A DIAGNOSTIC VIEW OF THE INTERFACE BETWEEN CORPORATE GOVERNANCE AND FINANCIAL REPORTING PRACTICE: EVIDENCE FROM AN EMERGING ECONOMY

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ABSTRACT

Financial reporting practice of an emerging economy is investigated using a corporate governance lens. Through an interview-based field case study, this paper discusses how the local corporate governance practices influence the financial reporting practice in Bangladesh. Existing regulatory corporate governance guidance, to a large extent, translates into a ceremonial compliance exercise without bringing changes to underlying organizational practices. The absence of effective corporate governance results in an accountability platform which does not ensure reliable accounting information. The regulatory and financial institutions need to play a more effective role to install effective governance in Bangladeshi organisations.

Keywords: Financial reporting, Emerging economy, Corporate governance, Regulation, Accounting standards

1. Introduction

There is an increasing trend in developing countries towards adopting financial reporting and governance structures of developed western economies (Tyrrall, Woodward and Rakhimbekova 2007). Like many other developing countries, Bangladesh has adopted international financial reporting standards (IFRS) and corporate governance models which are primarily developed in economically developed Anglo-Saxon countries [i]. The Anglo-Saxon financial reporting and corporate governance models assume a certain role and level of participation by institutions such as regulators, stock market, professional accounting associations, auditors and shareholders to ensure the integrity of corporate managers and controlling shareholders. While these pressure groups play an active role in shaping the corporate governance and financial reporting practices in Anglo-Saxon countries, such governance institutions do not play effective roles in Bangladesh (Uddin and Choudhury 2008). This raises question about the effectiveness of adopted international reporting structure in developing countries like Bangladesh. This paper contributes to existing literature by investigating how local corporate governance processes influence the financial reporting practice in Bangladesh.

Bangladesh provides a rich setting to investigate the application of IFRS in a developing country whose institutional and market structures exhibit different characteristics than those of the developed Anglo-Saxon countries. The World Bank has identified Bangladesh as an emerging economy which needs local and foreign capital to finance its industrial and economic growth (Saudagaran and Diga 1997b; BEI 2003). The financial sector of Bangladesh is characterised by four nationalised banks, 30 private local banks, nine foreign banks, 29 non-bank financial institutions and two stock exchanges (BB Statistics Department 2009). The equity market is small and has failed to create investors' confidence over the years (*The Daily Ittefaq* 2008a). Businesses mostly depend on banking institutions for external financing (BB Annual Report 2007-08).

The motivation of this paper comes from the call to understand accounting practice in organisational and social contexts (McKinnon 1988). Parker (2005; 2007) has highlighted a shortage of studies in financial and external reporting research from a corporate governance perspective. Accounting standards such as IFRS by themselves cannot guarantee the quality of financial reporting. An effective corporate governance system is also needed to improve the quality of financial reporting in a country. In order to understand how high quality accounting standards such as IFRS influence financial reporting, it is necessary to explore how local market structures and institutions shape and influence managers' motivation toward financial reporting practice.

Melis (2004) argues that the financial reporting system needs an adequate balance of the corporate stakeholders' powers to be able to provide reliable information about the company. Effective corporate governance ensures the necessary balance of power between various stakeholders. Financial reporting provides a framework of accountability which forces managers to disclose information about performance and position of the company to outside stakeholders. If corporate managers are only accountable to some controlling owners, they will prepare the financial statements according to the interests of those owners. Effective corporate governance allows the financial reporting system to disclose more reliable information. In the absence of effective corporate governance, managers and controlling owners may use the financial reporting system to their own advantage and outside stakeholders may not receive reliable information. These issues underlie this research project and lead to its investigation of the interaction of corporate governance and financial reporting practice in Bangladesh.

This paper investigates how the adopted international reporting structures (such as IFRS) interact with local corporate governance conditions of a developing country like Bangladesh. This processual view (Parker 2007) of the reporting environment identifies and analyses the complex interplay of corporate governance structures and practices that shape the managerial incentives toward financial reporting practice in Bangladesh. Instead of assessing reporting quality by determining the association between earnings numbers and some market-driven variable (such as stock return, stock price and analysts' forecast accuracy), this research employs a comprehensive approach that includes investigating the ways in which corporate governance and local conditions affect managerial motivation toward financial reporting practice. An interview-based qualitative research approach helps us to consider the dynamic of various competing and connected forces which shape the financial reporting outcome. This research argues that such a processual view, instead of being restricted to examining the relationship between earnings numbers and market indices, enhances our understanding about 'how' things work in the reporting environment and 'what' influences such practices.

Evidence about the financial reporting practices of an emerging economy is presented which can assist international investors to understand accounting numbers of companies of these countries. As the emerging capital markets (ECM) have been expected to experience strong economic growth, they have created opportunities for investors worldwide (Price 1994). International investors need to be aware of the financial reporting constructs of emerging markets to be able to make prudent investment decisions. This paper enriches our understanding of reporting incentives that will put investors in a better position to assess the risk of their investment in emerging capital markets like Bangladesh.

It is also important to recognise the international financing context within which a developing country's financial reporting and corporate governance evolve. The financial sector reforms in developing countries are dominated by the influence of transnational private regulatory bodies such the World Bank (WB) and the International Monetary Fund (IMF). Ruggie (2004) describes the transnational regulatory domain as an institutionalised arena of interactions among non-state (transnational corporations, transnational private regulation and civil society organizations) and state (local institutions, business and political parties) actors. A number of research studies highlight the role of globalisation of business and capital as the source of transnational regulation (Bartley 2010). Transnational development institutions often require local authorities to comply with their regulations in order to qualify for funding and loans. Recently, the WB and other development financial institutions withheld the funding (US$ 1.2 billion) for the construction of the biggest river bridge in Bangladesh, alleging corruption in the Ministry of Communication of the Government of Bangladesh (Prothom-Alo 2011).

The majority of prior research into transnational private regulation has focused on negotiations among firms, Non-government organisations (NGO) and governments in economically developed countries, leaving the actual application of such regulation as something of a ‘black box’ (Bartley 2010). Bartley (2010) suggested that one way to open this black box is to conceptualise the regulatory reform as change process in which rules and enforcement activities pass through a variety of actors and locations. While demands from the consumers and social institutions in transnational countries are important, the local power position of various stakeholders and socio-political construct of developing countries play vital role in the implementation of reforms initiatives.

Finally, this research provides important evidence that can contribute to policy making by international and national accounting standard-setting and regulatory bodies. The findings of this research project are relevant to regulators, professional accounting bodies and other institutions (such as stock exchanges) who may wish to introduce necessary structural reforms to address the limitations of current financial reporting practices. Significant resources are contributed by international organizations (such as the WB and the IMF) for improving the reporting quality of developing countries. This study provides important information about the limitations of their financial practices and possible ways to improve the reporting practice. Such knowledge is useful to International Accounting Standard Board (IASB) and national accounting standard-setters for their better understanding of the local issues associated with the application of IFRS.

This research investigates financial reporting practice in Bangladesh. It is difficult to generalise about the accounting practice of developing countries based on a single country study. However, Bangladesh provides a good setting to investigate how IFRS influences the actual reporting practice of a country whose legal, political and social institutions show different characteristics from those of the developed western world. A large number of developing countries exhibit similar market characteristics such as ownership concentration, weak legal system and small capital market. The findings of this study provide some relevant insights about the financial reporting practice of a developing country. This research underscores the need to study accounting practice from a country-specific context.

The paper is organised as follows: section 2 provides an overview of previous studies examining the influence of various institutions over financial reporting practice; section 3 and 4 discuss the research methods and theoretical approach used in this investigation respectively; and section 5 provides analysis of interview data and other documentary evidence. The final concluding section discusses some policy implications of the findings of this research and offers directions for future research.

2. International accounting research – a contextual perspective

This section provides a review of international accounting literature regarding the environmental determinants of financial reporting practice. The review covers both the internal and external governance institutions that influence managerial motivation toward financial reporting practice. The discussion includes evidence regarding the differences in the characteristics of governance institutions in developed and developing countries. This differing institutional setting has important implications for this research paper as it investigates how local governance institutions such as corporate governance influence the financial reporting practice in Bangladesh.

International best practice and local conditions

The adoption of global reporting structures such as IFRS does not necessarily eliminate the influence of local institutional factors (Ball 2006). The Anglo-Saxon countries such as USA, UK and Canada are characterised by a well-developed financial sector with a good balance among stock markets, banks and bond markets. Most large businesses use both public equity financing as well as external debt from banks and the bond market. Most businesses in many developing countries depend on financial institutions for external finance and equity financing from the capital market is often regarded as a 'non-traditional' source of financing (Saudagaran and Diga 1997b). Stock markets in many developing countries are characterised by a relatively low number of listed companies and low volume of share trading (Ashraf and Ghani 2005). These differing institutional structures of a society influence managerial motivations and incentives toward financial reporting. An understanding of the local institutional structures is an important ingredient in the process of investigating and understanding the managerial motivations and associated quality of financial reporting in a developing country.

The ownership of businesses in many developing countries is concentrated in the hand of a few wealthy families (La Porta, Lopez-de-silanes and Shleifer 1999). Majority shares of a typical Asian corporation are held by one or several members of a family (Claessens and Fan 2002). In a widely held ownership structure, an agency problem arises from the conflict of interests between managers and outside shareholders (Jensen and Meckling 1976). However, the concentrated ownership structure may result in an agency conflict between controlling family owners and outside shareholders (Claessens and Fan 2002). It is important to investigate what influence this concentration of ownership has on the corporate financial reporting practice. The president of the World Bank, while analysing the causes of the East Asian financial crisis, summarised disclosure problems as follows (quoted in Rahman 1999, p.6):

> 'The culture in the region has not been one of disclosure. If you go back further it was a culture of a smallish number of wealthy people. It was an agrarian society with a lot of people in the country and some significant factors of power. It is reflected in the chaebols [large conglomerates]. It is reflected in groups that come together. There were centres of power. There was little disclosure, and there was a familial structure in the industrial and in the financial sector just as there was in the ordinary sector.'

Economic reform is embedded in the socio-political environment of a developing country. Thus the influence of local socio-political institutions must carefully be considered in designing, implementing and evaluating a economic reform program (Bonin and Huang 2001). The effects of technical aspects of IFRS in facilitating change cannot be understood without considering how the systems respond to the broader social and political context within which they operate (Chenhall and Euske 2007). Adly (2009) argues that emerging economies often exhibit political practices (what he calls 'politically-embedded cronyism') where the ruling political parties favour a select group of politically-selected firms as a tactic to retain their political power. In a recent speech, the former Chief Justice of Bangladesh expressed the view that the politics in Bangladesh has now become a commercial investment rather than a public service (the Prothom-Alo, November 27, 2011).

The success of organisational reform initiatives largely depends on the proper working of the regulatory and market institutions (Brehm 2008). The largely dysfunctional legal and political environment in many developing countries raises questions as to whether the imported reform tools are effectively implemented and whether the reform initiatives ultimately produce intended outcomes. Brehm (2008) sheds light on the impact of financial sector reform (in the form of sound risk management practices) in China. He observed that the direction of the reforms was significantly different from their objectives due to weak incentives to enforce respective policies. He found that the problems in the banking sector in China include contradictory regulation, directed credit control and political corruption.

Bonin and Huang (2001) investigated the effect of the introduction of asset management companies (AMC) in China. Their study finds that the AMCs are not successful in China as compared to the experience of such reform in the United States and Europe. The AMCs are structured as Government agency in China – thus exposed to political pressure and employees have incentives to satisfy political agendas. Opper (2003) documented weak enforcement of accounting and auditing standards in China. The interconnectedness between China's political and economic system create little incentive for state bureaucracy to effectively fight financial misreporting. Shareholders and creditors do not have sufficient and effective private safeguard mechanisms and enforcement by auditors is also low (Opper 2003).

Corporate governance in developing countries

Corporate governance constitutes structures, processes and institutions that allocate power and accountability among various stakeholder of an organisation (Davis 2005). Developing countries are increasingly using Anglo-Saxon-based corporate governance models (Uddin and Choudhury 2008). In the Anglo-Saxon corporate governance model, the ordinary individual shareholders are supposed to keep control of the firm and to monitor the behaviour of the managers. Mueller (2006) identifies four ways in which the ordinary shareholders can exercise control: (1) through electing a new chief executive officer, (2) through selecting members of the board of directors, (3) through a hostile takeover in which control is secured through the purchase of firm's majority shares, and (4) through the courts, should managers violate their fiduciary duties to their shareholders. The effectiveness of these governance mechanisms fundamentally depends on the size of capital market and efficiency of the legal system. External finance through the capital market is considered as 'rare' and legal system is 'weak' in many developing countries (Laporta et el 1999). Thus, it is important to understand how the governance mechanisms work in environment which is characterised by more of family ownership and bank borrowing and less of outside shareholders.

In a study of eight emerging markets, Gibson (2003) finds that chief executive officers (CEO) of firms are more likely to lose their jobs when their firm's performance is poor, whereas there is no relationship between CEO turnover and firm performance for firms with large domestic shareholdings. Gibson (2003) tests whether corporate governance is ineffective by estimating the link between CEO turnover and corporate performance. The presence of large shareholders appears to weaken corporate governance by repudiating the positive relationship between poor performance and CEO turnover. Since the ownership in most companies is concentrated in the hands of few family elites, the ordinary shareholders may not able to elect the CEO or members of board of directors. The developing countries offer a market environment where the assumptions and experience of the western countries' corporate governance are not automatically applicable. What is needed therefore are contextual governance studies that investigate how the various governance institutions of a developing country operates and affect the managerial accountability through financial reporting practice.

Globalisation of capital market and financial reporting

From the perspective of investors, the globalisation of financial markets has provided access to portfolio investment opportunities anywhere in the world, including those of the developing countries. Bangladesh is among the 47 developing countries identified as ECM by the World Bank (Saudagaran and Diga 1997b). ECMs are expected to experience large economic growth, creating enormous opportunities for investments. These ECMs have now captured the interests of investors worldwide with their promise of offering substantially higher returns compared to the more developed financial markets (Price 1994). Even though the economic importance of these countries has grown dramatically, little research has been done to inform their financial reporting and corporate governance practices (Saudagaran and Diga 1997a). International investors need to be aware of the specific characteristics of the social and environmental constructs of these emerging developing economies to make prudent investment decision.

Investments in ECM need careful risk assessment and consideration of the characteristics of local market (Saudagaran and Diga 1997b). The emerging developing economies are characterised by structural, political, economic and informational problems (Claessens, Dooley and Warner 1995; Saudagaran and Diga 1997b). Structural problems include the small size of their market capitalization, low liquidity and limited investment choices. Political and economic problems are associated with political risk and uncertainty, macroeconomic stability (e.g., Mexico's economic crisis, East Asian financial crisis) and the possibility of unfavourable government regulations affecting capital market investments. Informational problems stem from the difficulty of obtaining adequate and reliable information useful for evaluating investment opportunities in these markets (Harvey 1995).

The 'informational problem' played a crucial role in the East Asian financial crisis in 1997 (Rahman 1999). There is a general consensus among researchers that the East Asian financial crisis was mainly triggered by micro-level problems that remained undetected for a long time. Although the international investors and lenders had access to a range of macro-level information and aggregate data, inadequate disclosures in the financial statements prevented proper assessment of the risk exposures of the fund-seeking enterprises in the region (Rahman 1999). Foreign investors invest in projects in East Asian countries without knowing the actual risk of the projects. Financial reporting by businesses in the East Asian countries often hides significant risks such as over-exposure to foreign debt, speculative investments and low asset base (Rahman 1999). These inadequate disclosures ultimately result in the default by many businesses in the region, and many foreign investors have consequently lost their investment. A crisis such as the East Asian Crisis not only affects the local economy but also the global economy. The East Asian financial crisis clearly indicates that financial reporting often fails to communicate necessary information to foreign investors. An understanding of reporting culture and influence of relevant institutions on financial reporting practice will put investors in a better position to assess the risk of their investment.

Environmental factors affecting financial reporting practice

Research on international accounting practices asserts that financial reporting in a country is a function of its environment (Cooke and Wallace 1990). Researchers find that external and internal environmental factors are major determinants of a country's accounting practices. The 'environmental determinism theory' postulates that accounting information is influenced by various environmental factors which are unique to a country or region.

Countries frequently have their regulatory system formed in accordance to their colonial history. Former British colonies often have common law system in their country whereas former French colonies often have code law system (La Porta et al. 1997). These British colonies are more likely to adopt IFRS as it is based on the Anglo-Saxon financial reporting framework. The South Asian countries including Bangladesh, India and Pakistan were under British colonial rule for about 200 years. The accounting systems of the South Asian countries, which were under British colonial rule for about 200 years, are historically based on the Anglo-Saxon financial reporting framework (Ali, Ahmed and Henry 2004).

Economic colonialism arises from economic dependence on economically affluent countries. Thus countries often adopt financial reporting and governance structures from their economically developed trading partner countries (Kantor et al. 1995). Bangladesh earns about 76% of its export earnings from exporting garments to USA and European countries (Islam and Deegan 2008). Bangladesh received US$ 1.5 billion of grants and donations from the western developed countries in 2008 (BB Annual Report 2007-08). This economic dependence on western economies brings many management and reporting structures of the donor economies into Bangladesh. Countries often follow overseas reporting and governance structures in order to attract foreign investments. A country like Bangladesh needs foreign investment for its economic development (Ali et al. 2004). These foreign investors often influence the reporting structures of a developing country like Bangladesh. Large foreign investments such as those in the power and technology sectors often bring significant reporting and governance regulation with them. Additionally foreign aid often requires recipient companies to comply with international reporting structures such as IFRS (Tyrrall et al. 2007).

International bodies such as the WB, the IMF and donor agencies often influence the reporting and governance processes of developing countries. Sometimes they recommend reporting structures for the developing nations and investments are conditioned on the implementation of such structures. For example, the proposed Financial Reporting Council (FRC) as an oversight body of the financial reporting practice in Bangladesh came out of the ROSC report[ii]. Ultimately the proposal was considered by a joint project of the WB and the Government of Bangladesh. This shows the influence of international agencies on the policy making mechanisms of a country like Bangladesh.

The corporate disclosures in emerging developing countries relate to cultural attitudes consistent with secrecy and lack of transparency over corporate affairs (Jaggi 1975). Hofstede (1980) asserted that societies with a strongly collectivist orientation, which includes most developing countries, share a strong sense of ‘in group’ versus ‘out group’ identity. This cultural orientation results in restricting the access of corporate outsiders to corporate information, which is seen as being reserved for members of the ‘in group’ only. These cultural attitudes are reinforced by ownership or control of most enterprises by family/clan-based groups. This cultural institutions influence the financial reporting practice as managers are not inclined to make full disclosures of corporate affairs to external stakeholders.

Financial reporting and corporate governance processes are intended to protect the interests of various stakeholders. Legal and regulatory institutions play an important role in ensuring the reliability and effectiveness of the financial reporting and corporate governance processes. The effectiveness of accounting disclosure regulations depends on (i) regulatory requirements (accounting standards, and other requirements of stock exchange, Securities and Exchange Commission and other regulatory bodies) and (ii) the degree of enforcement. Accounting standards do not automatically ensure that financial reports provide true reflections of the performance and position of business organizations. Effective enforcement of financial reporting regulation is necessary to make sure that financial reports are prepared according to the accounting standards. Bushman and Piotroski (2006) finds that firms in countries with high quality judicial systems reflect bad news in reported earnings faster than firms in countries with low quality judicial systems. Highlighting the importance of enforcement, Cooke and Wallace (1990, p. 82) argue,

> It is one thing for a country to portray a highly regimented posture, it is another thing for that country to ensure that the regulatory regime is complied with. Whatever set of regulations is extant in a country will be ineffective unless there are adequate mechanisms, such as legal and/or professional sanctions, for ensuring their compliance.

Knowledge of local institutions to explain accounting practice

Research regarding financial reporting in developing countries needs to consider the implications of various financial reporting policies and structures for the political, economic and socio-cultural conditions of those countries (Wallace 1993). Powerful local economic and political forces determine how managers, auditors, court regulators and other parties influence the implementation of accounting rules (Ball 2006). Ball, Kothari and Robin (2000) studied China’s requirement that all domestic companies with foreign shareholders publish financial statements that conform to IFRS and that are audited by an international accounting firm. Many features of China’s institutional environment militate against high-quality financial reporting under IFRS. These features include the prevalence of ‘insider’ networks, the strong political roles of the Chinese government and army in the economy and the absence of shareholder litigation rights. Ball et al. (2000) report that these institutional features appear to limit the effect of mandating IFRS.

The fundamental reason for being sceptical about the success of implanting exogenously developed financial reporting processes and structures is that the incentives of preparers (managers), enforcers (auditors, courts, regulators, boards) and others (block shareholders, politicians, analysts, rating agencies, the press) remain local. The emphasis on fair value accounting in IFRS may only heighten the extent to importance of local political and economic environment which influences the judgement of mangers and auditors (Watts 2003). Powerful local economic and political forces therefore determine how managers, auditors, courts, regulators and other parties influence the implementation of rules. Uniform reporting structures do not necessarily bring uniformity in actual reporting behaviour across countries. Change in actual reporting practice often requires radical change in the underlying economic and political forces that determine managerial behaviour (Ball 2006).

Both Ball (2006) and Bushman and Piotroski (2006) papers found that earnings quality in terms of the relative speed with which bad and good news are reflected in reported earnings in countries vary with differing legal, economic and political systems. However, their finding of significant variation in earnings quality only suggest the fact that differing institutional settings will lead to differing reporting quality. It leaves the audience with no knowledge of the ways in which the various institutions in those countries interact and interplay to influence the reporting quality. This paper employs a 'processual view' (Parker 2007) of the complex interplay of forces, which shape the financial reporting in a developing country such as Bangladesh. Such a processual view can not only explain the way accounting information of a developing country is constructed but also can indicate the ways in which such reporting practices can be improved. Also the processual view includes the contextual factors underlying accounting numbers. Knowledge of these contextual factors will assist users in correctly interpreting the significance of accounting information in ECM which in turn can lead to better investment decisions in these markets.

3. Research methods

This study has utilised a field-based case study to investigate how corporate governance influences the financial reporting practices in Bangladesh. Selltiz et al. (1976) focus on the integrative power of this method by stating that case studies have the ability to study an object with many dimensions and then to draw insightful interpretations. Yin (1994) states that case studies are a preferred option when the purpose is to answer 'how' and 'why' questions. The utilisation of field-based case study enables this research project to investigate financial reporting incentives by considering the broader social and environmental context in which accounting operates in Bangladesh.

An embedded single-case study design is used in this research where attention is paid to various sub-units (embedded units) under the broad area of interest (Yin 2003). The main unit of analysis is financial reporting governance in Bangladesh. The sub-units include the regulators, report preparers, report users and auditors of financial reporting, regulatory processes, enforcement mechanisms and institutional frameworks. Therefore, the sub-units embrace both the systems and processes (such as corporate governance mechanism) and the individual stakeholders (such as preparers and users of financial reporting). Interviews allow access to important processual and contextual information about the various aspects of the financial reporting environment. Describing the strength of interview technique Burgess (1982, p. 107) states:

> Interviews provide the opportunity for researcher to probe deeply to uncover new clues, open up new dimensions of a problem and to secure vivid, inclusive accounts that are based on personal experience.

Data was collected through multiple sources such as personal interviews, researcher observations and documentary evidence. A total of 41 interviews with senior managers of various stakeholder organizations were undertaken over a period of three years, 2007-2010. The selection of interview respondents paid attention to the need to obtain a variety of perspectives on the phenomenon under examination (McKinnon 1988). The researcher in this study interviewed a range of stakeholders associated with the financial reporting practice. This helped the researcher to collect the views and influences of different stakeholders associated with the issues under investigation. Table 1 provides a list of the interviewees.

INSERT TABLE 1 HERE

Newspaper articles and annual reports over the entire period of study were analysed to verify the interview data and associated interpretations. Comparison (triangulation) of such data improves the reliability of each evidence through support and contradiction with other evidence (Jorgensen 1989). Continuous email correspondence with interviewees over the three year period was conducted to obtain insights into various financial reporting issues. Changes in regulation, legislation and accounting standards over the three years period were also analysed in the study. This documentary evidence provided the background information required to identify gaps in literature and develop interview questions for the collection of interview data for this research project. The longitudinal feature of the study helped the researcher to better observe the patterns, politics and processes involved in financial reporting practice in Bangladesh.

The selection of interview respondents paid attention to the need to obtain a variety of perspectives on the financial reporting practice in Bangladesh (McKinnon 1988). The researcher in this study interviewed a range of stakeholders associated with the financial reporting practice in Bangladesh. Purposive sampling technique was used where the selection of the interviewees was based on meeting one or more of the following criteria: experience in the financial reporting practice and regulation and experience in the use/application of financial reports in Bangladesh. Snowball sampling technique was also used as interviewees often referred to people who have important insights about the area of investigation. Every effort was made to interview such referrals to enrich the understanding of the various governance aspects of the financial reporting practice. The overall approach allowed the researcher to obtain information from a wide range of stakeholders such as regulators (the SEC, the DSE, the BB, the ICAB and auditors), preparers (companies and other businesses) and users (banks and investors) of accounting information.

The semi-structured interviews took the form of guided conversations rather than tightly structured formal questions. Although a consistent line of inquiry was pursued, the actual stream of questions was fluid rather than rigid (Rubbin 1995). Thus, the case study interviews operated on two levels at the same time: satisfying the needs of the line of inquiry while simultaneously introducing ‘open-ended’ questions (Yin 2003). While the semi-structured interviews allowed the discussions to be focused on the main issues, they also facilitated uncovering new views and reflections.

All interviews were audio-recorded and then transcribed in word document. Field and reflective notes were also used to record insights and reflections experienced during and after the interviews. These reflective notes motivated further investigation by asking probe questions in repeat interviews. Field and reflective notes can provide the context when the interviews are transcribed and also allow a researcher to record ideas, strategies and reflections as they emerge rather than waiting till the data analysis stage (Bogdan and Bilken 1998). Key themes and patterns were identified across the whole period of the study through the processes of transcribing, field noting, reflective noting, memo writing, and subsequent analysis, coding and inferences (Hammersley and Atkinson 1995). Initial memos were prepared from the transcribed interview data and field notes. These memos were based on preliminary themes arising from the interviews. These initial memos were prepared by assigning blocks of text (interviewee comments) to a particular theme. After the first five transcripts were coded, there were too many themes to maintain a meaningful level of classification. Following Garrett-Jones et al. (2005) the themes were organised into a hierarchy of broad themes and their sub-themes (or 'child' themes). The coded broad themes were then used to identify patterns and make inferences. In our data analysis section, the texts of a number of comments of the interviewees are provided. The texts are provided to reflect the opinion of the interviewees (Islam and Deegan 2008). This research considers that provision of the quotes provides richer insights into the financial reporting process. The use of direct quotes also helps the reader to understand the context in which the analysis was made.

4. Theoretical approach

Evidence of the research will be interpreted within a theoretical framework provided by New Institutional Theory (NIT). NIT and its associated isomorphism processes have been widely accepted in accounting and social science research (e.g., Carpenter and Feroz 2001). NIT asserts that organizations pursue legitimacy and support from their general environment to ensure survival and prosperity (Euske and Euske 1991).The isomorphic adoption of exogenously developed structures often hides the influence of local legal, political and social institutions which shapes the managerial incentives (Ball 2006). The NIT lens has the potential to investigate how the corporate governance institutions affect the managerial incentives toward financial reporting practices in Bangladesh.

While organisational practices are studied using various theoretical lenses, one of the more dominant frameworks has been the NIT. The primary argument of NIT is that formal organisational structure not only reflects technological necessity and resource dependencies but 'institutional' forces (Scott 2008). The theory emphasizes the interplay between institutionalised structures and agency rather than assuming a deterministic prediction regarding the outcomes of institutional pressures to organisational processes (Modell 2009).

NIT has evolved from a relatively one-sided emphasis on diffusion and isomorphic behaviour to conform to institutional pressures (Modell 2009). Most of the early discussion of institutional environments viewed the institutional arrangements as imposing requirements and constraints on organisations. Organisations operating within an institutional field are obliged to conform to the norms of the institutional environment in order to be successful to achieve legitimacy. Meyer and Rowan (1977) proposed that institutional environments impose structural uniformity on all organisations in modern societies. DiMaggio and Powell (1983) discussed the coercive, normative and mimetic processes of social reproduction. Scott (2008) argued for three mechanisms that underlie institutional order: regulative, normative, and cultural cognitive elements.

Meyer and Rowan (1977) made distinctions between institutionally conditioned, legitimacy-seeking behaviour and efficiency-centred rational choice. This led to the notion of decoupling of symbolic or ceremonial displays from instrumental action. This notion of decoupling has been extended by conceiving decoupling as the separation of specific performance indicators or measurement practices from organisational goals (Johnsen, 1999; Modell 2003). The focus in NIT research has also shifted from a heavy emphasis on larger populations of organisations making up institutional fields as the main unit of analysis to pay greater attention to the role of individual organizations in such fields (Modell 2009).

NIT has also focused on the decoupling of systems geared towards meeting conflicting demands from multiple constituencies or filling different instrumental functions. Oliver (1991) argued that organisational actors may use variety of 'strategic' responses to institutional pressures. Oliver pointed out that while conformity to institutional pressures might be the most likely response by organisational actors, other responses – compromise, avoidance, defiance, manipulation – were also possible. Chang (2006) found that conformity to performance management system (PMS) requirements by local hospitals is not motivated by conditions to improve services but to ensure funding from the central Government.

The initial NIT formulations over-emphasised the stability and independence of the frameworks for exploring the influence of the institutional environment on organisations. However, DiMaggio (1988) called for a focus on interests and agency. He argued that attention should be deflected from an analysis of extant institutions to the process of institutionalization because examining the latter would show that institutionalization is a product of the political efforts of actors to achieve their objectives. DiMaggio (1991) examined the role of agency and conflict among actors involved in constructing the field of art museums in the US.

Meyer and Rowan (1977) stressed that organisations responded to institutional pressures by 'ceremonial conformity'. Organisations felt compelled to adopt structural changes in response to institutional demands, but then proceeded to 'decouple' them from actual practices to take into account local circumstances and practical realities. Gradually, however, investigators began to recognise that the extensiveness of conformity varied across organisations (Modell 2009). Rather than viewing decoupling as the norm of an institutional effect, it was seen as one among many responses (Westphal and Zajac 1994). Other research has shown that changes in formal rules and structures that might seem ceremonial at first become more real over time (Westphal and Zajac 1994). Some organisations respond to external pressures by 'internalising' the threat, incorporating new expert actors in dealing with the new issues (Scott 2003). In response to demands from environmental interests, for example, chemical organisations created new offices and departments staffed by environmental engineers to help them cope (Hoffman 1997).

The concept of institution clearly connotes stability and order, but that does not mean that institutions do not undergo change. Institutional systems undergo change for both external and internal reasons (DiMaggio 1991). However, researchers also highlight opportunities for NIT to extend its coverage. The vast majority of empirical studies using NIT rely on case studies involving only shorter time periods and very limited analysis of the historical processes underpinning the development of organisational change (Scott 2008). While public sector reforms in many countries often imply coercive imposition of novel management frameworks in a 'top-down' manner, little is known about the micro dynamics in reflecting these within individual organisations through their implication in practices (Scott 2008). Lounsbury (2008) argued that researchers need to adopt the refined notion of NIT as less concerned with the stabilising effects of isomorphism and more interested in exploring the continuous transformation of practices.

The substantial developments in the coverage, interpretations and dynamics of NIT over a long period of time reflect its practicality and depth for reflecting and understanding the organisational practices. In his review of the use of NIT in social science research Scott (2008, p. 428) asserted, "NIT's journey is characterised by a series of transformations - from determinant to interactive arguments; from superficial to consequential change; from assertions to evidence; from non-rational formulations to rationality within institutional frameworks; and from institutional stability to institutional change". The understanding of organisational practices is complex as it involves many actors, contexts and environmental implications. NIT is chosen as the theoretical framework for this paper as it has the depth and breadth to explain the corporate governance institutions and their interaction with the financial reporting practices.

The reform programs prescribed by international development organisations such as the WB often focus only on the technical logics of such a program and assume that the imposed framework would work 'as advertised' (Bartley 2010). Little evidence is available about how the fragile rule of law, lack of political willpower and political corruption of many developing countries influences the implementation and outcomes of international best practice. The success of such reform initiative depends on how its implementation accommodates the local institutional environment, cultural aspect and interests of local agents. This project investigates how the corporate governance institutions affect the financial reporting practices in Bangladesh. Bartley (2010) called researchers to explore how standards are filtered, renegotiated, or compromised as they enter particular political jurisdiction. Such knowledge will inform what local factors should be considered and managed to get the intended result of reform initiatives.

5. Analysis of interview data and other evidence

This section represents the analysis of interview data and other documentary evidence. Evidence gleaned from the interviews has been categorised into three broad themes. These themes are presented in the context of other documentary evidence and observations. Each of the major themes includes the various dimensions (sub-themes) of the issue under investigation. The analysis shows how the existing corporate governance institutions and their characteristics influence and interact with the financial reporting practice in Bangladesh.

Ownership structure

The controlling shareholders in Bangladeshi companies often belong to the promoter's family (*The Daily Star* 2004). Most of the family members are members of the corporate boards. Often, family members hold membership of the board only to ensure family domination. Based on a survey of non-bank listed companies in Bangladesh, Bei (2003) finds that the board of 73% of the companies is heavily dominated by sponsor shareholders, usually belonging to a single family. The survey also finds that more than 50% companies have more than one executive director on the board and boards are usually actively involved in management rather than providing an oversight and supervisory service. Many leading businesses in Bangladesh are run by second and third generation business owners. Uddin and Choudhury (2008) contend that family members on the board guarantee that the family 'secrets' remain safe and board meetings turn into family meetings due to strong presence of close family members on the board (Uddin and Choudhury 2008). Highlighting the dominance of family ownership in Bangladeshi companies, the president of the ICAB asserted:

> excepting a few, corporate houses in the country are essentially corporatised family partnerships. They often do not consider that a business should be a separate entity and they are only the shareholders (*The Daily Star* 2004).

In a study of the top 20 companies (in terms of paid up capital) of Dhaka stock exchange, Uddin and Choudhury (2008) find that sponsors of 40% of these companies hold more than 50% voting shares. Other than three companies where Government hold majority shares, the sponsors of these top 20 companies hold more than 30% shares. Even with ownership of less than 50% voting rights, control is presumed to exist through the ability to elect or remove majority members of the board or to cast majority votes in meetings (Picker et al 2011). As family ownership is prevalent in many Bangladeshi companies, the financial reports are designed to serve the interests of the controlling family, rather than those of the ordinary shareholders. As the accounts managers of one of leading listed companies commented:

> Even though they (the company) hire professional accountants, the owners (controlling shareholders) do not encourage development of professional financial reporting practice. They want us to prepare reports to serve their interests.

The Bangladesh Bank (the Central Bank of Bangladesh; hereafter referred to as BB) takes measures to reduce the ownership concentration in the commercial banks. Some interviewed bank managers advised that though the extent of ownership concentration has declined to some extent, the problem still exists. BB has introduced the rule that husband or wife cannot be the director for more than six consecutive years and they together cannot hold more than 5% of issued shares in any one bank. However, some entrepreneurs continue to hold majority shares in the names of their relatives and thereby keep the controlling voting rights within the family:

> The problem still exists, but the extent has been reduced by some extent. Now sometimes promoters keep shares in different names and still control the banks. Still many financial institutions comply with the guidelines in paper, but have not changed their real processes [A manager of the Central Bank of Bangladesh].

The controlling family dominate organisational decision making process by occupying key management positions (such by Chief Executive Officer and Director of Operations). The controlling family often create a management that is loyal to them. It is common to find some employees who work in the company for 30 to 40 years. These employees often hold managerial positions and carry out the instructions of the controlling family. The situation is not very different for professional managers. The controlling family exert significant influence over the recruitment, compensation, pay scale and promotion of professional managers including accountants. This motivates managers to serve the interests of the controlling shareholders. The conventional agency theory postulates an agency conflict between managers and shareholders. In a Bangladeshi environment, the managers have the economic incentive to act in the best interests of the controlling shareholders. This managerial motivation is reflected in the comments made by one finance manager:

> Officially we work in listed company, but in reality we actually work in a family business. We serve the family owners and they take all the decisions. Since the business gets bigger, they need to hire professional managers. But all the major decisions are made by them (the controlling families).

This concurrence of interests between managers and controlling owners has important implications for the financial reporting practice. Some managers informed that they maintain two sets of accounts – one for internal use and one for external use. The internal one includes all the transactions and is used for strategic and managerial decision. The external one is a modified version of the accounts and is prepared to satisfy the external regulatory requirement. This provides an evidence of the existence of a possible conflict of interest between managers (who act in the best interests of the controlling family) and non-controlling ordinary shareholders. The following comment of the finance manager of a leading local manufacturing company explains the motivation of having such dual reporting practice:

> This is how they (controlling family) take various benefits (in addition to legitimate ones) from the company.

Role of financial institutions in strengthening financial reporting governance

In a survey of corporate governance in Asia, Claessens and Fan (2002) ask for future research on the role of financial institutions in corporate governance. As the major supplier of external funds, the financial institutions can play an effective role to ensure effective corporate governance in companies. The overall development and governance of a country's financial system may affect the degree to which companies are pressured to install sound corporate governance processes.

Holland (1999) explores how some UK financial institutions pursue a corporate governance agenda with their client companies. These financial institutions use the financial reports and informal meetings with clients to develop knowledge about the corporate strategy, management and expected financial performance of borrowing companies. This knowledge base helps financial institutions to exert influence and pressure on the borrowers to understand and improve their governance processes including the financial reporting practice. The quasi-insider role of the financial institutions enable them to assess whether the companies are implementing the substance of the Cadbury and Greenbury corporate governance guidance or are adopting a superficial approach to the reforms (Holland 1999). The financial institutions also assess whether matters such as the separation of duties of Chief Executive Officer and Chairman have been implemented in a token manner by the controlling shareholders or have been implemented so that the two roles are distinct and substantive.

Interviewed BB officials contended that banks need to assess the quality of the governance and reporting processes of the borrower organizations to understand the strength of their business and credit-worthiness. The BB officials expressed the opinion that absence of the assessment of corporate governance of borrowers is one of the main reasons for having many non-performing loans in the banking sector. Interviewed bank managers mentioned that they do not make in-depth analysis of the governance of the fund-seeking business organizations. The credit officers of the financial institutions take comfort from the value of the collateral as they believe that it will give them their money back if the loan does not work well. However, the ineffective legal and judicial system in Bangladesh does not help the financial institutions to realise their collateral in case of loan default. Explaining the banks' role in assessing the corporate governance of borrowers, one banker said,

> It is not our area as a financier. Why would they (borrowers) listen to us? This should be regulated by the government agencies. We do not contribute at all to the development of corporate governance of client organizations.

In accordance with the banking regulation of Bangladesh, commercial banks need to ensure that the requirements of 'credit risk grading (CRG)' are fulfilled by client organisations. The CRG is a checklist of corporate governance structures including financial accounting process. Banks often prepare financial reports and other corporate governance statements on behalf of their client organisations to fulfil the requirement of the CRG. Many borrowing organisations do not keep proper record of business transactions. The credit officers of banks estimate the revenue of client organisations based on their bank statement or some transaction documents and assume a certain % of the revenue as profit. These financial statements of organisations are prepared by the judgement of the credit officers and are not based on a reliable accounting system. Thus the banks and the CRG do not contribute to the development of financial reporting and other governance structures in client organisations.

The interviewed auditors informed about difference of accounting information infrastructure between listed and non-listed companies. Because of the reporting requirement of the SEC and stock exchanges, many listed companies hire managers with professional accounting qualification. However, the situation is different for most of the companies which are not listed on the stock exchanges. Many non-listed large businesses do not have systematic accounting record due to the absence of qualified accountants. Due to the small size of the capital market, most of the loan clients of banks are non-listed companies. Banks sometimes lend based on the reputation of the borrowing organization in developing countries (Shleifer and Vishny 1997). This reputation may come from the profile of the promoters and the size of the business. Sometimes banks do not examine the financial statements and other governance structures of borrowers:

> We sometimes give loans based on reputation of the borrowers. If we ask for financial statements, the borrowers say that other banks do not ask for these things. So we sometimes give loans to the big companies without really assessing at their financial statements and governance processes [Bank Manager].

The popular press in Bangladesh criticise political parties for corruption and inefficiency (*The Daily Star* 2008). Many members of the political parties are business people who use the political power to obtain advantage and privileges (*The Daily Ittefaq* 2008b). Many businesses bribe members of the political parties to secure their approval and support. According to Transparency International's 2002 ranking, Bangladesh is considered to be world's most corrupt country with the monetary value of the corruption estimated at around BDT 700 billions (Belal and Owen 2007). Some interviewed bank managers mentioned that political leaders sometimes exert pressure on the banks to provide loans to their own business organizations or to people of their choice. Thus the lending decisions of the financial institutions in Bangladesh are sometimes influenced by the interests of political parties. One survey has found that political and union leaders influence over 80% of the bank loans to the private sector (*The Daily Star* 2000). Many commentators have raised concerns about the unethical role of politicians in Bangladesh. Highlighting the negative impact of political interference and lack of political will, the President of the country said:

> …political parties cannot continue without support from the big loan defaulters, just as they cannot continue without students, musclemen and terrorists. The loans defaulters have created a very dangerous situation in the banks and other financial institutions. They are very powerful and have political patronage (*The Daily Star* 1999, p. 1).

Interviewed bank managers expressed the opinion that the BB should exert more pressure on banks to play an effective role in improving corporate governance and reporting practices of borrowing companies. Interviewed bank officials stressed that the BB should be more active in promoting effective corporate governance like the way it encourages loans to the agricultural sector and to female borrowers. Some interviewed bank managers expressed the view that if some banks are assessing the governance and reporting practices of borrowers whereas other banks are not doing the same, then the latter banks will get more business as borrowers find it easier to obtain loans from them:

> It's not an even playing field. Sometimes when I start assessing the governance and reporting practice of borrowers, they often ask me why I am asking for so many things when other banks do not require anything. So I make a compromise to secure business. It's the duty of the BB to make it an even playing field. If BB checks the banks' lending practices to see whether they evaluate the governance and financial reports of borrowers, then banks will become very conscious about it. It will help to create a 'habit of maintaining records' in companies [Bank Manager].

As a major supplier of external funds, Bangladeshi banks do not exert any pressure on the borrowing organisations to install strong corporate governance and financial reporting system as a qualification for finance. Many financial institutions have weaknesses in their own corporate governance structures which reduces their capacity to practice prudent lending criteria that ensure effective accountability structure through reliable financial reports. The credit evaluation process of many financial institutions is influenced by collateral-focused approach, political pressures and controlling shareholders' interests. Managers often fear the loss of jobs or promotion if they do not serve the interests of the controlling family groups. As a result, the borrowing companies are not subject to pressure from the financial institutions to develop effective corporate governance and reporting practices.

Corporate Governance Guidelines: is it a case of coupling, de-coupling or loose coupling?

The SEC introduced 'Corporate Governance Guidance' for all listed companies in 2006. All listed companies need to disclose information about their governance processes according to the guideline on a 'comply or explain' basis. The guidance encourages companies to employ external and internal auditors, chief finance officer, compliance officer and independent directors. Only 31% of the listed companies have appointed independent directors following the SEC corporate governance guidance which was operative since 2006 (*The Daily Star* 2009). Describing the effectiveness of the requirement of audit committee in the SEC corporate governance guidance, one interviewed auditor commented,

> I have my doubts about the effectiveness of the audit committee. You need to have directors with accounting knowledge in the audit committee. In most audit committees, the members do not possess any accounting knowledge. So the audit committee exists only in paper, it does not bring any good to the organization.

Many interviewees revealed that independent directors are mostly appointed to provide specialised services in their area of interests, not to provide an independent review of the operation of the business. Interviewees asserted that reputed information technology (IT) specialists or retired bankers are appointed as independent directors to help the company to develop its information system or to obtain loans from the financial institutions. Interviewees revealed that some companies appoint retired high-level government officials as a means of securing connections with the regulators. Former Government officials and bureaucrats are often appointed as independent directors to help the company obtain licenses or as payback for previous favours (BEI 2003). Even though some companies have appointed independent directors to comply with the requirement of the SEC guidance, many interviewees expressed concerns about the true 'independence' of such directors. Due to their close relationship with the controlling family owners, independent directors do not effectively oversee the activities of the board and management of many companies. Interviewees mentioned that controlling shareholders select their own people as independent director:

> Nothing has changed. The problem is that independent directors are appointed by the board. The board will always bring their own people as independent directors. The basic purpose of appointing an independent director is to monitor the activities of the board. Independent directors

> should not be appointed by the board. Independent directors should be appointed by minority shareholders [Chief Finance Officer of listed company].

The evidence of this research suggests that conventional governance mechanisms such as board of directors, independent director and audit committee are not effective in Bangladesh. The controlling power of most of the companies in Bangladesh stays with the promoters' families. Board of directors is commonly dominated by controlling shareholders. Effective professional management and governance systems have not developed in many companies including large listed companies. Interviewees declared that the SEC and auditors do not evaluate the effective implementation of the SEC's corporate governance guidance. Many interviewees believe that the SEC guidance only translates into 'ticking the box' practice without changing the actual governance processes. The apparent compliance with the SEC guidance leads to decoupling whereby the actual governance practices have not changed.

> The SEC corporate governance guidance remains as a tick the box thing. We have everything on paper, but in practice we are still in risk [Accountant of listed company].

The non-existence of corporate governance has important implication for financial reporting practice. Financial reporting is an important corporate governance mechanism which provides a framework of accountability for managers. Financial reports communicate the way managers use the resources of firms to maximise stakeholders' wealth. Absence of effective corporate governance reduces the incentives of managers to provide reliable accounting information to external stakeholders. The controlling family shareholders control the corporate financial reporting process and use it in their own best interests. This controlling shareholder-centric financial reporting system often reduces the usefulness and reliability of financial report to other stakeholders. The corporate governance processes of most Bangladeshi companies are structured to protect the interests of the controlling family groups. Family members on the board guarantee that family 'secrets' remain safe (Uddin and Choudhury 2008). The employees often work to satisfy the needs of the family owners. Without improvement in the corporate governance processes, the accountability and reliability of financial reporting practices remain in doubt.

NIT postulates that actual practice may deviate from expected practice of formal structures. In the absence of effective corporate governance processes, IFRS are not translated into reliable financial reporting practice. Financial reporting of most firms does not provide a mechanism to communicate the accountability of managers to outsiders, since the controlling family owners capture the governance process. This reflects NIT's assertion that informal practice may dominate the existence of formal structures and associated desired outcome. Even though Anglo-Saxon based structures such as IFRS and Corporate Governance Guidance are in place, the actual practice is dominated by the interests of the controlling family groups and such informal practice has institutionalised.

The apparent compliance with the SEC guidance leads to decoupled adherence whereby the actual governance practice is different from what is expected from regulation such as the 'SEC Corporate Governance Guidance'. Many companies have manipulated the SEC's pressure to follow its corporate governance guidance by making ceremonial compliance without changing the real managerial accountability processes. Organizations do not always blindly mimic in the face of institutional pressures, but they can also engage in avoidance tactics and try to manipulate sources of pressures (Oliver 1991). The controlling family owners appoint their preferred person as an independent director. In many cases, the appointment of independent directors has not resulted in effective oversight of the operation of companies.

There is no regulatory corporate governance guideline for non-listed companies in Bangladesh. Most of the businesses in Bangladesh are private limited companies or partnerships that are not covered by the SEC corporate governance guidance. There are only 271 publicly-listed companies at Dhaka stock exchange as compared to about 110,000 companies registered under the Register of Joint Stock Companies (RJSC) (SEC Quarterly Review 2008; RJSC's website 2009). Most of the businesses are private limited companies which are not covered by the SEC corporate governance guidance (BEI 2003). This research finds evidence of lack of corporate culture, governance structure and reporting process in non-listed organizations such as hospitals and educational institutes. Describing the non-existence of corporate governance guidance for non-listed companies, a senior researcher of a research institute made the following comment,

> We find lack of corporate culture and governance structure in the hospitals and educational institutes. We find lot of related party transactions in these institutions which are not disclosed in financial reports.

Contrasting views were received about the corporate governance and financial reporting processes for foreign and international companies working in Bangladesh. The foreign and international joint-venture financial institutions operating in Bangladesh install effective corporate processes and reporting practices following their international practices. Because of foreign institutional ownership, these financial institutions do not feel pressure from any local controlling family groups. Interviewed banks managers attribute the stringer financial performance and loan assets of multinational banks to their stronger corporate governance processes.

6. Concluding remarks

The role of corporate governance institutions in facilitating the IFRS-based financial reporting practice in Bangladesh is investigated in this paper. The absence of corporate governance institutions results in an accountability framework that does not result in reliable financial reporting practice. The SEC has adopted 'international best practice corporate governance guidance' for listed companies; however, such guidance, to a large extent, translates into ceremonial compliance exercise without bringing changes to underlying organizational governance practices. This reflects the ceremonial adherence to the best practice structures while the underlying actual practice remains unchanged. The actual practice is decoupled from the intended outcome of the adopted corporate governance structures. This decoupled governance practices do not create managerial incentives to develop an accountability structure based on reliable financial reporting practice.

The concentrated family ownership in corporations has implications for the financial reporting practices. The lack of corporate governance institutions enables the controlling family owners to create a management culture which tends to satisfy their need and interest. As a major provider of external funding, the financial institutions do not ensure the existence of effective corporate governance and associated financial reporting practice in borrowing companies. The stock market also fails to create any demand for effective financial reporting governance of listed companies. Thus the controlling owners and their management do not receive any strong pressure for establishing an accountability structure through reliable financial reporting practices. The existing financial reporting practice is tailored to meeting the interests and needs of the controlling family owners.

The evidence of the papers has important implications for the regulatory institutions and other policy makers. The regulatory institutions in Bangladesh need to play an effective role to install adequate corporate governance in companies. The BB can take initiatives to encourage Bangladeshi commercial banks to play a role in promoting effective corporate governance and financial reporting practice in fund-seeking companies. The SEC needs to ensure effective compliance with its ‘corporate governance guidance’ by the listed companies. The SEC needs to ensure that the corporate governance guidance is practiced in actual management activities rather than complied in a ceremonial fashion. The local accounting standards board and auditors need to take a more pragmatic approach to assess how the IFRS can be implemented in the Bangladeshi corporate and economic environment.

Corporate governance practices at the local level need to play a more effective role in order to ensure the effective application of accounting regulations in Bangladesh. Differences in corporate ownership, financial markets and culture create managerial motivations for international differences of accounting practice. Future research can further exploit this opportunity and investigate country-specific knowledge about the financial reporting incentives which will provide important insights into international accounting practice. We do not unscored the importance of strong enforcement of SEC and other regulators such as the BB and auditors) regarding the technical compliance with the accounting standards. However, effective corporate governance plays important roles by working as an accountability platform which can bring demand for reliable accounting information. Corporate governance can also act to overcome the absence of market efficiency (weak stock market, inadequate investor protect laws, naïve investors and concentrated family ownership) that prevails in many emerging economies like Bangladesh.

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[i] Following Lamb, Nobes and Roberts (1998) the term ‘Anglo-Saxon’ is used to mean those countries, generally English-speaking, where accounting is seen as market-driven and rules are made by non-government bodies. Countries like UK, US, Australia, New-Zealand and Canada are examples of this categorisation.

[ii] Report on the observance of standards and codes (ROSC) is a publication of the World Bank, based on findings from a diagnostic review carried out in Bangladesh in January-March 2003.

Table 1: List of individuals interviewed

Industry/sectors	Number of organizations	Number of managers interviewed
Preparers:		
Listed companies	10	10
Auditors:		
Auditing Firms	5	5
Regulators:		
The Securities and Exchange Commission (SEC)	1	2
The Ministry of Finance	1	2
The Central Bank of Bangladesh (the Bangladesh Bank; hereafter referred to as BB)	1	2
Investors:		
Stockbrokers at Dhaka Stock Exchange (DSE)	-	2
Banks (merchant bank division)	5	5
Insurance companies	2	2
Creditors:		
Banks	5	5
Non-bank financial institution	2	2
Others:		
DSE	1	2
The Institute of Chartered Accountants Bangladesh (ICAB)	1	2
TOTAL:		
TOTAL	34	41