AN ASSESSMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS BY STATE OWNED COMMERCIAL BANKS IN BANGLADESH

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Abstract

State owned commercial banks (SOCBs) in Bangladesh are showing poor financial performance in recent years due to lack of corporate governance. This study tried to find out the compliance of Corporate Governance standards issued from Bangladesh Securities & Exchange Commission (BSEC) by state owned commercial banks (SOCBs) in Bangladesh. Annual reports in 2015 of five state owned commercial banks have been used to conduct this research. Dichotomous and Partial compliance method are used to find out the compliance of corporate governance standards by SOBCs in Bangladesh. First 94 variables are found out from Bangladesh Securities and Exchange Commission's is (BSEC) notification. Secondly 94 variables are converted into 7 main variables by using STATA. Then cross tabulation and descriptive statistics are done by using SPSS and STATA to explore the compliance of standards issued from BSEC by SOCBs. The study shows that compliance of corporate governance standards by SOCBs in Bangladesh is not satisfactory that is 35% to 97% and one has shown the lowest compliance rate that is 35%. The Overall Compliance Index of SOCBs is 79% which is a dichotomous approach and 80% in PC approach. In case of subsidiary company, audit committee, DCEFO and RCC compliance rate is low that is 72%, 75%, 80% and 80% respectively. This study also unveils that Compliance regarding independent directors, board of directors, CEO & CFO, Audit committee, external/statutory audit, duties of CEO & CFO is not satisfactory in SOCBs. It will contribute to some significance for decision makers and different stakeholders of State owned commercial banks in Bangladesh. It will be helpful to improve the financial performance in SOCBs in Bangladesh.

Keywords: *Corporate Governance, BSEC, Compliance, SOBCs, standards, Bank etc.*

1 Introduction

The banking system of Bangladesh consists of state-owned commercial banks (SOBCs), private commercial banks, foreign commercial banks, and specialized banks. Today, Bangladesh has been observing a flourishing wave in banking sectors. Corporate governance gained considerable prominence in the last decade as it has become a widely discussed and debated issue. It is simply the rule of the game for a company in it's relations with its shareholders, it's 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

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the board of directors is held accountable and that the company deals responsibly with stakeholders. As such, corporate governance is key to a company's integrity, efficiency, long term growth and profitability. 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' as well (Hossain et al., 2009). In its broad definition, corporate governance refers to a set of rules or institutions or practices that curtail the agency cost and the variation between social and private returns on corporate actions (Monk and Minow, 1996 ; Ararat and Ugar, 2003)

But 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 contribution both to business prosperity and to accountability. Corporate governance in Bangladesh banking system, an element which contributes to stability of the banking system especially, has been improved.

SOCBs play an important role in the economic development of Bangladesh since independence. In recent years, performance of these SOCBs is deteriorating and is relatively weak compared to private commercial banks. The return on asset of SOCBs is less than industry average. The loan recovery rate of SOCBs is declining at alarming rate in recent years. The Return on Asset (ROA) of SOCBs 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 again into negative (-0.6%) and negative (-0.4%) at the end of 2014 and 2015 respectively. Return on Equity (ROE) of SOCBs 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 SOCBs 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 SOCBs, Sonali Bank Limited and deteriorated afterwards. The expenditure income (EI) ratio of the SOCBs 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 on (BB annual report, 2015-2016). In these circumstances it is imperative to know that the corporate governance compliance rate of SOCBs.

Bangladesh Securities and Exchange Commission (BSEC) took the initiative for development of corporate governance code of conduct so that a comprehensive guidance on corporate governance is provided to the BoD and management of the financial institutions. Due to it's 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 performance (Haque, 2014; Mia and Haque, 2014). This study is designed to explore the compliance of various dimensions (Board of director, audit committee, Appointment of chief executive officer and chief financial officer and their duties and responsibilities, role of external/ statutory auditor and transaction with subsidiary company) of corporate governance practiced by state owned commercial banks in Bangladesh.

2 Literature Review

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 & Hoque, 2006). The growth of banking sector have been found to have a negative implications due to volatility and corruption (Park, 2012; Moshirian and Wu, 2012; Lin and Huang, 2012; Serwa 2010).Serious mismanagement and malpractices have occurred in the banking sector especially in state owned banks 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). In a 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). 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 want to get an attractive investment, corporate governance practices play significant role for this purpose (Ekwueme and Paul 2016).

Companies that are enlisted in corporate governance index have statistically notably higher return on assets, net profit margin, and return on equity than the ones that are not listed in index. In addition to this 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 (Cengiz, 2016). Wang *et al.* (2008) and Agoraki *et al.* (2010) found that board independence did not have any significant effect on bank profitability. Kim et al. (2012) review corporate governance when it comes to ownership structure of domestic owned banks. 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 declines in the Asian crisis and corporate governance can be cruicial moderator to determine macroeconmic problems in crisis situation. In addition to that, Rezaee, et al. (2003) found that good corporate governance promotes correlations of accountability among the core corporate members and this may improve corporate performance as it held management responsible to the board and the board accountable to the shareholders.

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 of independent non-executive directors (Power, 2002). In the USA, earning 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).

The collapse of these 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). Gospel and Pendleton (2005) recommended that corporate governance essentially deals with the association among capital, management and labor and corporate governance 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 have 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 firm having better corporate governance practice will receive higher stock market valuation when announced new product strategies than those of firms with poorer governance mechanisms.

Leung and Horwitz (2009) showed that the 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 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. Jen et al. (2009) has found that the company's ECB size has positive correlation with the premium at the time of the ECB issue, and the higher the company debt ratio, the lower the ECB issue premium. Lawrence and Marcus (2009) found 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.

Kin and Baruch (2008) found that managerial pay dispersion - effective corporate governance, especially high board independence, strengthens the positive association between firm performance and pay dispersion. John and Afshad (2008) studied the relation between corporate governance attributes and perceived information asymmetry, and found that board independence, size of the audit committee, officer and director ownership alleviate the negative effect share prices that offer equity.

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.

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. 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). 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)

Siddiqui (2010) focused mainly the model of Corporate Governance where main emphasis was on- what model to measure corporate Governance in Bangladesh is adopted and what has influenced to adopt that model. Chaudhudy *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 that the corporate governance 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. Rahman *et al*.(2014) conducted a research that gives a positive view to all stakeholders who are associated with the banks. Their study was an extension of previous study which mainly deals with the Corporate Governance disclosure in banking sector.

Haque (2014) found out that compliance of corporate governance notification by Islamic Shariah Based banks in Bangladesh is satisfactory and their range is 83% to 98%. In case of Independent directors and audit committee requirement, compliance rate is low that is 78% to 98% and 78% to 81% respectively. Haque and Mia (2014) found CGNC of CBHIWs were more satisfactory than that of ISBBs. ISBBs' CGCN ranges from 83% to 98% and over all compliance is 90% in dichotomous approach and 82% to 97% and over all compliance is 94% in PC approach where as CBHIWs' CGCN ranges from 67% to 99% and overall compliance is 92% in dichotomous approach and 83% to 99% and overall compliance is 95% in PC approach. This research also 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. Mosharaf (2015) found out the inferior performance of sate owned commercial banks can best be explained corporate governance theory on state ownership of firms and contestable markets perspectives of banking policy mistake. 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.

3 Objective of the Study

The main objective of this study is to find out the Compliance of Corporate Governance standards issued from BSEC by state owned commercial banks

(SOCBs) in Bangladesh. To achieve the main objective of this study, the other objectives are as follows:

- to find out segment where corporate governance standards are more viable.
- to find out the causes of recent poor financial performance of SOBCs
- to recommend how State owned commercial banks (SOCBs) can improve the corporate governance practice .

4 Methodology of the Study

This study has been conducted based on triangulation of quantitative and qualitative approach

This section covers data source, population and sample selection, compliance variables, measurement approaches etc.

4.1 Data Source

The research is based on secondary data. Annual reports in 2015 of the state owned commercial banks, BSEC notification No. SEC/ CMRRCD/ 2006-158/134/Admin/44 dated 07 August, 2012 issued under section 2CC of the Securities and Exchange Ordinance, 1969 and data from DSE library were used for this study. The annual reports were mostly available in the banks website and DSE library. The disclosed data of the annual reports is used to find out the compliance of corporate governance by SOCBs Bangladesh. Besides, personal query from the concerned personnel are made for effectiveness of the study.

4.2 Sample Selection

For a research, 30% sample is considered as standard; whereas, this study has covered 83.33% sample. There are six state owned commercial banks (SOCBs) in Bangladesh which are considered as population. Due to unavailability of data of one bank, this study has focused on five SOCBs. Almost similar type of study has been conducted by Hasan and Hossain (2012), (Rahman et al.,2014),(Haque, 2014) and (Haque and Mia ,2014) where total sample number was 20%,30%, 87% and 80% respectively.

4.3 Selection of Compliance Items

The summary of the checklists that each bank complies given in the Table-1 below:

Particulars	**Compliance Key**	**Total number of Item**	**Percentage of total no.**
Board of Directors	**BD**	**45**	**47.8%**
Chief Financial Officer(CFO), Head of Internal Audit and Company Secretary	**CHC**	**2**	**2.12%**
Audit Committee	**AC**	**27**	**28.7%**
External/ Statutory Auditors	**ESA**	**9**	**9.57%**
Subsidiary Company	**SC**	**5**	**5.31%**

Duties of Chief Executive officer(CEO) and Chief Financial Officer(CFO)	**DCEFO**	**4**	**4.25%**
Reporting and Compliance of Corporate Governance	**RCC**	**2**	**2.12%**
Total Items		**94**	**100%**

In the above table, there are four (7) compliance keys which are made short from the particular part. The bold and underlined letters of each word have been taken to represent a short compliance key form. These 94 points ensure whether a company maintains corporate governance standards of BSEC or not. Both qualitative and quantitative information are present in those 94 points. 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 consult with the experts. All 94 items were considered equally important. When a company discloses an item in annual report, point "1" is awarded and "0", is awarded when the item does not appear or disclose. First this data are inputted in SPSS and then whole 94 variables are converted into 7 main variables such 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) considering the cohesiveness among these variables by using another statistical tool STATA. These variables are analyzed by STATA and SPSS to find out the different aspect of compliance. Then these variables are also analyzed by EXCEL to find out the result of dichotomous approach and Partial Compliance Approach.

4.4 Measurement Approaches and Index Construction

Formula of Compliance Index

There are two types of approach to calculate the compliance of corporate governance notification:

- Dichotomous Approach
- Partial Compliance (PC) Approach

Dichotomous Approach

The dichotomous method is an unweighted compliance index whereby an item is scored one if complied, zero if not complied or not applicable (NA) if the item is not relevant to the company (Yeoh, 2005; Ali et al., 2004)

OCI= (Σdmi/Σdni)

Where, d= 1 if an item is Complied and 0 if an item is not Complied

m= number of item complied

n= maximum number of Complied items possible

Partial Compliance (PC) Approach

Al -Shiab (2003) uses an alternative approach, named the partial compliance method. In case of partial compliance approach, unweighted method was used to measure the overall compliance

PCj= (∑xi/Rj)

Where,

PCj= Total compliance score for each company and 0≤PCj≤1.

Xi= Level of compliance with each part of disclosure requirement.

I= 1

Rj= Total number of compliance part of each company.

Construction of Compliance Index:

Both the Partial Compliance (PC) Approach and Dichotomous Approach have been used to conduct the study. Hasan and Hossain (2012) stated that PC approach shows more accurate result than Dichotomous Approach. Suppose there are three sections of compliance X, Y and Z. Their possible item to be complied and the ultimate complied items are bellow:

Table 2: Hypothetical data using to show the calculation through PC and Dichotomous method

Particulars	Item can be Complied	Complied Item(Case 01)	Complied Item(Case 02)
X	3	3	1
Y	6	3	3
Z	11	9	11
Total	20	15	15

The PC and Dichotomous approach for **Case 01** will be

Under PC Approach,

OCI= (3/3+3/6+9/11)/3=0.77 or 77%

Under Dichotomous approach

OCI=15/20= 0.75 or 75%

Conversely, if the company discloses like **Case 02**,

Under PC Approach,

OCI= (1/3+ 3/6+ 11/11)/3= 0.61 or 61%

Under Dichotomous approach

OCI=15/20= 0.75 or 75%

The PC approach provides more accurate result than Dichotomous Approach.

5 Results and Discussion

Table 3: Overall Compliance analysis of SOCBs through Dichotomous Approach

Serial no	Company key	Overall compliance analysis through Dichotomous Approach								
	Appendix Table:2	BD(45)	CHC(2)	AC(27)	ESA(9)	SC(5)	DCEFO(4)	RCC(2)	Total Compliance (94)	OCI
1	SBL	36	2	20	9	3	3	2	75	0.80
2	JBL	42	2	25	7	5	4	2	87	0.93
3	BDBL	41	2	23	9	5	4	2	86	0.91
4	ABL	39	2	21	9	3	4	2	80	0.85
5	BBL	24	1	12	3	2	1	0	43	0.46
OCI		36.40	1.80	20.20	7.40	3.60	3.20	1.60	74.20	0.79

Above Table 3 shows that highest OCI is 93% in the JBL and lowest OCI is 46% in BBL. The Overall Compliance Index of SOCBs is 79% 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 is 90% and 92% (Haque, 2014;Haque and Mia,2014). From analysis it is also observed that the overall compliance index (OCI) of SOCBs is between 46% to 93% while Haque and Mia, (2014) observed that the overall compliance index (OCI) of ISBBs is between 83% to 98% and CBHIWs is 67% to 99%. 60% SOCBs are following and maintaining 85% to 93% of BSEC corporate governance standards. Further investigation shows BBL and SBL have the lowest compliance rate 46% and 80% which indicate poor corporate governance practice. These reveal that compliance of corporate governance standards by SOCBs is worse than ISBBs and other commercial banks in Bangladesh. It indicates that SOCBs complied with BSEC standards but their compliance rate is not satisfactory compared with other banks.

Table 4: Compliance analysis of SOCBs through Partial compliance (PC) Approach

The above table 4 shows that highest OCI of SOBCs is 97% in the BDBL and lowest OCI is 35% in BBL. The Overall Compliance Index of SOCBs is 80%. Whereas different studies on compliance of corporate governance standards of Islamic Shariah based banks(ISBBs) in Bangladesh and conventional banks having Islamic windows(CBHIWs) in Bangladesh found overall compliance rate is 94% and 95% (Haque, 2014; Haque and Mia, 2014). Besides, all SOCBs are not compiling all notifications 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). Less compliance from SC and AC items and the level is

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

below 80%; whereas, highest number of standards were complied in CHC (90%). Furthermore, DCEFO, BD, and ESA show more than 80% compliance that is 80%, 81% and 82% respectively. So, it is imperative that compliance of BSEC corporate governance standards by SOCBs is not more satisfactory than ISBBs and other commercial banks in Bangladesh

Table: 5 Compliance of Notification regarding Board of Director and CFO, HIA & CC

tabstat BD, stat(mean sd min max) ISBBs					tabstat CHC, stat(mean sd min max) CBHIWs				
Variable	mean	sd	min	max	Variable	mean	sd	min	max
BD	35.4	7.056912	24	42	CHC	1.8	.4472136	1	2

The above table shows that all SOCBs in Bangladesh do not fully comply with all notifications issued by BSEC regarding the board of directors, independent directors, chief financial officer, head of internal audit and company secretary for the improvement of corporate governance. In case of board of director's standard deviation is 7.057 and CHC standard deviation is 0.45 that means compliance regarding board of director are more varied than CHC of SOCBs.

Table : 6 Board Size * percentage of Independent director and Soundness of Internal control system

percentage of Independent director			Total	Soundness of Internal control system			Total
	Not complied	Complied			Not complied	Complied	
Board Size	1	4	5	Board Size	1	4	5
Total	1	4	5	Total	1	4	5

It is noticed from this Cross tabulation four SOCBs comply with requirement of independent director and one is not fulfilling this. On the other hand, four SOCBs are maintaining sound internal control system and one is not maintaining this. It can be concluded that all SOCBs are not properly maintaining independent director and internal control system that is one of the causes of poor financial performance in state owned commercial banks in recent years.

Table: 7 Disclosure of significance difference and deviation

Significance of difference			Total	Significance deviation from the last year			Total
	Not complied	Complied			Not complied	Complied	
Board Size	1	4	5	Board Size	2	3	5
Total	1	4	5	Total	2	3	5

The above Cross tabulation indicates that four SOCBs are disclosing significant occurrence and one is not disclosing this. In case of deviation for any event from the last year, 60% SOCBs are unveiling this fact and 40% is concealing this matter. It indicates that SOCBs are not so much concerned regarding any unusual fact and deviation.

Table: 8 Compliance of Independent Directors qualification requirement

I.D knowledge				Total	Requirement of I.D				Total
		Not complied	Complied				Not complied	Complied	
% Independent Director	Not complied	1	0	1	% Independent Director	Not complied	0	1	1
	Complied	0	4	4		Complied	1	3	4
Total		1	4	5	Total		1	4	5

The above table shows that 20% of SOCBs have no independent director which is very important for corporate governance. In this perspective, 20% independent directors are not enough financially literate and they have lack of other qualification that is not a good symptom for sound corporate governance.

Table: 9 Compliance of Notification regarding Audit Committee & External/Statutory Auditor

tabstat AC, stat(mean sd min max) ISBBs					tabstat ESA, stat(mean sd min max) CBHIWs				
Variable	mean	sd	min	max	Variable	mean	sd	min	max
AC	19.4	5.128353	12	25	ESA	7.4	2.607681	3	9

It is seen from this table that in case of Audit Committee requirement, standard deviation is 5.128 and external/statutory auditor standard deviation is 2.60 that indicate compliance rate of audit committee notification more varies than external/statutory auditor requirement. It is necessary for SOCBs to concentrate on audit committee standards.

Table: 10 Compliance of Audit committees' qualification requirement

All members are financially literate			Total	Audit committee report to Commission			Total
	Not complied	Complied			Not complied	Complied	
Audit committee	2	3	5	Audit committee	2	3	5
Total	2	3	5	Total	2	3	5

It is noticed from this cross tabulation that though SOCBs have audit committee the member of the audit committee are not financially literate. 40% members have lacking regarding the qualification. Audit committee should report to BSEC but from the data it is observed that 40% audit committee is not reporting to the commission.

Table: 11 Compliance of Audit committees' reporting

Audit committee report to Director			Total	Audit committee report any fraud or conflict of Interest			Total
	Not complied	Complied			Not complied	Complied	
Audit committee	2	3	5	Audit committee	1	4	5
Total	2	3	5	Total	1	4	5

It is noticed from this cross tabulation that though SOCBs have audit committee the member of the audit committee are not so much concerned about reporting to director but little bit more concerned about reporting to the shareholder regarding any fraud or conflict of interest. 40% AC is showing indifference about reporting to director and 20% ACs are unconcerned about reporting fraud to shareholder.

Table: 12 Compliance of Notification regarding Subsidiary the Company & Duties of CEO and CFO

tabstat SC, stat(mean sd min max) ISBBs					tabstat DCEFO, stat(mean sd min max) CBHIWs				
Variable	mean	sd	min	max	Variable	mean	sd	min	max
SC	3.8	1.30384	2	5	DCEFO	3.2	1.30384	1	4

It is noticed from this table that all SOBCs in Bangladesh do not fully comply with all standards issued by BSEC regarding the subsidiary company and duties of chief executive officer and chief financial officer for the improvement of corporate governance. It shows that SC variable mean is 3.8 and DCEFO variable mean is 3.2 though maximum compliance is 5 and 4 respectively.

Table: 13 Compliance of Notification regarding Subsidiary Company's board composition and presentation of minutes

At least one Independent director			Total	Minutes of board meeting states affair of subsidiary			Total
	Not complied	Complied			Not complied	Complied	
C.B applicable to subsidiary	2	3	5	Audit committee	2	3	5
Total	2	3	5	Total	2	3	5

It is seen from the cross tabulation that 40% SOCBs in Bangladesh are not maintaining the requirement of comprising the board of subsidiary including at least one independent director and also 40% SOCBs are not presenting the minutes stating the affair of subsidiary to board meeting which are vital for sound corporate governance practice.

Table: 14 Compliance of Notification regarding Reporting and compliance of CG

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

It is observed from this table that all SOCBs in Bangladesh do not fully comply with all standards issued by BSEC regarding the reporting and compliance of corporate governance notification for the improvement of corporate

Table:15 SOCBss 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

From the above table it is noticed that BD, CHC and AC have comparatively more consistency because their co-efficient of variation is 19.93%, 24.85% and 26.43% respectively. Highest CV denotes less consistency in compliance standard and lowest CV explains more consistency in compliance standard. The above table shows that SC, ESA and DCEO have little consistency and their CV are 34.31%, 35.29% and 40.75% respectively. On the other hand, RCC has the lowest level of consistency as its CV is 55%.

6 Recommendation

It is found from the study that overall Compliance of corporate governance standards issued from BSEC by SOCBs in Bangladesh is not satisfactory, though two banks have shown positive compliance status. This factor can be one of the causes of poor financial performance in state owned commercial banks in Bangladesh in recent years. In this background the study is proposing following recommendations for the improvement of corporate governance in SOCBs in Bangladesh

- Institutional reforms should start providing the internal and external stimulus for transparency and accountability that will lead to better corporate governance.
- SOCBs do not follow the majority guidelines of BSEC. So SOBCs should give more attention on all segments of BSEC standards. They should emphasize on independent director, casual vacancy requirement, review of fraudulent issue, reporting to shareholders and commission about any fraud, conflict of interest and other matters.
- Now a day's Information and communication Technology (ICT) is a vital tool for improvement of corporate governance performance (Haque, 2016). The State owned commercial bank should invest more in ICT to improve their corporate governance practice.
- It is familiar that most of the political people are dominating the activities of SOCBs in Bangladesh. In this study, it has been also revealed that most of the directors are appointed by govt. So, such types of practice should evade and corporate governance of SOCBs should be taken at the heart of Bangladesh's development strategy like other countries India, Sri Lanka and Pakistan etc.

7 Conclusion & Future Directions

The application of Sound corporate governance practices to the state owned banks (SOBCs) could, therefore, have a significant effect on the economy, but the concept or practice of corporate governance in SOBS is almost absent. The importance of corporate governance standards compliance is escalating day by day, and the compliance by SOCBs in Bangladesh is on the rise as well. For improvement of transparency and accountability each corporate governance stakeholder should play an important role to create the platform. The study may be an imperative tool to emerge forwarding corporate governance in Bangladesh. We need to establish an enabling environment to make the corporate governance mechanisms work and this is only possible through top level commitment to provide good governance in SOCBs. Recent poor financial performance is the result of lacking corporate governance in SOCBs which causes trouble in financial sectors. This study provides an overview of compliance status of corporate governance by SOCBs in Bangladesh. The results unveil an unfavorable compliance of corporate governance standard by SOCBs in Bangladesh. The acceptance of corporate governance principles by SOCBs in Bangladesh will be a major step towards creating safeguards against corruption and mismanagement, promoting transparency in corporate life and attracting foreign investment. This study has focused only the BSEC notification compliance of corporate governance though all banks in Bangladesh also follow the notification issued from Bangladesh bank. The researchers also face difficulties in collection of data since the data of state owned banks are not available and that is why we avoid one state Bank for our study. In future a research can be carried on regarding the compliance of corporate governance notification issued from Bangladesh bank. ICT, an emerging tool for improvement of corporate governance practice, can be another research area for researchers.

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Appendix:

Table: 1 State Owned Commercial Banks name that are used to conduct the 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

Table: 02 Summaries of Standards on Corporate Governance Issued by Bangladesh Securities and Exchange Commission (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.