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Disclosure of Corporate Governance Compliance of State Owned Commercial Banks in Bangladesh and Stakeholders' Expectation

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Abstract
This paper aims to find the extent of Disclosure of Corporate Governance Compliance of State Owned Commercial Banks (SOCBs) in recent years in Bangladesh. Dichotomous and Partial compliance method are used to find out the compliance of corporate governance notification provided by Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank (BB) by SOCBs). Annual reports of 2013 for four State Owned Commercial Banks one of which is listed in Dhaka Stock Exchange (DSE) have been used to conduct this study. Firstly, 95 disclosure variables from Bangladesh Securities and Exchange Commission (BSEC) notifications and 73 disclosure variables from Bangladesh Bank (BB) Corporate Governance Guidelines have been identified as disclosure variables. Secondly, 95 variables from BSEC have been converted into 7 main variables and 73 variables from BB have been converted in to 3 main variables. Then to find compliance status of notifications of SOCBs provided by BSEC and BB cross tabulation and descriptive statistics are presented by using SPSS. The results of the study conclude that compliance of corporate governance notification by SOCBs in Bangladesh is not satisfactory. In case of, disclosure of corporate governance compliance notifications issued by BSEC we have found that it is 59% in Dichotomous Approach and 54% in Partial Compliance Approach. In case of disclosure of corporate governance notifications issued by BB it is 37% according to Dichotomous Approach and 29% in terms of Partial Compliance Approach. It is also found that there is no separate notification based on state owned concept for SOCBs in Bangladesh. Lack of corporate governance in SOCBs in Bangladesh is also one of the reasons of recent financial scam in SCOBs. This research will be helpful to minimize this sort of scam in the banking sectors in countries like Bangladesh. This study will create values not only to those state owned commercial bank's authorities but also to the other stakeholders who are related to banking sector in Bangladesh
Keywords: Corporate Governance, BSEC, BB, Compliance, Disclosure

1. Introduction

Contemporary concerns regarding the significance of Corporate Governance in banking sector in Bangladesh have put a host of emphasis on corporate governance in banking sector. State Owned Commercial Banks (SOCBs) attracts special attention from the people of all walks of life due to their financial scams and questionable performances in recent times. Financial sector in Bangladesh consists of banking financial institution, non-bank financial institution, private companies, public limited companies and state owned enterprises (SOEs). SOEs are one of the largest segments of the economy of Bangladesh. Although the weight of SOEs in economic activity varies from country to country, data collected by the World Bank just over a decade ago suggest that SOEs accounted for close to 20% of the total non-agricultural economic activities in an average low-income developing country (Sultan Balbuena, S. 2014). Corporate governance is not carried out in a vacuum. Corporate governance of state-owned enterprises is a major challenge in many economies (OECD 2005). The incentives and abilities of owners, intermediaries, board members, managers and stakeholders depend on the environment in which they and corporations operate (Isaksson, M. and Çelik S, 2013). In the light of corporate financial scandals, there is an ever increasing attention on corporate governance issues (Sekhar Muni Amba). The propagation of crises and scandals in recent years, has demonstrated the failure of the governance system (Fathi J. 2013). Corporate governance (CG) is a coordinated process of principles, policies, procedures and clearly defined responsibilities and accountabilities framed to overcome the conflicts of interest inherent in the corporate form. So, two major objectives of corporate governance can be to eliminate or mitigate conflicts of interest particularly those between management and shareholders and to ensure that the assets of the company are used efficiently and productively and in the best interests of its shareholders and other stakeholders. In most cases, independent directors can play a vital role but the outside (independent) directors cannot add potential value to the firm's economic performance in Bangladesh (Rashid, A., De Zoysa, A. Lodh, S. and Rudkin, K. 2010). At a conceptual level, the selection and nomination of board members raises questions about how knowledge markets operate: how are candidates with the desired qualifications and experience located by those responsible for nominating candidates? (OECD 2012). But in Bangladesh, it essentially revolves around informal networks and personal acquaintances, especially of the controlling shareholder and in case of SOCBs, it is political figures. There are a lot of ambiguities in the approaches of corporate governance of SOCBs in Bangladesh. In Bangladesh, supervision of banking sector is shared by the Bangladesh Bank (BB), Bangladesh Securities and Exchange Commission (BSEC) and the banking and financial institution division under the Ministry of Finance. BB and BSEC regulate private commercial banks listed in Dhaka Stock Exchange (DSE) while the Bangladesh Bank and the banking division under Ministry of Finance look after the eight state-run banks, some of which have been plagued by several financial scams in recent times. Though Banking Division of Ministry of Finance and Bangladesh Bank monitor and assess performance of SOCBs in Bangladesh in an ineffective way, basically there is no specific body to do that, so their activities have so far not been accountable. Due to less monitoring and control and ineffectiveness and inefficiency of Board of Directors (BoD) a number of financial scams have revealed in recent times in SOCBs. These sort of financial irregularities have put the role of SOCBs in question. Unfortunately, investors have little confidence in corporate accounting information in Bangladesh (Kabir, Md.Humayon. 2002). That is why, we see that sometimes Bangladesh Bank expresses its serious dissatisfaction over the financial irregularities, slow progress in automation of the banks and risk management of SOCBs. But due to various political influences and operational inefficiency Bangladesh Bank is unable to take any strong initiatives to control those activities. Probably, it is not a good way to regulate the banking sector by different authorities with different capacities and capabilities. It is better to have that responsibility and authority domiciled within those entities that have the capacity, the people and the mandate to get the work done and most countries in the world put the responsibility on the central bank. There are many black boxes in Bangladesh to get information, so it is difficult to conduct studies on state run commercial banks. Since annual report is only and reliable source of public information of state –owned commercial banks, so information have been collected from the annual report for the year of 2008-2013.

2. Literature Review

Isaksson, M. and S. Çelik (2013) says that there are two main sources of confusion in the public corporate governance debate. One is the confusion about the role of public policy intervention. The other is a lack of empirical knowledge about the corporate landscape where rules are supposed to be implemented and the functioning of today's equity markets, where voting rights and cash flow rights are traded. Corporate governance is defined as the structures and processes by which companies are directed and controlled. Good corporate governance helps companies operate more efficiently, mitigate risk and safeguard against mismanagement, and improve access to capital that will fuel their growth. Corporate governance also contributes to development. Increased access to capital encourages new investments, boosts economic growth, and provides employment opportunities (IFC-2013). Corporate governance also implies that the company would manage its affairs with diligence, transparency, responsibility, and accountability and would maximize the shareholders wealth (Pandey, I.M. 2006). According to the Rossenberg "corporate governance as a blend of law, regulation, enforcement and appropriate voluntary practices by companies that permit a company to attract the capital market perform efficiently, and generate long term value for its stakeholders, while respecting the interests of stakeholders and society as a whole"(Rossenberg, A. 2002). There is a significant body of theoretical and empirical literature in accounting and finance that considers the relation among corporate governance, management turnover, corporate performance, corporate capital structure and corporate ownership structure (Bhagat S., and Bolton B., 2008). It makes companies more accountable and transparent to investors and gives them the tools to respond to stakeholder concerns, including implementation of good environmental and social practices. It also contributes to development. Increased access to capital encourages new investments, boosts economic growth, and provides employment opportunities. Businesses that operate more efficiently tend to allocate and manage resources more sustainably. Better stakeholder relationships help companies address environmental protection, social, and labor issues. (key highlights of 2013**,** International Finance Corporation (IFC). But the challenges in terms of efficient policy design manifest themselves at every stage of the investment process (Isaksson, 2004).

Sound Corporate Governance (CG) practices are the foundations upon which the trust of investors (stakeholders, banks, and nonbank financial institutions) and other stakeholders is built; whereas poor CG practices lower the confidence level of a company's stakeholder, especially that of investors as they are the providers of corporate finance and require assurance that their investment will generate reasonable returns and be protected (Afroze and Jahan, 2005). One of the principal reasons for poor corporate governance (CG) is that most of the listed companies are family oriented (Ahmed and Yusuf, 2005) and in case of SOCB in mostly operated by ruling party affiliated people.

Sekhar Muni Amba examines the impact of corporate governance variables on firms' financial performance. Hasan (2012) makes a comparison between conventional corporate governance system and Islamic corporate governance system insisting on the role of ethics as an essential incident on corporate governance. Wang *et al.* (2008) and Agoraki *et al.* (2010) found that board independence did not have any significant effect on bank profitability. The return on average assets (ROAA), bank size and board size values of conventional banks was higher compared to Islamic banks (Shaista and Gunasegavan, 2013). Basel (2010) has called attention to the need to understand the corporate governance of financial entities. Basel advocates a governance structure composed of a board of directors and senior management and wanted to deliver a clear message that corporate governance can guarantee a sound financial system.

Governance of an Islamic corporate structure is done in such a way that each person associated with the bank is actually the shareholder to the bank, which implies that success of the bank means success of the shareholder (El-Gamal, 2005). But Tamimi, (2012) stated that there is no significant difference in corporate governance of Islamic and conventional banks in UAE. 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. The main purpose of corporate governance is to achieve the organizational objectives by understanding the relationship among variables supported by policies and programs which are decided by consensus (Choudhury and Hoque, 2006). Siddiqui (2010) highlights mainly the model of Corporate Governance where main focus was on- what model to measure corporate Governance in Bangladesh is adopted and what has influenced to adopt that model.

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) investigates 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. Sobhan F. and Werner W. (2003) identified areas where reform is needed in Bangladesh and explored successful Corporate Governance initiatives and practices in the region investigates the extent to which the Bangladeshi listed companies comply with the corporate governance guidelines of BSEC.

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 Bangladesh perspectives. This study was done through 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. Imam & Malik (2007) examines how corporate governance is practiced through ownership structure and how firm's performance as well as its dividend payout policy is influenced by different ownership pattern.

A study on observation of 274 Bangladeshi firm's by Rashid et al. (2010) reveal that the outside (independent) directors cannot add potential value to the firm's economic performance in Bangladesh. The idea of the introduction of independent directors may have benefits for greater transparency, but the non-consideration of the underlying institutional and cultural differences in an emerging economy such as Bangladesh may not result in economic value addition to the firm.

3. Significance of the Study

In 2008 the SOCBs were corporatized with the hope that they would function well if they are allowed to work independently but we see that their condition did not improve rather deteriorated further. In spite of being a least developed country, Bangladesh is running its financial sector with sixty (60) banks among them fifty six (56) scheduled and four (4) nonscheduled banks. There is strong relation between economic development and corporate governance, based on experiences in many countries, sectors, and business organizations (from state-owned enterprises to publicly listed companies) (Claessens S. and Yurtoglu B.2012). The four SOCBs have a great contribution in shaping the overall economy of Bangladesh. As these banks are owned by the state, political interference is a common phenomenon in Bangladesh, in case of major decisions taken in SOCBs. Ultimately, the people of the state bear the consequences of different scams, embezzlements, corruptions, mismanagement and irregularities in SOCBs in Bangladesh. Recent scam in banking sector especially in state owned banks is the result of lack of proper corporate governance in banking sectors. So it is essential to know the status of corporate governance compliance and performance of SOCBs in Bangladesh so that necessary steps can be taken to avoid such unexpected situation and dissatisfactory performance.

Bangladesh Bank (BB) as a central regulatory authority sets rules and regulations about Corporate Governance for banking sectors from time to time. In addition to this, Bangladesh Securities and Exchange Commission (BSEC) sets some rules about the Corporate Governance (in 2006 and amended in 2012) and advises the listed company to follow those rules to ensure proper corporate governance.

Researchers have found out the disclosure of corporate governance (CG) notification by banking sectors in Bangladesh, someone has found out the relationship between CG notification compliance and performance of banks, someone has researched on shariah supervisory board (SSB) and bank performance and someone has found out the difference in corporate governance of conventional and Islamic banks. Almost similar type of study has been done by Hasan and Hossain (2012) and (Rahman et al.,2014) where total sample number was twenty and thirty respectively for four different industries. But few researchers have researched on Disclosure of Corporate Governance Compliance of SOCBs in Bangladesh according to the guidelines provided by Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank (BB). So this research can assist to understand the overall corporate governance compliance abided by the SOCBs in Bangladesh.

4. Objective of the Study

The basic objective of the study is to measure the extent of corporate governance compliances of SOCBs in Bangladesh. This study will also embark upon the following objectives:

- To examine the extent to which the SOCBs comply with the corporate governance guidelines provided by Bangladesh Security Exchange Commission (BSEC) and Bangladesh Bank (BB).
- To explore the corporate governance (CG) practices in terms of disclosure in the SOCBs in Bangladesh.
- To observe the comparative compliances and performances of the four SOCBs
- To find a prospective solution to those problems faced by SOCBs in the area of corporate governance disclosure.

5. Limitations of the Study

As, there are many black boxes in government sectors of Bangladesh to get information mainly on public sectors, so all the data used in this study are collected from the annual report of the concerned banks. In addition to this, the bank's managements are not willing to provide information to carry out research. If data could be collected from different sources, the research could produce different results. This study has focused on four state owned commercial banks and among them Rupali Bank Limited is enlisted in DSE though there are eight state run banks in Bangladesh.

6. Selection of Disclosure Items

Disclosure items have been selected from the Notifications on Corporate Governance Issued by Bangladesh Securities and Exchange Commission (BSEC) and Corporate Governance guidelines issued by Bangladesh Bank (BB).

6.1 Sources of data

The data for this study have been collected from the audited annual financial reports and annual reports for the year of 2013.Sources of data used in the study are as follows-

- Annual Report for all SOCBs in Bangladesh for the year of 2008-2013
- Circular issued by the Banking Regulation and Policy Department (BRPD) of Bangladesh Bank regarding corporate governance
- Notification Issued by Bangladesh Securities and Exchange Commission (BSEC) and guidelines about corporate governance

6.2 Selection of Disclosure Items from BB Circulars

To ensure good governance i.e. corporate governance in bank management, Bangladesh Bank (BB) issued three circulars in 2013 covering three broad areas as follows:

- BRPD Circular No.11 dated 27 October 2013: Formation and responsibilities of Board of Directors (BoD).
- BRPD Circular Letter No. 18 dated 27 October 2013: Appointment and responsibilities of Chief Executive Officer (CEO).
- BRPD Circular Letter No. 19 dated 27 October 2013: Contractual appointment of Advisor and Consultant.

The summary of the checklists that each bank complies with the said CG guidelines issued by Bangladesh Bank through those circular is as follows:

Table 1 CG guidelines issued by Bangladesh Bank

Explanation of disclosure items	Disclosure of Compliance Key	Total number of disclosure items	Percentage of total number disclosure items
Formation and **R**esponsibilities of **B**oard of **D**irectors(BoD)	FRBD	44	60.27%
Appointment and **R**esponsibilities of **C**hief **E**xecutive **O**fficer (CEO)	ARCEO	17	23.29%
Contractual **A**ppointment of **A**dvisor and **C**onsultant	CAAC	12	16.44%
Total Items		73	100%

From the corporate governance compliance guidelines of BB three (03) disclosure compliance topics have been selected for this study. Here, the bold and underlined alphabets of each word represent as a short disclosure compliance key form.

6.3 Selection of Disclosure Items from BSEC notifications

The Bangladesh Securities and Exchange Commission (BSEC) issued Corporate Governance (CG) Guidelines in

2012 which is being followed by banks on ‘Comply’ basis. The summary of the checklists that each bank complies with the said CG guidelines issued by BSEC through Notification no. SEC/CMRRCD/2006-158/134/Admin/44 dated 07 August 2012 issued under section 2CC of the Securities and Exchange Ordinance, 1969 is as follows:

Table 2 CG guidelines issued by BSEC

Explanation of disclosure items	Disclosure of Compliance Key	Total number of disclosure items	Percentage of total number disclosure items
Board of **D**irectors	BD	45	47.36%
Chief Financial Officer(CFO), **H**ead of Internal Audit and **C**ompany Secretary	CHC	2	2.11%
Audit **C**ommittee	AC	28	29.47%
External/**S**tatutory **A**uditors	ESA	9	9.47%
Subsidiary **C**ompany	SC	5	5.26%
Duties of **C**hief **E**xecutive officer(CEO) and Chief **F**inancial **O**fficer(CFO)	DCEFO	4	4.21%
Reporting and **C**ompliance of **C**orporate Governance	RCC	2	2.12%
Total Items		95	100%

From the corporate governance compliance guidelines of BSEC seven (07) disclosure compliance topics have been selected for this study. Here, the bold and underlined alphabets of each word represent as a short disclosure compliance key form.

7. Methodology of the Study

This study, about the disclosure of corporate governance compliance of SOCBs in Bangladesh, is design to find out the extent of appropriate corporate governance practices of the SOCBs in Bangladesh. All four SOCBs in Bangladesh Sonali Bank Limited (SBL), Janata Bank Limited (JBL), Agrani Bank Limited (ABL) and Rupali Bank Limited (RBL) have been selected to measure their compliances as per the guidelines provided by BSEC and BB. This study has been conducted based on qualitative and quantitative approach. SOCBs in Bangladesh are guided basically by BB. BSEC has no notification regarding the SOCBs except RBL which is listed under Dhaka Stock Exchange (DSE).Secondary data from the annual report has been used to conduct this study. The annual reports of 2008-2013 for each bank were analyzed to conduct this study. This annual reports are mostly available in the banks website and at local book market. The information of the annual reports is used to find out the compliance of corporate governance by SOCBs in Bangladesh. There are168 disclosure variables, that ensure whether a financial company maintains corporate governance notification or not, have been used to conduct the 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 the 168 disclosure variables 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 168 variables are converted into 10 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),Reporting &Compliance of Corporate Governance(RCC),Formation of Board of Directors (FBoD), Appointment and responsibilities of Board of Directors (ARCEO) and Contractual appointment of Consultant and Advisor (CAAC) considering the cohesiveness among these variables by using statistical tool SPSS. Then, Descriptive statistics are calculated and cross tabulations are prepared by using SPSS. Again these variables are analyzed by EXCEL and SPSS to find out the result of Dichotomous Approach and Partial Compliance Approach. Initially pros and cons about the existing and relevant corporate governance guidelines in Bangladesh have been studied in details and subsequently, their compliances have been measured. Different bi-variant tables have been used to observe different factors and their effects.

Formula of Compliance Index

There are two types of approach to calculate the compliance of corporate governance and those are-

- 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)

$$OCI= (\Sigma dmi/\Sigma dni)$$

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

$$PCj= (\sum xi/Rj)$$

Where,
PCj= Total compliance score for each company and $0 \leq PCj \leq 1$.
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 has 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 P, Q and R. Their possible item to be complied and the ultimate complied items are bellow:

Table 3 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)
P	10	9	6
Q	15	11	9
R	25	20	25
Total	50	40	40

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

Under PC Approach,
OCI= (9/10+11/15+20/25)/3=0.81 or 81%
Under Dichotomous approach
OCI=40/50= 0.80 or 80%

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

Under PC Approach,
OCI= (6/10+ 9/15+ 25/25)/3= 0.73 or 73%
Under Dichotomous approach
OCI=40/50= 0.80 or 80%

The PC approach provides more accurate result than Dichotomous Approach.

8. Findings and Analysis

8.1 Compliance of Bangladesh Securities and Exchange Commission (BSEC) Guidelines through dichotomous Approach

According to dichotomous approach Table 4 shows that highest OCI is 78% in the JBL. On the other hand, lowest OCI is 33% in SBL. The Overall Compliance Index is 59%. From analysis it is also observed that the overall compliance index (OCI) is between 33% to 78%. Here, RBL is in the third position with overall compliance of 77%. In case of BD SBL has the lowest compliance showing only 10 compliances out of 45 compliance issues. On the other hand, RBL has the highest compliance showing 35 compliances out of 45 compliance issues. In case of CHC, SBL and ABL are not disclosing any issues but JBL and RBL are disclosing all issues. In case of AC JBL is disclosing 22 issues out of 28 issues and SBL is disclosing 12 issues only. In ESA all the banks are disclosing all issues. In case of, SC only JBL is disclosing 2 issues out of 5 issues no other banks are disclosing any issues. In case of DCEFO only JBL and RBL are disclosing all the issues and SBL and ABL are not disclosing any issues. In case of RCC we find the same results. The Figure 1 shows the Compliance of Bangladesh Securities and Exchange Commission (BSEC) Guidelines through dichotomous Approach.

Table 4 Compliance of Bangladesh Securities and Exchange Commission (BSEC) Guidelines through Dichotomous Approach

Serial no	Company key	Overall compliance analysis through Dichotomous Approach								
		BD(45)	CHC(2)	AC(28)	ESA(9)	SC(5)	DCEFO (4)	RCC(2)	Total Compliance (95)	OCI
1	SBL	10	0	12	9	0	0	0	31	0.33
2	JBL	33	2	22	9	2	4	2	74	0.78
3	ABL	17	0	21	9	0	0	0	47	0.49
4	RBL	35	2	21	9	0	4	2	73	0.77
Individual OCI		0.53	0.50	0.68	1.00	0.10	0.50	0.50		0.59

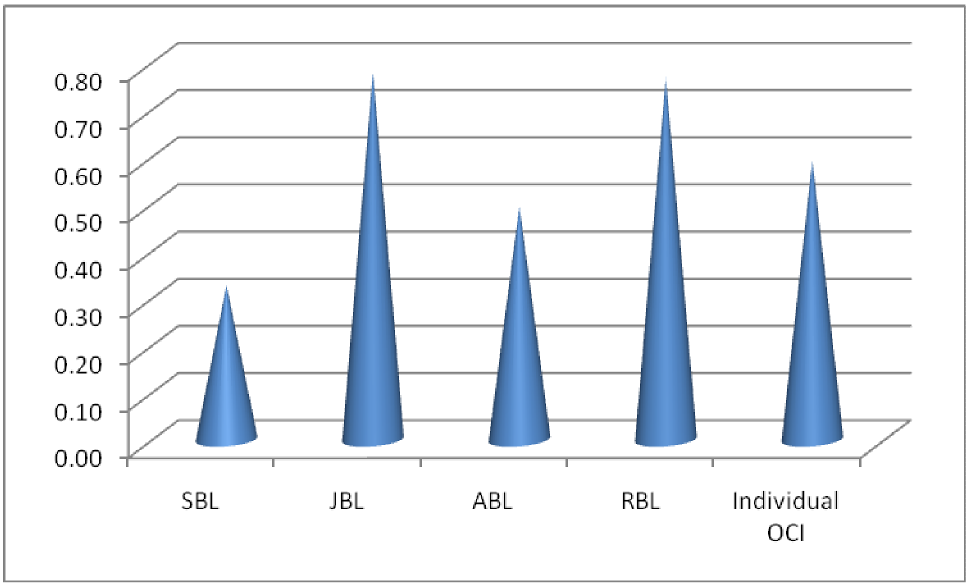

Figure 1 Compliance of Bangladesh Securities and Exchange Commission (BSEC) Guidelines through Dichotomous Approach

8.2 Descriptive Statistics of Compliance of Bangladesh Securities and Exchange Commission (BSEC) Guidelines through dichotomous Approach

Table 5 shows that all SOCBs in Bangladesh do not fully comply with all notifications issued by BSEC regarding the 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), Reporting & Compliance of Corporate Governance (RCC) for the improvement of corporate governance. It shows that BOD variable mean is 23.75 and standard deviation is 12.20 that mean compliance regarding board of director notifications is varied among different SOCBs in Bangladesh. The above Cross tabulation table indicates that out of 4 SOCBs, none of them fully comply with and follow the notifications of BSEC guidelines. Here we have found that the highest standard deviation is in the Board of Directors which is 12.20 and standard deviation in External Statutory Auditor. In case of total compliance of guidelines of BSEC we have observed the mean of total compliance is 56.25 and standard deviation is 20.97 that indicate the compliance disclosure of BSEC guidelines is not satisfactory.

Table 5 Descriptive Statistics of Compliance of Bangladesh Securities and Exchange Commission (BSEC) Guidelines through Dichotomous Approach

Descriptive Statistics								
	N	Range	Minimum	Maximum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
Board of Directors	4	25.00	10.00	35.00	23.7500	6.10157	12.20314	148.917
Chief financial officers Head of Internal Audit and Company Secretary	4	2.00	.00	2.00	1.0000	.57735	1.15470	1.333
Audit Committee	4	10.00	12.00	22.00	19.0000	2.34521	4.69042	22.000
External Statutory Auditor	4	.00	9.00	9.00	9.0000	.00000	.00000	.000
Subsidiary Company	4	2.00	.00	2.00	.5000	.50000	1.00000	1.000
Duties of Chief Executive Officer and Chief Financial Officers	4	4.00	.00	4.00	2.0000	1.15470	2.30940	5.333
Reporting and Compliance of Corporate Governance	4	2.00	.00	2.00	1.0000	.57735	1.15470	1.333
Total Compliance BSEC	4	43.00	31.00	74.00	56.2500	10.48312	20.96624	439.583
Valid N (list wise)	4							

8.3 Compliance of Bangladesh Securities and Exchange Commission (BSEC) Guidelines through PC or partial compliance Approach

Table 6 shows that highest OCI is 85% in the JBL. On the other hand, lowest OCI is 24% in SBL. The OCI of ABL and RBL are 30% and 79% respectively. The Overall Compliance Index is 54%. Besides, SOCBs are not disclosing all of notifications of BSEC. SOCBs have 100% compliances in case of ESA. More compliance have been observed from AC and BD 68% and 53% respectively; while, lowest number of notifications were complied in SC which is 10% in terms of partial compliance. Furthermore, the compliance items are CHC (50%) and DCEFO (50%) respectively. So, it is clear that SCOBs in Bangladesh is not complying the BSEC's notifications positively. The Figure 2 shows the Compliance of Bangladesh Bank Guidelines through partial compliance Approach.

Table 6 Compliance of Bangladesh Securities and Exchange Commission (BSEC) Guidelines through PC or Partial Compliance Approach

Sl. No.	Company key	Compliance analysis through PC or Partial Compliance Approach														
		BD(45)	PC (BD)	CHC (2)	PC (CHC)	AC(28)	PC (AC)	ESA(9)	PC (ESA)	SC(5)	PC(SC)	DCEFO (4)	PC (DCEFO)	RCC(2)	PC (RCC)	Total Compliance(95)	OCI
1	SBL	10	0.22	0	0	12	0.43	9	1	0	0	0	0	0	0	1.65	0.24
2	JBL	33	0.73	2	1	22	0.79	9	1	2	0.4	4	1	2	1	5.92	0.85
3	ABL	17	0.38	0	0	21	0.75	9	1	0	0	0	0	0	0	2.13	0.30
4	RBL	35	0.78	2	1	21	0.75	9	1	0	0	4	1	2	1	5.53	0.79
Individual OCI			0.53		0.50		0.68		1.00		0.10		0.50		0.50	3.81	0.54

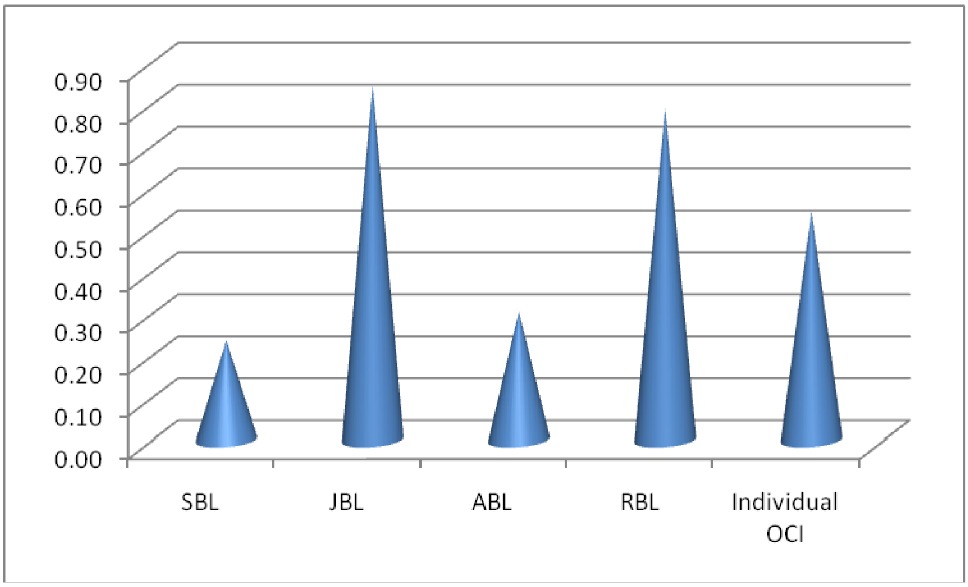

Figure 2 Compliance of Bangladesh Securities and Exchange Commission (BSEC) Guidelines through PC or Partial Compliance Approach

8.4 Compliance of Bangladesh Bank Guidelines through dichotomous Approach

According to dichotomous approach Table 7 shows that highest OCI is 49% in the RBL. On the other hand, lowest OCI is 14% in SBL. The Overall Compliance Index is 37%. From analysis it is also observed that the overall compliance index (OCI) is between14% to 49%. Here, ABL is in the third position with overall compliance of 48%. In case of FBoD SBL has the lowest compliance showing only 5 compliances out of 44 compliance issues. On the other hand, RBL has the highest compliance showing 27 compliances out of 44 compliance issues. In case of CAAC, SBL and JBL are not disclosing any issues but ABL and RBL are disclosing only one issue. The Figure 3 shows the Compliance of Bangladesh Bank Guidelines through dichotomous Approach.

Table 7 Compliance of Bangladesh Bank Guidelines through Dichotomous Approach

Serial no	Company key	Overall compliance analysis through Dichotomous Approach				
		FBoD (44)	ARCEO (17)	CAAC (12)	Total Compliance (73)	OCI
1	SBL	5	5	0	10	0.14
2	JBL	20	6	0	26	0.36
3	ABL	26	8	1	35	0.48
4	RBL	27	8	1	36	0.49
Individual OCI		1.77	1.59	0.17		0.37

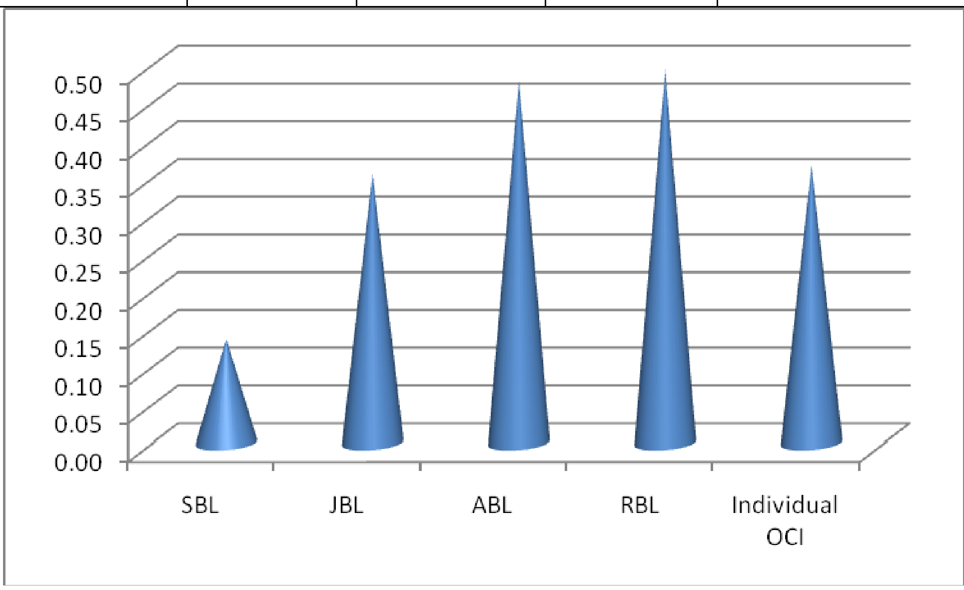

Figure 3 Compliance of Bangladesh Bank Guidelines through Dichotomous Approach

8.5 Descriptive Statistics of Compliance of Bangladesh Bank Guidelines through Dichotomous Approach

Table 8 shows that all SOCBs in Bangladesh do not fully comply with all notifications issued by BB regarding the Formation of Board of Directors (FBoD), Appointment and Responsibilities of Board of Directors (ARCEO) and Contractual Appointment of Consultant and Adviser (CAAC) for the improvement of corporate governance. It shows that FBoD variable mean is 19.50 and standard deviation is 10.14 that mean compliance regarding board of director notifications is varied among different SOCBs in Bangladesh. In case of total compliance we observe that the mean is 26.75 and the standard deviation is 12.03 that indicate the compliance disclosure of BB guidelines is not satisfactory. The above Cross tabulation table indicates that out of 4 SOCBs, none of them fully comply with and follow the notifications of BB guidelines in case of FBoD, ARCEO and CAAC.

Table 8 Descriptive Statistics of Compliance of Bangladesh Bank Guidelines through Dichotomous Approach

Descriptive Statistics								
	N	Range	Minimum	Maximum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
Formation of Board of Directors	4	22.00	5.00	27.00	19.5000	5.07445	10.14889	103.000
Appointment and Responsibilities of Board of Directors	4	3.00	5.00	8.00	6.7500	.75000	1.50000	2.250
Contractual Appointment of Consultant and Adviser	4	1.00	.00	1.00	.5000	.28868	.57735	.333
Total Compliance BB	4	26.00	10.00	36.00	26.7500	6.01907	12.03813	144.917
Valid N (list wise)	4							

8.6 Compliance of Bangladesh Bank Guidelines through PC or partial compliance Approach

Table 9 shows that highest OCI is 39% in the RBL. On the other hand, lowest OCI is 14% in SBL. The OCI of ABL and JBL are 38% and 27% respectively. The Overall Compliance Index is 29%. Besides, all SOCBs are not disclosing majority of notifications of BB. More compliance from FBoD and ARCEO 44% and 40% respectively; while, lowest number of notifications were complied in CAAC which is 4% in terms of partial compliance. Furthermore, the second and third compliance items are SC (83%) and BD (92%) respectively. So it is clear that SCOBs in Bangladesh are not complying the BB traditional notifications positively. The Figure 4 shows the Compliance of Bangladesh Bank Guidelines through partial compliance Approach.

Table 9 Compliance of Bangladesh Bank Guidelines through PC or Partial Compliance Approach

Serial no	Company key	Compliance analysis through PC or Partial Compliance Approach							
		FBoD (44)	PC(FBoD)	ARCEO (17)	PC(ARCEO)	CAAC (12)	PC(CAAC)	Total Compliance (73)	OCI
1	SBL	5	0.11	5	0.29	0	0.00	0.41	0.14
2	JBL	20	0.45	6	0.35	0	0.00	0.81	0.27
3	ABL	26	0.59	8	0.47	1	0.08	1.14	0.38
4	RBL	27	0.61	8	0.47	1	0.08	1.17	0.39
Individual OCI			0.44		0.40		0.04	0.88	0.29

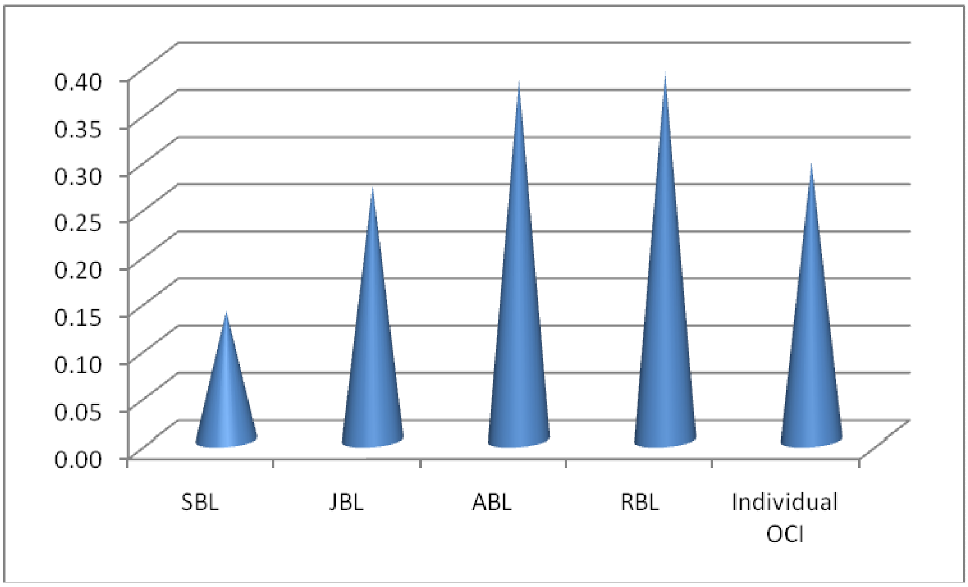

Figure 4 Compliance of Bangladesh Bank Guidelines through PC or Partial compliance Approach

9. Recommendations and Suggested Guidelines for better Corporate Governance Compliance

From this study, it is found that compliance of corporate governance notification issued from Bangladesh Securities & Exchange Commission (BSEC) and Bangladesh Bank (BB) by SOCBs in Bangladesh is not satisfactory. There is no clear indication of compliance according to BSEC and BB guidelines because in BSEC and BB notification guidelines for SOCBs are specifically not available. Compliances are not only appropriate but also it is essential. Management should take reasonable steps to develop, implement and maintain an effective legal compliance program, and the board should be knowledgeable about and oversee the program, including periodically reviewing the program to gain reasonable assurance that it is effective in deterring and preventing misconduct. Corporations have an important perspective to contribute to the public policy dialogue and should be actively involved in discussions about the development, enactment and revision of the laws and regulations that affect their businesses and the communities in which they operate and their employees reside. To the extent that the corporation engages in political activities, the board should have oversight responsibility and consider whether to adopt a policy on disclosure of these activities (BRT, 2012).

Since all of the SOCBs in Bangladesh are owned by government, in this study it is revealed that SOCBs are not so much careful to maintain the appropriate corporate governance practice. Most of the decisions are influenced by the ruling part law makers so there is huge chance of corruption and in recent times we have found some incidents in state owned commercial banks in Bangladesh. So such types of practice should be avoided and governance should be taken at the heart of Bangladesh's development strategy like other regional countries.

In addition to this on the basis of our analysis in the context of Bangladesh, we recommend some guidelines separately for Bank's Management and Regulatory Authority for efficient management of the practice and disclosure of corporate governance in SOCBs in Bangladesh.

A. Suggestions for Bank's Management

a) There should be formal written guidelines specially for corporate governance and its impact by stating the goals and strategies;
b) SOCBs should give more attention specially proportion of Independent director, vacancy requirement of Independent director, reporting extra gain/loss, utilization of proceeds from public issues, explanation regarding IPO an RPO, significance variation of quarterly financial statement and annual financial statement, reason of non-declaration of dividend etc.
c) SOCBs should give attention on Audit committee section. In addition to this they should emphasize on casual vacancy requirement, review of proceeds from public issues, reporting to shareholders and commission about any fraud, conflict of interest and other matters. Though they said in annual report these factors are not applicable actually some of these factors exist in banks.
d) Information and communication Technology (ICT) should be applied to improve the corporate governance in Bangladesh that will enhance the transparency and accountability in SOCBs.
e) SOCBs should give attention on subsidiary company section because in this section their compliance rate is very low. They should emphasize on proportion of independent directors in BoD of subsidiary company.

f) SOCBs, like all other companies, must act within the law. The penalties for serious violations of law can be extremely severe, even life-threatening, for corporations.
g) Internal control structure should be developed in such way so that compliance with the prescribed policies and guidelines are confirmed;
h) Procedures should be in place to ensure that operations are consistent with written policies. As such it is essential that a system of controls should be in place to limit malpractice of corporate governance under control;
i) Bank should develop stringent policy for measuring the practice of corporate governance and should place in operation to follow strictly and consistently;
j) Role of the internal audit can be strengthen specially to review the corporate governance risks and should have defined reporting systems;
k) Management should disclose voluntarily their perceptions and measures taken regarding of corporate governance risks exposure and its management;
l) Last but not least, BODs should not provide mere lip services rather make it happen consistently throughout the Bank.

B. Suggestions for Regulatory Authorities

Regulatory bodies have very good role for stabilization of this industry and uplifting public confidence. Hence following supervisory and regulatory measures could be taken by the Central bank (BB) and other regulatory bodies (BSEC) for proper management of corporate governance:

a) Bangladesh Bank should develop uniform guidelines for SOCBs by mentioning limits for various activities along with the procedures to improve the practice of corporate governance in SOCBs in Bangladesh;
b) Bangladesh Securities Exchange commission (BSEC) should develop guideline on the basis of state owned concept guidelines so that people easily can distinguish between them.
c) Ensuring an Effective Legal and Regulatory Framework for State-Owned Commercial Banks.
d) The legal and regulatory framework for state-owned enterprises should ensure a level-playing field in markets where state-owned enterprises and private sector companies compete in order to avoid market distortions. The framework should build on, and be fully compatible with, the BSEC and BB Principles of Corporate Governance.
e) Governments should strive to simplify and streamline the operational practices and the legal form under which SOCBs operate. Their legal form should allow creditors to press their claims and to initiate insolvency procedures.
f) SOCBs should not be exempt from the application of general laws and regulations. Stakeholders, including competitors, should have access to efficient redress and an even-handed ruling when they consider that their rights have been violated.
g) SOCBs should face competitive conditions regarding access to finance. Their relations with state-owned banks, state-owned financial institutions and other state-owned companies should be based on purely commercial grounds.
h) Establishing well-structured and transparent board nomination processes in fully or majority owned SOCBs, and actively participating in the nomination of all SOCBs' boards.
i) Ensuring that remuneration schemes for SOCB board members foster the long term interest of the company and can attract and motivate qualified professionals.

10. Conclusion

Effective corporate governance requires a clear understanding of the respective roles of the board, management and shareholders, their relationship with each other and with others who have an interest in the corporation and its well-being. The relationships of the board and management with shareholders should be characterized by transparency and appropriate engagement; their relationships with employees should be characterized by fairness; their relationships with the communities, in which they operate, should be characterized by good citizenship; and their relationships with government should be characterized by a commitment to compliance(BRT,2012).The importance of corporate governance notification compliance is increasing day by day in corporate sector in Bangladesh and the compliance by SOCBs in Bangladesh is growing as well. Though, some recent cases show lack in compliances of corporate governance in Bangladeshi companies which causes trouble in financial sectors. SOCBs are holding the major portions of those financial scams of recent times. As a result, most of the SOCBs are being positively encouraged to ensure sound corporate governance within their organization that ultimately leading to make a good environment in the financial sector of Bangladesh. The major results of this research provide an initial overview of compliance status of corporate governance by SOCBs in Bangladesh. The results revealed unsatisfactory compliance of corporate governance notification by SOCBs in Bangladesh. This research also gives a view to all stakeholders who are associated with SOCBs. Appropriate and adequate adoption of corporate governance principles by state owned commercial in Bangladesh will be a major step towards creating safeguards against corruption, embezzlements and mismanagement and promoting transparency in corporate sector in Bangladesh and attracting domestic and foreign investment. In addition to this our separate suggestions for the Bank Management and the Regulatory Bodies may assist them to formulate a comprehensive guideline and ensure better corporate governance compliance in SOCBs in Bangladesh.

Future Research: Future research may focus on the effect of corporate-governance compliance on the performance of SOCBs. Application of Information and Communication Technology (ICT) in the improvement of Corporate Governance might be another emerging area of research. At the beginning of the 21st, many of Bangladeshi banks have opened different windows along with their conventional banking; thus the comparison of corporate governance notification by SOCBs and conventional banks with different windows could be another rich area of research.

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