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Compliance with Corporate Governance Guidelines: A Comparative Study of High-performing Private Commercial Banks and State-owned Commercial Banks in Bangladesh

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Abstract: *In recent years, state-owned commercial banks (SCBs) in Bangladesh have shown relatively low financial performance than most of the private commercial banks (PCBs) in the country. While several issues may have contributed to such low performance by SCBs, this study aims to explore whether and how (if any) compliance with Corporate Governance issued from Bangladesh Securities and Exchange Commission (BSEC) varies between SCBs and high-performing private commercial banks (HPCBs), and whether this variation of compliance causes performance differences. Annual reports of five SCBs and five HPCBs in 2015 have been used and experts have been consulted for data collection. Partial compliance (PC) method has been adopted to find out the compliance with corporate governance guidelines by SCBs and HPCBs. From the BSEC notification, we set up 94 variables out of which 7 main variables are extracted using STATA. Then a cross tabulation and a descriptive statistics are conducted by using SPSS and STATA to explore the selected banks' compliance. The study shows that the compliance rate of corporate governance by SCBs is 35% to 97% while HPCBs' compliance rate is 90% to 98%. Under PC approach, the Overall Compliance Index of SCBs is 80% while HPCBs has an index of 95%. The study shows that SCBs' rate of corporate governance compliance is weaker than HPCBs in most criteria set by BSEC and not satisfactory which might have caused low financial performance by SCBs. The findings of the study has practical and policy related implications to improve the performance of SCBs in Bangladesh.*

Keywords: *Corporate Governance, Compliance, Commercial Bank, Financial Performance, Bangladesh*

1. INTRODUCTION

To establish and aid a healthy environment in the banking sector, corporate governance has become a widely discussed and debated issue, and gained considerable prominence among the banking sector professionals over the last decade. It is simply the rule of the game for a bank to foster its cohesive relations with its shareholders, its lenders and other stakeholders in the business community and the society at large. Lenders and investors need to be assured that the basic principles of corporate governance are in place and will be followed, that a company's dealings with stakeholders are fair and transparent, that the board of directors is held accountable and that the company deals with their stakeholders responsibly.

Corporate governance is usually considered as a set of codes and guidelines to be followed by companies' (Fernando, 2006). John and Senbet (1998) refer Corporate Governance as a way of strategy and composition which again act as a check on managerial self-centered behavior. Moreover, 'Corporate Governance creates a structure to control the internal management that reduces agency problem' too (Hossain et al., 2009). In its broad definition, corporate governance refers to a set of rules or institutions or practices that curtails the agency cost and the variation between social and private returns on corporate actions (Monk and Minow, 1996; Ararat and Ugar, 2003). But the most cited definition is given by finance committee on corporate governance in Malaysia. The report on corporate governance (2002) states: "Corporate governance is the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long term shareholder value, whilst taking account the interests of other stakeholders".

The importance of corporate governance lies in its potential to contribute for higher business performance and prosperity, systematic management and to offer stability in the banking system.

Given its increased importance, many countries have developed their locally defined codes of conduct for effective corporate governance. In Bangladesh, BSEC took the initiative to develop a corporate governance code of conduct in 2006 and amended it in 2012 to provide a comprehensive guidance on corporate governance to the Board of Directors and management of the financial institutions. Due to its relatively recent introduction, monitoring of corporate governance in Bangladesh poses a challenge with regards to the assessment of corporate governance compliance and its impact on banking sector's performance (Haque, 2014; Mia and Haque, 2014). Companies that are enlisted in corporate governance index have statistically been seen to have higher return on assets, net profit margin, and return on equity than the ones that are not listed in index (Cengiz, 2016). She further claims that the companies which have higher corporate governance rate, have a statistically significant higher market book value, and return on equity compared to the ones with lower corporate governance rate. As such, corporate governance is critical for a company's integrity, efficiency, long term growth and profitability

The banking system of Bangladesh consists of SCBs, private commercial banks, foreign commercial banks, and specialized banks. Since the independence of the country, SCBs play an important role in the economic development of Bangladesh. In recent years, performance of these SCBs is deteriorating and is relatively weak compared to private commercial banks. The return on asset of SCBs is less than industry average. The Return on Asset (ROA) of SCBs has gradually dropped down to negative (-0.6%) in 2012 due to a huge net loss. Though it is increased in 2013 and became positive but eventually turned into again negative (-0.6%) and negative (-0.4%) at the end of 2014 and 2015 respectively. Return on Equity (ROE) of SCBs sharply declined from 10.9 % to -13.5% in 2014 due to huge loss incurred by BASIC bank and further slipped down to - 1.5% in 2015. In 2012, also the Net Interest Income (NII) of SCBs decreased but the situation became alarming in the subsequent year (2013) due to higher interest expenses which grew faster than interest earnings. It was accelerated by a sharp fall of interest income of BDT 10.5 billion of a SCB, Sonali Bank Limited and deteriorated afterwards. The expenditure income (EI) ratio of the SCBs was 84.5 percent and these banks continued to have high level of Nonperforming loan (NPLs).

In some instances, this declining performance has been attributed to high administrative and operating expenses, poor appraisal, inadequate follow-up and supervision of the loans disbursed, non-maintenance of the minimum required Capital Adequacy Ratio (CAR) and so ones (BB annual report, 2015-2016). On the other hand, in general, PCBs especially high-performer banks have excelled and achieved better financial performance in this period while few performed high. In general, their high performance is reflected through various assessment indicators of the financial performance (e.g., profitability ratio, market ratio, and value added metrics etc.) reported by the individual banks (see BB annual report, 2015-2016). In this backdrop, it is imperative to explore how compliant the HPCBs were with the BSEC notified corporate governance and to compare their compliance rate with that of SCBs to assess the effect of compliance (or noncompliance) with corporate governance to banks' performance in the country. This study addresses this issue by selecting five SCBs and five HPCBs of Bangladesh and provides insights for managers and policy makers.

2. Initial Conceptualization and Building Hypothesis

The prime motive of corporate governance is to attain the organizational objectives by understanding the association among different variables which are decided by consensus considering policies and programs (Choudhury and Hoque, 2006). The growth of banking sector has been found to have negative implications due to volatility and corruption (Serwa 2010; Lin and Huang, 2012; Moshirian and Wu, 2012; Park, 2012). Large scale corporate governance reporting might be a political reaction and a signal for more transparency in light of the financial crisis (Marsh and Pfleiderer, 2010). Interaction among management boards, supervisory boards and monitoring by supervisory boards must be improved. For the execution of the 'pay for performance' principle and reporting for corporate governance improvement is necessary (Markus et al., 2012). Consequently, every country adopts a unique set of corporate governance procedures that are based on factors such as the country's legal and financial system, corporate ownership structures, culture and economic circumstances (Lemo, 2004; Davies and Schlitzer, 2008). If any organization wants to get an attractive investment, corporate governance practices play significant role in this regard (Ekwueme and Paul 2016). It may be argued that compliance with corporate governance guidelines enable banks to boost customer confidence, as Mamun and Khan (2014) shows that confidence on bank management is one of the key factors of customers' satisfaction.

Extant literature has discussed corporate governance from different dimensions to highlight its importance to comply with. In a study, Kim et al. (2012) reviewed corporate governance when it comes to ownership structure of domestic owned banks and stated ownership structure has vital role as it is a key determinant of corporate governance. Johnson et al. (2000) found that the flaw of official institutions for corporate governance had an important impact for the devaluation and stock market decline in the Asian crisis and corporate governance can be crucial moderator to determine macroeconomic problems in crisis situation. Again, a study shows that good corporate governance promotes correlations of accountability among the core corporate members and this may improve corporate performance as it makes management responsible to the board and the board accountable to the shareholders (Rezaee et al., 2003). Filatotchev et al. (2003) affirmed that excessive management control and ignorance of the governance process could be reduced by increasing the influence of outside directors. Best practice code was published in the Cadbury report which included recommendations for companies to establish audit committees comprising independent non-executive directors (Power, 2002). Wang et al. (2008) and Agoraki et al. (2010) found that board independence did not have any significant effect on bank profitability.

Gospel and Pendleton (2005) recommended that corporate governance essentially deals with the association among capital, management and labor, and it is concerned with who manages the firm, whose interest is governed and the various ways how control is exercised. The viability of dispersed ownership can be connected through informal relations of trusts and importance of reputations. However ownership structure across different countries can be explained by different corporate governance practices (Franks et al., 2009). Berlin et al. (1991) and Wen and Shao (2012) investigated the illustrative power of corporate governance mechanisms on the wealth effect of firms' new product strategies. They found that board size, board independence, audit committee independence, CEO equity-based pay, analyst following and shareholder rights are all of significance in describing the variations in the wealth effect of new product introductions. The results disclosed that the firms having better corporate governance practice will receive higher stock market valuation when announced new product strategies than those of firms with poorer governance mechanisms.

Lawrence and Marcus (2009) identified that the governance provisions recently mandated by the U.S. stock exchanges are less closely linked to firm operating performance than are those not so mandated. Again, Kin and Baruch (2008) showed that managerial pay dispersion - effective corporate governance, especially high board independence, strengthens the positive association between firm performance and pay dispersion. In a study of the relation between corporate governance attributes and perceived information asymmetry it is found that board independence, size of the audit committee, officer and director ownership alleviate the negative effect share prices that offer equity (John and Afshad, 2008). They also found that firm-level governance scores are positively related to the firm's auditor choice. Good corporate governance embodies both enterprise performance and accountability (The Ministry of Finance, Singapore, 2012).

Chaudhury et al. (2011) examined the disclosure of different factors of corporate governance for certain specific company composing twelve financial institutions, six commercial banks and six developments banks. Rehman and Din (2013) investigated the issues which cause poor corporate governance including inadequate transparency, inefficient boards, insider malpractices, lack of disclose fusion of the post of the chairman and that of the managing director and non- separation of ownership from management. Hasan and Hossain (2012) showed the overall disclosure level is 67% which is not a good score because this score does not provide a good signal to the stakeholder. Hasan et al. (2013) assessed the corporate governance and financial disclosure on the analysis of annual report of twenty Bangladeshi companies with four different industries, each containing five companies. A recent study by Rahman et al. (2014) gives a positive view to all stakeholders who are associated with the banks and their study was an extension of previous study which mainly deals with the Corporate Governance disclosure in banking sector.

The compliance of corporate governance by Islamic Shariah Based banks in Bangladesh (ISBBs) is satisfactory with a range between 83% and 98% (Haque, 2014). In case of Independent directors and audit committee requirement, compliance rate is low having 78% to 98% and 78% to 81% respectively. Haque and Mia (2014) found Corporate governance notification compliance (CGNC) of Conventional Bank having Islamic windows (CBHIWs) were more satisfactory than that of ISBBs. This research unveiled that the compliance regarding independent directors, board of directors, CEO, CFO, Audit committee, external/statutory audit, duties of CEO & CFO is more satisfactory in ISBBs compared to CBHIWs.

Sate owned commercial banks (SCB) and Development financial Institutions (DIF) have been found more vulnerable compared to private commercial banks in respect of three categories of CAMEL. NPL to total loan and EIR are too high and provision maintenance ratio, ROA, ROE, liquidity ratio is too low in DFIs and SBC and this scenario also reflects negatively in the performance of banking industry in Bangladesh (Islam et al., 2014). Chowdhury and Islam (2007) stated that deposit and loan advances of nationalized commercial banks (NCBs) are less sensitive to interest changes than those of Specialized Banks (SBs).

Mosharaf (2015) argued the inferior performance of sate owned commercial banks can best be explained by corporate governance theory on state ownership of firms and contestable markets perspectives of banking policy. A collective performance of the indicators for state commercial banks and private commercial banks showed that the performance of the state commercial banks has been weaker than private commercial banks. Serious mismanagement and malpractices have occurred in the banking sector especially in SCBs as well as in the capital market though there is supervision and monitoring by the regulatory bodies such as Bangladesh Bank and BSEC (Ahmed, 2015). We therefore presume that:

H1: The overall compliance index of SCBs is less than HPCBs in Bangladesh

The collapse of the state owned companies raised alarms regarding the lack of vigilant supervision by their boards of directors and audit committees in the financial reporting process and auditing functions (Rezaee et al., 2003). We therefore presume that:

H2: Incase of board of directors SCBs are showing less compliance than HPCBs

Leung and Horwitz (2009) showed that the private firms with a more concentrated management (executive board) ownership displayed better capital market performance during the 13-month period of the Crisis in Hong Kong. They also revealed that private firms with more equity ownership by non-executive directors where the positions of CEO and board chairperson were occupied by the same individual experienced a smaller stock price decline. As such we assert:

H3: HPCBs are more compliant than SCBs in respect of Chief financial officer and company secretary

And **H4:** SCBs are more compliant than the HPCBs in respect of Duties of Chief executive officer and chief financial officer (DCEFO)

In the USA, earnings restatements of publicly traded companies and financial statement fraud had happened due to absence of responsible corporate governance of high profile companies. In addition to this Enron, Global Crossing, World com in the USA, Parmalat in Italy and MacMed, Master bond and Leisurenet in South Africa have increased the ever increasing attention on corporate governance in general and audit committees in particular (Sa'eed, 2013). We therefore assume that:

H5: Incase of audit committee SCBs are more compliant than HPCBs.

Mahmud et al. (2010) investigated the effect of firm-level governance on the firm’s choice of an external auditor. They checked the relationship between corporate governance and auditor choice and how they may affect the strength of legal environment. We therefore presume that:

H6: HPCBs are more compliant than the SCBs in respect of External/ Statutory Auditors (ESA)

Kimberly et al. (2011) found that the cumulative abnormal returns for acquirers are significantly negative upon announcement of acquisitions for the full sample and for the related and diversifying sub-samples. They also found that the role of corporate governance is positive in determining wealth creation for their sample of acquiring firms. We therefore propose that:

H7: Incase of Subsidiary Company SCBs are showing more consistent compliance than HPPBCs

Listed companies in Dhaka Stock Exchange are reporting corporate governance in the annual reports and the level of disclosure also provides an optimistic picture of corporate governance practice, still there is a room for development of corporate governance practice in terms of its quality and transparency (Haque, 2016). We therefore presume that:

H8: HPCBs are more compliant than SCBs in respect of Reporting and Compliance of Corporate Governance (RCC)

3. METHODOLOGY OF THE STUDY

This study has been conducted based on triangulation of quantitative and qualitative approach. This section discusses data collection, compliance variables, measurement approaches etc.

3.1. Data Collection

The research is based on secondary data. Annual reports of selected SCBs' and HPCBs in 2015, BSEC notification and data from DSE library were collected and used for analysis. Besides, personal query from the concerned personnel are made for effectiveness of the study. Among six SCBs in Bangladesh five have been selected and PCBs were selected based on their financial performance in 2015. Rahman (2016) argues that a company's financial performance is normally judged by a series of ratios, but the most representative and widely used one is Return on Assets (ROA) which is supplemented by Return on Equity (ROE) and Net Interest Margin (NIM). In this study, we have used the profitability ratio, the market ratio, and value added metrics and net profit of PCBs in 2016 to select the five high-performing banks.

3.2. Selection of Compliance Items

Table 1 below shows 7 main variables (particulars) extracted through STATA from 94 variables (generated using SPSS) which are stated in BSEC corporate governance guideline (summary in Appendix: Table 8). The bold alphabets of each word (in Table 1) have been taken to represent as short compliance key form. The 94 variables ensure whether a company maintains BSEC issued corporate governance guidelines or not. Both qualitative and quantitative information are present in those 94 variables. For the quantitative information, annual reports were sufficient to conduct this study. But it was not enough for the qualitative information. In that case, banks disclosure points were considered from the annual reports and consulted with the experts. All 94 items were considered equally important. When a company discloses an item in annual report, point "1" is awarded, otherwise a "0". Considering the cohesiveness among 94 variables, the seven main variables generated using another statistical tool STATA are- board of directors (BOD), Chief Financial Officer & Head of Internal Audit and Company Secretary (CHC), Audit Committee (AC), External/ Statutory Auditors not to engage in (ESA), Subsidiary Company (SC), Duties of Chief Executive officer and Chief Financial Officer (DCEFO) and Reporting & Compliance of Corporate Governance (RCC). To ensure the rigor and more accuracy, these variables are first analyzed by STATA and then SPSS to find out the different aspect of compliance. To find out the result of compliance with the guidelines, a Partial Compliance (PC) Approach measurement is done using Microsoft Excel.

Table1. *The summary of checklists that each bank complies (based on BSEC guidelines)*

Particulars	Compliance Key	Total number of Item	Percentage of total no.
Board of **D**irectors	**BD**	45	47.8%
Chief Financial Officer(CFO), **H**ead of Internal Audit and **C**ompany Secretary	**CHC**	2	2.12%
Audit **C**ommittee	**AC**	27	28.7%
External/ **S**tatutory **A**uditors	**ESA**	9	9.57%
Subsidiary **C**ompany	**SC**	5	5.31%
Duties of **C**hief **E**xecutive officer(CEO) and Chief **F**inancial **O**fficer(CFO)	**DCEFO**	4	4.25%
Reporting and **C**ompliance of **C**orporate Governance	**RCC**	2	2.12%
Total Items		94	100%

3.3. Measurement Approaches

While two approaches (i.e., Dichotomous and Partial Compliance) to measure the compliance with corporate governance guidelines are widely used, this study adopts Partial Compliance (PC) approach. Hasan and Hossain (2012) stated that PC approach shows more accurate result than Dichotomous Approach. Moreover, in their recent studies, Haque (2014) and Haque and Mia (2014) found that result of PC approach was more accurate and pragmatic than Dichotomous approach. Hence, for a better accuracy, in this study we use PC approach (for details see Al –Shiab, 2003) to measure corporate governance compliance of the selected banks.

4. RESULTS AND DISCUSSION

Table 2 below shows that highest OCI of SCBs is 97% in the BDBL and lowest OCI is 35% in BBL. JBL, ABL and SBL are having better position with 95%, 89% and 84% respectively. The Overall Compliance Index of SCBs is 80%. These banks are found less compliant with SC and AC items and the level is below 80%; while their highest compliance is observed with CHC (90%). Furthermore, DCEFO, BD, and ESA show more than 80% compliance that is 80%, 81% and 82% respectively. On the other hand Table 3 shows that highest OCI of HPCBs is 98% in IBBL and lowest OCI is 90% in BDBL. PBL, BBL and CBL are in medium position and their compliance rate are 96%, 96%, and 94% respectively. The Overall Compliance Index of HPCBs is 95%. More compliance from CHC and RCC items and the level is 100% and medium compliance in DCEFO and BD those are 95% and 92% respectively whereas lowest number of notifications was complied in AC and that is 86%. Furthermore, the second compliance items are SC and ESA and which is 96%. It is also found that the Overall Compliance Index of SCBs is 80% and HPPBCs is 95% whereas different studies on compliance of corporate governance notification of Islamic Shariah based banks (ISBBs) in Bangladesh and conventional banks having Islamic windows (CBHIWs) in Bangladesh found overall compliance rate are 94% and 95% (Haque, 2014; Haque and Mia, 2014). Besides, all SCBs are not compliant with all guidelines of BSEC whereas compliance from CHC, ESA, DCEFO is 100% by ISBBs (Haque, 2014) and compliance from CHC and RCC items is 100% by CBHIWs (Haque and Mia, 2014).It is clear that SCBs corporate governance compliance is worse than not only from HPCBs but also from ISBBS and CBHIWs in Bangladesh. So our first hypothesis cannot be rejected that overall compliance of SCBs is less than HPCBs in Bangladesh.

Table2. *Overall Compliance analysis of SCBs through PC approach*

Serial no	Company key	Compliance analysis through Partial Compliance (PC) Approach															
	Appendix Table:2	BD(45)	PC(BD)	CHC(2)	PC(CHC)	AC(27)	PC(AC)	ESA(9)	PC(ESA)	SC(5)	PC(SC)	DCEFO(4)	PC(DCEFO)	RCC(2)	PC(RCC)	Total Compliance(94)	OCI
1	SBL	36	0.80	2	1	20	0.74	9	1	3	0.6	3	0.75	2	1	5.89	0.84
2	JBL	42	0.93	2	1	25	0.93	7	0.77	5	1	4	1	2	1	6.64	0.95
3	BDBL	41	0.91	2	1	23	0.85	9	1	5	1	4	1	2	1	6.76	0.97
4	ABL	39	0.87	2	1	21	0.78	9	1	3	0.6	4	1	2	1	6.24	0.89
5	BBL	24	0.53	1	0.5	12	0.44	3	0.33	2	0.4	1	0.25	0	0	2.46	0.35
OCI		36.40	0.81	1.80	0.90	20.20	0.75	7.40	0.82	3.60	0.72	3.20	0.80	1.60	0.80	5.60	0.80

Table3. *Compliance analysis of HPCBs through PC Approach*

Serial no	Company key	Compliance analysis through partial compliance (PC) Approach															
	Appendix 2	BD(45)	PC(BD)	CHC(2)	PC(CHC)	AC(27)	PC(AC)	ESA(9)	PC(ESA)	SC(5)	PC(SC)	DCEFO(4)	PC(DCEFO)	RCC(2)	PC(RCC)	Total Compliance(94)	OCI
1	DBBL	40	0.89	2	1	24	0.89	9	1	4	0.8	3	0.75	2	1	6.33	0.90
2	PBL	43	0.96	2	1	23	0.85	8	0.89	5	1	4	1	2	1	6.70	0.96
3	BBL	40	0.89	2	1	23	0.85	9	1	5	1	4	1	2	1	6.74	0.96
4	CBL	41	0.91	2	1	21	0.78	8	0.89	5	1	4	1	2	1	6.58	0.94
5	IBBL	43	0.96	2	1	25	0.93	9	1	5	1	4	1	2	1	6.88	0.98
OCI		41.40	0.92	2.00	1.00	23.20	0.86	8.60	0.96	4.80	0.96	3.80	0.95	2.00	1.00	6.64	0.95

Table 4 below shows that SCBs and HPCBs in Bangladesh do not fully comply with all notifications issued by BSEC regarding the board of directors that includes forty five items. It shows that for board of director variables mean is 35.4 and standard deviation is 7.057 in SCBs whereas mean is 41.2 and standard deviation is 1.30 in HPCBs that means compliance rate regarding board of director notifications are less and more varied among SCBs than HPCBs in Bangladesh. So our second hypothesis is supported that incase of board of directors SCBs are showing less compliance than HPCBs.

Table4. *Compliance of Notification regarding Board of Director*

tabstat BD, stat(mean sd min max) SCBs					tabstat BD, stat(mean sd min max) HPCBs				
Variable	mean	sd	min	Max	Variable	mean	sd	min	max
BD	35.4	7.056912	24	42	CHC	41.2	1.30384	40	43

We found from the cross tabulation result in Table 5 that all SCBs in Bangladesh do not fully comply with all notifications issued by BSEC regarding the chief financial officer, head of internal audit and company secretary requirement while HPCBs are fully compliant with this requirement for the improvement of corporate governance. So, our third hypothesis that HPCBs are complying more than the SCBs in respect of Chief financial officer and company secretary (CHC) cannot be rejected.

Table5. *Compliance of Notification regarding CHC*

tabstat CHC, stat(mean sd min max) SCBs					tabstat CHC, stat(mean sd min max) HPCBs				
Variable	Mean	Sd	min	max	Variable	mean	sd	min	max
CHC	1.8	.4472136	1	2	CHC	2	0	2	2

The following table shows that all SCBs and HPCBs in Bangladesh do not fully comply with all notifications issued by BSEC regarding the audit committee that includes twenty seven items. It shows that audit committee variable mean is 19.4 and standard deviation is 5.13 in SCBs whereas mean is 23 and standard deviation is 1.41 in HPCBs that means compliance rate regarding audit committee notifications are less and more varied among SCBs than HPCBs in Bangladesh. So our fifth hypothesis is rejected because audit committee of SCBs is showing less compliance than HPCBs.

Table6. *Compliance of Notification regarding Audit Committee*

tabstat AC, stat(mean sd min max) SCBs					tabstat AC , stat(mean sd min max) HPCBs				
Variable	mean	sd	min	max	Variable	mean	sd	min	max
AC	19.4	5.128353	12	25	AC	23	1.414214	21	25

It is noticed from Table 7 that all SCBs and HPCBs in Bangladesh do not comply fully with all guidelines issued by BSEC regarding the external and statutory auditor that include nine compliance items. It shows that external/statutory auditor variable mean is 7.4 and standard deviation is 2.60 in SCBs where mean is 8.6 and standard deviation is 0.5478 in HPCBs. It means compliance with external/statutory auditor variable is less and more varied among SCBs than HPCBs in Bangladesh. So our sixth hypothesis is also accepted since HPCBs are complying more than the SCBs in respect of ESA.

Table7. *Compliance of Notification regarding External/Statutory Auditor*

tabstat ESA, stat(mean sd min max) SCBs					tabstat ESA, stat(mean sd min max) HPCBs				
Variable	mean	sd	min	max	Variable	mean	sd	min	max
ESA	7.4	2.607681	3	9	ESA	8.6	.5477226	8	9

Table8. *Compliance of Notification regarding Subsidiary Company*

tabstat SC, stat(mean sd min max) SCBs					tabstat SC, stat(mean sd min max) HPCBs				
Variable	mean	sd	min	Max	Variable	mean	sd	min	max
SC	3.8	1.30384	2	5	SC	4.8	.4472136	4	5

Again, Table 8 above illustrates that selected banks are not fully compliant with all BSEC guidelines regarding the subsidiary company which include five items for the improvement of corporate governance. It shows that SC variable mean is 3.8 and standard deviation is 1.30 for SCBs, in contrast to 4.8 and .447 of HPCBs that means compliance regarding subsidiary company notifications are more consistent in HPCBs comparing to SCBs. So our seventh hypothesis is not supported as subsidiary companies of SCBs are showing less consistent compliance than HPCBs.

Table9. *Compliance of Notification regarding Duties of CEO and CFO*

tabstat DCEFO, stat(mean sd min max) SCBs					tabstat DCEFO, stat(mean sd min max) HPCBs				
Variable	Mean	Sd	min	Max	Variable	mean	sd	min	max
DCEFO	3.2	1.30384	1	4	DCEFO	3.8	.4472136	3	4

It is observed from this table that all SCBs and HPPBCs in Bangladesh do not fully comply with notifications issued by BSEC regarding the duties of chief executive officer and chief financial officer that includes four compliance items for the improvement of corporate governance. But HPCBs shows more compliance than SCBs. So our fourth hypothesis is rejected for the reason that SCBs are complying less than the HPCBs in respect of DCEFO.

Table10. *Compliance of Notification regarding Reporting and compliance of CG*

tabstat RCC, stat(mean sd min max) SCBs					tabstat RCC, stat(mean sd min max) HPCBs				
Variable	mean	sd	min	max	Variable	mean	sd	min	max
RCC	1.6	.8944272	0	2	RCC	2	0	2	2

It is seen from this table (Table 10) that SCBs in Bangladesh do not fully conform to the guidelines issued by BSEC regarding the reporting and compliance of corporate governance requirement while HPCBs are fully fulfilling this requirement for the improvement of corporate governance. So our eighth hypothesis is also accepted that HPCBs are complying more than the SCBs in respect of RCC.

Since it is found that in respect to all core variables the compliance rate of SCBs is weaker than HPCBs, we explored the compliance status of SCBs and HPCBs in respect to some individual variables of core variables (BD and AC) to observe if those carry more significance for financial performance. It is seen from the Cross tabulation (Appendix: Table 3) that in case of internal control 20% of SCBs are not maintaining the sound internal control system compliance while 100% of HPCBs are following the internal control compliance system. It reflects that SCBs in Bangladesh lack in internal control system that may have aggravated its lower performance compared to HPCBs. It is also found from table (Appendix: Table 4) that one SCBs is not concerned about its risk where as all HPCBs comply with risk related guidelines which also may be attributed to the poor performance of SCBs compared to HPCBs.

The Cross tabulation in the table (Appendix: Table 5) shows that 20% of SCBs are not maintaining the proper accounts compliance whereas 100% of HPCBs are following the proper books of accounts. So it is obvious that SCBs has lacking in respect of maintaining proper books of accounts that may speed up lower performance SCBs comparing the HPCBs.

Our analysis also shows (Appendix table: 6) that SCBs have audit committee of which the members are not financially literate. 40% members lack required qualification where as 100% member of Audit committee are financially literate in HPCBs. Again, the result of cross tabulation (Appendix: Table 7) shows that though SCBs have audit committee the member of the audit committee are not so much responsible to director. 40% AC is showing indifference about reporting to director while 100% AC are aware about reporting to board. It can also contribute to poor performance of SCBs.

Table11. *SCBs Sample Company Compliance Attitudes*

Compliance key	Mean	SD	CV (In percentage)	Rank	Comments
CHC	1.8	.4472136	24.85%	**2**	Consistency comparatively more in this section
BD	35.4	7.056912	19.93%	**1**	Consistency comparatively more in this section
AC	19.4	5.128353	26.43%	**3**	Consistency comparatively more in this section
ESA	7.4	2.607681	35.29%	**5**	Consistency less in this section
SC	3.8	1.30384	34.31%	**4**	Consistency less in this section
DCEO	3.2	1.30384	40.75%	**6**	Consistency far less in this section
RCC	1.6	.8944272	55 %	**7**	Consistency far less in this section

Table12. *HPCBs s Sample company compliance attitudes*

Compliance key	Mean	SD	CV (In percentage)	Rank	Comments
CHC	2	0	0	**1**	Consistency more in this section
BD	41.2	1.30384	3.16%	**2**	Consistency more in this section
AC	23	1.414214	6.15%	**3**	Consistency less in this section
ESA	8.6	.5477226	6.37%	**4**	Consistency less in this section
SC	4.8	.4472136	9.31%	**5**	Consistency less in this section
DCEO	3.8	.4472136	11.77%	**6**	Consistency far less in this section
RCC	2	0	0	**1**	Consistency more in this section

From the above two tables (Table 11 and Table 12) it is seen that CHC and RCC has 100% consistency in HPCBs because their co-efficient of variation is 0 while SCBs shows highest level of inconsistency in respect to RCC that is 55%. Highest CV denotes less consistency in compliance guidelines and lowest CV explains more consistency in compliance guidelines. It is also seen that in respect of all variables, SCBs has lower consistency or more variation than HPCBs. In case of SC, ESA and DCEO SCBs s has low consistency their CV is 34.31%, 35.29% and 40.75% respectively. On the other hand, RCC of SCBs has the lowest level of consistency as its CV is 55%. From the co-efficient of variance analysis, the low level or more varied compliance of SCBs than HPCBs is also disclosed.

5. Major Findings and Recommendation

This study shows that, in Bangladesh, SCBs' overall compliance with corporate governance guidelines issued by BSEC is not satisfactory though two banks have shown positive compliance status. In contrast, the overall compliance of HPCBs is satisfactory and is more than 90%, which reflects the corporate governance compliance of high performance banks are also high compared to SCBs. Descriptive statistics of seven main variables generated by STATA also shows compliance of SCBs is weaker than HPCBs in respect to BD, CHC, AC, ESA, SC, DCEFO and RCO. For deep investigation, by using SPSS we have also analyzed some cross tabulation of sub variables in case of BD and AC which shows corporate governance compliance of SCBs is also not satisfactory compared to HPCBs in terms of some sub variables. From our study, we can conclude that low rate of corporate governance compliance is one cause of bad performance of state owned commercial banks in Bangladesh in recent year. In this background the study is proposing following recommendations for the improvement of corporate governance in SCBs in Bangladesh:

- First of all, as SCBs do not follow majority of the guidelines by BSEC, they should give more attention on all issues of BSEC guidelines. More specifically, they should emphasize on independent director, casual vacancy requirement, review of fraudulent issue, reporting to shareholders and commission about any fraud, and conflict of interest.
- SCBs should strengthen internal controls system and audit should be carried out by independent and external auditor. HPCBs can be exemplary for them in this regard.
- SCBs should start institutional reforms for transparency and accountability that may lead to better corporate governance and offer high financial performance like PCBs.
- It is familiar phenomenon in Bangladesh that activities of SCBs are mostly dominated and imposed by political people. This study also reveals that most of the directors are appointed by the government. It may be one of the reasons for which qualification of management was found poor.

So, the government should avoid such type of practices which itself expose banks to noncompliance of corporate governance.

- The regulatory role should be separated from the state's ownership and allow more flexibility in capital structures while making sure that SCBs face competitive access to finance.
- Political interference should be minimized in day-to-day management and should introduce transparent nomination process for boards, based on competence and skills. HPCBs seem to have relative low interference is such issue and show better performance.
- SCBs should produce aggregate performance report and become self reliant avoiding financial assistance from the state.
- SCBs should invest more in ICT to ensure and improve their corporate governance practice. ICT can give access to banks' compliance disclosure to all its stakeholders including customers and regulatory authority and promotes transparency.

6. Conclusion

While the application of sound corporate governance practices in the state owned banks (SCBs) could have a significant effect on the economy, in this study, we found the practice is almost absent or at least very weak compared to high-performing private commercial banks (HPCBs). Though none of the banks were found fully compliant with corporate governance guidelines by BSEC, the HPCBs showed very high compliance. The acceptance and better compliance of corporate governance principles by SCBs in Bangladesh will be a significant step towards making good performance of the banks. We identified specific issues where the SCBs should focus on and offered some suggestions based on findings to improve compliance with corporate governance guidelines, hence to ensure better financial performance. It will also create safeguard against corruption and mismanagement, promote transparency in corporate life and attract foreign investment. Future studies can provide a comparative analysis by adopting both BSEC and BB guidelines and its impact on banks' performance.

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APPENDIX

Table1. *Selected SCBs for this research*

Serial No.	Banks Name	Company Key
1.	Sonali Bank Limited	SBL
2.	Janata Bank Limited	JBL
3.	Bangladesh Development Bank Limited	BDBL
4.	Agrani Bank Limited	ABL
5.	Basic Bank Limited	BBL

Table2. *Selected HPCBs for this research*

Serial No.	Banks Name	Company Key
1.	Dutch Bangla Bank Limited	DBBL
2.	Pubali Bank Limited	PBL
3.	Brac Bank Limited	BBL
4.	City Bank Limited	CBL
5.	Islami Bank Bangladesh Limited	IBBL

Table3. *Soundness of Internal control system*

Soundness of Internal control system (SCBs)			Total	Soundness of Internal control system (HPCBs)			Total
	Not complied	Complied			Not complied	Complied	
Board Size	1	4	5	Board Size	0	5	5
Total	1	4	5	Total	0	5	5

Table4. *Concerned about risk compliance*

Proper Books of accounts (SCBs)			Total	Proper Books of Accounts (HPCBs)			Total
	Not complied	Complied			Not complied	Complied	
Board Size	1	4	5	Board Size	0	5	5
Total	1	4	5	Total	0	5	5

Table5. *Maintaining Proper Books of Accounts Requirement*

Proper Books of accounts (SCBs)			Total	Proper Books of Accounts (HPCBs)			Total
	Not complied	Complied			Not complied	Complied	
Board Size	1	4	5	Board Size	0	5	5
Total	1	4	5	Total	0	5	5

Table6. *Compliance of Audit committee Members' qualification requirement*

All members are financially literate (SCBs)			Total	All members are financially literate (HPCBs)			Total
	Not complied	Complied			Not complied	Complied	
Audit committee	2	3	5	Audit committee	0	5	5
Total	2	3	5	Total	0	5	5

Table7. *Compliance of Audit committee responsible to board*

Audit committee responsible to director (SCBs)			Total	Audit committee responsible to director (HPCBs)			Total
	Not complied	Complied			Not complied	Complied	
Audit committee	2	3	5	Audit committee	0	5	5
Total	2	3	5	Total	0	5	5

Table8. *Summaries of Notifications on Corporate Governance Issued by BSEC*

Clause	Description of clause
1.0	**Board of Directors**
1.1	Board's Size should not be less than 5 (five) and more than 20 (twenty)
1.2	Independent Directors should be one out of fifth boards of directors Independent directors should not hold any share in the company or should hold less than one percent (1%) shares of the total paid-up shares of the company. He/she will not be a sponsor of the company and connected with the company's any sponsor or director or shareholder in a

	relationship. He/she will not have any other relationship, whether pecuniary or otherwise, with the company or its subsidiary/associated companies. He/she will not be a member, director or officer of any stock exchange and not be a shareholder, director or officer of any member of stock exchange or an intermediary of the capital market. He/she will not be a partner or an executive or was not a partner or an executive during the preceding 3 (three) years of the concerned company's statutory audit firm. He/she will not be an independent director in more than 3 (three) listed companies and will not be convicted by a court of competent jurisdiction and involving moral turpitude. He/she will be an independent director for concerned company for a period of 3 (three) years, which may be extended for 1 (one) term only
1.3	Independent Director (ID) shall be a knowledgeable individual with integrity and should be Business Leader/Corporate Leader/Bureaucrat/University Teacher with Economics or Business Studies or Law background/Professionals like Chartered Accountants, Cost & Management Accountants, Chartered Secretaries and must have at least 12 (twelve) years of corporate management/professional experiences.
1.4	The chairman of the board and Chief Executive Officer (CEO) must be different person their respective role and responsibility would be clearly defined by the board of directors.
1.5	The directors of the companies should disclose the following information to shareholders: Industry outlook and possible future developments in the industry, Segment-wise or product-wise performance, Risks and concerns, Discussion on Cost of Goods sold, Gross Profit Margin and Net Profit Margin and continuity of any Extra-Ordinary gain or loss, Basis for related party transactions, Utilization of proceeds from public issues, rights issues and/or through any others instruments, Fairness of state of affairs/ Financial Statements, Maintenance proper books of accounts, Consistent application of accounting policies in preparation of financial, Compliance with International Accounting Standard, Soundness and efficiency of internal control system, Ability of Company to continue as a going concern, Significant deviations from last year in operating results, Presentation of key operating and financial data for last three years, Declare dividend, Number of board meetings held during the year and attendance by each director, Sharing Pattern, internal control system, significant deviation of last operating results, key operating and financial data of last 5 years, status of issuer company regarding declaration of dividend number of board meeting, Information about subsidiary or associated company
2.0	Chief Financial Officer(CFO), Head of Internal Audit and Company Secretary CFO, Head of Internal Audit and Company Secretary will be appointed by board and must attend the board meeting
3.0	Audit Committee of a company should act as a subcommittee of the Board of Directors. Audit committee should be composed of at least 3 members and out of them 1 should be independent directors. Independent directors will be the chairman of audit committee and all members must be financially literate. Vacancy of audit committee must be filled within 1 month. Audit committee will oversee the financial reporting process, monitor choice of accounting policies and principles and Internal Control, Risk management process ,oversee hiring and performance of external auditors ,review along with the management, the annual financial statements, the quarterly and half yearly financial before submission to board for approval, Review the adequacy of internal audit function and related party transactions submitted by the management, Review Management Letters/ Letter of Internal Control weakness issued by statutory auditors, Disclose information about the uses/applications of funds raised by IPO or RPO.
4.0	External /Statutory Auditors should not engage in appraisal or valuation services or fairness opinions, Financial information systems design and implementation, book-keeping or other services related to the accounting records or financial statements, broker-dealer services, actuarial Services, Internal audit services, any other services that the Audit Committee determines and no partner or employees of the external audit firms shall possess any share of the company they audit at least during the tenure of their audit assignment
5.0	Board of director of subsidiary will be formed as per provision applicable to holding company. There should have at least one independent director. Minutes of board meetings of subsidiary should be placed to board meeting of holding and audit committee of holding company will review the financial statement of subsidiary company
6.0	The CEO and CFO shall certify to the Board that they have reviewed financial statements for the year and to the best of their knowledge and belief there is no materially untrue statement and the statement reflect true and fair view of the company. They should certify that all existing accounting standard and laws are applied and there is no fraudulent and illegal information.

7.0	The company shall obtain a certificate from a practicing Professional Accountant/Secretary (Chartered Accountant/ Cost and Management Accountant/Chartered Secretary) regarding compliance of conditions of Corporate Governance Guidelines of the Commission and shall send the same to the shareholders along with the Annual Report on a yearly basis. The directors of the company shall state, in accordance with the annexure attached, in the directors' report whether the company has complied with these conditions.

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