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Corporate Governance and Financial Disclosures: Bangladesh Perspective

Dr. Md. Shamimul Hasan[1*] Dr. Syed Zabid Hossain[2] Dr. Robert J. Swieringa[3]

1. Assistant Professor, Department of Business Administration, World University of Bangladesh, Dhaka, Bangladesh
2. Professor, Department of Accounting and Information Systems, University of Rajshahi, Rajshahi 6205, Bangladesh
3. Professor of Accounting, Anne and Elmer Lindseth Dean Emeritus, John Graduate School of Management, Cornell University, Ithaca, New York

* E-mail of the corresponding author: dr.mdshamimulhasan@rocketmail.com

Abstract

Financial reporting disclosures are very essential to the shareholders of a company because they frequently use these disclosures for their economic decisions about the business enterprise. Board of directors, corporate management and external auditor may have an influence on financial reporting disclosures. From this perspective, the study investigates the influence of corporate governance on financial reporting disclosures. The results show that corporate governance is significantly associated with the extent of financial reporting disclosures. External auditor, multilisting and profitability are significantly (5 per cent level) associated with overall financial reporting disclosures index.

Keywords: Bangladesh, financial reporting disclosure, corporate governance

1. Introduction

It is believed that there is an association between corporate governance and financial reporting disclosures. The scandals of high profile companies such as Enron, WorldCom, Tyco and some other firms in the U.S, have realized the question of the effectiveness of monitoring mechanisms in organizations (Raphaelson and Wahlen, 2004). Corporate governance reduces emerging market vulnerability to financial crises, reinforces property rights, reduces transaction costs and the cost of capital, and leads to capital market development. Weak corporate governance frameworks reduce investors' confidence, and can discourage outside investment. Corporate governance is affected by the relationships among participants in governance system. As owners of equity, institutional investors are increasingly demanding a voice in corporate governance in some markets. Individual shareholders usually do not seek to exercise governance rights but may be highly concerned about obtaining fair treatment from controlling shareholders and management. Creditors play an important role in a number of governance systems and can serve as external monitors over corporate performance. Employees and other stakeholders play an important role in contributing to the long-term success and performance of the corporation, while governments establish the overall institutional and legal framework for corporate governance (OECD: 2004).

In Bangladesh, January 10, 2011 is called Black Monday because the stock market collapsed on that date and has not yet recovered. A lot of measures have been taken by the Securities and Exchange Commission (SEC) and other regulators, but there is no result of these efforts. Almost every day of 2011 and 2012, small investors were engaged in many activities, including procession, press-conference, hunger-strike, block the roads, and close the stock market trade as a part of their expression of frustration. The probe report opined that there are many issues that are responsible for collapse of the market. Governance of SEC and other institutions could not satisfy the probe committee (PC). One of the main recommendations of the committee was the removal of chairman, executive director and directors of SEC (SMIR, 2011). This recommendation clearly indicates a red flag for corporate governance.

SEC issued Guidelines on Corporate Governance in 2006. Listed companies are required to "comply or explain". The Guidelines cover some key topics, including the functioning of the Board, and internal and external controls. The Guidelines do not deal with other aspects of corporate governance, including shareholder rights. Compliance is at its early stage (World Bank: 2009). There are no provisions for punitive measures for non-compliance of any one of the conditions mentioned in the notification. Only "comply or explain" basis is not enough in Bangladesh for ensuring good governance.

This study strives to analysis overall disclosure index of twenty non-financial companies listed in DSE. This would be the first known study to examine the association between corporate governance and overall financial reporting disclosures index. The weak form of corporate governance in Bangladesh allows the researchers to (1) review corporate financial reporting practices by non-financial companies listed in DSE, (2) identify different aspects of corporate governance, and (3) to examine the association between corporate governance and corporate financial reporting disclosures index.

Next, the researchers' examine the association between corporate governance and corporate reporting disclosures index. The researchers capture the impact of corporate governance using three measures, such as dependent variable (corporate financial reporting disclosures index), independent variables, and linkage between dependent and independent variables.

Previous researches have investigated a range of factors potentially associated with disclosures including Board independence, dominant personality, Board size, institutional ownership, external auditors, general public ownership, leverage, asset size, profitability, multilisting, and number of shareholders. However, the influence of corporate governance on corporate financial reporting disclosures index has not been examined previously. Present finding of significant relationship between external auditor and corporate reporting disclosures index supports the tenets of principal-agent theory. Several other factors found to be associated with corporate financial reporting disclosures in prior researches have been controlled. A final contribution of this research relates to the growing body of literature on corporate governance (external auditor engagement) and corporate financial reporting disclosures. The research provides robust empirical evidence in support of claims in the literature that external auditor's demand can drive corporate action.

The remainder of the paper is organized as follows. The next section reviews the prior literature and develops the hypotheses for the study. Section 3 outlines the data and method, section 4 presents the results of the analysis and Section 5 concludes.

2. Literature Review

One function of financial reporting is to restrain management to act against the shareholders' interest (Watts and Zimmerman, 1978). Global investor opinion survey of McKinsey & Company (2002) reveals that majority of the institutional investors is willing to pay a high premium for companies having good governance and accounting disclosures are the most important factor that influences their investment decisions. Good governance goes hand-in-hand with reduced risk of financial reporting problems and other bad accounting outcomes (Hermanson, 2003). Information disclosed by the companies in their annual reports can be used as important input in various corporate governance mechanisms (Bushman and Smith, 2001). Good governance by BOD can influence financial reporting disclosures, which in turn has an important impact on shareholders confidence. Previous studies have shown that good corporate governance reduces adverse effects of earnings management as well as likelihood of creative financial reporting arising from fraud or errors (Beasley, 1996; McMullen, 1996). Traditionally, the external auditor has also played an important role in improving the credibility of financial information. Hen and Jaggi (2000) found a positive association between the proportion of independent non-executive directors and the comprehensiveness of information in mandatory financial disclosure of Hong Kong companies. Eng and Mark (2003) found that lower managerial ownership and significant government ownership are associated with increased disclosure and that an increase in outside directors reduces the corporate disclosure of firm listed on the Stock Exchange of Singapore. Extensive occurrence of individual and family run companies tends to discourage professionalism, encourage non-compliance and facilitate creative accounting as well as to result in severe conflicts of interests (Halim, 2001).

3. The Variables and Hypotheses Development

3.1 Dependent Variable:

An Overall Disclosures Index (ODI) of sample companies was used as dependent variable and several corporate governance and control variables were used as independent variables to test the influence or impact of corporate governance variables over the ODI.

3.2 Primary Independent Variables (Corporate Governance Variables):

1. Board Independence (bi)
2. Dominant Personality (dp)

3. Board Size (bs)
4. Institutional Ownership (io)
5. General Public Ownership (gp)
6. External Auditor (ea)

3.3 Secondary Independent Variables (Control Variables)

1. Leverage (lvg)
2. Asset Size (asstsz)
3. Profitability (profitab)
4. Multi Listing (multilis)
5. Number of Shareholders (shareholders)

Board Independence

The board, which comprises of a number of independent directors, has a greater monitoring and controlling ability over management (Fama and Jensen, 1983). In Bangladesh, SEC corporate guidelines stated that one-tenth of the total number of the company's board of directors, subject to a minimum of one, should be independent directors. But in Malaysia, if a company has only three board members, two of them are required to be independent. Fama and Jensen (1983), Ho and Wong (2001) found a significant positive association. But, Eng and Mark (2003), Gul and Leung (2004) found a negative association. This variable is taken in this study as an independent variable and the hypothesis is:

Ho: There is no association between board independence and overall disclosure index.

CEO Duality / Dominant Personality

The corporate governance literature has emphasized the need to separate the position of CEO (chief executive officer) and board chairman to guarantee the board independence and improve transparency (Jensen, 1993). In this respect, Dechow et al. (1996) revealed that the duality CEO-chairman increases the likelihood of violating the accounting principles in American firms. CEO duality is considered as an independent variable in this study and the hypothesis is:

Ho: There is no association between CEO Duality and overall disclosure index

Board Size

A larger board size may bring a greater number of directors with experience that may represent a multitude of values (Halme and Huse, 1997) on the board. On the contrary, a reduced number of directors imply a high degree of coordination and communication between them and managers (Jensen, 1993. Board size is taken as an independent variable and the hypothesis is:

Ho: There is no association between board size and overall disclosure index.

Institutional Ownership

Considering the influence of shareholder activism in governance reforms is important to obtain insight into governance practices (Daily et al., 2003). To date, institutional investors' participation has emerged as an important force in corporate monitoring mechanism to protect minority shareholders' interest. Institutional ownership is accepted in the present study as an independent variable and the hypothesis is:

Ho: There is no association between institutional ownership and overall disclosure index.

General Public

The greater will be the details required of an item of information, the more comprehensive will be the disclosure of a firm (Apostolou and Nanopoulos, 2009). It is expected that if a company has a large proportion of public ownership, the political cost will be bigger and the company will decide to disclose more information. We consider General Public as an independent variable and the hypothesis is:

Ho: There is no association between general public and overall disclosure index.

External Auditor

The external audit can be an effective control mechanism to monitor the managers and guarantee the integrity of financial reports. The appointment of an independent external auditor can reduce the probability of earnings manipulation by shrinking managerial opportunism (Chung et al., 2003). Several authors advocated that financial information is more reliable for "BIG 4" clients in comparison with other companies (Becker et al., 1998). In Bangladesh, there are six audit firms that have international links. External auditor is taken an independent variable and the hypothesis is:

Ho: There is no association between external auditor and overall disclosure index.

Leverage

Lenders want reliable information about borrowers. That is why borrowers usually furnish more information in their annual reports to meet the information needs of creditors, investors and other stakeholders. But, Belkaoui et al. (1977) have observed a significant negative relationship between the mentioned variables. Contrarily, Robbins and Austin (1986) had found a significant positive correlation between debt and municipal disclosures. Leverage is selected as an independent variable and our hypothesis is:

Ho: There is no association between leverage and overall disclosure index.

Asset Size

Many disclosure studies e.g., Cooke (1992 and 1993); Ahmed and Nicholls (1994) suggest that there is a significant relationship between company asset size and the extent of voluntary disclosure. Asset size is selected as an independent variable and our hypothesis is:

Ho: There is no association between asset size and overall disclosure index.

Profitability

Profitability affects the level of disclosures. There are mixed results found about the association between profitability and disclosure. Inchausti (1997), Wallace and Naser (1995) found a positive association between profitability and the extent of disclosure. Belkaoui and Kahl (1978) found a negative association between them. Again, Meek et al. (1995) found no association between them. Profitability is used as an independent variable and our hypothesis is -

Ho: There is no association between profitability and overall disclosure index.

Multiple Listing

Firms listed in more prestigious markets may provide signals to customers, suppliers and creditors about the strength of the company and that may also encourages brand recognition. It also provides signals about the future prospects of the company. Listing status has been tested and identified to be significant by Meek et al. (1995) and Inchausti (1997). Multiple listing is used as an independent variable and our hypothesis is Ho: There is no association between multiple listing and overall disclosure index.

Shareholders

Shareholders are treated as both internal and external stakeholders. They can change the management and appoint new agents if they believe that the existing management is not managing the entity efficiently. It is expected that a large number of shareholders will exert more pressure on management. Number of shareholders is an important factor in determining the corporate disclosure level (Alam, 2008). It is taken as independent variable in this study and the hypothesis is-

Ho: There is no association between number of shareholders and overall disclosure index.

4. Methodology

4.1 Selection of Sample

Stratified sampling technique was used. Each business segment was considered as a stratum. Four stratums and five companies from each stratum had been selected purposively.

Table -1: Distribution of Population and Sample Size of the Companies

Stratum	Population Size	Sample Size	Sample as percent of Population	Percent of total Sample
Textile	12	5	42	25
Pharmaceuticals	13	5	38	25
Cement	7	5	71	25
Food & Allied	8	5	63	25
Total	40	20	214	100

The sample size in terms of percentage of population was dissimilar, but the percent of sample size of each stratum was equal i.e., 25 percent.

4.2 Selection of Disclosure Items

A draft check list was prepared that provided the basis for a survey with yes / no questions that was used to select the individual items for the final checklist. Finally, two-hundred items were used to measure a company disclosure score. The 200 items reflect the following disclosure items of an annual report.

Table -2: Summary of Draft and Final Disclosure Checklist

Parts	Disclosure Key	Total Items (Draft)		Items accepted (Final)		Percentage of items accepted
		Number	%	Number	%	
General Disclosure Items	GDI	25	11	20	10	80
Company Profile Items	CPI	25	11	15	8	60
Directors Report Items	DRI	30	14	28	14	93
Financial Highlight Items	FHI	30	14	27	14	90
Accounting Polices Items	API	26	12	26	13	100
Income Statement Items	ISI	14	6	14	7	100
Balance Sheet Items	BSI	48	22	48	24	100
Cash Flow Statement Items	CFSI	22	10	22	11	100
Overall Disclosure		220	100%	200	100%	91%

4.3 Scoring of Disclosure Items

The items were considered equally important to disclose and hence a dichotomous unweighted approach was used for scoring. If a company discloses an item it will be awarded one and if not it will be awarded zero.

4.4 Developing Overall Disclosure Index

Partial Compliance Unweighted Approach was used to measure the overall disclosure index. This is the first time that this approach is used in Bangladesh to measure the overall disclosure index because the level of compliance of the companies is not the same. The formula is as follows:

$$PCj = \frac{\sum_{i=1} Xi}{Rj}$$

Where,

PCJ = Total compliance score for each company and $0 \leq PCj \leq 1.$

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

Rj = Total number of disclosure part of each company.

5. Statistical Analysis

5.1 Descriptive Statistics for Surveyed Companies

Ranking has been made on the basis of coefficient of variation of the company; the lowest coefficient of variation means the company is more consistent in disclosing information in annual report and received upper rank.

Table-3: Descriptive Statistics of Surveyed Companies

<table>
<tr><th rowspan="2">Serial No.</th><th rowspan="2">Company Name</th><th rowspan="2">Rank</th><th colspan="5">Descriptive Statistics</th></tr>
<tr><th>Mean</th><th>SD</th><th>CV</th><th colspan="2">ODI</th></tr>
<tr><td colspan="7">Textile Segment:</td><td rowspan="24">0.67</td></tr>
<tr><td>1</td><td>HR Textile Mills Limited</td><td>12</td><td>0.56</td><td>0.26</td><td>0.46</td><td rowspan="5">0.63</td></tr>
<tr><td>2</td><td>BEXTEX Limited</td><td>5</td><td>0.76</td><td>0.14</td><td>0.19</td></tr>
<tr><td>3</td><td>Apex Weaving and Finishing Ltd</td><td>8</td><td>0.66</td><td>0.14</td><td>0.22</td></tr>
<tr><td>4</td><td>Saiham Textile Mills Ltd.</td><td>11</td><td>0.49</td><td>0.16</td><td>0.33</td></tr>
<tr><td>5</td><td>Alltex industries limited</td><td>8</td><td>0.69</td><td>0.15</td><td>0.22</td></tr>
<tr><td colspan="7">Pharmaceuticals Segment:</td></tr>
<tr><td>6</td><td>IBN SINA</td><td>7</td><td>0.74</td><td>0.16</td><td>0.21</td><td rowspan="5">0.72</td></tr>
<tr><td>7</td><td>LIBRA</td><td>3</td><td>0.73</td><td>0.13</td><td>0.17</td></tr>
<tr><td>8</td><td>SQUARE</td><td>4</td><td>0.80</td><td>0.14</td><td>0.18</td></tr>
<tr><td>9</td><td>BEXIMCO</td><td>10</td><td>0.71</td><td>0.18</td><td>0.26</td></tr>
<tr><td>10</td><td>ORION</td><td>10</td><td>0.62</td><td>0.16</td><td>0.26</td></tr>
<tr><td colspan="7">Cement Segment:</td></tr>
<tr><td>11</td><td>Heidelberg cement Bangladesh Ltd.</td><td>1</td><td>0.81</td><td>0.10</td><td>0.12</td><td rowspan="5">0.67</td></tr>
<tr><td>12</td><td>Meghna Cements Mills Ltd.</td><td>11</td><td>0.62</td><td>0.20</td><td>0.33</td></tr>
<tr><td>13</td><td>Aramit Cement Ltd.</td><td>9</td><td>0.62</td><td>0.15</td><td>0.24</td></tr>
<tr><td>14</td><td>Confidence Cement Ltd.</td><td>2</td><td>0.63</td><td>0.09</td><td>0.14</td></tr>
<tr><td>15</td><td>Lafrage Surma Cement Ltd.</td><td>9</td><td>0.65</td><td>0.15</td><td>0.24</td></tr>
<tr><td colspan="7">Food and Allied Segment:</td></tr>
<tr><td>16</td><td>Apex Foods Ltd</td><td>2</td><td>0.74</td><td>0.10</td><td>0.14</td><td rowspan="5">0.66</td></tr>
<tr><td>17</td><td>Fu-Wang Foods Ltd</td><td>8</td><td>0.66</td><td>0.15</td><td>0.22</td></tr>
<tr><td>18</td><td>Gulf Foods Ltd</td><td>6</td><td>0.65</td><td>0.13</td><td>0.20</td></tr>
<tr><td>19</td><td>Fine Foods Ltd</td><td>9</td><td>0.61</td><td>0.15</td><td>0.24</td></tr>
<tr><td>20</td><td>Rahima Foods Corporation Ltd</td><td>11</td><td>0.65</td><td>0.21</td><td>0.33</td></tr>
</table>

5.2 Correlation Matrix and Multicollinearity Analysis

Pearson's Pair Wise Product Moment Correlation Coefficient (r) is computed in order to examine the correlation between dependent and independent variables.

Table- 5: Correlation Matrix

Variable	*odi*	*bi*	*Dp*	*Bs*	*Io*	*Gp*	*Ea*	*lvg*	*astsz*	*pftab*	*multilis*	*sholders*
Odi	1											
Bi	-0.10	1										
Dp	0.37	-0.14	1									
Bs	0.21	-0.44*	-0.44*	1								
Io	0.30	-0.01	-0.19	0.62**	1							
Gp	0.05	-0.26	0.10	-0.13	-0.57**	1						
Ea	0.48*	-0.17	0.13	0.37	0.34	-0.07	1					
Lvg	0.43*	0.11	0.38	0.16	0.36	-0.44*	0.33	1				
Astsz	0.33	-0.27	-0.04	0.76**	0.57**	-0.22	0.45*	0.32	1			
Pftab	0.54**	-0.21	0.20	0.39*	0.45*	-0.09	-0.04	0.26	0.39*	1		
Multilis	0.54**	0.06	0.15	0.02	0.12	-0.16	0.13	0.40*	0.12	0.05	1	
Sholders	0.42*	-0.22	0.13	0.42*	0.13	0.17	0.41*	0.39*	0.64**	0.31	0.12	1

** Correlation is significant at the 0.05 level (1-tailed).*

***Correlation is significant at the 0.01 level (1-tailed).*

Bryman and Cramer (1997) suggested that simple correlation between dependent and independent variables should not be considered harmful until they exceed 0.80 or 0.90. The highest value of the observed correlations is 0.76; therefore, the observed correlations are not harmful. These *finding* suggest that multicollinearity between independent variables is unlikely to pose a serious problem in the interpretation of the results of the multivariate analysis.

5.3 ANOVA Technique

The following table shows the ANOVA and the level of significant at 5 percent.

Table- 6: ANOVA (b)

model		*sum of squares*	*df*	*mean square*	*F*	*sig.*
1	Regression	0.097358001	11	0.008850727	3.3332935	0.049186143
	Residual	0.021241999	8	0.00265525		
	Total	0.1186	19			

a *predictors: (constant), sholders, multilis, io, bi, dp, ea, gp, profitab, lvg, asstsz, bs*

b *dependent variable: odi*

P value indicates that there is a significant relationship between corporate governance and overall disclosure index. Therefore, null hypothesis (*Ho*) is rejected.

5.4 Empirical Model

It is already observed from the above analysis that there is a relationship between corporate governance and the extent of disclosure, but the effect of each variable on the disclosure level is still unknown at this stage. The following Ordinary Least Square (OLS) regression model is developed in order to identify the effect of each variable on the disclosure level.

$$ODI = \alpha + \beta_1 bi + \beta_2 dp + \beta_3 bs + + \beta_4 io + \beta_5 gp + \beta_6 ea + \beta_7 lvg + \beta_8 asstsz + \beta_9 profitab + \beta_{10} multilis + \beta_{11} sholders + \varepsilon$$

Where,

ODI = Overall Disclosure Index

α = the intercept

ε = the error term

In regression analysis, the enter method of Statistical Package (SPSS) was used in order to verify the influence of independent variable that were chosen for the study over the dependent variable. The summary output of the model for the all sample companies is shown in the following table.

Table – 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.906(a)	0.821	0.575	0.05153

a Predictors: (Constant), sholders, multilis, io, bi, dp, ea, gp, profitab, lvg, asstsz, bs

The adjusted coefficient of determination of R^2 indicates that around 57 percent of the variation in the dependent variable is explained by variations in the independent variables. Thus the model is capable of explaining 57 percent variability of disclosed information in the annual reports of sample companies.

Table-8: Coefficients (a)

Model	Variables	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.438	0.175		2.495	0.037
	Bi	0.001	0.002	0.093	0.340	0.743
	Dp	0.007	0.072	0.042	0.097	0.925
	Bs	-0.005	0.025	-0.118	-0.189	0.855
	Io	0.000	0.001	0.038	0.131	0.899
	Gp	0.001	0.001	0.250	0.944	0.373
	Ea	0.092	0.038	0.519	2.414	0.042
	Lvg	0.006	0.056	0.032	0.103	0.921
	Asstsz	0.000	0.000	-0.058	-0.138	0.894
	Profitab	0.001	0.000	0.611	2.500	0.037
	Multilis	0.161	0.058	0.455	2.752	0.025
	Sholders	0.000	0.000	-0.003	-0.012	0.991
A	Dependent Variable: odi					

It is observed that external auditor, profitability and multi listing are significantly associated with disclosures level. The coefficient of external auditor, profitability and multi listing are statistically significant at 5 percent level. The board independence, board size, dominant personality, institutional ownership, general public, leverage, assets size, and number of shareholders are not statistically significant even at 10 percent level.

6. Discussions

The purpose of the current study is to examine the level of financial disclosures among Bangladeshi companies and its association with corporate governance characteristics. On the whole, the study concludes that the level of financial disclosures in Bangladesh has been increasing gradually but it is still below the level of expectation.

Besides, the reliability and transparency level of financial disclosures is very low and hence the confidence level of external users' is also very low. Therefore, shareholders do not use the information provided in the annual report in making their economic decisions. Using six corporate governance variables the study found that there is an association between corporate governance characteristics and the level of financial disclosures. But, only the association between external auditor and the level of financial disclosures is found significant. In support of agency-theory and involvement of competent auditors', the authors provide evidence of the ability of a competent auditor to influence corporate financial disclosures reporting. World Bank report stated that audits are not reviewed in Bangladesh and many market participants are skeptical of audit quality. There are some key weaknesses in the non-financial disclosure frame work, especially in the disclosure of ownership and control.

Other variables such as board independence, board size, dominant personality, institutional ownership and general public are not significantly associated with the level of financial disclosures. The weakness of these variables indicates that corporate governance structure of Bangladesh is weak. According to the World Bank report (2009), 'some companies have one independent director, some have none, board size is about 6 to 8 members, ownership is concentrated by a small number of related shareholders- sponsors held 43 percent of the market, general public held 38 percent and institutional investors held 10 percent'. The WB report clearly shows that board independence, board size, institutional ownership and general public are not in a position to influence corporate financial reporting disclosures.

The more powerful the stakeholders, the more ready the company to adapt to meet the stakeholders expectations. External users rely on the report provided by external auditor as they don't have direct access to corporate information. These external users would like to have more relevant and reliable information which is used in making their economic decisions. According to agency theory, there exists a conflict of interest between concentrated ownership and external users. Again, as per stakeholder theory, a company's continued existence needs the support of its stakeholders and their approval must be sought and the activities of the corporation be adjusted to meet their expectations (Cotter et al, 2011). Thus, the management of corporations always tries to make them successful by providing a healthy picture of companies. Under these circumstances, the opinion about the financial disclosures of external auditor plays an important role to the external users. The primary objective of appointing an external auditor is to protect the right of external stakeholders by producing a true, fair and reliable audit report. In Bangladesh, external auditors work for clients like other employees and their activities cannot protect the right of external stakeholders and this is the only reason for which external stakeholders do not fully rely on annual report in making their economic decisions. It is commonly believed that auditors are working only for their own incentives and companies disclose information only to comply with the SEC rules and guidelines. But, SEC does not examine the compliance of financial disclosures and corporate governance code. Consequently, the image of external auditor in Bangladesh is degrading day by day. Although concentrated ownership has the power to influence the level of corporate disclosures but they do not have sufficient knowledge about accounting and financial reporting in Bangladesh.

External auditor (an expert in accounting, reporting and auditing) is the only authority (as per the Companies Act 1994) to certify the financial statements of limited companies. But, external users do not have faith on audited financial statements and disclosures. In the International Conference of Chartered Accountants in Dhaka, the Honourable President of the People's Republic of Bangladesh Md. Zillur Rahman (2010) warned the professional accountants that "The government mostly depends on direct and indirect taxes to meet budget expenditure but many individuals or institutions for avoiding the tax amounts prepare their balance sheets in ways which do not reflect the real accounts," .He also urged the Chartered Accountants to show utmost honesty and integrity alongside their professionalism in preparing the financial statements for government and corporate entities. He opined that the professional Chartered Accountants must always work to ensure transparency and accountability. Therefore, the result of our study is fully supported by the assumptions of external stakeholders and others.

7. Conclusion

It is evident from the above discussion that external auditor, a corporate governance variable, can significantly influence the level of corporate financial disclosures. Other variables, such as, board independence, board-size, dominant personality, institutional ownership and general public are not meaningfully associated with the level of financial disclosures. As such, the corporate governance structure in Bangladesh is not at the acceptable level.

Finally, there is a potential limitation in the present study that needs to be acknowledged. Board competencies, family ownership, managerial ownership, competencies of audit committee members and so on have not been included in corporate governance variables as these disclosures were not available in the corporate annual report. There are also some key weaknesses in the non-financial disclosure frame work, especially in the disclosure of ownership and control (WB, 2009).

8. Opportunities for Further Research

Findings of this study warrant further investigation on corporate governance scenario in Bangladesh using governance & transparency index (GTI).

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