This is the published version (version of record) of:

Wise, Victoria and Ali, Muhammad 2009, Corporate governance and corporate social responsibility in Bangladesh with special reference to commercial banks American International University-Bangladesh, Dhaka, Bangladesh.

Available from Deakin Research Online:
http://hdl.handle.net/10536/DRO/DU:30024862

Reproduced with the kind permission of the copyright owner.

Copyright : 2009, American International University Bangladesh
Corporate Governance and Corporate Social Responsibility in Bangladesh with special reference to Commercial Banks

Victoria Wise and Muhammad Mahboob Ali

Office of Research and Publications (ORP)
American International University-Bangladesh (AIUB)

Working Paper No. AIUB-BUS-ECON-2009-05

Citation

July 2009

Copyright © 2009 American International University-Bangladesh (AIUB)
Corporate Governance and Corporate Social Responsibility in Bangladesh with special reference to Commercial Banks

Victoria Wise*
Muhammad Mahboob Ali**

Abstract
This is an exploratory paper with the aim of determining the nature and extent of corporate social responsibility reporting in the banking sector in Bangladesh, and to assess the need to improve corporate social responsibility by such firms. Corporate social responsibility is associated with corporate governance and ethical business procedure. Good corporate governance is expected to underpin effective and efficient corporate social responsibility within firms. We observe, from our content analysis of the annual reports of three cases studies within the Bangladesh banking industry, that the corporate social responsibility disclosures focus on initiatives undertaken to support two critical sectors within Bangladesh’s economy: agriculture and the SME sector. Further disclosures address contributions and donations made by the banks to support underprivileged sections of Bangladesh society including destitute youth and women. Of the three cases examined in this study, two are relatively new entrants to the banking sector. We observed that the newest firm, incorporated in 1999, made no disclosures in regards to its corporate social responsibility and, as a consequence, conclude that the corporate governance mechanisms in this firm are likely to be unsophisticated.

Keywords: Corporate governance; Corporate social responsibility; Disclosure; Ethical Business Procedure;
1.0 Introduction

Corporate governance indicates the policies and procedures applied by firms to attain certain sets of objectives, corporate missions and visions with regard to stockholders, employees, customers, suppliers and different regulatory agencies and the community at large. The role of governance is to maximize shareholder's wealth. Corporate governance depends on managerial performance as well as a consideration of social responsibility, the socio-cultural-environmental dimension of business procedure, legal and ethical practices with a focus on customers and other stakeholders of an organization. Corporate governance is gaining importance among policy makers, entrepreneurs, business personnel, stakeholders and related organizations.

Corporate governance and corporate social responsibility are interrelated. One technique that is being increasingly introduced to measure corporate social responsibility of firms is Triple-Bottom-Line (TBL) accounting. The triple bottom line captures an expanded spectrum of values and criteria for measuring organizational (and societal) success (http://en.wikipedia) and includes information on social, environmental and sustainability matters. Most companies in Bangladesh, including both local and multinational companies, do not provide this form of disclosure. According to Bangladesh Bank(2006) in order to establish good corporate governance in banking, Bangladesh bank issued several prudential regulations specifying qualification of a Bank director and a chief executive officer. In this study we examine the annual reports of three firms within the banking sector of Bangladesh to determine the extent and nature of their corporate social responsibility disclosures.

From 1990 Bangladesh commenced a move towards a free market economy. A floating exchange rate mechanism was introduced from 2003. Yet the capital market of the country has still not fully developed. Although the country is moving towards a free market economy neither government nor private initiatives have been sufficient to promote good corporate governance leading to an acceptable level of corporate social responsibility.
According to the Bangladesh Enterprise Institute (2004) there are numerous potential benefits and rewards for Bangladesh by improving corporate governance, including corporate social responsibility, practices. The primary and most important benefit from implementing mechanisms such as a code of corporate governance is likely to be felt at the national level with an improved global perception of business procedures including improved ethical business practices. In turn, this could lead to a process of revitalization of the Bangladeshi economy. If a code of corporate governance can be fully implemented, in public corporations, joint stock companies, state owned enterprises, and non-governmental organizations, the reputation of Bangladesh as a destination for investment will be greatly enhanced.

The capital market in Bangladesh is underdeveloped. The market lacks appropriate laws, transparency and the corporate disclosure system is faulty. It provides little protection to minority shareholders’ rights and often action against listed companies is difficult. Solaiman (2006) observed that the Bangladesh securities market has failed to achieve any significant growth since its inception in 1954. This stagnation is attributable to a number of factors that include, inter alia, the existence of weak legal and regulatory frameworks, the absence of active market professionals, the predominance of individual investors, and a serious dearth of foreign and institutional investors. Legal and regulatory weaknesses are considered to have critically hindered the market's potential growth. Some important laws are outdated, and the regulator has introduced some unrealistic reforms over the years. Most of the reforms accomplished thus far concentrate on incentives to investors and issuers alike, but nothing significant has been done for investor protection. Solaiman (2006) argues that effective legal protection to investors is indispensable for the development of, and the restoration of public confidence in the infant securities market of Bangladesh. Corporate governance initiatives have the potential to redress some of these issues and lead to an improvement in conditions affecting these important market constituents.

In terms of corporate governance, the public sector is still facing a very gloomy situation. The boards of directors of the central bank, nationalized commercial banks, specialised financial institutions etc., cannot even appoint their auditors. This is done by the
concerned ministry. Moreover, the financial liberalization process, which was started in 1990, has exposed financial institutions to many challenges including sometimes-severe credit risks and value fluctuations.

According to the Asian Development Bank (2005) during the latter half of 1996, Bangladesh’s stock market experienced a major bull run. Market capitalization rose by 265%, average daily turnover increased by over 1,000%, and the share price index jumped by over 260%. Subsequently, stock prices started falling sharply. Stock market prices at the end of April 1997 had dropped by close to 70% from their peaks in November 1996. The report of the Asian Development Bank (2005) also stated that due to the inability of the existing stock exchanges to service the requirements of small retail investors, a huge unofficial kerb market in shares developed. The report found that small investors at kerb market reached well over 25,000.

According to news published in The Inpendent (2008), Bangladesh Bank through issuance of a circular on 23rd August requested commercial banks to appoint two directors from the depositors by September 30. Bangladesh Bank has undertaken the initiative as per the Bank Company Act 1991 to ensure accountability and transparency of the banking activities through appointing two representatives from the depositors to the Board of Directors. The posts of the depositor directors will be in addition to 13 bank directors none of whom should be from the "family members" of the existing directors.

This study has been undertaken with the following objectives. First, to identify and understand the nature and extent of corporate social responsibility reporting by banks in Bangladesh. Next, to consider the explanations of corporate social responsibility reporting and to assess the need to improve corporate social responsibility of banks in Bangladesh.
The remainder of this paper proceeds as follows. In section two a review of relevant literature in the areas of corporate governance and corporate social responsibility is examined. In section three, an explanation of the research design is provided. The cases and results are discussed in section four. Lastly, a summary of the findings and potential areas for further research is provided.

2.0 Literature Review

We present a range of perspectives on corporate governance and corporate social responsibility frameworks in a search for explanations of corporate social responsibility disclosures in the annual reports of firms within the banking sector in Bangladesh.

Anderson (2005) discussed the increased pressures brought on US based multi-national corporations from global competition and regulations, particularly in the European Union and Japan. Anderson recommended strategies for developing sustainability risk governance systems and explored their considerable advantages, which include decreasing risk costs, increasing competitive advantage, improved community image, enhanced reputation, and increased profitability and stock performance. Wartick and Cochran (1985) depicted the evolution of the corporate social performance model by focusing on three challenges to the concept of corporate social responsibility: economic responsibility, public responsibility, and social responsiveness. They also observed social issues governance as a dimension of corporate social performance. The corporate social performance model is valuable as it provides the beginnings of a paradigm for the field. It is of interest in our study to identify whether corporate social responsibility disclosures made in the Bangladesh banking sector focus on economic responsibility, public responsibility or social responsiveness. Further research of a similar nature might be able to pinpoint where Bangladesh lies in terms of Cochrane’s evolutionary model.

Wood (1991) defined corporate social performance and formulated a model to build a coherent, integrative framework for business and society research. Principles of social responsibility are framed at the institutional, organizational, and individual levels. Processes of social responsiveness are shown to be environmental assessment,
stakeholder governance, and issues governance; and outcomes of corporate social performance are posed as social impacts, programs, and policies. Following Wood, we expect that firms in the banking sector might make corporate social responsibility disclosures in broadly similar areas, that is, environmental, stakeholders, social impacts, programs and policies.

Batra, Kaur and Dangwal (2007) argue that in order to achieve high standards of corporate governance, internal pressures such as peers and market competition should be more effective than enforcement by regulating agencies. It is also imperative that the regulators should expand their role and take effective measures to propagate the concepts of best practices in ushering an era of good corporate governance. Corporate social responsibility disclosures can be an attempt by a firm to legitimize corporate actions. In our study we search for indications that corporate social responsibility disclosures are a result of peer and/or regulatory pressure.

Hoffman, Frederick and Schwartz (2001) tried to address whether a corporation has a conscience and how ethical governance and managed care can coexist. They stressed the need for corporate morality. In our study we examine disclosures with a view to understanding whether the firm is attempting to convey a sense of corporate conscience and ethical behaviour.

Shah and Haq (2007) undertook an empirical study and found that in the cement sector of Pakistan, corporate governance structure variables such as percentage block holding by individual and family members, board size and firm size have a positive impact on firm performance. They concluded that the firms’ performance is adversely affected if the CEO also acts as chairperson of the board of directors; the percentage of block holdings by financial institutions has a negative relationship with performance; the size of the firm has a positive impact on firm performance and the expected leverage is an adverse signal for firm performance. In this study, we also examine the board of directors with a view to understanding typical composition. We are searching for the inclusion of women as
directors as this may provide a useful indicator of a firm’s attitude towards corporate social responsibility towards women.

Imam and Malik (2007) find in Bangladesh that foreign holdings are increasing in those firms that have good governance. They observe a positive relationship between institutional ownership and firm performance suggesting that institutional shareholders have the incentive as well as the power to monitor and control the behavior of firms, and have played a significant role in corporate governance. The role of large institutions in corporate governance is particularly important in countries where legal protection of shareholders’ interest is weak for historical and institutional reasons. This is a situation that exists in many transition economies.

Jongsureyapart and Wise (2007) found that the roles and effectiveness of the board of directors of Thai listed companies have to the drive by the regulators to develop more independent boards. They commented that corporate governance in Thailand is generally regarded as having improved since financial crisis and outside directors are identified as playing leading role.

Talukdar (2007) pointed out that Bangladesh Bank through issuance of its circular the chairman of the board of directors (or chairman of any committee formed by the board or any director) does not personally possess the jurisdiction to apply policymaking or executive authority, he shall not participate in or interfere into the administrative or operational and routine affairs of the bank. Whereas the CEO will be responsible to implement the policies taken by the board and look after administrative works.

Bangladesh bank has directed the bank to establish an audit committee comprised by the board of directors.

Ahmed, Alam, Jafar, Zaman (2008) argued that the weakest link among all corporate governance mechanisms adopted in Bangladesh is concentrated on ownership structure. The listed firms need to take greater efforts to streamline their ownership. Floating all
shares and selling off government ownership stakes is the right way to go. The level of
corporate governance is strictly subject to the level of public governance and the
constraints of existing institutional infrastructure. Bangladesh should take concrete
measures to reform the government and continue to build a solid institutional
infrastructure.

3.0 Research design

The study is exploratory in nature. Three examples (cases) of corporate social
responsibility reporting in the banking sector in Bangladesh are provided and critiqued.
We reviewed the annual reports to identify whether the reports appeared to reflect a
particular corporate social responsibility perspective or were of a particular nature (e.g.
environmental, gender focused etc.). Content analysis was used to classify the disclosures
into various social responsibility categories. Hackston and Milne (1996) used six
categories: environment, energy, human resources, product and safety, community
involvement, and other. A technique commonly used in social responsibility research to
measure the significance of content is count the number of words used to describe a
particular issue (Hackston and Milne 1996). As our study is exploratory in nature and is
limited to three of Bangladesh’s banks we choose, instead, to identify the instances of
corporate social responsibility reporting and attempted to achieve a sub-classification of
issues relevant to the banking sector.

Examples of ethical practices such as protection of consumers, protection of creditors,
establishment of rights of shareholders and enforcement of law and order situation are
important indicators of corporate governance of any country, particularly in developing
countries such as Bangladesh. We searched for commentary on issues including micro-
finance, financing of industries associated with child labor, and the employment of
women and minority groups as these are all issues commonly affecting developing
nations.
4.0 Cases and findings

4.1 Case Study: Agrani Bank – Annual Report 2006

The Agrani Bank was established as a Nationalised Commercial Bank in 1972 and took over the assets and liabilities of the Habib Bank Ltd and Commerce Bank Ltd working in the former East Pakistan. The bank faces the challenges of maintaining a safe and efficient organisation within a country in transition to a market economy.

Agrani Bank indicates early in its report (p.3) that it operates ‘ethically and fairly within the governance framework provided by the regulators’, and that it believes ‘in integrity transparency and accountability.’ Agrani Bank includes a separate section in its 2006 Annual Report entitled ‘Corporate Leadership and Social Responsibility’ (pp.19-20). Disclosures included in this section and other disclosures in the nature of social responsibility reporting are summarized as follows.

1. ‘Corporate Leadership and Social Responsibility’ (pp.19-20).

‘In line with the directives and guidelines of the Government and the Bangladesh Bank, our corporate leaders of tomorrow need to initiate and maintain a strong and effective corporate structure.

We are very sensitive to the society that we operate within. We have a deep commitment, loyalty and a high sense of responsibility to our nation and its people. Our ethics are clear: not to earn excessive profits, but to operate in a rational and sensitive way. We conform to all of the stringent regulations issued by the Government and the Bangladesh Bank. As part of our corporate social responsibility, we contribute greatly to the nourishment of the country’s arts, crafts, culture and sports. We share all sorts of values and sentiments, irrespective of caste, creed or colour. Moreover, we uphold the concept of avoiding gender bias. We have established for women a fair and just share in matters of delegated power, promotion and placement, commensurate with their male counterparts.
As part of its strong commitment to upholding corporate social responsibility, the Bank distributed, like before, *Agrani Bank Shishu Sahittaya Award* among the budding child competitors. In 2006, the Bank had set up a 500-bed cancer hospital in the capital. The Ahsania Mission will get from the Bank another Tk. 4.00 million in the next two years.’

Given these important statements we continued our content analysis searching for corroborating disclosures. We found a number, which are summarised as follows.

2. The Agrani Bank reports (p.14) that it assisted in bringing a wide spectrum of people into the mainstream banking economy. Its customers are engaged in ‘trade, commerce, industry and technology and include major business leaders, small and medium traders, marginal farmers, destitute women and unemployed youths.’ The Bank reports that even hill-tribes and ethnic minorities have access to its institutional loan facilities.

3. Under a section entitled ‘Employee relations’ (p.19) the Agrani Bank reveals that it has been providing financial assistance to distressed employees. ‘During 2006, a sum of Tk. 3.22 million was given to employees concerned and their spouses for medical treatment… A total number of 356 children of the employees were granted scholarship of Tk. 1.63 million in recognition of their outstanding results in S.S.C. and H.S.C. examinations. The Bank also discloses various contributions it has made to sporting organisations.

4. The Bank has been active in supporting the Small/Medium Enterprise sector of the economy for many years and provides disclosures about its individual and collaborative efforts in this area.

‘Beyond conventional banking, Agrani Bank, since 1977, has also been participating in several SME programmes through its own efforts and in collaboration with different national and international agencies like BMET,
BRDB, BSCIC, NGOs (BRAC, ASA, Grameen Uddag), IFAD, USAID, ADB, NORAD, SIDA etc. These are aimed at reinforcing efforts of the Government to meet strategic objectives of alleviating poverty of the rural poor, supporting small and micro enterprises/entrepreneurs, increasing output, easing unemployment problem and strengthening the rural financial market.

So far, the beneficiaries under the 14 programmes implemented by the SME & Micro Credit Division include 506247 persons of different sectors.’ (p.24)

5. The Agrani Bank is also active in supporting Bangladesh’s Agricultural sector and reports its activities in the 2006 annual report.

‘The Bank kept financing one of the country’s priority sectors – agriculture. Since 1977, it started accommodating millions of the rural poor with the mainstream development activities in areas of livestock, fishery, poultry, nursery as well as many off-farm projects and their likes in line with the government policies. Poverty alleviation through income generating activities is one of the strategic priorities that the Bank has kept pursuing to make the institutional help available to marginal farmers, small entrepreneurs, distressed and destitute women as well as unemployed youths.

‘So far a number of targeted programmes with loan limits from Tk. 5000 to Tk. 50000 have been continued. In 2006, the Bank implemented 54 programmes among 3097759 borrowers, totalling Tk. 25.21 billion.’ (p.24)

6. Finally, we reviewed the composition of the Board of Directors and noted that of a board comprising eight members, none were women.

In the case of Agrani Bank the corporate social responsibility disclosures were clustered around the issues of community involvement and responsiveness; economic support for
disadvantaged sectors specifically agriculture, and the SME sector including micro-
financing; and support for working women. Environmental matters and issues related to sustainability were not mentioned. Issues related to child labour, an area where Bangladesh has experienced criticism at an international level, were not reported.

4.2 Case Study: 2 NCC Bank Ltd. – Annual Report 2007

The National Credit and Commerce Bank Ltd. (NCCBL) was incorporated in 1993. By the standards of most market economies, it is a relatively young bank. The Bank has 53 branches across Bangladesh, with its main office located in the capital, Dhaka.

The NCC Bank outlines its corporate vision as including ‘serving the nation as a progressive and socially responsible financial institution by bringing credit and commerce together for profit and sustainable growth.’ (p.3). It also discloses that its mission is to ‘contribute to Agriculture, Industry and socio-economic development of the country …’ (p.3).

Bangladesh’s economy has suffered many blows in recent years due to consecutive floods and cyclones. Many of its people have been left homeless and jobless as a result and improving the supply of food and the provision of shelter and employment are amongst the government’s priorities. NCCBL operates within this particularly difficult social and economic environment. Support of small businesses and the agricultural sector by the banking industry is vital in the revival of the economy and the social fabric of the country. These issues are identified in the Bank’s annual report and a number of initiatives in this regard are disclosed. For example:

‘To help the Flood and Sidr (cyclone) victims, the Bank has donated Tk. 1.10 crore to the Chief Advisor’s Relief Fund and Relief Fund of the Chief of Army Staff.’ (p.30)
Similar to the Agrani Bank, NCCBL includes in its annual report, separate sections addressing Corporate Social Responsibility, SME-Financing and Agri-Financing.

1. Corporate Social Responsibility (pp.12-13)
Under this section the Bank discloses its donations to various charitable, sporting and educational organizations. It also provides details of educational scholarships it has provided to talented but distressed students.

‘Besides, financial support were given to the children of our employees who obtained GPA-5.00 in S.S.C and H.S.C examinations of 2007 to encourage them and others.’ (p.13).

The Bank ‘distributed educational materials to poor students of Dahagram and Angorpata enclaves.’ (p.30); and Books … ‘have been distributed to educational institutes of remote areas of the country on occasion.’ (p.30)

2. SME-Financing and Agri-Financing (pp.11-12)
The NCC Bank discloses that it has diversified into the SME and Agro-sector on a priority basis. Specific mention is made of various projects within the agriculture industry made as part of boosting its activities in this sector. For example:

‘We have extended credit facility to fisheries project as a part of our agro-financing, which received satisfactory response from the target group.’ (p.12)

‘We have a separate SME wing to meet the demand of the small and medium entrepreneurs. Under this wing, we could disburse nearly Tk. 250.00 crore up to 2007. We are considering to extend credit facility under SME financing to cover a large number of potential borrowers to create new entrepreneurs.’ (p.12)

In regards to the NCCBL’s support of the agricultural industry, it also disclosed information about credit facilities it had extended to help people living in the northern
part of the country. The Bank provided flexible terms in regard to finance supporting the cultivation of maize (p.29).

3. Other
The annual report contains information about various other contributions the NCC Bank has made to destitute groups within society. These contributions occur through a foundation set up for such purposes, the NCC Foundation.

With a view to assist destitute people in treatment, the Bank, through the Foundation, extended subsidy to a City Hospital. Moreover, the Bank has distributed blankets to the destitute people of northern part of the country to help them in coping with severe cold wave. Besides, blankets were also distributed in Sidr hit areas through Bangladesh Navy, Chittagong.

4. NCCBL has a directorate numbering 14 people. Of these, three are women.

In the case of NCCBL, corporate social responsibility disclosures were also focused on supporting economically disadvantaged sectors specifically agriculture and small business. NCCBL bank is also a strong supporter of disadvantaged constituents within its national community with a strong focus on programs providing assistance for destitute and underprivileged people. No mention in the annual report was made of environmental or sustainability issues, or of matters relating to the financing of industries utilizing child labour.

4.3 Case Study: 3 Trust Bank Limited – Annual Report 2006
The Trust Bank Limited is a very new organization being incorporated as a public company in 1999. The annual reports used in our study are from the Bank’s 8th reporting year, 2006. The primary objective of the Trust Bank is the carrying out all kinds of banking businesses in and outside Bangladesh.
Although the Trust Bank Limited’s 2006 annual report contains a discussion of the state of the Bangladesh economy, it is, startlingly, devoid of any corporate social responsibility disclosures.

1. The Trust Bank has a directorate of nine corporate officers. Eight of these people hold titles associated with the armed forces, and none of these people are women.

4.4 Findings
We found evidence of economic and public responsibility and social responsiveness emerging in the corporate social responsibility disclosures contained with the annual reports of Bangladesh’s banks. The focus was on social impacts, programs and policies. We found no evidence of environmental disclosures. There was no direct evidence that corporate social responsibility disclosures are occur in response to peer and/or regulatory pressure. If this was occurring, the pressure is arguably weak, as in one of the cases examined no disclosure at all occurred. More likely, the disclosures are an attempt by the firms to convey their corporate conscience.

We searched for evidence of the inclusion of women within the boards of directors of the firms as an indicator of a firm’s attitude towards corporate social responsibility to women. We found evidence of the inclusion of women at this level of corporate management within two firms – one being a long established bank. In the newest bank examine (Trust Bank), women were not represented at all on the board of directors.

5.0 Summary and potential future research
Adequate corporate social responsibility disclosure has important implications for the credibility of the capital markets in transition economies. We see a role for the corporate regulators to promote the improvement of such disclosure in the annual reports of Bangladesh firms. Mandating of corporate social responsibility disclosure would provide better transparency of corporate activity. This, in turn, will promote ethical business processes, which can have an important role to play in the mitigation of social obligations.
In this study we did not investigate the levels of institutional or large shareholdings in the cases examined. However, as Imam and Malik (2007) suggest, the role of large institutions in corporate governance is particularly important in transition economies. This is an area, which is likely to yield important information if examined in the context of the Bangladesh banking sector.

If corporate social responsibility disclosure is made obligatory there is a strong case for it to follow international benchmarks. This would include the triple-bottom-line reporting method, which is increasingly being accepted as a useful method of conveying information on a firm’s social performance.

References


Talukdar, M. Bakhtear Uddin (2007): Corporate Governance: An Essential Mechanism to Curb Malpractices by Organizations, PAU Policy Note: PN0801, Policy Analysis Unit, Bangladesh Bank, pp.1-5.

The Independent (2008). 24 August


http://en.wikipedia.org/wiki/Triple_bottom_line