Towards a Political Economy of Corporate Governance: A Critical Realist Analysis

Shaila Ahmed

A Thesis Submitted for the Degree of PhD in Accounting

Essex Business School

University of Essex

August 2015

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List of abbreviations

AC: Audit Committee
ADB: Asian Development Bank
AGM: Annual General Meeting
AL: Awami League
AR: Annual Report
BAS: Bangladesh Accounting Standards
BB: Bangladesh Bank
BAPLC: Bangladesh Association of Public Listed Companies
BCGP: Bangladesh Corporate Governance Project
BICM: Bangladesh Institute of Capital Market
BEI: Bangladesh Enterprise Institute
BFRS: Bangladesh Financial Reporting Standards
BNP: Bangladesh Nationalist Party
BOD: Board of Directors
BSA: Bangladesh Standards for Auditing
BSEC: Bangladesh Securities and Exchange Commission
CA: Companies Act
CCI: Controller of Capital Issues
CDBL: Central Depository Bangladesh Limited
CGG: Corporate Governance Guidelines
CEO: Chief Executive Officer
CFO: Chief Financial Officer
CG: Corporate Governance
CMDP: Capital Markets Development Programme
CPD: Centre for Policy Dialogue
CSE: Chittagong Stock Exchange
DC: Developing Country
DSE: Dhaka Stock Exchange
EC: Executive Committee
EGM: Extraordinary General Meeting
FRA: Financial Reporting Act
FRC: Financial Reporting Council
GAAP: Generally Accepted Accounting Principles
GCGF: Global Corporate Governance Forum
GDP: Gross Domestic Product
HIA: Head of Internal control and audit
IAS: International Accounting Standards
IASB: International Accounting Standards Board
ICA: Internal control and audit
ICAB: Institute of Chartered Accountant of Bangladesh
ICB: Investment Corporation of Bangladesh
ICMAB: Institute of Cost and Management Accountant of Bangladesh
ICT: Internal Conversation Theory
ID: Independent Director
IFC: International Finance Corporation
IFRS: International Financial Reporting Standards
IMF: International Monetary Fund

IOSCO: International Organization of Securities Commissions
IPO: Initial Public Offering
RPO: Repeat Public Offering
ISA: International Standards on Auditing
LPT: Labour Process Theory
LR: Listing Rules
MD: Managing Director
ML: Muslim League
NAV: Net Asset Values
OTC: Over-The-Counter market
PLC: Public Limited Company
RJSC: Register of Joint Stock Companies and firms
ROSC: Reports on the Observance of Standards and Codes

Summary of the thesis

Corporate governance (CG) has attracted much interest in research and policy reforms worldwide following recent financial crisis and subsequent bailouts of banks and other financial institutions. Despite this surge in CG research, the extant CG literature is reportedly weak in terms of empirical illustrations of CG practices at the organizational level. It tends to be concerned more with 'compliance' than 'practice'. Against such a backdrop, this research empirically provides an insight into the CG practices of public limited companies (PLCs) following the recent CG reforms in a developing country. Theoretically, it aims to explain CG practices using a critical realist lens: internal conversation theory (ICT). To achieve the research objectives, a theoretically informed analysis of in-depth interview findings triangulated with a documentary survey and direct observation is undertaken. The research documents show evidence of ceremonial boards, stage-managed AGMs, and client-friendly audit practices in the post-reform regime. These practices, together with the relatively informal internal audit and financial reporting practices, substantially reflect the dominance of family institutions within PLCs. Such dominance of family institutions would seem to subvert the genuine spirit of the reforms. From the perspective of ICT, CG practices are shaped by the actions of reflexive agents whose life projects bring them into contact with pre-existing structures that create dispositions to act in a particular way. It is through the internal conversation (exercising the reflexive power of deliberation) that agents decide their ultimate course of action; however, this does not always necessarily conform to their confronted structural dispositions. To have an explanatory leverage on agential actions, therefore, it is important to capture both the nature of agency and the structural context. Overall, my analysis reveals the theoretical rigour of ICT in explaining empirically manifested CG practices. This research has some practical policy implications.

Chapter 1
Introduction

Introduction

In the wake of the 2007 global financial crisis, the subsequent collapse of large banks and corporate icons like GM and Chrysler, government bailouts and the ensuing credit crunch, corporate governance (hereafter CG) has attracted a surge in interest in research and policy developments worldwide. Failures and weaknesses in CG have often been attributed to the on-going financial crisis (Kirkpatrick 2009). In this context, the surge in CG research follows a rise in demand for greater accountability from company directors and managers (Christopher, 2010). The accountability issue in general is seen from the perspective of an inherent conflict of interests between the agents (managers) and principals (shareholders). Not surprisingly, this is based on the assumption of a separation of ownership and control that is envisaged by the seminal publication of Berle and Means (1932). Managers as the agents of shareholders can engage in self-serving behaviours that may be inconsistent with the shareholders' wealth maximization principle. Consequently, principal-agency relationships and CG mechanisms mitigating the conflict of interests have come under serious scrutiny in extant CG research(e.g. Jensen and Meckling, 1976; Dalton et al., 2003; Roberts et al., 2005). However, little attention has been paid to how the CG mechanisms are implicated in practice. Consequently, CG practices remain poorly understood in the current CG research leading to a research-practice gap (Huse, 1991).

A limited but growing body of prior research has addressed the apparent research-practice gap to a variable extent (Roberts et al., 2005; Hendry, 2005; Gendron and Bedard, 2006; Turley and Zaman, 2007; Yoshikawa et al, 2007; Uddin and Choudhury, 2008; Beasley et al, 2009; Yonekura et al., 2012 Malsch et al, 2012). Nevertheless, the need for CG research to engage with practices has been highlighted in a number of recent studies (Ahrens et al., 2011;

Tremblay and Gendron, 2011; Ahrens and Khalifa, 2013). Indeed, Ahrens (2011) and his colleagues argue that the 2007 global financial crisis has exposed gaps in our existing knowledge of CG practices. Despite voluminous CG research, in their view, we have little useful insight into CG practices at organisational level. Accordingly, they indicate the need to raise critical research questions by a focus on CG practices.

CG reform, practices and change are attracting much research interest worldwide in the context of repeated CG scandals and subsequent impact (Yonekura et al., 2012; Tremblay and Gendron, 2011; Yoshikawa and Rasheed, 2009; Uddin and Choudhury, 2008; Moore et al., 2006). Yonekura et al. (2012) argue that CG practices are embedded practices that interrelate with their context. Empirically, this paperdemonstrates how global hegemonic pressure to adopt the Anglo-American CG framework has led to a complex process of change in the Japanese context; however, the findings suggest that Japan could not implement Anglo-American practices in exactly the same forms as in the United States and other developed countries. Tremblay and Gendron (2011) investigate how regulatory and best-practice discourse for strengthening of audit committees' work, in the aftermath of the 2001–2002 financial scandals, were received by audit committee members in Canadian setting. Their interview findings suggest that such a discourse did not translate into a significant shift in the actors' ways of thinking and doing resulting in some cosmetic and symbolic changes in practice.Interestingly, this paper criticises the bulk of existing research studying CG reform in the context of developed economies in terms of its impact on profitability (Arbogast and Thornton, 2006; Leuz, 2007) and tackling incentive and agency conflicts on the ground of paying relatively little attention to how prescriptive reform is received by actors in the context of their own practices (Tremblay and Gendron, 2011). Consequently, 'lived' experiences of CG remain under researched and hence poorly understood (Roberts et al., 2005; Ahrens and Khalifa, 2013). This neglect also applies to CG research in the context of emerging economies.

Recently, CG reform has come under serious scrutiny in emerging economies based CG research. External pressures have compelled many of these countries to adopt Anglo-Saxon frameworks and institutions of CG (Tsamenyi and Uddin, 2008; Yonekura et al., 2012). The broad range of issues covered includes discussing the nature of CG reforms and how reforms take place and explaining the motive for CG reform while emphasizing the efficiency versus legitimacy perspective. Predominantly empirical in nature, this stream of research has seemed to focus on the institutional contexts and rationalities within which reforms take place. Therefore, reportedly little attention has been paid to detailed empirical investigations of the actual CG practices of companies in the context of CG reforms. This neglect also applies to the emerging body of recent research, which raises concerns about Western-style CG reforms in emerging economies in terms of engendering meaningful change in CG practices (Mueller et al., 2006; Sing and Zammit, 2006; Tsamenyi et al., 2007; Uddin and Choudhury, 2008; Yoshikawa et al., 2007; Siddiqui, 2010; Yonekura et al., 2012). In general, the studies tend to problematize that technical solution in the form of Anglo-American frameworks and institutions may not solve CG problems in emerging economies. With their unique economic, political, cultural, and social histories, externally driven CG reforms are receiving much attention from domestic policy makers, practitioners, academia, and researchers in their own right. Accordingly, recent studies have called for further research on CG in the context of emerging economies (Uddin and Choudhury, 2008; Solomon, 2008).

Bangladesh, like many other emerging economies, has been going through CG reforms following the prescriptions of its development partners; therefore, it appears to be an ideal case for conducting research in this field. The reforms provide the material and ideational conditions of the possibility of change in CG practices in listed public limited companies (hereafter PLC). However, these conditions cannot work like hydraulic pressures, as agents, whose interests are going to be jeopardized, would have incentives to resist change. Therefore, in reality, there might be a change or an absence of change in CG practices. Begun in the late 1990s, the CG reform is still going on. In this regard, investigation of issues like the type of CG practices that have emerged following the reform and the extent to which this signifies a change, if any, is important before further reforms can take place. To date, with a few exceptions (for example, Uddin and Choudhury, 2008), there seems to be persistent neglect of these issues in the existing research. Such apparent neglect is untenable at a time when CG has been a matter of considerable urgency both for domestic policy makers and international key players. Accordingly, it sets the motivation for this research. This research, therefore, seeks to explain the CG practices in Bangladesh in the context of the recent reforms.

Theoretically, the extant CG research tends to be predominantly informed by a set of theoretical positions including agency theory, stewardship theory, managerial hegemony and resource dependency theory (Carcello et al., 2011; Cohen et al. 2008; Bedard and Gendron, 2010). This stream of research tends to be largely confined in testing theoretical predictions to impact organisational CG practices. While this stream of research has produced useful insights, its widespread acceptance by CG researchers has received critical attention in several recent studies (Aguilera et al., 2008; Filatotchev, 2008; Roberts, 2009; Christopher, 2010). Emerging from these studies is the recognition that the taken-for-granted assumptions of those theoretical positions do not always seem to sufficiently address the political economy of CG. For example, agency theory tends to ignore the ways in which the exploitation of general shareholders can be structurally encouraged by the asymmetric distribution of resources and power (Band, 1992). Indeed, Macintosh and Hopper (2005) suggest seeing organizational conflict as reflective of a deeper social conflict between classes of people with unequal access to social and economic resources.

In particular, the dominance of agency theory-based quantitative research has attracted critical attention in several studies in the context of emerging economies. For example, studies have questioned whether the assumptions of agency theory could be generalized in emerging economies with their unique social, cultural, and economic histories (Uddin and Choudhury, 2008; Phan, 2001; Tian and Lau, 2001). This stream of research is criticized on the ground that it fails to look at the noneconomic factors like the power relations, politics, culture, and structured social interests inherent in the context of emerging economies. Aguilera et al. (2008) argue that CG is not just bound by the narrow relationship between shareholders, the board of directors, and management, as posited by agency theory, but is also subject to wider interdependencies resulting from internal and external influencing forces. Similarly, Filatochev (2008), Young and Thyil (2008), and Clarke (2005) refer to the need to understand the effectiveness of CG mechanisms by aligning organizations with a more contextualized view of organizational environments. This signifies the importance of the adoption of political economy perspective in studying CG practices. Political economy perspective would facilitate our understanding of the socio-historical context within which CG practices emerge and take place and allow researchers to investigate a range of non-economic (socio-economic, cultural and political interests of key players) issues that are currently overlooked in the extant CG literature.

In general, the present CG research appears to focus largely on some critical appraisal of the theoretical foundations and assumptions implicit in the prescribed CG framework in emerging economies (Siddiqui, 2010). More specifically, the theoretical explanation of CG practices and change does not seem to have been the subject of extensive research interest until now (with a few exceptions, for example, Uddin and Choudhury, 2008). Accordingly, this research seeks to fill the apparent theoretical gap. In so doing, it utilizes a sociology informed political economy perspective.

Philosophically, this research attempts to explain CG practices using critical realism, thus, diverging from the seemingly orthodox positivist philosophical tradition that underpins much of the existing CG research (see Brennan and Solomon, 2008). In this way, it aims to contribute to the recently growing interest in using critical realism as a philosophical underpinning in accounting literature. Elsewhere (Modell, 2015), it is argued that a critical realist reflection may improve research quality by suggesting new methodologies, enhancing the explanatory purchase on empirical findings, and even by fostering new ways of seeing the reality and asking different questions.

Against a critical realist philosophical backdrop, the theoretical position of my research builds upon a political economy approach: internal conversation theory. Contemporary British sociologist Margaret S. Archer (1988, 1995, 2000, and 2003) has developed this theory in her seminal writings on structure and agency. According to Archer, social reality depends upon human actions and their consequences, whether these are desired or undesired. As such, human beings in their daily lives have a genuine freedom of belief, thought, and action, yet this is inescapably enabled and/or constrained by culture (ideas and beliefs) and structure. Present reality is the consequence of the actions of human beings (agents), which are essentially conditioned by past structures. Thus, any attempt to explain the present 'empirical' reality must identify the past structures that condition (constrain and enable) agential actions; this process ultimately shapes the reality as it is today. Thus, Archer provides a sophisticated analytical device to explain empirical social reality.

In light of the above empirical and theoretical knowledge gap, the objective of this research is threefold. First, it attempts to provide detailed empirical evidence of change, if any, in the CG practices of the listed PLCs following the recent CG reforms in Bangladesh. Second, and more importantly, it attempts to come up with a theoretical explanation of the change or absence of change in CG practices. Third, it attempts to raise policy concerns. This is consistent with the call by Brennan and Solomon (2008) for researchers to analyse models, evolutions, and practices from the past in order to inform the present and the future of policy reforms.

This research has a number of important contributions. First, it provides detail empirical illustration of CG practices and change in the context of reforms. As mentioned earlier, prior research with its apparently exclusive focus on resolving agency conflict of interests tends to pay relatively scant attention in opening up the black box of CG practices at the level of organisational setting. Consequently, 'lived' experiences of CG remain poorly explored limiting to some extent our practical understanding of CG practices (Ahrens et al., 2011). Empirically the thesis will add to our current understanding of CG practices and change with particular significance in fulfilling the research-practice gap.

Second, the theoretical contribution of the current research stems from the adoption of political economy approach: internal conversation theory. The political economy approach allows it to link CG practices and change at the organisational level (micro level) to the wider socio-cultural and institutional context (macro level) in the increasingly interdependent world economy. Internal conversation theory has particular significance in unpacking the micro-macro (or structure-agency) link in a sense that it comes up with a nuanced explanation of agency within the changing structural contexts. The theoretical conceptualisation of agency led me to flesh out the 'lived' experience of CG (Roberts et al., 2005; Ahrens and Khalifa, 2013). I argue that the theoretical explanation put forward in my thesis is likely to provide a solid platform for debating both theoretical and practical issues of CG.

Third, context-specific analysis of CG reforms, practices and change has strong policy implications for countries like Bangladesh and other emerging economies that are under continuous pressure to reform their CG frameworks in line with the western best practices. This research would also contribute to developed economy-based contemporary CG literature in that the context of an emerging economy is investigated in which economic, political, cultural, and social histories are different from those in its western developed counterparts. It will provide critical insight into the effectiveness of a particular form of CG framework from wider perspective.

Organization of the thesis

The thesis is organized as follows. Chapter 2 describes the general context of the research and the CG reforms in Bangladesh. The literature review dealing with CG in general and in the context of emerging economies is the subject of Chapter 3. This is followed by Chapter 4, which describes the theoretical framework, the working methodology, the data collection, and details of the analysis. Chapter 5 presents the change, if any, in CG practices following the recent reforms. Next, Chapter 6 provides a theoretical analysis and discussion of the subject-matter of the thesis, and finally, Chapter 7 discusses the contribution the thesis makes to the existing CG literature and considers the policy implications of this research.

Chapter 2
Literature Review

This chapter starts with a brief introduction regarding the way CG is defined in this research. It thus defines the scope of the thesis. This is followed by a review of the extant CG literature to identify the empirical gap. In the following section, in order to locate this gap, the theoretical perspectives underpinning the extant CG literature are reviewed. The chapter ends with a clear delineation of the specific questions to be addressed in this research.

2.1 Introduction

Traditionally, accounting research on CG has adopted an agency theory approach, focusing exclusively on resolving conflicts of interest between company management and shareholders (Jensen and Meckling, 1976; Fama, 1980; Fama and Jensen, 1983; Eisenhardt, 1989). This dominance of agency theory in CG research has resulted in a shareholder-centric definition of CG; for example, it is defined as "the range of control mechanisms that protect and enhance the interests of shareholders of business enterprises" (Fama and Jensen, 1983).

Most developed economies, including the UK and the USA, have approached CG reforms from the shareholder-oriented perspective (Brennan and Solomon, 2008), whereby companies are required to discharge their accountability to the dominant stakeholder group, namely, the shareholders. However, this perspective differs from the stakeholder-oriented view of CG, which criticizes agency theory for its neglect of the company's responsibility to a broad range of stakeholders other than shareholders (Sikka, 2008; Collier, 2008; Brennan and Solomon, 2008; Christopher, 2010). Since the shareholder-oriented perspective is reflected in recent CG reforms in Bangladesh, that is the one this research has chosen to adopt.

2.2 Review of empirical perspectives in CG research

2.2.1 Existing research dominated by a functionalist perspective of CG

Traditionally, CG research has tended to focus on a variety of mechanisms where accountability is viewed in general from the perspective of an inherent conflict of interests between the agents (managers) and principals (shareholders). Not surprisingly, this is based on the assumption of a separation of ownership and control, which is envisaged by the seminal publication by Berle and Means (1932). Managers as the agents of shareholders can engage in self-serving behaviour that may be inconsistent with the shareholders' wealth maximization principle. Consequently, principal-agency relationships and CG mechanisms mitigating the conflict of interests have come under serious scrutiny in extant CG research(e.g. Jensen and Meckling, 1976; Dalton et al., 2003; DeZoort et al., 2008; Beasley et al., 2009; Salleh and Stewart, 2012). Traditionally, the researchers have focused on the board and AC composition as input (independence, splitting the roles of chairman and CEO, multiple directorships, and presence of institutional investors) to measure the CG effect on various outcomes. Increased independence of the board has been usually linked to improved financial performance, reduced fraud, less manipulation of earnings, fewer restatements, and positive stock-price responses (see, for instance, Beasley, 1996; DeZoort and Salterio, 2001; DeZoort et al., 2002; Klein, 2002; Xie et al., 2003; Peasnell et al., 2005; García Osma et al., 2007; Hunton and Rose, 2008). For example, research on the composition of boards has found that directors with multiple directorships are less willing to support restatements due to the potential adverse effects of restatements on their reputation capital (Hunton and Rose, 2008). Similarly, extant CG research has predicted the positive impacts of AC, such as improvements in financial reporting, resolving auditor-management disputes, a decrease in earnings management or financial fraud, and an increase in unqualified audit reports

(Sharma, 2004; Cohen et al., 2007; DeZoort et al., 2008; Beasley et al., 2009; Salleh and Stewart, 2012).

The principal-principal conflict of interests has also come under scrutiny in the extant CG research, which is especially pronounced in a context characterized by concentrated ownership and weak legal protection of property rights, which seems to apply to many DC (La Porta et al., 2000; Claessens and Fan, 2002; Young et al., 2008). Again, the dominance of the functionalist perspective is quite clearly apparent in this strand of research. It is commonly argued that controlling owners may have the power and incentives to extract private benefits of control. For example, Claessens and Fan (2002) find a positive effect of block holders on attenuating related party transactions and labour redundancy in Chinese listed firms and argue that a strong network of institutional investors can provide a solution for minority-investor expropriation.

To summarize the above review, the extant CG research tends to highlight the importance of different CG mechanisms in reducing agency conflicts. With an implicit or stated assumption of objective reality, it reportedly eschews a positivist epistemology. Consequently, the bulk of CG research to date has tended to adopt a predominantly functionalist view of CG. In what follows, CG has apparently been portrayed as a technical problem. The objective of CG research seems to be prescribing solutions to such apparently technical problems by drawing on agency theory predictions. Ahrens and Khalifa (2013) identify agency theory as an important facilitator of input-output studies of CG or as a ‘black box’ eschewing explorations of the functioning of different CG mechanisms.

While agency theory-dominated functionalist CG research provides a useful insight into the role of CG mechanisms, it has attracted critical attention in some recent studies. Implicitly or explicitly, concerns have been raised about actual CG practice[1]. For example, the findings of functionalist CG research seem to contrast with some studies that suggest the limited involvement of audit committee (AC) in various CG roles in practice (Spira, 1999a; Cohen et al., 2002; Gendron et al., 2004; Bedard et al., 2004; Gendron and Bedard, 2006; Turley and Zaman, 2007; McCracken et al., 2008; Bedard and Gendron, 2010). Gendron and Bedard (2006), for example, find limited AC involvement in resolving auditor-management disputes. Further, McCracken et al. (2008) tend to suggest that auditor-client negotiation occurs regularly but that AC involvement in this process is limited. Turley and Zaman (2007) find that AC participants tend to avoid taking unresolved issues to the AC and generally expect the issues to be resolved informally before they reach the committee. Such reluctance to involve the AC in various matters related to CG is evident to varying degrees in some recent CG studies (see, for example, Tremblay and Gendron, 2011). Others tend to indicate that the AC in fact plays a 'symbolic or ceremonial role' in general in respect of overseeing audits and financial reporting processes (Spira, 1999a; Cohen et al., 2002). Similarly, Young et al. (2008) find that although CG mechanisms in China resemble those of developed economies in form, they are in fact different in substance (see Peng, 2004; Young et al., 2008).

[1]Terms, such as 'process' and 'mechanisms' have been used interchangeably in the existing CG literature. In this thesis, these are viewed as 'practice'. Again, this thesis differentiates between 'compliance' and 'practice'. In Tremblay and Gendrons' (2011) view, 'compliance' implies substantive change. Change is substantive when it affects the self, one's essence, and one's ways of knowing and interpreting the world (Flyvbjerg, 2001). However, the definition of 'compliance' put forward in the thesis differs from, and is arguably narrower than, Tremblay and Gendrons' (2011) definition. Here, compliance does not necessarily imply substantive change. Thus, a box ticking exercise is viewed as compliance with the code as it does not entail substantive change in the actors' ways of thinking. I argue that real change in 'practices' implies substantive change in the ways of thinking and doing something. The authors find that changes in AC practices in the post-Enron era are often cosmetic (I would rather view those changes as symbolic 'compliance' than as changes in 'practices' *per se*) and do not entail a substantive modification of members' mindset regarding the role of the audit committee. To summarise, this thesis views 'compliance' as any form of (formal or superficial) adherence to legislation/code and 'practice' as the ways of thinking and doing something in the real world.

It is argued that actual board behaviour (or practice) is not adequately explored in the functionalist CG research (Daily et al., 2003; Finkelstein and Mooney, 2003; Roberts et al., 2005; Ahrens et al., 2011, 2013).This stream of research calls for the need to open the 'black box' of actual board behaviour to contribute to the creation of accountability. For example, Roberts et al. (2005) attempt to open the boardroom black box by exploring the dynamics of its power and influence to assess board effectiveness. The authors criticize the agency theory perspective that sees accountability only as a constraint upon an essential, opportunistic, and self-interested facet of humannature. Their qualitative study of listedBritish companiesseeks to understand board processes andthe necessity for compromise between the twogenerally accepted non-executive director roles:collaboration and control. Findings suggest that non-executives appear to assign a high premium to the closeness and openness of their relationships with executives (i.e., a socialising form of accountability) in contradiction to the expectations of agency theory. However, there is a gap between the board's 'role expectations' and the actual 'task performance', as Huse (2005) argues. He therefore prescribes a framework in his paper for studying actual board behaviour combining the explorations in Roberts et al. (2005) with some of the most seminal board-review articles. In a similar vein, a small but growing literature has been trying to open the 'black box' of CG (Pettigrew and McNulty, 1995; McNulty and Pettigrew, 1996, 1999; Huse, 1998; Samra-Fredericks, 2000a; O'Higgins, 2002; Finkelstein and Mooney, 2003; Hendry, 2005; Roberts et al., 2005; Parker, 2007b; Zain and Subramaniam, 2007; Main et al., 2008; Brundin and Nordqvist, 2008; Hambrick et al., 2008).

Despite the abovementioned growing interest in opening the 'black box' of CG, there does not seem to be any explicit and detailed empirical illustration of actual CG practices in existing CG research (Ahrens et al., 2011). Indeed, CG practices and change in the context of

CG reform are gaining more prominence in the aftermath of the recent financial crisis and its ongoing worldwide impact. Ahrens (2011) and his colleagues argue that the global financial crisis has provided both a huge natural experiment and an exposure of the weakness and irrelevance of current CG research. Despite voluminous CG research, in their view, we have little useful insight into actual CG practices. Accordingly, they call for the need to raise critical research questions by focusing on CG practices. Therefore, the next section entails a review of the existing literature on CG reform, practice, and change.

2.2.2 Existing research on CG reform, practice and change

As mentioned previously, following the recent financial crisis and its ongoing worldwide impact, CG reform is attracting much research interest. Prior research suggests that CG reform tends to adopt a converging trend towards Anglo-Saxon CG frameworks worldwide (Collier and Zaman, 2005; Turley and Zaman, 2004; Reid, 2003; Denis and McConnel, 2003). Nevertheless, CG reforms and the operation of an Anglo-Saxon CG framework have been debated theoretically and empirically in both developed and developing country contexts (Marnet, 2007; Stein, 2008). Stein (2008), for instance, argues that CG reform, such as the Sarbanes-Oxley Act (SOX) in the US, tends to be inherently problematic, especially in complex systems characterized by the substantive contextual and subjective influences of CG actors. The author employs neo-liberalism and its related mentality of governmentality to illuminate how CG and reforms are socially constructed through autonomous agents, including managers and accountants, and the various power relationships that comprise government. It is argued that CG reform brings about rules, regulations, or norms, and the power embedded within social structures may lead to the inculcation of those norms. In response, managers, investors, and other actors subjectively monitor and rationalize their conduct against such norms, acting asif they were being watched, irrespective of whether compliance is forthcoming. Individual actors, through the internalization of norms, thus constitute CG, which may not be free from distortion. Accordingly, this has led to the conclusion that functional agency perspectives may not lead to the desired solutions, and existing problems may even emanate from such misconceptions.

Without explicitly getting drawn into the convergence-divergence debate, this literature review reflects on a critical aspect that appears to be neglected in that debate. Indeed, such neglect is highlighted in Tremblay and Gendron (2011), where it is argued that existing research on CG reform has apparently paid little attention to how CG reform is received by the actors in the context of their own practices. Specifically, this paper studies how regulatory prescriptions and best-practice discourse for promoting a strengthening of the AC role, in the aftermath of the 2001–2002 financial scandals, were received by AC members. The authors draw on the notion of trials of strength (Latour, 1987). Their interview findings suggest that such a discourse did not translate into a significant shift in AC members' ways of thinking and doing. It would seem that mandatory changes calling for a strengthening of the AC role were superficially implemented, resulting in some cosmetic and symbolic changes in CG practices. Viewing such superficial adherence as resistance to prescriptive calls, they argue that it tended to develop behind the scenes of the AC.

Over the last decade, CG reform has also come under increased scrutiny in CG research in the contexts of developing countries (hereafter DC). External pressures, among other factors, have compelled many of these DCs to adopt the Anglo-Saxon framework and institutions of CG (Tsamenyi and Uddin, 2008). Empirically, the broad range of issues covered includes the nature of CG reforms and how the reforms take place, explaining the motive for CG reform by emphasizing the efficiency versus legitimacy perspective, among others. For example, the emergence and context of CG reform in DCs has been extensively examined in previous studies (Rwegasira, 2000; Solomon *et al*., 2002; Hussain and Mallin, 2002; Solomon *et al*., 2003; Judge and Naoumova, 2004; Ararat and Ugur, 2003 and Alves and Mendes, 2004). Predominantly empirical in nature, this stream of research has appeared to focus on the institutional contexts and rationalities within which CG reforms take place. Nevertheless, by implicitly adopting a 'predominantly functionalist' tone, these studies generically draw on the argument that for a CG framework to be effective, it needs to fit into the institutional contexts. Capital markets, independent professions, an autonomous regulatory system, and a democratic state are usually seen as essential institutions for the operation of a Western (Anglo-Saxon) CG framework.

Diverging from a functionalist perspective of CG institutions and change, a growing number of studies have sought to question the relevance of the Western CG framework and institutions for enhancing CG in the DCs (see, for example, Sing, 1997, 1999; Reed, 2002; Sing and Zammit, 2006; Uddin and Choudhury, 2008; Siddiqui, 2010). CG practices and change in the context of reform have reportedly received critical attention in these studies. Emerging from this growing body of recent research is the argument that substantive reform and change initiatives often end up in concrete practices after being superficially modified (Yonekura et al., 2012; Tremblay and Gendrons, 2011; Yoshikawa and Rasheed, 2009; Uddin and Choudhury, 2008;Moore et al., 2006). Yonekura et al. (2012) argue that CG practices are embedded practices that interrelate with their context. Empirically, this paperdemonstrates how global hegemonic pressure to adopt the Anglo-Saxon CG framework has led to a complex process of change in the Japanese context. The findings suggest that Japan could not implement Anglo-Saxon practices in exactly the same forms as in the US and other developed countries. Yoshikawa and Rasheed (2009) argue that national forces, such as institutional embeddedness and politics, may hinder CG changes or create 'hybrid' practices.

A similar concern over CG practices and the change therein is echoed in Uddin and Choudhury (2008). Uddin and Choudhury (2008) address the political economy of CG, where CG reform in DC is regarded as the result of a colonial heritage and continued neo-colonial domination rather than as the rational choices made by the policy makers and practitioners. It is argued that traditional attitudes, culture, and values (for example, family and kinship ties) in Bangladesh are in conflict with the rational ideas imported from Western settingsand consequently frustrate the development of a rational CG framework in practice. From a political economy perspective, Haque et al. (2011) show that concentrated shareholding, a family-aligned board and management, and the political connections of the controlling shareholders tend to be inversely associated with the quality of CG. The controlling families or owners often appear to use their crony relationships with politicians and bureaucrats to influence the state's political preferences for maintaining the status quo in institutional (such as legal and regulatory) reform, or for its partial implementation or weak enforcement. These political preferences, in turn, have an indirect influence on the control and boardroom politics, and together, they eventually lead to poor quality CG in terms of protecting shareholders' interests. The authors criticise the apparent neglect of the development partners, who usually sponsor a western version of CG reform, and the prevalence of cronyism and interest-group politics, which in their view, have significant implications for the current state of CG in developing economies.

In a similar vein, Yonekura et al. (2012)empirically demonstrate how global hegemonic pressure to adopt the Anglo- Saxon CG framework has led to a complex process of change in the Japanese context. They conclude that actual implementation of CG practices has been quite selective and uneven. The socio economic and cultural aspects featured local companies historically embedded with a duty-to-stakeholders (especially employees) approach and a life-long employment commitment reflecting an 'ethical tradition of dutifulness' and an 'ethical vocabulary of responsibility, guilt and shame' derived from Mencian and Sung Confucianism. In contrast, the Anglo-Saxon values legitimizing (narrowly) self-interested owners and managers with an emphasis on shareholder rights constituted a challenge for the companies. Indeed, the required shift in company values and objectives from achieving long-term sustainable growth to shareholder wealth maximization created tension. Accordingly, Japan could not implement Anglo- Saxon practices in exactly the same forms as in the US and other developed countries. Again, in this stream of research, an empirical illustration of CG practices apparently has not been the subject of much investigation. This appears to have been a missed opportunity to enhance CG through informed policy reforms.

To summarize, CG reforms are attracting much interest in academic research in terms of their relevance to and impact on the need to resolve incentive and agency conflicts from a functionalist perspective. However, as the above review suggests, reportedly little attention has been paid to detailed empirical investigations of the actual CG practices of PLCs in the context of CG reforms. Consequently, lived experiences of CG are seemingly neglected, leading to a research-practice gap (Roberts et al., 2005; Uddin and Choudhury, 2008; Ahrens et al., 2013). This neglect also applies to the emerging body of recent research that raises concerns about western-style CG reforms in the developing world in terms of engendering meaningful change in CG (Mueller et al., 2006; Sing and Zammit, 2006; Tsameny et al., 2007; Uddin and Choudhury, 2008; Yoshikawa *et al*., 2007; Siddiqui, 2010; Yonekura et al., 2012). In general, these papers tend to argue that technical solutions in the form of the Anglo-Saxon framework and institutions may not solve CG problems when they are supposedly viewed as a technical matter. With the unique economic, political, cultural, and social histories in DC, externally driven CG reforms are receiving much attention from domestic policy makers, practitioners, academia, and researchers in their own right. Accordingly, recent studies have called for further research on CG in the context of DCs (Uddin and Choudhury, 2008; Brennan and Solomon, 2008).

My review of the above literature suggests that an empirical gap is apparent in the extant CG literature: there is a lack of adequate attention being paid to CG practices. Accordingly, this gives rise to the first research question this thesis seeks to answer. The need for further research to engage with CG practices has been called for in a number of studies (Brennan and Solomon, 2008; Uddin and Choudhury, 2008; Ahrens *et al.*, 2011; Ahrens and Khalifa, 2013). Most recently, Ahrens and Khalifa (2013) have called for further studies asking a range of questions about CG practices through eliciting the lived experiences of CG. Empirically, my research aims to address such an apparent void in the extant CG literature and attempts to provide an explanation (theoretical) for it. In this regard, the theoretical perspectives of existing CG research are reviewed in the next section.

2.3 Review of theoretical perspectives in CG research

In this section, the theoretical perspective adopted in existing CG research is reviewed to identify the theoretical gap. Following the mode of classification of Hopper et al. (2014), the theoretical positions adopted in existing CG research are classified and grouped into three distinctive perspectives: functionalist, interpretive, and critical.

2.3.1 Functionalist perspective

Traditionally, accounting research on CG has adopted an agency theory approach, focusing exclusively on resolving conflicts of interest (agency problems) between company management and the shareholders (Jensen and Meckling, 1976). As such, the predominant objective of CG research seems to be to produce generalizable claims about the functional aspect of various CG mechanisms based on theoretical predictions. Consequently, agency theory-dominated CG research tends to adopt a functionalist perspective. While this stream of research has produced useful insights into policy formulation, its widespread acceptance by CG researchers has received critical attention in several recent studies (Aguilera et al., 2008; Filatotchev, 2008; Roberts, 2009; Christopher, 2010). Emerging from these studies is the recognition that taken-for-granted assumptions of the neoclassical economics (which underpins agency theory) do not always seem to sufficiently address the political economy of CG (Haque et al., 2011). As Band (1992) argues, agency theory tends to ignore the ways in which the exploitation of shareholders can be structurally encouraged by the asymmetric distribution of resources and power. Echoing this view, Macintosh and Hopper (2005) suggest seeing organizational conflict as being reflective of a deeper social conflict between classes of people with unequal access to social and economic resources.

Among others, two neoclassical economic assumptions inherent in agency theory seemingly have come under critical scrutiny in some studies (see, for instance, Daily et al., 2003; Roberts et al., 2005; Marnet, 2007). First, agency theorists assume an economically rational, utility-maximizing behaviour on the part of all individuals (Jensen and Meckling, 1976, p. 307; Fama, 1980, p. 289). In contrast, evidence of alternative rationalities, such as family ties, cronyism, and political connections, exist in the CG literature (see Uddin and Choudhury, 2008). Second, central to agency theory is the notion that competitive markets, characterized by rational expectations, create an environment for the fair and efficient functioning of the capitalist system. For example, a widely cited paper by Fama (1980) theorizes how the managerial labour market and capital markets discipline corporate managers. Again, a reliance on market forces is criticized as part of the problem, rather than as a solution per se (see Marnet, 2007).

Similarly, the dominance of agency theory-based quantitative research has come under increased scrutiny in current CG research in the context of DCs. For example, it is questioned whether the assumptions of agency theory could be generalized in DCs with their unique social, cultural, and economic histories (Uddin and Choudhury, 2008; Phan, 2001; Tian and Lau, 2001). This stream of research is criticized on the ground that it fails to look at the noneconomic factors, like power relations, politics, culture, and structured social interests, inherent in DC contexts. Aguilera et al. (2008) argue that CG is not just bound by the narrow relationship between shareholders, the BoD, and management, as posited by agency theory, but is also subject to wider interdependencies resulting from internal and external influencing forces. Filatotchev (2008), Young and Thyil (2008), Clarke (2005) and Roberts (2001, 2006, 2009) similarly refer to the need to understand the effectiveness of CG mechanisms by aligning organizations with a more contextualized view of organizational environments.

While criticizing agency theory, CG researchers have apparently drawn on alternative theoretical perspectives, such as stewardship theory, stakeholder theory, and resource dependency theory. Again, in this stream of research, CG mechanisms seem to play a functional role and provide a legitimate solution to organizational problems (see, for instance, Cohen et al., 2009, Beasley et al., 2009). Embracing a functionalist view of CG, stewardship theory dismisses agency theory's assumption of goal conflict between principal and agent (Davis et al., 1997). Similarly, stakeholder theorists criticize agency theory for its neglect of the firm's responsibility to a broad range of stakeholders other than shareholders (Brennan and Solomon, 2008; Christopher, 2010; Collier, 2008). Nonetheless, stakeholder theory is itself criticized for its predominantly normative foundation (Mihret, 2014), its insufficient empirical grounding (Donaldson and Preston, 1995), and the need for major reformulation to enhance its explanatory and predictive efficacy (Key, 1999). Christopher (2010) proposes a multi-theoretical CG framework whereby agency theory is supplemented by stakeholder theory, stewardship theory, and resource dependency theory. However, this approach is no less unproblematic than agency theory considered alone, because the component theories of this combined framework are founded on contradictory premises (see Mihret, 2014).

Drawing on the 'law and economics' perspective (e.g., La Porta et al. 2000), existing research finds it problematic to treat agency theory as a universal theory that can be applied in exactly the same way in different institutional settings. It is argued that different countries may have different legal systems and CG structures leading to differences in the nature and extent of agency problems on the firm level. A number of studies that combine agency research with institutional theory suggest that differences in national institutions can inform the effectiveness of CG in terms of reducing agency conflicts on the firm level (Aguilera et al., 2008; Aguilera and Jackson 2003). Nevertheless, the functionalist tone is clearly apparent in this stream of research as well.

2.3.2 Interpretive perspective

In a shift from a functionalist paradigm, a number of studies adopt an interpretive perspective to study CG mechanisms in different settings (Al-Twaijry et al., 2003; Roberts et al., 2005; Gendron and Bedard, 2006; Turley and Zaman, 2007; Yoshikawa et al., 2007; Tremblay and Gendron, 2011). This stream of research is concerned with the interpretation of actors' lived experiences, that is, how actors, through their subjective interpretations or judgments, constitute reality. However, it is concerned more with an interpretation of actions of agents and 'how' practices take place and less with 'why' practices change or do not change. Taking an interpretive stance, Gendron and Bedard (2006), for instance, demonstrate how AC effectiveness is constituted by members participating in AC meetings in Canadian listed companies.

Within the interpretive perspective, Tremblay and Gendron (2011) build upon the notion of trials of strength (Latour, 1987) to show how mandatory changes calling for a strengthening of the AC fail to bring about substantive changes in AC practices. This is not an unintended consequence of the change initiative; rather, it is a reflection of behind the scenes resistance. Regulatory and best practice discourse is given meanings and values by AC members. The authors call for further research addressing such apparent invisibility of resistance, which in their view, is a matter of social concern. They state:

> While resistance and criticism ensuing from trials of strength can be agents of change within organizations and society (Bourguignon and Chiapello, 2005), it is reasonable to believe that the relative aura of invisibility surrounding the trials we examined blurs the relationship between criticism and social change. Are there ways to provide some visibility on the trials of strength surrounding CG prescriptions? Is this desirable (Roberts, 2009)? Would it make sense to require that regulatory representatives observe a number of AC meetings? (Tremblay and Gendron 2011, p. 271)

The paper throws light on the complexities of trials of strength by showing that trials can be tentacular (being loosely related to one another), paradoxical (generating resistance and compliance simultaneously), and secretive (taking place behind closed doors).

Using institutional theory, Yoshikawa et al. (2007) interpret the dissemination of CG innovation in Japan. It is argued that Japanese CG frameworks neither fully converge to, nor completely diverge from, the Anglo-Saxon framework[2]. Rather, Sony—the pioneer of CG reforms—and its followers selectively adopted features from this framework, decoupled them from the original framework, and tailored them to fit to their own situations to generate CG innovation. The paper discusses the resistance to the institutionalization of CG reforms. Eventually, the Ministry of Justice revised the legislation to legitimize the differences in CG frameworks, which led to the emergence of diverse CG practices. Yoshikawa et al. (2007) find evidence of conflicting institutional pressures for CG change and continuity. Similarly, Al-Twaijry *et al*. (2003) use institutional theory to interpret interview and questionnaire findings concerned with internal audits in Saudi Arabian companies. The findings suggest that IA is not well developed. Where it does exist, it operates in departments that are inadequately resourced, lack qualified staff, have restrictions on their degree of independence, and concentrate on compliance audit rather than performance audit, and where internal auditors are not accepted by the management. The paper identifies the weak role of the state in the institutionalization of internal audit.

Drawing on new institutional sociology (NIS), Siddiqui (2010) identifies that CG reform (adoption of Anglo-Saxon CG framework) in Bangladesh was prompted mainly by the normative and coercive pressures from the country's development partners and other institutions rather than reasons of efficiency. Consistent with the new institutional tenets, Aguilera and Cuervo-Cazurra (2004) argue that the institutionalization of codes is driven by the need to increase the legitimacy and effectiveness of CG systems.

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[2]The paper uses the term 'Anglo-American model'.

2.3.3 Critical perspectives

A critical perspective tends to emerge from the apparent limitation of interpretive CG research to address 'why' questions related to CG change. This stream of research not only questions CG practices, reforms, and taken-for-granted assumptions, but also seeks to provide an explanation of these phenomena. A limited body of CG research has adopted such a perspective (Mihret, 2014; Uddin and Choudhury, 2008; Stein, 2008). For example, Uddin and Choudhury (2008) build upon Weber's (1958, 1961, 1968, 1978) work on the development of capitalism and traditional society to understand CG practices by PLC in Bangladesh. Weber 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. Drawing on Weberian notions of traditionalism and rationality, and on prior studies, such as those by Dyball and Valcarcel (1999) and Dyball *et al*. (2006), this paper argues that traditional attitudes mediate the rational process and consequently hinder the rational development of accountability in Bangladesh. The authors find familial and political connections are often in direct contradiction with the state's rational and legal power. They call for further research on similar issues, taking into account local peculiarities and the culture of traditional settings. Accordingly, this line of inquiry has inspired my research.

Mihret (2014) draws on labour process theory (LPT) to theorize the role of internal auditing in the multi-layered control framework of CG, which connects employees, management, the board of directors, and shareholders. Employees, management, and the board, in such a control context, are responsible for achieving the required rate of return on capital. It is argued that internal auditing mainly developed from the metamorphosis of capitalism during the twentieth century, when capital gradually succeeded in institutionalizing the structural control of labour processes to address the problem of control in inherently antagonistic capital-labour relationships. Thus, internal auditing is conceptualized as a control mechanism employed to ensure the creation and realization of surplus value by providing ex ante advisory services to increase the required rate of return on capital, and ex post assurance on executing the labour process as intended. This paper thus explains how capitalism creates the conditions that give rise to a demand for internal auditing in the USA. Importantly, it highlights the need for a 'radical theorization of agency … [focusing on] control, not contract' (Armstrong, 1991, p. 12). Thus, diverging from agency theory, LPT holds that controls, rather than contracts, underpin the capitalist agency relationship.

Stein (2008) theorizes about CG reform by employing neo-liberalism and its related mentality of governmentality (as coined by Foucault, 1991) in the US context. It is argued that SOX does not seek to shift power from the market to the state. Rather, it identifies problematizations and then creates subjects who do not simply follow detailed rules and regulations, but who, through the expertise of the market, act upon such problematizations and normalize their behaviour. In essence, the paper signifies the complexity and unpredictability of regulatory reform in CG and the inability of statistical modelling of past behaviour to predict appropriate regulatory action .

To conclude, within the critical perspective, there seems to be a dearth of theoretically informed empirical studies in the existing CG literature. More specifically, existing CG research seems to pay little attention to theorizing CG practices and change both in developed and developing country contexts. Accordingly, the empirical and theoretical voids are the ultimate motivation of this research.

Having reviewed the existing empirical literature on CG and the theoretical perspectives underpinning it along with the diffusion of CG prescriptions to DCs, this research aims to extend the literature through exploring the following specific questions:

1. Empirical concern: What form of CG practices emerges in the listed PLCs following the CG reforms in Bangladesh and to what extent does this signify change, if any?
2. Theoretical concern: Why does the change or absence of change in CG practices of the listed PLCs take place?
3. Practical concern: What are the policy implications of the CG reforms in Bangladesh?

Chapter 3
Corporate governance and the context of Bangladesh

This chapter starts with an introduction to the Bangladesh economy (section 3.1), followed by a brief historical sketch of the political economy of Bangladeshi capitalism (section 3.2). This is important for a holistic understanding of the emergence of family business groups in Bangladesh which, as argued by Uddin and Choudhury (2008), has implications for ingrained CG practices in listed PLCs. The final section (section 3.3) deals with the CG context in Bangladesh with a discussion on recent CG reform initiatives and a perspective of the key players in this respect.

3.1 Introduction

A recently published IFC report reveals that an impressive growth of 5% per annum over the last two decades has taken the Bangladesh[3] economy to a new growth trajectory. The report continues, “Sustaining the economic growth in the long-term is highly dependent on attracting patient capital and one of the key pre-requisites of this is ensuring good CG framework and practice in Bangladesh” (IFC, 2012, p. 2). This way, CG comes with the ‘sustainable development’ discourse propagated by international donor agencies.

At present, Bangladesh is a rapidly developing market-based economy. Despite its so-called success in grass-roots development[4], Bangladesh remains a poor country, with a per capita income of US$1,900 and a GDP[5] of US$340.3 billion at purchasing power parity (PPP). More than half of the GDP belongs to the service sector, though nearly half of all

[3]Ironically, when Bangladesh emerged in 1971, Western power viewed it as the original development ‘basket case’, the demeaning term used for countries that would always depend on aid.

[4]The ‘Washington consensus’ — the belief that growth brings development with it —is often criticized on the basis that countries with growth might have little poverty reduction. However, a recent report claims that Bangladesh embodies the inverse of that: it has had disproportionate poverty reduction for its amount of growth (see The Economist, 2012).

[5] IMF ranks Bangladesh as the 47th largest economy in the world in 2010 in terms of GDP.

Bangladeshis are employed in the agriculture sector. Remittances from Bangladeshis working overseas, mainly in the Middle East, are the major source of foreign exchange earnings in addition to exports of ready-made garments, among others.

3.2 Early history of the political economy of Bangladeshi capitalism

Pre-colonial regime (before 1876)

The history of Bangladesh as a nation state starts in 1947 when it was formed as East Pakistan. Before 1947, the region now known as Bangladesh was part of undivided India[6]. Early Bangladeshi history featured a feudal system following the dominance of the Indian monarchs and a struggle between Hinduism and Buddhism. Islam made its first appearance in undivided India in the 12th century[7].Around that time, the East Bengal[8] region was predominantly an agrarian economy. The region's agro-friendly[9] geographical location and lack of natural fuel made it less attractive for the establishment of industry. Following the intervention of Muslim rulers, industrialization (fabric industry) and trade started to develop in East Bengal. Particularly, during the Mughal Empire (1576 - 1678), Bangladesh was the centre of the worldwide fabric (muslin and silk) trade. However, the capitalist class did not emerge at this time. In 1608, the British came to undivided India in the form of the British East India Company. The military forces of the Company defeated the forces of the Muslim

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[6]Prior to 1947, the present-day nations of India, Pakistan, and Bangladesh were united and were known as British India or Greater India.

[7]As early as 1000 BCE the Sanskrit literature mentions a tribal kingdom called the *Bangla*. Undoubtedly, this is the genetic origin of the Bengali people of today. The Bengali language is a derivative of Sanskrit, the language of the Aryans.

[8] East Bengal – the eastern segment of Bengal, a region that is today's Bangladesh-was a prosperous region of South Asia until the eighteenth century. The standard of living was better compared with other parts of South Asia. As early as the thirteenth century, the region was developing as an agrarian economy.

[9]Much of the land that constitutes Bangladesh was created in the relatively recent geological past. Numerous river valleys extended to the eastern edge of the Indian subcontinent had deposited sediment building up a delta. The combination of fertile land, plentiful water, and sunshine makes Bangladesh highly productive agriculturally.

nawab (ruler) of Bengal in 1757, and the Company eventually ruled Bengal thereafter, with the Company's rule finally coming to an end with the Government of India Act 1858 following the Bengal Rebellion of 1857. It was from then that the British crown assumed direct control over British India as a colonial possession of the United Kingdom, and India was officially known after 1876 as the 'British Indian Empire'.

Colonial regime (1876-1947)

The British colonial regime not only took over the power to control taxation and expenditure, but also forcefully marketed machine-woven fabric in East Bengal. This gradually eradicated the local hand-woven fabric industry. The British colonial regime chose to develop Calcutta, now the capital city of West Bengal, as their commercial and administrative centre in South Asia. The development of East Bengal was thereafter limited to agriculture. This meant the Bengali Muslims lagged behind the Hindus in terms of economic resources and education, so Hindu landlords and moneylenders were empowered. Indeed, it was a reflection of the British colonial discourse of 'divide and rule'. Following the colonial dominance and deprivation, ethnic tensions developed between Muslims and Hindus in Bengal.In 1905, the regime divided the Bengal region[10] into West Bengal, which was predominantly Hindu, and East Bengal, which was a predominantly Muslim province. The partition was, however, withdrawn in 1912. Colonial discrimination coupled with aggression by Hindu *jamidars* (feudal lords/ landlords) towards relatively poor and illiterate Muslim *jotedars* (peasant class) around that time further intensified the ethnic tensions. Ali Jinnah and his political party, the Muslim League (ML),[11] politically opted for partition on a religious basis, while the great

[10] It gave rise to a nationalist movement historically known as *'BangoVango Andolon'*.
[11] The social and organisational strength of the Muslim League was mainly concentrated in the Muslim-minority provinces of middle India (Jalal, 1985).

Indian leader, Mahatma Gandhi,[12] campaigned hard to maintain a united independent India. The political elites[13] of East Bengal, being a Muslim majority, jumped on the bandwagon of Jinnah. Thus, in 1947, two nations emerged, namely, Pakistan and India. East Bengal thus became East Pakistan (now Bangladesh)[14].

Post-colonial (Pakistani) regime (1947-1971)

Political instability and economic difficulties marked Pakistan's history from its formation in 1947. The religion-based political discourse of ML soon became weak and futile in the face of the redistributive politics[15] of the indigenous regional leaders of Pakistan. With ML's weak social base in Pakistan, its political elites increasingly had to rely on the civil bureaucracy for their own survival and the survival of the hastily constructed union (Khan, 1999). Simultaneously, threat perceptions nurtured by the Pakistani military were intensifying due to India's overwhelming military superiority[16] in the context of the bitterness and the unresolved territorial disputes following partition (Jalal, 1990). The military and civil bureaucracy took full advantage of the weak political leadership and capitalist class. Rapid industrialization became imperative to support the big budgets of the defence institutions. During the Pakistani regime, the government thus opted for an aggressive development strategy based on speedy industrialization.

[12] Gandhi declared the non-violent Quit India Movement (*Varot Charo Andolon*) as a rebellion aimed at securing the British exit from India.

[13] Importantly, the Muslim political elites in the united Bengal had a relatively strong base in provincial politics, and many of them were involved in party politics other than the Muslim League. Initially, they were not convinced about partition since they had more to gain from exercising their majority position in a united Bengal (Sayeed, 1960). As Jalal (1985)argues, the most coherent interpretation of Jinnah's separationist strategy was that he was attempting to obtain constitutional protection for the Muslims in the Muslim-minority provinces in exchange for appearing to deliver the Muslim-majority provinces of Bengal and Punjab to India.

[14] Pakistan was made up of two territories, East and West, which were separated by more than 1,000 miles of Indian Territory. Theology was the only rationale for uniting the two geographically distant territories into one State featured by cultural, social, linguistic, and ethnic differences.

[15] Indigenous leaders were concerned about the redistribution of the resources left by the economically dominant Hindu *jamidars*.

[16] Pakistan inherited 30 percent of the defence forces of united India, which was more than proportionate to its population (Jalal, 1995: 22), but it inherited much less than its share of weaponry and military hardware.

The partition of British India severely disrupted the former colonial economic system that had preserved East Pakistan (former East Bengal) as an agrarian economy with an exceptionally low industrial base[17]. However, this was not the case in West Pakistan (present-day Pakistan). Though the Muslim capitalist class was almost absent in the colonial context, there were some small groups (the Halai Memon, the Dawoodi Bohra, and the Ismaili and Isnashari Khoja) originally based in Bombay and Calcutta (Papanek, 1967). These groups migrated to West Pakistan after Partition and formed the initial nucleus of the entrepreneurial class. They therefore became overwhelmingly dependent on the patronage of the state bureaucracy for the capital and other resources needed for establishing businesses in the early years. In the absence of any native capitalist class, the Pakistani government's patronage produced a capitalist class tied to the pre-existent structures of the military leaders and the bureaucracy. In 1968, a mere 22 West Pakistani families controlled 66 per cent of the country's total industrial capital, 70 per cent of insurance, and 80 per cent of banking[18]. Their businesses traditionally were operated through close-knit family-dominated management structures (Papanek, 1967). The flight of Hindu moneylenders and landlords had allowed the peasants in East Pakistan a brief initial spell of relief after Partition; nevertheless, the state policies later reversed the situation by confiscating their surplus and leaving them vulnerable once again to usury. As a result, the old forms of exploitation returned.

At the time of Partition, Bengali jute enjoyed a world monopoly generating a significant amount of foreign exchange. This was the economic base upon which the Pakistani government determined to build import-substitution industries through the 'free enterprise' of a small group of West Pakistani (non-Bengali) capitalists. It eventually redirected the wealth

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[17] Bengali Muslims controlled less than 2.9 per cent of private industrial assets; the rest was owned by West Pakistanis or local Hindus.

[18] *Business Recorder* (Karachi), 25 April 1968. These figures were first quoted at a management convention by one of the government's chief planning economists, Dr M. Haq. Since then, however, further estimates have put the control of insurance at 97%.

generated by agriculture to the benefit of the selected capitalist class[19]. Through deliberate overvaluation of the currency and strict control of imported products, the productive wealth of the country was systematically channelled to the benefit of the upper income groups and particularly the West Pakistani capitalist class[20]. The major share of the development budget went to West Pakistan. The West Pakistani capitalist class and its military-bureaucratic apparatus thus exploited the whole population of East Pakistan, and the emerging East Pakistani (or Bengali) middle class society[21]felt totally excluded from the industrialization and growth. The problems were exacerbated by the fact that there was almost no East Pakistani capitalist class (Khan 1999:16). The limited industrial investments in East Pakistan mainly came through the public sector, thus reflecting the weakness of the Bengali capitalist class. Economic neglect coupled with the political exclusion and ethnic and linguistic discrimination of the politically dominant West Pakistani rulers resulted in popular agitation led by Sheikh Mujibur Rahman (hereafter Mujib) resulting in the Bangladesh Liberation War in 1971. Bangladesh won the war with the support of India.

Post-independence regime (after 1971)

After independence in 1971, the Awami League (AL) government attempted to pursue a program of nationalization[22] and state-led economic growth. Sobhan (1980) argues that state-run economies emerged as a result of a given social inheritance rather than just from an ideologically driven agenda. The state had to fill the entrepreneurial vacuum created by the

[19]In fact, up to 1965, East Bengal had earned 60 per cent of foreign currency on average, while receiving less than 33 per cent of imports (Lewis, 1970).

[20]The US advisers to Pakistan openly proclaimed and rationalized such discrimination. The bard and apologist of the Pakistani bourgeoisie, Professor Papanek,claimed that “great inequalitieswere necessary in order to create industry and industrialists . . . (For) the concentration of income in industry to facilitate the savings which finance development.” He also wrote about the poor: “Inequalities in income contribute to the growth of the economy which makes possible a real improvement for the lower income groups” (Papanek, 1967: 36).

[21]It was mainly constituted of an amorphous petty bourgeoisie of traders, peasants, professionals, and intellectuals.

[22] Nationalization brought previous Bengali-owned enterprises into public ownership.

flight of the West Pakistani (non-Bengali) capitalist class from Bangladesh and a weak or non-existent indigenous Bengali capitalist class[23]. After Mujib's assassination in 1975, General Ziaur Rahman (hereafter Zia) undertook a rapid reversal of Mujib's state-led policies. During the Zia regime (1976-1981), 247 abandoned enterprises were privatized (Sobhan, 2005). Since the beneficiaries of the policy changes were family run business groups (an emerging capitalist class), the distorted liberalization of this era set in place a patrimonial system followed by the greater influence of this emerging class on politics in subsequent periods (Hill, 2006). The newly formed Bangladesh Nationalist Party (BNP), led by Zia, dominated the weak and fragmented opposition. Capitalists and business elites (families), in return for their support, were shielded from scrutiny over economic gains through the legal and illegal use of public resources (Quadir, 2000: 21). The system of kleptocracy accelerated during the almost decade-long military rule of General Hussain M. Ershad (hereafter Ershad) from 1982 onwards. With little public support, though, Ershad managed to remain in power only by appeasing the international donor agencies and enriching the capitalists and business elites further. During the Ershad regime, 125 enterprises were divested through an ethnic-based disinvestment policy[24] (Sobhan, 2005). The state opted for an open market economy and trade liberalization following the pressure of the international donor agencies. The process of liberalization gained further momentum in the subsequent governments[25] [Khaleda Zia's BNP government (1991-1996 and 2001-2006), Sheikh Hasina's AL government (1996-2001 and 2009 to present)] and with that global capitalist force made their mark. Over time, aid dependence and partisan politics coupled with corruption made the state power weak due to the development of crony capitalism (Mannan, 2011).Thus, family and kinship ties are deeply rooted in Bangladesh's political and

[23] At the time of the independence of Bangladesh in 1971, one study found sixteen Bengali business houses, each with assets of more than Rs. 25 million and with combined assets of nearly Rs. 700 million (Baranov, cited in Sobhan, 1980: 15).
[24] The government took the policy to divest only Bengali-owned industries to their former owners.
[25] The country suffered military coups in 1975, 1982 and 2007.

economic history. Studies have also shown that weak state power is often linked with strong family power over various institutions (Sobhan and Ahmad, 1980; Mannan, 1992).

Recent world economy and Bangladesh

In the context of the recent global financial crisis, Bangladesh apparently performed well along with other Asian countries, as shown in 3.1. The transition process from an agrarian economy to a manufacturing and service oriented economy has been accelerated in the past decade with an apparent common consensus between the major two political parties on a market-oriented economic policy. Policies of liberalisation and reform have been combined to bring about changes in almost all sectors of the economy in line with globalisation[26]. With a population reaching nearly 164 million, Bangladesh is potentially a sizeable market due to relatively high growth rates and an expanding middle class with increasing purchasing power.

Economic growth				**Projections**	
(Annual percent change in real GDP)	**2012**	**2013**	**2014**	**2015**	**2020**
Bangladesh	6.3	6.1	6.1	6.3	6.7
Emerging market and developing Asian economies	6.8	7.0	6.8	6.6	6.6
Emerging market and developing economies	5.2	5.0	4.6	4.3	5.3
Developed economies	1.2	1.4	1.8	2.4	1.9
World	3.4	3.4	3.4	3.5	4.0

Table 3.1: Comparative Economic Growth [Source: IMF World Economic Outlook, April 2015]

[26]Bangladesh is the third easiest country in which to do business in South Asia (World Bank, 2006).

3.3 CG context in Bangladesh

3.3.1 CG Reform initiatives

Over the past decade, a diverse range of initiatives has been instigated mainly due to the pressure of the international donor agencies on the government to develop and improve CG in the private sector (Uddin and Choudhury, 2008; Siddiqui, 2010). CG reforms have been taking place through the formation of a regulatory authority, legislative changes, the standardization of professions, and through the devising of new rules, regulations, and guidelines on CG. International donor agencies, in association with various civil society institutions (think tanks and professional bodies) and the media, are playing an important role in promoting reforms. According to a recent IFC report:

> International standards for accounting and auditing have been partially incorporated into local standards and the development of the accounting and auditing profession has been assisted by wide-ranging donor-supported programs. In spite of the above efforts, there has been only moderate progress in advancing CG practices in Bangladesh. The basic legal framework for CG in Bangladesh is dated, and there are a number of contradictions and points of confusion between the various rules and regulations that apply to listed companies. (IFC, 2012)

Against this backdrop, in 2011, IFC initiated a comprehensive four-year advisory project, namely, the Bangladesh Corporate Governance Project (BCGP)[27]. It aims to promote better CG practices among the private sector business firms in Bangladesh. This project intervenes at three distinct levels with clear deliverables, as shown in Figure 3.1 below:

[27] This is a multi-donor project with funds from DFID, NORAD, and the Netherlands government in addition to IFC.

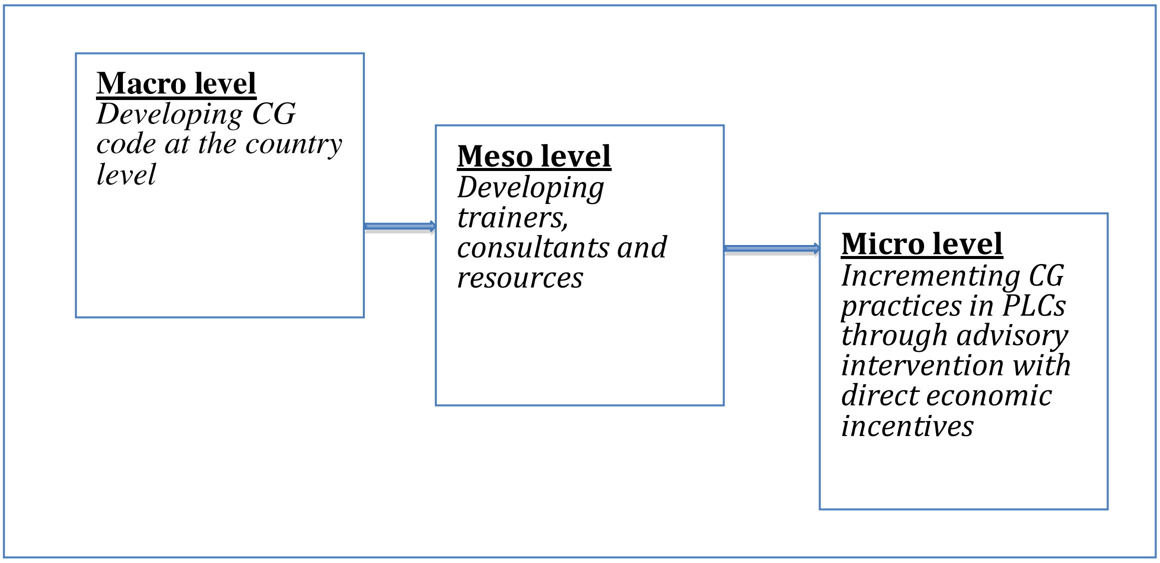

Figure 3.1: Overview of BCGP (2011-2014)

At the macro level, BCGP aims to work with regulators to improve CG guidelines, rules, and regulations in Bangladesh so they are aligned with international best practices, as defined by the OECD principles on CG. Bangladesh's key CG mechanisms will be benchmarked with those of India, Sri Lanka, and Pakistan. At the meso level, it intends to help codify CG principles in the market through capacity building. The project aims to train consultants to provide CG training and advisory services, share the CG curriculum with at least 2 universities, and train at least 20 journalists to report on CG issues in the media. Thus, the project attempts to realise its objectives involving various civil society institutions, media, and consultants. At the micro level, the project expects to organise numerous workshops and work closely in the implementation of a CG framework at the practice level in selected PLCs in Bangladesh. CG assessments will be made over the project period to improve the financial performance and operational efficiency. Following the CG advisory interventions, at least 5 of these firms are expected to attract a total US$ 20 million of investment.

3.3.2 Family groups and listed companies

Most of the companies (both listed and non-listed) in Bangladesh have emerged from family business groups. However, until now, only 263 companies are listed out of more than 60,000 companies that are registered. Examples of some of the business groups that have an annual sales turnover in excess of US$ 250 million are Summit group, Beximco group, Abdul Monem group, Abul Khair group, Akij group, PHP group, Mostafa Group, City Group or Meghna Group, Square Group, Transcom Group, and ACI group or Apex group (Financial Express, 2013e). As the newspaper article reveals, most of these companies are reportedly dependent on borrowing from banks and other sources rather than on the capital market. Most of the public limited companies (hereafter PLC) listed in the exchanges are owned and controlled by the families (Reaz and Arun, 2006; Farooque *et. al.*, 2007; Uddin and Choudhury, 2008; Siddiqui, 2010; Haque et al.., 2011). The BEI survey indicates that the boards for 73 per cent of the non-banking PLCs listed in the DSE are dominated by close family members[28] (BEI, 2003).

3.3.3 Capital market and CG Regulatory Context in Bangladesh

Bangladeshi capital market does not have a very long history; indeed, it is still developing[29]. Bangladesh has two stock exchanges: the Dhaka Stock Exchange[30] (DSE) established in 1954, and the Chittagong Stock Exchange (CSE) established in 1995. Under the Pakistani regime, the capital market failed to attract serious public attention (Solaiman, 2006). Immediately after independence, the DSE was forced to cease its operation following the nationalisation policy of the Mujib government. The DSE resumed its operations in 1976 with only nine listed companies having only BDT132 million (approximately US$2.2m)

[28]Indeed, it is argued in the report that PLCs are more closely held than what registers reveal as family owners often hold shares in their relatives' or other names (BEI, 2003).

[29] The Reports on the Observance of Standards and Codes (ROSC) in 2009 reports Bangladesh's capital market as the most underdeveloped in the South Asia region.

[30]The East Pakistan Stock Exchange Association was incorporated in 1954 as a public company. In 1962, the name was revised to the East Pakistan Stock Exchange and again to the Dhaka Stock Exchange (DSE) in 1964.

worth of total paid-up capital (SEC, 1997: 30). According to Solaiman (2006), the market gained some momentum after the bloodless military coup in 1982 when more companies, incidentally, went public.

Until 1992, nothing significant had been done regarding market regulation (Solaiman, 2006), even though the Controller of Capital Issues (CCI), a government official within the Ministry of Finance had responsibility for capital market regulation. The breakthrough came in 1993, when the Securities and Exchange Commission was established as a capital market regulator under the *Securities and Exchange Commission Act* 1993 (SECA'93). In 2012, its name was changed to the Bangladesh Securities and Exchange Commission (hereafter BSEC). In 1993, following the formation of a new watchdog body to replace the previous bureaucratic post, myriad rules and regulations were enforced to structure and develop the capital market. Starting from a general upturn in 1994 and leading to a boom, the market eventually crashed in 1996 and destroyed investor confidence. Thus, it seems the change initiatives to reinvigorate the market were in vain, perhaps because "the bottom has fallen out of Bangladesh's stock exchange" (The Economist, 1996: 90). The Economist(1997) commented that "thousands of small and first-time investors have lost their shirts" (p. 74). The probe committee found ample evidence of rampant manipulations, and consequently, 15 criminal cases were filed against the alleged companies, their directors, and others. So far, none have been punished (Financial Express, 2013d). Then, in 2011, the market faced another massive collapse. This time, a group of individuals sold and purchased shares among themselves to artificially push up their prices in order to sell the whole amount at an exorbitant price later. The probe committee found evidence of massive manipulation for which "small investors lost at least BDT 20,000 crore (about US$ 2739 million) to some dishonest traders, who were in deep collusion with stock market regulators", said the chairman of the probe committee in an interview published in a newspaper (The Daily Star, 2011a). However, the finance minister refused to disclose the name of the alleged manipulators, as the majority of them were reportedly connected to and protected by political parties (The Daily Star, 2011b). Thus, the stock market scandals in 1996 and 2011 eroded investor confidence in the market.

Virtually all listed PLCs tend to maintain dual listings, since the two stock exchanges maintain almost identical listing criteria and procedures (ADB, 2009). In 2014, the exchanges were demutualised. At present, they are private sector entities, with their operating rules still to be approved by a capital market regulatory body (i.e., the BSEC). The recent trend of major capital market indicators is presented in Table 3.2. By the end of 2014, there were 263 listed PLCs on DSE, the country's main stock exchange, with a market capitalization of US$ 37.16 billion, representing an increase of only 2.73 % over 2006 (BSEC, 2014a). In addition, according to the BSEC (2014a), there are 66 companies trading in the over-the-counter (OTC) market[31]. Delisted securities and approved non-listed securities are traded in the OTC market.

3.2: Capital Market Indicators in Bangladesh

Item	2009	2010	2011	2012	2013	2014
No of listed companies (DSE)	282	243	232	238	251	263
% change in no of listed companies per year	4.05	-13.83	-4.74	2.59	5.46	4.78
Market capitalisation (in billion US$)	19.02	38.51	49.86	30.92	32.54	37.16
GDP (in billion US$)	89.36	98.75	101.2	103.9	111.9	152.8
Market capitalisation as % of GDP	21.28	38.50	51.52	29.75	29.09	24.32
Market P/E	18.44	24.08	26.29	12.53	14.48	15.73

Source: Based on information available in the websites of DSE and Ministry of Finance (GOB)

Compared to other countries in the region, the capital market is still small. A comparison of market capitalization to GDP among a few Asia pacific countries in 2014 is presented in

[31] OTC market was established in DSE under the direction of the BSEC in September 2009.

Table 3.3. At the end of June 2014, the market capitalization to GDP, which was only 2.24% in 2000, stood at around 24.32% (BSEC, 2014a). However, concerns have been raised regarding the growth of the capital market since 2006. The report of a World Bank-sponsored think tank, the Centre for Policy Dialogue (CPD), claims that growth in the capital market tends to be indicative of inadequate investment opportunities in productive sectors, short- term speculative trading behaviour underpinned by market irregularities and anomalies, weak oversight functions of regulatory bodies, and a poor policy framework for the financial sector, rather than growth in the real economy (CPD, 2011).

Table 3.3: Market capitalization to GDP in Asia Pacific countries in 2014

Country	**Market cap to GDP ratio (%)**
Bangladesh (DSEX)	24.32
India (BSE)	79.61
Pakistan (Karachi 100)	30.20
Sri Lanka (Colombo SE)	30.89
Hong Kong Exchange	1089.53
Bursa (Malaysia)	168.65
Thailand (SE)	97.53

Source: World Federation of Exchanges, IMF World Economic Outlook April 2015 and Bangladesh Economic Review

In Bangladesh, the spokes of an efficient capital market wheel are not in place (BEI, 2003; Islam and Khaled, 2005). The average shareholder tends to speculate and gamble to maximise their return (ADB, 2009); a CPD (2011) report found evidence of the short-term and speculative trading tendency of shareholders in the context of the 2011 share market turmoil. The report talks about the influx of investors eager to engage in short-term trading as if they were participating in a ‘Keynesian Beauty Contest’. Institutional investors, like mutual funds and pension funds, appear to be too small to adopt a strong activist position in relation to CG (ADB, 2009), and to date, there has been no takeover market. Apparently, the market neither rewards good CG nor imposes penalties for poor CG practices, as argued in the ADB (2009) report.

According to the latest ROSC assessment[32] of CG in Bangladesh, shareholders do not have sufficient rights regarding related party transactions, insider trading, the choice of board members, or the disclosure of control (World Bank, 2009). The report called for further reforms to raise the quality of accounting and auditing, to provide greater independence and professionalism in the boardrooms of listed PLCs, to curb the autonomy of the accounting profession, and so on. The summary of key recommendations is presented in Table 3.4 below:

Table 3.4: Summary of key recommendations in the CG ROSC of World Bank

Recommendation	How to be Introduced	Priority/Status
Strengthen Key Law and Institutions		
Develop a new Companies Act	Broad-based consultation Donor assistance	Medium-term
Strengthen the CG Guidelines	Changes in current Guideline	Immediate
Harmonize legal requirements	New legislation and regulation	Medium-term
Draft new acts on insider trading and takeovers	Broad-based consultation Donor assistance	Medium-term
Reform the Registrar	Changes in new CA Donor assistance	Medium-term
Better Protect Investors		
Make redress easier	Changes in relevant legislation/new CA	Medium-Term
Improve shareholder participation at meetings	Changes in CG guidelines by SEC/new CA	Immediate
Encourage institutional investor voting	Private Initiatives Changes in relevant legislation	Medium-term
Disclose related party transactions and tighten their control	Changes in listing rules/new CA	Immediate
Ensure Greater Transparency		
Accelerate implementation of IFRS	Based on current efforts	Immediate
Limit auditor conflicts of interest	Based on current efforts	Immediate

32The Reports on the Observance of Standards and Codes (ROSC) is part of a global initiative that benchmarks relevant laws and practices of developing countries against the OECD principles of CG and makes policy recommendations. This is conducted by World Bank.

Improve disclosure of corporate control	New CA/new Takeover Act	Medium-term
Offer formal protection for whistleblowers	New act	Long-term
Extend diffusion of information online	Changes in Listing Rules SEC initiatives	Medium-term
Improve the effectiveness of Company Oversight		
Articulate explicit duties	New CA	Medium-term
Increase number of independent directors	Changes in the Guidelines	Immediate
Increase director liability related to conflict of interest	New CA	Medium-term

Source: World Bank, 2009 (p. 12)

Due to the abovementioned weaknesses of the capital market, theincentive to go public appears to be minimal. On the cost side, listing involves the expense of filing the appropriate documents, overcoming bureaucratic obstacles, and fulfilling additional legal requirements. As far as benefits are concerned, the 10% tax rebate is usually viewed as inadequate[33] (BEI, 2003). Furthermore, capital can be alternatively and apparently more easily raised through bank financing. Indeed, bank financing is readily available as a result of excess liquidity and extensive competition in the banking sector (BEI, 2003; World Bank, 2009; CPD, 2011). Companies are comfortable with high fixed debt payments because they know that the penalties for default are not necessarily severe (Financial Express, 2013e). At present, the capital market is predominantly equity based with a debt market yet to develop. As of June 2013, 221 government treasury bonds, 3 corporate bonds, and 8 debentures were listed in DSE with a market capitalization of US$7 billion (BSEC, 2013).

3.3.4 CG reform and key players' perspective

International donor agencies appear as major change agents in almost all regards in Bangladesh (Uddin and Hopper, 2005). CG is no exception to this, as the above discussion

[33] Currently, the tax rates for non-listed and listed PLCs are 37.5% and 27.5% respectively, while listed PLCs with 20 percent plus dividend pay 24.75% tax.

suggests. The World Bank with its sister concerns (such as IFC) and ADB have long played an important role in this respect. Recently, specifically in the aftermath of the 2011 share market collapse, an ADB report (2013, p. 1) claimed that "policy-makers recognized that capital markets have played a limited role in supporting the development of the economy and that this had to change". Claiming the urgency of reforms as such, development partners often tend to take the pain by devising policy prescriptions. Unsurprisingly, therefore, ADB came up with its Second Capital Markets Development Programme (CMDP2) as part of the previous master plan[34]. This time, the emphasis was on capacity building in regulatory institutions. It argued for further reform to avoid regulatory arbitrage and the subsequent increasing distortions in the economy. The government therefore embarked on a programme of reforms under CMDP2 in November 2012. CMDP2 is based on three important pillars: empowering the BSEC, demutualizing the stock exchanges, and promoting a liquid bond market. On a mid-project assessment, it is claimed that results to date are promising as, most importantly, the market has stabilized, as evidenced by the 21% increase in market capitalization to US$32.98 billion (as of 6 November, 2013) from US$27.1 billion a year earlier (see ADB, 2013).

Critical reforms under CMDP2 that are currently in the process of being approved and implemented include the enactment of the Financial Reporting Act (FRA). The enactment of this Act has given rise to severe controversy. Nevertheless, ADB argues that implementation of the reform measures elucidated in the master plan is necessary to place Bangladesh's capital markets on a path to sustainable growth. The ADB report concludes with an indication of further reforms: "We look forward to continuing to partner with the authorities

[34]It is important to note that these reforms are not piecemeal but form part of a comprehensive long-term national capital market master-plan approved by the government. The master plan sets the direction to transition from a nascent to an emerging capital market. The First Capital Markets Development Programme (CMDP1) started in 2000.

in the deepening of reforms under CMDP3 in 2015 by broadening the investor base and expanding market development measures introduced under CMDP2.” (ADB 2013, p. 3)

All these prescribed capital market reforms, of which CG reform constitutes an important part, are taking place with the involvement of other domestic key players. In the following sections, their role is discussed.

a. CG legislation and guidelines

Bangladesh is a common law country and has been influenced by British, and to a lesser extent, Indian and Pakistani law and legal tradition. The Companies Act (CA) is the main legislation that governs every aspect of companies: from incorporation to winding up or dissolution. It also covers CG issues, such as board governance, prospectus contents, financial reporting, and so forth. Like other legislations, it is based on dated UK equivalents. In 1994, the Company Act 1913 (CA’13) was replaced with the Company Act1994 (CA’94) with effect from 1995. It was reportedly an exercise of ‘putting old wine into new bottles’ (Solaiman, 2006). Following the establishment of the BSEC, it appeared to use its regulatory authority gradually to compensate for the dated legal structure; however, key gaps remained. In a recent ROSC on CG, recommendations have been made to replace the existing CA’94 with a new one (World Bank, 2009). Accordingly, a new CA has been drafted and is waiting to be enacted in the parliament[35] (Financial Express, 2012). Currently, various CG rules and regulations, such as board governance, role of managing director etc., stem from the CA’94. In addition to the requirements of the CA’94, listed PLCs are required to comply mandatorily with the corporate governance guidelines issued by the BSEC in 2012 (BSEC, 2012). This new guidelines replace the earlier one which was on the ‘comply or explain’ basis (BSEC,

[35]The Companies Act (Amendment) Ordinance 2012 has been approved in principle in the ministerial cabinet (Financial Express, 2012).

2006). Bangladesh also has a Code of CG issued in 2004 by the BEI. The Code is much more complete than the Guidelines, but it is voluntary, and apparently, listed PLCs do not comply with it (Siddiqui, 2010). In addition to corporate governance guidelines, the BSEC also issues other CG regulations to protect small investors. For example, at least 2% of shareholding individually and 30% in total has been made mandatory for directors (except independent directors) of listed PLCs following the 2011 share market scam probe committee recommendation.The Commission also classifies[36] listed PLCs based on their CG criteria, such as holding AGM and dividends pay-out.

b. The Registrar of Joint Stock Companies and Firms (RJSC)

The regulator dealing with the CA'94 is the Registrar of Joint Stock Companies and Firms (RJSC), which is administered by the Ministry of Commerce[37]. It is the sole authority for looking after the legal aspect of the incorporation of companies etc., for keeping track of all ownership-related issues, and for administering and enforcing the relevant statutory provisions of these acts in relation to the incorporated entities. It deals with various forms of entities including private, public, and foreign companies, trade organizations, societies, and partnership firms. It was the main authority for enforcing the CA before the formation of the BSEC. Until now, it is responsible for registering and collecting the records of companies. The Registrar has certain enforcement and instigative powers under the CA. However, company secretaries interviewed confirmed that these are rarely used in practice. Such findings are consistent with the reports of development partners. For example, World Bank (2009) reports that the parts of the CA that are not reinforced by the BSEC or other regulators

[36]'A companies' regularly hold their annual meetings of shareholders and have declared dividends at the rate of at least 10 percent in the previous year. 'B companies' have also regularly held their annual meeting but have declared dividends of less than 10 percent. Companies that neither hold a meeting nor declare dividends are called 'Z companies. Greenfield companies are in the G category, and the N category is for all other new companies.

[37]After the partition of India in 1947, the Office of the Registrar of Joint Stock Companies and Firms (RJSC) under the Ministry of Commerce was first set up in Chittagong, the port and second biggest city of Bangladesh. The office was transferred to Dhaka, (the present capital of Bangladesh) in 1962.

and are left to the Registrar or the courts are not enforced consistently, or in some cases, at all.

Currently, there are around 110,000 entities registered under the RJSC[38] of which more than 60,000 are registered companies. Despite such a huge number of entities, it has only 39 members of staff to handle the workload in the absence of electronic data management systems. Indeed, to date, the records of the RJSC have been maintained manually, except for its recent online check for the availability of names of companies for incorporation; proposals for computerization are pending financial approval. Records available with the RJSC should be open for inspection by members of the public. However, entities often have to go through outside consultants to obtain forms from the RJSC (ADB, 2009). The Minister of Law, Justice and Parliamentary Affairs in 2003 at a seminar expressed his concerns as follows:

> *The Registrar is in a dismal condition. ... It can take six months or more to get documents and some documents are just not there.....They [officers] also do some things that are just not in the law. For instance, it [the RJSC] requires a 'no objection' certificate to change a registered office, but this appears nowhere in the law.*

Echoing a similar experience, one MD succinctly commented, "*It [the RJSC] is thoroughly corrupt, oppressive and inefficient, simply won't do anything without money*."

In relation to CG, the latest ROSC assessment recommends that the Registrar undergo 'comprehensive reform' to fulfil its legal obligations (World Bank, 2009). This is consistent with the observation of the Asian Development Bank that neither the Registrar nor the courts are particularly effective at enforcing the CA (ADB, 2009). Apparently, the two significant concerns are the lack of effective enforcement and the lack of independence of the regulatory body from government and polity.

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[38] As disclosed in its website http://www.roc.gov.bd/

c. The Bangladesh Securities and Exchange Commission (BSEC)

The BSEC was set up in 1993 as the primary regulator of the country's capital market[39] following the prescriptions and support of the development partners. Before 1993, the RJSC, a government office, was the main regulator, and it severely underperformed with regard to enforcement of the CG provisions of the CA, as the above discussion suggests. ADB has been partnering in various capacity-building projects of the BSEC from the initial years of its formation (ADB, 2013). The BSEC so far has enacted myriad rules and regulations on CG and is considered as the primary regulator in relation to CG.

The mission of the BSEC is to protect the interests of securities investors, to develop securities markets, and to ensure the proper issuance of securities and compliance with securities laws. It is considered as a much stronger regulator than the RJSC (Sobhan and Warner, 2003; World Bank, 2009). The Commission has substantial rule-making powers under section 2CC of the Securities and Exchange Ordinance 1969 (SEO'69) [40] to formulate securities legislation (including CG) and to administer it as well. It also has wide investigative and enforcement powers against those who breach the securities laws. The BSEC conducts numerous investigations involving issuers each year, and its civil panel rules on penalties, which can be appealed to the courts. To date, enforcement mainly involves administrative actions or penalties (BSEC, 2013).

Legally, the Commission is a statutory body attached to the Ministry of Finance. At present, the Commission consists of a Chairman and four Commissioners who are directly appointed

[39]The SEC regulates issuers, brokers, merchant banks, and other intermediaries, as well as the two stock exchanges.

[40]The SEO 1969 has been amended several times recently to give the SEC greater unfettered rights of issuing directions to capital market participants.

by the government. Thus, it does not seem be financially and operationally independent of the government. Due to this lack of operational independence, the BSEC has oftenbeen perceived as aweak regulator (World Bank, 2009). However, this situation is changing. For example, securities and exchange laws have been amended to make BSEC an independent agency and to empower it with the authority to issue its regulations without government approval (ADB, 2003). As a result, the process of issuing new regulations has been shortened considerably. Parallel with this, it has also been given rule-making and enforcement authority over certain matters (for example, the content of prospectuses), which was previously vested in the RJSC. In addition, the regulatory framework for disclosure, listing rules, inspection, sanctioning, and broker conduct has been strengthened. At present, it has specific and direct authority over the clearing, settlement, and depository functions. Most recently, the BSEC has been empowered by capacity building under the CMDP2 leading to changes in government administrative and budgetary constraints, pay structure, and the bureaucratic intervention hindering its effectiveness (BSEC, 2014a). The BSEC has made great efforts to strengthen its enforcement powers; between June and Dec 2014, it took action against 36 cases involving 67 individuals.

In order to improve the CG practices of listed PLCs, the Commission has issued new corporate governance guidelines (hereafter, CGG) imposing seven conditions on a mandatory compliance basis. Such conditions had to be complied with by December 31, 2012. According to the CGG, in listed companies, the boards must be one-fifth independent directors. Top management positions has been structured specifying their qualification and responsibilities. For example, separate position for chief financial officer, head of internal audit and company secretary. Besides, it has instructed the stock exchanges to establish separate departments for rigorously examining the financial statements of listed PLCs. The size of the board has been limited to between 5 and 10 members. In addition, the guideline requires the division of the roles of the chairman and the CEO, among others. It has also supplemented the previous box-ticking approach of compliance with the certification of compliance to be disclosed in the annual report. The Commission regularly monitors the compliance status of CGG by the listed PLCs in order to improve CG practices. Due to the non-receipt of certificate on compliance of CGG from the majority of the listed PLCs, the commission prepared a compliance status report on CGG to assess the compliance with three conditions, namely, board size, appointment of independent directors, and constitution of audit committee (BSEC, 2014a). As the report reveals, 44% of the PLCs had complied with the three conditions, 37% had partially complied, and the remaining 19% had failed to comply with any of the three conditions. Again, the CGG (2012) continues in the same vein by focusing on an Anglo-Saxon framework. It makes significantly restrictive provisions on financial reporting, auditing, and other areas of CG. In addition to that, the protection of general shareholders' interests is significantly emphasized in this code.

The probe committee report (2011) found evidence of a lack of coordination among regulators. Similarly, the BEI report found evidence of the imposition of requirements by the BSEC that were beyond their legal scope (e.g., monitoring the declaration of dividends) and claimed that regulatory intervention on an arbitrary basis could endanger the incentives for listing. As the report put it, "Although it has been successful in forcing companies to hold AGMs and provide disclosures, it has tended to gain a reputation for filing unwarranted complaints against companies and produce arbitrary rules and rulings in the past" (BEI, 2003; p. 68). Due to the scam, the BSEC has been reconstituted with new management with an emphasis on the modernization of the market monitoring and surveillance system (BSEC, 2014a). It has formed an advisory committee that includes representatives of the private sector as well as other stakeholders. This allows it to incorporate private sector input into laws and regulations.

Initiatives are ongoing regarding the protection of the small investors and escalation of coordination among different regulatory players and stakeholders (BSEC, 2014a). The commission is working with the government on a Special Scheme Committee to offer a motivation package for small investors. The Formulation of Investment Advisory Rules and Research Analysis Rules has been promulgated recently. The commission believes that it is an important step towards its effort of raising awareness and investment-related knowledge among small investors (BSEC, 2014a: p. 4).

Capacity building and empowerment of the Commission has been a consistent concern of the international development partners, who want to strengthen the regulatory oversight of CG practices in the listed PLCs. In this respect, the recent amendments of the SEC'93 and SEO'69 have empowered the Commission to increase its manpower, prepare its financial budget independently without government approval, and establish a separate tribunal to resolve capital market-related cases speedily. Most recently, the commission has developed a long-term Bangladesh Capital Market Development Master Plan 2012-2022 for the development of the capital market, which will be implemented gradually. With respect to empowerment of the Commission, international donors have been placing considerable emphasis on the operational and financial independence of the BSEC to strengthen its ability to fulfil its public policy mandate (ADB, 2013; Probe Committee Report, 2011; CPD, 2011). It is argued that the regulator needs to be free from political influence from a policy-making perspective.

d. Legal structure

Being a former British colony, the legal structure in Bangladesh derives from the British mould. However, the quality of enforcement of the rules and regulations in Bangladesh is affected by a somewhat weak court system[41].Slow and unreliable, the court system often makes itdifficult for regulators to bring cases to trial and to prosecuteoffenders in a timely manner[42] (ADB, 2003). Furthermore, the District Court often grants staying orders to regulators in proceedings related to enforcing securities laws. In addition, actions commenced in the District Court are eventually appealed to the High Court, on procedural matters, giving rise to extended delays (ADB, 2003).

CG cases fall under the purview of theCommercial Division of the High Court. There is also a Company Bench at the Supreme Court, which serves as the company court and attends to cases under the CA’94. As a support mechanism to enforce CG regulations, the judiciary suffers from a large backlog of cases and a lack of specialist knowledge of financial laws and corporate concerns. A total of 492 cases filed by or against the BSEC are pending in different courts (BSEC, 2014b). To summarise, the weak court system and legal structure in Bangladesh apparently fails to provide shareholders with any proper judicial recourse.

e. The accounting profession

The Institute of Chartered Accountants of Bangladesh (ICAB) is the national professional accounting body and accounting standard setter in Bangladesh. It was created under the Bangladesh Chartered Accountants Order in 1973, which links ICAB with the Ministry of Commerce, from which it receives annual grants. ICAB regulates the accountancy profession

[41]Indicators developed by the World Bank imply that it takes more time and is more expensive to enforce a standard contract in Bangladesh compared to other countries in South Asia, or, especially, countries in the OECD. It also takes more procedures to enforce a contract in Bangladesh than in many other countries, indicating that the courts are an expensive and time consuming option for shareholders and other stakeholders. (See Doing Business 2009 at www.doingbusiness.org).

[42]For example, charges brought against parties involved in the 1996 share scams are still before the courts.

and oversees the professional ethics and code of conduct of its members, provides specialized training and professional expertise, and fosters acceptance of International Accounting Standards (IAS) and International Standards on Auditing (ISA) by adopting the same as Bangladesh Accounting Standards (BAS) and Bangladesh Standards for Auditing (BSA) respectively.

Until now, it acts as both an examining body for awarding chartered accountant certification and as the licensing authority for members engaged in public auditing practice. An elected Council, whose members hold a three-year term, is in charge of overall management of the Institute. The Council elects the ICAB president, who is also the chief executive officer, to a one-year term. Various committees of volunteer members assist the Council.

The latest ROSC assessment on accounting and audit practices in Bangladesh has raised concerns about the self-regulation of the ICAB, arguing that it has severely underperformed as a self-regulator. It is reported that the professional body "is not proactive with respect to disciplining errant public practitioners" (World Bank, 2003, p. 4). Apparently, this report expresses concerns about a context where allegations of listed PLCs maintaining two separate financial statements are not uncommon[43] (BEI, 2003; ADB, 2009; Financial Express, 2013b, 2013e). The Ministry of Finance, in the face of widespread allegations about a section of the auditors' deliberate indulgence in the acts of preparing fabricated or 'cooked-up' financial reports by companies, framed the Financial Reporting Act 2013[44] (FRA'13) and had it approved by the cabinet (Financial Express, 2013b). However, to date,

[43] The National Board of Revenue (NBR) formally complained to ICAB about two varying financial statements of listed PLCs with an intention of evading tax with a specific list of alleged audit firms. The ICAB president in reply to the NBR's letter admitted that a few firms, as happened in the case of other professions, might have been involved in wrongdoing (see Financial Express, 2013a).

[44] The FRA'13 has been drafted based on a similar idea from the UK FRC and the USA PCAOB (Financial Express, 2013c).

the FRA’13 has still not been passed in the parliament due to strong opposition from the ICAB, the professional body of auditors, which claims that the Financial Reporting Council (FRC), which would be instituted under the proposed act, would only ruin the accounting profession (Financial Express, 2013c). From the beginning, they have vehemently opposed the FRC, mainly on the plea that it would give undue influence to non-professionals in deciding the fate of professional audit firms. ICAB has raised concerns regarding various provisions (e.g., provision of imprisonment for civil offence), which, in ICAB’s view, leads to ‘over-regulation’. The ICAB President said, “FRC is a donors' prescription and may not be viable for a country like Bangladesh” (Daily Star, 2009). At times, the BAPLC leaders have also expressed their support for ICAB: “They [auditors] should not be condemned randomly,” said Salman F Rahman, president, BAPLC in a roundtable discussion (Daily Star, 2009). To conclude, the FRA’13 could be reasonably expected to be enacted in the near future, as ADB views it as one of the ‘pending critical reforms’ for the successful completion of CMDP2 (ADB, 2013; Financial Express, 2013d).

The Institute of Cost and Management Accountants of Bangladesh (ICMAB) regulates and promotes the profession of cost and management accounting in the country. It is an autonomous professional body under the Ministry of Commerce. The ICMAB also offers cost and management accounting education and research.

f. The Bangladesh Association of Public Listed Companies (BAPLC)

This is the top body of listed PLCs in Bangladesh. Membership of the BAPLC is mandatory for all listed PLCs. Its governing body is composed of the top business elites of the country, many of whom have political connections with the political parties either in government or in opposition. In relation to the CG efforts of the regulatory institutions, it has been reportedly found to be active and often at odds with the BSEC on various issues related to CG and ownership interests (ADB, 2009).

g. Other players

According to World Bank (2009), the drive for better CG needs to come from shareholders, investor associations, institutional investors, the media, and civil society institutions. With the direct and indirect patronage of international development partners, various civil society institutions and the media increasingly appear to play their role in this respect. However, so far, shareholder activism does not seem to be developing (ADB, 2013). There is one shareholders' association, namely, the Bangladesh Share Investors' Association (BSIA). However, the BSIA seems to be largely weak in terms of championing shareholder rights, as the shareholders interviewed in this research seemed to have no idea about its existence. There are only a few institutional investors in the country, most of which are state-owned enterprises with no apparent motivation to force PLCs to improve CG (ADB, 2009).

Amongst the civil society institutions, Bangladesh Enterprise Institute (BEI) and Bangladesh Institute of Capital Market (BICM) seem to play prominent role as far as CG is concerned. The BSEC is currently working with them on various projects of capital market development (BSEC Annual Report, 2014). BICM provides capital market and investment-related training, while BEI is a research centre established in 2000 and funded by World Bank. It is one of the more popular institutes in Bangladesh for providing director training and workshops on CG. In addition, BEI promotes issues of importance to the private sector and seeks to initiate essential measures and to influence policy for the development of a market-oriented economy. In 2004, the Institute published a voluntary code of CG as principles and guidelines. Both BEI and BICM, funded by international donor agencies, are actively working to empower the media as well. They are providing a range of training to journalists on financial and CG reporting.

3.3.5 Summary of past and current CG requirements

In light of the above-mentioned CG legislation and guidelines, the past and current CG requirements in Bangladesh are summarised in Table 3.5. The major change efforts have been exerted in four areas of CG practices: board of director, annual general meeting, financial reporting and auditing, and internal control. Details of the requirements under the current CGlegislation and guidelines and how they are implicated in practice are discussed in Chapter 5.

Table 3.5 Summary of major change efforts and agenda of change of CG regulatory institutions in Bangladesh

Areas of CG practices	CG practices before the change effort	Change effort	Agenda of change	CG practices after the change effort
Board of directors (BoD)	-Board size (at least 3 directors) -No independent director (ID) -Dual role of chairman and CEO -Directors' report to shareholders -No annual report (AR) disclosure on director shareholding, appointment/re-appointment -No audit committee (AC) -Board meeting attendants	-Issuing mandatory CG code -Amendment of the Companies Act, 1994 -Drafting new Companies Act	-Board size (5 to 20) -Appointment of ID (at least 1/5 of total no of directors) -Splitting the role of chairman and CEO -Additional statements and certification in directors' report -Additional AR disclosure for director appointment/re-appointment -Formation of AC as a sub-committee of the Board of directors -ownership threshold for sponsors	Change in form rather than in substance
Annual General	-General provision on the conduct of AGM	-BSEC rules and	-Submitting full video recording of AGM	

Meeting (AGM)		regulation	proceedings -No gift to general shareholders -Right to demand poll in AGM -Right of EGM by 10% consent	
Financial reporting and auditing	- No specific provision on non-audit services (NAS) provided by statutory auditor - No provision on auditor rotation - No certification by CEO and CFO of the integrity of financial reporting - No review of financial reports by AC -No specific provision for CFO appointment -No interim financial reporting requirement	-Amendment of the Companies Act, 1994 -BSEC rules and regulation -ICAB's self regulation -Issuing mandatory CG code -Changing listing rules	-Restricting NAS provided by statutory auditor -Strict provision on auditor rotation -Certification by CEO and CFO on the integrity of financial reporting -Submission of quarterly F/s to regulatory authority -AC's review of the financial reporting and audit	
Internal control and audit (ICA)	-No specific provision on the appointment of head of internal audit	-Issuing mandatory CG code	-Strict provision on the appointment of head of internal audit	

Concluding words

To summarize, this chapter started with a brief history of the political economy of Bangladeshi capitalism. As discussed in the beginning, the history of Bangladesh is marked by colonial exploitation and post-colonial dominance. Consequently, the Bengali capitalist class was almost non-existent in the country's colonial and post-colonial history. After independence in 1971, a capitalist class started to emerge. This class, taking advantage of the polity and state power, tended to form the family business groups that, over time, have grown in size and number. Most of the listed PLCs are sister concerns of these family business groups. Following the political and economic disturbance in the post-independent era, crony capitalism emerged. Aid dependence coupled with crony capitalism has eventually made the state's power weak. Understanding the emergence of crony capitalism has important implications in understanding the dominance of family institutions in Bangladeshi society and culture. Previous studies (Jiggings, 1976; Sobhan and Ahmad, 1980; Mannan, 1992) have also reported that weak state power is often linked with strong family power over various institutions.

As a final point, this chapter attempts to locate the CG change initiatives and key players' perspectives in the context of listed PLCs in Bangladesh. Apparently, as an ongoing process, CG reforms are aimed to provide sufficient legal, institutional, and economic incentives for stakeholders to encourage and enforce CG practices in line with Western best practices. The next chapter deals with the research methodology adopted to answer the questions delineated in Chapter 2.

Chapter 4
Theoretical framework and research methodology

This chapter deals with the delineation of the theoretical framework and research design adopted in this thesis. The chapter is divided into three broad sections. The first section informs the philosophical underpinning. The theoretical framework is discussed in the second section, while the last section offers a discussion on the methods of data collection and analysis.

4.1 Philosophical underpinning of the research

This section provides a discussion on critical realism and its relevance as the philosophical underpinning of this research. The first part starts with a general discussion on the ontological and epistemological underpinnings of positivist turns while emphasizing its limitations. The second part considers postmodernism as a plausible epistemological alternative to positivism. It highlights the development and justification of a subjectivist orientation of the epistemological and ontological standpoint and how this leads to relativism in the philosophy of social science. The last part first analyses the main critical realist attacks on the two dominant philosophical traditions, namely, positivism and postmodernism, and then puts forward arguments for critical realism as a philosophical underpinning in CG research that has the potential to overcome both sets of difficulties.

4.1.1 Positivism

Positivism attained the status of orthodoxy in social science in the first half of the twentieth century (Delanty and Strydom, 2003, p. 13). Auguste Comte (1853) coined the term ‘positivism’, which embraced empiricism and aimed at making universal and generalized claims about objectively assessable social or natural realities (Johnson and Duberley, 2000, p. 19). He thought that, just like natural phenomena, the social domain was subject to general laws that operated independently of individual will and consciousness (ibid., 2000, p. 20). Thus, he suggested the possibility of naturalism. For empiricists, anything that cannot be settled by experience or observation is metaphysical and is not science. However, long before the development of Comtean positivism, Hume questioned the possibility of grounding scientific laws in an inductive accumulation of observations on the grounds that we cannot with any certainty generalize from events which we have experienced to those which we have not yet experienced (Johnson and Duberley, 2000, p. 19). Apart from Comtean positivism, logical positivism appeared as an ‘extreme’ version of the positivist approaches that attempt to logically discover causal mechanisms by objectively accessing the empirical world by eradicating metaphysics from the production of scientific knowledge.

Shotter (1975) argues that an outcome of the positivist epistemological standpoint in social science is a determinism that treats human beings as if they were analogous to unthinking inanimate entities at the mercy of external causative stimuli. In reality, human behaviour is non-automatic and non-measurable. Such a deterministic neglect of human subjectivity led to the emergence of a major interpretive critique of positivism (Johnson and Duberley, 2000, p. 26). Pointing the internal contradictions resulting from positivism’s commitment to empiricism and complete exclusion of metaphysical knowledge, Karl Popper, in his work *The Logic of Scientific Discovery* (1959), put the emphasis on deduction and falsification. For Popper, science can, in principle, falsify any knowledge by confronting it with empirical data, but it can never prove a knowledge claim (Johnson and Duberley, 2000, p. 28). He calls for the application of the hypothetico-deductive method. However, Popper’s deductive reformulation of positivism also maintains the possibility of a theory-neutral observational language, a modified correspondence theory of truth, a sceptical form of anti-metaphysics, and the methodological unity of the sciences (ibid., 2000, p. 32). To conclude this section, some of the above epistemological assumptions of different forms of positivism have been the major focus of attacks on postmodernism and critical realism, which are discussed in detail in the next sections.

4.1.2 Postmodernism

Postmodern philosophers have drawn inspiration from attacks on positivist epistemology by the neo-pragmatist Richard Rorty, who argues that philosophy has no privileged access to knowledge, and that nor it is a superior way of arguing, but rather, it is simply another way in which people talk to one another (Ryan *et al*., 2002, p. 25). Postmodern epistemology thus constitutes a philosophical break with the dominant epistemology of modernity- positivism (Johnson and Duberley, 2000, p. 93). It rejects the positivists' claim that it is possible to develop a rational and generalizable basis to scientific inquiry that explains the world from an objective standpoint (ibid., p. 95) since its epistemological basis is grounded in social constructionist ontology.

Postmodernism understands science, and the production of knowledge, as a process of social construction (López and Potter, 2001, p. 7). Defining the postmodern as 'an incredulity towards metanarratives', Lyotard (1984: xxiv) argues that we could no longer take seriously the idea that certain claims to knowledge could hold sway or lay a claim to the monopoly of truth. Postmodernists, emphasizing an anti-empiricist position, argue that all knowledge is indeterminate. Language is seen as the medium of reality construction; thus, knowledge and truth are linguistic entities constantly open to revision (Lyotard, 1984, p. 40). Burkitt (1998) has indicated that social constructionism became caught up in 'the turn to language' that enveloped much of the social sciences through the influence of postmodernism.

Another attack on the epistemological premises of positivism comes from postmodernist scholars (Chia, 1995; Jeffcutt, 1994; Kilduff and Mehra, 1997), who call for de-differentiation that involves dissolving positivism's subject-object dualism into a duality. Duality implies that what is known (object) is not independent of the knower (knower). As such, in knowing/observing, the knower/observer creates what is known/observed (Johnson and Duberley, 2000, p. 98). The result is essentially the adoption of a subjectivist ontology. As Latour (1990) points out, language creates what positivists assume to be an independent external reality. Hence, postmodernism advocates a social constructivist view of knowledge and science. Such epistemological and ontological subjectivism inevitably leads to relativism in the postmodern perspective. However, unlike postmodernism, critical realism does not see science as being merely a prestigious artefact of conventionally derived self-directed and self-deferential paradigms, discourses, language games, and so on (Johnson and Duberley, 2000, p. 154). The next section examines critical realism in detail.

4.1.3 Critical realism

This section examines how critical realism addresses the above problems within the two major underlying philosophies of science, namely, positivism and postmodernism, and hence can be used as a consistent and coherent underpinning philosophy to engage in social scientific research. In a broader sense, critical realism, like postmodernism, is an intellectual response to the positivist understanding of science and the 'linguistic turn' in the understanding of social phenomena. Both postmodernism and critical realism appears to be critical about positivism's emphasis on the notion of objectivity, the possibility of a theory-neutral observational language, and the exclusion of the metaphysical from science. However, in the process, as is discussed in the following section, postmodernism fails to overcome some of its inherent contradictions, which are the targets of basic critical realist attack.

Postmodernism can be seen as a contemporary manifestation of the hermeneutic tradition, which mainly derives from the 'linguistic turn' in social science; unlike positivism, it rejects the possibility of naturalism. From an anti- empiricist angle, postmodernists mainly argue that the production of knowledge and, hence, science, is a process of social construction. As Jeffcutt (1994, p. 228) argues, postmodernist epistemology suggests that 'reality is not separate from its reconstitution, and the world we know is the world as represented', suggesting that there could be multiple realities. Such a 'socially constructed' nature of knowledge was also demonstrated in Thomas Kuhn's work. As López and Potter (2001, p. 7) argue, a radical relativism with respect to knowledge is a possible interpretation of Kuhn's work: knowledge is whatever human beings come to socially certify as such. This type of relativism is more or less embraced by postmodernism through an articulation of epistemological and ontological subjectivism. In essence, postmodernism adopts a relativistic argument that concludes that since all knowledge is socially constructed, there are no good reasons for preferring one representation over another – including, presumably, their own genealogies and reconstructions (Johnson and Duberley, 2000, p. 111). Thus, epistemological and judgmental relativism has led to contradictions in postmodernism.

Unlike postmodernism, which embraces multiple realities, positivism is mainly concerned with a single objective and concrete reality, whereas critical realism is concerned with multiple perceptions about a single, mind-independent reality (Healy and Perry, 2000). Critical realists presume that a reality exists, but that it cannot be fully or perfectly apprehended (Guba, 1990). It is also recognized that perceptions have a certain degree of plasticity (Churchland, 1979) and that there are differences between reality and our perceptions of reality (Bisman, 2010). The concept of reality embodied within critical realism is thus one extending beyond the self or consciousness (ibid., 2010, p. 9). However, unlike other perspectives on the nature of reality, critical realism is not dependent upon detailed historical explanations or constrained by a particular theoretical frame (Bisman, 2010). Even in critical realism, there is a relativistic and social constructionist aspect, but it emphatically argues that we can rationally judge between competing theories on the basis of their intrinsic merits as explanations of reality (López and Potter, 2001, p. 7). Indeed, most critical realists adhere to an epistemological relativism. They simply argue that reality is not dependent on the historically situated mode of interpretation or constrained by a theoretical frame. In other words, while critical realists accept 'epistemic relativism', that is, that knowledge is always socially constructed – they claim that this does not entail 'judgemental relativism', that is,that there are no grounds for preferring one knowledge claim to another (Johnson and Duberley, 2000, p. 152). In essence, critical realists hold that it is possible to study social phenomena 'scientifically'. Accordingly, they put forward the arguments for the possibility of naturalism.

The two most common defences of judgemental relativism invoke the theory-laden character of observation and incommensurability between competing theories (Sayer, 2000, p. 47). Regarding the former, whether observation is theory- or concept- laden does not mean that it is necessarily purely theory-determined (ibid., p. 47). Regarding incommensurability, Bhaskar (1986, pp. 72-5), differentiating the 'sense' or meaning of a theory from the objects to which the theory refers, that is, its 'referent', argues that where 'incommensurability of sense' occurs between two competing theories, it is still possible to make a rational choice between them through an appeal to the intransitive dimensions, that is, their ‘common referent’ or the common aspects of reality over which they compete (Johnson and Duberley, 2000, p. 153). This adjudication is in terms of how much of the common referent each theory is able to explain under their competing descriptions (ibid., p. 153). Thus, critical realists insist that it is possible, indeed necessary, to assess competing scientific theories and explanations in relation to the comparative explanatory power of the descriptions and accounts that they provide of the underlying structures and mechanisms that generate observable patterns of events and outcomes (Bhaskar, 1978; Outhwaite, 1998). Reed (2005) proposes that this is in sharp contrast with postmodernism, which suggests that because models and explanations of underlying structures or mechanisms are necessarily human constructions, scientific theories and the knowledge that they produce cannot be systematically assessed and evaluated.

The basic tenet of critical realism is Roy Bhaskar’s (1978; 1986; 1989a; 1989b; 1993) differentiation between the ‘intransitive objects of scientific inquiry’ that exist and act independently of their identification in human knowledge and the ‘transitive’, socially constructed, dimension (i.e., epistemology) that allows us to make sense of our world (Johnson and Duberley, 2000, p. 152). For realists, there are three ontological levels of reality: empirical, actual, and real or deep. Empirical realism assumes that what we can observe is all that exists, while ‘actualism’ assumes that what actually happens at the level of events exhausts the world, leaving no domain of the real (Sayer, 2000, p. 12). From a critical realist perspective, the ‘real’ is whatever exists, be it natural or social, regardless of whether it is an empirical object for us (ibid., 2000: 11). More importantly, as Wight et al. (2006, p. 11) propose, the concept of the real refers to an extra-experiential level of reality consisting of causal powers or generative mechanisms which may or may not be realized at the level of the actual (manifested in events). The authors further claim that events, in turn, may or may not be directly accessible to sense experience (registered at the level of the empirical). Therefore, these underlying structures or mechanisms have to be theoretically constructed and modelled through a process of conceptual abstraction and ‘retroduction’ (Blaikie, 2000). Thus, Sayer (2000, p. 12) in line with Reed (2005), argues that CR proposes a ‘stratified ontology’ in which deeper structures or mechanisms shape events and regularities at a surface level in contrast to other ontologies, which have ‘flat’ ontologies populated by either the actual or the empirical, or a conflation of the two. Because there is a reality behind or beneath the actual and the empirical, positivism fails as an account of science (Wight et al., 2006, p. 10).

López and Potter (2001, p. 10) put forward the argument that from a realist philosophical perspective, ‘science’ is wrong to begin with epistemologies, as epistemological questions are dependent upon ontological answers to questions about the nature of existence. This requires us to think what the nature of reality must be like in order to make experimental activity possible. However, while critical realists ask such questions explicitly, positivists ask only implicitly, and positivists’ answer to this type of question, i.e., their implied ontology, is also philosophically incoherent. Critical realists argue that such ‘empirical realism’ is problematic, as reality does not always lie upon the surface layer of objects, and they reject it as an example of the ‘epistemic fallacy’ that lets the question ‘What can we know?’ determine our notions of what exists (Bhaskar, 1978, p. 36). Thus, critical realism presents a radical challenge to positivism’s ontological and epistemological foundations.

Both postmodernism and critical realism criticize the role of positivism in the production of social scientific knowledge that aims to establish deterministic, generalized, and universal social laws. Hence, postmodernists mainly emphasize the social constructivist aspect of reality, where knowledge is seen as a reflection of prevailing discourses. From a postmodern perspective, reflexivity is impossible, as it requires the ability of the researcher to stand back and rationally reflect on their own assumptions (Johnson and Duberley, 2000, p. 109), and all knowledge is, therefore, partial and value laden. From a critical realist perspective, to produce knowledge, the social world should be viewed as a complexly stratified open system where explanation takes the form of modelling causal mechanisms and testing those models (López and Potter, 2001, p. 19). Bhaskar (1998, p. 131) argues that positivism fails to sustain the notions of the stratification and differentiation of reality, and, accordingly, the distinctions between structures and events and open and closed systems. This incapacity, as he argues, produces a situation in which undifferentiated events become the objects of only conventionally differentiated sciences.

In relation to social scientific ontology, critical realism posits social structure and human agents as the two prime objects of knowledge for social science. Crucial to Bhaskar's critical realism is the recognition of the 'transformational model' of the relationship between human beings and social structure, which holds that we do not create social structure, but rather reproduce and transform it. Social structure pre-exists and also causally affects us. Consequently, the long-standing sociological debates concerning the determination of individuals and their activities by social structure on the one hand, and their freely chosen activities and individual causal powers to act and create as agents on the other, are resolved by this transformational model (López and Potter, 2001, p. 15). More importantly, a key implication of the above critical realist ontology is the recognition of the possibility that some structures may not be observable, and they cannot be identified except through examination of their effects. This calls for a synthetic a priori production of hypotheses about the nature of structures, and the subsequent testing of them through the empirical examination of their effects.

Another contribution critical realism makes is that it puts forward the arguments for the possibility of naturalism. From this perspective, both positive and interpretive approaches misunderstand science in their view of the utilization of a closed-system model of inquiry; science makes sense only in an open system. In Bhaskar’s (1998, p. 21) own words:

> For in the absence of spontaneously occurring, and given the impossibility of artificially occurring, closed systems, the human sciences must confront the problem of the direct scientific study of phenomena that only ever manifest themselves in open systems - for which orthodox philosophy of science, with its tacit presupposition of a closure, is literally useless.

In summarizing the two poles, Bhaskar writes, “For the positivist, science is outside society; for the hermeneuticist, society is outside science” (Bhaskar, 1989a, p. 123). According to López and Potter (2001, p. 12), the critical realist recognition of causal powers or generative mechanisms as intransitive dimensions of reality crosses over some of the borders between natural and social science that positivism and the hermeneutic tradition had established. Such an understanding of science accepts that the object’s social and natural worlds are different, demanding that scientific methods be appropriate to their objects of study. It assumes that unlike structures in nature, social structures are concept, activity, and space-time dependent and that the subject matter of social science is heavily dependent upon meaning, while they also argue that it is precisely such features of social reality that make a science of it possible (López and Potter, 2001, p. 13).

4.1.4 Critical realism and CG research

Critical realism as a philosophical underpinning can contribute to a significant extent to social science research, especially in the field of CG. CG practices, being social phenomena, cannot be studied in a close system to generate predictions and universal laws; rather, they should be studied in an open system.

From a critical realism perspective, researchers, in contrast to positivists and postmodernists, can ask different questions based on an intangible dimension of reality. As a hypothetical illustration, to answer why a certain accountability regulation fails to achieve the desired results, critical realists would attempt to explain events (e.g., accountability practices in a particular context) by hypothesizing regarding causal mechanisms (e.g., social/organizational structures, powers) and testing the hypotheses through an empirical examination of effects, assuming that reality exists independently of our perceptions about it. In contrast, postmodernism, assuming a social constructivist approach, would produce multiple realities. Assuming an objective reality, positivists would try to predict and generalize under what conditions such a regulation fails rather than identifying the deep underlying structures which allow such conditions. Certainly, prediction and empirical observation remain important in critical realism, but the positivist emphasis upon these is weakened. Bisman (2010) identifies a range of recent accounting research studies that have explicitly utilized critical realism to canvass a variety of issues ranging from regulatory environments and disclosure (Burrowes, Kastantin and Novicevic, 2004) to the interface of accounting standards with society and culture (Forsberg 2010), accounting and political hegemony (Alawattage and Wickramasinghe, 2008), and the role of accounting in university management (Brown and Brignall, 2007). These examples suggest that the paradigm can be applied in manifold settings and topic areas and can find a fit with investigations framed within different theoretical scaffolds (Bisman, 2010). Sayer (2000, p. 19) argues that critical realism, compared to positivism and postmodernism, endorses or is compatible with a relatively wide range of research methods, where the particular choice is dependent on the nature of the object of study and what one wants to learn about it.

Reed (2005) summarizes three crucial methodological and theoretical consequences of critical realism for the study of organization and management as opposed to some of the central philosophical and theoretical dilemmas that continue to confront the study of organization and management: first, a conception of causality and causal explanation that is fundamentally different from that advanced by positivism (Lewis, 2000); second, a 'retroductive' research strategy and design that contrasts with the 'deductive' form characteristic of positivism and the 'abductive' form typical of constructionism and postmodernism (Blaikie, 2000; Danermark et al., 2002); third, a recognition that although scientific theory and the explanatory knowledge that it facilitates are socially constructed and evaluated, this does not mean that they can be reduced to the discursive practices and interpretative schemes through which they were produced.

To summarise, this section seeks to put forward arguments for critical realism as offering a viable alternative to the two dominant contemporary philosophies of social science: positivism and postmodernism. In some respects, critical realism attempts to cherry pick what its adherents consider to be the best or most useful parts of each of the alternative approaches (e.g., the naturalism of the positivists and the social construction of knowledge in postmodernism). Based on a series of assumptions - for example, the existence of a mind-independent reality which is cognitively accessible, understanding the world as stratified or layered and the existence of the intransitive domain of generative mechanisms, recognition of the epistemic (not judgmental) relativism of knowledge and the deployment of a 'retroductive' methodology to explain events by hypothesizing causal mechanisms - it talks about critical naturalism, which can do justice to the proto-scientific intuitions of both positivism and its hermeneutic foil (Bhaskar, 1998, p. 21). He puts forward the 'retroductive' argument, where causation is not seen as a sole expression of the constant conjunction of events as in positivism. Rejecting some of the debatable assumptions of positivism, like the possibility of a theory-neutral observational language and corresponding theory of truth, critical realism simply argues that different people may apprehend different (i.e., transitive) realities according to the varying paradigmatic, metaphorical, or discursive conventions deployed through their human agency (Johnson and Duberley, 2000, p. 154). Postmodernism also accepts such constructiveness of knowledge, but fails to provide any extra-discursive means of arbitrating knowledge claims, which leads to relativism. Critical realism, from a non-positivistic and non-relativistic standpoint, while maintaining a realist ontology, argues that there are alternative extra-discursive means of arbitrating knowledge claims. Based on these key arguments, this section also shows how research in the field of CG can gain a philosophical insight from critical realism.

Critical realism does not offer a ready-made 'tool kit' of concepts to be applied in subject domains, but rather provides a set of resources for the development of domain-specific concepts (Cruickshank, 2003). This allows critical realism to be used as an'under labouring' philosophical tradition in building a wide range of theories in the domains of both natural and social sciences. One such substantive theory providing conceptual clarity in great detail is the 'internal conversation theory', which is basically an extension of the 'morphogenetic' approach. Accordingly, this research will use this as its theoretical framework, which is the subject matter of the next section.

4.2 Theoretical framework of the research

This section is divided into two parts. The first part deals with the overview of the theoretical framework, while the second part offers a discussion on how the framework could be applied to studying CG practices and changes. This section comes up with a model of CG change, which is then used in the analysis chapter (Chapter 6).

4.2.1 Overview of the Theoretical Framework: An extension of the morphogenetic approach with the internal conversation theory

Margaret S. Archer, a prominent British sociologist, develops the 'morphogenetic approach' to social theory in an impressive series of books (Archer 1995, 1996, 2000a). She subsequently attempts to incorporate an explicit and dense individual layer in this approach (deVaujany, 2008) and comes up with the 'internal conversation theory[45]' (hereafter ICT). In developing her morphogenetic model, she mainly draws on David Lockwood's theoretical attempt to marry structural Marxist functionalism with conflict sociology and Roy Bhaskar's critical realist turn. The model attempts to bridge the fundamental methodological gap between the ontological strength of critical realist philosophy and the explanatory power of Lockwood's practical social theory. As Archer (1995; p. 5) puts it, "The practical analysis of society needs to know not only *what social reality is*, but also *how to begin to explain it*, before addressing the particular problem under investigation". In advancing a causal explanation of social life, Archer (1995) argues that there are strata in social life at the levels of agency, structure, and culture, and each of these strata has distinct emergent properties and powers. Therefore, an adequate and practical

[45] Archer, M. (2003). *Structure, agency and the internal conversation*. Cambridge: Cambridge University Press

explanation of social reality requires the conceptualization of the interplay of different sets of emergent, irreducible, and autonomous causal powers over time and space. Therefore, she comes up with an explanatory methodology based on analytical *dualism*: a methodological trick that analytically separates structure (and culture) and agency in order to examine the interrelationships that mutually shape each one (Mutch, 2007; p. 1128). The notion of analytical dualism comes from Lockwood's (1965) vital distinction between 'system integration' and 'social integration'. 'System integration' means the relations of contradiction and complementarity between 'parts' of a structure, and 'social integration' means relations of cooperation and conflict between 'people'. Lockwood asks, if social change is always associated with conflict (i.e., low social integration), why is it that low social integration does not always lead to change? According to him, social integration is necessary but is not a sufficient basis for explaining change. System integration is antecedent to and a condition of social integration. Hence, change will occur in situations where low system integration is complemented by low social integration. He calls, therefore, for the consideration of both 'parts' and 'people' in explaining change.

In advancing her critical realist project, Archer has strongly opposed the *duality* of 'parts' (structures) and 'people' (agents) because of the implication that "their influences upon one another cannot be unraveled" (1988: xiv). Thinking in terms of the *duality* of structures and agency in analysing the social world, in her view, commits the fallacy of *conflationary* theorizing. Drawing on the notions of a stratified ontology of reality, emergent property and analytical dualism from a critical realist turn, the morphogenetic approach provides a basis for *non-conflationary* theorizing. The fundamental concern of *non-conflationary* theorizing is *how to link* culture, structure, and agency, without reduction or 'conflation' (Vandenberghe, 2005, p.

231). Conflation refers to the problem of reducing structure to agential action, or action to structure, or of merging both (Archer, 1982; p. 1995). This leads to the denial of either actors' freedom or the constraining power of structures (Archer, 1995). Such conflation also fails to tackle the paradox of embedded agency, i.e., how structural change is possible if agential intentions, actions, and rationality are conditioned by the structures that they wish to change (Holm, 1995).

Although structure (culture) and agency are intertwined in reality, the morphogenetic approach disentangles them in order to gain an explanatory leverage on reality. The interplay of structure, culture, and agency is captured sequentially (via analytical dualism) by firstly examining how structural (cultural) conditioning affects social interaction and secondly, considering how this interaction, in turn, leads to structural (cultural) elaboration. Agential activities take place in a process of mediation and reflection, during which the generative power of social forms impinges on agents, and agents use their power (reflexivity) to reflect upon the situation in connection with their personal life projects. It is the latter part that ICT identifies as the missing link between structure and agency within the contemporary realist social theorizing, including her morphogenetic approach (de Vaujany, 2008), and that it tends to elaborate. The end result of agential actions and interactions may be either *morphogenesis* (a change in which structural/cultural elaboration takes place) or *morphostasis* (an absence of change with no structural/cultural elaboration). In this process, human agency can also be simultaneously reshaped. Archer notes that changes to structure and the actions of agents operate over different time periods. The morphogenetic perspective looks at this process over time, dealing in endless sequences and cycles of structural conditioning → social interaction→ structural elaboration. Archer (1995; p. 91) expresses it as follows:

> Every morphogenetic cycle distinguishes three broad analytical phases consisting of (a) a given structure (a complex set of relations between 'parts'), which *conditions* but does not *determine* (b), social interaction. Here,(b) alsoarises in part from action orientations unconditionedby social organization but emanating from currentagents, and in turn leads to (c), structural elaborationor modification—that is, to a change in the relationsbetween parts where morphogenesis rather than morphostasisensued.

The morphogenetic cycle from the perspective of ICT is presented in Figure 4.1 below.

Mediating structural (cultural) conditioning: the internal conversation

T[1]

i. Objective impingement of structure and culture	⇨	ii. Subjective reception of structure and culture	⇨	iii. Conditioning agential doings: Internal conversation

Socio-cultural interaction

T[2] **T**[3]

Structural / cultural elaboration (morphogenesis)

Structural/cultural reproduction (morphostasis) **T**[4]

Figure 4.1: The morphogenetic cycle from the perspective of internal conversation theory (Source: Archer, 1995; p. 157)

Phase I: Structural and cultural conditioning at T^1

From a morphogenetic perspective, the ‘morpho’ element is the acknowledgement of the objective structural (cultural) properties, and the ‘genetic’ part recognizes that the society takes its shape from, and is formed by, agents, originating from the intended and unintended consequences of their activities. Hence, the main thrust of the morphogenetic approach is to theorize how the causal power of social forms (structures and culture) is mediated through agency. According to Archer (1995), this mediation takes place through the process of *‘conditioning’*. Here *‘conditioning’* is accentuated as the structural (and cultural) shaping of the situations in which people operate. However, in her later work, Archer (2003) argues that conditioning accentuated in such a way is unduly unilateral and, to some extent, vague. In her view, the mediation of causal power involves the interplay between two different kinds of powers: those pertaining to ‘parts’ and those belonging to ‘people’. Therefore, an adequate conceptualization of conditioning must deal with the interplay between these two powers (Archer, 2003; p. 3). This involves a specification firstly, of how structural and cultural powers are drawn upon or impinge on agents, and secondly, of how agents use their own personal powers to act “so rather than otherwise”, in such situations (ibid., 2003; p. 3). Thus, conditioning is seen as a process involving both the objective impingement of social forms and their subjective reception. According to Archer, it is the latter part that needs to be addressed more elaborately to overcome this limitation, and hence she came up with the ICT as an extension of her morphogenetic approach. The theory holds that a full mediatory mechanism depends upon human ‘reflexivity’, that is, our power to deliberate internally upon what to do in situations that were not of our making (Archer, 2003; p. 342). In her view, through ‘internal conversation’ or inner dialogue, people reflect upon the social situation in light of their current concerns and projects, asking themselves ‘What should I do?’ and answering their own question. Importantly, the extended version of the morphogenetic approach suggests a three-stage process whereby structural and cultural influences condition agential doings: objective impingement, subjective reception, and mediation through reflexive deliberations. Each of these stages is discussed in detail below.

Objective impingement of structure (and culture) and situational logics of action

Archer (1995, 2003) provides a detailed account of how prior structure and culture objectively shape the situation of actions that present actors confront involuntarily. In so doing, she conceptually differentiates structures from culture while arguing for their independent existence (as is discussed later). They emerge from the actions and interactions of past agents or collectivities. Once emerged, they possess a generative power of constraint and enablement. Their influence conditions, but does not determine, the action patterns of agents by providing strategic directional guidance and reasons for actions. This implies that the same situation can condition (constrain or enable) different courses of action for agents differently placed by supplying them with different logics of action.

Archer views structure as objective and as possessing emergent properties, and considers that their "primary dependence [is] upon material resources, both physical and human" (Archer, 1995; p. 175). Structure is the necessary internal social relations predominantly between material/human objects (teacher-student, doctor-patient, manager-subordinate). The two core features of **structures** are that they are *relational* – they involve enduring internal relations between the societal positions of actors – and that they possess *ontological depth* – their existence lies behind, and affects, manifest phenomena (Craib, 1984). This means social structure pre-exists and causally affects us. Emerging from the activities of past agents, structure determines the 'position' that the present generation of actors confronts. For example, the positions of teacher and student must exist before someone can occupy them. These internal relations between the societal positions of actors do not exist in splendid isolation (Willmott, 2000); instead, they operate within larger 'institutions'. For example, the role sets of 'teacher-student' operate within the institution of 'education', which includes a whole array of roles (principals-teachers-students), associated resources (schools, educational resources, endowment funds), and rules (rules governing the education system). Again, the institution of 'education' can have necessary internal relationships with other institutions and thus form structure. Institutions can also stand in external or contingent relationships with others. Together, these internally and externally linked institutions form a social system (Archer, 1995). Ashraf (2011) uses Ahmad's (2004) work on the education system in Pakistan to elaborate upon how distributions, institutions, and role arrays all shape the social context of society. In Pakistan, informal education schools (*madrassas*) are internally and necessarily linked with the institution of religion since most madrassas are run by religious scholars (known as *ulemas)*. Internal relations between the institution of 'informal education' and 'religion' form a structure. Due to this structural setting, the curriculum, admission, recruitment, and teaching practices of informal schools are entirely different from those of 'mainstream schools'. Mainstream schools stand in an internal and necessary relationship with the 'polity' and thus form a different structure. However, all institutions are not necessarily internally related with one another. There may be institutions externally or contingently linked as well as institutions having no link at all. For instance, the government of Pakistan, since 9/11, has been under continuous pressure from the US government to either close or reform madrassas, which are largely accused of being the breeding ground of terrorists (Ahmad, 2004). These two institutions, i.e., polity and madrassas, are externally linked, since the functioning of the one affects the other. They are not internally linked, as each can exist without the other. All these internally and externally related institutions form the social system within which the present generation of people lives. In this system, structures emerge from the intended and unintended consequences of the actions of past agents (or collectivities). In Archer's (2000; p. 469) words, "Social structure is the resultant that nobody ever wants in exactly its current form, which is precisely what fosters continuing morphogenesis", which explains the recursive nature of society.

Once in place, as mentioned earlier, structures objectively shape the social context or situation that present agents confront involuntarily. Such involuntary placement makes some agents privileged while others are deprived in terms of the existing distribution of resources, rules, and relationships. This, in turn, will provide those who are privileged with vested interests in retaining the system (thus contributing to *morphostasis*) while providing motivation for others to change it (thus contributing to *morphogenesis*). Agents incur the real opportunity costs (material or psychological) that are associated with the pursuit of projects hostile to their interests, irrespective of whether they know it or not. Thus, structures determine the opportunity costs (constraints) and give premiums (enablements) to certain courses of action. Nevertheless, the structural context may supply different situational incentives or disincentives to predispose collectivities towards specific strategies or courses of action (which Archer theorized in her morphogenetic model, as shown in Table 4.1), but it is agents who subjectively (and fallibly) weigh the costs or premiums and act accordingly. Actors may conform to the conditioned action, and diverge and accept the cost, or may even display an inventive capacity and circumvent the constraints posed by structures (Archer, 1995). This led Archer (2003; p. 137) to put forward the argument that the involuntary acquisition of vested interests in the maintenance of privileges or the transformation of deprivation will not necessarily be automatically translated into the corresponding course of action. As mentioned earlier, Archer (1995) theorizes that, depending on the relationship of internal necessity or contingency between the institutions and compatibility or contradiction, institutional incumbents are likely to follow one of the following four strategies:

Relationship between institutions	Complementarity or compatibility	Contradiction or incompatibility
Internal necessity	Protection	Compromise
Contingency	Opportunism	Elimination

Table 4.1: Structural conditioning and corresponding strategies of agents (Source: Archer, 1995; p. 218)

From a morphogenesis perspective, 'complementarity' between institutions predisposes agents towards protection or opportunism. When there are necessary and internal linkages of a complementary nature between structures, then institutions tend to be mutually reinforcing and to mutually invoke one another and work in terms of each other (Archer, 1995; p. 219). In such cases, key institutional players are likely *to protect* each other. For example, Ahmad (2004) shows that the internal and necessary relations between the institutions of 'madrassas' and 'religion' mutually benefit both. Madrassas get continual financial and material support through their links with the institution of religion, while the benefit to religion is that it can attract an audience (students and their families) to whom the message of Islam can be spread (Ahmad, 2004). Even agents within these institutions, e.g., ulemaas and madrassa students (first-order relations) also benefit. Hence, the structure is likely to push the institutions and agents within these institutions to support each other against any effort to change them, since the status quo is beneficial to all concerned (Ashraf, 2011; p. 110). In this way, structural influences represent generative powers in their own right (working for morphostasis) that are irreducible to the power of the institutions and concerned agents. The relation of contingent complementarity predisposes institutional players towards *opportunism*. For example, the madrassa system complements the Pakistan government's education efforts. Madrassa education caters for the educational needs of a large portion of children without placing any financial burden on the government. However, since these institutions are also contingently linked, their relationship keeps changing. Hence, the incentives of the US government to change madrassa education can easily motivate the government of Pakistan to do the same.

Again, the structural configuration of 'contradiction' predisposes agents towards compromise or elimination. When two or more institutions are necessarily and internally related to one another, yet the effects of their operations are a threat to the endurance of the relationship itself (i.e., the state of a necessary contradiction), then such a situation predisposes them towards *containment and compromise*. Archer uses the example of bureaucracy and taxation to elaborate upon such situational logic (see Archer, 1995; p. 223). When institutions are in a relationship of contingent contradiction, the situational logic of *elimination* arises because the promotion of divergent interests requires the elimination of the opposing parties. For example, the relationship between the US government and Pakistani madrassa education is that of contingent contradiction. Here, institutional players are more likely to follow a strategy ofelimination. In the wake of the war against terrorism, the contemporary strategies of the two respective institutions are a clear reflection of this strategy (Ashraf, 2011). Archer, in her theory, thus gives us a fairly detailed account of how structures shape the social context for people in order to gain explanatory leverage upon what they subsequently do in it or what they can do about it (Willmott, 2000).

From the morphogenetic perspective, culture is theorized in exactly the same way as structure, that is, as possessing irreducible power and properties that predispose agents towards specific courses of action (Willmott, 2000). However, they are not conceptualized as being the same. While structure is the realm of material phenomena and interests, culture involves nonmaterial (ideational) phenomena and interests. The concept of culture advanced here is fairly coterminous with Popper's (1979) 'World Three'. Popper (1979) distinguishes among three worlds: 'World One' refers to physical states and processes, 'World Two' refers to mental states and thought processes, and 'World Three' refers to the products of human minds. Consequently, all ideologies, theories, hypotheses, and writings that are products of the human mind constitute Popper's' World Three': the world of ideas. However, Popper puts more emphasis on the *objective* nature of the 'World Three'. As Layder (1997; p. 128) notes, 'objective' here is not meant to express a claim about truth or falsity, but instead, is a claim about the relation between knowledge and the human beings who produce it. Knowledge in an objective sense is knowledge without a knowing subject (Popper, 1979). All theories, ideologies, and writings, which can even exist independently of anybody's claim to know about them, form what Archer, in her morphogenetic theory, conceptualizes as culture.

Archer distinguishes the Cultural System (CS) as that subset of (cultural) items that are in *logical*, not *causal*, relations and to which the law of contradiction is applicable at any given time. Drawing on Popper's (1972) distinction between logical and causal relations, Archer (1995; p. 179) argues that the *causal* relationships that prevail between agents are contingent and rely on agential instigation. For instance, saying that 'the ideas of A are influenced by those of B' is not the same as saying that 'the ideas of A are consistent with or contradict those of B'. The latter is the case of *logical* relations (of consistency or contradiction) that prevail between cultural components. Logical relations do not require agential instigation, and when internally and necessarily related, they constitute a cultural emergent property. Put differently, the logical relations amongst the components (theories, values, beliefs, or more strictly between the propositional formulations of them) of culture (that is, theories, values, beliefs, or more strictly, between the propositional formulations of them) form the CS that Archer metaphorically refers to as the ‘library’, since the vast tracts of its components are kept recorded in journals, books, statutes, and so on irrespective of whether anyone visits there.

Just like structure, it is the pre-existence, autonomy, and relative durability of culture that establishes its ontological warrant as an irreducible entity, which predates socio-cultural interaction of which any cultural morphogenesis (change) post-dates such activity (Willmott, 2000). Archer, in her theory, provides us with a detailed account of how the emergent relational properties of the CS causally condition specific courses of action for agents (or collectivities) who uphold some of its components. Depending on the logical relations of contradiction (where two ideas cannot simultaneously be true) or consistency and relations of internal necessity (where drawing on one idea necessarily means drawing on the other) or independence, the situational logics tend to entail different forms of actions by predisposing agents of different ideational positions towards correction, protection, elimination, or opportunism.

Relationship between ideas	Complementarity or compatibility	Contradiction or incompatibility
Internal necessity	Protection	Correction
Contingency	Opportunism	Elimination

Table 4.2: Cultural conditioning and corresponding strategies of agents (Source: Archer, 1995; p. 218)

Different people can hold different ideas, theories, or beliefs. It is the logical relations of contradiction or complementarity between the ideas, theories, or beliefs that causally place them in different positions, irrespective of the nature of their theories or beliefs. When these logical relationships are internal and necessary, they create different situational logics for their holders by shaping the context of cultural actions in two ways. Firstly, in the realm of culture, a necessary contradiction arises when two or more theories (consider theory A and theory B) of the cultural system are logically inconsistent, yet to advocate A invokes some of B. When confronted by the necessary contradiction, the protagonists of A have no option but to live with B as well. This situation makes socio-cultural containment tempting. Containment strategies involve the causal manipulation (restricting access to material or intellectual enterprise) of other people to prevent either the realization or the voicing of the logical difficulty (Archer, 1995). However, this is not determinant in nature. Collectivities, at any point in time, can make their exit by turning away from a theory or turning towards a more profitable or less problematic alternative. However, the continued adherence of A makes a *correction* of its relationship with B mandatory. Here followers of A are likely to make corrective repairs to B so it becomes consistent with A (A← B), to make corrective repairs to A so it becomes consistent with B (A→ B), or to make corrections to both so they become mutually consistent (A↔ B). Thus, the existence of necessary contradictions within the cultural system conditions ideational unification. Archer (1995; p. 231) gives the example of the religious origin of education in Europe, which displayed an inextricable dependence of Christianity on Roman classicism. However, this embryo of education contained within itself an inherent incompatibility: the logical contradiction between the religious element of Christian doctrine and the profane element of classical civilization. For in the classicism of antiquity, there lived the very same pagan spirit which the Church intended to destroy. From a morphogenetic perspective, such a constraining contradiction calls for the need *to correct* the systematic inconsistency that generically results in ideational 'syncretism'. Syncretism means the sinking of differences and the effecting of a union between contradictory elements. Archer, in her theory, provides a detailed account of how the morphogenetic syncretism at the CS level and the pressure towards ideational unification at the S-C level result from a constraining contradiction. She emphasizes that the unificatory thrust can be deflected in various ways by its socio-cultural reception. Secondly, relations between theories can take the form of necessary complementarities where two theories, A and B, are in a relationship of necessary dependence with each other, whereby invoking A ineluctably evokes B and they are logically consistent with each other. Here, the situational logic conduces towards the *protection* of consistency (not *correction),* that is, brooking no rivals from outside and repressing rivalry inside. Collectivities are likely to protect the benefits received from maintaining the cultural status quo.This generically results in ideational 'systematization'. Systematization involves the strengthening of pre-existing relations among the parts, the development of relations among parts previously unrelated, the gradual addition of parts and relations to a system, or some combination of these changes (Hall and Hagen, 1969; p. 36). Archer (1995; p. 234) gives the example of the internal and necessary linkage between the religious beliefs and the economic ethos and rationale for status distribution in the traditional cultures of ancient India and China as analysed by Weber.

When theories or beliefs are contingently linked, then the situational logics predispose collectivities towards elimination or opportunism depending on their logical relations of contradiction or compatibility. Firstly, contingent incompatibility arises if there exists a logical contradiction between the premises, contents, or implications of two theories, A and B, where the advocation of A does not invoke B (i.e., they are contingently related). Here, the followers of A can get away from B, since these components are not conjoined. Archer (1995; p. 239) gives the example of secularism and religion, where secular rationalism does not entail the constant reference to religious beliefs. Collectivities involved in contingent contradiction have every incentive *to eliminate* the opposition rather than coping with ideas or theories that contradict their own. The result of such ideational conflicts is a battleground of ideas. Secondly, the cultural configuration of contingent complementarities generates a fairly 'loose' situational logic of *opportunism*. Here, adherents of theory A are free to make whatever they will (if anything) of theory B. This opens up ample opportunities for them to come up with conceptual integration and theoretical reduction or extension. Being free from any kind of socio-cultural manipulation, contingent compatibility is also likely to induce avoidance, adoption, or aversion.

Subjective reception of structure (and culture) by agents

The activation of the generative powers of constraint and enablement that stem from structurally (and culturally) shaped situations depends on agential reception. According to Archer (2000), agents, as human beings, cannot avoid having 'concerns' within each of the three orders of natural reality: *physical well-being* related concerns in the natural order, *performative achievement* related concerns in the practical order, and *self-worth* related concerns in the social order (Archer, 2000). None of these can be repudiated, yet they can be subordinated to an 'ultimate concern': the concern the agent(s) care about most. Agents, both individual and collective, prioritize their concerns while defining their ultimate 'concern' and accommodating others reflexively, and they define their 'projects' deliberatively to realize these concerns. In realizing their concerns, humans, by virtue of their nature, act strategically. For example, if an agent can anticipate some constraints that a given project could encounter, he or she will try to adjust it or refrain from pursuing that course of action. During execution, if a project is constrained, agents will try their best to discover ways around the constraints. Again, the pursuit of divergent concerns can effectively suspend the generative powers of constraint/enablement stemming from the structural and cultural context (Archer, 2003; p. 140). Thus, the activation of the causal powers is purely contingent upon the existential projects that the agents forge *in foro interno:* no project, no constraint, and no enablement. Since agents reflect upon the socially determined characteristics of the situations in relation to their voluntarily and subjectively defined concerns and projects, they may evaluate the same situations differently, and accordingly, their actual responses will vary.

Mediating structural (cultural) conditioning: the internal conversation

To provide an explanatory purchase upon what agents (individuals and organized groups) do exactly, Archer (2003) devised the internal conversation theory (ICT). According to her theory, courses of action are produced through an 'internal conversation' in which agents engage in debate about their concerns and adjust their practical projects. Here, courses of action mean regular and established practices. The progression can be presented as concerns → projects → practices. While pursuing a specific course of action, agents can misjudge their ability as well as the cost/benefits associated with it. In either case, they have to pay a 'real' price, which in turn, will induce them to revise their projects. Thus, the internal conversation can be defined as a continuous mental deliberation in and for action (de Vaujany, 2008). As humans, Archer says, we can be both subject and object to ourselves

> through our internal conversation by formulating our thought and then inspecting and responding to these utterances, as subject to object. This process is itself the process of reflexivity; it is how we do all these monitoring, self-evaluation and self-commitment. (…) Internal dialogue is the practice through which we 'make up our minds' by questioning ourselves, clarifying our beliefs and inclinations, diagnosing our situations, deliberating about our concerns and defining our own projects. (Archer, 2003; p. 103)

To illustrate her concept of internal conversations empirically, Archer (2003) conducted twenty in-depth semi-structured interviews. This allowed her to identify three distinctive modes of internal conversations, namely, *communicative reflexivity,autonomous reflexivity,* and *meta-reflexivity,* along with two misalignments in the reflexive processes, namely, *fractured reflexivity* and *near non-reflexivity*. Importantly, the types of reflexivity identified are not personality types (Mutch 2002, 2007). Rather, Archer (2003) opted for a sociological conceptualization of reflexivity: the types of reflexivity are shaped by the interplay between the social 'contexts' and 'concerns' of agents. Put differently, internally or necessarily related contexts and concerns allow a subject's particular mode of reflexivity to emerge.

The first mode of internal conversation is ***communicative reflexivity,***where individuals conduct their internal dialogue through 'thought and talk', a process that requires 'another(s)' as interlocutor (Archer, 2003; p. 167). To complete and confirm their conversation, they always seek to rely on people with whom they share a common contextual reference point because they mistrust their lone deliberations. Communicative reflexives designate 'similars and familiars' as their ultimate concern, which is accorded an unassailable primacy, and thus invest themselves fully in the social order. Necessarily, the expression and realization of their concerns entails a deep embeddedness in a localized social context (Archer, 2003). Hence, this kind of internal conversation serves to mediate actions in the continuity of the context that they confront involuntarily (de Vaujany, 2008). Communicative reflexives can easily accommodate their subordinate concerns to their prime concern (and sometimes, their accommodations can even involve a radical subordination) to define the project that they themselves find worthwhile and workable and with which they can remain content. This self-contentment makes communicative reflexives apolitical, as they believe that the effect of extrinsic macro-political intervention will not outweigh the intrinsic satisfaction derived from their life projects. Accordingly, they tend to systematically evade structural/cultural constraints or enablements and thus reinforce and reproduce existing structures/culture (Mutch, 2007; de Vaujany, 2008).

Autonomous reflexivity is the second mode of internal conversation where individuals conduct lone internal dialogues with a performative aim. They articulate their concerns and life-projects in a relative autonomy and isolation from the concerns of others. In doing so, they exhibit a readiness (if not a desire) to move away from their initial context of involuntary placement. Like communicative reflexives, autonomous reflexives also accommodate their subordinate concerns with their primary concern of work, but follow a less concessionary ethic of accommodation. Their commitment to transformatory projects makes them much more exposed to structural (and cultural) constraints and enablements. Keen to act on social enablements, they define strategies for circumventing the anticipated constraints to achieve their aims. In that sense, autonomous reflexives are strategists who make every effort to promote what they care about most. This makes autonomous reflexives agents for change, in sharp contrast to the communicative reflexives, who are agents for stability.

The third mode of internal conversation is what Archer (2003; p. 255) calls ***meta-reflexivity,*** where individuals conduct lonely internal conversations to critically reflect on their own reflections. People exercising this form of reflexivity are idealists and show a readiness to sacrifice anything for their commitment to a certain ideal or life project: "Preoccupied with their selves (or perhaps I should say with their 'souls'), they seek self-knowledge and practice self-critique for the sake of self -improvement and self-realization" (Vandenberghe, 2005; p. 235). In searching for contextual approximations to their ideals, they evaluate the contexts in light of their concerns and *not* vice versa (Archer, 2003). Archer shows that meta-reflexives constantly subject the social contexts to critique and move on by willingly paying the objective price for re-locating themselves in different contexts, rather than compromising their concerns. As no available context ever satisfies their requirements, they are "contextually unsettled and continuously on the move, searching for a new job, a new career, a new life, or a new self" (Vandenberghe, 2005; p. 235). This makes their relationship with structural constraints and enablements unique: they are immune to the directional guidance from social structure. In other words, they subversively try to advance their projects in the face of constraints by resisting their powers, and pursue them while remaining indifferent to whether or not enablements are on their side (Archer, 2003; p. 289).

From the perspective of ICT, people are not merely static upholders of certain ideas and structures; rather, as reflexive beings, they transform or reproduce the structure (and culture) in pursuit of their life projects by using power and available resources and through forming social alliances. To understand this, we need to move on to the second phase: socio-cultural interaction. In this phase, Archer theorizes about how relations between people are capable of changing or maintaining the relations between ideas as between material interests.

Phase II: Socio-cultural interaction at T^2

From a morphogenetic perspective, the conditioning of structures (and culture) and the actions and interactions of agency take place in different time periods. The prior structural (cultural) context predisposes agents to retain the status quo or change it through their present actions and interactions. Hence, the actions and interactions of the present generation of agents are analysed in this phase. It is important to note that social interaction is not the relevant context for the correct identification of structure/culture. This calls for the application of the retroductive methodology proposed in transcendental realism, which asks what else must exist for X to be such as it is.

Just like ‘parts’ (structure and culture), we need to understand how ‘people’ is conceptualized here. Archer (1995, 2003) offers a stratified conceptualization of people as ‘persons’ (with a personal and body-embedded history) and simultaneously, as both ‘agents’ (with cultural, economic and demographic features) and ‘actors’ (related to a social group with specific vested interests and strategies). The first layer is bound within the ‘biographical realm’, while the two others are bound within the ‘sociological realm’ (de Vaujany, 2008). Archer views ‘persons’ as individual humans. In society, persons *always* belong to collective groups (which Archer terms as ‘agents’), some of which are based on factors that are determined, such as age and gender, and some of which possess degrees of freedom, such as voluntary associations (Mutch, 2002). Archer (1995; p. 257) defines ‘agents’ as “*collectivities* sharing the same *life chances,* which makes everyone an agent”. For instance, blacks/whites, males/females, foreigners/natives are collectivities and are also agents in the sense that they share similar life chances. The initial interests with which agents are endowed and the structured distribution of resources accruing to them vis-à-vis other collectivities through prior social interaction induce them to act one way or another (Ashraf and Uddin, 2013). Archer (1995; p. 256) views an ‘actor’ as “a person anchoring a particular role”, for example, teacher, manager, and so on. Actors themselves, as role incumbents, “cannot be understood without reference to agency and personhood” (Archer, 1995; p. 280). However, actors are reducible neither to persons nor to agents. They are active role makers, rather than passive role takers, in the sense that they bring the human qualities of reflexivity and creativity to any role they occupy. Thus, Archer's agents have an independent power to act. Archer (1995) attacks Giddens for restricting agents to the level of a purely social individual, removing their ability to stand outside the person and be reflexive. Her social actors include emergent personalities, which is when social expectations are imposed on any person. This enables her to separate personal and social identities, that is to say, the private consciousness is not the same as the public self, which in turn, allows for agential reflexivity (Mole and Mole, 2010).

Archer (2003) theorizes agency as a necessary mediator linking persons to actors: person-agent-actor. In doing so, she argues that two types of actions and actors can constitute a social system: 'corporate agents' and 'primary agents' (de Vaujany, 2008). Corporate agents are viewed as articulate and organized interest groups who have a particular significance as far as structural/cultural stability and change are concerned (Archer, 1995; p. 258). They pool their intra-personal reflexive deliberations and form a collective project through subjecting themselves to inter-personal scrutiny. They are a group *per se* as they have a common goal and share specific resources (de Vaujany, 2008). In contrast, primary agents at any given time are inarticulate and unorganized agents who lack any say in the structural/cultural modelling (Archer, 1995; p. 259). They are more a sum of individuals than an independent 'actor', and they have no collective project (de Vaujany, 2008). However, these collectivities without a say, though similarly placed, can also generate powerful, though unintended, aggregate effects. Their access to resources is also very limited. Unlike the strategically 'active' corporate agents, primary agents respond in a 'passive' way. However, primary agents are not intrinsically passive (i.e., incapable of acting or reacting). Corporate agents alter the context in which primary agents live, and primary agents alter the environment in which corporate agents operate (Archer, 1995).

Hence, in the strategic struggle, corporate agents elicit the support of primary agents whereby the latter may or may not be incorporated or transformed into corporate agents. At the level of corporate interaction, a range of factors come into play, such as coalition, compromise, and concession between the corporate agents themselves and the corporate agency in relation to primary agents (Archer, 2003; p. 135). These are of both kinds, and consequently, further interaction is involved between them (ibid.,p. 135). Thus, it is the practical courses of action and interaction of both primary and corporate agents that are ultimately responsible for social reproduction or change (if it happens) of a kind that does not approximate to what anyone wants (Archer, 1995). In the process of reproducing or changing the structure or culture of the society, human beings are grouped and regrouped in a process that Archer calls '*double morphogenesis*'. For example, in a morphogenetic or change scenario, the number of corporate agents representing diverse interests will progressively expand, leading to the corresponding shrinkage of primary agents. The shrinkage in primary agents is partly due to their mobilization to join burgeoning promotive interest groups and partly due to the formation of new promotive social movements and defensive associations.

Phase III: Social elaboration at T^3

The result of social interaction in T^2, as conditioned in the prior structural and cultural context of T^1, is the structural, cultural, and agential change or reproduction at T^3. However, the conditional effects are only tendential and contingent in nature. Hence, the kind of explanation that the morphogenetic approach proffers takes the form of analytical histories of emergence, for the society is an open system (Archer, 1995; p. 194). In Archer's view, the conditioning link between phase I and phase II is the *vested interests* of agents, which confront them with different *situational logics* for their attainment (ibid., p. 296). Next, the link between phase II and phase III is *exchange* and *power*. Put differently, the exchange transactions of resources and of power relations are the two factors responsible for social elaboration in terms of either morphogenesis (change) or morphostasis (an absence of change). Each vested interest group has certain resources at its disposal that are used to transact exchanges with others to attain their goals. The resources exchanged are categorized into three types: liquid assets, political sanctions, and expertise (Archer, 1995; p. 295). The rates of exchange vary over time, for they are socially determined through interaction. Corporate agents, having vested interests in promoting change, will tend to organize the mobilization of resources at their disposal to change the status quo. The primary agents whose projects are being obstructed will have no incentive to turn into corporate agents; conversion into corporate agency calls for the mobilization of sufficient resources and alliance with other groups to mount a decent challenge against the vested interest group. The ultimate negotiating strength depends on the amount of resources mobilized and the relations between the resource-mobilizers. If sufficient resources are brought in, and if those trying to bring about a change are sufficiently organized, then a change is likely to take place (Ashraf and Uddin, 2013).

According to Archer (1995; p. 306), culture influences structure, and structure also influences culture, always through the medium of social interaction. This implies that, at the level of social interaction, there is a cultural penetration of the structural domain, and structural penetration of the cultural realm. The former, the penetration of ideas into the material structural domain, occurs because the difference between legitimatory and oppositional ideas plays a significant role in most social struggles and transactions. Collectivities or groups can endorse a particular set of ideas, theories, or beliefs for the advancement of their (structured) material interests. Such cultural capital provides them with ideational backup and differential material rewards in the fight for structured material interests. The interplay of material (structured) interests and their ideational backup or opposition is of utmost interest in organization theory (Willmott, 2000; p. 108). The discursive success of one set of ideas helps to account for the victory of the group (or collectivities) advancing it, when structured factors alone cannot explain this outcome. The latter, that is, structural factors finding their way into the cultural field, occurs because the advocacy of any set of ideas (theories or beliefs) becomes associated with a particular material interest group for the continuous saliency of ideas (Archer, 1995; p. 307). However, such an association with the structurally dominant group is not without cost. First, it socially restricts the universal appeal of ideas (ibid., p. 307), and second, it eventually stimulates structural hostilities. This is because an ideational group being associated with a specific material interest group implies that there will be readymade enemies in the structural field who are willing to find allies in the cultural realm (Ashraf, 2011; p. 119).

To summarize, while this section provides a detailed overview of the theoretical framework adopted in this research, the next section elaborates upon how it could be applied to study CG practices and change.

4.2.2 The extension of the morphogenetic approach with internal conversation theory: an explanation of change or absence of change in CG practices

The preceding section describes the extension of Archer's (1995) morphogenetic approach with the internal conversation theory (hereafter ICT) as the theoretical framework of this research. The objective of this section is to describe how this particular theoretical framework can be used to study CG practices and change.

As mentioned earlier, this extended version of the morphogenetic approach views the social world as the interplay between structure and agency, and attempts to explain social reality by providing an analytical history of their emergence. In this research, the social reality requiring explanation is the changes, if any, in the CG practices in the context of reform. For the purpose of this research, 'CG' is defined as the comprehensive set of norms primarily concerned with transparency, accountability, and control to ensure that decision-making agents (i.e., directors, managers) act in accordance with the interests of capital providers (i.e., shareholders) of PLCs[46]. Essentially, it covers the role and structure of the BoD and its sub-committees, relationships with shareholders and managers, accounting and information disclosure, external auditing, internal control, and compliance.

In this regard, a model (shown in Figure 4.2) has been developed that applies the theoretical framework in the context of change in CG practices.

[46]The objective of Corporate Governance Guidelines (2012) is to enhance CG in the interest of investors and the capital market.

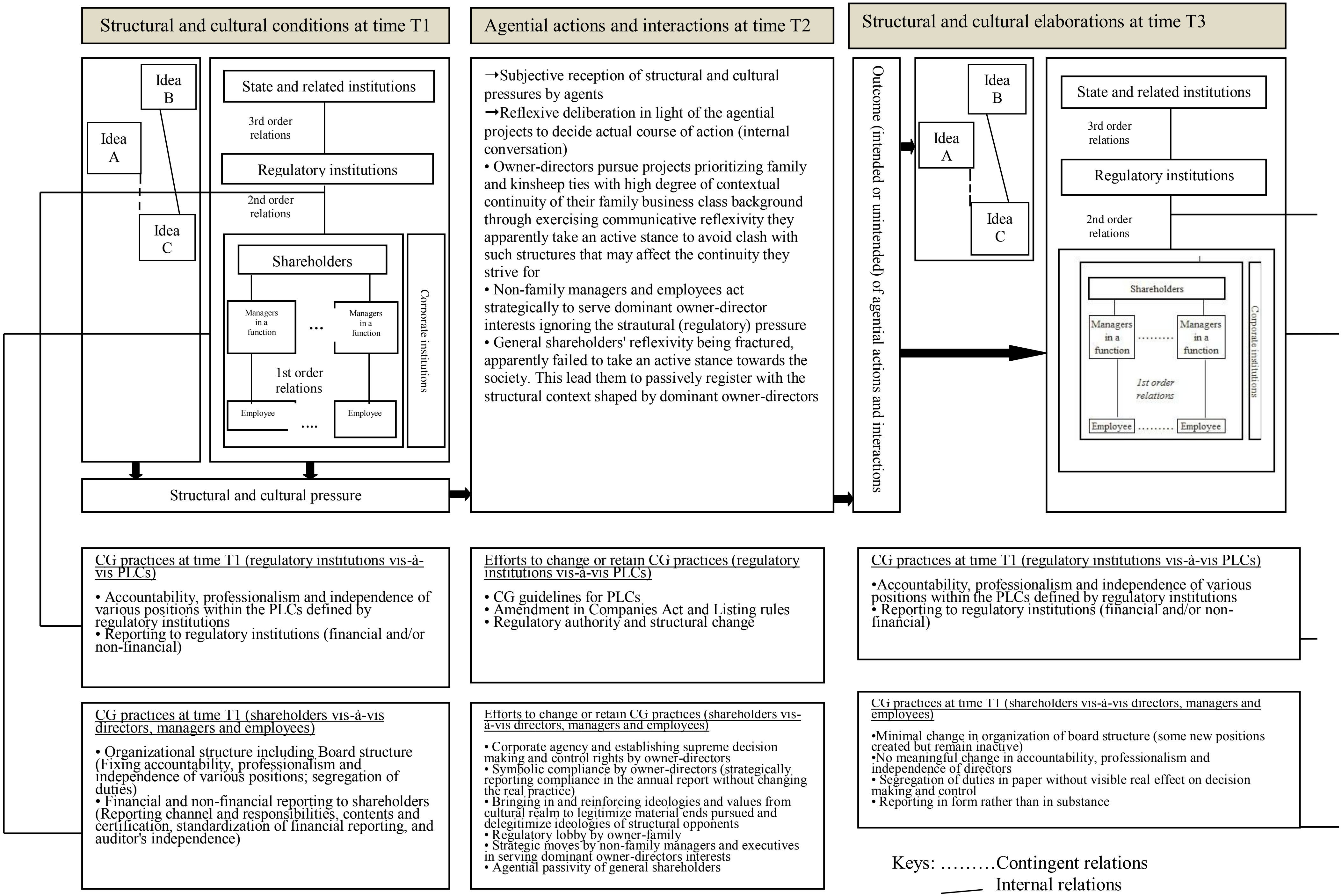

Figure 4.2: Corporate governance change model [based on Ashraf (2011)]

As an organizational practice, CG predominantly involves the relations between material resources, both physical and human; as such, it operates in the realm of 'structure' only. However, as Archer (2003) theorizes, 'culture' or the 'world of ideas' can also come into play in initiating a change in CG practices or maintaining the status quo. Theoretically, to explain the elaboration (change or an absence of change) in current CG practices (at time T3), it is necessary to track back through the social interaction (at time T2) responsible for their elaboration to locate its origin in a prior structural/ cultural context (at time T1) that conditioned who was involved in the change and how the change took place. Hence, the first step in making sense of change in CG systems is to identify the prior structures and culture existing in time T1. This involves the identification of necessary internal relations between institutions (in the realm of structure) and ideas (in the realm of culture) related to CG systems.

As per the model, the 'corporate' institution includes a whole array of roles (shareholders – BoD – management - employees), associated resources (company premises, financial resources and technology), and rules and regulations. This 'corporate' institution can stand firm in the necessary and internal relationships with other institutions and thus form structure(s). In Bangladesh, 'corporate' institutions are internally and necessarily linked with the 'regulatory' institutions (BSEC, ICAB and ICMAB). For example, BSEC would not have been formed had there been no listing requirements for companies. These regulatory institutions do not operate in isolation, but are linked with higher level institutions, such as the state. Here, the institution of 'state' can exist without 'regulatory' institutions, whereas the latter cannot exist without the former. Hence, the relationship between 'state' and 'regulatory' institutions is that of internal necessity. However, institutions are not necessarily all related with one another internally. There may be institutions that are externally linked as well as institutions that have no link at all. The heavy economic dependence of the state in the post-independence period often allowed international donor and aid institutions to work as a pressure group to reform the CG frameworks in Bangladesh. These two institutions, i.e., state and international funding bodies, are externally linked. They are not internally linked, as each can exist without the other. According to the morphogenetic theory, all the internally and externally linked institutions form a social system that agents confront involuntarily.

In relation to the CG system in Bangladesh, three orders of internal relationships can be found among the associated institutions. The first-order relations between capital providers, management, and employees are affected by the broader second-order relations in terms of the vested interest associated with various positions of corporate institutions, the available resources, and the relative bargaining power of the agents holding those positions. Again, the second-order relations between the corporate and regulatory institutions operate within the broader third-order relations involving the state and related institutions. For example, regulatory institutions operating in a corrupted state tend to exhibit a particular type of vested interests and power, which in turn, can be expected to affect the interests, power, and resources associated with the positions within the corporate institutions (first-order relations). Thus, CG practices at the organizational level can be expected to exhibit the influence of higher second- and third-order relations. Ashraf (2010) notes how the management control practices in public sector entities, whereby senior managers are not concerned about economic efficiency and the intensification of labour, are a function of second- and third-order relations within which the first-order relations are working.

Each of the above internally and necessarily linked institutions form separate structures. Structures have emergent properties in terms of causal power, and Archer (1995) theorizes about how they provide directional guidance for agential actions and interactions. In the realm of structures, according to her theorization, contradiction between institutions, depending on the relations of internal necessity or contingency, predisposes agents towards compromise or elimination. For example, Ashraf (2010) uses the instance of a typical capitalist system in which the first-order relations between the superiors and subordinates is that of contradiction. Senior managers' success is to bring labour costs down, whereas labourers' interest is to obstruct such success. In such situations where two internally linked positions exhibit contradiction, agents would tend to follow a strategy of 'compromise'. The nature of the position holders of this compromise will be influenced by the power and resources available at their disposal (e.g., labour skill), broader second and third order relations (e.g., state policies, such as labour welfare and redundancy laws), and other contingencies (e.g., labour supply and demand, availability of new technology).

Similarly, in a typical capitalist system, different functional areas are externally or contingently related and can exhibit a relation of contradiction (Armstrong, 1985; 1987). For example, the positions of the director of marketing and the director of finance are contingently related (Willmott 2000). According to Archer (1995), when contingently related positions exhibit contradictions, then a strategy of 'elimination' is more likely. Competition between the various professions (Armstrong, 1987) or rivalry amongst functions within an organization (Ezzamel and Burns, 2005) over the years is a reflection of a strategy of 'elimination' being followed in the fight among the structured vested interests. As stated earlier, from a morphogenetic perspective, complementarity between institutions, depending on the relations of internal necessity or contingency, predisposes agents towards protection or opportunism. The literature has shown that in developed countries, the nature of regulatory institutions, professional bodies, stock exchanges, and other institutions essential for CG and their relations with the state, are not same as in their less developed counterparts. In Anglo-Saxon contexts, these institutions are self-regulated and relatively free from state interference (Greenspan, 1998), whereas state interference and the lack of autonomy of these institutions often affect the development of a rational CG framework in many LDCs (Lee, 1994; Dyball and Valcarcel, 1999; Dyball et al., 2006). Hence, the relation between the state and the regulatory institutions is that of internal complementarity.

Key institutional players in such situations are likely to protect each other in pursuit of their structural vested interests. For example, in Bangladesh, the government/ Ministry of Finance is the appointing authority for the top officials of the SEC, which is the main CG regulatory body of the country (Siddiqui, 2010). This, in turn, may predispose the SEC officials to protect the interests of the government elite. Again, like many other LDCs, the Bangladesh government stands in a relation of contingent contradiction with international funding and aid institutions (World Bank, IMF, ADB) because of its economic dependence. According to Uddin and Choudhury (2008), the contradiction lies between the development agenda of these international funding institutions to diffuse a rational CG framework and the existence of a traditional mode of CG practices in DCs. Due to this contradiction, international funding institutions have an interest in changing the traditional CG practices. Theoretically, the structural configuration of a contingent contradiction predisposes the key players towards opportunism. Hence, the international funding institutions' incentive and pressure to adopt the Anglo-Saxon CG framework can motivate the government of Bangladesh to change the traditional framework in line with their expectations. As reported by Uddin and Choudhury (2008), the government, via the Ministry of Finance, attempts to interfere and influence the regulatory institutions, often at the behest of international funding bodies. Understanding these relationship dynamics or the structural matrix is essential to identify the structural pressures on various agents operating within the system at time T1, which predispose them to act in a certain way (either to change or retain the system). In Archer's terms, it is the structural conditioning of agential action.

Culture, 'the world of ideas', has emergent properties and can also provide directional guidance for agency in exactly the same manner as structures (Archer 1995). Agents can draw on ideas from the cultural world to legitimize their actions at time T2. For example, there is an idea that public sector entities should be run solely for the purpose of public welfare without discrimination, i.e., equity (Politt, 1990). However, another set of ideas (popularized in the discourse of new public management) suggest that economic efficiency and cost effectiveness are of utmost importance for public sector entities (Politt, 1990). These ideas, according to Archer's (1995) theory, are contingent (invoking one does not involve invoking the other) and logically contradictory (equity versus cost efficiency) (Politt, 1990). In any case, at time T1, these ideas have an independent existence and can condition the actions of agents at time T2. For example, in Wickramasinghe and Hopper's (2005) study, the idea that labourers of the same ethnicity as their supervisors should be treated 'leniently' will have a conditioning effect on the supervisor's behaviour and thus shape the kind of management controls in place.

According to Archer (1995), structural (material) and cultural (ideational) emergent properties can exist independent of the agent's knowledge about them and yet still condition their actions. However, contingencies can alter them. Contingencies can affect lower (first order) or higher (second or third order) relations. A change in higher order relations can cascade down to the lower levels. For example, economic pressure felt by the state is an instance of contingency affecting higher-order relations and the resulting actions, e.g., a change in state policies, can be expected to create a ripple effect, which can come all the way down by changing first-order relations. "New public management" is an example of such change in state policies, and its impact on the management control at organizational level is well documented in the accounting literature (Laughlin and Broadbent, 1993). Sometimes, the pressure on higher-level relations is so immense that it changes entire social systems, e.g., economic pressures brought about a change in the social system of the Soviet Union (Joseph, 2002). Changes in first order relations can move upwards affecting the entire relational dynamics. An example would be that of a strike where the workforce is asking not just for adjustment at the level of the first order, but is questioning the entire social system and trying to effect a change in it. They can also remain unexercised due to a variety of intervening contingencies.

The structural and cultural emergent properties at time T1 condition the actions and interactions of agents at time T2. It is the agency (i.e., the actions and interactions of agents) at time T2 that leads to structural and cultural elaboration, either change or stasis, at time T3. However, Archer's (1995) morphogenetic model allows for few means by which to understand how structures constrain or enable agency (de Vaujany, 2008) and how changes in structure actually take place. It was also to overcome these weaknesses that Archer (2003) put forward the ICT, wherein agency is conditioned, not determined, by structure. This means structures shape the social situation that agents confront involuntarily. Put differently, structures determine social costs (material or psychological) and give premiums to certain actions (F.-X. de Vaujany, 2008). As mentioned previously, agents operating at different levels in the relational matrix subjectively weigh the costs and premiums. They also weigh the effect of contingencies that can strengthen or weaken their position (e.g., economic and aid dependence of LDCs has strengthened the position of international funding agencies in their economic and policy agenda). Miscalculations may result in a high price having to be paid. Agents can then conform to the conditioned action, diverge and accept the cost, or display an inventive capacity and circumvent the constraints posed by the structures (Archer, 1995). Hence, Archer's agents have reflexive capacity, and their actions are not determined by objective structures and culture. Through a continuous mental deliberation in and for action, in Archer's (2003) terms, 'internal conversation', agents subjectively reflect upon their engagement with the structures and culture. They reflect upon the structural (cultural) pressures and contingencies in light of their life projects and contribute to structural and/ cultural reproduction (stability) or transformation (change). Theoretically, agents whose life projects benefit from the existing structural arrangements will have incentives to maintain the status quo, while others will prefer change. However, not all agents confronted with the same structures will act in the same way. In explaining the change, it is therefore necessary to identify what it is that brings some agents into collision with the existing structures and leads them to seek change, while others, placed in the same structural context, remain content with the existing arrangements. According to Archer (2003), it is agential reflexivity that needs to be addressed to explain why some agents seek to change structures and to understand how the change actually takes place. Archer (2003) identifies three distinctive modes of agential reflexivity, namely, communicative reflexivity, autonomous reflexivity, and meta-reflexivity and identifies two misalignments in the reflexive processes, namely, fractured reflexivity and near non-reflexivity.

Communicative reflexives, having mistrust in lone internal dialogues, turn to others to conduct their internal conversation. They deliberately and firmly identify their prime concern with inter-personal relations (e.g., family and friendship) and accordingly conceive of life projects within their initial context of involuntary placement. For them, in most cases, the context receives more importance than the project. Hence, the type of internal conversation that they engage in serves to mediate actions in the continuity of context and thus reproduces existing social structures and cultures. In this way, they actively evade (i.e., do not activate) structural constraints and enablements. This, in turn, makes them 'agents for stability' (Archer, 2003; p. 254).

Unlike communicative reflexives, *autonomous reflexives* conduct lone internal dialogues with a performative aim. The personal project is more important to them than the context, and in pursuit of that project, they strategically activate structural constraints and enablements. They deliberate about strategies for riding the enablement and for circumventing the constraints. Their sense of opportunism tends to result in structural (cultural) transformation; hence, Archer (2003; p. 254) defines them as 'agents for change'. Mutch (2007) shows how the notion of 'autonomous reflexivity' provides a helpful approach to the issue of agency bringing in institutional change compared to the new institutionalists' notion of 'institutional entrepreneurship'. A historical case of the formation of innovative managerial practice, specifically, that of Sir Andrew Barclay Walker, the driving force behind the brewers Peter Walker and Son, was explored. Conventional understanding of 'institutional entrepreneurship' would explain the change as an outcome of Mr. Walker's change project and would argue that his occupation of a particular subject position in the very context within which he operated enabled him to successfully promote change. Mutch (2007) raises two concerns regarding this. First, he argues that those positions were available to others as well, but they did not take advantage of them. It is here that Archer's conceptualization of the autonomous reflexive suggests why it is that some take advantage of particular 'subject positions' (Maguire *et al*., 2004) while others do not. Second, the notion of 'institutional entrepreneurship' places too much emphasis on the willed and conscious change rather than viewing change as a consequence, intended or unintended, of the pursuit of personal projects. As Mutch (2007) confirms from this detailed historical case study, it is the pursuit of his own life project that brought Mr. Walker into conflict with the established practices and led him to seek change.

Meta-reflexives, as agents, are idealists. Accordingly, they define their life projects based on those ideologies and preserve a high degree of rigidity about the project by rejecting any form of compromise. They try to advance their projects in the face of any constraints by resisting such powers and pursuing their projects with indifference to whether or not enablements are on their side (Archer, 2003). Instead of responding to structural pressures strategically, they willingly pay the objective price and thus preserve their projects.

As theorized by Archer (2003), practitioners of all the three modes of reflexivity are '*active* agents' having the power to deliberate internally upon what to do in situations that they confront. In her terms, these are the individuals who have the capability to take a 'stance' towards society. '*Passive* agents' are just the opposite, i.e., those who do not have any active personal 'stance'. Here, taking a 'stance' means that agents direct their personal powers towards social powers in a systematic manner, which facilitates the achievement of their ultimate concerns. Thus, as Archer (2003) confirms from her interviews, communicative reflexives systematically *evade* structural constraints and enablements, autonomous reflexives act *strategically* toward them, and meta-reflexives behave *subversively* by absorbing the structural costs of their actions. However, not everyone in a society achieves an active personal 'stance'; neither is such an achievement a once-and-for-all matter. In her view, any type of *fractured reflexivity* can deprive the individual of an active 'stance'. Hence, fractured reflexives are passive agents. Their powers of reflexivity have been either temporarily suspended as they are moving from one mode of reflexivity to another or have even been completely impeded, as is the case of 'poor Jason', a homeless delinquent, whose subjectivity appeared to have been suspended as a result of heavy drug use (Vandenberghe, 2005). Archer (2003) actually defines the latter case as a sign of *near-nor reflexives*. These are the individuals who are even less capable of exercising reflexivity than those whose reflexivity has somehow been fractured, that is, people who barely hold internal conversations. For both fractured and near-nor reflexives, internal deliberations do not work as a guide to action, and hence they are at the mercy of their environment. From a more theoretical point of view, they are the Humeans of the positivists and critical theorists who have forfeited control over their own life and can only passively register what happens to them (ibid., 2005; p. 236).

As found from the extensive review of the CG literature, empirical attempts to capture agency in explaining CG practices is still rare. However, the notion of agential reflexivity from the perspective of ICT can fill this void. Therefore, this theory has been a subject of growing interest in IS research (Mutch 2002, 2003, 2007; Smith, 2006). However, most of this literature is theoretical. Only one paper, de Vaujany (2008), was found that applies ICT to grasp sociotechnical reflexivity, i.e., reflexivity related both to social actors and technical artefacts, and that thus makes sense of sociotechnical change in an IS environment. This paper, based on interviews with different ICT users, finds that most of them did not fit easily into a single category, but noted that "depending on the kind of technology they were discussing (e-mail system, Groupware, specific Intranet tools, etc.), many interviewees evinced several kinds of internal conversations (see the internal auditor). The same person could thus be communicative in his/her interaction with email, autonomous with the Groupware technology, and meta-reflexive with the Web" (de Vaujany, 2008). This paper also finds necessary the addition of an extra category of reflexivity, namely, hyper-reflexivity, and calls for further research along this line.

Any permanent and radical change in CG systems will be definitely linked with changes in the structural conditions. In an effort to maintain the status quo or bring about changes in the structural conditions, agents can draw ideas from the cultural world at time T2, thus legitimizing their efforts in the structural arena (Willmott, 2000). For example, senior managers in family-owned PLCs maintain the culture of 'family and kinship ties' in different aspects of management and decision making in an effort to override rational CG mechanisms, thereby legitimizing their traditional CG practices (Uddin and Choudhury, 2008). Similarly, in Wickramasinghe and

Hopper's (2005) case study, agents legitimized high absenteeism by emphasizing that their indigenous 'way of life' did not fit well with the 'discipline' expected in the factory. Again, in pursuit of their interests, agents can subjectively reinterpret the ideas (and actions) of opposing groups (Hodson, 1995). For example, the labour in Arnold's (1998) case study, redefined the management's 'Factory with a Future (FWF)' programme as a 'Factory with a Fence' programme, thus challenging the management's definition of the concept.

The outcome of agential action and interaction in time T2 is the structural and cultural elaboration at time T3 resulting in either morphogenesis or morphostasis. As mentioned earlier, morphogenesis implies a change, while morphostasis is an absence of change. Changes in higher (third and second) order relations are expected to bring about radical changes in lower first-order relations. This was the case in Uddin and Hopper's (2001) research, whereby economic pressures (contingencies affecting third-order relations) caused the state to change its policies *vis-à-vis* public sector entities, thus privatizing the firm under study. The second-order relations were changed due to this privatization, which subsequently altered the first-order relations. The changed first-order relations (changes in the vested interests of positions, resources etc.) brought about radical changes in the management control practices at the organizational level. On the other hand, Wickramasinghe *et al*. (2004) consider a case whereby, even though there were economic pressures on the state, its actions did not bring radical changes in the second-order relations. However, there were changes in the first-order relations because of the actions of an agent who held a different ideology about firm management. Subsequently, there were some changes in management control practices. The resistance of the labour, who drew their power from broader second- and third-order relations, however, brought about a reversal of management control practices. Similarly, Ashraf (2011), in his thesis, presented an interesting case of management control change in a public sector entity. The change resulted from a morphogenesis of first-order relations, where the broader second- and third-order relations remained largely unchanged. Theoretically, application of the morphogenetic approach allows him to identify the 'deep' layers of reality responsible for changes manifested at the empirical level of management control practices. However, what appears to be missing in his explanation is an in-depth consideration of agential interest and reflexivity. Such a consideration would allow him to explain why agents confronted with the same structural (cultural) conditions do not act in the same way. For example, in this particular case, the Prime Minister, Mr. Shaukat Aziz, was the main instigator of change and ordered the entity to change its management control practices. As stated in the thesis, "Nothing else had changed much in the larger structure of the state and its institutions when Shaukat Aziz became the prime minister of Pakistan" (Ashraf, 2011). Consideration of agential reflexivity and interest could help to identify what it was that made Mr. Aziz an instigator of change, while other prime ministers (who had been prime minister before him and who had faced the same structural conditions) appeared to have not taken any such initiatives.

To summarise, application of the ICT allows to address the critical questions raised in this thesis and thus come forward with a more nuanced and subtle explanation of change (morphogenesis) or absence of change (morphostasis) in CG systems

4.3 Research Methodology

This research grew out of an interest in the current lack of focus on CG practices and change in the context of CG reforms in existing CG research. Researchers and policy makers appear to be more concerned with the compliance and functional aspects of resolving conflicts of interest between shareholders and managers. Concerns about the lived experience of CG and actual practice have been fed more recently by critical and interpretive scholars like Uddin and Choudhury (2008), Ahrens *et al*. (2011), and Ahrens and Khalifa (2013). To address the research interest, critical realism is embraced as the philosophical standpoint. Such a focus on critical realism requires a rigorous methodology for data generation and analysis.

Whereas the previous two sections described the philosophical underpinning and theoretical framework of this research, this section gives a detailed account of the research methodology, i.e., the data collection and analysis techniques.

4.3.1 Data collection

As mentioned earlier, this research seeks to analyse CG practices in the listed PLCs using Archer's (2003) ICT with the aim of explaining the changes, if any, therein. Methodologically, this theory requires researchers to divide the analysis into three distinct phases: social conditioning, agential actions and interactions, and social elaboration. Accordingly, empirical data for answering the research questions (see chapter 2 for the specific research questions) are collected, keeping in mind the requirements of each of these three analytical phases.

Interviews, documentary survey and archive material, and observation are used as data collection methods[47]. Clearly, there is no one-to-one relation between a data collection method and Archer's three phases (Ashraf and Uddin, 2013). This implies that one method

[47] This inevitably leads to methodological triangulation (Hammersley, 2008).

can be used to collect data about two or even all three analytical phases. The data collection method used in any phase will be discussed once in relation to that phase to avoid repetition of the same discussion in subsequent phases. That is to say, if an explanation of a certain data collection method(s) has been given in phase I, it will not appear in phase II, or if it has been explained with respect to phase II, it will not be repeated in phase III (ibid., 2011: p. 132). Essentially, the third phase, i.e. social elaboration, will be quite brief, as details of the research methods will have been covered in earlier phases.

Phase I: Structural and cultural conditioning

Methodologically, the first step in explaining CG change is to identify the prior structures and culture that condition the actions of the present generations of agents (e.g., owner managers, BoD etc.). To identify the underlying structures, the typical line of questions asked by critical realists could be useful: "What does the existence of this object (in this form) presuppose? Can it exist on its own as such? If not, what else must be present? What is it about the object that makes it do such and such?" (Sayer, 1992: p. 91). Such questions necessarily call for the application of a retroductive mode of inference, which is the hallmark of critical realism (Danermarket al., 2002). According to this mode of inference, the researcher tries to identify the deep transfactual conditions that must be present for the actual/empirical phenomena to take place. This can be done by producing *a priori* hypotheses about the nature of structures and subsequently testing them through an empirical examination of their effects. This normally takes the form of tracing actions back to rules and then to structures (Sayer, 1992; p. 112).

To identify the structures, the question that needs to be answered at this phase is 'What must have been present for certain types of CG practices to have existed in the PLC in pre-reform era?' This involves tracing back the origin of actual/empirical CG practices at the level of the real situation. Interviews with senior company officials are an important source of data for the identification of underlying structures, whereby they were asked about their actions (CG practices) and rational for those practices. Details of these interviews are discussed in phase II. The process of understanding the CG practices and regressing from these practices to the underlying relations is used to identify the structures at work (Sayer, 1992).

According to methodology texts on critical realist research (Sayer, 1992; Archer, 1995), it is not always possible to learn about structures from interview responses. This is because structures can exist independently of the agents' knowledge about them. It may be the case that the interview respondents had no awareness of the structures at work (Ashraf and Uddin, 2013; Stergiou et al. 2013). Hence, an extensive documentary survey was used in corroboration with the above interviews to capture data about structures. In this respect, the documentation examined includes company annual reports, accounting and CG regulations, prospectuses for IPO, memorandum of association and articles of association, reviews of company rules and regulations, formal organograms, agenda papers and minutes of board meetings, company web sites, web sites of non-capital financing bodies, regulators and stock exchanges, and reports published in newspapers and electronic media. In examining these documents, attempts were made to note down the family history of the founding owner-managers and to track the power and interests associated with the positions those family members held in the companies. This facilitated the much needed understanding of how first order-internally linked positions (shareholders, managers, BoD, auditors etc.) within the companies favour one type of agent over another in terms of resource distribution and constraints or how they make possible a certain type of agential actions. Identification of the relationships inside the companies (between different collectivities and positions) and outside the companies (between the companies and other institutions, such as the SEC), along with the associated rules and resources, was meant to enable us to understand the structural dynamics. This was expected to facilitate the understanding of the vested interests of the positions and collectivities, and the logical course of action towards which the structural dynamics were pushing the position holders (Ashraf and Uddin, 2013; Stergiou et al. 2013). Theoretically, the first-order relations between those positions (shareholders, managers, BoD, auditors etc.) in companies do not operate in isolation from broader macro level second- (corporate institution vis-à-vis regulatory institutions) and third-order relations (regulatory institutions vis-à-vis the state). Therefore, data about those relations were also collected to set the companies in the wider structural and cultural context in which they were operating. In this respect, through reviewing the relevant literature, attempts are made to understand the broader legal and politico-economic conditions of Bangladesh within which PLCs do business. Essentially, this warranted a historical form of inquiry. This review covers various commentaries of analysts on the political and economic conditions of Bangladesh and reports of different national and international social activist groups, aid institutions, and other organizations (e.g., CPD, BEI, ROSC). The websites of these institutions were accessed to collect relevant reports. Information can be collected from print (e.g., newspaper reports) and electronic media. To understand the CG regulatory environment, some additional documentary evidence/archive material, such as BSEC notifications, the Companies Act 1994, the Bangladesh Bank Ordinances, and other legal documents and relevant institutional websites (e.g., BSEC, DSE, Ministry of Commerce) are used. The review of all these documents/archive materials was conducted with specific reference to the identification of a wider structural context surrounding the PLCs in Bangladesh. Interviews with senior officials from regulatory institutions (e.g., BSEC, RJSC) and government employees in the Ministry of Finance are another important source of information about the wider structural environment. It was expected that the interview findings, along with the above documentary evidence, would help provide a clear view of the wider structural context of PLCs in Bangladesh.

From the perspective of ICT, it was methodologically necessary to investigate the cultural/ideational context, i.e., the ideas and concepts related to CG, in the pre- and post-reform era. As mentioned previously, ‘ideas and concepts’ or ‘culture’, like structures, can exist independently of organizational actors’ knowledge and predispose them towards specific courses of action. The locus of these ideas is partly in the minds of individuals, but most importantly, many of these ideas are found in various documents, e.g., manuals, policy and procedure documents, laws and text books etc. (Willmott, 2000). As mentioned in section 4.2.2, various international funding agencies (such as World Bank, ADB) and local private think tanks (e.g., BEI) have played an instrumental role in promoting awareness about CG issues and practices in Bangladesh. The state, accounting professional bodies, and academia, also play an important role in this respect. To understand how these institutional players provide the ideational context within which the present agents (those agents holding positions in the companies) operate and seek to change or maintain it, some more interviews were planned, in addition to the abovementioned interviews and documentary survey. In this respect, the target respondents were personnel from international funding institutions (e.g., World Bank, ADB) and local private think tanks (e.g., BEI), members involved in key decisions of the two main professional accounting bodies (the ICAB and ICMAB), as well as researchers and senior members from academia and. Attempts were made to elicit their views on CG in emerging economies. In addition to the abovementioned documentary survey, various institutional web sites, press releases, and electronic media coverage were a useful source of data.

Phase II: Agential interactions and actions

As theorized by ICT, present CG practices emerge from the agents’ interaction with past structures and their actions.To have an explanatory purchase on the strategies and actions of agents operating within the PLCs, it is important to include agential subjectivity in the research design. According to Archer (2003), whenever agential subjectivity is excluded from the research design, sociology has to settle for empirical generalizations about 'what most of the people do most of the time'; in her words:

> Indeed, without a real explanatory handle, sociologists often settle for much less: 'under circumstances x, a statistically significant number of agents do y'. These, of course, are not real explanations at all. They are a retreat into Humean 'constant conjunctions', from which a causal mechanism linking the two cannot be derived. (ibid., 2003: p. 133)

To capture agential subjectivity, as per ICT, we need to understand the concerns and life projects of agents (particularly owner managers), how they subjectively reflect upon the objective structural situations in light of their life projects, and how they accomplish the trajectory concerns→projects→practices, through their internal conversation. Methodologically, Archer's (2003) formulations of distinctive modes of internal conversation were derived from in-depth interviews with living subjects. Accordingly, the data needed to capture agential subjectivity and their mode of internal conversation were collected through interviews with the owner CEO/chairman of the board of directors and executive directors (particularly those executive directors that had kinship or some sort of ties with the dominant owner family members), non-executive director, senior managers, senior officials from the internal audit team and members from the external audit team, senior accountants, and general shareholders of different PLCs. Agents (except general shareholders) holding these positions within the company were asked about the oversight and monitoring role of the borad, issues related to AGM, financial and nonfinancial disclosure to shareholders, dividend policy, and the status of internal control and external audit. Their interaction with CG regulatory institutions was also investigated during the interviews. Inside the company, given that the tone of CG practices depends largely on the top level directors, it is particularly important to understand the life projects of agents in the position of executive directors (who are close family members of the founder CEO/owner manager in most of the cases) to reflect on how they came into contact with the structures in pursuance of their life projects, engaged in internal conversations to decide about the actual course of action, and then sought to change or maintain the projects through their individual and collective actions. As they were extremely busy people, access to these agents for the purpose of conducting interviews was challenging. Individuals that had some social, local, and professional ties with these agents were interviewed to give an idea about their life projects and mode of internal conversation. However, Archer (1995: p. 116) counsels us against relying solely on the words of participants themselves. Therefore, this research has also used archive material (e.g., interviews and views available in the electronic and print media), documents, and other forms of evidence formulated for an entirely different purpose and has examined such sources closely, since the agents could not be interrogated directly (Mutch, 2007).

To track the interaction of the PLCs with the regulatory institutions, it was decided that interviewing agential players inside the PLCs would not be enough. Hence, key officials of the regulatory institutions, such as BSEC, RJSC and DSE, were also interviewed. The critical issues discussed with these respondents included the recent CG reforms and the rationale for such reforms, in particular, the adoption of western CG frameworks, compliance issues, and their opinion and experience in this regard. Some more documentary/archive evidence (such as legal proceedings of BSEC against PLCs or directors) has been used to supplement the interview findings. It was expected that this would facilitate our understanding of the strategies, actions, and interactions of agents inside the companies to adopt or resist the CG reforms (in essence, changing or maintaining traditional form of CG practices).

I managed to conduct oral history interviews with two founder owners to reflect on how their agential power as an entrepreneur in connection with structural and cultural conditions shapes the CG practices in a particular setting. In general, the aim was to encourage the participant to speak personally and at length about their lives as the founder owner of the PLC, while at the same time, covering the issues (e.g., interviewee's life project) that the interviewer is interested in for the purpose of the research.

More on the interviews and data triangulation

After devising the theoretical constructs in advance of data generation through interviews, I had to determine how the interviews should be handled. I had to turn my research interest to a set of themes to be explored during the interviews, and consequently, designed and piloted a few interviews. Initially, I conducted five pilot interviews along with an extensive documentary and literature survey in the form of exploratory research. At that stage, the interviewees were selected on the basis of my convenience in terms of managing access. Having carried out some preliminary analysis, I was keen to follow the snowball sample process from the initial sample and to interview individuals who had been referred to by some of the first-stage interviewees. In all, I managed to conduct 26 semi-structured interviews[48], two group interviews, two oral history interviews, and six non-participant observations. The interviewee profile is presented in Table 4.3 below.

Interviewees	No of interviews
Agents holding position in structural domain 3 (or third-order relations)	5
Agents holding position in structural domain 2 (or second-order relations)	7
Agents holding position in structural domain1 (first-order relations)	14
Total	26

Table 4.3: Interviewee profile

To aid the interview process, interview guides were developed and revised. A sample copy of the interview guide is attached in Appendix 1. The interview guides were used flexibly as an

[48]Included are five pilot interviews.

aide memoire to be adapted as necessary. Most of the interviews were carried out during January-September 2013 in venues that took into account participants' convenience. Only five interviews were tape-recorded. In my experience, when the interviewees were told about tape-recording, they seemed to feel reserved, whereupon it became difficult to engage them in the process, and they used to respond with a simple 'yes' or 'no'. In the later interviews, in the interests of obtaining raw data about CG practices, I deliberately avoided tape-recording the interviews to allow the participants to feel more comfortable. To supplement the data, notes were taken during the interviews. The participants were assured that there would be complete confidentiality and that the data would be fully anonymised. The interviews lasted between 30 to 90 minutes, on average. With the exception of three, all of the interviews were in Bengali, the native language in Bangladesh. Given the time constraint of PhD research, I had to be selective in transcribing the interviews into English, which is one of the limitations of this research. Related to this is the risk that the findings may be conflated with the researcher's own understanding or interpretations of the interviews' comments in the process of translation. The details of the limitations of this research are discussed in Chapter 7.

All the interview questions were open-ended and semi-structured so that respondents could provide their views through a 'free-flowing' discussion. Semi-structured interviews seemed appropriate, as they have the potential to elicit in-depth information that is generally difficult to obtain through other approaches (such as a questionnaire survey), especially when the subject matter is regarded as complex, confidential, or sensitive (Liew, 2008). Moreover, it is a less restrictive and prescriptive method than structured interviews, as it permits adjustments to be made and allows the researcher to develop further interesting lines of inquiry that might arise during the interview (Easterby-Smith, Thorper, and Lowe, 2001; Marginson, 2004). Care was taken, as some of these issues were sensitive to many of the interviewees given the position they held. This was handled during the interviews via asking indirect questions. In addition, data triangulation helped in this regard.

The original usage of 'triangulation' in social science refers to checking the validity of an interpretation based on a single source of data by recourse to at least one further source that is of a strategically different type (see Hammersley, 2008). As argued by Denzin (1970), triangulation does not necessarily involve combining different methods of data collection. For example, triangulation may involve comparing interview data from several witnesses of an event (who played different roles within it or who had a varying interest at stake in what is believed about it), or it may involve comparing observational data from various settings that have a bearing on the same knowledge claim[49] (Hammersley, 2008).

Phase III: Structural and cultural elaboration

As in ICT, the agential actions and interactions lead to either structural/cultural morphogenesis (change) or morphostasis (absence of change). In this phase, the main task is to identify the current structures and the culture that have emerged from the actions and interactions of agents and assess to what extent, if any, they imply a change. Theoretically, either change or absence of change is obviously an outcome, intended or unintended, of the organized and aggregate efforts of different agents, but the outcome depends on who brings what to the table. Accordingly, data collection efforts at this phase focus mainly on different agents and the transactions between them to bring about changes in the CG practices following the CG reforms or to maintain the status quo at any cost. The primary source of information in this research was again interviews, the details of which have already been discussed in phases I and II.

4.3.2 Data Analysis

[49] This relates to Denzin's distinction between within-method and between-method triangulation (Denzin, 1970, p. 301)

This study adopts a thematic approach of qualitative data analysis. Not surprisingly, thematic analysis is conducted within the realist tradition; it involves searching across a data set - be that interviews, focus groups, or a range of texts - to find patterns of meaning, whether semantic or latent (Braun and Clarke, 2006; and Boyatzis, 1998). Braun and Clarke (2006) differentiated between semantic and latent thematic analysis. According to them, with the semantic approach, themes are identified within the explicit or surface meanings of the data, and hence the analyst does not look for anything beyond what a participant has said or what has been written. In contrast, thematic analysis at the latent level goes beyond the semantic content of the data to identify or examine the underlying ideas, assumptions, and conceptualizations that are theorized as shaping or informing the semantic content of the data. Although the latter tradition came from a constructionist paradigm, nevertheless, it has been used in the realist tradition (Campbell, 1988; Hammersley, 1992; Manicas, 1987; Putnam, 1990; Maxwell, 1990; Willig, 1999). This research embraces the latent approach.

Thematic analysis involves a number of key phases, the first of which is data management. Typically, this phase started with data familiarization and identification of some descriptive categories and themes from the data set. It necessarily involved the production of initial codes from the data (see Table 4.4for an example of codes assigned to a short segment of data).

Data extract	**Coded for**
For each meeting, there are some more or less common agendas, and they are recorded in the minutes. However, if you read these, you will find that nothing important is discussed, and the contents [in minutes] are consistent over time. (Interviewee AC1)	□ AC meeting □ Agenda and decision making

Table 4.4: Data extract, with codes applied

Coding is part of analysis (Miles and Huberman, 1994), as the data are organized by the researcher into meaningful groups (Tuckett, 2005). However, as Braun and Clarke (2006) emphasize, coded data usually differ from the units of analysis (themes)[50], which are often broader. In this research, the coding was done systematically throughout the entire data set. These codes were then sorted into potential categories (or sub-themes) with consideration of how they might combine into overarching themes. The outcome of this process was summarized in a thematic index, excerpts from which are included in Appendix 2. Of particularly importance in this research was to capture the agential reflexivity. With that aim, a theory-driven thematic index was also developed. Amongst others, life story/ oral history interviews were particularly useful at this stage. Excerpt from the thematic index (Theory-driven) is presented in Figure 4.3.

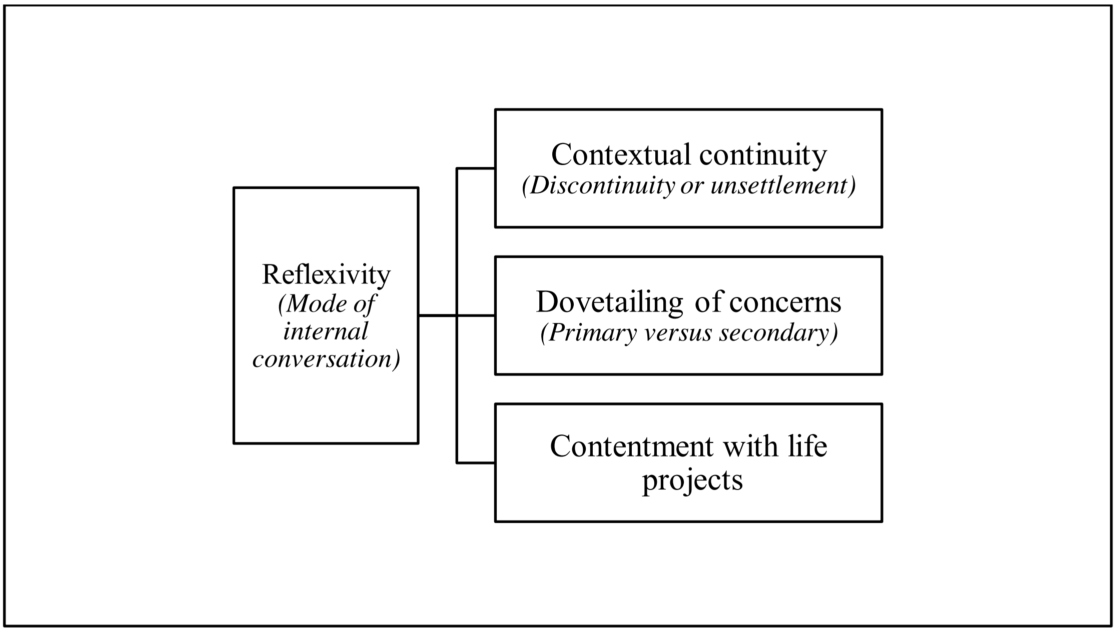

Figure 4.3: Excerpt from the thematic index (Theory-driven)

The second step in data management is indexing, which involves the application of categories and themes to the data. In this research, the data (interview comments, for example) once indexed, were then sorted and synthesized under key categories or themes. This was followed by the production of a thematic chart, which contained synthesized and

[50] Since the overarching themes were planned to be 'theory-driven' (Boyatzis, 1998), coding was done considering this fact, though the codes were to a greater extent 'data-driven' at this stage (Braun and Clarke, 2006). This is indeed a reflection of the epistemological position of CR. The authors warn against the coding of data in an epistemological vacuum.

summarized data in a matrix-based form. The framework could then be used as a data management tool, as it allowed me to sort and summarize the voluminous and messy raw data according to key themes. Excerpts from a sample thematic chart are included in Appendix 3.

After completing the data management phase, I moved on to a more interpretive stage, aiming to produce both descriptive and exploratory accounts. This logically involved searching the thematic chart, reflecting on categories and refining them, and developing more abstract 'analytical constructs'. Examples of such constructs include structural conditioning (Section 6.1 of Chapter 6), structural interactions (Section 6.2 of Chapter 6), and structural elaborations (Section 6.3 of Chapter 6). Drawing upon these constructs, I framed my analysis. As such, these constructs were built upon the theoretical framework adopted in this research and used as analytical building blocks. While the themes[51] were to a greater extent grounded in the data set, organizing those themes into analytical typologies (or constructs) has allowed me to tell coherently a theoretically informed story of change in CG practices in the context of reforms. Having constructed a combination of analytical building blocks, during the writing-up of the analysis (see Chapter 6), I sought to illuminate the pattern of association (that is, the causal mechanism in a critical realist sense) by deploying the logic of retroduction and abduction (Modell, 2015). Causality in critical realism entails the identification of structures as generative mechanisms. Unpacking the generative mechanisms necessarily depended on the production of a priori hypotheses (or tentative statements) about the nature of structures and associated contingencies. The previous literature became useful in this regard.

[51]Braun and Clarke (2006) argue that even when themes are developed inductively (bottom-up approach), researchers in real life cannot fully free themselves of their theoretical and epistemological commitments.

The interview comments quoted in the text were not 'cherry-picked' in support of certain arguments. I argue that the theoretical framework (discussed in section 4.2 of this chapter) and data triangulation served as a safeguard against the researcher's arbitration in this regard. During the writing-up stage, I had to deal with the tension between my interpretations of the data extracts and allowing the interviewees' own understanding to speak for them. Quoting extensively and supporting the overarching themes by excerpts from the raw data allows the reader to link my interpretations to the words of my interviewees. Prior research argues that interviewees' reflections conveyed in their own words strengthen the credibility of qualitative research (Patton, 2002). While the data set used in this research is undoubtedly time and context bound, the detailed account of data collection, triangulation, and the (theoretically informed) analysis process would enable the reader to replicate this research at varying times or contexts. The explanatory account provided in the thesis is an outcome of rigorous analysis. Arguably, though, this has granted the research theoretical validity[52] (Maxwell, 1992) and given it wider relevance. However, readers still need to make a qualitative judgment by (a) looking in detail at both the context of this research and the context where the findings may be applied, and (b) judging whether the analysis and interpretations of this research can help make sense of another context.

Concluding words

In summary, the chapter has three main sections. The first section outlines the basic tenets of critical realism with a focus on why it is used as an underpinning philosophy in this research. Existing CG research tends to be predominantly concerned with the positivist stance (see literature review in Chapter 2), which confines research only to the surface-level of reality. I

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[52]The applicability of the concept of validity presented here does not depend on the existence of some absolute truth or reality to which an account can be compared, but only on the fact that there exist ways of assessing accounts that do not depend entirely on features of the account itself, but in some way relate to those objects (structures) that the account claims to be about (Maxwell, 1992).

argue that critical realism could allow the researchers to dig deeper into the reality. Against this backdrop, the second section of this chapter comes up with the theoretical framework: internal conversation theory (ICT). While providing a detailed overview of ICT, this section also develops a theoretical model to explain CG change. The final section of the chapter deals with methodological issues related to the research design, triangulation, and analysis. Here, I have attempted to provide a clarification of the step-by-step approach of thematic analysis. In turn, the chapter exhibits the rigour of this qualitative research. Outlined is the elaborative process of analysis that integrated data-driven codes with theory-driven ones building on the tenets of critical realism. The process demonstrated the analysis of the raw data generated from the data triangulation progress towards the identification of underlying themes, ideas, structures, or causal mechanisms that captures the reality of CG practices as well as the lived experiences of CG in Bangladesh. The degree of clarity of the theoretical framework and the process of analysis offered in this chapter is expected to address the credibility issues and typical limitations of qualitative research.

To conclude, this chapter discusses why and how critical realism is used as the underpinning philosophy for this research, the theoretical rigour of ICT, and the associated research methodology applied to answer the research questions. The next chapter (Chapter 5) addresses the first research question, i.e., it describes the CG practices of the listed Bangladeshi PLCs in the context of recent CG reforms.

Chapter 5
Empirical Findings

The objective of this chapter is to present the empirical evidence collected to answer the first research question. As mentioned earlier, the first research question is: What form of CG practices emerges in the listed PLCs following the CG reforms in Bangladesh and to what extent does this signify change, if any? As shown in Figure 5.1, 'CG practices' in this research encompass the operation of the board of directors, the audit committee and internal control, financial reporting, audits and transparency, and annual general meetings.

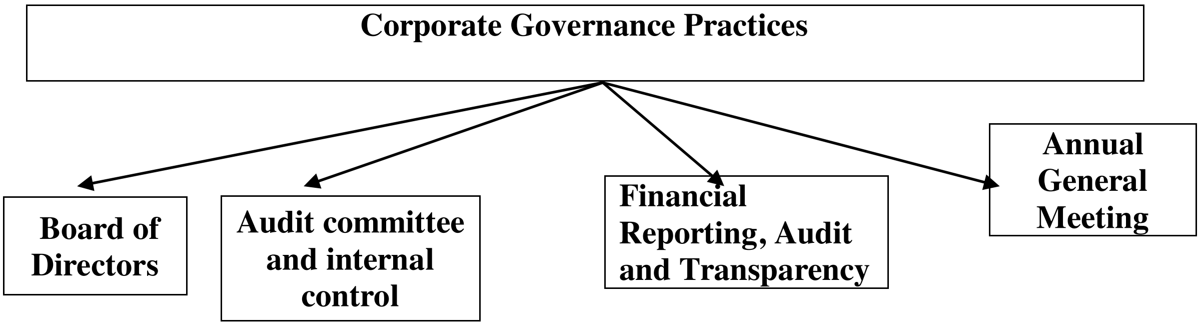

Figure 5.1: CG practices

As mentioned earlier, the empirical concerns of this research are to provide insights into CG practices and change in the context of CG reforms. Since the major change efforts were directed in the abovementioned areas, this research also focuses on them. The major change efforts and agenda for change are summarized in Table 5.1. The remainder of this chapter discusses them in detail.

Table 5.1 Change efforts and agenda of change of regulatory institutions

Areas of CG practices	**CG practices before the change effort**	**Change effort**	**Agenda of change**	**CG practices after the change effort**
Board of directors (BoD)	-Board size (at least 3 directors) -No independent	-Issuing mandatory CG code	-Board size (5 to 20) -Appointment of ID (at least 1/5 of total no of	Change in form rather than in

	director (ID) -Dual role of chairman and CEO -Directors' report to shareholders -No annual report (AR) disclosure on director shareholding, appointment/re-appointment -No audit committee (AC) -Board meeting attendants	-Amendment of the Companies Act, 1994 -Drafting new Companies Act	directors) -Splitting the role of chairman and CEO -Additional statements and certification in directors' report -Additional AR disclosure for director appointment/re-appointment -Formation of AC as a sub-committee of the Board of directors -ownership threshold for sponsors	substance
Annual General Meeting (AGM)	-General provision on the conduct of AGM	-BSEC rules and regulation	-Submitting full video recording of AGM proceedings -No gift to general shareholders -Right to demand poll in AGM -Right of EGM by 10% consent	
Financial reporting and auditing	- No specific provision on non-audit services (NAS) provided by statutory auditor - No provision on auditor rotation - No certification by CEO and CFO of the integrity of financial reporting - No review of financial reports by AC -No specific provision for CFO appointment -No interim financial reporting requirement	-Amendment of the Companies Act, 1994 -BSEC rules and regulation -ICAB's self regulation -Issuing mandatory CG code -Changing listing rules	-Restricting NAS provided by statutory auditor -Strict provision on auditor rotation -Certification by CEO and CFO on the integrity of financial reporting -Submission of quarterly F/s to regulatory authority -AC's review of the financial reporting and audit	
Internal control and audit (ICA)	-No specific provision on the appointment of head of internal audit	-Issuing mandatory CG code	-Strict provision on the appointment of head of internal audit	

5.1 Board of directors

The Board of directors (hereafter BoD) essentially is a determinant for CG, since it has wide access to information and decision-making authority in PLCs.

5.1.1 Ownership structure and board composition

In general, the ownership structure of stock-exchange listed PLCs features small individual shareholdings with significant family holdings. In some companies, the sponsors hold the 'majority' stake; that is, they own more than 50 percent of the total outstanding shares. There are also PLCs in which the sponsors own less than 50 percent of the total outstanding shares and thus have a 'minority' stake. Ownership of listed PLCs is dominated by families because most of them are sister concerns of business groups that had originally emerged from family-run private companies. Even now, the majority of the groups are not listed on the stock exchanges. However, many opted for a public offering of their sister concerns, which became public limited companies.

Interview evidence suggests that sponsor-family members, being the promoters, tend to form the initial BoD and establish family control over the decision making and resources of the company. Family controls have a significant implication for overall CG practices, and in particular, for the practices of BoDs in local PLCs. Often, family members got themselves directly involved in the day-to-day management. The large numbers of general (non-family) shareholders tend to remain totally ineffectual and apathetic. Apparently, this gives sponsor directors absolute control, enabling even amendments to the memorandum of association or articles of association to be achieved with relative ease. In essence, they emerge as the 'controlling' owners, leaving general shareholders in the position of 'non-controlling' owners. The interview evidence and annual report disclosures about board members suggest that boards in local PLCs are mostly composed of 'controlling' owners, who have direct or indirect family relations. Until now, there has been no such mechanism to represent general (non-controlling) shareholders' interests in the boardroom except the provision of the appointment of independent directors (hereafter ID).

The revised CGG (2012) limits the board size to 5-20 directors, with at least one fifth of them as independent directors or IDs. Here, 'independent director' means a director (a) who either does not hold any share in the company or holds less than one percent (1%) of the total paid-up shares of the company; (b) who is not a sponsor of the company and is not connected with any company sponsor, director, or shareholder who holds one percent (1%) or more of the total paid-up shares of the company on the basis of a family relationship. In addition, his/her family members should not hold the abovementioned number of shares in the company; it should be noted that spouse, son, daughter, father, mother, brother, sister, son-in-law and daughter-in-law shall be considered as family members; (c) who does not have any other relationship, whether pecuniary or otherwise, with the company or its subsidiary/associated companies; (d) who is not a member, director or officer of any stock exchange; (e) who is not a shareholder, director, or officer of any member of the stock exchange or an intermediary of the capital market; (f) who is not a partner or an executive or was not a partner or an executive during the preceding three years of the concerned company's statutory audit firm; (g) who is not an independent director in more than three listed companies; (h) who has not been convicted by a court of competent jurisdiction as a defaulter in payment of any loan to a bank or a non-bank financial institution; (i) who has not been convicted of a criminal offence involving moral turpitude.

5.1.2 Appointment of Directors (both executive and IDs) and their role

Under the Companies Act 1994, directors are appointed by the annual general meeting (AGM) of shareholders for a period not exceeding five years whereupon, their appointment is not automatically renewable. The IDs are also supposed to be appointed in an AGM at the proposal of the board (CGG, 2012). Thus, a general meeting of shareholders legally appoints the directors. In practice, however, active shareholder participation in director nomination and election does not seem to take place. Furthermore, the nomination process does not appear to be transparent. Consistent with the empirical literature, interview findings reveal that directors are nominated in an informal manner, often depending on the will of the sponsor-family head. Candidates so nominated are by default elected in the AGM (the AGM practice will be discussed later in this chapter). All respondents, including the sponsor directors, reported that directors are appointed on the basis of family and kinship ties instead of binding principles on accountability and professionalism. Most of the directors are a direct family member (wife, son, daughter, brother, sister, father) of the company's founder. In some companies, non-family members are also found on the board; nonetheless, they have a business or other relationship with the founder's family, as the interviewees confirmed. This is supported by the literature on director appointment in the emerging economy context (Uddin and Choudhury, 2008).

Though recent CG reform has exerted a significant effect on board independence and professionalism, there appears to be a genuine lack of ideational and structural space for accommodating different ideologies and principles. Over time, the board practices have evolved by producing founder-family directors as the dominant controlling authority within the companies. Ideologically, these directors tend to view companies as their family property and are reluctant to share their control. Even interviews with some shareholders seemed to suggest that they are comfortable with family directors. Apparently, such a culture inhibits the appointment of professional directors who have no family and kinship ties. An ideological contradiction lies between the dominance of family directors nurtured by cultural considerations and the rational requirements of regulatory institutions on board independence and professionalism. In reality, the synthesis of the traditional family culture and the Anglo-Saxon form of a rational CG framework has developed a consensus among the controlling directors that the only way to legitimize their position is to show compliance instead of changing the board practices.

5.1.3 Board meeting (frequency, process, formality) and decision making process

By law, the board is the top administrative organ and governing body of a company. Wide powers have been vested in the board with regard to the direction and governance of companies in the companies Act 1994 (CA'94). In addition to this, it is evident that most articles of association tend to grant a specific mandate to company boards on a wide range of issues. Importantly, these powers are given to the directors as a body and not to any individual director. Hence, the directors have to act as the board in a meeting for exercising their powers. In general, all the major decisions relating to company matters, even in regard to those for which approval of the shareholders in a general meeting is required, have to be authorized in a board meeting. For example, the company cannot legally borrow money, invest its funds, and make loans to other companies without such resolutions being passed in a board meeting. In that sense, the board meeting can be considered as the most important meeting of the company.

The CA'94 has laid down certain provisions on board meetings and decision making. Under those provisions, a director, and the secretary on the requisition of a director, may, at any time, summon a meeting. The board meetings are required to be chaired by a chairman elected by the directors. The directors shall determine the period for which the chairman can hold office. If at any meeting, the chairman is still absent thirty minutes after the scheduled time, the directors present may choose from one among them to act as the chairman provided that the managing director (MD) and the chairman should not be the same person. Decisions in board meetings are supposed to be made by simple majority votes of the directors present. In the case of an equal number of votes, the chairman shall have a second casting vote. However, the CA'94 requires a unanimous resolution of directors for making certain decisions (e.g., the appointment of the MD). Each director has one vote for each resolution put to vote at the meeting, irrespective of the number of shares held by him. In making decisions, it is the duty of the directors by law to act in the best interests of the company and its shareholders and to exercise due care.

Empirical evidence on board meetings and the decision making process in Bangladesh is limited. Only one paper, Uddin and Choudhury (2008), provides some detailed evidence of boards' decision-making process. In this research, though an attempt was made to get insight into actual board meetings through direct observation, access was denied. However, interviews with board meeting participants (company secretary, IDs, family directors) and a relevant documentary survey (annual reports, agenda and minutes of board meetings, articles of association, and written by-laws on the duties and responsibilities of directors and senior management etc.) provide substantial evidence on board meetings and the decision making process.

In practice, board meetings and decision making may vary from company to company depending on the board leadership structure. In general, the founder chairman appears to be a genuine irremovable 'monarch', who plays a critical role in the decision-making process though decisions are supposed to be made by the majority's consent. As a common practice, the chairman forms the Executive committee (EC) including the MD and a few other active directors. Thus, the EC consists of active directors of the company under the leadership of the chairman. Particularly, this appears to be the case where the chairman is the head of the founder family of the business group. There are also companies where the MD, often an immediate family member, takes the leadership. Sometimes, though not usually, a professional manager with no family ties gets appointed as MD; nevertheless, he is someone who has won the family's trust. This was evident in one company run by second and third generation family members. Decisions on important business matters are often made during informal EC meetings (or sometimes a business chat between the chairman and the MD could be treated as an informal meeting), which are, by default, approved in the board meeting. As one family director commented:

> *Often my brother (current MD) discusses important business matters at the lunch table with my father and finalizes decisions. These decisions were supposed to be in the form of resolutions passed by the board by a majority vote. Officially, these will be rubber stamped by the board anyhow, but a formal board meeting does not always take place.*

The informal aspect of decision-making is also clearly apparent in the following director's comment:

> *It has long being a practice in our company that the chairman and MD sit with senior management every month and thus supervise and follow up the implementation of strategic decisions. Indeed, crucial decisions are made in those meetings. Of course, formal board approval is needed for legal reasons, but the board as a group does not always make decisions.*

It is important to note here that while the EC as such does not exist in all PLCs, a similar function exists. For example, as is evident from the above comment, the meeting of the chairman and the MD with senior management could be viewed as an EC meeting. In some companies, particularly banking companies, the EC is more frequent and is more formal:

> *All major strategic and day-to-day business decisions are handled by the EC. I am a senior EC member, and I have already had a chat with the audit firm for next year's audit. We will get it passed in the next AGM scheduled to be held in a couple of months' time.*

A substantial amount of the day-to-day managerial responsibilities and execution of board/EC decisions are delegated to the MD. In essence, he is the chief of the management or Chief Executive Officer (CEO). In most cases, the MD happens to be an immediate family member (son, daughter, brother) or a trusted individual. The initiative of drawing up the agenda of board meetings tends to lie primarily with the MD. In practice, voting hardly ever takes place, as the respondents confirmed. In fact, most of the directors (other than the EC members) remain inactive. Except for attending the statutory board meetings, they seem to play a minor or no role in the decision making process. In that sense, board meetings appear to be no more than a mere formality. In many PLCs, the frequency of the board meeting does not even exceed the minimum legal/statutory requirement. Board activities appear to be largely dominated by the rubber stamping of management decisions. This is evident in the following comment made by the senior manager of a large pharmaceutical company.

> *As far as the BoD is concerned, it's mostly dominated by sponsor family members and their acquaintances. One or two directors are basically making the decisions. Our BoD hardly ever gives the strategic direction to the company in any true sense. It is only the sponsor directors who at times take an interest to give some direction if it is*

sought by the management. We [executive management] are running the company without much interference and guidance from the BoD. In fact, in my entire career, I haven't seen any board meeting, unless it is for a legal requirement, nor heard of any meeting where the BoD sit together to decide. What I have seen occasionally is the founder comes to discuss with the top executives and managers.

Mandatory provision on splitting the functions of the MD and the chairman exists in the revised CGG (2012). One BSEC commissioner has argued that splitting is required for two reasons: to restrict absolute control over decision-making and to allow independent managerial evaluation to take place. However, it can be reasonably perceived that companies in which the chairman and CEO both are related through family ties, there is little chance that this aim would be achieved. In practice, even after the functions have been split, the chairman tends to have unfettered control over decision making in real terms. All material decisions are centralized in the chairman and the MD. In reality, MDs perform a dual role: as directors they are involved in board matters, while as executives, they are responsible for the operation and daily execution of board decisions.

As was evident in most of the local PLCs, the active family directors, led by the MD, get themselves directly involved in the day-to-day management of the company under the direction of the chairman. Essentially, these directors, being the owners of the company and being directly involved in management, are in a position to exercise sufficient countervailing power. Often, such power tends to allow these directors to gain privately at the cost of general shareholders' interests. As reported in World Bank ROSC (2009), the incidence of related party transactions and insider trading is common and remains undisclosed due to the abuse of power by the owner directors. Instead of representing the interests of general shareholders and actively monitoring management on their behalf, directors tend to represent their family interest and interfere in management to serve their vested interests, as several respondents said during the interviews.

5.1.4 General shareholder representation on the board and the role of IDs

It is argued that an effective representation of IDs on an insider-dominated board can raise general shareholders' concerns in the boardroom, reduce controlling owners' opportunistic behaviour, and thus contribute to strengthening CG in the interests of investors and the capital market (BEI, 2004; World Bank, 2009; CGG 2006, 2012). Moreover, this will allow the board, as a group, to marshal the core competencies considered relevant in the context of each company. Accordingly, the recent regulatory emphasis is on board independence in general and independent directors more specifically. Similarly, independence in relation to the controlling directors has been seen as a remedy to the typical CG problems (expropriation of general owners' rights by controlling owners, abuse of power) of family-owned PLCs.

Since compliance with the revised CGG (2012) is mandatory, PLCs have no option but to comply. The interviews and the annual report disclosures provide sufficient evidence of a trend toward increasing the proportion of IDs who are unrelated to the controlling owners. However, the IDs in some companies seem to have a past or current directorship and/or managerial positions in other companies of the same group. According to the claim made by one senior BSEC official, "*Previously, some PLCs might give such appointments on the ground of lack of candidates meeting the prescribed independence criteria, but this scenario is rapidly changing due to our rigorous oversight efforts*."

Despite a reportedly strong regulatory oversight of board independence, the task of establishing an active and independent board is largely one for individual companies to undertake (OECD, 1998). Put in the context of family-owned PLCs, this means that actual board practice is at the mercy of the company-specific initiatives of dominant owner directors. As is evident from the interview findings and a brief resume of directors disclosed in the annual reports, those recruited as IDs often tend to be friendly with the dominant owners even when the BSEC's strict independence criteria are met. Such an appointment process, which is unduly affected by cronyism, might be expected to result in IDs compromising their independence. Indeed, the appointment of IDs in the board has rather resulted in a comfortable network of close ties and cosy relationships, as the respondents confirmed. IDs interviewed informed that they were invited to join boards by personal acquaintances and that they regard it as an act of honour and friendship that is hard to resist: *"I could not turn down the board's invitation. It's my school friend's company".* When asked about the main challenges of IDs, the respondent's answer was, *"To speak truly,I found nothing challenging. All I need to do is to attend the quarterly board meetings and sign some documents."*

According to the interview findings, the extent to which IDs serve general shareholders' interests in real terms and can perform their independent oversight responsibilities appears to be questionable. Many IDs talked about the practical limitations of their job. For example, one said that "*IDs can never be the champions of shareholders' interests at board level. We don't have any defined job responsibilities.*" In a similar vein, another ID talked about board culture: "*The culture is different. Sponsors have a powerful position on the board. We can at best work in an advisory capacity. The financial reports and information presented in board meetings are controlled by them*." The comment of another ID echoed much the same opinion: "*Directors, their relatives, and known ones command the majority of voting strength. Usually, they have a prior understanding, so formal voting does not take place. My point is, even if we were to veto, it would not make any difference*."

To date, the actual role played by IDs appears to be insufficient to reduce or at least flag up owner directors' opportunistic behaviour. This is evident in the following comment of one ID: "*We have to judge insiders based in the information they provide us. It is close to impossible to achieve a sensitive understanding of business and accounting numbers by attending only the quarterly meetings*."

5.1.4 Board committees

The annual report disclosure on audit committee (hereafter AC) indicates that it is already well established in Bangladesh. Other board committees, like the remuneration and nomination committee, do not exist in Bangladesh. AC practices are discussed in section 5.2 below.

5.1.5 Director remuneration, governance and performance evaluation

The data on director remuneration are limited, since listed PLCs are not legally bound to disclose director remuneration; it seems that no company discloses information on remuneration policies and benefits. However, the interview findings seem to suggest that performance-based remuneration of directors is still rare in local PLCs. In fact, it appears to be a family decision, which is approved by the board by default. For example, company secretaries interviewed confirmed that the MD and other executive directors get a board-approved remuneration package.Regarding typical family director's remuneration, one CFO said, *"Family directors are guaranteed to receive a bulky pay package and fringe benefits, as they are the controlling owners. With no exception among other local companies, their* *remuneration is in no way performance-related."* For IDs, local PLCs tend to rely on non-performance related pay. Without mentioning the amount, the IDs interviewed said that they received an honorarium per board/AC meeting.

In insider-dominated boards, where the directors have the ultimate decision making and controlling power, it is not surprising that few formalities exist in practice for directors' own governance. Except for one company, none of the other companies have terms of reference for the board including how the board sees its own role and how it will govern itself. Performance evaluation of the board, either in its totality or individually, does not seem to happen in practice. Indeed, family directors interviewed showed a high level of scepticism about the value of performance evaluation. In this context, a change in culture is not evident so far. One family director shared his opinion on performance evaluation as follows: *"We are the owners. Unlike salaried managers, we have more to lose as well as to gain. Since we work with that sort of dedication, formal performance evaluation has not been needed so far."*

5.2 Audit committee and internal control

According to the revised CGG (2012), all listed PLCs should have an AC as a sub-committee of the BoD. The AC should assist the BoD in ensuring that the financial statements reflect a true and fair view of the state of affairs of the company and in ensuring monitoring within the business, and the AC will be responsible to the BoD for their duties set forth in writing. The AC should be composed of no fewer than three directors with at least one independent director. One of the independent directors will be selected as the Chairman of the AC, who should have a professional qualification or knowledge, understanding, and experience in accounting or finance. Under current regulations, the AC should immediately report to the

BoD about conflicts of interest; suspected or presumed fraud or irregularity or material defect in the internal control system; suspected infringement of laws, including securities related laws, rules, and regulations; and any other matter that should be disclosed to the BoD immediately. The AC should even report to the BSEC if any of their recommendations are unreasonably ignored. Reports on activities carried out by the AC should also be disclosed in the annual report. All these regulations are more or less similar to Anglo-Saxon CG models.

One of the main functions conferred on the AC is overseeing the integrity of FR. In compliance with this, the AC chairs are staffed with financially literate and qualified individuals who meet the independence criteria set by the BSEC. Other AC members are insiders, particularly those having a direct or indirect connection with the family owners. When asked about their roles, they unequivocally emphasized the legal requirement to send quarterly unaudited financial statements and half yearly audited financial statements to the BSEC and stock exchanges as reviewed by the AC and approved by the BoD. As a usual practice, members get a meeting pack (which contains an agenda and interim financial reports) during the AC meetings. Managers/company secretaries in charge of arranging the AC meetings reported that AC meetings are scheduled taking into consideration any upcoming board meeting, and never on an ad hoc basis because "*they [family directors] are busy and often travel abroad. So the timing of board and AC meetings is set keeping in mind their availability*", as one company secretary commented.

My findings suggest that the AC's functions in listed PLCs are centred on the quarterly AC meetings. The frequency of the meetings rarely exceeds this minimum legal requirement. In the meetings, the members' role seems to be limited to reviewing the FR and making reports to the BoD for the approval of the quarterly reports. Typical AC reports to the BoD contain reviews of the ratio analysis of the financial performance and compliance with the relevant FR standards. Substantive issues on risk assessment, internal control, and external audit do not seem to form a part of the AC reports to the BoD. One ID commented, "*I am sitting on three boards. I have never found my colleagues discussing issues like internal control weakness, risk assessment etc., in AC meetings.*" In many cases, these reviews are not even discussed during the AC meetings. One secretary in charge of arranging the AC meetings commented that draft review reports prepared with the prior approval of the MD are presented in the AC meetings and the AC rubber stamps those without any material modification. Similar involvement of the MD or trusted insiders on what goes to the AC is clearly evident in the Bangladeshi context. Confirming that the meeting's agenda is entirely set by internal management, one head of internal audit:

> *Again, I will say compliance matters. Our MD normally deals with internal and external audit-related matters and he is also an AC member. Formally, these issues are rarely discussed in AC meetings. I mean, I have never seen that. You may know that the revised CG guideline (2012) has made strict provisions on AC members' roles and responsibilities, particularly the reporting of AC activities to the BoD and shareholders. We are reporting full compliance in the annual reports. Quarterly AC meeting agendas are prepared in light of the guidelines, and subsequently, minutes are maintained.*

The same is echoed in the following comment of the AC chair:

> *For each meeting, there are some more or less common agendas, and they are recorded in the minutes. However, if you read these, you will find that nothing important is discussed, and the contents [in minutes] are consistent over time.*

It is also evident from the interviews with IDs (who legally chair AC meetings) that formal ICA reporting to the AC is still a rare practice in Bangladesh. Auditors (including audit managers and senior partners of audit firms) who carry out the auditing of listed PLCs talked about the limited involvement of AC members in substantial AC roles, like enhancing the external audit quality, monitoring auditor independence and the auditing process to oversee the management and FR. An audit manager, with audit experience in several local companies, expressed his concern regarding cultural issues in the following way: *"This is a small industry; mutual benefit and interest do exist. As an audit manager, I have never found any AC involvement in audit-related matters yet."* As discussed before, major strategic and operational decisions are handled by the EC (consisting of active directors), which have superseded formal AC roles. As one founder EC member said, *"I have already have a chat with the audit firm for next year's audit. We will get it passed in AGM."*

Owner directors apparently are reluctant to allow the proper functioning of ACs. Often the positions in the AC are staffed with carefully selected individuals. As one sponsor director commented regarding the AC appointment practice in his company: "*We are forming the AC just for compliance. We select those who will listen to us".* Thesame view is echoed in the following comment of another founder chairman: *"In my company, the AC can be influenced to do whatever we expect. It's not that big a deal, as we have [family] dominance [on the board]."* 'Toothless tiger' and 'puppet committee' are the commonly used metaphors for the AC. As one AC chair appropriately put it, *"Known and related individuals always get priority [in the AC]. The terms of reference are not formally defined. So, from my experience, I would say that the AC is a toothless tiger*." In addition, the meetings are kept short, preferably lasting no more than one hour. As mentioned previously, members get an honorarium for attending and conducting the meetings. In the absence of any potential litigation risk and reputation impairment, the AC members interviewed exhibited their reluctance to discharge their responsibilities effectively. The following is the comment of one AC chair: *"Yes, you will see big names [to chair the AC]. But who cares? They [owner directors] are the least bothered. I mean, it's their business; they know it inside out. When they don't feel the need for AC oversight, who am I to make a difference!"*

Separate departments or functions for the ICA do not seem to have been common in Bangladeshi PLCs before 2006. Listed PLCs were required to adopt the ICA function or department under the provisions of the CG code (2006) on a 'comply or explain' basis. The CA'94 never required a separate ICA; however, the recent CG Code (2012) makes ICA mandatory and goes further by requiring listed PLCs to appoint a separate head of ICA (HIA). The new regulatory requirement has some impact on ICA: more and more PLCs are hiring HIAs to exhibit compliance. According to a World Bank survey, the compliance rate was as high as 92 percent in respect of ICA (World Bank, 2009).

My interviewees talked about the organizational tradition whereby family owners often give employment based on nepotism and favouritism. It was clearly evident during the fieldwork that most of the top management positions were staffed with trusted individuals, most often those who were direct family members. Interviewees holding managerial positions argued that a truly formal and properly structured ICA department did not exist in their companies. As a common practice, the owner managers tend to maintain informal communication channels, in addition to formal ones with their trusted employees, that keep them well informed about internal matters on a regular basis. The ICA practices in listed PLCs seem to take place through those communication channels. The following comment of a second-generation family owner suggests that formal and structured ICA practices rarely exist in listed PLCs.

> *Even if I, as finance director, approve a project, the CFO will not execute it without informing my father [current Chairman] formally or informally. Due to such close supervision and monitoring, a separate department [for ICA] in a structured manner does not exist, truly speaking.*

In one company, the finance manager claimed that a separate department of ICA existed before the recent mandatory requirement. This was indeed a case where the owners were less involved in the day-to-day management. However, in all cases, the ICA seems to work formally and informally for the MD (head of management) and reports to him or her instead of to the BoD/AC. As one CFO commented:

> *From time to time, our MD at his discretion authorizes specific personnel to conduct investigations into certain areas of the operation. Besides that, he has other internal sources of information.Sometimes, informal communication channels are more powerful than the formal ones.*

The BoD/AC does not seem to have any involvement in the appointment, remuneration, or dismissal of internal auditors. The MD or the chairman appoints the HIA. Though many of the HIAs are CAs or CMA qualified professionals, they appear to hardly ever perform a meaningful, unbiased role. None of the HIAs interviewed had ever reported any financial malfeasance or embezzlement by the senior management (including the MD) to the AC/ BoD. As one HIA argued, "*As far as non-controlling owners' rights are concerned, ICA in practice cannot provide an additional cushion when the ACs are not functional. Who can afford to bite the hand that feeds him?"*

Apparently, minor formalities exist in practice with relation to the preparation of an audit plan, the scope of the audit, and the authorization and reporting of the ICA findings. Evidence of ACs conducting a formal review of ICA plans and audit findings on regular interval is significantly limited. Indeed, none of the HIAs interviewed were able to show any ICA plan. It appears that the scope of the ICA is limited to preparing financial reports in accordance with IAS/IFRS, and compliance with rules, regulations, internal policies and contracts. One HIA, who had been promoted from the position of Finance Manager to ensure compliance with the CGG (2012), described his new responsibilities as follows:

> *I would not say my job responsibilities have changed much. Some of the responsibilities, like reviewing the accounting system, looking after the interim financial reporting to SEC, preparing financial reports as per applicable accounting standards, reporting budget variances and carrying out special engagements as required by management (for example, loan approval, tender papers), remain the same, and I am still doing those tasks. Secretarial responsibilities in the AC meeting and preparing a review report on financial performance are added to my existing responsibilities. In addition to regulatory compliance, I also look after internal policy compliance. Given my professional background, it's not that challenging for me.*

It is important to note that this HIA still reported to the MD. A comment from another HIA affirms the above practice: *"The main function of my department is to oversee the financial reporting and compliance with rule and regulations."*

The reporting practice appears to be informal. One HIA said, *"It's not a formal kind of reporting, mainly email conversations. Usually I email the audit findings, particularly if there is any material noncompliance of internal policies and external regulation, to MD who sits in the AC."* Regarding the frequency of reporting the findings, one ICA staff member commented: *"Reviews on financial statements are done quarterly. In other areas, reporting is made on an ad hoc basis, sometimes findings are discussed in meetings with the MD."*

A properly functioning ICA depends on the management's support (e.g., approvals needed to get access to official documents) and commitment. In the context of Bangladeshi PLCs, there seems to be a persistent lack of either. All of the HIAs interviewed insisted that family owners need to change their position on the ICA. The HIAs interviewed also talked about the absence of any written ICA charter defining the purpose, scope of authority, and responsibilities of ICA. Only one HIA provided the charter defining his duties. Notably, the reporting responsibility assigned in that charter was not backed up by the support in the form of access to information or other logistics from the company elite. Thus, few formalities seem to exist in practice as far as the ICA is concerned.

At an organizational level, the interaction of management, the AC and the ICA is a much-needed element to improve CG in terms of enhancing shareholders' interests in family PLCs. As discussed above, AC practices in this respect remain largely ceremonial, e.g., hiring well-known individuals in ACs, ensuring compliance and presenting the image of compliance with CG. My interviews with AC members reveal that despite the empowerment of the ACs, their actions are limited to reviewing the quarterly financial statements rather than including resolving the disputes between the management and the auditor, selecting accounting policies, monitoring the internal control risk management process, or ensuring the adequacy of internal audit function. Nevertheless, as the interview evidence suggests, AC reports to shareholders are prepared and disclosed in the annual reports in line with the regulatory requirements. An extract of a sample AC report to shareholders is added in Appendix 4.

5.3 Financial reporting, auditing and transparency

5.3.1 Financial reporting framework

There are four main sources that govern the financial reporting practices (preparation, presentation, and disclosure of financial statements) in listed PLCs. They are the Companies Act 1994, international accounting and auditing standards (as adopted by ICAB), BSEC guidelines, and stock exchange listing rules. While the financial reporting requirements and auditing standards set out by the above regulatory sources are quite comprehensive, prior literature suggests that the actual practice is highly questionable (Uddin and Choudhury, 2008).

5.3.1.1 The Companies Act 1994 (CA'94)

In Bangladesh, the CA'94 provides the basic requirements of financial reporting by all PLCs. Sections 181-194 of the Act provide detailed requirements on financial reporting starting from record keeping of books of accounts to the publication of annual financial statements. As such, it could be considered as the local GAAP. It requires PLCs to prepare balance sheet and profit and loss account for each financial year on an accrual basis according to the forms set out in Part - I and Part - II of Schedule XI respectively under which, information of two consecutive years (year concerned and preceding year) is to be provided with detailed notes. The 'true and fair view' of the financial condition is emphasized. Needless to say, this Act has its origin in British law; hence, Bangladeshi local GAAP tend to have some similarity to UK GAAP.

5.3.1.2 Bangladesh Securities and Exchange Commission (BSEC) Guidelines and stock exchange listing rules

In addition to the basic requirements of CA'94, those PLCs listed in the stock exchanges are required to follow the BSEC guidelines and stock exchange listing rules on financial reporting. One of the key deviations in the Securities and Exchanges Rules[53] with respect to the Companies Act is that it requires mandatory compliance with IASs/IFRSs as adopted by ICAB, whereas the latter remain silent about such compliance. Even some accounting requirements prescribed by the Act are inconsistent with the adopted IASs/IFRSs. For example, contrary to IAS, the Companies Act requires the capitalization of gains and losses arising from changes in the foreign exchange rates under all circumstances. In accordance with the Securities and Exchanges Rules, the annual report shall include a balance sheet, profit and loss account, cash flow statement, and notes tothe accounts collectively referred to as the 'financial statement'. This is another major deviation from CA, which requires only a balance sheet and a profit and loss account to be reported. One question that necessarily arises is which requirement do PLCs need to comply with given such inconsistencies and deviations. According to the SEC Ordinance 1969 (Provision 2CC), the BSEC rules supersede requirements set by the CA'94. Therefore, listed PLCs are required to comply with the accounting and disclosure requirements of the BSEC, despite the inconsistencies with the requirements of the CA'94.

5.3.1.3 Bangladesh Financial Reporting Standards (BFRS)

The financial reporting standards prescribed by the Institute of Chartered Accountants in Bangladesh (ICAB), the professional accounting body, are known as Bangladesh Financial Reporting Standards (BFRS, including Bangladesh Accounting Standards, BAS). BAS and BFRS are closely modelled on the International Accounting Standards (IAS) and

[53] In the interests of enhancing credibility, in October 1997, the BSEC amended the Securities and Exchange Rules 1987, which require all listed PLCs to follow the IAS and IFRS adopted by the ICAB. The Companies Act 1994 does not require compliance with the adopted standards.

International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The Technical and Research Committee, a standing committee of the ICAB, is responsible for reviewing on a regular basis, the latest national and international pronouncements and standards on accounting, auditing and allied matters, and recommend the same for adoption to the Council, after carrying out a technical review for adoptability and acceptability in the Bangladeshi context. The Council is responsible for approving and adopting the standards, Interpretations and related documents.As at January 2013, a version of all IFRS (and IAS) issued by the IASB had been adopted as BFRS by the ICAB, with the following exceptions: IAS 29 *Financial Reporting in Hyperinflationary Economies* (adopted but will not enter into force until 2015) and IFRS 9 *Financial Instruments*.It is important to note that the BAS/BFRS so adopted are not mandatory or enforceable through the ICAB by-laws. They are mandatory for listed PLCs under the BSEC Rules. The auditor's report and the basis of the presentation note in financial statements refer to conformity with the IAS applicable in Bangladesh.

5.3.2 Financial reporting and audit practices

Evidence on accounting practices, being by nature confidential and sensitive, is difficult to achieve. Many accountants refuse to take part in the interviews even if anonymity is guaranteed. The previous literature and secondary data published in newspapers and electronic media, various investigation reports, company annual reports, and the reports of different international donor agencies are found extremely useful in this respect. Primary data collected through interviews also forms an important part of the empirics presented below.

Barring a few notable exceptions, most PLCs in Bangladesh tend to follow local GAAP. Because of the absence of a mandatory legal requirement for BAS/BFRS compliance in local GAAP, PLCs consider it as voluntary or show it as an excuse for noncompliance with BAS/BFRS. According to World Bank, reporting measures such as consolidation of subsidiary accounts, segment reporting, deferred taxation, and disclosure on related party transactions etc. are not widely practiced (ROSC, 2009).

Previous research has found that the accounts departments often acquiesce to the wishes and decisions of high ups (Uddin and Choudhury, 2008; Haque et al., 2011). For example, Uddin and Choudhury (2008) provide evidence of accountants following the instruction of managers and owner directors in misstating the financial information to represent a favourable financial performance to important stakeholders, such as creditors, the BSEC, and stock exchange officials. Echoinh, the Head of Accounts of a DSE30 company comments,

> *Tax is obviously one of the reasons for accounts adjustment. Boards have concerns about access to finance, loan approval from banks, contracts with foreign suppliers etc. which might be hampered if financial conditions were not favourable. Certainly, boards will not approve those financial reports that do not serve their purpose.*

One CFO links it to their performance criteria for progress in the job: *"The attitude of employers [family owners] is that paying lucrative remuneration packages to Chartered Accountants is worth it for the tax savings, smooth flow of finances, and regulatory compliance etc."* Echoing the same view, the financial controller of a giant business group comments, *"If you are not technically competent enough in accounts manipulation, you won't be able to progress in local companies"*.

As such, accounts manipulation in this context is not very unusual. Accounts manipulation targeting initial public offering (IPO) has occurred frequently, which, according to the probe committee report (2011), was one of the main reasons for the stock market crash in 2011. Sponsors were deemed to charge high prices reporting abnormally high net asset values (NAV) through the unscrupulous asset revaluation certified by their auditors. Many low-earning companies went to market with a higher valued IPO without due regard to their P/E ratios. Some fifty or so companies were waiting to join the game, as the president of DSE claimed in a press conference shortly before the crisis (The Daily Star, 2011). The probe report identified some companies reporting NAV of more than 150% after asset revaluation. According to one accounts manager, *"Though nowadays, the BSEC is trying to regulate abnormal asset valuation, it is a common industry practice, as the IPO/RPO share price and intended premium depend on NAV. So sponsors exert pressure to report favourable NAV."* The book building method introduced by the BSEC was severely criticized. One renowned academic and stock market analyst wrote in a newspaper article,

> *Taking advantage of the book building method, companies have significantly overvalued their assets. Calculation of the NAV based on such overvalued assets gave the wrong signal to the market. In a country where accounting figures are regularly changed to suit the purposes of company directors, and audits are often done as nothing more than a mere formality, the use of the book building method for price discovery was not appropriate, and manipulation was rife.*

Some companies issued bonus shares against a revaluation surplus (unrealized gain from asset revaluation), which is a faulty accounting treatment[54]. There is rule to maintain a provision against deferred tax during asset revaluation to pay tax in the future, but the probe report (2011) found that hardly any company followed it in practice.

Several mandatory requirements with regard to quarterly submission of financial statements in prescribed form, using electronic media wherever possible, have been introduced over time by various regulatory bodies. However, this is constantly and reportedly an area of low compliance, as one DSE officer confirmed. According to the BSEC, it sent a show cause letter to 60 companies last year for failing to submit their quarterly financial statements (BSEC, 2012). Another DSE official echoed much the same view: *"The quality of reporting is not satisfactory at all. Few companies provide the information in a comparative form, though it is compulsory".* One BSEC commissioner claimed,

> *At least these local companies are getting acquainted with the culture of reporting and disclosing information, though some sort of concern on the quality of such disclosures remains. I would say it will take time and compared to past trend, companies are now more transparent.*

Interviewees in this research, including the ex-chairman of the BSEC, exhibited scepticism about the application of BAS/BFRS and the resulting quality of financial reporting. Examining the annual reports, the application of BAS16 was found to be very common. Hence, to collect evidence on the use of standards in financial reporting practices, the application of BAS16 is investigated. One difference between BAS16 and local GAAP/CA'94 is that it allows the revaluation of fixed assets, something which is not permitted under the historical cost principle of local GAAP. There are some conditions to be fulfilled for revaluation, such as conducting regular revaluation and impairment tests, treatment of the revaluation surplus and loss, and related disclosure, etc. It seems as if a narrow technical application of financial reporting standards leads to a violation of the intent behind the standards. This was reflected in the comments made by one ICAB council member:

> *The accounting manipulations witnessed in Bangladesh during the crisis period have had their genesis in the narrow technical application of financial reporting*

standards, in particular BAS16. While some of the technical accounting treatments practised by various PLCs may have been correct, it was often used to present an entirely different financial picture. For example, asset revaluation, which BAS16 permits, was practiced so aggressively that it gave the wrong signal to the market about NAV and allowed unscrupulous sponsors to charge abnormally high prices for their shares.

In a similar vein, one BSEC official argued:

The reason we could not detect it at first instance was that what they were doing was technically correct but ethically wrong accounting. Some of the rules were more susceptible to abuse, which the BSEC is now considering revising or strengthening the monitoring.

One CFO said:

In the annual report we mention compliance [with BASs], but actually, many of them are not properly followed. In our company, regular revaluation and impairment tests are not performed as per BAS16. The auditor also knows it. There are cases where auditors can speculate about manipulation but don't have enough evidence to qualify their opinion. Last year, we got approval for a syndicate loan. Changing the underlying assumptions for borrowing cost capitalization, we distorted information. By extending the time period before the asset comes in a usable condition, the amount of interest to be capitalized was increased. Such treatment is unethical but certainly not illegal. It is permitted in BAS.

Apparently, disclosure on asset revaluation is limited, as one BSEC official commented: *"You will not find any of these companies reporting revaluation loss ever, even if BAS16 requires any loss to be reported."* Even in a DSE30 company, where the accounting practice is supposed to be comparatively better, it can be seen in notes to the F/S section of annual report that concerned assets were revalued 16 years ago.

Drawing on the above evidence of the application of BAS16 and related financial reporting practices, it appears that a narrow technical application of financial reporting standards and practices to suit owner directors' demands often undermine the regulatory effort to improve transparency in Bangladeshi PLCs.

Given the prevalence of concentrated ownership structures, pyramidal corporate groups, and owner manager dominated companies, related party transactions (RPT) might be expected to occur frequently (Claessens and Fan, 2002; Young et al., 2008). According to ROSC, such transactions are common (World Bank, 2009). A number of interviewees pointed out that until recently, related party transactions have unfairly disregarded the interest of general shareholders, and these are occurring with some frequency but remain undisclosed. As one manager commented, *"Granting loans to owners' relatives is unofficially an official norm".* Allegations of insider trading and related party transactions are traditionally common in Bangladesh (World Bank, 2009). Recently, the BSEC has imposed strict provisions on insider transactions (e.g., mandatory disclosure on the sale of shares by sponsors) and greater limitations on potential conflicts of interest (e.g., prohibiting loans to directors and executives from company funds). Yet these provisions have apparently failed to prevent the widespread trading of shares by company directors and executives on the basis of inside information, as my interview evidence suggests. General shareholders suffer extremely from such practices[55]. This was evident in the 2011 share market crash. The Stock Market Scam Probe

[55]Within December 2010 and January 2011, the DGEN index fell from 8,500 by 1,800 points, a total 21% fall,with masterminds of the crash making about BDT 5,000 crore (US$ 667 million) out of the scam (The Daily Star, 2011)

Committee Report (2011) alleged that some groups of sponsor directors first artificially inflated the prices by trading shares among themselves, then after a stock split, sold off their holdings and registered much greater profits than normal. Later, the regulator, in its own investigation, found doubts about the authenticity of the allegation, but no action has been taken against them except for filing cases with the Chief Metropolitan Magistrate Court (BSEC, 2011). Similar allegations were found in the 1996 stock market crash investigation report and yet those responsible were never punished (Siddiqui, 2010). These incidences make evident how cronyism, secrecy, and a lack of accountability override the spirit of regulatory measures.

To date, annual report disclosure on issues sensitive to the rights of non-controlling shareholders (for example, director nomination, biographical details of existing directors, related party transactions, insider trading, actions of AC in enhancing the integrity of audited financial reports etc.) have tended to be less extensive than the regulatory requirements. However, there is also evidence in support of the fact that corporate transparency has improved during the post-reform era. As one senior BSEC official said, "*There was a time when many companies did not publish annual report. Now it is changing. At least, you will find annual reports containing the financial statements, audit report, report of the board, notice of AGM, and compliance status with CG guidelines*." According to an ex-chairman of the BSEC, "*Many companies, particularly DSE30, are doing well. Their annual reports are informative and comprehensive. Reports are also made available in their websites*."

My own examination of the annual reports of some listed PLCs also confirms the BSEC officials' claim. Many of these companies produce voluminous reports containing mission and vision statements, industry trend analysis, analysis of company performance, economic value added statements, résumé of directors and their shareholding status, actions of the AC, sustainability reports, and photographs of the CSR etc. Access to finance (particularly financing from IFC), avoiding regulatory intervention, and the prestige of being a good corporate citizen are amongst the main motivating factors for producing voluminous annual reports, according to some company executives interviewed. However, it appears as if some of the reports provide an overly positive picture of CG. At least, when allegations are made against sponsor directors of some of these PLCs in the probe committee report, transparency cannot be said to be beyond doubt.

Regarding allegations about RPTs, insider trading, and lack of transparency, the BSEC officials interviewed tended to argue that the provision on certification requirement can improve the situation. This particular provision of the revised CGG (2012) requires both the CEO and the CFO to certify about transparency, the application of accounting standards, and the integrity of the financial reports. On this issue, the CFO of one DSE30 company commented:

> *The irony is that directors themselves often gain from unauthorized transactions. For example, a common practice exists in many banks where the bank purchases land at a price higher than the usual market rate from someone known to the powerful directors, then sells it again with board's approval. This year, our company is going to publish annual report containing 370 pages and a particular director's family business has got the contract. Therefore, to what extent can the CFO's certification about the integrity of financial reports make progress in terms of safeguarding general shareholders, who own the majority stake? In fact, their rights remain questionable.*

In addition, the regulators interviewed did not seem to be convinced about the certification by the CFOs though they avoided commenting directly about this issue. Only a senior DSE personnel's comment reflected such a concern: "*I would not claim that companies are fully transparent and accountable to their shareholders. It's a matter of culture. Unless the* *sponsor directors are not genuinely accountable, whatever rules and regulations we impose, they will bypass*."

The previous literature not only questions the financial reporting practices, but also doubts the role of external audit contributing in CG (Haque et al, 2011). Against this backdrop, recent CG reforms aim to empower ACs to deal with external audit-related matters. For example, the CGG (2012) contain specific provisions for audit-related matters (such as appointment, remuneration, dispute resolution etc.) to be overseen by ACs. In addition, the BoD is specifically required to report to its shareholders in advance of the AGM that the AC is satisfied with the external audit conducted with due care by an independent and competent audit firm. Under paragraph 3.4 of the guidelines, the ACs are empowered to independently review management letters and/or letters about any internal control weakness issued by the external auditors and immediately report to the BoD on conflicts of interest or disputes between management and the auditors, if any. Should the AC not be satisfied with the board initiatives, it shall report[56] to the regulatory authority, BSEC. The AC is supposed to report to shareholders annually whatever actions are taken by them regarding the external audit with the BoD or the regulators. It is mandatory to publish this information in the annual report.

Despite the recent reform initiatives to change audit practices through empowering ACs in relation to audits, my interviews with auditors and AC members suggest that audit practices are not independent of family owners' interests. Auditor appointment and remuneration,

[56]If the Audit Committee has reported to the Board of Directors about anything which has material impact on the financial condition and results of operation and has discussed with the Board of Directors and the management that any rectification is necessary and if the Audit Committee finds that such rectification has been unreasonably ignored, the Audit Committee shall report such finding to the Commission, upon reporting of such matters to the Board of Directors for three times or completion of a period of six months from the date of first reporting to the Board of Directors, whichever is earlier [Paragraph 3.4.2, CGG (2012)].

among other matters, are usually decided with the direct or indirect consent of family owners. Not surprisingly, audit cost minimization, just like other costs, seems to be in the material interests of the owners. Essentially, the existence of such interests in family companies, where the owners are the ultimate decision makers, is likely to result in low audit fees. Reflecting this assertion to some extent, the auditors (audit managers and partners) interviewed complained about the substantially low audit fees.One junior audit manager, when he raised the issue of a certain manipulation in client's financial reports, shared the audit partner's response in his interview. Before he had finished, the partner asked him about fees, and knowing that it was not a big amount, he insisted, "*Oh! Don't talk about it anymore, just go and finalize the report*." In a similar vein, the senior partner of an audit firm argued, "*We have to work under cost constraints. In a country where firms are ready to sign report for even less than BDT 15,000*[57]*, audit quality could not be expected to be that high. Audit quality is commensurate with fees."* It appears that issues like substantive tests or materiality tests bear little practical significance for auditors in the context of significantly low audit fees. In this respect, another audit partner interviewed echoed much the same opinion: "*Indeed it is our business. So it is not quite unusual to give the benefit of the doubt to clients*."

Concerns about audit practices are repeatedly voiced in donor prescriptions as well. For instance, donors have alleged that the weak professional oversight of ICAB leads to poor audit quality and consequently have called for withdrawal of its self-regulation (World Bank, 2009; ADB, 2013). Taking the position of World Bank (2009), ADB (2013) also argues for the formation of a separate oversight body like the FRC in the UK to oversee the audit

[57]Equivalent to £100.

practices. It is believed that the formation of an independent oversight body will lead to improved audit quality and increased shareholder confidence in the market. Despite such concerns about audit practices, the auditors interviewed tended to exhibit some degree of contentment with their work in that there is no history of audit failure in Bangladesh leading to shareholders' suffering like in western corporate collapses. As the same audit partner reflected, "*Even in developed countries, one of the Big 6 [audit firms] collapsed. Cases like Enron, WorldCom took place. At least we are better than them; no company has collapsed for audit failure in our country.*" It seems this is how auditors justify audit practices in Bangladesh from their perspective.

The above discussion on audit practices suggests that the reform initiatives to enhance AC involvement in audit practices have not been not followed by substantial change. The following remark of one company secretary affirmed this: *"External audit hardly comes to the AC's attention formally. Also, I would say the AC is not totally uninformed since the MD sits in the [AC] meetings*." Thus, as far as audit is concerned, the AC plays hardly any role; my examination of some AC reports suggests that the external audit does not seem to be a matter of concern for the AC members, though audit-related matters and AC involvement in this respect are supposed to be reported to shareholders in the annual report (see the sample report included in Appendix 4).

To summarize, the empirics presented so far shed light on how and to what extent subordination of accountants to family owners, self-dealing, manipulation of accounts, related party transactions and lack of transparency, poor audit practices have contributed to an endemic lack of credibility in the financial reports of listed PLCs. Involvement of multiple authorities and weak regulatory enforcement are often blamed for this (World Bank, 2009, ADB, 2013;. As discussed before, in relation to financial reporting there seems to be an overlapping of functions of the Registrar, the BSEC, the Stock Exchanges, and the ICAB. According to World Bank (2009), the involvement of numerous bodies complicates enforcement and reduces overall effectiveness. In a similar vein, one senior DSE official expressed his concern:

> *To date, accounting standard-setting, interpretation and enforcement powers are divided among different authorities. The ICAB as the standard setting body does not have any enforcement power, which is shared by the BSEC and stock exchanges. This further weakens the regulatory oversight, especially in an environment where not only market discipline is weak, but civil remedies are also limited. This needs to be changed; otherwise, the quality of IFRS-based financial reporting will not be improved.*

The OECD (2004) emphasizes the need for regulatory institutions to have the authority, integrity, and resources to undertake regulatory measures and enforce those free from political or other interference. Indeed, in an environment characterized by limited economic incentives for CG, the lack of any civil remedy, and a weak market discipline, the role of the regulatory institutions appears to be critically significant. However, the regulatory institutions, including the BSEC, also seem to be lacking in this respect. For example, Imam and Haque (2012) provides evidence that auditors were not subject to intense probes regarding their certification of significant over-valuation targeting IPO/RPO by a number of listed PLCs. This paper implicitly raised concerns about the politicization of regulatory institutions, particularly the BSEC. In a similar vein, Haque et al. (2011) also talks about the implication of the interest group politics affecting CG in Bangladesh. While complaints about poor regulatory enforcement of the RJSC are common (see Chapter 3 for details), CPD (2011) argues that there are many compliance requirements, but the BSEC hardly has the requisite personnel, or the technical or logistical support to monitor them. “Even in many cases, the BSEC officials are unable to detect financial manipulation and misrepresentation being prepared by managers [of the PLCs]”, claims the World Bank report (2002). However, this situation is expected to change following the most recent reforms taking place with respect to capacity building of the BSEC (see Chapter 3 for details).

5.4 Annual general meeting (AGM)

Holding an AGM is a mandatory requirement for all listed PLCs in Bangladesh. Under the provisions of the CA’94, AGMs must be held each year within six months of the end of the company’s financial year, while the interval between any two meetings should not exceed fifteen months. The agenda that are required to be passed in AGMs include the consideration of annual financial statements, the declaration of dividends, and the appointment of directors and auditors. An ordinary resolution is required to pass these ordinary agenda. An ordinary resolution is a resolution passed by a simple majority of votes of the members present in person or by proxy. Those remaining neutral or absent are not counted. In case of any default in holding the AGM, every director of the company is punishable with a fine, which may be up to BDT 10,000, and in the case of a continuing default, is punishable with a further fine, which may be up to BDT 250 per day for each day of default under section 82 of the Companies Act 1994. As a punitive measure, companies failing to hold AGMs can also be degraded to “Z” category. In extreme cases, companies not holding AGMs for three consecutive years can be de-listed from the stock exchanges.

In practice, the AGM is the only operative contact point of general shareholders and management. Other than this, there is no formal way for shareholders to communicate with management. In that sense, it has great significance in CG. In its legal form, the AGM provides shareholders with an opportunity to express any concerns they might have. Though evidence of delay or default in holding an AGM was found to be very usual among listed PLCs in Bangladesh (Uddin and Choudhury, 2008; World Bank, 2009), the situation is changing as the regulatory authority claimed. One DSE official commented, "*The number of 'Z' listed companies is decreasing, which means that at least they are getting more regular in conducting AGMs.'* According to the BSEC, 29 out of 256 DSE listed PLCs failed to hold their AGMs in 2013, while the figures for 2003 were 41 out of 248. Some allegations seem to exist against the BSEC for not delisting the companies in default of holding AGMs for consecutive years (World Bank, 2009; BEI, 2004; CPD, 2011). However, the regulator believes that delisting those companies would farther harm the small investors. Accordingly, regulatory efforts have been limited to fines, penalties, and other disciplinary mechanisms.

Despite the regulator's claims about improvements in holding AGMs, consistent with Uddin and Choudhury's (2008) findings, my interview evidence suggests that holding AGMs does not always guarantee accountability and transparency to general shareholders. In fact, most of the interviewees expressed their concerns about the quality of the AGMs. I observed six AGMs when collecting empirical evidence on AGM practice. The evidence suggests that AGMs are usually stage-managed, consistent with the findings by Uddin and Choudhury (2008). Even the BSEC officials interviewed did not deny that. The usual practice is for company management or family owners to hire a group of people known as "AGM *mastans*" (the Bengali word *mastans* means 'muscle-men') to disrupt the voting of shareholders. In return for a large fee, these people create chaos in the meeting and support all items in favour of the management. Interestingly, the same group of 40-50 people was found in all the AGMs I attended during data collection. One CFO claimed, "*These are common faces in every*

AGM. After the AGM, they come to my office to take money." A senior manager of a pharmaceutical giant commented in a similar vein,

> *As I have seen in our company, real attendance in the AGM venue is less than 1000 out of more than 70,000 shareholders. Those who come generally collect their gifts and leave without casting their votes. Only 30-40 individuals actively participate in AGM, who are hired mastans and you will find them in other AGMs as well. Directors appoint them for conducting the AGMs smoothly. Some of them speak in favour of the management, while others criticize. By law, the decisions have to be passed by the shareholders, but in reality they cannot vote. Whatever the directors present, those mastans support. The whole AGM process itself is dysfunctional.*

One ID shared his experience of the first time he attended an AGM:

As soon as the secretary started announcing the agenda, the audience raised their hands and supported each of them. The last one was the appointment of two independent directors. Even before our names were announced, let alone our eligibility and qualifications for the post, the audience made a hue and cry and kept shouting to pass the agenda and raising their hands.

In another AGM, I observed that the main AGM proceedings were completed in less than 15 minutes, leaving literally no time for shareholders to vote. All directors attended the meeting and sat with the chairman facing the audience. However, none of them talked about the resolutions that were going to be put to the vote. The chairman invited the Company Secretary (CS) to start the meeting. The CS swiftly read out the resolutions, and AGM *mastans* kept shouting 'passed' by raising their hands. After a while, the CS announced that all the resolutions had been passed unanimously since there was no disagreement. It is important to note here that each resolution put to the vote was decided on a show of hands. In a show of hands, every member present in person has one vote irrespective of the number of shares they own. Voting by show of hands is the common practice in local PLCs, as my own observations and the interview evidence suggest, although shareholders may demand a poll under section 85 of the CA'94. The group interview with shareholders suggests that they are not aware of this right. The company management tends to prefer voting by show of hands, which in their view, is less time consuming and involves less administrative hassle.

I also observed that the *mastans* usually take an active role in the discussion and analysis of resolutions to be passed in the AGM. The CS or sometimes the chairman invites some of them to take part in the discussion and analysis session. Most of them talk in favour of the directors and management while a few others dramatically criticize some insignificant issues. This was evident from the observation of the majority of AGMs attended for research purposes. For example, in an AGM, one of the *mastans* started his speech as if he were criticizing the management: *"Today, I am here to express anger on behalf of my fellow shareholders. Company has declared bonus share when we are expecting a cash dividend.*" While he was delivering the speech, his other colleagues started shouting. Some of them stood up and threatened him to stop his speech while others continued to praise the management loudly. At the end, speaker concluded his speech in a positive tone: "*I welcome the directors' decision on the bonus share and hope next year, they will not deprive us of the cash dividend".* At times, these hired individuals talk on amusing issues as well. For example, addressing the BoD, one AGM *mastan* complained, *"Of 365 days, 364 days are yours and only 1 day is for us, the day of the AGM. The quality of today's gift pack is totally disappointing. Why are gift packs getting smaller when profit is increasing?"* Another speaker commented:

> *On the day of AGM, I want to convey my best wishes for the founder of this company and his family members. We do not care about the company. We care about our*

chairman and his family. Because we know that without his leadership and business experience, this company would not be profitable and we would not get dividends.

The CSs interviewed confirmed that family owners deliberately pay for AGM *mastans* to create chaos and dominate the meeting proceedings by keeping shareholders away from voting. General shareholders seem to be scared of raising any issues in the AGM for fear of assault by these *mastans* (Khan, 2004). One BSEC 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 musclemen hired by the delinquent entrepreneurs [...] who want to have pecuniary benefits from the management*" (The Guardian, 2004). In a similar tone, one former CEO of DSE claimed, "*In most of the local companies, theAGMs happen to be some sort of formality. However, I would not generalize this, as a few companies do not manage their AGMs".*

Apart from keeping the AGMs short and chaotic using *mastans*, company managements apply other tactics to discourage shareholders' engagement. One BESC official claimed, "*Many companies set the AGM venue in distant locations in an attempt to minimize shareholders' attendance*." This was further confirmed by a director: "*We are now arranging the AGM in the factory premises. Cost is minimized plus with less hassle, we can finish the [AGM] formalities*."

In the fieldwork, shareholder attendance was found to be typically low and dominated by retail shareholders. However, to distract shareholders (particularly those attending the AGM) from the main agenda, as many respondents confirmed, the management traditionally keep the arrangement of gifts and refreshments, including catered meals. As observed during the fieldwork, the typical AGM venue has two parts: one for distributing gifts and the other for conducting the main meeting. Shareholders coming to the AGM venue seemed to be more interested in collecting the gifts than in taking the opportunity of voting and expressing their views. After collecting the gifts, most of them did not even enter the room where the meeting was actually taking place. Notably, this was evident in all the AGMs observed for collecting data. In a leading power company's AGM, the actual number of people in the meeting venue was below 100. The CS confirmed that out of more than 30,000 shareholders, the registered number of attendance, including proxies, was approximately 8,000. Apparently, the rest of the shareholders came only to collect gifts. Even in one AGM, the company officers, along with 10-15 *mastans,* were found attending the meeting, with long queue of shareholders in front of the gift distribution booths. Later, one of the officers stated that *mastans* were busy due to there being other AGMs at the same time, and none of the shareholders entered in the meeting venue. Thus, shareholder engagement as an important impetus for making AGMs functional appears to be lacking in Bangladesh.

Shareholders, including institutional investors, tend to be apathetic when it comes to voting. It seems they prefer 'exit over voice' in the case of any dissatisfaction with the company performance. A shareholder with investments in various PLCs said, *"I can't think of attending the AGM to vote on any issue when we have the option to sell the shares and invest in another company. I observe market trends, mainly the P/E ratio, consider the views of other investors and consult with my circle of friends, many of whom have inside information."* There is no evidence of shareholder involvement in issues such as the nomination of directors and auditors. In general, the AGM appears to be an annual 'ritual' with little significance to shareholders, institutional investors, and company directors. The IDs and external auditors interviewed also shared similar experiences. For instance, one audit partner, who by law had to attend the client's AGM, reflected on the usual AGM practice: "*AGMs are mere formalities. They are a managed game. Seemingly, the directors put all the resolutions for voting by show of hands, but they strategically manage the voting by hiring* *fake shareholders. Genuine shareholders do not participate in voting."* One ID also shared a similar experience with AGM practice:

> *I have never found shareholders talking in AGM on dividend or other issues directly related to their interest. Shareholders who talk in AGM, most of whom are fake and have some understanding with management raise silly issues like how they have been treated by company officials, quality of gifts and other arrangements, etc.*

As far as shareholders are concerned, it seems that AGMs have lost any credibility. The following comment from a senior manager of a pharmaceutical giant indicates this:

> *Why should they be interested in AGMs? Who is going to listen to them? In fact, owner directors do not hold themselves accountable to the shareholders at all. The way these shareholders, mostly fragmented, are treated over the years has made them frustrated. Many of them are not aware of their rights. Even if they are aware of them, there is no feasible way for them to make the directors and management accountable. There is no functioning mechanism for protecting the rights of these fragmented shareholders, who in many cases, hold a majority stake.*

A similar tone was echoed in a shareholder's comment: *"What difference could I make by voting? No one is concerned."*

It is important to note here that the AGM practices as described above take place despite a specific ban on the distribution of gifts to shareholders due to strong allegations regarding dysfunctional AGMs. In addition, the BSEC made it mandatory to submit unedited video recordings of AGMs and introduced the provision to nominate an officer to observe the AGMs and report to the commission. However, the company officials in charge of arranging the AGMs claimed that they usually submit fabricated AGM minutes, which are supposed to deviate from the BSEC officer's report on the AGM to regulators but no one had never heard of any action being taken based on the deviations. To summarize, based on the evidence presented so far, it can be argued that the AGM in its present form is of little use to shareholders. AGMs remain a symbolic safeguard of constituent rights; in practice, however, the AGM has become the most anachronistic instrument of CG.

Concluding words

This chapter has discussed in detail the CG practices in listed Bangladeshi PLCs against the backdrop of the recent CG reforms and change efforts. In essence, it answers the first research question. It is evident from the discussion that even now, the CG practices have maintained a traditional insider character with significant founder family dominance and control over the company board and its committees, the AGM, financial reporting, and external and internal audit practices. It would seem that this allows them to continue to serve their material interests. Thus, the CG practices do not seem to be with the recent reforms to enhance shareholders' interest. The ultimate objective of this research is to explain theoretically this absence of change in CG practices. The next chapter (Chapter 6) will provide the theoretical explanation.

Chapter 6
Theoretical Discussion and Analysis

Absence of Change in CG Practices: The context of explanation

In the preceding two chapters, we have seen that changing the CG regime in Bangladesh has apparently failed to bring about any real and meaningful change in the CG practices of the listed PLCs. This chapter aims to provide a theoretical explanation of this lack of change in such practices. Put differently, it answers the second research question.

The theoretical explanation advanced in the thesis draws on Archer's (2003) internal conversation theory, which is underpinned by critical realism. A critical realist explanation involves the identification of deep level structures and an explanation of the events in light of the identified structures, their associated tendencies, and contingent interventions. A generic model was developed in chapter 4 based on this theoretical framework. In this chapter, the same model is used to explain the absence of change in CG practices in listed Bangladeshi PLCs. In the model, morphogenetic cycles are disengaged in relation to matters requiring explanation, which in this case, is the structural elaboration and the resulting CG practices within the listed PLCs at time T3, i.e., at the point of time when the CG reforms were implemented[58]. At this stage it is needed to provide an analytical history of the emergence of the structures within which changes fail to take place. Put differently, to explain the structural elaboration (at time T3, the end of the time period under investigation), it is necessary to backtrack through the social interaction (at time T2, during the period under investigation) responsible for the elaboration and locate its own origin in prior structural contexts (at time T1, the start of the time period under investigation).

[58] This is the end point of the tri-partite cycle.

Therefore, the first stage of explanation involves the identification of the past structural and cultural conditions within which the CG reforms took place. These structural and cultural conditions had a conditioning effect (subject to contingent interventions) on the agential interactions that followed. This is the second stage of the explanation, which deals with agential projects and how different agents use their reflexive power of deliberation to decide the actual course of action in light of their prioritized concerns and subjective reception of the structural and cultural conditioning effects. The outcome of agential actions and interactions is the structural and cultural elaboration (either morphostasis or morphogenesis) that ultimately results in change or a lack of change in current CG practices. This chapter is divided into three sections following the same sequence: structural and cultural conditions, agential interaction, and structural and cultural elaboration.

Structural and cultural context of the CG reform at time T1

This section, being the starting point of the tri-partite cycle, describes the previous structural and cultural conditions that existed at Time T1, i.e., at the point of time when the CG reform efforts began. To understand these structural and cultural conditions, it is necessary to have an explanatory purchase on the actual agential actions. As posited by ICT, structures and culture dispose agents to act in certain way. This is what realists call the conditioning effect of structure on agents and their actions[59]. A diagrammatic representation of the relationships within and around the PLCs is presented in Figure 6. 1 below. As shown in the figure, the PLCs were composed of interconnected positions, structure (i.e.first-order relations, see chapter 3). Again, those PLCs were internally related to various regulatory institutions (i.e.second-order relations,

[59]These structural and cultural conditions found in existence at time T1 had emerged out of the structural conditions and interaction sequences of the previous morphogenetic cycle, which is not the subject matter of this research.

see chapter 3) and thus formed a larger structure. These second-order relations were part of the wider structures of the state, the polity, and the civil society institutions.

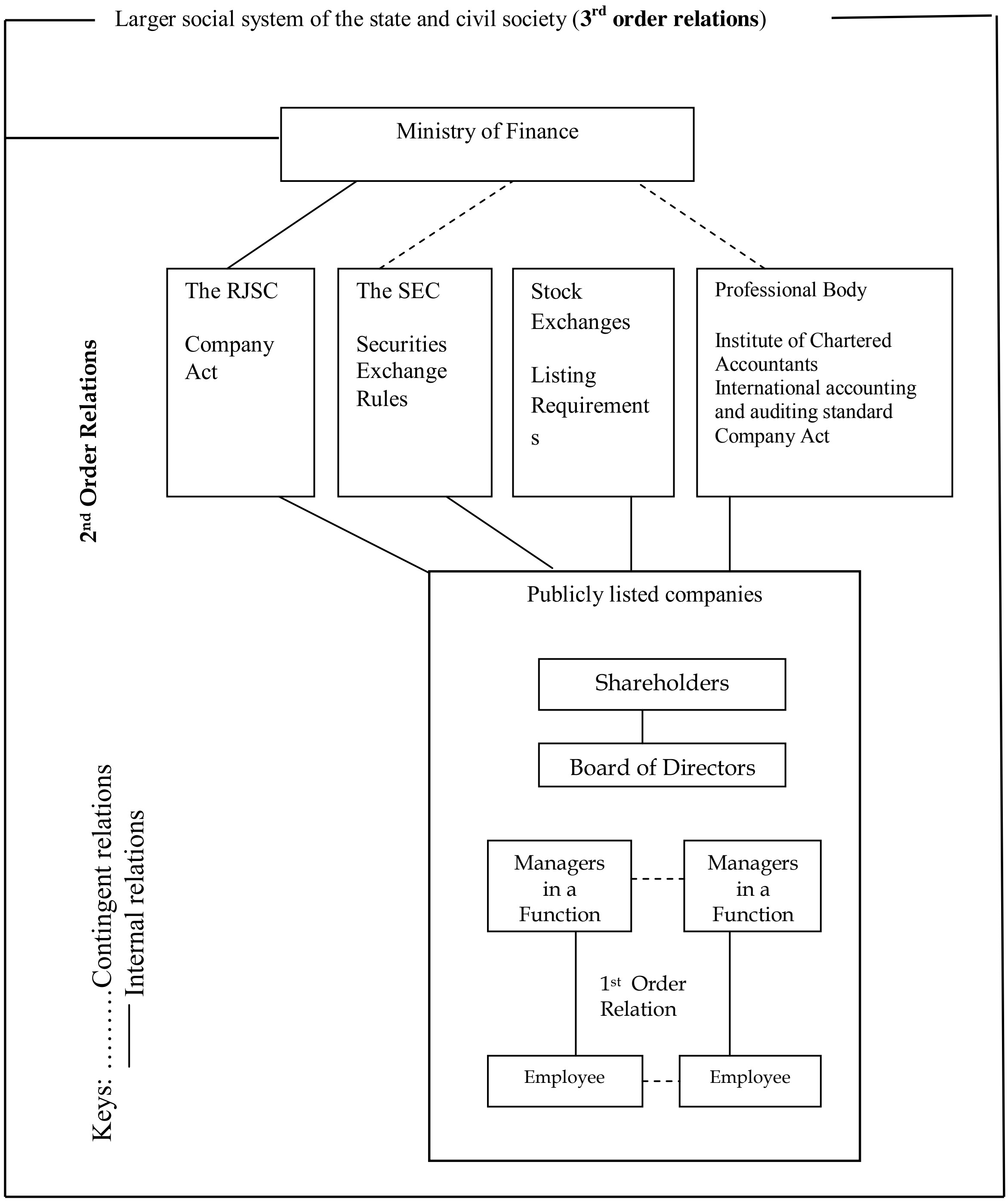

Figure: 6.1: Three levels of relationships within and around the PLCs

In the early 1990s, various international donor agencies put pressure on the government to bring 'accountability and transparency' into the private sector businesses. The external economic dependence of the state created a strain on the government to follow the suggestions of these international donor agencies. The formation of the new capital market regulatory body, the BSEC, in 1993 was a reflection of that. The change episode thus begun at the wider structural domain (at the level of third-order relations),whereby the government mandated the regulatory institutions (mainly the BSEC) to reform the local CG framework in line with western best practices. It was in the structural interest of the BSEC, being indirectly controlled by the Ministry of Finance, to protect the interests of the government (Uddin and Choudhury, 2008). Agents (having decision-making authority in the regulatory institutions), during their interviews with the researcher, insisted that there were difficulties in getting rid of systematic influences from the government and polity. In turn, an Anglo-Saxon CG framework was adopted reflecting the expectations and suggestions of the international donor agencies (Siddiqui, 2010).

At the level of second-order relations, PLCs and regulatory institutions were internally linked. The elements of both *contradiction* and *compatibility* were there. The *contradiction* arises from the inherent nature of the role played by regulatory institutions to impose rules and regulations on PLCs, whereas the latter preferred less regulatory intervention. Even when such an inherent contradiction existed, there was also a shade of *compatibility* in reality because of the absence of any strong regulatory enforcement. For example, before 1993, the RJSC was the main regulatory body, but it severely underperformed in its role of monitoring the PLCs (see chapter 3 for details). Eventually, such compatibility conditioned the aggressive pursuit or protection of the material interests of the founding owners in the context of family-owned PLCs. CG practices in terms of protecting general shareholders' interests became mere official formalities. After the formation of the BSEC in 1993, the situation started to change. Over time, and at a greater pace, the element of *contradiction* became more explicit, thus blurring the element of *compatibility*. The contradiction became even more pronounced when the regulatory institutions, in particular the BSEC, came forward with CG reforms imposing a different, but not new, ideology of 'accountability and transparency'. Under the banner of 'accountability and transparency', the BSEC aimed to enhance the protection of general shareholders' interests in the listed PLCs (CGG, 2006; 2012). However, family directors have a different ideology regarding how and in whose interests the PLCs should be run.

Historically, most of the listed PLCs in Bangladesh had emerged from family-owned and managed business groups. Necessarily, the family owners running the business groups had vested interests in family wealth maximization. By virtue of their entrepreneurial and business class background, the founder families appeared to establish their dominance on company boards in particular and management in general. Essentially, such dominance tended to allow the family directors to view the shares granting not only the right of ownership, but also the right to control. Thus, in family-owned companies, ownership and control coincided. This, in turn, led family directors to occupy the position of 'controlling owners' leaving non-family individual shareholders in the position of 'non-controlling' owners. In addition to the resources the former already had at their disposal (entrepreneurial capability and managerial expertise), the status of controlling owners further granted them an advantageous position. They had unrestricted access to inside information and had the authority to make decisions and control human and non-human company resources. Besides that, the political ties and other forms of affiliation (for example, social or familial) with the government, polity, and various state institutions also allowed them to take advantage of their position. In the retention of these privileges, family directors, just like corporate agents, were united by their common vested interests and social ties. Thus, the initial distribution of resources was defined as the 'corporate agent'. During the pre-reform era, the corporate agency thus appeared to shape its own structural contexts strategically within the listed PLCs. General shareholders, as a dominant interest group, were apparently confronted with those structural contexts. Quite obviously, they had vested interests in maximizing their economic wealth from their investment in the PLCs. Nevertheless, given their position of 'non-controlling owners', they seemingly had limited access to resources such as information, control over decision making, and so on. Put simply, they seemed to lack the essential resources to compete with the dominant family directors in terms of protecting their own material interests. In pursuit of their material interests, they were left in what seemed to be a disadvantageous position in relation to the family owners. As discussed earlier in chapter 3, small and individual shareholders were seemingly placed in an anomic position in the pre-reform era. A weak regulatory environment coupled with a corrupt and ineffective judiciary around that time tended to severely undermine their rights. It would seem that the structural contexts put them in a position that did not allow them to bring enough resources to undermine the basis of domination of the extant corporate agents. The situation thus conditioned the emergence of 'primary' agents. Put differently, shareholders like primary agents involuntarily confronted the structural contexts shaped by the actions and strategies of the family owners. In Archer's (1995, 2003) terms, corporate agency thus objectively shaped the contexts for primary agency.

The discussion so far might suggest that the material (economic) interests of shareholders and family directors were structurally different. However, not all of the ideologies or ideas which each of these groups uphold were generated in a material (structural) setting. For example, family directors, to materialize their structurally induced motive of 'family wealth maximization', surveyed the ideational (cultural) field, selected congruent ideas from it, and operationalized them. In so doing, they adopted the ideas of 'family and kinship orientation', 'top-down managerial hierarchy' and other attributes of the social setting (see Uddin and Choudhury, 2008). It seems such ideational accommodation allowed them to run and manage the PLCs in a way that served their material interests.

At the level of first-order relations, the positions of 'shareholder', 'director' and 'management' within the PLCs were always internally linked. In legal terms, shareholders as owners invest their money in the form of capital, whereas directors and managers are supposed to employ their supervisory and managerial skills respectively to run and manage the PLCs with the objective to maximize shareholders' wealth; thus, neither could exist without the other. In practice, there might be elements of contradiction and/or compatibility within these internally linked positions. The relation between shareholders and managers[60], as posited by agency theory, usually tends to be marked by a conflict of interests resulting from the separation of ownership and control rights. However, this type of conflict was not the prevalent case for Bangladeshi PLCs, as the above discussion suggests. Here, the conflict lay in the underlying control versus the non-controlling power between the owner groups[61]. The family directors, occupying the position of 'controlling owners,' were in an advantageous position, as such controlling interests could apparently inflict damage on the non-controlling interests. This means that the relation between family directors and shareholders was mainly a matter of *necessary contradiction*. According to Archer's (1995) morphogenetic theorization, this type of structural configuration (i.e., *necessary contradiction)* is likely to produce a situational logic of '*compromise*'. That is to say, the structural configuration

[60]In Bangladeshi PLCs, it is usual to see the same individual in the role of manager and director, while being the owner (Uddin and Choudhury, 2008).

[61] From the perspective of agency theory, this is viewed as 'principal-principal' conflict of interests (*see* La Porta et al., 2000; Claessens and Fan, 2002; Young et al., 2008). These papers in general argue that controlling owners may have the power and incentives for extracting private benefits of control at the cost of non-controlling owners' interests.

shaped the situation objectively faced by the agents, here family directors and shareholders, operating within the structural bound in a way that predisposed them to reach a compromise.

Theoretically, managers who have unrestricted access to inside information are always in a position to take private advantage; however, it is the directors' responsibility to monitor the managers on behalf of the shareholders. This type of contradiction was not prevalent in the family PLCs perhaps due to the overlapping of the functions of directorship and management. Important company decisions, including the appointment of managers and executives, rested on the sponsor families. This led (non-family) managers and executives to view family directors as their employer. In the local context, the relation between family directors and managers (including executives) thus turned out to be a *compatible* one, blurring the contradiction. Managing and running the PLCs in the interest of the employer, i.e., family owners, emerged as the accepted norm. In the local context, the relation between family directors and managers (including executives) thus turned to be a *compatible* one blurring the contradiction. As theorized by Archer (1995), when certain relations are marked by necessary compatibility, the situational logic of '*protection*' works. That is to say, the situations are shaped by structures in a manner that predisposes the agents occupying these positions to protect the material structural interest. For the non-family managers and executives, activities against the family directors could harm their own interests (e.g., losing their job). To summarize, the necessary contradiction between family directors and shareholders, on the one hand, and the necessary complementarity between family directors and management on the other, implied that family directors as an agential group were assured of unrestricted 'power' to control the decisions and resources of the PLCs.

The above discussion shows how the first-, second-, and third-order relations (i.e., structures) impinge on agents and shape the situation objectively by predisposing them to act in a certain way. For example, family directors as an agential group were deriving benefits from the structural/ ideational context prevailing in the pre-reform era, and hence, it could be expected that they would have an incentive for maintaining the status quo. On the contrary, negative opportunity costs (e.g., deprived of adequate dividend, obtaining manipulated information) were associated with its passive acceptance by general shareholders. Necessarily, they had vested interests to change the status quo. In such context CG reform could be seen as a new form of structural influence with its potential to change the positions and resources available to each of the agents. Theoretically structural influences (or dispositions[62]) are viewed as the conditional effects of structure on agents. However, the conditional effects alone do not lead to structural reproduction or change. Any form of change or absence of change depends on *actual* agential actions. Agents decide their strategies and act on the basis of how they receive these structural influences. At the end of the day they can *confirm, avoid* or *reject* the conditional influence. To understand what the agents will actually do, we have to move forward to the second phase of the morphogenetic cycle: the agential interaction.

[62] Archer (2003) has used these terms interchangeably.

6.2 Agential actions and interaction: Change efforts and resistance with respect to CG practices at time T2

In each morphogenetic cycle, analysis begins not with an episode of agential interaction, but with the previous structural arrangements for that agential interaction. The previous section has provided details of the previous structural arrangements that offer enablement for some agents (for example, owner directors) to maintain the status quo while insisting that others (for example, shareholders) change them. Any change in CG practices requires a change in the structures that allow 'traditional' forms of CG practices to persist in PLCs (Uddin and Choudhury, 2008). It is the action and interaction of agents that ultimately leads to those structures either undergoing change or maintaining their status quo. Hence, the objective of this section is to capture social interaction: the action and interaction of agents.

Of course, agential perception and knowledge of the structures form a key part of analysis at this stage, but they by no means exhaust the possibilities of their existence. That is to say, structure can exist and condition certain types of agential actions even if agents have no idea about even its existence. Again, structural pressures do not work like hydraulic pressures. They impinge on agents, and their activation depends on agential reception. When faced with a pressure, an agent reflects on it subjectively based on his/her own circumstances. More elaborately, different agents have different life projects. Reflecting on their own life projects and concerns, agents subjectively decide what strategies they will follow. Here, 'strategies' means using the resources available and the organization of agents for the pursuit of their life projects. Hence, social interaction deals with agential projects and how different agents adopt and execute different strategies to potentially afford success in their projects. From the perspective of ICT, agents do it through their *internal conversations*.

In this research, the main focus is on the interaction of agents operating within the PLCs (*i.e*., at the level of 1st order relations). This is because CG practices at the organizational level ultimately emerge from the actions of key organizational players. To explain CG practices in PLCs, therefore, it is both theoretically and empirically important to identify these key players (*i.e*., the agents operating within PLCs) and to provide a detailed account of such agency (*i.e*., the mode of internal conversation through which structural pressures are mediated by these agents). As discussed in the previous section, 'agents' operating within the PLCs refers to directors, shareholders, and managers. Empirically, it is important to identify the life projects of each of these agents and analyse how each of the groups come in to contact with the structures/ culture in course of attaining their life projects and ultimately decide about their strategies and actions. Empirical and theoretical analysis related to these is given by Figure 6.2 below. Figure 6.2 briefly presents the results of my analysis and the order in which the modes of reflexivity have been examined.

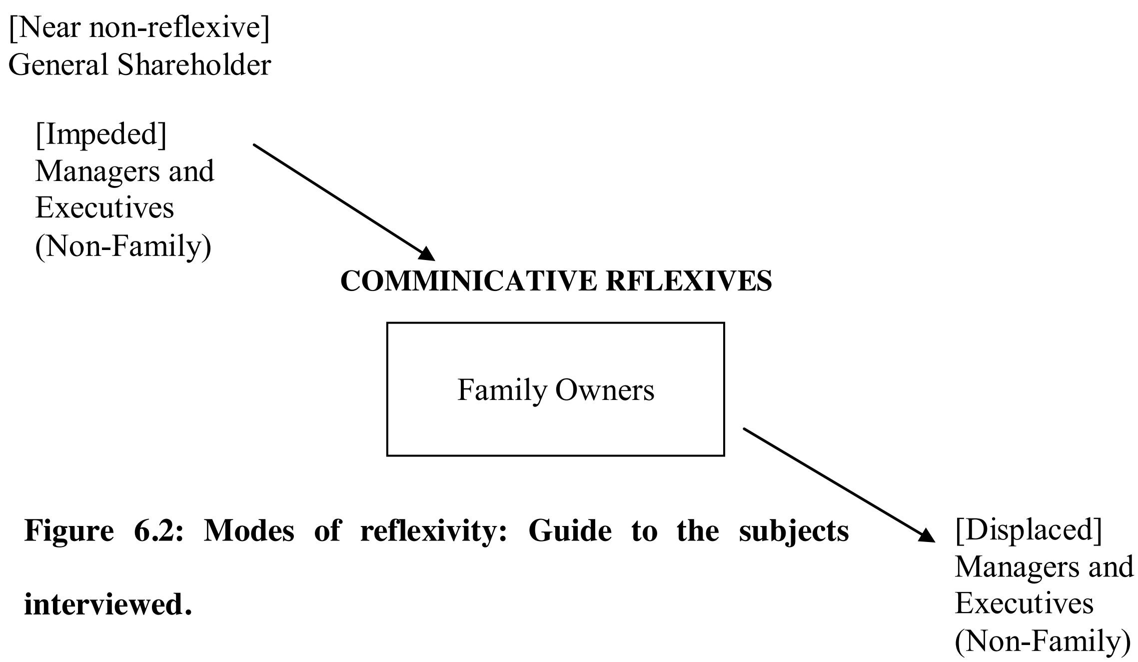

Figure 6.2: Modes of reflexivity: Guide to the subjects interviewed.

Directors

All the listed PLCs studied in this research are family owned and controlled. This reflects the tradition of the majority of listed PLCs in Bangladesh that had emerged from family business groups. Due to the long history of colonial dominance, and political and economic disturbance in the post-independence era, there was a lack of any capitalist and experienced entrepreneurial class. After independence in 1971, a capitalist class started to emerge. By virtue of their entrepreneurial and capitalist background, those entrepreneurs formed the family business groups that, over time, have grown in size and numbers.

The primary motive for getting the sister concerns of these family business groups listed on the stock exchange was to raise capital from the stock market. As promoters of the PLCs, the family owners had material interests in terms of family wealth maximization. Given their material interests, holding 'control' over the decision-making and resources of the listed PLCs was imperative. During the interviews, the founder of a large manufacturing concern confirmed that he deliberately reserved the position of 'director' for his family members and trusted ones. He insisted that "that is why we are what we are today". The entrepreneurial life stories that the founders narrated during the interviews also encapsulated a strong message of family connection, commitment, and values in terms of entrepreneurial spirit and leadership capability[63]. As such, they [family owners] developed their life projects reconciling family and business objectives. It seems to me their concerns were, to some extent, reliant upon a social context for their realization. The overriding concern of family owners was to build up family wealth not only in economic terms, but also in noneconomic terms (e.g., family name, inheritance). Unlike non-family PLCs, this means that the objective of profit maximization and growth in family PLCs need to fit well with the family objectives of income, wealth, and longer

[63]It may be noted here that none of the founder families held more than 50 percent of total outstanding shares. Accordingly, the founders had a 'minority' stake; nevertheless, they dominated the whole board process.

term stability of the business for future generations. Thus, growth is more than acceptable, albeit within limits. Preference for long-term continuity, financing from non-debt sources, and a cash rich business was echoed in the family owners' comments. One founder's view on the profit maximization objective of his company was as follows:

"Decisions are not made on the basis of what's right for shareholders out there– I am not denying the statutory obligation. We always make decisions on what's right for the business we do."

One CFO commented about not exercising growth opportunities, which, in his view, is a "*disregard to [non-family] shareholders' interests*". He continued, *"Growth has to be within the comfort zone of the [family] owners."* His comment reflects the significance of reconciliation of family and company objective in family PLCs.The following observation from an MD encapsulates how the focus on family sometimes even restricts growth ambitions:

"I can feel my dad's sentiment. It's (the company) precious, a good earner. Sometimes I feel like we are steering it too much towards serving family. He does not want the hassle of growing."

There is also another side to the story. Interestingly, the second and third generation members were making their mark in the PLCs included in the field research. The inherent tension within the families, when subsequent generations have different priorities and objectives, became apparent during some of my interviews.

'My other siblings [who co-inherited the business] have brought in their offspring. Their orientation with business is undoubtedly low. Recently we have to approve a code of conduct. We are looking to formalize things. We are aiming for more structure.'

Interviews carried out during the field visits coupled with an extensive documentary survey provided an important insight into the concerns and life projects of the young 'family' owners.The second and third generation family directors confirmed that they acquired the position, that is, they inherited it. 'Learned from father' or 'disclosure of having experience in the industry' seems to be sufficient for one to become a director. Some of them talked about how they were exposed to their family business from an early age. One director commented:

Our (including siblings) attachment was built up since childhood. I used to accompany my father during factory visits, meetings and business trips. We knew that there were big shoes to fill.

Family commitment, real interest in business, freedom, flexibility, and being one's own boss were cited as the common reasons for joining family PLCs. At one extreme, some of the young directors' comments seem to suggest that they never conceived of projects exceeding their contextual confines, while for others, it was a tough decision, as they wanted a career outside the family business. Whatever is the case, the diversity of academic backgrounds among board members is clearly evident in family PLCs. Some of them had started even career outside the family business, but had been unable to keep to it for various reasons. As one second generation director said:

'. . *After CPA, I worked for few years in USA, which I never thought of; now I feel like it wasn't me…. I have been brought up in business environment so it's really hard to keep myself detached from business*.'

The above findings certainly suggest that the young directors at times have to actively limit their aspirations. At least their diversified academic backgrounds and work experience indicate they had the option to adopt a different career path. However, holding the position of director does not necessarily mean that they are actively engaged. Indeed, several senior managers constantly pointed out during interviews that the majority of the board members had no engagement in the business except for attending the board meetings. The general scenario is that the first generation, now in their 70s, is still playing the central and active controlling role. The small fraction of relatively young directors (indicating those who are engaged) usually rely on senior family members or trusted board members when it comes to a matter of strategic and critical decision making. As one family director said: "*I am relatively inexperienced so before finalizing any major decision I consult with Mr. X [general manager] who is with our business from the very beginning.*"

Nevertheless, there is no hard and fast rule that stops them from making decisions on their own. As one MD recalled his first day at office, *'...dad [who is the chairman] said to me, "Be yourself, not my son; run the company!" I got the message.'* However, in reality, he was reinforcing his comfort in relying on his father's trusted colleagues. When it comes to a matter of regulatory compliance in appointing a new CFO who had professional qualifications, his choice was to offer this position to one senior manager because, he stated, *"He's more hands-on.....with our company from day one"* even if he was not professionally qualified.

Present-generation directors stated that their fathers used to get directly involved in day-to-day management. Currently, they are hiring some professional (non-family) managers nevertheless rich ties of family, clans and trusted ones are maintained following their family business tradition. These stories allow me to encapsulate the values and priorities they assign to family sentiment, tradition and stuff like that. As an example, recruiting professional managers proved difficult with the older generation in leadership positions, in a young director's view: *"I knew dad had strong reservation."*

The importance of 'trust and relationships' is also reflected in the following comment*: "I do talk to my brother [MD] outside of work about work. We have a work relationship and a sibling relationship. It's not that we have disagreements. We can trust each other - we don't fall out about money."*

Another director's comment echoed the same, *"Even at this age, my father actively takes the major decisions of our company. He is the signing authority of all cheques and bank* *transactions. He takes account of monetary inflow and outflow from accountant regularly. His charismatic leadership style and thorough understanding of commercial dealings helped our company progress so far. So I don't see any need to go against his decision or oppose that on any ground."*

The above comment reflects this young director's discomfort, and to some extent, his inability, regarding conducting a lone conversation in the privacy of his self/mind. Echoing the same idea, another director opined that working in a family business is challenging when, in his terms, "*you are taking steps in a legend's shoes."* A persistent lack of willingness or ability to conduct lone conversations that diverge from the initial contextual confine was evident in family directors' comments. In general, the comments seem to suggest the directors' comfort, willingness, and openness to walk in the shadows of their families and trusted ones. They simply cannot trust their lone conversation, like Archer's communicative reflexives. To complete their conversation, they look to individuals, preferably ones they are close to. Necessarily, the expression and realisation of their concerns entails a deep embeddedness in a family business class social context. The practice of their mode of reflexivity depends upon a secure contextual anchorage, such that through sharing common reference points and through their communality of experiences, 'similars and familiars' can be interlocutors, capable of completing and complementing a subject's own internal deliberations. The communicative reflexives are collectivistic towards the society/social order for whom concerns and contexts are inseparable. As theorized by Archer (2003), the practitioners of a communicative mode of reflexivity tend to hold an '*evasive'* stance towards society.

Generically, the evasive stance of the communicative reflexives towards socio-cultural constraints and enablements embroils them in some form of self-renunciation. In Archer's

(2003) terms, every time an enablement is reflexively evaded, the subjects renounce self-interest for the benefit of the contextual continuity. Subjectively, this is not altruism, because the subject's concerns are invested in the collectivity, but objectively, they do forfeit the opportunity of becoming 'better off'. It is this renunciation that is involved when a young family director foregoes career opportunities outside the family business or when founders in their 70s reject retirement in order to spend time in the business. Similarly, the evasion of constraints by the determination to 'do business within one's comfort zone' is also a renunciation of potential growth resulting from diversified investments. Such a renunciation of ambition is not self-sacrifice for them "when their concerns are vested in their proximate context, for they know that their own contentment depends upon the stability of the micro-world." (Archer 2003, p. 267)

As discussed above, the typical life projects that family directors adopted were indicative of their concerns within their contextual confines. They had looked beyond their context before determining that their concerns lay within it[64]. Apparently, they prioritized relations with families and trusted ones; they conceived of projects re-endorsing their capitalist and family-business-class backgrounds. In what follows, they share a common vested interest in terms of maximizing the wealth accruing to the families. Thus, they ensure that projects fit comfortably within their original contextual confines. This way, it is evident that sponsor directors were actively reproducing their social origins in socio-economic terms. Theoretically speaking, the projects that young directors appeared to forge in their initial social context, which was not of their making or choosing, might be experimental (and thus corrigible). Nevertheless, they seemingly found sufficient personal satisfaction there to extend the experiment into a life project, thus endorsing their original and involuntary social positioning.

[64]Their siblings had done the same, but had concluded otherwise.

Of course, it is not an easy task to reconstruct the form of an internal conversation on the basis of empirical evidence; nevertheless, the evidence presented so far is genuinely indicative of contextual continuity, the prioritization of 'family and kinship' orientation of agents, and the associated contentment that, according to Archer's (2003) theorization, characterize the '*communicative*' reflexives. Theoretically, what is distinct about the 'communicative reflexives' is their ability to articulate projects that will not carry them away from their original social backgrounds - something that, to some extent, is reinforced by ideational (serving family interest) and structural (ownership and control structure) contextual continuity. Agential voluntarism, meaning here the relative readiness of family members (potential incumbent of the position of director) to embrace projects within their social context, and structural conditioning, that is, the strength with which the social background enmeshed these subjects in its confines, are mutually reinforcing (Archer, 2003; p. 228).

According to Archer (2003), the emergence of given modes of reflexivity results from a dialectical interplay in which one particular aspect of context, namely, continuity or discontinuity, 'proposes', but the nature of personal concerns then 'disposes'. Thus, during the first moment, contextual continuity proposed a communicative life of the mind to those family directors who experience it in their early life. In the second moment, as maturity approaches, they developed concerns that were complementary to their continuous contexts and became communicative reflexives. They actively contributed to the replication of their initial social placement and remained socially immobile. However, not all the family members (some second or third generation members whom I could not interview, but whom their siblings discussed) sharing the context could do that. It might be the case that their developing concerns were incompatible with the contexts they encountered, which somehow fractured their reflexivity or fostered other modes of reflexivity. What follows from the discussion is that any emerging mode of reflexivity is reducible to neither the context alone, nor to personal concerns alone.

Importantly, the interplay between context and concern was not secretly orchestrated by the psychological characteristics of the agents. Indeed, reflexivity is not a psychological trait (Archer, 2003). Each mode of reflexivity is viewed as a distinctive way of deliberating about oneself in relation to one's society. As Archer (2003: p. 349) writes, "It is the modality through which the active agent continues to align her personal concerns with her social context. However, the method of alignment varies directly with the mode of reflexivity being exercised. In the course of their innumerable internal conversations, every active agent had effectively reached conclusions about two matters, under their own descriptions. On the one hand, they had reflexively prioritised their concerns and crystallised these into determinate life projects. On the other hand, they had arrived at some orientation towards their encounters with constraints and enablements. It is the combination of these two deliberative outcomes, which represents acquiring a stance towards the society."

The emergence of *communicative* reflexivity, as reconstructed above from the biographies of agents/family directors, is advanced as the missing link in accounting for how structures (objective features of society) influence agents[65]. The CG reform/ changing CG regime results in ideational antagonism and external structural pressures on the directors to change the CG practices within the listed PLCs. Achieving success in life projects has led them to protect their family interests, whereas the changing regulatory pressures are forcing them to manage and run

[65]Generically, explanations of this process have been over-mechanical and have underplayed the active role of agents as their own social artificers (Archer, 2003; p. 349).

the PLCs in the interests of general shareholders. These two sets of ideologies, family wealth maximization versus shareholder wealth maximization, thus create an ideational contradiction between the regulatory agents (i.e., agents occupying positions in the regulatory institutions) and family directors. Due to the logical contradiction, both of these ideologies cannot be upheld simultaneously by any of the vested interest groups. Again, these two ideologies are only contingently related. This means that to advocate the ideology of 'family wealth maximization' in no sense invokes the ideology of 'shareholder wealth maximization'. The ultimate implication of such a contingent contradiction is that upholders of 'family wealth maximization' ideology can escape from the ideology of 'shareholder wealth maximization'. The situation thus presents the agents with the possibility of ideational diversity. In terms of Archer's (1995, 2003) theorization of agency, this unique ideational situation disposes agents to inflict maximum damage on one another's ideology.

Under the changing CG regime, family directors' projects start to encounter structural constraints. As part of an ongoing CG reform, regulatory institutions were not only imposing mandatory CG rules and regulations, but also made enforcement stricter[66]. Table 5.1 summarizes the change efforts and the agenda of change of regulatory institutions in a tabular form (see chapter 5 for details). Constrained with the changing structural and ideational conditions, family directors put forward efforts to avoid structural collusion, as this potentially affords them success in their life projects. Given that these are communicative reflexives, the family directors were particularly keen to maintain the continuity of the previous structural and cultural set up within which they defined their life projects and gained material advantages. Therefore, they would seek to avoid any structural and/or cultural collusion that might threaten the continuity they

[66]For example, non-compliance with the CG guidelines means regulatory institutions could intervene for enforcement of rules and regulations.

strive for. Directors, like communicative reflexives, firmly identifying their ultimate concern with inter-personal relations (family, friends and cronies), eventually adopt a stance of systematic evasion in relation to those structural constraints. They do so by making the best use of resources they have at their disposal: maintaining supreme power to control all company affairs,demonstrating compliance on paper rather than changing traditional practices,reinforcing traditional attitude, questioning the ideological standpoint of regulatory regime by bringing in counter ideology, andorganizing a coordinated lobby. Each of these avoidance strategies is discussed in detail below.

a. Family control

As has been discussed in detail previously, the ownership structure in Bangladesh traditionally features small individual shareholdings with significant sponsor-family holdings. Being the promoter of the PLCs, founder-family members form the initial BoD and manage to continue their directorship over time. Sponsor directors, holding the majority stake (more than 50 percent of total outstanding shares), essentially get supreme 'power' in the PLCs. Here 'power' implies the ability to control the decision making and resources of the PLCs. As discussed earlier, the large numbers of general (non-family) shareholders are totally diffuse and apathetic. Apparently, this gives the sponsor directors absolute control, enabling even amendments to the memorandum of association or articles of association to be done with relative ease. Sponsor families manage to preserve effective family control through the directorship even if they have only a minority stake (less than 50 percent of total outstanding shares). To secure family control, strategically, the position of 'director' is strictly reserved for founder families and their trusted ones.

Once in place, family controls have significant implications for organizational CG practices. BoD is intentionally kept dysfunctional through familial ties. Often, decisions are reached informally, and are decided by the head of the family. As a consequence, the PLCs are run as a 'family entity'. Since the board is the main determinant of the CG practices within the PLCs, directors often undermine the effectiveness of various CG mechanisms by using family control. For example, AC and NEDs cannot play a genuine and meaningful role, as would be expected by proponents of the CG reform, because of family control (see the empirics on board practices). As my research findings suggest, the position of ID is staffed with politically and socially connected friendly outsiders. They intentionally keep the AC dysfunctional by keeping their roles and responsibilities vague and ambiguous. Interviewees cited the ceremonial role they (ID) play in family-run PLCs. As one said:

"Ironically our authority and responsibilities are determined by the BoD. Meeting agenda, timing, financial reports and supporting documents are controlled by the insiders."

When asked about what qualities are normally considered for AC appointments, the answer of one founder chairman was, "*Let me give you one example. You will understand what qualities we consider. My nephew (sister's son) is the existing AC chair. He does not even understand what audit is all about."*

b. Symbolic compliance

Regulations have the power to 'constrain' the agential projects of family directors. Regulatory intervention can take the form of fines, penalties, show cases, and other forms of legal action against directors for noncompliance, and thus can constrain their projects. Therefore, it could logically be expected that agents would adopt strategies and act to avoid the activation of such a constraining power. Apparently, the directors' actions of demonstrating compliance on paper could be seen as a reflection of that strategic stance. In reality, they are continuing with the previous CG practices without any explicit and meaningful modification thereof following the CG reform. The research findings suggest that family directors make every effort to report in positive ways about CG practices and take steps to cope with regulatory changes within their 'comfort zone'. As one DMD reported about board practice:

"We (family) have non-execs, but it's still an internal board – senior managers maintain regular contact with me. I am well informed about the business even if I am not in the office. I mean, we have that system. Even if we are away, our company can run; it's on autopilot."

Another finance director's comment echoes a similar situation:
"My name is shown as company secretary. Our Head of Accounts, who has been with us a long time, is taking the CFO role. We've appointed some non-execs to our board, one of whom will chair our AC, and we're talking to someone about heading up internal control."

One CS justifies such practices as follows: *"At the end of the day, no one is going to investigate; all we need to do is box ticking."* Quite similarly, officers associated with AR preparation confirm that the checklist on compliance as disclosed in the directors' report does not guarantee real CG practices. The same is echoed in the following comment of one owner director: *"This checklist makes us think. It makes us aware of CG. Maybe we are not doing it today; we can do it tomorrow."*

It is evident from the above interview comments that directors are taking advantage of the enforcement mechanisms. In 2012, the BSEC introduced an additional certification requirement under which every listed PLC had to submit a certificate regarding compliance with the conditions of the CG Guidelines and send the same to the shareholders along with the Annual Report on a yearly basis. As the interview findings suggest, the usual practice is to manage this certificate from the auditors, as it is ‘cost efficient’ and ‘more convenient’. On the issue of legal enforcement and quality of compliance, one high official of the BSEC insisted: *“We carefully check AR disclosures and other documents submitted to the commission. A box-ticking exercise might have some limitations. That is why we have introduced the certification requirement of CG compliance. The commission is now thinking about forbidding companies from obtaining a CG certificate from their existing auditor. Hopefully, this will improve the quality of compliance.”*

Directors justified their strategy of symbolic compliance on various grounds. That CG provides no direct benefit appears to be a common justification for not changing the CG practices in accordance with the BSEC CG Guidelines.One family director said, *“Shareholders do not bother. Our companies are not getting any economic benefit from the market.”*Echoing this view, another director opined that the *“benefits of CG are an illusion.*” Both regulatory agents (on the condition of anonymity and strict confidentiality) and family owners agreed that the costs of compliance with the 2012 CG Guidelines were, to some extent, high. For example, it has been made mandatory to hire separate a CFO, Head of IA, and company secretary on a full-time basis in addition to appointing independent board and AC members. One founder of a family company gave a rough estimate of at least BDT 200,000 per month as the incremental costs of compliance, which, in his view, were prohibitive for smaller listed PLCs like his. He also added that *“current [CG] changes do not align with the entrepreneurial spirit of running companies*.” Apparently, CG changes were not supported by visible economic rewards and incentives, but by penalties. The situation eventually seemed to lead to a cavalier attitude toward CG. At times, the family owners’ remarks suggested that the whole situation encouraged them to look for ways to get around the rules and regulations.

Highlighting the weaknesses in the latest CGG, directors seemingly rejected any change to CG practices. One area of common criticism was the requirement for NEDs. All the sponsor directors interviewed harshly criticized the NEDs' role. The incompetence, absence of shareholders' mandate, lack of genuine incentives, and ambiguous authority and responsibility of NEDs were the common grounds of criticism. Independent directors' incompetence and their insufficient devotion of time and effort contributed to their ineffectiveness, indicating the ceremonial role they play in family-run PLCs. Questioning the level of commitment and dedication of NEDs, one sponsor director shared her view as follows: "*Perhaps the requirement for NEDs came on the basis of an assumption that they can raise an independent voice in the board room. My question is, do they have sufficient expertise? Even if they have that, do they have the legal power to evaluate board decisions? Can they remove me from my board if I do anything wrong? What they can do at best is to advise the board; nevertheless, it is us who are going to deal with our business, bear the risks, and suffer the losses."* In a similar vein, questioning the mandate of NEDs, many interviewees tended to undermine the justification for the involvement of 'independent' board members. For example, the founder chairman of one PLC expressed his view as follows:

"They (NEDs) are supposed to represent general shareholders' concerns. But the irony is that they are not coming with the shareholders' mandate; the board has that mandate."

Another sponsor director, while sharing with the researcher his experience of participating in a director training program, commented, *"I was kind of pissed off hearing the word 'independence' again and again. What about their competence? Real world business is different; you have to think of cost-benefit in each step*."

On the ground of preserving secrecy and operational effectiveness (for example, avoiding chaos and unnecessary delay in decision making and cost-benefit consideration), insiders tended to justify the necessity of limiting the role of different CG mechanisms. Regarding secrecy, one sponsor director expressed his concern: "*We have to be cautious. You can never know what information NEDs are taking out into the market. At worst, perhaps he or she is sitting on our competitor's board*." Interviews with CSs also tended to suggest that the board/AC meeting agenda and supporting documents are set in such a way that sensitive information is never leaked out to the 'outsiders' (in their terms), whereas some NEDs interviewed alleged that limited access to information and deliberate disassociation of board members often restricted them from performing a meaningful role in CG. A tendency to justify traditional CG practices for operational effectiveness is evident from the interview findings. For example, interview evidence seemingly suggests that directors have to manage the AGM process to avoid the potential chaos that could result from shareholders not accepting the BoD's decisions: "*Shareholders can always expect high dividends, but the board might not have that discretion when there are profitable investment opportunities in the market. So not giving enough dividends does not necessarily mean that the board is not accountable. The problem is, if the AGM is not managed, many shareholders could misuse their rights; eventually, it might end up in chaos. This has happened in many AGMs in past years."*

The former Vice President of BAPLC on shareholders and the AGM commented in a seminar organized by international donor agencies in 2009, *"Most activist shareholders are professional hecklers that try to extort money prior to the AGM in exchange for their silence at the AGM. Even with stronger SEC rules, this AGM mafia continue to blackmail companies."*

Source: Seminar on "Strengthening CG (2009)"

One CS's response regarding managing the AGM was, *"We have to be prepared for undue disturbances in AGM"*.

In summary, it is evident from the above interview comments that family directors have adopted a non-confrontational strategy of 'compliance'. By reporting compliance, they manage to avoid regulatory intervention. Their actions make perfect sense when seen in the light of the life projects they subjectively defined and the objective structural conditions they involuntarily encountered.

c. Bringing in counter-ideas

In the previous discussion, it was argued that the changing CG regimes have marked the ideological/cultural set up between regulatory agents and family directors with a contingent contradiction. As theorized by Archer (1995, 2003), this type of ideological set up disposes the concerned agential groups to inflict damage on one another's ideology. Under the banner of 'accountability and transparency' ideology, the regulatory agents bring in the ideas of 'shareholder wealth maximization', 'board independence', 'professionalism', and 'AC oversight' etc. All these ideas have been used offensively to eliminate the family directors' ideology. Necessarily, the agents encountering this situation have the incentive to bring in ideas at least to counteract those whose hegemony might obstruct their life projects. Eventually, the family directors do not stand still; they bring in some counter-ideas. However, in doing so, they strategically avoid strong ideational antagonism with the regulatory agents[67].

[67] Again, this could be considered as a reflection of their 'compromise'.

To explain why the family directors decide to avoid strong ideational antagonism, we need to reflect on the reception of ideational influences by the corporate agents. This is because the decision to avoid strong ideational antagonism was an outcome of their reflexive deliberation about the ideational condition they had encountered. Being communicative reflexives, they wanted to continue with their initial (material and ideational) contexts by prioritizing family and personal relations in running the PLCs. Since their life projects are conceived within the context of their involuntary placement, achieving success requires its continuity. It is evident from their way of conducting internal conversations (see the earlier discussion) that they make every possible effort to avoid collusion with structures and cultures (ideas, principles and concepts etc.) that have the power to constrain their life projects. For them, any form of hostile move to eliminate the regulator's ideology would somehow bring them into direct ideational collusion and activate the constraints, which might result in a change in the context of their involuntary placement[68].Therefore, the counter-ideas were brought forward as justification for their actions and the resulting CG practices on the one hand, and to weaken the legitimating basis of the regulatory institutions on the other.

At times, these counter-ideas are grounded through the concealment of partisan interests. For example, directors tended to justify the practice of managing the AGM by putting forward the idea that '*if not managed, the AGM would end up in chaos*.' This idea thus allows them to conceal their true motive of making the AGM dysfunctional so that nothing against their chosen agenda gets passed. Sometimes, these ideas seek to demonstrate that partisan interests are only seemingly so. For example, ideas such as '*owner directors are more concerned about the*

[68] According to Archer (2003), it always depends upon the nature of the projects advanced by agents whether or not constraints and enablements are activated or remain unexercised.

company and its shareholders' as '*they have more to lose if the company fails*' are put forward as if maximization of their own wealth does not matter to them at all.

Empirically, it is quite evident that company-specific CG practices in Bangladesh are shaped by the ideological standpoint and management principles of the dominant owners. Many have decided to keep to the traditional CG practices, viewing the imposed ideologies/principles as not matching with their contexts and therefore, are not applicable for them. As one sponsor director said, *"CG applies in the Western society. CG, accountability, transparency, CSR - these are a passing fad for us. In the name of CG, the BSEC is imposing an additional regulatory burden."* At times, it appears as if the regulatory changes reinforce ideas that are incompatible with the ideas, values, and norms of Bangladeshi society. The following comment echoes this view: *"If we allow shareholders to speak in the AGM, it will be chaos. Culturally, we are not ready to accept others' opinions. We try to stick to our own viewpoint. Democracy is not for us. Look at our parliament; the MPs frequently talk rubbish about one another."* Another director commented: *"The government of the country does not have accountability, the society itself lacks accountability, and our regulators are asking us to be more accountable. What an irony!"* A number of respondents appeared to insist on the idea that worldwide, various CG mechanisms (for example, AGM, audit and AC etc.) work similarly to how they are practised in Bangladesh. This was the comment of one sponsor director justifying the AGM practice: "*AGMs are arranged like this. Even the MNCs of developed countries end up managing the AGM. We know this, and we are not exception*." Some talked about Enron, WorldCom, and other debacles that had occurred in developed economies, using the excuse that even there, CG mechanisms could not function properly. The idea they tried to put forward seemed to be that 'since these mechanism could not function properly in developed economies, there is little chance of achieving the desired outcome in our country.'

The above strategies of the family directors have some implications as far as CG is concerned. They allow them to limit the space for imposed ideas, rules, and regulations and thus to continue with their material and ideational interests in running the PLCs.

d. Organizing coordinated lobby

As discussed in section 1, previous structural arrangements have put the family directors in an advantageous position. This means they emerged as the dominant group (in Archer's term 'corporate agents') striving to maintain the continuity of those structures vis-à-vis CG practices. While defending their position, these family directors, like 'corporate agents', proactively used their organized effort as a 'resource'. They formed an organization to formally represent the interests and concerns of the public listed companies, namely, the BAPLC, which gives them a strong platform to negotiate with the regulatory agents about prospective regulatory changes. The ultimate objective of the negotiation is to protect their interests and thus to achieve success in their life projects. This was evident in their organized and coordinated effort when the BSEC issued its first draft of mandatory CG guidelines. The BAPLC, the top organization representing the public listed companies in Bangladesh, raised family directors' concerns regarding the prospective change in CG regulations, in their terms, 'rigid regulatory requirements'. Resisting the proposed CG change, the Vice President of BAPLC said:

"With regard to family holdings, the thinking of shareholders here is that larger family holdings (at least 60%) are better. If the family's shareholding is diluted, shareholders complain because they feel the family managers-owners are no longer interested in the company. Therefore, it is

difficult to implement many CG governance principles in Bangladesh when the board is dominated by the family, which is exactly what the shareholders want."

Source: Seminar on "Strengthening CG"

Indeed, according to the former Vice President of BAPLC on the provision of IDs:

"Independent directors are a "double-edged sword" and their inclusion should be left up to the sponsors."

Source: Seminar on "Strengthening CG"

The BAPLC leaders not only raised their concerns regarding the nature of the prospective regulatory change, but also strategically tried to take advantage of the weak oversight and enforcement of rules-and regulations. The former Vice President of BAPLC, expressing family directors' preference for the RJSC to regulate CG matters rather than the BSEC, commented:

"Rights and responsibilities of shareholders and directors should be in the Companies Act. The Companies Act should also not conflict with Articles of Association. It is the task of the RJSC to point out violations of the Companies Act that appear in Articles of Association. For instance, the Companies Act does not allow the renting out of company property, but many Articles of Association allow it."

Source: Seminar on "Strengthening CG"

Strategically, the executive body of the BAPLC comprises high profile members who have political and familial ties, not only with the ruling party, but also with the opposition in the parliament. Two of them are ex-advisors of the caretaker government. Apparently, their lobby was strong, as the then president of the BAPLC had been a highly influential MP of the ruling political party in the government. It could be easily understood that, together, they lobbied extensively against regulatory change. They successfully delayed the strict mandatory provision of compliance when the first CGG was issued in 2006. According to one retired high official of the BSEC, "*We have had plan to impose the provision of mandatory compliance earlier. However, it gets delayed somehow. Stakeholders (the BAPLC) asked for some time before any such strict requirements were imposed*". In 2012, after six years, the BSEC enacted the revised CGG including some new provisions and requiring strict mandatory compliance. Again, this time their lobby intended to allow some of their expectations to be reflected in the revised CGG. As a senior official of the BSEC confirmed during an interview, "*The initial draft was revised more than three times based on the views of various stakeholders, particularly the BAPLC. Number of NEDs, board size etc. were the areas where the BAPLC representatives expressed their concerns, and the recent CG guideline was finalized taking into consideration their concerns and views*."

Most recently, the BAPLC leaders raised their concerns in a meeting with the regulators demanding further tax rebates as incentives for becoming public companies while raising their concern for incremental compliance costs (The Daily Star, 2015). The enactment of the new Companies Act (the Draft Companies Bill, 2012) coupled with the more up-to-date Financial Reporting Act 2013, is reported to be subject to traditional bureaucratic delays, following the syndicated interest-group politics (Financial Express, 2013). A recent ADB report also affirms this: "*As typically witnessed across reform programmes, vested interests have been trying to preserve the status quo"* (ADB, 2013).Similarly, Haque et al. (2011) revealed that a number of CG reform initiatives were reportedly constrained by interest-group politics involving politicians, bureaucrats, and the controlling owners[69]. The findings are consistent with several studies (Uddin, 2005; Uddin and Hopper, 2003; Sobhan, 2002; CPD, 2000) that regard crony capitalism as one of the major constraints in implementing financial-sector as well as institutional reform in Bangladesh.

The role family directors assume occupationally seemed to be quite conventional to their context. Because the ultimate concerns of communicative reflexives are vested in inter-personal relations, this group fosters social integration at the expense of systematic development and morphogenesis. While recognising that the practices of individual agents are not intentionally geared towards producing societal effects, Archer (2003) argues that "their microscopic nature does not deprive them of cumulative significance." To appreciate the cumulative significance or macroscopic consequence of communicative reflexivity, she draws on Lockwood's (1964) distinction between social integration (the orderly or conflictual relations between members of society) and system integration (the orderly or conflictual relations between parts of society). The prime concerns of communicative reflexives are vested in their relationship to the 'people' of society, rather than the 'parts'. As products of early contextual continuity, who embrace some form of inter-personal relations as their ultimate concern, their strategic stance eventually succeeds in continuing with their initial context, which enables them to do what they care about most. The next section considers this group fosters social integration at the expense of systematic development and morphogenesis.

Management and executives

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[69]This notion tends to corroborate the observation of Roe (2003) and Gourevitch and Shinn (2005) that the technical institutions of investor protection might lose significance to the political economy considerations of whether the polity wants to protect investors.

Traditionally, family directors would ensure they were directly involved into day-to-day management in listed PLCs. However, this scenario is changing. In more recent times, some PLCs are hiring professional managers who do not have any familial or other form of ties with the controlling shareholders. As discussed in section 1, family directors' relationship with such non-family managers and officers was that of an employer-employee type. The regulatory structure granted company boards, in essence, owner directors, the legal authority to decide about executive appointments, remuneration, performance appraisal, and dismissal (Schedule I, Companies Act, 1995; CG Code, 2012). The directors interviewed talked about the necessary arrangements they made in articles of association to empower the board in this respect. It comes as no surprise that managers, who are hired and controlled, would have little incentive to act in the best interests of the general shareholders. This resulted in managers reflexively making relationship-oriented investments, thereby serving the interests of the dominant owners. In extreme circumstances, acting against their interest could mean losing their job. This way, the unofficial norm of family loyalty and/or fear became deeply internalized in local PLCs.

Such norms seemed to be evident from the interviews with senior managers and executives. Senior managers, even those who were hired on the basis of their professional competence, reportedly appeared to owe their jobs to the sponsors and hence were reluctant to act in contradiction with family directors' interests and views out of a sense of loyalty and/or fear. The level of loyalty, arguably though, is vivid in the following manager's remark:

"*Culture is different. I don't leave the office until the MD leaves.*"

It seems as though doing one's official job is not enough in the context; he/she has to demonstrate greater commitment even at the cost of staying late.

This was the view of one young CFO regarding accounts manipulation and ceremonial compliance:

"*Not only am I doing it. I can guarantee you, no manager, whatever is his professional background, can work without affecting the interests of higher ups [owner directors] in our local companies. That environment simply doesn't exist. MDs have enormous power. If they sack me, will the BSEC come to check what is going on?"*

The above manager's comment makes sense when seen in the internal structural and cultural context of the listed PLCs. In an environment where performance targets and outcome were defined, measured, end rewarded from the perspective of family owners, managers would have more incentive to remain compliant with family owners' interests compared to shareholders' interests.

Theoretically speaking, necessary complementary relations (i.e., employer-employee relations) predisposed the agents holding these positions *to protect* each other's interests. Hence, accountants did not report any financial information that went against the interest of family directors. In a similar way, heads of the internal audit tended to keep balance of their functions reflecting the directors' priority of compliance with CG code, while external auditors rarely seemed to qualify the opinion to shareholders, since the auditor nominated by the finance director/MD would finally be elected in the AGM. In this way, each agential group (directors, managers, accountants and auditors) was *apparently protecting* each other's interests, thus *reproducing* the traditional structures (ownership and control structure, regulatory structure) and cultural norms (family loyalty and/or fear).

The actions of managers and executives make perfect sense when we locate them in the structural contexts in the light of their concerns and interests. They were responsible for serving the PLCs under the supervision and control of the family directors. The better they could serve,the better was their chance of progress in their career. Salary, appointment, performance appraisal, and dismissal - everything was the authority of the owner directors. The direct involvement of owners and their trusted ones in the decision making combined with various formal and informal communication channels meant putting in place control structures regarding the realization of company goals aligned with family goals. This structural bond did not change when regulatory changes were taking place, and thus, managers and executives strategically acted to ensure that their job was secure in a way that eventually served the interests of the owner directors. My interview findings suggest it had implication for moral hazard or managerial opportunism.

To summarize, building relationships and trust with owners was indeed in the material interests of non- family managers. Eventually, that led to agency passively registering with the internal structural set up. Changing rules and regulations did not seem to alter the apparently simple but complex structural set up creating either incentives or pressures for managers, executives, and professionals to act in the best interests of the general shareholders. Theoretically, the situation could have been different had there been a change in the organizational structure/culture within which managers and executives were residing. Under a structural/cultural change at the level of first order relations, the chance of success of imposed ideas could have succeeded. However, in the absence of any such real change, managers and executives took action in line with their material interests driven by the structural conditions in which they were residing.

General shareholders

As discussed in section 1 of this chapter, previous structural and cultural circumstances put general shareholders in a relatively disadvantageous position compared to the family owners in terms of their command over resources. Given their position of 'non-controlling owner', they had few resources, such as limited access to information, decision making and voting rights, to protect their interests vis-à-vis improving CG practices. Over time, the strategies and actions of family owners actively shaped the structural contexts of CG, which shareholders had to confront as a material interest group. As such, the context led non-controlling owners to emerge as a passive group or primary agents.

Shareholders' trust in the capital market was severely shaken following the two massive stock market collapses. In this context, CG reform has been taking place with the far reaching objective of enhancing shareholders' rights, although its success has been questioned in some recent studies (?). Haque *et al*. (2011) show that the domestic equity culture does not appear to have provided sufficient incentive for unscrupulous controlling owners to modify their behaviour, thus adversely affecting the interests of general shareholders. The lax regulatory oversight in disciplining the listed PLCs with regard to dividends, disclosures, and other CG matters is vividly apparent in the extant research (Solaiman, 2006). Shareholders cannot actively participate in AGMs, express their concerns on suspected misconduct, or pursue remedy in court.

My interview findings suggest that calculated and informed investment decisions appear to be less common in Bangladesh even in the changing context of CG reform. Till now, small individual shareholders have tended to invest by targeting short-term capital gain; in their view, it is more profitable to keep money in banks or savings certificates than to invest in the share market to earn dividends. Investment decisions usually are made on an arbitrary basis.

Shareholders' tendency to make investment decisions based on market speculation, rumour, and gossip, which is often exacerbated by groups of unscrupulous owner directors, has been identified as one of the reasons for the stock market turmoil in Bangladesh[70]. Consistent with such allegation, the tendency to gamble is clearly apparent in the following shareholder's comment: "*I observe the market trend of share price, market speculation [news, views and rumour of others] and consult with my circle of friends. It [making capital gain] is also a matter of luck. The share price goes up and down like waves in the sea. You can only gain if you get out of the market [meaning selling the shares] before the wave breaks [price starts to fall].*"

For them, issues like monitoring directors and managers by applying voting rights, or acting as a pressure group for timely, transparent, and reliable financial reports etc. are matters seemingly beyond their control. Shareholders interviewed said they could not think of attending an AGM to demand dividends, nominate board members, or any other issue. A persistent lack of trust in the actions generating a genuine CG effect was reflected in their responses. The following shareholder's comment signified it well: "*What difference could I make [by voting]? No one is concerned.*" This shareholder's proclivity towards some form of rudimentary reflexivity, which Archer (2003) would term as 'near non-reflexivity', is apparent in the above comment.He could not think of acting instrumentally to defend his legitimate rights. Because he did not see any value in instrumental action, he then fell back upon 'taking things as they come'; this epitomised his passive 'stance' towards the structural contexts of CG he was facing. Echoing this view, another interviewee showed a clear bent towards near non-reflexivity.At times, their comments seemed to indicate that they did not consider themselves as the owner of the PLCs.The following

[70] While explaining the context of 2011 share market turmoil, CPD (2011) talks about the influx of investors eager to engage in short term trading as if they were participating in a 'Keynesian Beauty Contest'.

comment is typical of this attitude: "*They [directors] are the owners; they know better than us [shareholders]. Would they do it [business] listening to people like us?*"

Equally, general shareholders displayed many of the patterns of behaviour common to fractured reflexives, such as a lack of ability to monitor oneself in relation to one's circumstances and the difficulties encountered in articulating projects guided towards instrumental actions for change in the CG practices of the listed PLCs. For example, without making any visible effort to make calculative and informed decisions or to update their knowledge, whenever any stock market turmoil occurred, they reportedly took the path of violent riots, often resulting in clashes with the police; vandalising public and private property; and setting on fire tires, papers, and other random objects[71]. A number of investors even committed suicide in the wake of the 2011 stock market crash. Thus, their fractured reflexivity manifested itself in their lack of ability to use the inner conversation to project a purposeful course of action in defending their rights through improved accountability and transparency vis-à-vis CG from the family owners of the listed PLCs. The consequence is that shareholders became passive in relation to their future. This was epitomized by their reaction to my question about looking further ahead, what precautions they had taken following the stock market crash, and how they envisaged getting into calculative investment. Confronted with the future, their fractured reflexivity left them powerless; 'time will say', 'fate matters' were their replies. It seemed to me that either their mental deliberations were not helping them to become more purposeful by envisaging the future, or they were not convinced whether the situation was worthy of the action of marshalling the few resources

[71] The BBC (2011) reports that "… violent riots sparked out in front of Dhaka Stock Exchange, after shares fell over 9% in one hour, representing the biggest fall in the exchange's 55-year history.…distressed investors took to the street. The impoverished little guys set fire on wood and paper in front of the DSE building, blocked the traffic and intoned their platitudes of angry slogans demanding actions against the top brasses of the premier bourse and market regulators." Investors are venting their frustration to the regulatory regime they feel has not taken adequate steps to protect small investors (The Time, 2012).

available to them. As the next section shows, they neither activated constraints and enablements, nor did they act in such a manner so as to suspend the exercise of those powers.

Apparently, shareholder activism did not make any sense to them. General shareholders, as a vested interest group, tended to lack the much needed alliance formation, goal dilution, and ideological accommodation to become an effective force against the structural status quo of CG defended by the dominant corporate agents (controlling owners) and their allies. The only platform of shareholders, the Bangladesh Share Investors' Association (BSIA), appeared to be less organized and proactive in protecting the interests of its members. Its actual role appeared fall far short of the strategic role it could play in terms of a pressure group for change in the CG practices of the listed PLCs. In the face of the massive stock market turmoil in 2011, the BSIA leaders reportedly organized some protests, such as blocking the streets, chanting slogans, forming human chains, and staging demonstrations outside the DSE premises. Importantly, the BSIC's token hunger strikes and continuation of fast-unto-death program demanding action to protect small investors attracted huge media coverage. Several senior politicians affirmed their solidarity with the protesters.However, after the arrest of a number of its leaders (which the police have always denied) on allegations of calling day-long strikes, its activities became nearly invisible in the public domain except for one press briefing. In the briefing, the BSIA members managed to present 15-point demands, which included granting bail for the arrested leaders, withdrawal of the case, assurance of the freedom of speech without being abducted again, and the right of consultation with capital market regulators on the agenda of proposed changes. Hence, its activities seemed to be limited only to press briefings and protests at times of market turmoil. All such evidence led me to conclude that till now, individual shareholders in Bangladesh have been fragmented.

Of course, the corporate agents' aggressive pursuit of their vested interests, often at the expense of shareholders' rights, was frustrating for the latter. This, in turn, was likely to put the latter in a position where they could insist on change. Theoretically, what it conditioned was the possibility of the emergence of a pressure group (or corporate agent) insisting on change. Quite reasonably, then, the changing structural situation (*e.g.,* rules and regulations to enhance shareholder rights) was likely to enable them to transform into an assertive group challenging the status quo of the dominance of the family owners vis-à-vis CG practices. Yet the shareholders whose projects were objectively obstructed (*e*.g., not getting dividends) failed to emerge as corporate agents based on their discontent with the dominant corporate agents, as far as CG was concerned. Given such a situation, they retained their status of passive agents to whom things happen, rather than converting into active ones who can participate in making their own future life. They seemed to be incapable of taking an active stance towards society in terms of protecting their interests through demanding changes in the CG practices of the PLCs. They were simply 'taking things as they come'.

It is clear that structural circumstances (e.g., limited access to resources, weak legal protection of investor rights, and lack of organized efforts etc.) were fracturing the reflexivity of shareholders. This means that they deliberately decided in relation to CG that they would not be able to successfully accomplish the progressive specification of concrete courses of action, which involved the trajectory, concerns⊙ projects→ practices, through their internal reflexive deliberation. Since the agential reflexivity was somehow fractured, asking and answering themselves (fallibly) about how they could strategically realize their material concerns drawing on CG regulatory changes made little sense to them. It seems to be evident from my interview findings that they were facing difficulties in conceiving of concrete projects, assuming that they had far better chance in speculations than they would making any inroads in CG. Eventually, the atomistic nature of primary agency (unsystematic and individualistic) had to give way to the systematic co-action of dominant corporate agents.

6. 3 Structural and cultural elaboration at time T3

The outcome of the social interactions described in the previous section is the structural and cultural elaboration. It is important to note that the anterior structural context within which the social interactions took place involved three sets of interlinked structures: (i) internal and necessary relations between positions within the companies, (ii) internal and necessary relations between the companies and other regulatory institutions, and (iii) wider structures of the State, its institutions, civil society, and the economy. Therefore, to understand the outcome of the social interactions, we need to understand the changes (morphogenesis or morphostasis) that took place within the above interlinked structures individually. The objective of this section is to describe the changes. Certainly, the description needs to be started from the highest order relations, as changes at higher level structures have implications for lower level relations[72].

Pressures were exerted by external international donor agencies to bring 'accountability and transparency' into the private sector by reforming the local CG framework in line with Western best practices. Accordingly, those external pressures created a strain on the wider structural domain (third- order relations), insisting the government follow their suggestions.Previous research confirms that the government and polity in Bangladesh were always in a position to

[72]Changes do not necessarily have to cascade down from the higher level always. Sometimes lower level changes can bring about upper level changes or certain change in any part of the society can have rippling effect on the whole.

influence the regulatory institutions. The reported intention of the agents (having the key decision-making authority in the BSEC), that is, to supposedly get rid of influences from the government and polity, could be seen as a sign of the abandonment of a protection strategy. However, in reality, that did not take place. As the following section shows, structural morphostasis was the most likely outcome of such an apparent continuation of the protection strategy.

At the level of second- order relations, the relationship between the PLCs and the regulatory institutions was marked by an inherent contradiction. Even when such an inherent contradiction existed, there was also a shade of compatibility in reality. Particularly, this was in 1993, before the establishment of the BSEC, when some form of compatibility existed because of the absence of strong regulatory enforcement by the then regulatory institutions. Around that time, the situation started to change mainly due to the pressure from the government on regulatory institutions, particularly the BSEC, for CG reform. As part of an ongoing reform, regulatory institutions were not only imposing new CG rules and regulations, but also were making enforcement stricter. Over time, and at a greater pace, the element of contradiction at the level of structural domain 2 became more explicit, thus blurring the element of compatibility. This was indeed a function of the influence of the wider structural domain 3 on structural domain 2. The contradiction became even more pronounced when the BSEC came forward with donor-prescribed CG reforms imposing a 'different ideology' (but certainly not new) of 'accountability and transparency' for the listed PLCs on a mandatory basis. In fact, the mandate of the whole regulatory reform was to increase corporate accountability and transparency to protect the general shareholders' interests (CGG, 2006; 2012). Family directors had a different set of ideologies (traditional values and norms) of how and in whose interests a company should be run. These two sets of ideologies created an ideational contradiction (Uddin and Choudhury, 2008). On the one hand, achieving success in their life projects led them to run and manage the company in their best interests, while on the other hand, the structural pressures they faced due to CG reforms were forcing them to manage and run the companies in the interest of general shareholders. Since the PLCs and the regulatory institutions were also internally linked, that unique structural configuration disposed the owner directors of listed PLCs to reach a 'compromise'. This compromise at the level of second- order relations meant that the eventual outcome of the social interaction was a structural morphogenesis (change).

As described earlier, the regulatory institutions were embroiled in the situational logic of protection with the government and polity. In the absence of changes in structural domain 3, agents holding positions in regulatory institutions could not totally abandon the strategy of protection. This failure apparently led the regulatory institutions sometimes to reach a compromise with the listed PLCs. Taking advantage of such 'compromise', PLCs were able to manage some concessions (for example, owner directors using their political links with the government successfully lobbied to limit the proportion of NEDs in company boards to 1/5 of all directors).

Under a structural change at the level of second- order relations, agents holding positions within the PLCs (shareholders vis-à-vis BoD vis-à-vis management and executives) started to encounter different forms of constraints and enablements depending on the life projects they were pursuing. In family-owned PLCs, matters become more complex as an agent can have multiple roles and responsibilities. It is usual to see the same individuals serving as manager and director while being the owner. Thus agents, as part the family ownership structure, may occupy the position of members of the same family, and the same agents, as part of the organizational control structure, may eventually occupy the position of director and manager; As theorized in the ICT, multiple structures are likely to dispose the agents in different, and at times, opposing directions. As the following section shows, the conflicting structural configuration opens up further space for human agency (Ashraf and Uddin, 2013), reflecting that family owners adopted certain courses of action that were in their family interests but not in their control interest (for example, they ignored the structural pressures associated with the position of director and manager).

There is no doubt that the recent CG reform exerted significant external structural pressures on the PLCs to change their CG practices.However, within the PLCs, the structural arrangement had its own dynamics and pressures (Stergiou et al., 2013, p. 9). Change in company-specific CG practices was dented not only by the internal structural arrangement (such as ownership structure, organizational control structure, and culture), but also, and more importantly, by the roles played by various agents within the PLCs, especially the owner directors, as previous discussion suggests.

Under the changing CG regime, owner directors' projects started to encounter structural constraints[73]. Elsewhere it is mentioned that the anterior structural matrix had put them in an advantageous position of 'controlling owners'. As such, they had vested interests to maintain the continuity of the anterior structural and cultural set up within which they defined their life projects. Theoretically, the role of agency becomes more pronounced when different structural dispositions influence the agents into somewhat opposite (and, at times, to some extent confusing) directions. This was applicable for the owner directors. As far as the owner directors were concerned, they were facing structural sways of a changed regulatory environment on the

[73] It is important to note that constraining power of regulation existed even before the CG reforms given the nature of the owner directors' life projects. However, such constraining power was not efficacious mainly because of the lack of strict regulatory enforcement and oversight. In the post-reform era, this situation got changed.

one hand. On the other hand, structural (cultural) conditions inside the PLCs disposed them to ensure that internal structures/culture vis-à-vis CG practices remained unaltered. Being communicative reflexives, any change beyond the statutory boundary of compliance was deemed to be not only 'unnecessary', but also 'uncomfortable' to those controlling owner families. Communicative reflexives, firmly identifying their ultimate concern with inter-personal relations (family, friends and cronies), adopted a stance of systematic evasion in relation to constraints[74]. To this end, they employed strategies, in a non-confrontational way, making the best use of their resources, such as family control, alternative ideologies, and organized effort. Strategically, they managed to avoid collusion with the changing external structures. Especially their box-ticking strategy of showing compliance on paper tended to allow them to successfully avoid regulatory interventions (or the activation of the constraining power of structure). Accordingly, some 'new' positions like CFO, NED, HIA, CS and AC were created as part of their strategy of reporting compliance. The thesis throws light on how the evasive stance towards constraints serves to preserve the contextual status quo.

Another material interest group or agent operating in structural domain 1 was the general shareholders. The anterior structural matrix put them in the position of 'non-controlling owners'. Although these owners had a structural predisposition to become a locus of opposition to the prevailing structures vis-à-vis CG practices, they eventually failed to transform into an oppositional group. Even after the CG reform, they remained in an anomic position. Apparently, they suffered from frustrations in the situation they encountered; as such, it fractured their ability to exercise internal deliberation. This in turn made them 'passive'. For them, the extant structural

[74] Even though the effect of such evasive stance was social reproduction, this has to be recognised as a positive achievement of active (not passive) agents.

context turned out to be one not worthy of strategic action. Hence, they were passively registering with the structural context shaped by the strategies and actions of the dominant corporate agents, i.e., family owners. The other agential group, managers and executives, appeared to act reflexively in the interest of the dominant corporate agent. They retained their status of primary agents and continued to make an aggregate effect of action (rather than an organized effort to bring or resist change) in the reproduction of internal structures/culture.

It would seem that the incumbents (agents) occupying the ‘new’ positions in structural domain 1 failed to bring about any ‘real’ change in traditional structures/culture vis-à-vis CG practices. Within the PLCs, agents (incumbents) occupying the ‘new’ positions necessarily faced the internal structural/cultural matrix. They tended to conform to the internal structural influence, ignoring the external structural pressures and rational requirements associated with their positions. Indeed, they could not effectively act against the internal structural and cultural set up marshalling the resources they have at their disposal. Even, in many cases, incumbents moving into these ‘new’ positions were not adequately concerned about their roles and responsibilities. Some deliberately prioritized personal relations and accomplishments over the formal requirements of their positions. Thus, it is evident that the internal and external structural influences/stimuli are weighted by agents using multiple and at times conflicting interpretive frames (Stergiou et al., 2012). Eventually, the outcome of agential interaction is structural/cultural reproduction or morphostasis at the level of 1st order relations.

T^1 Structural and cultural conditioning

Directors

Communicative reflexive

- Contextual continuity: family business class
- Smooth dovetailing of concerns: prioritization of family and relationships
- Contentment: consciously reproducing familial background
- Organized resistance effort of corporate agency towards structural and cultural reproduction

Shareholders

Near non-reflexive

- Nearly incapable of reflexively deliberating about the situation
-Distressed that their efforts won't make sense
-No active stance towards society, passively conforming to the conditioning effects of structures and culture
-Aggregate effect of primary agency on structural and cultural reproduction

Managers and executives

Fractured reflexive

- Reflexively fractured somehow
- Making relationship oriented investment
-Aggregate effect of primary agency on structural and cultural reproduction

Conditioning

T^2 Socio-cultural interaction **T^3**

Structural elaboration at 2nd order relations (morphogenesis)T^4

Structural reproduction at 3rd and 1st order relations (morphostasis)

Figure 6.3 The place of conditioning in Archer's morphogenetic cycle

To summarize, this thesis theoretically argues that changes in the wider structural environment (i.e., the regulatory reform at structural domain 2) could not bring about significant structural and cultural change within the PLCs (i.e., in structural domain 1) following the actions and interaction of different agential groups. The result of this was a structural morphostasis at the level of 1st order relations. This is presented in Figure 6.3 above.

However, agential interpretation has its limits (Stergiou et al., 2012). That is why none of the owner directors could entirely ignore the regulatory influences. At least they were reporting compliance in the annual report. Agents moving into the new positions were also maintaining the minimum formalities associated with those positions. For example, NEDs attended the quarterly board meetings and AGM, CFOs certified the integrity of financial reports, and the AC reported about its actions and decisions in the annual reports. In the thesis, these actions are viewed as 'compliance', which does not entail substantive change in the actors' ways of thinking and doing[75]. It argues that real change in 'practices' implies substantive change in ways of thinking and doing something, which does not seem to happen in Bangladeshi in the context of the ongoing CG reform.

At this point of the analysis, it is both theoretically and empirically important to shed light on what explanatory purchase ICT provides in answering the research questions that other theoretical positions, in particular agency theory, could not provide. This is important, since theoretical concerns on the extant literature provided the motivation for this research. To do that,

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75 In a sense, this view is in sharp contrast to Tremblay and Gendron's (2011) view on 'compliance'. According to them, 'compliance' implies substantive change. Change is substantive when it affects the self, the soul, and one's ways of knowing and interpreting the world (Flyvbjerg, 2001). To summarise, this thesis views 'compliance' as any form of (formal or superficial) adherence to legislation/code and 'practice' as the ways of thinking and doing something in the real world.]

we need to recognize that in all cases where structure *influences* agency, an interaction of two sets of power is involved. According to Archer (2003, p. 127), "Often this is not specified since the relevant human projects are so universal that they are taken for granted: no one (except the suicide) wishes to drown, and everyone (except the hunger striker) wishes to drink. Yet, the existence of these exceptions shows that it is indeed a human project to avoid drowning and to slake thirst- however general these may be and however automatically they seem to work as human responses". In a similar vein, the empirics presented might suggest that the actions that agents were actually undertaking were in line with their material interests driven by the structural conditions they encountered. For example, controlling owners' efforts to continue their dominance of the board to a significant extent can be explained by their material interests (or structurally induced motive) in family wealth maximization. The point I argue in this thesis is that such an empirical manifestation of structural influence on agency does not deny the existence of agential life projects (however general they might be) and the reflexive power of deliberation. Implied within this process of influence (or mediatory process) is the agential reflexive deliberation through which they reflect on structural influences (internally and always fallibly) to decide about the actions that would enable them to do what they care about most in the society. Theoretically speaking, it is the process through which structural influences are mediated through agency. This final stage of mediation is indispensable because without it, researchers can have no explanatory purchase upon *what exactly agents do*. Deprived of such an explanation, according to Archer (2003), sociology has to settle for empirical generalizations about 'what most of the agents do most of the time'. The following section this paper, in providing an explanation, captures the nuances conditioning agential actions rather than falling into the trap of empirical generalization. This, in turn, allows us to see that at times, the actions of some agents were not in their material/structural interests. For example, some of the family owners' actions to discount/forego growth opportunities actually went against their economic interests. They deliberately prioritized other concerns, like doing business within their comfort zones and long-term sustainability. Such actions make sense when we see them in the context of the life projects that influenced those agents. Similarly, the monitoring role of general shareholders could not be genuinely explained with reference to their material interests only. Indeed, many of their actions (for example, not exercising voting rights in AGM) contradict their material interests of wealth maximization, as posited by agency theory. They were not exercising their voting rights because they could not take an active stance towards the society. They were passive, simply 'taking things as they come', and passively, they were confirming controlling owners' dominance in AGM and allowed the continuation of such dominance, which eventually damaged their material interests (e.g., BoDs manage to escape declaring dividends in the AGM). Attempts to explain such empirics from an agency theory perspective thus could give the wrong signal about the genuine motive of these agents.Theoretically, this paper also raises concerns about the prescriptions based on the assumptions in the neo-classical economics underpinning agency theory that has dominated the extant CG literature. For example, this thesis reportedly has not found any substantial support for the agency theory-based prescription that the inclusion of IDs could reduce agency conflicts within the PLCs. Diverging from agency theory prediction, my findings rather tend to suggest that IDs neither play any 'control' role nor any 'service' role in the listed PLCs.

Concluding words

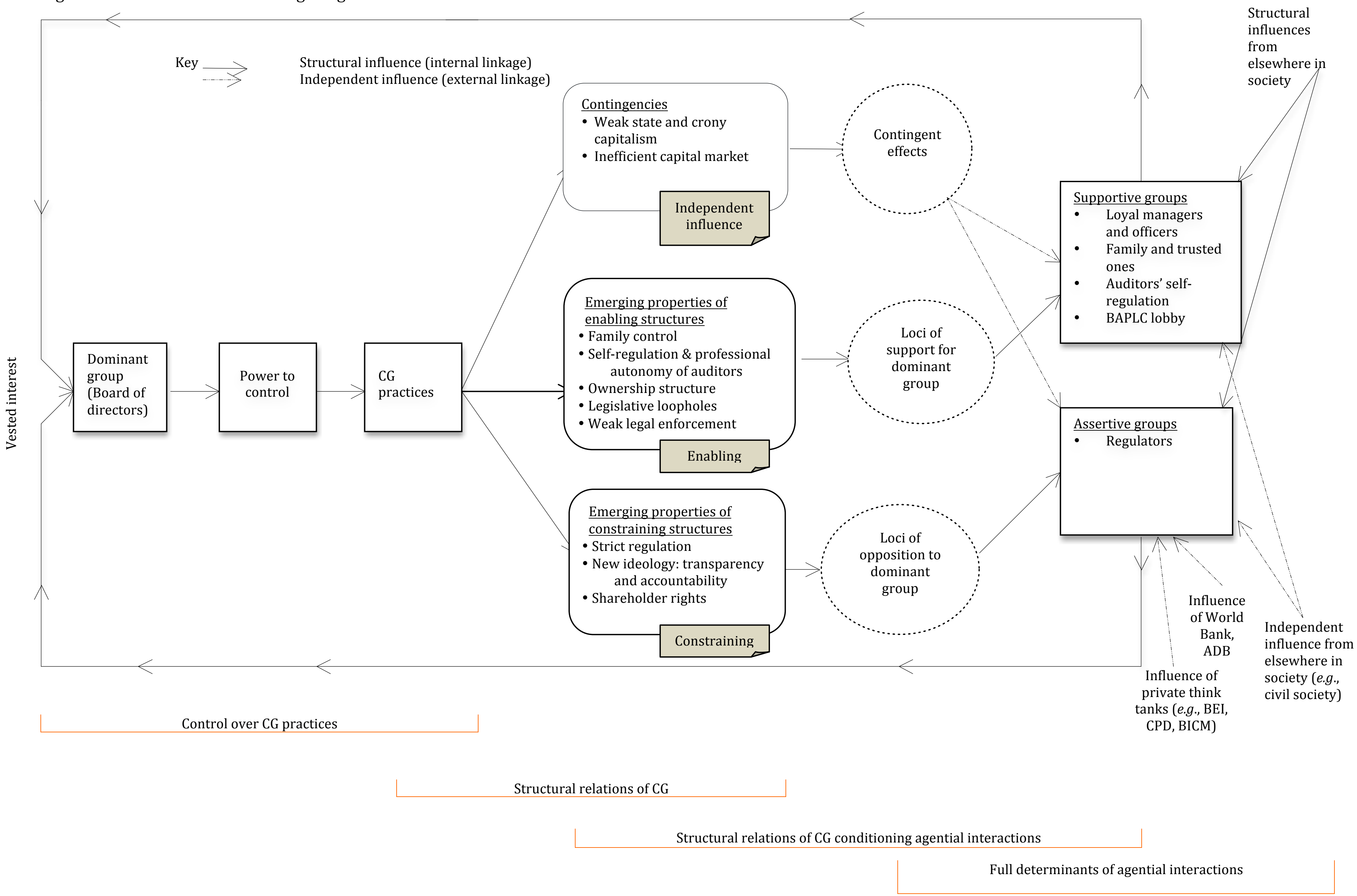
To summarize, this thesis provides an analytical history of the emergence of the structures and cultural properties that shape CG practices within the listed PLCs. In so doing, it brings to fore the role of human agency in promoting or resisting changes in structures and culture vis-à-vis

CG practices. As the thesis finds, it is the dominant family owners who eventually manage to continue with their dominance by reproducing the CG practices within the changing structural and cultural conditions. To capture their interaction with the emerging properties of structures and culture, therefore, a model of structural conditioning of agential interactions is developed in Figure 6.4 (see page 231).

As per the model shown in Figure 6.4, family owners (corporate agents) in pursuit of their vested interests deliberately restrict the positions on the BoD to family members and trusted ones. Using those positions, they eventually get family control established in the listed PLCs. This, in turn, allows them to run the PLCs (in which numerous shareholders usually have the majority ownership stake) as 'family entities'. Thus, family control emerging from social (family institution) structures enables the owner directors to undermine the spirit of various CG practices (see Chapter 5), which is intended to enhance shareholders' interests. They take advantage of the legal structure in terms of legislative loopholes and weak legal enforcement (see Chapter 3). Similarly, auditor's self-regulation, poor quality audits, and the lack of professional standardization ultimately benefit them. Information asymmetry emanating from the ownership and control structure also allows insiders to serve their best interests. In the model, all these are viewed as the emerging properties of enabling structures, which work as loci of support for the dominant corporate agents. As corporate agents, they also make an organized effort in the banner of the BAPLC. The agents together with their loyal managers and friendly outsiders (such as IDs, AC members and auditor) are transformed into a supportive group resisting change in the CG practices of the listed PLCs. The systematic coaction of this supportive group generates a strong conditioning effect on the continuation of their dominance in the listed PLCs. This effect is further intensified by the existence of numerous contingencies, such as weak state, crony capitalism, underdeveloped capital market, and divided polity and civil society, among others (see chapter 3). Shareholders in pursuit of their vested interests fail to convert into loci of opposition to the dominant corporate agents drawing on the emerging properties of the constraining structures (such as strict regulation and ideologies of accountability and transparency). They retain their status of primary (or passive) agents. As discussed in this chapter, the constraining influences of the regulatory institutions (that is, the only assertive group promoting change in the CG practices of the listed PLCs) and the aggregate effect of primary agency having to give way to the systematic co-action of the dominant supportive group, the result of which is a reproduction of structures and culture vis-à-vis the CG practices in the listed PLCs.

This chapter has explained the apparent absence of change (or marginal change) in the CG practices of the listed PLCs in the context of CG reform using a particular theoretical lens. In essence, it answers the second research question. The next chapter will discuss how this ‘explanation’ fits in with existing knowledge and what contribution this research makes to the CG literature. This is followed by a brief discussion on the limitations of this research. The thesis is concluded by highlighting its major policy implications.

Figure 6.4: Structural conditioning of agential interactions



Chapter 7
Summary and Conclusions

The final chapter of the thesis is divided into three sections involving three important issues. The first section deals with the empirical and theoretical contribution of the thesis to the extant CG literature. This is followed by the second section, which acknowledges the main limitations of the thesis. The last section concludes the thesis by highlighting some practical policy implications.

7.1 Key insights and contributions of the research

This research has sought to examine and explain CG practices in the context of CG reforms in a developing country such as Bangladesh. To achieve this, it draws on Archer's (2003) ICT with a critical realist (Bhaskar, 1997, 1979) philosophical backdrop.The questions it seeks to answer relate to the following broad objectives:

1. Empirical concern: to provide a detailed account of CG practices of the listed PLCs following the CG reforms in Bangladesh and to assess the extent to which this signifies change, if any
2. Theoretical concern: to theorize the change or absence of change in CG practices using political-economy approaches, specifically, ICT
3. Practical concern:to note the practical policy implications of the CG reforms in Bangladesh

7.1.1. Empirical insight

This research provides a detailed empirical illustration of CG practices. Specifically, the findings provide evidence with regard to the board, the audit committee (AC) and internal control, annual general meeting (AGM), FR, and audit practices. The thesis, in brief, tells the story of CG changes in a context whereby listed PLCs with a separation of ownership and control have been managed and run by family owners thus aligning the interests of both ownership and control. Not surprisingly, the prescribed CG changes have been built on the twin pillars of shareholder supremacy and the typical agent-principal relationship. Family owners (occupying the position of 'director') were prescribed to act like shareholders' agents in a context where CG apparently made little or no sense to the former.

The recent CG reform in Bangladesh has placed considerable emphasis on board governance practices. Specific regulatory changes have been proposed in the areas of board independence and professionalization. To develop awareness and understanding about intended board practices among company directors, regulators, and stock exchange officials, various training programs had been arranged. As my research reveals, most of the listed PLCs had appointed independent directors onto their board following the CG reforms. Almost all the rituals surrounding board practices as required by law were found to exist. In practice, however, boards are characteristically dominated by founder families (or controlling owners). The position of independent director tended to be staffed by friendly outsiders who have ties (political, social or other) with the founders. Even if they meet the 'independence' criteria in legal terms, they play hardly any decision-making role in the board room. It seems the professionalization of boards has not taken place. This research finds evidence of family members (e.g., wife/son/daughter), cliques, and friends sitting on the boards despite not having any relevant professional background. Family-directors, as part of their strategy of keeping family control, reserve part or all of the senior management positions for family members and their trusted ones. As a general practice, decision-making authority tends to be centralized in the MD or chairman (usually the head of the founding family) while decisions are normally made outside the boards. The board practices, in essence, consist of the rubber stamping of those decisions. The scope of board meetings is usually limited to approving the quarterly financial reports, financing, dividends, and other proceedings that require board approval by law. Holding statutory board meetings, keeping agenda and minutes, reporting director attendance, and other similar formalities seem to exist as rituals to fulfil regulatory compliance. This, in turn, tends to subvert the genuine spirit of the CG reform. 'Accountability and transparency' in the western sense (i.e., recognition of shareholder rights) appears to be non-existent. To date, independent board members (or 'outsiders' as family-directors view them) are not performing their intended role in terms of protecting general shareholders' interests in practice. Overall, this research finds that an active, independent, and professional board culture is yet to develop in Bangladesh.

The AC, as a sub-committee of the board, has been proposed as an essential mechanism of CG through the recent CG reform. The mandatory provision on AC formation with an independent chair is considered as a significant move towards overseeing the integrity of financial reporting. The empirical evidence suggests that substantial formalities surrounding the AC's operation do exist in the PLCs. In practice, however, AC members, who have cosy relationships with the family owners, do not seem to perform the intended overseeing role. External auditor appointment, remuneration, management-auditor dispute, internal audit findings etc. are never put on the discussion table in AC meetings; rather, the AC meetings remain a symbolic formality. The AC roles, as discussed in the empirical chapter (Chapter 5), are limited to some 'ceremonial' functions, like holding the statutory meetings, signing the quarterly reviews of financial reports, reporting the AC's decisions and actions in the annual report, and keeping minutes and other documentation as evidence of regulatory compliance.

Similarly, all rituals and official formalities surrounding AGMs are reportedly found in the listed PLCs. In practice, however, as the empirics suggest, these meetings scarcely provide general shareholders with a level playing field for exercising their voting rights. By hiring 'muscle men', manipulating voting mechanisms (e.g., casting votes on a 'show of hands' basis instead of a 'one share, one vote' basis), keeping the meeting short and chaotic, and so on, family directors strategically distract shareholders (who eventually have the majority stake in many of those PLCs) from voting. Thus, this research finds dysfunctional and stage-managed AGM practices common in most family-owned PLCs.

Following the recent regulatory interventions, financial reporting and disclosure practices were considered likely to change. However, the interviews reveal that the controlling owners apparently took advantage of the country's somewhat ailing legal and regulatory structures through various forms of manipulation in accounting practices. Remarkably low audit fees coupled with a lack of demand for quality audits has tended to result in client-friendly audit practices.

The above empirical findings add substantially to our current understanding of CG practices at the organisational level. The findings suggest that, in reality, the adoption of a particular form of CG mechanism does not always transform into practice. This has important implications for the extant CG literature. First, as discussed in the literature review (Chapter 2), the mainstream CG literature appears to be weak in general in terms of providing detailed empirical illustrations of

CG practices at an organizational level. Most of the studies have looked into 'compliance' rather than 'practice'. My research fills this empirical gap. Second, this empirical illustration of CG practices adds to the understanding of the effectiveness of a particular form of CG mechanisms (e.g., audit committee, internal audit etc.) from the wider socio-cultural context in the increasingly interdependent world economy. For example, AC, which was found to be effective in developed settings (see Turley and Zaman, 2004), was found only to perform some 'ritual roles' in practice in the developing country setting.

7.1.2. Theoretical insight

An apparent imbalance in the extant CG literature stems from the lack of theoretically informed empirical research. The use of critical realism (Bhaskar, 1979; 1997) and Archer's ICT (2003) to explain CG change is an important contribution. While the relevance of critical realism is well established in the management research stream (Ackroyd and Fleetwood, 2000; Willmott, 2000; Mutch, 2002; Fleetwood and Ackroyd, 2004; Leca and Naccache, 2006; Llewellyn, 2007; Al-Amoudi, 2007; Delbridge, 2007), it has seldom been used in accounting research (Modell, 2009; Kilfoyle and Richardson, 2011; Stergiou et al., 2013; Ashraf and Uddin, 2013). This is the first such study which has used this philosophical platform systematically to explain CG change. More specifically, the theoretical contribution of this research to the existing literature on CG is as follows.

As discussed in the literature review chapter, the mainstream CG literature is predominantly concerned with the economics of CG following a positivist philosophical turn. Empirical generalizations or establishing causal connections through the observation of empirical association has attracted most attention, as such a theory has played a marginal role in much CG research. Moreover, with a positivist commitment to an objectivist epistemology (accessing the external world objectively through deploying theory-neutral observational language), the mainstream literature has failed to view CG as a social practice deeply intertwined with society. Perhaps, then, the main contribution of this thesis to current 'knowledge' in CG is the sociological theorization of CG. This study is amongst the limited body of recent CG literature that opts for sociological theorisation (see, for example, Uddin and Choudhury, 2008). Starting from this viewpoint, it uses a critical realist framework, that is, ICT, which considers the role of structure/ culture and agents in shaping CG practices. The resulting analysis overcomes two important limitations of the mainstream CG literature. First, unlike the mainstream positivist studies, the analysis is not limited to the surface layer of reality (empirical); rather, it digs deeper in a quest for the 'real'. Positivism presupposes empiricism in that our sensory experience of the objects of reality provides the only secure foundation for scientific knowledge, whereascritical realism rejects empiricism as an example of the 'epistemic fallacy' that lets the question 'What can we know?' determine our notions of what exists (Bhaskar, 1978 p. 36). Under the stratified ontology of critical realism, reality comprises causal 'generative mechanisms' – 'real' non-empirical 'deep' structures that can produce 'actual' events, some of which are conceptually mediated in 'empirical' experience and observation. So, for critical realists, causation is not merely about the regular empirical appearance of a Humean constant conjunction, which positivists take either as a deductive test or as necessary and sufficient proof of causation, thereby construing prediction and explanation as symmetrical. Instead, causation is identifiable by exploring the underlying generative mechanisms, or powers, which produce events (Bhaskar, 1989a p. 16). Accordingly, the analysis attempts to 'dig deeper' to identify the real 'causal powers' that lie behind the empirical patterns. Second, this study overcomes a major weakness of the existing CG literature, which relates to the conceptualization of agential reflexivity. Though the existing literature has shed some light on the issue of agency, agential reflexivity is neither theoretically nor empirically addressed. Consequently, the structure-action (agency) relationship shaping CG practices in different settings remains poorly understood.

A. Delineating the role of structure, culture and agency in CG

The analysis put forward in the thesis facilitates a comprehensive understanding of CG, as the role of structure, culture and agents (actions) in shaping CG practices is considered. The analysis started with CG practices being viewed in the context of the underlying structural conditions. Three deeper levels of structure were identified, which were termed as first-, second- and third-order relations. The nature of the relationship and their ways of working (that is, creating enablements or constraints) generated a situational influence on the inhabitants of positions within structures to reproduce or change certain CG practices. The CG practices were thus shown in the analysis to have emerged out of the influences of structural conditions within which the PLCs were operating. In doing so, the thesis also demonstrated the influence of externally linked institutions on the structural conditioning. For example, it considered the external contingencies, such as the lack of dispersed share ownership; the absence of competitive capital markets; a weak accounting profession; and the nonexistence of a managerial labour market, democratic institutions, and autonomous regulatory bodies necessary for the effective working of a western (Anglo-Saxon) CG framework.

CG practices also reflect the ‘culture’ (Archer, 1995) of the interlinked institutions that form the structural environment. Culture, as Archer suggested, represents ideas, ideologies, values, norms, and principles asserting certain ‘truth claims'. For example, the government mandated the BSEC to come up with CG reforms in accordance with the ideologies of ‘accountability to the shareholders’, ‘transparency’, and ‘independence and professionalism’, which were imposed by the international development partners. The BSEC adopted a western CG framework that reflected these ideologies. However, the ingrained culture in local PLCs was not conducive to the functioning of western CG frameworks. For example, as the empirical chapter demonstrates, company-specific board practices were clearly reflective of the ideologies (e.g., family and kinship orientation, inherited directorship, and family control) that the family owners brought into the structural domain. From a cultural point of view, family orientation, control, and dominance played an important role in the reproduction of local CG practices. Reflecting the family-oriented culture, power filtered down from the chairman (who is often the head of the owner family) to the most junior employees through a top-down hierarchical structure. This allowed directors to interfere in management to serve their vested interests instead of representing the interests of general shareholders and of actively monitoring management on their behalf. In this manner, the empirically manifested CG practices were linked with ‘deeper’ structures and culture.

Finally, the analysis covers the role of human agency in shaping and reproducing CG practices. The prevalent structural conditions influence agents to adopt strategies of protection, compromise, or elimination (Archer, 1995). It was found in this research that agents in most cases adopted the strategies that the situational structural logic demanded, as suggested by Archer (1995). However, in doing so, agents were not blindly following their material vested interests; they reflexively weighted structural and cultural influences and decided about their course of action in light of their concerns and projects. At times, through exercising their reflexive power of deliberation (i.e. internal conversation), they opted to pursue actions that were either not in their material, not in their ideational interests, or lacking in both. For example, non-family managers' behaviour in ignoring the rational regulatory pressure was not in their material interests but was in their ideational interests, whereas the general share holders' role in not trying to exercise their rights in AGM was neither in their material or ideational interests. This way, my analysis adds to the subtle complexity of the explanation of shareholder activism (monitoring and involvement) in a developing economy context. Within the companies, agents reflexively devised various strategies for achieving success in their life projects. For example, owner directors, being communicative reflexives, prioritized family relations and acted accordingly to reproduce the prevalent structures and culture. They systematically avoided the structural influence on CG practices by devising strategies such as reporting compliance; reinforcing local values, ideologies and attitudes; organizing a collective interest group (corporate agency); and carrying out an organized lobby. The actions of the agents resulted in the reproduction of the structural and cultural conditions with the first-order relations. The thesis presents a case where changes in second-order relations failed to bring change in the first-order relations with the third-order relations subsequently remaining unchanged. In this process of structural and cultural elaboration, certain CG practices were also reproduced.

The above understanding of the absence of change in the CG practices in a developing country such as Bangladesh suggests that the CG framework tends to operate in a complex set of socio-political factors. The adoption of a western CG framework and the resulting CG practices cannot be understood from the perspective of economically rational agential actions and contractual relations. As the empirics demonstrate, the contractual relationship between the shareholders and managers cannot function in disciplining the owner managers through a family-aligned board. Similarly, agential actions and behaviour are not always supported by purely economic concerns and rational calculations. Often, agents appear to make relationship-oriented investments and to ignore the economic rationality. For example, the cosy relationship with the owner families seemed to be more important to the AC chairmen than their role as independent overseer. Similarly, economic considerations seemingly were not the major motivating factors for many NEDs in joining company boards. The empirics suggest that joining decisions were instead based on non-economic considerations, such as the prestige of being associated with a business group, maintaining friendship- and relationship-oriented ties, and so on.

B. Developing a model of CG change

This research has developed a model to underpin CG practices in the context of reform. This involves unpacking an empirical account of the process of CG change and the role of key players in promoting or resisting it. The CG change model is shown in Figure 4.2 (refer to Chapter 4).

The model delineates 'why' and 'how' any real change in CG practices has failed to take place considering specifically the economic, socio-cultural, and institutional contexts in Bangladesh. In doing so, the interest and concerns of the different key players affected, mediated, and served by such an absence of change is critically located in the previous contexts (i.e., at time T1 before the reform took place). As shown in the model, the state mandated the regulatory institutions (the BSEC, DSE, CSE, and BB) for CG reform at the level of third-order relations. Due to the state's economic dependence on donor partners, it apparently could not deny their influence at policy levels. The positions within the regulatory institutions were internally linked with the government and other related institutions. It would seem that the actions of the agents occupying those positions reflected the expectations of the government and its development partners. Accordingly, the CG framework adopted was very similar to an Anglo-Saxon framework in an idealist form (Uddin and Choudhury, 2008). As far as regulatory institutions and PLCs were concerned, at the level of second-order relations, the criteria of accountability, professionalism, and independence of various positions within the PLCs, reporting responsibilities etc., started to be set by the regulatory institutions. This had implications for CG practices within the PLCs. For example, board structure, independence and professionalism criteria, segregation of various duties, reporting channels and responsibilities, certification requirements, and standardization of financial reporting etc., were the major areas covered in the revised CG guidelines issued by the BSEC. In their effort to change CG practices, regulatory institutions issued mandatory CG guidelines, amended the Companies Act and stock exchange listing rules, and went for regulatory enforcement. In addition to those regulatory forces, there were other influences triggered by the institutional conditions, which were characterized by capital market inefficiency, an underdeveloped equity culture, a weak judiciary, the absence of a market mechanism, politicized state institutions, a lack of trust in the government, weak democratic institutions and so on. Agents holding positions at the level of first-order relations received these influences in light of their own life projects and concerns and decided their actual course of action.

At time T2, the model deals with the reception of the above influences and the resulting actions of the concerned key players. Owner-directors with projects prioritizing family and kinship ties possessed strong incentives to continue with the status quo. They took an active stance to avoid clashing with any potential regulatory intervention that might affect the continuity they were striving for. Accordingly, they deployed a number of strategies. Those strategic moves include symbolic compliance (strategically reporting compliance in the annual report without changing the real practice), establishing supreme decision making and control rights in the PLCs, bringing in and reinforcing ideologies from the cultural realm to legitimize material ends and delegitimize the ideologies of structural opponents, organizing lobbies, and so on. Non-family managers and employees who had a material interest (salary, promotion, job security) in serving the family owners' interests acted strategically, at times ignoring even the regulatory pressures. General shareholders could not act as a group *per se* utilizing their limited resources (voting power, access to disclosed information). Clearly, the decisions and actions of the dominant owner-directors were affecting their wellbeing, but they could not conceive of any such strategic move that could bring about a decent challenge against the dominant owners. It would seem that they failed to transform into loci of opposition to the dominant group. The situation the agents encountered was such that taking an active stance towards the society no longer made any sense to them. This led them to passively register with the context shaped by the owner-directors. The outcome of such action and the interaction of key players thus resulted in minimal change at time T3. Thus, some new positions have been created, but actual CG practice remains unchanged.

C. ICT compared with other theoretical positions

In the domain of sociological theorization, this research could use other theoretical positions, such as structuration theory (ST) or new institutional sociology (NIS), to explain the absence of CG change. However, given the specific research questions this thesis aims to answer, ICT appears to provide greater explanatory purchase on the empirically manifested CG practices compared to other theoretical positions.

As an example, the CG practices of the PLCs and the absence of changes therein could have been explained from a discourse perspective. The CG practices would then be seen in the light of distinct and competing discourses and the positions that various agents hold within these discourses. As discussed in the empirical findings chapter (Chapter 5), the BSEC brought in 'accountability discourses' to change the CG practices of the PLCs through the recent reforms. This discourse offered subject positions to (owner) directors of PLCs, which were in contradiction to directors' identities as 'owners' of the PLCs. Directors, in an effort to resist that 'accountability discourse', drew upon other discourses (e.g., 'family business ownership') to question the justification of 'accountability discourse'. This, in turn, gave them room to mount a resistance against the intended change in CG practices of the PLCs. However, such an analysis could not incorporate the material conditions within which agency takes place.

Alternatively, from a Bourdieusian perspective, the actions of the agents and the resulting CG practices could have been explained in light of the relationship between the objective positions (structure) of 'field', their corresponding 'habitus', and the struggle between them. Here 'field' is conceptualized as a network of relations among the objective positions within it. The structure of the field guides the strategies through which the occupants of the positions, agents or institutions, seek to secure or improve their position. Thus, a field is also an arena of struggle in which various kinds of capital are deployed. Bourdieu places considerable importance on the political field (field of power). This is because the hierarchy of power relationships within the political field tends to structure other fields. 'Habitus' is conceptualized as internalized structures. As my research findings suggest, each of the agents in the CG field were drawing on their own capital to legitimize or strengthen their respective positions. For example, family owners drew on their economic, cultural (managerial expertise, decision making and control authority, family business background), social (relations with family, friends and cronies, political ties) and symbolic (prestigious directorship in family company) capital; NEDs used their symbolic (meeting the legal criteria of independence) and cultural (financial knowledge) capital; while auditors used cultural capital (professional qualification from ICAB). It is important to note here that directors and managers within the PLCs internalized the habitus of the 'family' institutions. Since managerial positions within the field were defined in terms of 'family' institutions, this gave access to positions which, in turn, were likely to reflect family interest. Thus, from a Bourdieusian perspective, it could be argued that the actions of (non-family) managers, auditors, NEDs, CFO, CS, and employees reflected the expectations of family owners not consciously, but because of the similarities in their habitus and their positions within the CG field. All of them were 'playing the game' with their capital and reproducing the field with their habitus (internalized structures). CG is thus a symbolic system that has its particular objects and interests (the legitimization of a 'good' system of CG and the preservation of controlling owners' power). However, Bourdieu's work is biased in the direction of structuralism to some extent (Archer, 1995). In his constructivism, there seems to be no space for agential subjectivity and intentionality. As he puts it, people, on the basis of their position in social space, perceive and construct their social world, but their perception and construction is both animated and constrained by (internalized) structures (Bourdieu, 1990).

Again, the absence of change in the CG practices could have been explained from the perspective of NIS as an outcome of the coercive, mimetic and normative institutional pressures of the post-reform era (DiMaggio and Powell, 1983). Here, coercive pressures came from the BSEC to comply with the CG guidelines on a mandatory basis. It was evidenced that listed PLCs opted for compliance without changing their CG practices to avoid regulatory intervention. The box-ticking tendency to exhibit compliance could be explained as an outcome of mimetic institutional pressure whereby family owners would seek to legitimize their CG practices through mimicking established practices (e.g., managing the AGM appeared to be a usual practice in Bangladesh). There were certain normative pressures on the listed PLCs to adopt a particular form of CG practices, mainly due to the existence of 'family' institutions and their dominance over company affairs (e.g., family owners controlling the board's decisions). The CG practices developed within family-owned PLCs could also be argued to be drawn from the 'family' institution. With the CG reform, the nature of these institutional pressures underwent some change. While the coercive pressure of the regulatory institutions changed, the normative and mimetic pressures remained the same. Therefore, changes in the CG practices were minimal. Due to the coercive pressures, there were some changes in terms of the adoption of certain CG mechanisms (e.g., appointment of NED to the board, AC, IAS/IFRS-based financial reporting etc.). However, the practices did not change in accordance with the reforms (coercive pressures). It could be argued that adoption on paper of an Anglo-Saxon CG framework could be aimed at gaining legitimacy from the regulatory bodies and thereby avoiding the possibility of regulatory intervention. Thus, an NIS-based explanation of the absence of change in CG practices could have generated some insights into the role of various (socially constructed) institutional pressures on the actions of embedded agents. However, within its theoretical slant, it could not have incorporated the role of agential reflexivity in its analysis of agency.

Both structuration theory and new institutional sociology are extensively criticized from a critical realist perspective: the former for placing too much emphasis on agency where structures become instantiated only by the action of knowledgeable agents, and the latter for not paying due attention to the agency holding that agency operates within a frame provided by the institutions.

New institutional theorists fail to provide an account of why and how institutionally embedded agents introduce new institutions or change. As highlighted in Kilfoyle and Richardson (2011), they do not address the paradox of embedded agency: 'If social structures are so powerful an influence on behaviour, how can they change?' and 'If agents have free-will, why is their behaviour constrained by social structures at all?' In an effort to counter such criticisms, they have come up with the concept of the 'institutional entrepreneur', that is, those able to disembed themselves from existing institutional arrangements (Beckert, 1999). However, this concept tends to describe the phenomenon under inspection rather than analysing it (Mutch, 2007). It is the latter part with which Archer's (2003) ICT attempts to view agency holding and structure as a never-ending series of conditioned possibilities with the previous period structure drawn upon or impinging on the current period, which include the potential to reproduce or change the structures that will affect future periods. Thus, her model provides a detailed and explicit, instead of implicit, account of change - why and how change(if any) takes place. ICT seems to answer the question of why it is that some seek change, when others, placed in the same contexts, are content to accept existing arrangements (Mutch et al.,2006). According to ICT, it is the existence of different forms of *agential reflexivity* that *subjectively* mediate the structural (institutional) pressures, which in turn, result in different human actions leading to structural reproduction or transformation.

To summarize, Archer's ICT provides a systemic and detailed approach to explore research problems involving structure, culture, and agency, which is perhaps somewhat lacking in the theoretical positions described above. This systemic approach not only identifies and distinguishes between structure, culture, and agency, but also provides clear linkages between structural and cultural conditions and agency, on the one hand, and between agential interactions and structural and cultural transformation on the other. These systemic links and the clear delineation between structure and culture help in providing more robust and nuanced explanations of CG change.

D. Addressing the political economy of CG

Like many other DC, Bangladesh has embarked on CG reforms following the prescriptions of its development partners and has ended up adopting a western CG framework. The underlying assumptions in advocating CG reforms is that the adoption of such a framework will be associated with greater corporate accountability and transparency through improved CG practices. Though assumptions about change in terms of improved CG practices are central to such reform initiatives, development partners and policy makers have paid little attention to how the western CG framework is expected to be implicated in practices and to what extent their expectations would be realized. This has necessarily demanded political economy-based empirical research.

The thesis discusses the influence of developed countries and various bi-lateral and multi-lateral agencies over less developed countries. In this respect, this research shows that the dependence of an aid-hungry economy on external development partners (World Bank/IFC, IMF, ADB and others) in the late 1990s created a strain on its government to adopt external policy prescriptions. At a macro level, the role of government, polity, and other institutional arrangements (e.g., weak capital market, absence of takeover and managerial labour market, common law origin, concentrated ownership structure, self-regulated profession, lack of democratic institutions and autonomous bodies etc.) in CG reform has been highlighted. At a micro level, empirical evidence demonstrates how those upper level relationships interact with the interest, resources and powers related to different roles and positions within the PLCs and thus shape CG practices.

In short, the analysis put forward in the thesis critically locates the interest, concerns, and power of different structural, ideational, and agential players who are affected, mediated, and served by the absence of change in CG practices. The study thus adopts a political economy approach in the analysis of empirically manifested CG practices.

The political economy approach provides critical insight and valid grounds for understanding and debating on CG issues in different contexts (Haque, 2011). For example, adopting a political economy approach, Haque (2011) shows that politically affiliated powerful family directors often override rules and regulations that protect general shareholders' interests. They use their position and ideational resources to legitimise their actions and interests. Similarly, the findings of this research suggest that macro-level policy reforms seem to have little impact on micro-level CG practices. Such findings warrant the search for an alternative perspective to the way CG is understood in the existing literature. CG is not simply a set of technical mechanisms to solve typical agency problems by creating incentives for agents (diverging from agency theory). It is a social phenomenon that emerges from the actions and interactions of agents with the complex set of forces including external economic forces and related ideologies, national economic conditions, state policies, company ownership structure, and so on.

7.1.3 Summary of the main contributions

This research has a number of important contributions. First, it provides detail empirical illustration of CG practices and change in the context of reforms. As mentioned earlier, prior research with its apparently exclusive focus on resolving agency conflict of interests tends to pay relatively scant attention in opening up the black box of CG practices at the level of organisational setting. Consequently, 'lived' experiences of CG remain poorly explored limiting to some extent our practical understanding of CG practices (Ahrens et al., 2011). Empirically the thesis will add to our current understanding of CG practices and change with particular significance in fulfilling the research-practice gap.

Second, the theoretical contribution of the current research stems from the adoption of political economy approach: internal conversation theory. The political economy approach allows it to link CG practices and change at the organisational level (micro level) to the wider socio-cultural and institutional context (macro level) in the increasingly interdependent world economy. Internal conversation theory has particular significance in unpacking the micro-macro (or structure-agency) link in a sense that it comes up with a nuanced explanation of agency within the changing structural contexts. The theoretical conceptualisation of agency led me to flesh out the 'lived' experience of CG (Roberts et al., 2005; Ahrens and Khalifa, 2013). I argue that the theoretical explanation put forwarded in my thesis is likely to provide a solid platform for debating both theoretical and practical issues of CG.

Third, context-specific analysis of CG reforms, practices and change has strong policy implications for countries like Bangladesh and other emerging economies that are under continuous pressure to reform their CG frameworks in line with the western best practices. This research would also contribute to developed economy-based contemporary CG literature in that the context of an emerging economy is investigated in which economic, political, cultural, and social histories are different from those in its western developed counterparts. It will provide critical insight into the effectiveness of a particular form of CG framework from wider perspective.

7.2 Limitations of the research

In this section, the limitations of the study are acknowledged. In a broad sense, it has two sets of limitations: one related to data collection and the other related to its theoretical position.

First, there were some practical limitations in the data collection. For example, getting access to the personnel of international donor agencies was challenging. One whom I interviewed insisted that the comments were her personal opinion. The current chairman of the BSEC refused to discuss some issues which, in his view, were 'sensitive'. Thus, the analysis of agency at the level of second- and third-order relations is weak due to the abovementioned limitations. It was not possible to interview senior officials of the RJSC, as access could not be arranged. The role of the RJSC in the reform episode could have been better understood had it been possible to interview them; however, prior literature and documentary evidence had to be used to cover this issue. A further limitation is that all the interview conversations were in Bengal; consequently, the possibility that the researcher's own subjectivity might have contaminated the interview findings in the process of translation needs to be acknowledged here.

Second, there were certain limitations resulting from the theoretical position adopted in the study. In this respect, one of the limitations relates to Archer's conceptualization of agency, which over-emphasizes reflexivity and intentionality (Stones, 2001; Sayer 2005, 2009; King, 2010; Elder-Vass, 2007; Fleetwood, 2008; Akram, 2012). According to Archer, agential *reflexivity* is the medium through which structural influence on agency occurs. This, in turn, ignores the possibility of the myriad forms of structural influence that exist and that influence agency outside of agential reflexivity (Akram, 2012). The authors of such studies commonly argue that Archer fails to acknowledge the role of the unconscious and pre-reflexive aspects of agency. For example, in his critique of Archer, Stones (2001) suggests that Archer's over-reliance on reflexivity in agency leads to a situation where structural influence appears "in an overly transparent and insufficiently mediated manner" (2001, p. 185). As Stones explains, "Thus, one tends to meet agents who weigh the odds and balance the costs of acting one way or the other in relation to particular systemic structures" (2001 p. 185).

In defence of the importance of habit in agency, Fleetwood (2008) argues that a rejection of habit leads to a situation where agents engage in a form of 'hyper-deliberation', as they are involved in a "continual process of conscious deliberation over everything that came within their orbit every moment of the day" (2008, p. 187). He suggests that this position would lead to a form of social and mental paralysis in society. According to Stones (2001), Archer could accept a notion of 'ontological duality' within agents, which he suggests would enable her to deal better with interactions between structure and agency as, in his view, Giddens does. Structures have the capacity to affect agents at both reflexive and pre-reflexive and conscious and unconscious levels. King (2010) argues that Archer's account of agency offers too much reflexivity, thereby revealing an attempt to add 'dignity' to agency. Echoing this view, Akram (2012) argues thatArcher ends up over-empowering agency and undermining the effect of social structure in the structure and agency dialectic.

According to Giddens (1979) and Bourdieu (1977), when examining agency and actions, sociologists need to go beyond the articulation of reasons for actions because much of social life is so routine and taken for granted that actors often cannot articulate or even consider why they act. To counter this, researchers need to consider the role of unconsciousness and habit. However, this does not mean that they should ignore the reasons people state for why they act; nor should they undermine the value of their reflexive deliberations or of external constraints in society. Akram (2012), in her recent paper, provides some discussion and some illustrative examples on how incorporation of the unconscious and habit in agency aids our understanding of how structure influences agency. She cites, from Risman (2004), the example of married women who choose to do considerably more than their equitable share of childcare and provide whatever 'good enough' parenting means to them if they believe that the father will not do his share. Choice in this instance does not imply freedom to choose, but may obscure factors such as internalized norms and roles. This way, gender discrimination as an activity is perpetuated as a result of the unconscious behaviour or habit of women and men without particular intent or choice. This leads Akram (2012) to argue that recognition of the unconscious and non-reflexive habituated action of agents could provide a broader spectrum to understand how gender operates in society at the level of structure and how agency is implicated in the structural reproduction. This thesis captures agential reflexivity (as theorized by Archer) mainly through interviews. Accordingly, in line with the above argument, it could be that the actual course of action of the agents interviewed might not always be linked with their discursive elaboration about their behaviour. This is because agents, at times, may not be capable of discursive elaboration about their actions (for example, absorbing structural/cultural influence through unconscious internalization or habit). This study acknowledges the limitation of empirically capturing and explaining the unconscious or habitually conditioned behaviour of agents.

Another limitation results from the way internal conversation is conceptualized in the thesis. Archer (2003), in her ICT, tends to place too much emphasis on internal conversation and neglects the 'linguistic turn' (Mutch 2004, 2005) and inter-subjectivity. According to Mutch (2005), she places considerable emphasis on the importance of pre-linguistic and non-linguistic forms of understanding, while according to Vandenberghe (2005), by underplaying inter-subjectivity and language, she fails to conceive internal conversation as a narration of the self and to realize that it is through self-narration of their life-stories that actors order their concerns and obtain their personal identities. To understand how personal identity is formed, one needs to realize that the self-narration itself is a conversation that is intrasubjectively intersubjective. As Vandenberghe (2005, p. 233) puts it, "One has not only conversations with 'oneself as another' (Ricoeur), but also with 'the other as oneself' (Mead). It is through an internal conversation with oneself that one communicates with the other. Even if one narrates one's self, the other remains present as an 'inner witness' of the personal identity to which I commit myself and for which I am morally accountable and ultimately responsible".

BoD suffers from not paying due attention to intersubjective communication, social change, and democracy (Vandenberghe, 2005). It considers internal conversation as a causal power that can transform both agents and society, but does not say how social transformation takes place. According to Vandenberghe (2005), much of Archer's work on internal conversation elaborates upon the morphogenesis of individual agency, while the morphogenesis of structure through collective actions is hardly touched. To bring a social movement into the analysis of social transformation, there is a need to expand the limits of our mind and life-world by extending the community of communication and adopting the universalist point of view of the 'generalized other' (as theorized by Mead) so that we can criticize existing societies from an alternative viewpoint (Vandenberghe, 2005). To do that, dialogues with our selves (conceptualized as internal conversation by Archer) are not enough; we need to talk to others, with others, about others, and about society (ibid., p. 234). Therefore, Vandenberghe calls for a revision of Archer's interpretation of Mead.

At this point, it is important to note that from a critical realism perspective, the reality itself and our knowledge about that reality are not the same. By adopting a subjectivist epistemology, critical realism embraces the possibility of multiple knowledge-claims about the single, objective (mind-independent) reality. Thus, in philosophical terms, the knowledge put forward in the thesis is relative. According to Bhaskar,

> The construction of an explanation for [...] the building of a model, utilizing such cognitive materials and operating under the control of something like a logic of analogy and metaphor, of a mechanism, which *if* it were to exist and act in the postulated way would account for the phenomenon in question. (1989a: 12)

So, for Bhaskar, our knowledge of the real underlying causal mechanisms and their empirical manifestations is inevitably socially constructed. Thus, epistemological objectivism grounded in a theory-neutral observational language is rejected. This has led Johnson and Duberley (2000) to ask how we can ever know whether the intransitive essences (causal powers) constructed by researchers are mere functions of their imagination or are real 'non-empirical' structures or 'generative' mechanisms. They argue that the metaphysical dimension to critical realism makes it difficult to substantiate knowledge-claims about processes that are simultaneously thought to be unobservable save for their testing through an empirical examination of their effects in observable events. They view it as the internal self-contradiction of critical realism.

7.3 Policy implications of the research

> *Research suggests that laws and regulations alone are not sufficient to promote good governance - you have to account for the underlying sociology at play. The bottom line here is that sociology matters. You can't just write a governance rule and expect an outcome — you have to take into account societal norms as well as the network structures to the informal social connections, interactions, and relationships*. (Kogut, 2012)

This research, which takes into account the underlying sociology at play, has certain policy implications. To be specific, these implications might seem to have greater relevance to the government, policy makers, and regulatory authorities of the developing economies, as over the last decade, CG has been in the policy agenda of many of them (ref to be inserted). CG is viewed as a challenge for sustainable development. The key players of these countries appear to be uncritically supportive of the best practices of the developed economies by taking it for granted that those would work in practice. Without paying due regard to the ingrained organizational and social context, they tend to buy in to the ideas, principles, and policy prescriptions of the development partners. This research provides a tacit understanding of the impact of such policy reforms in a developing country, such as Bangladesh. While the findings of the thesis specifically relate to Bangladesh they also have implications for other developing economies currently undergoing similar policy reforms in CG. The evidence presented in the empirical chapter (Chapter 5) suggests that reform in Bangladesh could not bring about meaningful and real change in the CG practices in terms of protecting the interests of small retail shareholders (non-controlling owners). In certain circumstances, it instead created avenues of opportunistic behaviour for 'powerful' owner families. Put differently, although CG mechanisms in Bangladesh resemble those of developed economies in form, they differ in substance (Peng, 2004; Young et al., 2008). At this point, this study raises only some practical policy-related concerns. The researcher believes that making specific policy recommendation is not within the capacity of this study.

In a broader sense, this thesis can be seen as a case study of the implementation of a western CG framework, principles, and ideas in the PLCs of a developing country. While some may view the findings on CG practices as an unintended consequence of the 'imported' CG regime, the analysis put forward here explains it as the outcome of the systematic and deliberate resistance and actions of the 'powerful' family owners who have significant material and ideational interests. Under the changing CG regime, the previously powerful agents, i.e., owner directors, have successfully preserved their position, while shareholders are left with their underprivileged position. There needs to be a balance between these two parties before any desired outcome (in terms of enhancing non-controlling shareholders' rights) can be derived from CG change. For that to happen, CG reforms or change initiatives first need to address the underlying institutions of CG, be it material or ideational. Once addressed, as theorised in this thesis, it would be likely to condition upcoming agential actions in different ways. For example, it is evident that CG in PLCs was derived from the 'family' institution. Hence, at policy level, key players could think of regulatory changes without undermining the relevance of family institutions. One can argue that this will further strengthen family control in the PLCs. According to Claessens et al. (2000), crony capitalism arising from excessive family control in PLCs can lead to a vicious circle where family groups lobby government, leading in turn to increased family control and an increasing interdependence of politicians and businesspersons. Indeed, they conclude that where wealth is concentrated in the hands of a few corporate families, this may negatively affect the evolution of the legal and other institutional frameworks for CG and may, in fact, present a barrier to future policy reform. However, such a position can be countered by the argument that in the process of reducing family control and associated private benefits in PLCs, any genuine entrepreneurial and leadership spirit can be potentially compromised. It should not be forgotten that most of the big names in the Bangladeshi corporate sector have emerged from family businesses and are commercially profitable. In addition, reducing family wealth concentration through weakening family control in PLCs does not seem to be viable when plausible attempts to weaken family control are undermined by the use of family and kinship ties to the ruling political power. As discussed before, Bangladeshi society has a sustained material and cultural orientation with 'family' institutions. In this respect, policy makers could think of moving the regulatory focus away from the Anglo-Saxon CG framework, which seems to undermine family institutions and control, toward an alternative CG framework for the greater protection of (non-controlling) shareholders' rights.

In Bangladeshi PLCs, as is evident in my findings, family owners have considerable concern about the cost-benefit aspect of CG change. From the perspective of these family owners, the economic incentives of CG are still limited as the findings of my research suggest. For example, the family directors interviewed described the requirement of separate positions for company secretary, head of IA, and CFO as 'cost burden', while the requirement for board independence and professionalism was viewed by many as a 'passing fad'. The BSEC has recently announced a CG excellence award for the best performing company. Without any direct economic incentives, the extent to which efforts like awarding best performers, director training, and awareness raising programs are likely to make family owners interested in CG remains questionable. At the end of the day, as is evident in my findings, family owners tend to possess considerable discretion in deciding the extent to which they will introduce any change in CG practices. Given such a condition, this research argues that dividends and active institutional investors could have greater relevance (be less costly) to family-owners compared to other CG mechanisms. Regulatory effort on the CG aspect of dividend and institutional investment seems to have been missing until now. Perhaps future research on the CG implications of dividends and institutional investors in family-owned PLCs may offer critical insights in this respect.

My research also raises concerns about the BSEC's latest CG guidelines in terms of protecting (non-controlling) shareholder rights. In its present form, the CG guidelines (2012) are likely to have only minimal impact unless they are supported by other initiatives with respect to a market disciplining mechanism, a judicial system, empowered security regulators, and stronger democratic institutions etc. As reported by World Bank, shareholder suits are non-existent, and actions taken by regulators, stock exchanges, and other relevant bodies are not effective enough (ROSC, 2009). Effective legal enforcement is a necessary condition, though insufficient on its own, to improve the situation. In this respect, regulatory bodies in general, and the BSEC in particular, need to have the authority, integrity, and resources for fulfilling their duties in a professional and objective manner. Resource (human, financial and technical) constraint in the BSEC and the RJSC is evident in my research. Political influence, bureaucracy, informal relations, corruption and so on, tend to undermine the rule of law. My findings suggest effective enforcement will require broad reform to empower the capital market regulators and simultaneously establish an accountability mechanism for them. This process has started to some extent, but more needs to be done.

To conclude, the degree of integration among academics, policy makers, practitioners, and professional bodies in policy reforms appears to be low in Bangladesh (Mir and Rahaman, 2005). As is apparent in my research, Bangladeshi policy makers have been uncritically supportive of the ‘one-size-fits-all’ type policy prescriptions of the development partners. Academic research on CG practices might be relevant for informing regulatory reforms and devising practical policy guidelines. This would also help to minimize the undesired consequences of policy change.

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Appendix 1: Sample interview guide

- Introduce self
- Brief review of the research
- Confidentiality
- Permission to record

Date/Time :
Setting :
Respondent :

List of Questions

Part A: Questions related to background Information

1. Job Title
2. Main area of Expertise (Accounting, IT) and Qualification (professional)
3. Previous positions in the Public or the Private Sector
4. How long have you been working in this organisation? (From and till when)
5. How long have you been working in your current position?

Part B: Questions related to the agential position of Independent (outside) director

6. Could you give some idea about the responsibilities related to the position of ‘outside director’ in the company?
7. What happens in a board meeting? Could you please describe from your own experience? For example, your experience in relation to
   - Agenda of board meetings
   - Decision making process
   - Length of meetings
8. Would you please describe your usual role in the board/board meeting as an outside director?
9. Based on your experience so far, do you think that the presence of outside directors on a board can give general/ non-controlling shareholders a voice? Please explain how.
10. How were you appointed as an ‘outside director’?
11. How many board meetings have you attended in this company?
12. Do you get agenda of board meetings and other financial and nonfinancial information well in advance of the time a meeting is scheduled?
13. What was the last time you attended the AGM and how is your experience?Can you please elaborate your role in the AGM that you attended?
14. What does the board of directors do when general shareholders in AGM do not accept a decision or proposal of the board of directors, for example, declared dividend?
15. What qualities you think helped you to hold the position of outside director in the company?
16. What major challenges you face in discharging your responsibilities as an outside director?

- Thanks giving
- Any further details you wish to add
- Would you mind further contact later on (over the phone or another interview)
- Suggestions for others who can help

Appendix 2
Panel A: Excerpts from the thematic index (Data-driven)

1. **Board of directors**
   1.1 Decision making and control: Board composition - family versus non-family, insiders versus outsiders or active versus dormant, nomination, appointment, information flow – secrecy, competitiveness and timeliness, strategic versus day-to-day decisions, insider perspectives etc.
   1.2 Roles and responsibilities and performance evaluation – CEO duality, legal aspects – terms of references, company bylaws etc., performance evaluation, interaction with management, accountability towards shareholder; reporting relations- reporting to shareholders, regulators, or other stakeholders, interaction with committees and sub-committees of Board or Board intervention.
   1.3 Meetings: Agenda, participants, timing, minutes, role expectation etc.
   1.4 Other matters related to board: Informal aspects or others.

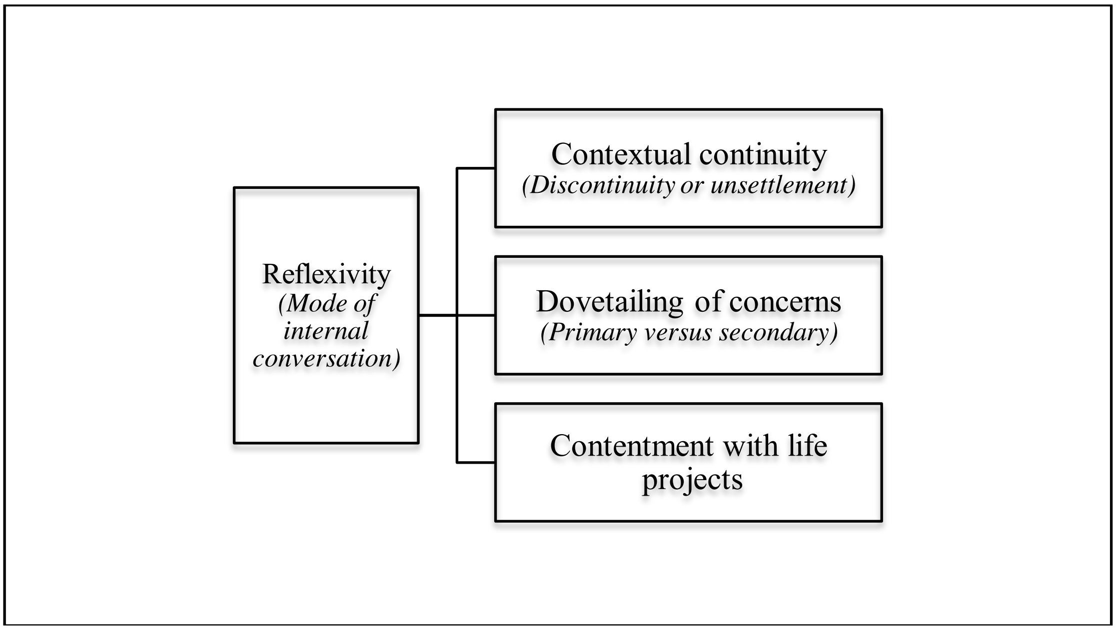
2. **Audit committee (AC)**
   2.1 AC composition: Insiders versus outsiders,
   2.2 Decision making and control: Family interests versus shareholder interests, information flow, secrecy and competitiveness, formal versus informal,
   2.3 Roles and responsibilities: Legal aspects-monitoring and advisory role, interaction with management, external and internal auditors, interaction with board, reporting relations,
   2.4 AC meetings: Participants, agenda, timing and frequency, minutes, information flow, duration, role expectation etc
   2.5 Other matters related to AC

3. **Internal control and audit (ICA)**
   3.1 ICA composition
   3.2 Roles and responsibilities
   3.3 Other aspects related to ICA

4. **Financial reporting and audit (FRA)**
   4.1 Integrity of reporting: CFO appointment, certification, standardization, accounts manipulation, etc.,
   4.2 External audit: Nomination, appointment, audit fee, independence etc
   4.3 Other matters related to FRA

5. **Annual General Meeting (AGM)**
   5.1 Decision making and control:
   5.2 Roles and responsibilities of participants
   5.3 Other matters related to AGM

Panel B: Excerpts from the thematic index (Theory-driven)


Reflexivity
(Mode of internal conversation)
Contextual continuity
(Discontinuity or unsettlement)
Dovetailing of concerns
(Primary versus secondary)
Contentment with life projects

Appendix 3: Excerpts from a thematic chart

Chart 1: The Board Practice

Interviewees	Decision making and control	Board meeting	Roles and responsibilities and performance evaluation
IR 14 • Management • Non-family • Finance Controller • Chartered accountant	As far as the BOD is concerned, it's mostly dominated by sponsor family members and their acquaintances. One or two directors are basically making the decisions. This is I think you will find in most of the companies in BD and we are not an exception to it.	In fact I haven't seen any board meeting unless it is of a legal requirement, neither heard of any meeting where the BOD sit together to decide in my entire career. What I have seen occasionally the founder comes to discuss with the top executives and managers.	Our BOD hardly gives the strategic direction to the company in true sense. It is only the sponsor directors who at times take interest to give some direction if that is sought by the management. We [executive management] are running the company without much interference and guidance of the BOD. However, senior management always maintain informal connection with the founder and his brother.
IR 3 • Non-executive director • Non-family but close friend of founder • Academic	The culture is different. Sponsors [owner directors] have powerful position in the board. We can at best work at an advisory capacity. The financial reports and information presented in board meeting are controlled by them [owner directors].	Truly speaking I found nothing challenging. All I need to do is to attend the quarterly board meetings and sign some documents.	We have to judge insiders [owner directors] based in the information they provide us. It is close to impossible to achieve a sensitive understanding of business and accounting numbers by attending only the quarterly meetings.
IR 4 • Non-executive director		Directors, their relatives and known ones command the majority of voting strength [in meeting]. Usually they have prior understanding so formal	

• Non-family but close friend of founder • Academic		voting does not take place. My point is even if we veto, it would not make any difference.	
IR 18 • Management • Non-family • CFO • Chartered accountant			Family directors are guaranteed of receiving bulky pay package and fringe benefits as they are the controlling owners. With no exception to other local companies, their remuneration is in no way performance-related.
IR 12 • Owner director • Family member • Finance Director and AC member	Often my brother (current MD) discusses important business matters in lunch table with my father and finalizes decisions. These decisions were supposed to be in the form of resolutions passed in the board by majority votes. Officially these will be rubber stamped by the board anyhow, but formal board meeting does not always take place	……but formal board meeting does not always take place	We are the owners. Unlike salaried managers, we have more to loss as well as gain. Since we work with that sort of dedication, formal performance evaluation is not needed so far.

Appendix 4: Extract of sample AC report to shareholder

REPORT OF AUDIT COMMITTEE

The Audit Committee of [redacted] Limited [redacted]) was established and its Charter was approved by the Company's Board in its meeting held on July 26, 2009. The Committee, a sub-committee of the Board, supports the Board in fulfilling its oversight responsibilities.

The Audit Committee of [redacted] comprises of the following Board members:

Mr. [redacted]	- Chairman
Mr[redacted], Independent Director	- Member
Mr. [redacted], Managing Director	- Member

A total of 4 (four) meetings were held since the last Annual General Meeting of [redacted], the last being on 14th March, 2013. Besides Company Secretary who supports the committee as its secretary as well, permanent invitees to the meetings were the CFO and Head of Internal Audit. Relevant heads of other functions and representative(s) of External Audit were also invited as required.

ROLE OF THE COMMITTEE

The Audit Committee's authorities, duties and responsibilities flow from the Board's oversight function and the terms of reference are detailed in Committee Charter approved by the Board. The major responsibilities of the Committee, among others, include:

- Reviewing the quarterly, half-yearly and annual financial statements and other financial results of the company and, upon its satisfaction of the review, recommend them to the board for approval.
- Monitoring and reviewing the adequacy and effectiveness of the company's financial reporting process, internal control and risk management system.
- Monitoring and reviewing the arrangements to ensure objectivity and effectiveness of the external and internal audit functions. Examine audit findings and material weaknesses in the system and monitor implementation of audit action plans.
- Recommending to the Board the appointment, re-appointment or removal of external auditors.
- Reviewing and monitoring the Company's ethical standards and procedures to ensure compliance with the regulatory and financial reporting requirements.

Activities of the Committee on Company's affairs for the period under report

The Committee during the period under report met four times and its activities, among others, include:

- Reviewed, among other issues, the quarterly and half yearly financial statements of the Company and recommended to the Board for adoption and circulation as per the requirement of Securities & Exchange Commission.
- Also reviewed the audited financial statements of the Company together with consolidated statements with its subsidiaries for the year ended 31st December 2012 and being satisfied that the critical accounting policies, significant judgments and practices used by the Company are compliant with the required laws and regulations, also confirmed by the external auditor in their independent report, recommended to Board for adoption.
- Committee recommended [redacted] Chartered Accountants for appointment as the external auditors of the Company for the year ending on 31st December 2013.
- Committee reviewed the effectiveness of internal financial control and the internal audit procedures.
- Reviewed the re-current related party transactions entered into by the Company during 2012.
- Reviewed the external auditors' findings arising from audit, particularly comments and responses given by the management through management letter.
- Reviewed the matters as per requirement from the Bangladesh Securities and Exchange Commission (BSEC).

The committee is of the opinion that adequate controls and procedures are in place to provide reasonable assurance that the company's assets are safeguarded and the financial position of the Company is adequately managed.

On behalf of the Committee

[redacted] FCA
Chairman