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Corporate Governance and Disclosure Practices in Bangladesh's Pharma and FMCG Sector Companies

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Abstract: *Corporate Governance is concerned with the values, vision and visibility. A proper corporate governance system depends on adequate structure of roles, authority and responsibility. The aim of the study is to make comparative analysis of corporate governance and disclosure practices by using Index Score among the selected companies. The study revealed that the score of Corporate Governance Disclosure Practices of selected companies ranges from Good, Very Good to Excellent. All of the Pharma and FMCG sector companies selected for the study are listed in the Dhaka Stock Exchange under the new and revised Corporate Governance Code 2018 from previous Corporate Governance Guidelines of 2006 and partly by the Companies Act, 1994. Findings also show that FMCG sector secured more score in comparison to Pharma Sector.*

Key Words: *Corporate Governance, Companies Act, 1994, BSEC (Bangladesh Securities and Exchange Commissions, Corporate Code and Governance.*

Introduction: The term 'Corporate Governance' has emerged as a response to corporate failures and widespread dissatisfaction with the way many corporate functions and has become one of wide and deep discussions around the world. Corporate Governance is a mechanism through which business corporations are directed and controlled. It aims at attaining better standards of financial Reporting, accountability, transparency and fairness in reporting practices and independence in the business. According to BSEC, it issued a new set of directives known as 'Code of Corporate Governance' in June 2018 and asked the listed companies to comply with these directives by December 31, 2018. In this era of simplification, the size of corporate report in Bangladesh is gradually on the rise.

The Corporate Governance guidelines has been revised in Bangladesh on August 07, 2012 in Notification No. SEC/CMRRCD/ 2006-158/134/ Admin/44, which stated mandatory compliance by the listed companies. It was further revised and issued as Corporate Governance Code in June, 2018. So there has been a significant reforms and revisions in the 2018 Corporate Governance Code over the 2012 Corporate Governance Guidelines.

Reviews: The Securities Regulator in Bangladesh presented their first Corporate Governance Guidelines in 2006.After that there is a significant reforms and revisions in the 2018 Corporate Governance Code over the 2012 Corporate Governance Guidelines. A number of works has been conducted on the state of Corporate Governance in Bangladesh before the Corporate Governance Guidelines of Security Exchange Commissions (SEC). Most of the studies which were carried in Bangladesh stated that Corporate Governance Practices in

Companies and organisations were very poor and that the country of Bangladesh had lagged behind its neighbouring country and global economy in Corporate Governance. Ahmed and Yusuf (2005) identified number of reasons for malpractices of Corporate Governance in Companies which were listed with the Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). One of the important reasons for these malpractices is that listed companies are family oriented try to keep their ownership holdings within the family members and they heavily dominate the Board of Directors. Sarkar and Ahmed (2007) discovered that in Corporate Governance disclosure listed public Ltd company sometimes disclose information like 'Disclosure of Remuneration Committee' and disclose less or try to conceal information such as 'Stock Code'. They also observed that 25 companies out of 257 Companies are listed in DSE upto June 30, 2005 reported Corporate Governance Report in the Annual Report voluntarily which shows disclosure of Corporate Governance items are 40.84 per cent. Muhammad et.al. (2016) studied on the effects of Corporate Governance practices on firms' performance in Pakistan and studied three variables of Corporate Governance and these are board-size, board composition, CEO duality and audit committee of 80 non-financial firms listed on Karachi Stock Exchange during 2010-2014 and found that board size and audit committee are positively related to the firm's performance and CEO duality and Board Composition are negatively related to firms performance. Saima Ferdous Choudhury (2018) investigated companies level of compliance with the code of Corporate Governance for Bangladesh.

Objective & Methodology: The Study focuses on the comparative analysis of Corporate Governance Disclosure Practices between two Pharma sectors and two FMCG sector companies for the financial Year 2017-18. The paper tried to understand the extent how a regulatory provision can enhance the Corporate Governance disclosure practices of FMCG and Pharma Companies. As Bangladesh is an emerging economy, proper compliance with the code of Corporate Governance will help the country in economic development. So, company's performance has been measured against certain Governance Parameters. As the research has been undertaken to assess the level of compliance in relation to mandatory and non-mandatory requirements as Security Exchange Commission of Bangladesh introduced its first specific Corporate Governance Regulation for its listed companies in 2016 on "Comply or Explain" basis. To evaluate how much these companies are following Governance Standards, 100 point Index consisting of 10 parameters with their sub parameters has been framed, whereby an appropriate weightage in terms of points has been awarded for Governance Parameters according to their importance. These key governance parameters and the criteria for evaluation of governance are based on scores allocated to each corporate governance parameters. After determining total scores of the companies showed in Table 2, companies have been graded on a five point scale as depicted in Table 1.

Table 1: Score Results

Score	Remarks
90-100	Excellent
75-89	Very Good
60-74	Good
50-59	Satisfactory
0-49	Bad

Sample Size and Collection of Data: The sample comprises two pharma sector companies and two FMCG Companies included in Dhaka Stock Exchange. The year 2017-18 has been taken as the study period. The

study is totally based on the secondary data only. All the data and related information has been collected from Annual Reports of Company's website, journals, magazines etc.

Table-2 : Criterion for Evaluation of Governance Standard of Pharmacy and FMCG Companies for the Financial Year 2017-18

Sl. No.	Governance Parameters	Total Score	Points	SQUARE LTD	BEXIMCO LTD	PRAN LTD	ACI LTD
1.	**Statement of Company's Philosophy on Code of Governance**	5	5	5	5	5	5
2.	**Composition of the Board and BOD Meetings Held**	8					
	i) Not less than 50% of the Board of Directors Comprising of Non-Executive Directors		2	2	2	2	2
	ii) At least one woman director		3	3	--	3	3
	iii) At least four BOD meetings in a year		2	2	2	2	2
	iv) Attendance record of BOD meetings		1	1	1	1	1
3.	**Chairman and MD / CEO Duality**	5					
	i) The Chairperson of the board and CEO are different individuals.		3	3	3	3	3
	ii) MD / CEO not holding the same position in another Company.		1	--	1	1	--
	iii) Chairperson elected from the non-executive directors of the company		1	--	--	--	--
4.	**Disclosure of tenure and age limit of directors**	1	1	1	1	1	1
5.	**Disclosure relating to Independent Directors**	10					
	i) Separate meeting of the Independent Directors		1	--	--	1	--
	ii) Appointment and Selection Criteria disclosed on the website of the company		1	--	--	1	--
	iii) Formal Letter of Appointment of Independent Directors		1	1	--	1	--

	iv) 1/5th of total as Independent Director (ID)		1	2	2	2	2
	v) Not convicted for a Criminal Offence		1	1	1	1	1
	vi) Appointed by the Board and approved by the shareholders in AGM		1	1	1	1	1
	vii) Tenure of the Independent Director		1	1	1	1	1
	viii) Post cannot remain vacant more than 90 days		1	1	--	1	1
	ix) The independent director shall have at least 10(ten) years of experiences.		1	1	--	1	1
6.	**Code of Conduct**	4					
	i) Information on Code of Conduct		2	2	2	2	2
	ii) Affirmation on Compliance		2	2	2	2	2
7.	**Disclosure on Remuneration Policy of the Employees**	2	2	--	--	2	2
8.	**Disclosure on Remuneration of Directors**	2	2	--	2	2	2
9.	**Board Committees:**						
A.	**Audit Committee:**	20					
	i) Transparency in composition of the committee.		5	5	5	5	5
	ii) Compliance of minimum requirement of number of Independent Directors in the committee		4	4	4	4	4
	iii) Disclosure of audit committee report		4	4	4	4	4
	iv) The review adequacy of internal audit function.		2	2	2	2	2
	v) Hold meeting with the auditors, review the annual financial statements before submission to the Board for		3	3	3	3	3

	approval or adoption.						
	vi) The Audit Committee shall conduct at least 4 meetings in a financial year		2	2	2	2	2
B.	**Nomination &Remuneration Committee**	13					
	i) Information about number of committee meetings		2	--	--	--	2
	ii) Compliance of the provisions of independent director as chairman of the committee		2	--	--	--	2
	iii) Disclosure of committee report		2	--	--	--	2
	iv) The company shall have a NRC as a sub-committee of the Board.		2	--	--	--	2
	v) The Committee shall comprise of at least three members including an ID		2	--	--	--	2
	vi) All members of the Committee shall be non-executive directors		2	--	--	--	2
	vii) The NRC shall conduct at least one meeting in a financial year		1	--	--	--	1
10.	**Disclosure and Transparency**	30					
	i) A discussion on Cost of Goods sold, Gross Profit Margin and Net Profit Margin, where applicable		2	2	2	2	2
	ii) A detailed discussion and statement on related party transactions		1	1	1	1	1
	iii) A statement of utilization of proceeds raised through public issues, rights issues and/or any other instruments		2	2	2	2	2
	iv) A statement of Directors remuneration		2	2	2	2	2
	v) A statement on fair preparation of the financial statements by the management of the issuer company		2	2	2	2	2

	vi) A statement with regard to the protection of minority shareholders from abusive actions of controlling shareholders		1	1	--	1	1
	vii) The total number of Board meetings held during the year and attendance by each director		2	2	2	2	2
	viii) A brief resume of the director		1	--	--	--	1
	ix) Code of conduct, based on the recommendation of the NRC for the Chairman of the Board, other board members and Managing Director of the company		1	--	--	--	1
	x) Review management letters or letter of Internal Control weakness issued by statutory auditors.		1	1	1	1	1
	xi) Accounting policies and estimation for preparation of financial statements		2	2	2	2	2
	xii)IAS / BAS / IFRS / BFRS, as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure there-from has been adequately disclosed		2	2	2	2	2
	xiii) Board appoint members of the Audit Committee who is non-executive director.		1	--	1	1	--
	xv) All members of the Audit Committee should be “financially literate”		2	2	2	2	2
	xiv) The company has an official website linked with the website of the stock exchange		2	2	2	2	2
	xv) The company keeps the website functional from the date of listing.		1	1	1	1	1
	xvi) The company makes available the detailed disclosures on its website as required under the listing regulations of the concerned stock		2	2	2	2	2

	exchanges.						
	xvi) The company obtains a certificate from a practicing professional firm on yearly basis regarding compliance of conditions of Corporate.		1	1	1	1	1
	xvii) The professional who will provide the certificate on compliance of Corporate Governance shall be appointed by the Shareholders in the AGM		2	2	2	2	2
	Total	**100**	**100**	**76**	**73**	**84**	**94**

Source: Researcher's compilation from Company's Annual Reports and Website.

From the above table, it is clear that all companies have their own philosophy on Code of Governance all four companies have separate post of Chairman and MD/CEO. The Board of Directors of all sampled companies is duly constituted with proper balance of Executive Directors, Non-Executive Directors and Independent Directors as perrevised Corporate Governance Code 2018.Companies disclosure tenure and age limit of Board members are according to Corporate governance Rule. It has also been observed that most of the sampled companies given detailed report about training programme, Statutory Committee like Audit Committee etc. but none of the company had complied the requirements of Remuneration Committee and Risk Management Committee. Whereas most of the Company inform about shareholders regarding the appointment of directors and companies give detailed report about their AGM and special resolution passed in the AGM.

Comparison of Pharma and FMCG Sector Companies with Dhaka Stock Exchange

(Listing Obligation and Disclosure Requirements) Regulations 2017-18

For the ten Parameters with sub-Parts of Code of Conduct as implied on Dhaka stock Exchange Regulations 2017-18 Practices score has been obtained for all four companies Square Ltd, Beximco Ltd, Pran Ltd and ACI Ltd on the basis of their fulfilment of requirements. Using SPSS, Wilcoxon signed rank test has been applied to test their compliance with Code of Conduct (Listing Obligation and Disclosure Requirements) Regulations 2018 Practices

Table 3: Wilcoxon signed rank-test results

Pair	Corporate Governance Guidelines of 2012 in Bangladesh v/s Score of	Z	p- value
1	ACI	-1.890	.059
2	PRAN	-2.743	.006
3	BEXIMCO	-3.686	.000
4	SQUARE	-3.486	.000

From the above Table 3, it is concluded, that P-value of both the FMCG sector companies is greater than 0.05. P-value which implies that at 5% level of significance and shows compliance with the corporate regulation. The Pharmaceutical Company's P-value are less than 0.05 and shows less compliance with the regulation.

Suggestions: According to Index Table 2, Square Ltd secured score 76, Beximco Ltd secured score 73, Pran scored 84 and ACI Ltd scored 94. It can be suggested that all companies should constitute committee for Nomination and Remuneration and they should conduct meetings at least once a year. From the study, it has also observed that most of the companies do not follow the practice of uploading Director's Resume either in its website or annual report. Companies should also disclose committee report from time to time and should also introduce carbon accounting and green accounting practices and should disclose environment, health and safety measures for stakeholder's interest.

Conclusion: From the above study, it is concluded that as p-value for two FMCG company is greater than 0.05 and less for two pharmaceutical companies. The two FMCG company satisfactorily follow the mandatory requirements in all sub-indices compared to pharmaceutical companies. The pharmaceutical companies must adopt some other corporate governance practices in which they are lagging behind. The study shows that FMCG sector secured more score in comparison to Pharma sector. ACI Ltd scored highest score i.,e., 94 in Corporate Governance Index.

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