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Abstract

Purpose – The purpose of this research is to provide an account of corporate governance practices in Bangladesh. This paper demonstrates that the traditionalist culture mediates the rationalist/legalist framework of corporate governance in Bangladesh.

Design/methodology/approach – A series of semi-structured interviews were conducted. Observations and the personal working experience of one of the researchers, along with documentation, provided rich sources of information for the paper.

Findings – The findings show that families have a dominant presence in all aspects of corporate governance. Boards of directors in companies play a significant part in serving the interests of families rather than those of general shareholders.

Research limitations/implications – This study focuses on corporate governance practices in a traditional setting and shows how traditional culture and values are in conflict with the rational ideas imported from a different setting. It suggests that the World Bank's expectations that Anglo-American models of corporate governance will be effective in Bangladesh and possibly other LDCs are unfounded.

Originality/value – The paper adds to the literature on corporate governance, especially in the context of LDCs. It will be of great value to researchers and practitioners seeking to gain a better understanding of corporate governance frameworks in various settings.

Keywords: corporate governance, accountability, structural adjustment polices, traditionalism, Bangladesh

Paper type: Research paper

Introduction

This paper stems from an interest in corporate governance and economic development in less developed countries (LDCs). This area of research has been receiving attention since the Asian Debacle in 1997 (Morck et al., 2005; Singh and Zammit, 2006). Aid agencies such as the International Monetary Fund (IMF) and the World Bank have introduced it as a key international development issue (World Bank, 2002). Recently, the Bangladeshi government, influenced by aid agencies, embarked upon open market and structural adjustment policies, including capital market development. The Asian Development Bank (ADB) funded an $80 million project to transform the capital markets in Bangladesh based on Anglo-American models, which included institutional reforms within the Securities Exchange Commission (SEC), automation of the stock exchanges and changing capital market laws and regulations. These intended transformations were perceived as essential conditions for private sector development in Bangladesh. Proponents of the market economy regime assume that the Anglo-American corporate governance model is unproblematic, as is its implementation. While these issues have been debated and researched in Western countries, they remain largely neglected and under-researched in LDCs, especially Bangladesh (Uddin and Hopper, 2001). This paper seeks to fill this gap. Previous studies have revealed that in Bangladesh, like Anglo-American countries, some of the most powerful stakeholders in corporations include the boards of directors, auditors and regulators (Uddin and Hopper, 2003; Muzumdar, 2006). Thus, the main focus of this paper is to understand the role of boards of directors, shareholders, regulators and auditors in making enterprises accountable. More specifically, the paper poses some simple but important empirical questions: What are the roles of company directors? How are the interests of shareholders, especially minority shareholders, being protected? What roles do auditors play? And overall, do companies really comply with corporate rules and regulations?

The appropriateness of the Anglo-American models and institutions for corporate governance in LDCs has previously been questioned (Singh, 1997, 1999; Singh and Zammit, 2006). Recent research has illustrated that the Anglo-American corporate governance models are to be questioned even in developed countries, including the USA and UK (Arnold and De Lange, 2004; Cullinan, 2004; Unerman and O'Dwyer, 2004; Marnet, 2007). Thus, this paper questions the suitability of frequent bombardment with imported sets of regulations and institutional frameworks comprising corporate governance from a modern society, such as the USA and UK, to a traditional society like Bangladesh. The Anglo-American models rely on a number of institutional settings such as well-developed capital markets, established accounting bodies, democratic institutions and various autonomous bodies (Puxty et al., 1987; Robson and Cooper, 1990; Chua and Poullaos, 1993, 1998). Rational accounting regulations, along with the institutional settings, are expected to ensure the transparency and accountability of public limited companies. Drawing on Weberian notions of traditionalism and rationality, and previous studies such as those by Dyball and Valcarcel (1999) and Dyball et al. (2006), this paper demonstrates that traditionalist culture mediates the rationalist/legalist framework of corporate governance in Bangladesh.

The paper is divided into several sections. A brief literature review on corporate governance issues is presented in the first section. The second elaborates on the Weberian notions of traditionalism and rationality. Contextual information about Bangladesh is then described, followed by the section on research methods. Corporate governance practices are presented and discussed applying the Weberian notions of traditionalism and rationality in the following section. The last section concludes the paper.

Corporate governance framework – Anglo-American models

Capital markets, independent accounting professions and a democratic state are seen as essential, but interdependent, institutions of corporate governance in the USA and UK (Chua and Poullaos, 1993; Sikka and Willmott, 1995; Morck et al., 2005; Singh and Zammit, 2006). Researchers have argued that the interrelationship between the state and professions is an important element of corporate governance (Morck et al., 2005). Professional bodies, stock exchanges and other institutions in Anglo-American countries are self-regulated and relatively free from state interference (Greenspan, 1998). Previous research has suggested that these institutions, at the same time, need state backing to maintain the status quo (Willmott et al., 1992; Sikka and Willmott, 1995). The relative autonomy of these institutions, to some degree, has achieved success or at least managed to stop the wide-ranging malpractice that we see in many LDCs (Lee, 1994). The relative efficiency of capital markets may well be an important factor in maintaining the autonomy of these institutions (Gaa, 1991). This relative autonomy and efficiency of capital markets and accounting professions means that they have placed themselves at the heart of corporate government framework in their actions. Previous studies have indicated that less developed post-colonial countries, such as Bangladesh, also have similar accounting and capital market structures (Mir and Rahaman, 2005). This paper sheds light on whether the institutions of corporate governance in Bangladesh have a similar position in implementing regulations and frameworks.

Researchers argue that too little effort has been expended on studying corporate governance issues in LDCs (Dyball and Valcarcel, 1999). Most of the research on accounting in LDCs has focused on disclosure and accounting standards, one of the key aspects of corporate governance. Non-compliance and non-disclosure are common findings of many studies in LDCs (Perera, 1975; Ahmed and Nicholls, 1994; Larson and Kenny, 1995; Mir and Rahaman, 2005; Belal and Owen, 2007). For example, Mir and Rahaman (2005) conclude that the perceived undemocratic

nature of the IAS (International Accounting Standard) adoption process in Bangladesh resulted in very low compliance with the standards. Some of the studies have reported that economic structural adjustment policies have even increased the non-compliance of listed companies in LDCs (Wallace, 1990; Wallace and Briston, 1993).

Non-compliance, collapses and accounting scandals[1] are not new in any context, let alone LDCs (Marnet, 2007). Collapses and scandals, predictably, led to serious debate about the fundamentals of corporate governance frameworks in the USA and UK (Clarke et al., 2003; Arnold and De Lange, 2004; Cullinan, 2004). Despite all the scandals, reforms and changes continue to put over-reliance on external auditing and audited reports (Marnet, 2007). In general, this reliance is based on various assumptions, such as the autonomy of auditing companies and auditors, professional ethics and various other institutions, such as the stock exchange and the SEC. This paper shows that such understanding of the autonomy of actors and institutions is non-existent in Bangladesh, as in other LDCs (Dyball and Valcarcel, 1999; Dyball et al., 2006). Dyball and Valcarcel (1999) point out that there is an underlying belief in rational/legal authority; that is, the legality of enacted rules and the right of those elevated to authority under such rules to issue commands (Weber, 1978). This again is based on certain norms and beliefs that underline the formal rationality and autonomy of individuals, institutions and regulations. This paper shows that such understanding of society and institutions in LDCs such as Bangladesh is misplaced.

Weber's Notion of 'Traditionalism' and 'Rationality'

The paper draws on Weber's work (1958, 1961, 1968, 1978) on the development of capitalism and traditional society to understand corporate governance practices by public limited companies in Bangladesh. Weber's work seems relevant to understanding corporate governance practices as it enables us to understand why managers in limited liability companies express their loyalty to

small numbers of owners-managers, not to general shareholders (Uddin, 2008). Weber also emphasizes the importance of social, economic, cultural and historical factors in shaping a particular form of society (such as traditionalist), and their implications for organizational accountability and transparency. These issues are all important in Bangladesh. Finally, Weber's framework provides a specific and heterogeneous view of the socio-historical context of accounting and the contingent relations of accounting to organisations and society (Colignon and Covaleski, 1991, p.155).

Weber's works have been especially used in the accounting literature to understand the development of accounting knowledge and professions and its influence upon the development of capitalism in capitalistic societies (Radcliff, 1997; Chua and Poullaos, 1998; Bryer, 2000; Caramanis, 2005; Dyball et al., 2006). None of the above studies focused on understanding corporate governance practices in a traditional society like Bangladesh, with the exception of that by Dyball and Valcarcel (1999). This paper argues that accounting researchers have made very limited use of the wealth of Weber's thought in trying to understand accounting practices in both traditional and capitalistic societies. This paper is one of a series of papers that apply Weber's notion of traditionalist domination (family/clan) in understanding accounting practices in traditional societies (Uddin, 2008).

Referring to Weber's work (1958, 1961), Colignon and Covaleski (1991) argue that three layers of analysis are required in order to understand accounting practices: the structural conditions, the historical context and the institutional/organisational context. To Weber, rational calculations of economic actions and accounting depend on the structural conditions.[2] Weber's ideal-typical form of capitalism/societal development provides the first layer of the framework for examining market conditions influencing the economic actions of the modern industrial enterprise and

accounting practices. Weber sees rational capitalism as only partially realised in the Western industrial revolutions of the 18th and 19th centuries. He also recognises the traditional forms of capitalism that exist throughout the world even now and which were evident in Europe until the 18th century.

At the second level, Weber focuses on specific cultural and historical details to identify specific features of society that facilitate or obstruct the full development of rational capitalism, the modern enterprise and rational capital accounting. Weber recognises the role of competing ideas, conflicts and institutions, and how they influence capitalism, enterprises and accounting practices. Weber (1978) recognises these tensions in a more traditional form of society and their implications for organisational accountability and rationality. He argues that traditional domination of economic activities tends to strengthen traditional attitudes and thereby weaken the development of rational capitalism. This is because the property and productive capacities of individual economic units are primarily geared towards satisfying the 'master's' (family/clans) needs and preferences (Dyball and Valcarcel, 1999). For example, the operations of state bodies in Bangladesh are often politicised by political parties led by families. Employees of the state are more influenced by family connections than the state's rules and regulations. Bureaucratic domination is continually struggling with family domination (Mannan, 2006; Uddin, 2008).

Weber argues for separate organizational/institutional analyses that are nonetheless interactive, with external layers of analysis to understand organizational practices (Uddin, 2008). Colignon and Covaleski (1991), referring to Weber's notions of rationalities, argue that multiple rationalities are characteristic of the modern enterprise and are the basis of conflicts that make the distinction between formal and substantive rationality important in their application to issues of accounting practices (Colignon and Covaleski, 1991, p.150). Nevertheless, rationalities take a different form in a traditional setting such as Bangladesh. Rational accounting practices take a

substantive form in order to preserve the interests of the family/clan. Dyball and Valcarcel (1999), referring to Weber's work, argue that 'traditionalist domination is commonly exercised by members of a ruling family(ies) or clan(s) and, unlike legal authority, is primarily based on personal loyalty. Obedience is to the 'master', not to 'enacted rules'. The 'master' is expected to do good turns, governed by an ethical common sense of equity or of utilitarian expediency. His exercise of power is bound only by resistance from his 'subjects'. It is impossible then for an 'impartial' law or administrative rule to be intentionally created by legislation' (Dyball and Valcarcel, 1999, p.307). Weber's work consequently expects that accountability and transparency in public limited companies in a traditional society like Bangladesh would not transpire from imposed regulations and institutions. Owner-managers are expected to resist rational/formal regulations that do not serve the family's interests. Legalistic (based on rational ideas) models would remain imprisoned in books and documents. The Westernised model of governance by policy makers for stock exchange listed companies may be perceived as a condition of the stable economic calculation of a 'rational' society (Dyball and Valcarcel, 1999). However, a 'traditional' society like Bangladesh is more likely to produce a very low level of rational calculations and give rise to a different substantive rationality for compliance, such as controls to serve dominant owners.

Weberian notions of 'Rational' and 'Traditional' in the Bangladeshi context

The development of Bangladeshi capitalism, as argued, is shaped by colonialism, exploitation, interventions and families (Uddin and Hopper, 2001; Hopper et al., 2004), which reveals the traditionalist feature of capitalism. This is also reflected in the size and nature of the capital market of Bangladesh. The majority of the business corporations in Bangladesh are not listed on stock exchanges.[3] Previous research has also shown that the ownership structure of the large stock exchange listed companies is dominated by families (BEI, 2004), not unlike other LDCs

(Dyball and Valcarcel, 1999). Family and kinship ties are deeply rooted in Bangladesh's political and economic history. The power of family and friends often shapes the political power within the Bangladeshi state. Many studies have shown that weak state power is linked with strong family power over various institutions (Jiggings, 1976; Sobhan and Ahmed, 1980; Mannan, 1992). These are discussed below.

The independence of Bangladesh in 1971 eventually transferred the power of Pakistani families to Bangladeshi families (Sobhan and Ahmed, 1980). In the main, three families[4] shared power in Bangladesh's political history. The major two political party leaders in Bangladesh came into the political arena due to their inheritance[5] from the deceased leaders. Previous studies have also argued that the core decision structure in major political parties and elected government has always been influenced and controlled by their kin (Mannan, 2006, 1992; Sobhan and Ahmed, 1980). Mannan (2006) reports that major political parties in Bangladesh which vow to establish democracy lack inner-party democracy. When these families come to power, they devote themselves to eroding constitution and institutions under the facade of protecting them (Hyden, 1983). Mannan (1992) argues that political factionalism, derived from family politics, essentially undermines the rule of law and institutions to maintain their loyal supporters in various positions within the institution. 'This is also termed the personification of the institutions. The increasing influence of the tribunes[6] and their family members put pressure on the existing public institutions of state and civil society, which has resulted in disorganisation and deinstitutionalisation' (Mannan, 1992, p. 52).

This has serious implications as far as corporate governance is concerned. Ruling parties transform the core decision-making structure of the government into a political club. This political club is glued by kinship and its members are protected by primordial loyalty. Tribunes protect corrupt kin, enabling them to accumulate wealth, and allow kin to interfere in the

governance of the state. Thus, political families play an instrumental role in pulverizing state institutions. The continuous interference renders the state dysfunctional and unaccountable to the people. Loyalty to families, rather than the application of professional judgments, skills and expertise, plays an important role in career advancement. This has in turn deeply polarized bureaucracy and has turned professional and autonomous bodies into partisan political organisations (Alvi, 1973; Uddin, 2008; Mannan, 2006). These issues will be examined more closely in connection with the enforcement of corporate governance mechanisms in Bangladesh after the research methods have been outlined in the following section.

Research Methods

This paper deals with research questions that are very sensitive to many. Secrecy is a major stumbling block as far as the validation of evidence goes in traditional settings (Dyball and Valcarcel, 1999; Uddin and Hopper, 2001). We used interviews, documentary evidence and participant observations. The triangulation approach enabled the authors to understand the events and address the 'why' and 'how' questions set out earlier (Yin, 2003). In two stages, we interviewed 26 people. Our main set of interviewees consisted of accounting practitioners, officials from stock exchanges, the SEC and aid agencies, general shareholders, managers from investment companies, accountants and executives from various listed companies, and members of boards of directors. Interviewees were given full anonymity. The interviews lasted 30 minutes to 2 hours, with notes taken throughout. Interview questions were semi-structured. The range of issues raised during the interviews covered four major areas: accounting reports and their manipulation, shareholders' interests, the role of directors and the role of auditors.

The documentation examined consisted mainly of accounting reports, institutions' websites, legal documents and official notifications from stock exchange officials and the SEC. Newspaper

reports also played a part in our investigation. Participant observation consisted primarily of the personal observations[7] of the second author. While we recognize that this is associated with the problem of validation (Silverman, 1985), we nevertheless believe that this provides unique insights into why and how certain forms of non-compliance with accounting regulations occur in established companies. This enabled us to form our questions while interviewing other accountants, auditors and SEC officials. Documentary evidence and interviews corroborate and complement the personal experience of the second author. The first author also attended two AGMs during the field trip to complement the second author's working experience as an accountant in various companies.

A follow-up visit in 2007 was organised to allow the first author to visit the field again and to arrange interviews, especially with some shareholders, academics and aid agency officials. Field notes were revisited and recent documents, including new SEC announcements and newspaper reports, were collected during the visit. In particular, we organised seminars and discussion forums with practising professional members and aid agencies in Bangladesh to understand their views regarding corporate governance practices in Bangladesh. Presentation of our evidence to various communities (academic and professional, in multiple settings) has eliminated misinterpretations, enhanced internal and external validity and improved our explanations (Patton, 2002). We have made attempts to enhance internal and external validity by discussing contradictory evidence[8] (if any) with our respondents, the academic community and policy makers (Miles and Huberman, 1994). Interviews, comments from discussion forums, evidence from newspaper reports, observations and documents were summarised under the four major areas mentioned earlier. Theoretical concepts were explained and iterated alongside the empirical evidence to gain a wider understanding of corporate governance issues in Bangladesh.

The 'Rational' and 'Traditional' in corporate governance practices in Bangladesh

In Bangladesh, corporate governance regulations[9] currently stem mainly from four established institutions: the accounting profession, the SEC, stock exchanges and the RJSC (Registrar of Joint Stock Companies – a government office). These institutions enforce various regulations and standards, such as the International Accounting Standards and International Auditing Standards adopted by the ICAB (Institute of Chartered Accountants of Bangladesh), the Companies Act 1994, the Securities and Exchange Commission, and stock exchange listing requirements (Mir and Rahaman, 2005).

[Insert Figure One near here]

In the past, accounting reports were mainly drafted and audited along the lines of regulations set out in two sets of regulations: the Companies Act 1913 and the stock exchange listing requirements. This was changed in 1993. Being advised and funded by the donor agencies, the SEC, as an autonomous body, was established in order to strengthen the capital market. Soon after, the Companies Act 1913 was replaced by a new Act in 1994. The listed companies must comply with the rules of the SEC[10] to be listed on the stock exchanges[11] and thereby they fulfil the listing requirements in addition to the requirements of the Companies Act 1994.

Overall, the SEC has been given the responsibility for regulating the capital market. The SEC has the power to contact companies to obtain more information, to request explanations of accounting items and for other reasons, such as an abnormal share price etc. The SEC, in case of any default, has the power to impose penalties. The SEC also oversees the operating affairs of the stock exchanges in Bangladesh. For example, the stock exchanges are required to consult the SEC before the appointment or removal of their Chief Executive Officers (CEOs). The SEC also keeps a close eye on the daily affairs of the stock exchanges[12].

Besides the above regulatory actors, the government, via the Ministry of Finance, continues to influence the capital markets, often at the behest of aid agencies and indeed international financiers.[13] The ministry/government is the appointing authority for the top officials of the SEC.[14] The corporate governance structure presented above is not far from that in Anglo-American countries in an idealist form, albeit with some forms of government intervention (Singh and Zammit, 2006). The following sub-sections are set out in the form of research questions to provide a detailed account of the intended and actual practices of corporate governance mechanisms.

Board of Directors

The board of directors has been recognized as a major corporate governance mechanism in Anglo-American corporate governance models. This is also similar to Bangladeshi companies, at least in legal terms. The board has the responsibility of leading an organisation, with effective decision-making and proper monitoring on behalf of the principals of the firm (Reaz and Arun, 2006). By law, the board of directors is also accountable to the shareholders for the overall affairs of the business (Companies Act, 1994, Schedule 1 Section 104). According to Section 90(1) of the Companies Act 1994, every public limited company, and every private company that is a subsidiary of a public limited company, must have at least three directors representing the shareholders.[15] Directors are elected by the shareholders at the annual general meeting (AGM) (Companies Act, 1994, Section 91) and they can also be removed by the shareholders under Section 106. Nevertheless, in reality, the membership of boards and overall accountability of the boards to general shareholders are completely dominated by family dynamics, as expected from a traditional society (Weber, 1978). These issues are discussed below.

The fieldwork revealed that the election and re-election of directors is an event at AGMs that is carefully arranged by the sponsor directors, so that their chosen individuals can be elected and re-elected time and time again. Reaz and Arun (2006) observed the same pattern in banking companies in Bangladesh. This observation is also consistent with the survey conducted by the Bangladesh Enterprise Institute (BEI) in 2004 (BEI, 2004). More interestingly, but not surprisingly, the boards of directors in most of the listed companies in Bangladesh comprise very close family members. One SEC official commented in a newspaper article, '*these companies are closely held companies meaning board of directors consists of husband, wife, son(s), daughter(s) or members of the family*' (The Guardian, 2004, p.3). The BEI survey indicates that the boards for 73% of the non-banking companies listed on the DSE are dominated by close family members. Muzumdar (2006) comments that most of the listed companies, except multinationals, are dominated by family members, as the head of the family becomes the chairman and other family members occupy the important posts such as CEO or managing director. One such company is PC (reported in Uddin and Hopper, 2001). The chairman was the father and the elder brother became the managing director. The other two brothers became the executive director and marketing director; they also became members of the board of directors. According to Weber (1978), it is very common for the most important posts to be filled by members of the ruling family or clan in traditionalistic organizations. Close family members on the board ensure that family 'secrets' remain safe. This is a 'rational' action as far as the family is concerned. The selection of close family members also enables family domination within the enterprise to continue (Uddin, 2008).

Non-family members, on occasions, have been elected to the boards, often due to loan conditionalities from the banks or equity participation. However, as respondents claim, the majority of these external directors (non-family members) have hardly any involvement in the

true affairs of the companies they are elected to serve. The second author's experience indicates some of these nominated directors only play the role of attending stipulated board meetings. One experienced general manager opined *'The family manages all of the affairs. In cases where there are directors other than the family members, they are mostly there because of their technical or specialized knowledge of the business. They effectively play an advisory role. In fact, external directors have no strong role in the board'*. It is important to note that there is no mandatory provision regarding what percentages of the directors should be executive and non-executive. One manager from an investment company revealed *'In most of the local companies, independent directors are being appointed by name only. They are choosing persons who are either a friend or someone who will always act as per the directive of the sponsors. They are independent in name only'*. These are examples where traditionalism encounters and mediates the rational enterprise. The corporate governance laws, imported from the Anglo-American models, generate unintended consequences for Bangladeshi companies, as previous researchers predicted (Morck et al., 2005; Mueller, 2006; Singh and Zammit, 2006). We would like to argue, in keeping with the findings of Dyball et al. (2006) in the Philippines, that incompatible modes of action (traditional and modern) are at play here.

Holding regular board meetings is another contentious issue in relation to the operations of boards of directors in Bangladeshi companies. The law provides that directors must hold board meetings at least four times a year and once every three months. Decisions including the approval of annual accounts, recommendation of dividends, etc., require a resolution by the majority of the directors at their board meetings. However, it is commonly understood among employees of public limited companies that the board meeting culture is merely a formality. Interviews with many respondents revealed that the board of directors has hardly ever sat in at formal meetings. Decisions are taken and implemented by the executives without any reference to the board, but by consulting the sponsor directors or head of the family. One non-executive director commented

'The board has no real existence at all. What agenda is to be discussed in the board? This is only on paper. The sponsor himself is managing the whole affair. There is no one to ask questions. The board is dominated by the close family members'. An interview with an executive director revealed *'I have heard of no publicly listed company having a board meeting unless there are representatives from the institutional equity partners. Ironically, a resolution of the board is considered to be the most important document. You even need a board resolution to open up a bank account. Everybody knows it is fake'*. One academic opined '*most businesses in Bangladesh are in the formative stage of the life cycle characterised by the reluctance of the owners to share power… as a result, both policy and executive decisions are in the hands of sponsor directors'*. This view is also held by one chartered accountant who shared his experience with the researcher: *'I was accompanying one managing director and one of the sponsors of a listed insurance company who was coming out of a seminar on corporate governance! He got a phone call from his finance director who sought his permission to sign a cheque for a mere Tk*[16]*. 5,000'*.This, according to the accountant, is not uncommon in most of the listed companies in Bangladesh. This supports our view that traditional modes of operation are dominant in Bangladeshi companies. Rational governance measures such as 'holding regular board meetings' or 'writing the minutes of meetings', in our judgement, have little impact on the traditional way of doing things.

[Insert Table One near here]

Table One shows the ownership patterns of the top twenty companies (in terms of paid-up capital) in Bangladesh. Sponsors (who are often close family members) may hold less than 50% of the shares, but still manage to establish their influence on the company using friends and relatives listed in the general shareholders' group (see also Uddin, 2008). The influence of

institutional investors is almost absent in the public limited companies of Bangladesh, as the second author's experience indicates and as confirmed by other respondents. One general manager of a publicly listed financial institution (involved in merchant banking) commented, *'These institutional shareholders are mostly secondary market traders. They are not equity partners in a true sense'*. He further commented *'To become a director, as an institutional shareholder you need the support of the sponsors. Without their support, you cannot be a director because your institution does not have enough shares to override the sponsors'*. Referring to his bank, the respondent stated that the '*institution tried to become a director of a bank. For this they purchased 5% of the shares of that bank. But due to opposition from the sponsors, they could not succeed'*. Bebchuk and Roe (1999) argue that institutional investors are likely to exert less influence for a variety of reasons, such as getting a fraction of the benefits from improved investor protection and the possibility of receiving side payments from controlling insiders. In the case of Bangladesh, institutional investors often do not have a sufficient stake in the company, unlike institutional investors in the UK, to exert any pressure or override the sponsors. Also, there are no major institutional investors except one - Investment Company Bangladesh (ICB).[17] Substantial proportions of the shares of listed companies are held by dispersed individuals who are unable to influence the management of the companies. Thus, the companies are virtually controlled, managed and operated by families (even though in many cases they own a minority of the shares), and more specifically by one or two active sponsor directors.

According to Weber (1978), family or clans take precedence over the legal authority. Often, there is no separation between the enterprise and the household, and it is frequently difficult to discern larger 'segments of capital' divided along coherent sectoral lines (Dyball and Valcarcel, 1999, p.306). Due to the strong presence of close family members on the board, board meetings turn into family meetings. Family meetings are not held publicly and information about their outcome

is not disclosed, as the business is seen as a household matter and therefore confidential. This is also similar in other LDCs (Ansari and Bell, 1991; Dyball and Valcarcel, 1999).

Shareholders

During the last decade, public limited companies in Bangladesh have seen a wide range of regulations formulated simply to protect general shareholders' interests. The main aspects of these regulations are to make the management of companies (often owner-managers) accountable to general shareholders by holding annual general meetings on a regular basis and declaring dividends frequently in the context of weak capital markets (Ahmed and Nicholls, 1994). These issues are discussed below.

Annual General Meeting (AGM)

Holding an AGM is a mandatory requirement for publicly traded companies in Bangladesh. The Companies Act 1994 (Section 82) states that if a default is made in holding the AGM, the directors of the company shall be punishable with a fine, which may extend to Tk. 10,000, and in case of continuing default, a further fine, which may extend to Tk. 250 per day for each day of default. Companies can also be degraded to 'Z' category[18] for not holding AGMs. Another punitive measure is de-listing a company from the stock exchange if it does not hold an AGM for three consecutive years. These measures, on the face of it, seem very punitive. Now, the question is: are these measures working?

The fieldwork indicates default or delay in holding an AGM is not very unusual among listed companies in Bangladesh. The DSE revealed that 30 out of 237 companies failed to hold their AGMs in 2004, while 41 out of 248 failed to hold the same in 2003. Some companies even closed

their operations. Recently, there have been several cases of fines being imposed on directors for not holding an AGM. The SEC identified 36 companies to be liquidated for not holding AGMs for a long time (in some cases 10 consecutive years) but only 13 of them eventually de-listed from the DSE (Jugantor, 2007). One official of the DSE commented *'If we de-list the company, small investors will suffer. So we charge penalties to the companies'.* The fieldwork further revealed that companies do not bother paying penalties. One official further commented *'Filing cases against the companies is also not a good idea because it may take a long time and the DSE are not prepared to bear these expenses'.* Uddin and Hopper (2001) report that a case was filed in the High Court against a company for not holding AGMs. Our fieldwork revealed that this company is still listed on the DSE. Several newspaper reports indicate that the family owning the company had managed to establish close links with the son of the then prime minister in 2001 (The Daily Star, 14 March, 2007). The suspicion, shared by many respondents, is that court cases against this company were withheld by the then government because of the family connections. Hence, the traditional mode of operation is in action, with personal relationships influencing corporate governance mechanisms. This is similar to the findings of Dyball et al. (2006), who comment that 'power' and 'influence' were important elements in the bank's decisions to grant or deny loans. This would allude to a 'traditional' mode of operations, where 'personal' relationships constitute market and state transactions (p.62). We would argue that the family has taken advantage of the poor justice system (lack of state resources) and relied on family resources (traditional norms) to inhibit accountability to other stakeholders.

However, the authors argue that holding AGMs still does not guarantee accountability and transparency to general shareholders. One non-executive director concluded *'the whole AGM output is zero. It takes 5-10 minutes to complete the AGM. I do not even have time to read out a proposal'.* In brief, AGMs are short, chaotic and have lost credibility among general shareholders. AGMs are often stage-managed as many respondents, including SEC officials, have

claimed. One accountant commented *'over the years, there has developed a small group of people who create chaos and disrupt the meetings deliberately'*. As respondents have claimed, company management, led by sponsor directors, come to an *a priori* understanding with these 'AGM *Mastans*'[19] (the Bengali word *Mastan* means criminal). These people, in return for a handsome toll, totally dominate the AGM proceedings. One interviewee reported *'The usual procedure is that one or two of the pre-selected Mastans would dramatically and vehemently protest or criticize some issues insignificant to the company affairs while the majority of them would praise the "excellent management" of the company and would support every AGM agenda in favour of the company management'*. While a vote for passing the AGM agenda is sought by the chairman of the meeting, all of them would make a hue and cry together and pass the agenda even before it was read out**.** One non-executive director even confirmed that they hire people in their favour and pay money to the AGM Mastans. One finance director (himself a shareholder of many companies) claimed *'the same group of people is hired by the companies and everybody knows that'*. One auditor further confirmed *'The AGM is stage-managed. There are 40-50 common people who attend all the AGMs and it is not very costly at all to manage them'*. One portfolio manager commented *'From attending different AGMs, I would say only 5-10% of the local companies don't stage-manage the AGM'*. In many cases, general shareholders are rather afraid of raising any issue[20] at the AGM for fear of assault by these '*Mastans*' (Khan, 2004). One SEC official commented in a newspaper article: *'On many occasions general investors are not allowed to participate in the discussion on the agenda of the meeting, sometimes by the muscleman hired by the delinquent entrepreneurs... who want to have pecuniary benefits from the management'* (The Guardian, 2004). This is similar to Cooke and Sawa's (1998) findings on Japanese corporate governance. They found that one group, called '*Sokaiya*', disrupt meetings and often claim money from the company management. It is not rare to find that companies hold AGMs without any opposition from shareholders, even if they do not pay dividends for a number of years or close down their business activities, diverting the funds to other businesses after

raising money from the general public. However, this paper does not wish to argue that all company management applies illegal tactics to avoid embarrassment at AGMs, but there are many instances where companies go as far as hiring people (AGM Mastans) in order to render modern corporate governance measures ineffective. Hence, traditionalism mediates rational processes – the operation of AGMs, to ensure accountability.

Furthermore, companies apply a number of tactics including discouraging shareholders attending the AGM. One director commented, *'We shifted the meeting venue to factory premises a long way from the capital city. People are generally less inclined to go to a distant venue just to attend the AGM'*. The authors also found poor attendance at AGMs on many occasions. In one case, only around 300 out of 4,000 shareholders attended the AGM. At most AGMs, discussions are often diverted to petty issues (Khan, 2004). One non-executive director commented *'Questions/comments raised in the AGM are mostly silly in nature - like the quality of the food, arrangements of toilets, a shareholder not properly treated by an employee etc. I have not faced a single quality question in 2-3 years in the AGM. Those who talk at the AGM do so with some motive. While this motive may be as petty as being photographed, appearing to be someone having influence or managing to get some extra food, this can also be a trick to compel management to pay a toll*' (illicit payment). This is similar to the experience of the authors during AGMs.[21] In the case of a leading company's AGM, out of around 35,000 plus shareholders, fewer than 200 people, including the so-called *Mastans*, entered the meeting venue and joined the proceedings, although the registered number of attendees in person and by proxy was approximately 12,000 plus. It seems the rest of them came to the AGM venue only to collect the expensive and delicious lunch pack offered by the company. Very often participants were more interested in collecting the gift pack than in listening to the AGM proceedings, as confirmed by SEC officials. This experience was shared by almost all respondents. The SEC has subsequently banned the distribution of any gifts to shareholders at AGMs. Companies now provide delicious

foods or refreshment packs, which are not legally restricted. Recently, one company offered cash to participating shareholders, as the interviewees have confirmed.

In order to bring about some discipline at AGMs, the SEC introduced a mandatory rule that listed companies must make video recordings of their AGM proceedings and required the companies to submit the unedited versions of the videotapes to the SEC. This rule has, however, been challenged by one company in the courts and remains to be seen in action. The SEC also introduced a provision to nominate one of its officers at the AGM to observe and report the proceedings to the SEC. However, this provision has not been able to make a dent in the chaotic nature of AGMs, as our fieldwork revealed. Furthermore, according to the law, companies are required to submit the minutes of their AGM to the SEC, and also to the Registrar of Joint Stock Companies (RJSC). Nevertheless, there are allegations by the respondents that companies often fabricate minutes of these meetings to their advantage. The report from the SEC officials and minutes of AGMs submitted by the company often deviate, one SEC official reported. No actions have so far been taken against any companies for these deviations. This shows that companies continue to ignore, bypass and resist rational measures imposed on them. Two modes of action (traditional and rational) are in a continuous struggle with each other. We would argue that the rational measures to make directors/families accountable to general or minority shareholders remain ineffective. Traditional attitudes mediate the rational process and consequently hinder the rational development of accountability.

Dividend

Dividend policy is another aspect of Bangladeshi companies where malpractice reaches its peak. General shareholders have a strong preference for dividends in Bangladesh (Khan, 2004). A series of measures/regulations[22] have been announced by the SEC and the government especially

to provide tax incentives to dividend-declaring companies. Several punitive measures for non-payment of dividends have also been introduced (Finance Act, 2004). According to Stock Exchange Regulations (Section 31-1), companies should be delisted if they do not declare dividends for five consecutive years. None of the measures seem to have had any impact on the dividend-declaring behaviour of Bangladeshi companies. Muzumdar's (2006) work showed that only 46% of the total companies, including multinational and banking companies, listed on the DSE declared dividends in 2005. This ratio would be even worse if multinational and banking companies were excluded from the list, as they have better dividend-declaring tendencies than the others (Imam, 2006). One newspaper report suggested that 19 companies had not paid any dividends since their inception, and 48 out of 248 listed companies on the DSE had not paid a dividend for the last 5 years (Financial Express, 10 August 2004). Owner-managers sometimes go to great lengths to avoid the measures for a dividend, including political influence and taking advantage of the slow judicial system. One SEC official cited an example: '*one company sponsored by an influential political leader of the country, was about to face a "special audit" order from the SEC, as it had not paid a dividend to its shareholders for years. To avoid the special audit by the SEC-nominated firm, the owner-managers, using their political connections, negotiated with the SEC with a commitment to pay dividend to the shareholders at the next AGM. Accordingly, the company passed a resolution that a 10% dividend should be paid to the general shareholders but not to the sponsor directors. Subsequently, one of the sponsor directors filed a lawsuit against this decision, thus delaying the dividend payment'*. SEC officials believed that this was done intentionally and in collaboration with the other directors.

Interviews with shareholders revealed that a dividend is often declared, but it takes a long time (even 2-3 years in some cases) to pay the declared dividend. For example, one company declared large dividends and bonus shares to push the share price up in 1996. After the shares market crashed in the same year, the company did not bother to pay any dividends or bonus shares,

prompting the SEC to file a case against it. The dividend was finally paid to shareholders in 2005. This report also linked the same company with the then prime minister's son (The Daily Star, 14 March 2007). One SEC official reported in a newspaper article: *'on quite a few occasions, dividend was not paid even after approval of the same at AGM'* (The Guardian, 2004). The situation is so bad, the respondents claimed, that shareholders often believe that payment of a dividend is a generosity on the part of the sponsors. One non-executive director reported: *'my company was listed in 1996 and it was oversubscribed. Initially, the sponsors had the idea that it is mandatory to pay dividend. So in the very first year they declared 12% dividend after only three months of commercial operation. In the second year they also declared a dividend. He said that last year they declared a dividend. But when the time for disbursement of dividend payment came, the sponsor, who is basically managing the business, starts dilly-dallying. They say "we should not deprive our shareholders" but when the issue of disbursement comes they are unwilling'*. This is a common practice in many companies as confirmed by respondents.

There are several examples that show how dividends are often used by sponsor directors for their personal gains. One stock exchange official commented '*there are companies which have raised funds from the public, showing lucrative project proposals and attractive dividend plans in the prospectus, but there are many cases where the company has either shut down its operations within 2-3 years after raising funds or continues to show losses year after year'*. Some of these companies have diverted their funds to other companies and are in full operation in the market under a different name, as the interview with an ex-SEC official revealed. For example, one shoe manufacturing company came to public offering in 1996 with a 100% premium. Since then, the company has never paid a dividend to its shareholders and its Tk. 100 (face value) ordinary shares were sold as low as Tk. 5[23] (DSE, 2006). Many of these companies remain untouched. A lack of resources at the disposal of the SEC is a common complaint from officials. Family connections are often argued as the principal reasons for companies not being investigated by the

SEC. For example, Uddin and Hopper (2003) report such a company where there was even the failure to audit the company accounts, let alone declare dividends. Newspaper reports often indicate the relationship between the sponsor directors of this company and the prime minister of the previous government of Bangladesh (The Daily Star, 12 June 2007). Actors (in this case family) draw their power from the political parties (led by a handful of families) and manage to stop the rational measures often introduced by state bodies such as the SEC in Bangladesh. Actors within the company are not always necessarily related to families leading the political parties, but manage to exploit the familial relationship of the political parties. Mannan (1992) argues that political parties maintain their loyal supporters in various positions within the institution and thereby personalise the state bodies. The personifications of state bodies enable the family actors at the company level frequently to dodge the rational measures intended for them. This is not unexpected from a traditional society, according to Weber (1978). Traditional processes draw power from families that have more resources than the state or state-like bodies in Bangladesh. Again, this is likely to be similar in other traditional societies.

Financial Reporting and Auditing

There are three main sources that affect the preparation, presentation and disclosure of the financial statements of listed companies, namely the Companies Act 1994, SEC Rules and Guidelines, and International Accounting and Auditing Standards, as adopted by the Institute of Chartered Accountants, Bangladesh (ICAB). While the financial disclosure requirements and auditing standards set out by the SEC for listed companies are quite comprehensive, actual compliance is highly questionable. One experienced chartered accountant commented *'the sponsors* [owner-managers] *are not interested in transparent reports. What they report in the annual report is not what they have really done. That's why they want to manage accounting reports'*. It is not unusual to find, as many respondents confirmed, the family members (hence the

directors) instructing their accountants to prepare favourable reports to important stakeholders such as creditors, the SEC and stock exchange officials. In addition to the annual accounts, the SEC regulations require publicly traded companies to publish their half-yearly accounts, namely balance sheets, profit and loss accounts, and cash flow statements, within one month of the date of close of the half year in the form prescribed by the commission. No company has ever complied with the requirement fully, as an SEC official confirmed. Furthermore, there are examples where companies have not even audited annual accounts but are still stock exchange listed (Uddin and Hopper, 2001, 2003).[24] Although there are so many compliance requirements, the SEC itself hardly has the requisite personnel, technical or logistical support to monitor them (Khan, 2004). One SEC official revealed that there are only three personnel to oversee compliance issues for over 200 listed companies. One non-executive director even claimed *'the capability of the SEC officials is questionable. I find hardly anybody in the SEC capable of monitoring'*. The situation of the other regulatory body - the Registrar of Joint Stock Companies (RJSC), which is actually the controlling authority of approximately 2,500 companies (both listed and non-listed) in the country, is rather worse. It has virtually become a place for dumping papers, with no-one to look after regulatory compliance, as the respondents claimed. The lack of resources in the state agencies confirms our previous belief regarding the nature of traditionalism (Weber, 1978). This also provides us with an explanation of why rational measures, such as international accounting and auditing standards, have little or no influence on improving levels of disclosure and compliance in Bangladeshi companies (Mir and Rahaman, 2005; Belal and Owen, 2007).

The auditors, as per Section 213 of the Companies Act 1994, are required to give their opinion as to whether the accounts give a true and fair view of the state of affairs of the company and its operating results for the financial year. The declaration that the auditor has to make is very similar to what has been practised in the USA and UK. In the context of weak capital markets, the

SEC has made additional rules and guidelines mandatory for companies. These rules closely follow the Anglo-American format being advised by the aid agencies (Uddin and Hopper, 2003; Singh and Zammit, 2006). The auditors are also required to testify whether the companies conform to the SEC's rules and guidelines. Thus, the role of an independent auditor is vital in ensuring transparency. This notion of an 'independent' auditor is based on the assumption, developed in modern states, that an audit is a product of rational calculation. To what extent is this rationality appropriate in a traditional setting? As Weber (1978) points out, traditionalism mediates the process of rational behaviour, so the question remains as to whether auditors can maintain independence in Western terms. In the words of Dyball and Valcarcel (1999), '…should the Philippine accountant continue to present himself as impartial, independent and competent, that is, as a "professional" in "Western" terms?' (p.319).

The supposed independence of auditors does not bear semblance to the strong belief held by many stakeholders, as the respondents claimed, that there exists an evil nexus between the auditors and owners-managers in Bangladeshi companies. One finance manager commented *'Believe it or not, even the tax inspectors, while assessing the tax, do not accept audited statements as a trustworthy source of information. The Securities and Exchange Commission of Bangladesh - the regulatory body of the stock exchanges - also seems to be reluctant to accept the audited statements of the listed companies without question'*. Interviews with other finance directors revealed the same story. One director shared his experience and revealed *'Even reputed auditors have signed whatever we have produced. I think they did not even have the capability to understand the tricks'*. He said *'in the annual report we write nice words about corporate governance but none of them are put into practice'*. According to him, *'Owners dictate the accounts'*. Regarding auditors being compromised, he said *'who can afford to lose his bread and butter'?* This view is also shared by one experienced auditor: *'Auditor fees are very poor. After auditing publicly listed companies, I would get only Tk. 100,000 – 150,000, but I have to take on*

a lot of responsibility, have to face a lot of risks. Why should I do that'? On the same issue, one ex-SEC official commented *'I have examined many annual reports. They are badly prepared, but still receive certificates from the auditors. You can see this just by looking at the audit fee figures. It is impossible to audit these companies with the audit fees mentioned'*. Previous research has also revealed that the integrity and competence of the professional audit firms is questionable and consequently the financial reporting practices in Bangladesh lack quality (meaning the adequacy of disclosure), as well as transparency of information disclosed (Ahmed and Nicholls, 1994). Reaz and Arun's (2006) work on audits in Bangladeshi Banks reveals that banks are very lucrative clients and, in most cases, the audit firms are also linked with the personal businesses of the bank owners. As a result, the auditors tend to give in to the demands of the banks' owners and prepare audit reports in the way the banks want them to (p.101). One World Bank-commissioned report concluded that representatives of the investment community generally agree that audited financial statements are rarely reliable and free from material misstatement (World Bank, 2003). It is perhaps the lack of trust in the audited financial statements that has compelled the SEC to introduce a rule for the special auditing of listed companies by the SEC's appointed auditors. Special audits have been carried out in a number of companies; however, no action can be taken based on these audits.

Recently, the SEC introduced a rule requiring companies to change their auditors after three years of consecutive audit, as opposed to the provisions of the Companies Act 1994 that rather imposed restrictions on the removal of auditors to maintain independence. This rule has been challenged in court by some companies and is now pending. Regulatory efforts often struggle because business elites, using their political connections[25] and resources, always seem able to block various measures taken by institutions such as the SEC (The Daily Star, 1 September 2006; Prothom Alo, 2007). This further shows tensions between traditionalism and expectations from modern enterprises. We argue that it is not surprising that family-controlled companies inhibit

accountability and transparency, because this is about revealing family secrets. Dyball and Valcarcel (1999) argue that auditing is viewed as an outsider peeking in rather than rational action. A family business is more like a household, where disclosure is seen as revealing the family's secrets. Compliance with disclosure rules is not internalised but is seen as a burden. Disclosure within the family has more value than disclosure for legal reasons (p.308). Researchers argue that the unwillingness to reveal financial information may well be due to a tax-avoidance culture (Perera, 1975) brought about by weak regulatory frameworks and enforcement. We argue that traditionalism is at work here to weaken this regulatory framework. Families draw their power from sources other than state agencies or legal institutions. State bodies are often hostage to family-led political parties. Recently, various newspaper reports and court cases have implicated the two former prime ministers and their families in the personification of state institutions, including the election commission and the public service commission, forming links with business families for funds and even embezzlement of state funds (The Daily Star, 14 March, 12 June, 2007; The Financial Express, 2007).[26]

Concluding Remarks

This paper concludes by considering the research aims in the introductory sections. First, the paper sought to present an account of corporate governance mechanisms and practices in Bangladesh. More specifically, it poses some simple but important empirical questions: What are the roles of company directors? How are the interests of shareholders, especially minority shareholders, being protected? What roles do auditors play? Do companies, overall, comply with corporate rules and regulations? Second, drawing on previous studies such as those of Weber (1978), Dyball and Valcarcel (1999) and Dyball et al. (2006), this paper sought to demonstrate that the traditionalist culture mediates the rationalist/legalist framework of corporate governance in Bangladesh.

Finally, the paper further contributes to the more fundamental debate about the effectiveness of structural adjustment programmes, including capital market reforms, in LDCs.

Companies are entirely controlled, managed and operated by the sponsor directors/family members, even though in many cases they own a minority of the shares. Directors bend/break the rules to serve the family. The accountability of companies to general shareholders is minimal. The paper has also highlighted the state of AGMs and dividend-declaring tendencies. Company accounts are not audited properly. Financial accounts are often misleading. This paper, in line with previous research, concludes that the integrity and competence of the professional audit firms is questionable and, consequently, the financial reporting practices in Bangladesh lack quality (meaning the adequacy of disclosure) as well as transparency of information disclosed. Key corporate governance measures, highlighted in this study, are being ignored by many companies and rules essentially remain ineffective. To sum up, companies fail to comply with basic corporate rules and regulations, even auditing their own accounts. These findings are similar to those from previous studies (Uddin and Hopper, 2001, 2003; Mir and Rahaman, 2005).

We argue, drawing on Weber's notions of traditionalism, empirical illustrations, and political and economic history, that the traditionalist culture mediates the process of rationality of regulatory frameworks. The substantial body of evidence drawn from interviews, media coverage and other scholarly research collected, analysed and synthesised by the authors supports the theoretical standpoint. This also gives us a wider understanding of non-compliance problems in Bangladeshi companies. The enacted rules and regulations for accountability are based on assumptions that rationality is at work in Bangladesh. Our findings indicate that the families and their kin effectively subvert the rational measures. We found that familial and political connections are often in direct contradiction with the state's rational and legal power. The families eventually weaken the state's power in the enforcement of rules and regulations. Thus, the family tradition in business and

politics continues to thrive, despite continuous bombardment with strict measures and reforms. Overall, this paper attempts to shed light on the predicament of reconciling the modern corporate governance framework with public limited companies in a traditional setting. Thus, we argue, Weber's notions of traditionalism and rationality were very useful, especially in explaining why and how the family dynamic shapes the rational corporate measures imposed on listed companies in Bangladesh. With hindsight, the authors wish they had undertaken more in-depth investigations of how the power of families tends to be reproduced or reconstituted in everyday life. The authors also recognise that deeper investigations of the role of the military[27] and bureaucracy in facilitating or obstructing the domination of family in Bangladeshi society would have provided further insights into the issues addressed in the paper. The failure to do so was mainly because of a shortage of time and the difficulty of obtaining relevant data.

Nevertheless, our findings are directly in conflict with the World Bank's expectations of implementing Anglo-American models in less developed and emerging markets, which is based on the belief that strong corporate governance institutions, such as capital markets and accounting infrastructure, will facilitate the creation of thick equity markets (World Bank, 2002; Mueller, 2006). Donor agencies took pains to create an 'enabling environment' for limited companies in Bangladesh by financing capital market institutions and providing incentives for investors. Given the cost of this, it is surprising that the policy-makers pay so little attention to the structures of societal settings (World Bank, 1995; Uddin and Hopper, 2003). Consequently, LDCs, sponsored and advised by donor agencies, continue to focus on direct transfers of governance models from Anglo-American countries (Anisette, 2000; Uddin and Hopper, 2003). The obsession with Western governance models has led to insufficient regard for how traditional social structures, characterised by families, may affect Western solutions in Bangladesh. Thus, the paper encourages further research on corporate governance issues in traditional settings, which should take local peculiarities and culture into consideration.

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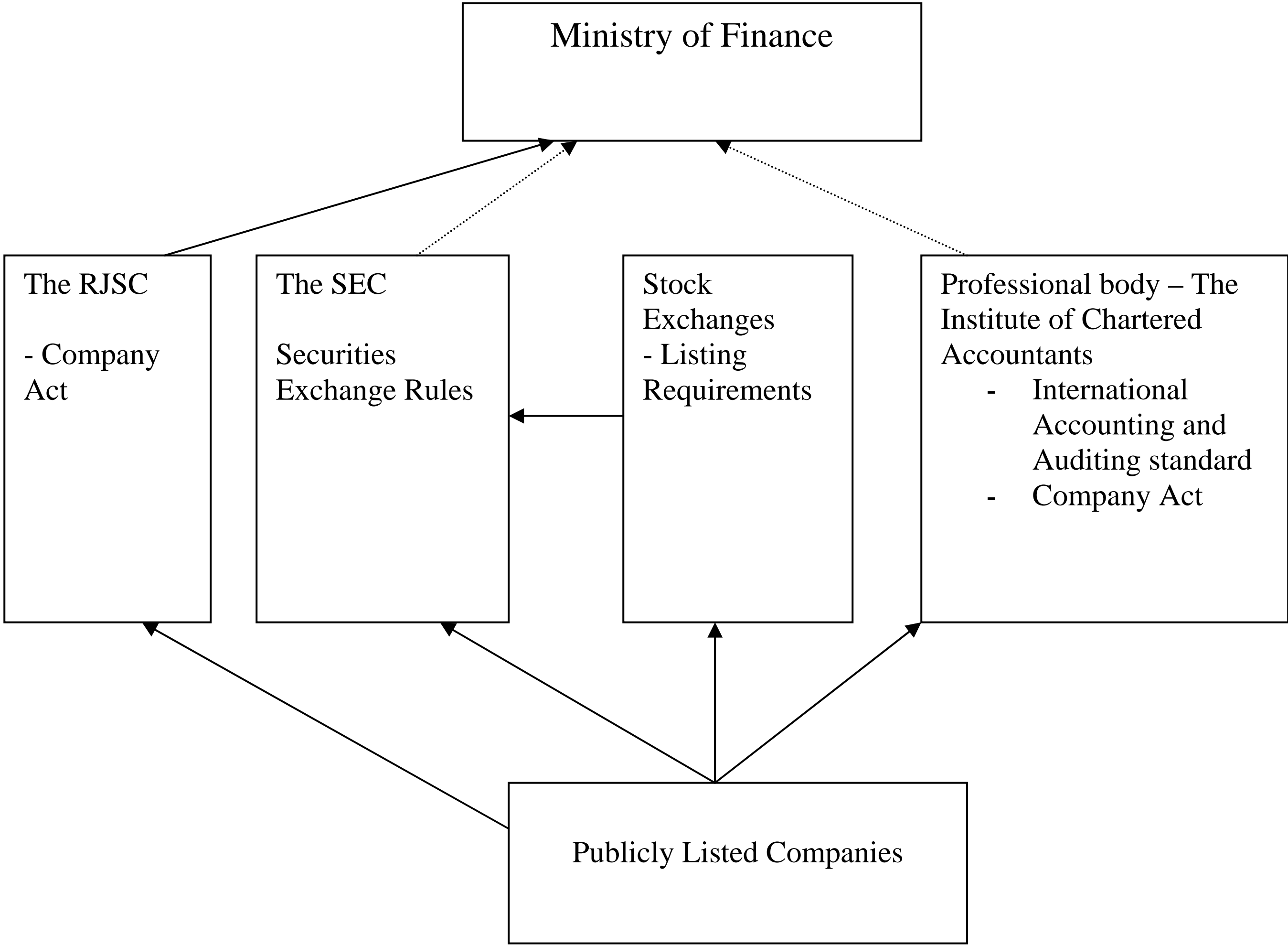
Figure One



Notes: The SEC and Institute of Chartered Accountants are autonomous bodies but indirectly controlled (indicated by dotted lines), stock exchanges are private institutions but accountable to the SEC, The RJSC is directly controlled by the Ministry of Finance.

Table One

Break-up of Shareholding of 20 "A" Category Listed Local Companies Excluding Banks, Financial Institutions, Insurance and MNCs (Selected on the basis of paid up capital)

Code	Name	Category	Paid up Capital (in mio taka)	Sponsors*	Govt	Institutions	Foreign	General Public
17420	BEXTEX	A	1,712	64	-	13	-	23
15307	DESCO	A	1,271	75	-	-	-	25
18453	BXPHARMA	A	959	22	-	15	22	41
15306	SUMMITPOWER	A	715	64	-	-	-	36
20620	EHL	A	621	48	-	18	1	33
18473	SQURPHARMA	A	596	54	-	-	9	37
13225	SALAMCRST	A	533	50	-	9	-	41
18470	BXSYNTH	A	381	42	-	-	-	58
17446	SQUARETEXT	A	343	54	-	5	11	30
20552	BDSERVICES	A	338	-	100	-	-	-
99613	BEXIMCO	A	315	44	-	-	11	45
13206	EASTERNCABLE	A	240	-	51	-	-	49
18477	KEYACOSMET	A	240	69	-	27	-	4
21622	MEGHNACEM	A	225	58	-	16	-	26
18472	ORIONINFU	A	204	48	-	32	-	20
22639	BDONLINE	A	203	31	-	8	34	27
99604	BSC	A	200	-	88	-	-	12
14286	FUWANGFOOD	A	184	39	-	12	-	49
99637	MIRACLEIND	A	181	30	-	20	-	50
13203	OLYMPIC	A	173	34	-	19	-	47

Source: Monthly Review, March 2007, Vol 22 No 03, DSE

Notes: *sponsors are often close family members (members of the same family).

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[1] The recent events do not stand alone. Before the Enron and World Com debacle, there was the loan debacle and the junk bond saga in the United States (Marnet, 2007).

[2] Weber identified a number of structural conditions in a society, which in turn facilitate rational accounting/calculations, such as profitability etc. These conditions are: appropriations of all physical means of production, freedom of the market, free labour, rational technology, calculable law and commercialisation of economic law.

[3] Out of more than 2,500 public limited companies, only 253 companies, as of September 2006, are listed in stock exchanges. This includes MNCs, state-owned enterprises and banks.

[4] The Mujib family (1971-1975, 1996-2001), the Zia family (1975-1981, 1991-1996, 2001-2006) and the Ershad family (1981-1990). Currently, though, an interim government is in power.

[5] They fall into the category of leaders whose assumptions of power are mediated by relatives as opposed to those whose careers are shaped from the beginning by their own choice, attributes and efforts (Jahan, 1987, p. 850).

[6] Protector/champion/head of the clan.

[7] This is based on the second author's personal experience while working as an accountant during the course of the author's working life prior to the commencement of the research project. The second author worked in various large companies that had been listed on the stock exchange for more than 15 years.

[8] This paper follows the tradition of Weber's methodology of social science (see, Weber, 1964, pp 9-10).

[9] Banking, insurance and multinational companies are subject to further regulations. The paper excludes these companies.

[10] SEC rules include a number of acts and ordinances (see SEC website for details).

[11] There are two stock exchanges, namely the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE).

[12] Being advised and financed by the ADB, the SEC encouraged stock exchanges to reform the daily transaction system. The Dhaka Stock Exchange (DSE) introduced an automated, on-line, screen-based trading system like their Western counterparts in 1998. In 2004, the Central Depository System (CDS) for electronic settlement of share trading made its debut in the DSE. These reforms were to achieve transparency and enable rapid transactions.

[13] SEC, being advised by the Ministry of Finance, had to waive the lock-in conditions for foreign investors as the IFC (International Financing Company) and ADB put the conditions on their investment in a local cement company.

[14] The SEC is a statutory body and is attached to the Ministry of Finance. Under the Securities and Exchange Commission Act 1993, the chairman and three members of the commission are appointed by the government.

[15] According to recent notification (comply or explain basis - non-mandatory) issued on 20 February 2006 by the SEC, publicly listed companies (non-banking companies) should have at least 5 but no more than 20 directors in the board. They also should have independent directors in the board. The number of independent directors should be at least one-tenth of the total directors subject to a minimum of one. Independent director/s should be elected by the elected directors.

[16] The taka exchange rate is approx. £ = Tk. 135.

[17] Institutional shareholding is fragmented. We have checked with the list of institutions referred to in the shareholding list of one of the top performing companies. This list includes any organizational buyers; 5.81% of the shares are held by 88 institutions.

[18] The stock exchanges introduced categorization of shares into A, B, Z and G types depending on financial strength, performance, dividend payments, regularity in holding AGMs, etc. Category Z shares entail a longer settlement and clearing period compared to category A shares.

[19] These people appear to own a share or represent a shareholder.

[20] There is one common agenda item called 'Miscellaneous', under which a general shareholder can raise any issue with the permission of the chair at an AGM.

[21] The first author attended two AGMs. The second author attended numerous AGMs during his working life as an accountant.

[22] See SEC Notification No. SEC/CMMRRCD/2006-159/admin/02/09 dated 30 May 2006.

[23] Share price Tk. 22.75 (as at 28 October 2007).

[24] Uddin and Hopper (2001) reported one such example where the company had stopped submitting financial reports since 1994 to the SEC and is still stock exchange listed. Although there are laws against all of these practices, they have not been enforced with respect to this company as the owner was allegedly linked with the former prime minister's family (the Daily Star, 14 March 2007).

[25] Covert and undue links between political leaders and business elites are not new in Bangladesh, but these links came under formal scrutiny soon after the new caretaker government took over power on 11 January 2007 (The Financial Express, 2007).

[26] The anti-corruption commission, formed by the army-backed caretaker government, lodged a number of cases against the two former prime ministers representing two influential families. More importantly, the two former prime ministers and members of their families were recently sent to jail while cases against them are being processed in court.

[27] The role of the army in Bangladeshi family politics is renewed as the current army-backed interim government takes a stand against family politics for the first time (Time, 22 March, 2007).