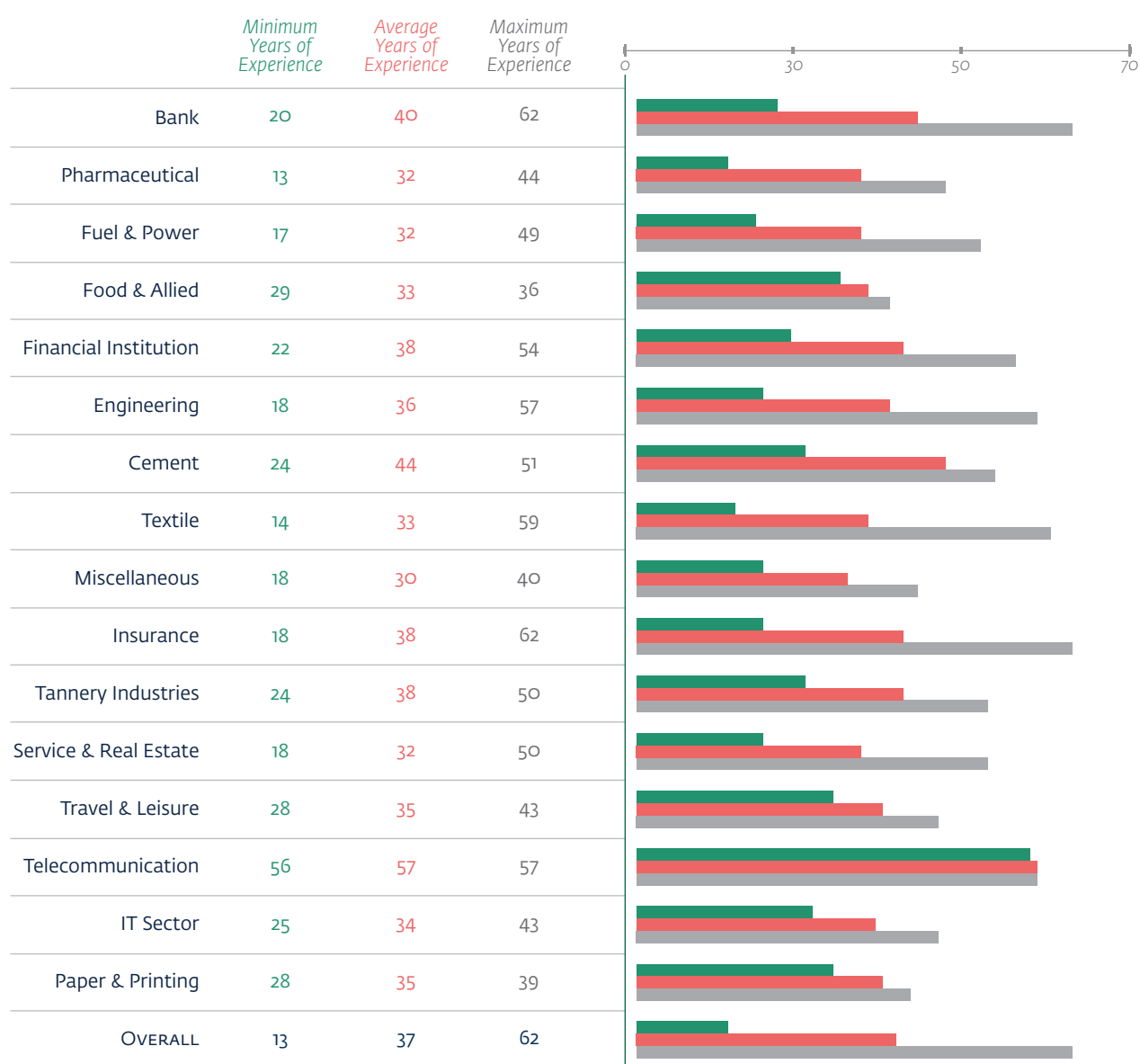
In addition, the Code specifies that an independent director “should be a Business Leader/Corporate Leader/Bureaucrat/ University Teacher with Economics or Business Studies or Law background/Professionals like Chartered Accountants, Cost & Management Accountants, Chartered Secretaries.”³⁴ Only 15 percent of all 610 independent directors have professional accounting qualifications such as chartered accountants or cost & management

accountants, 2 percent are lawyers, and 1 percent are chartered secretaries.

3.4 Experience

The Code requires independent directors to have at least 12 years of corporate/management

Figure 21:
Length of Experience of Independent Directors by Industry



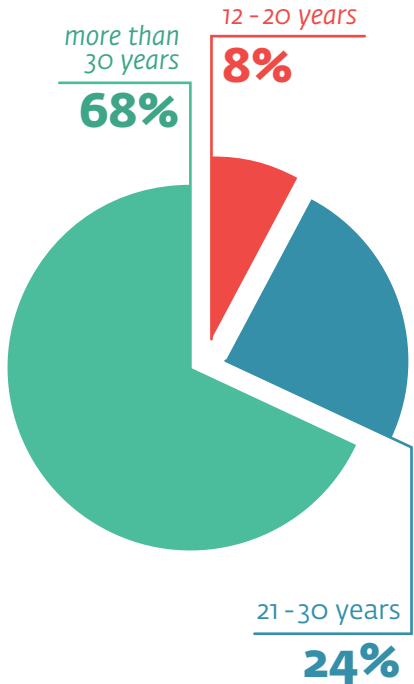
Total number of independent directors = 271

³⁴ Section 1.3 (ii) of Corporate Governance Code 2012.

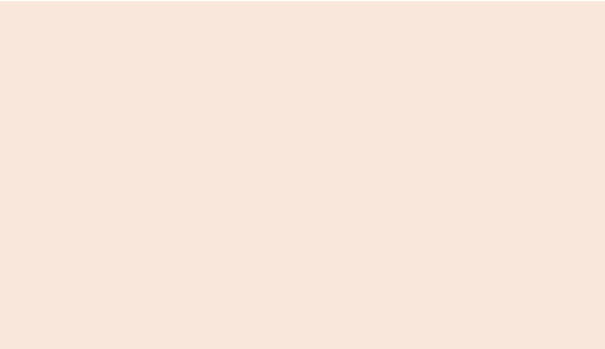
experience.³⁵ Bangladeshi independent directors have significant experience across the board. The average experience of independent directors is 37 years and the range varies between 13 and 62 years. Directors with the longest experience are employed in insurance and banking (62 years) followed by the textile sector (59 years).³⁶

The majority of independent directors (68 percent) have more than 30 years of experience. Twenty-four percent have between 21 to 30 years of experience. Only 8 percent of directors have experience of 20 years or less. No director has less than 12 years of experience.

Figure 22:
Length of Experience of Independent Directors

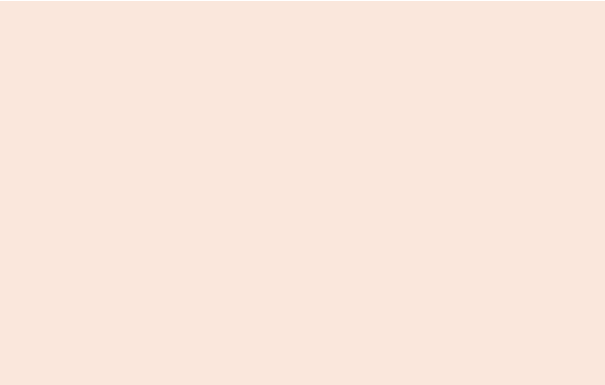


Total number of independent directors = 271



“All of our directors are highly qualified in their respective fields. But I believe that expertise does not come from qualification alone. Rather, it is built on a combination of experience and qualification.”

According to an independent director interviewed for this report.

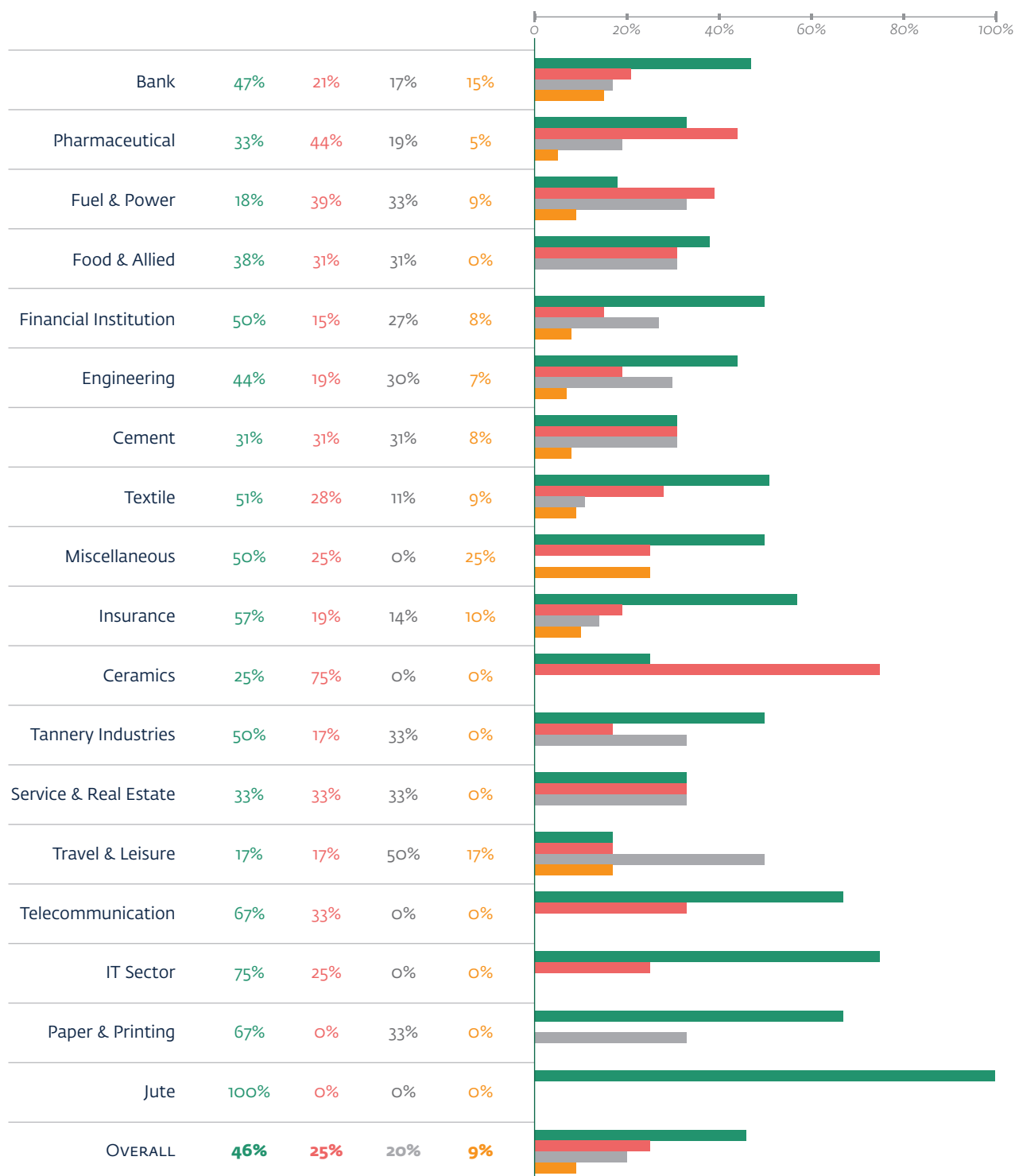


Bangladeshi listed companies show a preference for independent directors with experience in accounting, banking, and insurance. Across sectors, 46 percent of independent directors have professional experience in one of those fields, followed by other industry experience (25 percent), public sector experience (20 percent), and academic experience (9 percent).

³⁵ Section 1.3 (ii) of Corporate Governance Code 2012.

³⁶ No information on length of experience is available for the ceramics and jute sectors.

Figure 23:
Professional Experience of Independent Directors by Industry



■ Independent Directors with Experience in Accounting, Banking, and Insurance

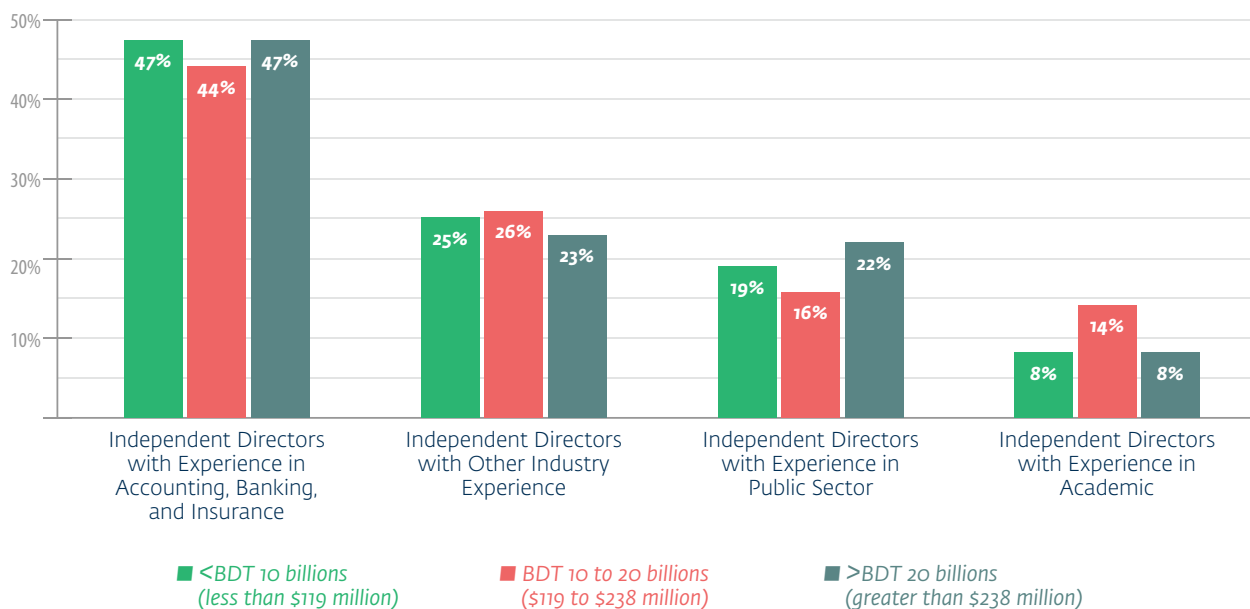
■ Independent Directors with Other Industry Experience

■ Independent Directors with Experience in Public Sector

■ Independent Directors with Experience in Academic

Total number of independent directors = 484

Figure 24:
Professional Experience of Independent Directors by Company Size



Total number of independent directors = 484

This trend remains consistent when companies are analyzed by size. Independent directors serving on small, medium, and large companies mostly have experience in accounting, banking, and insurance.

3.5 Tenure

Limiting director tenure allows for progressive renewal of the board. According to best practices, a tenure of more than nine years

can potentially compromise a director's independence.³⁷ The Code sets an even higher standard by limiting the tenure of independent directors to a period of three years, which can be extended for one term only.³⁸ Sixty-two percent of independent directors have a tenure of less than three years and 1 percent have a tenure of more than six years, which exceeds the maximum period allowed by the Code.³⁹ The average tenure across sectors (except for jute) is 2.4 years while directors with the longest tenures are found in the fuel & power and tannery industries at 7.5 years and 7 years, respectively.

³⁷ Institutional Shareholder Services, "ISS Governance QuickScore 3.0," 10.

See *Singapore Code of Corporate Governance 2018* on definition of independent director.

³⁸ Section 1.2 (vi) of Corporate Governance Code 2012.

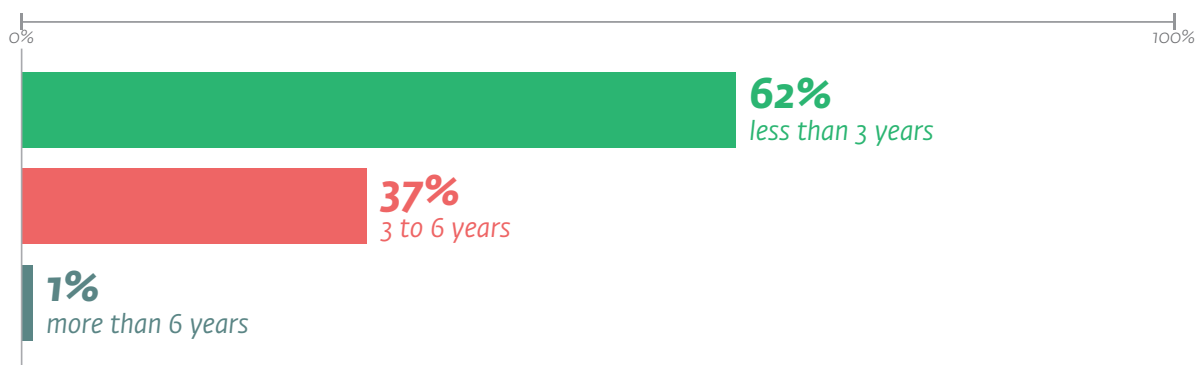
³⁹ Tenure information was available for 217 independent directors.

Figure 25:
Tenure of Independent Directors by industry



Total number of independent directors = 217

Figure 26:
Tenure of Independent Directors



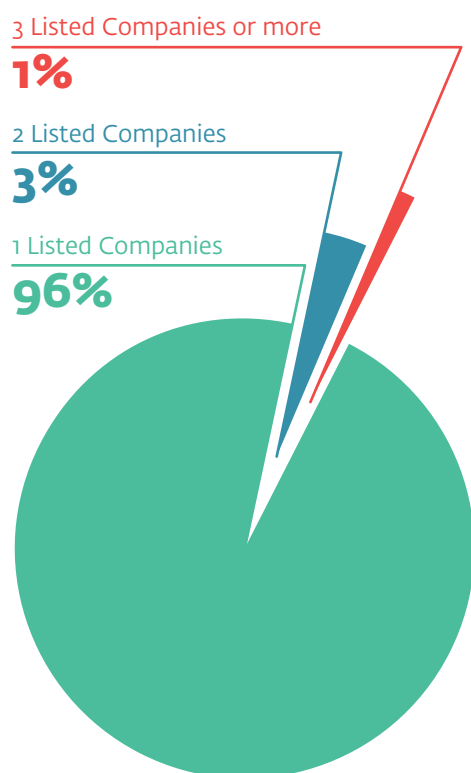
Total number of independent directors = 217

3.6

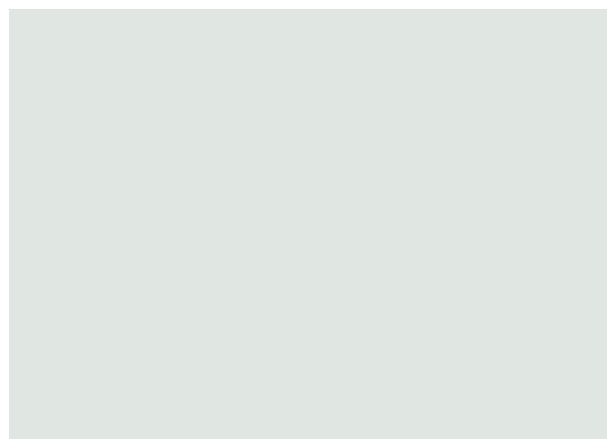
Directorship

Generally, independent directors holding an excessive number of directorships may not have sufficient time and attention to devote to the needs of individual boards. According to the Code, an independent director cannot serve in more than three listed companies.⁴⁰ Almost all independent directors are serving in only one listed company. Only 3 percent have concurrent directorships in two listed companies, and 1 percent are serving in three or more listed companies.

Figure 27:
Concurrent Position of Independent Directors



Total number of independent directors = 581



3.7

Remuneration

The Code does not provide any guidelines on the remuneration of independent directors, thus leaving the matter to the discretion of each company. However, the Code requires that director remuneration, including that of independent directors, must be reported in the Directors' Report to Shareholders.⁴¹ Unfortunately, information on director remuneration can only be found for 245 of 610 independent directors.

Figure 28 shows that the average annual remuneration of independent directors varies widely by sector. The figure ranges between BDT 20,000 (\$238) in travel & leisure to BDT 670,000 (\$7,976) in food & allied sector. Across sectors, the average remuneration is BDT 147,778 (\$1,759) annually.⁴² As a comparison, the average remuneration of independent directors in India was INR 682,000 (\$10,656) in FY2017.⁴³ Remuneration for independent directors in banks (the sector with the largest market capitalization) is only slightly above the average. Sectors with the highest average remuneration include the food & allied and tannery industries.

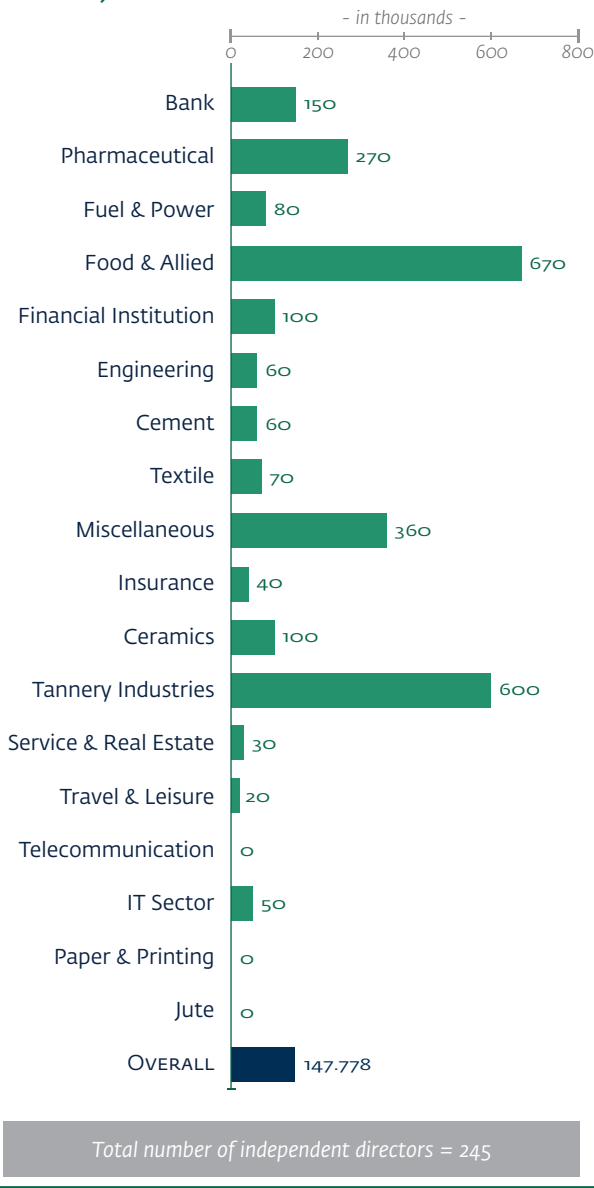
⁴⁰ Section 1.2 (g) of Corporate Governance Code 2012.

⁴¹ Section 1.5 (x) of Corporate Governance Code 2012.

⁴² In FY 2019, the per capita income in Bangladesh was \$1,316:
<https://www.thedailystar.net/frontpage/capita-income-rises-1466-1204930>.

⁴³ Rica Bhattacharyya, "Independent Directors' Pay Hikes Slim Down Amid a Muted Show," *The Economic Times*, Oct. 20, 2017.

Figure 28:
Average Annual Remuneration of Independent Directors by Industry (in BDT)



When calculated based on company size, the overall average remuneration remains approximately the same (BDT 140,000). The average remuneration paid by the largest companies (those with total assets greater than \$238 million) is slightly lower than that paid by smaller sized companies.

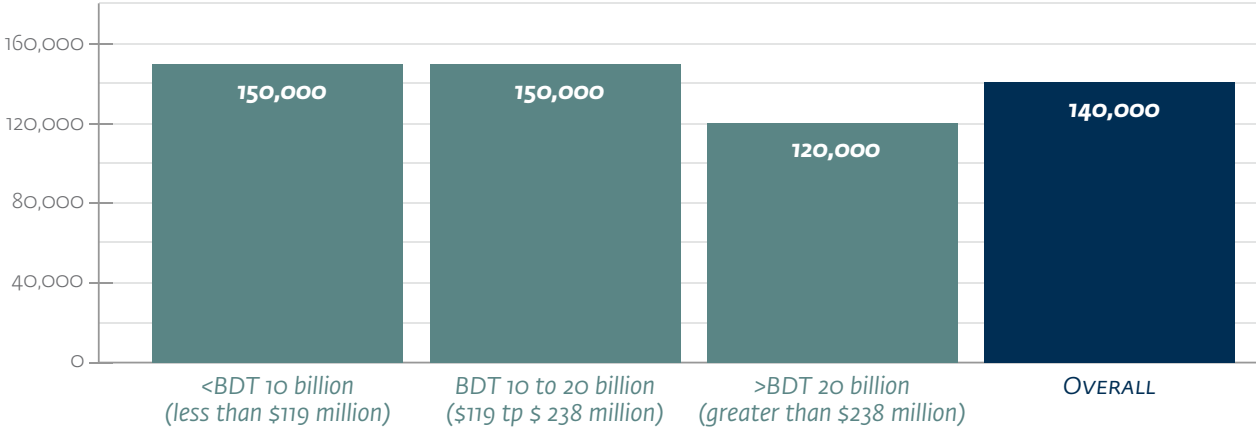
Given that most Bangladeshi independent directors have impressive academic and

professional experience, coupled with the importance of their role, it is surprising that the average director remuneration does not seem to be commensurate with their qualifications and responsibilities. Independent directors play a vital role in providing oversight and expert guidance on specific matters. It is essential that their remuneration be competitive enough to attract, reward, and retain highly qualified and committed candidates, yet stay within reasonable limits to prevent jeopardizing their independence. Ultimately, there are many factors that affect director remuneration, including company size, type of industry, specific functions performed by individual directors, and the characteristics of the individual director.

To maintain transparency and ensure compliance with the Code, companies should disclose their remuneration policies and the remuneration paid to all directors. Remuneration matters to shareholders because it provides assurance that the remuneration structure of the board and key management are aligned with the company's long-term objectives. Going forward, the Corporate Governance Code 2018 requires all listed companies to have a nomination and remuneration committee to assist the board to formulate nomination and remuneration policy, identify nominees for board membership, develop board evaluation, and review the company's human resources policy, among others.⁴⁴

⁴⁴ Section 6 (2) of Corporate Governance Code 2018.

Figure 29:
Average Annual Remuneration of Independent Directors by Company Size (in BDT)



We asked a number of Bangladeshi independent directors to assess the effectiveness of their board in discharging its supervision and monitoring duties as well as in providing strategic direction (1 being the lowest and 5 being the highest). The independent directors believe that their board does a slightly better job in providing strategic direction compared to monitoring management. These results confirm the importance of independent directors in assisting the board to better exercise its supervisory duties over management and ensure that management acts in the best interest of the company.

Supervision and monitoring	3.48
Strategic direction	3.52

We also asked these directors to measure their firm’s performance across three components: financial, environmental, and social indicators.

Financial Performance	3.67
Environmental Performance	3.04
Social Performance	3.00

According to these directors, Bangladeshi companies perform much better on financial performance than environmental and social performance. There have been a number of studies looking at the relationship between companies’ environmental, social, and corporate governance (ESG) practices and their financial performance. The majority of these studies find a link between the two: companies that do good by the environment, their labor force, and communities, do well financially. These companies also perform better on critical metrics: stronger control environments, reduced risk of fraud/ethical lapses, positive workplace culture, greater stakeholder engagement, and improved reputation and brand. Altogether, these factors are critical to ensuring companies’ competitiveness, performance, and sustainability. The gap between financial performance and environmental/social performance indicates untapped opportunities for Bangladeshi companies. Financial performance is necessary but is insufficient on its own to achieve sustainability and long-term growth. Companies, and by extension their boards, need to pay attention to all three factors.

