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Concept of Independent Director in South Asian Developing Countries: The Case of Banking Sector in Bangladesh

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ABSTRACT

Purpose: The study aims to identify the perception of the independent director in Bangladesh's banking sector and the concept and implications in different developing countries and international standards by reviewing existing literature justifying theoretical contribution.

Methodology: Listed 32 banks of Dhaka Stock Exchange are included as a population where 36 respondents from 6 listed banks as a broad stakeholder group are interviewed through convenience and snowballing technique. The study is descriptive with content analysis to justify the understanding of previous studies about the independent director.

Findings: Considering Bangladesh as a South Asian developing country, this study indicates differences in corporate governance infrastructure, independent director policies and practices with family orientation, policy coordination and implementation related to other developing countries of South Asia, and international standards. Moreover, the findings expressed somewhat different perceptions and challenges independent directors faced in an actual situation in Bangladesh's banking sector.

Practical Implication: This study might help identify the accurate perception of the independent directors and trends and challenges in Bangladesh's banking sector. The report might guide code formulators and policy coordinators to understand why and how the policies addressing independent directors' rules and responsibilities should look in Bangladesh's banking sector.

Originality: There is no such previous study highlighting this issue. Now it urges the need to understand the perception of the concept of independent director among the broad stakeholder groups of the banking sector of Bangladesh to identify whether the actual scenario and policies are aligned or questionable.

Limitations: This paper includes a small number of respondents which should not be the case. Here, only the listed 32 banks of DSE are included as a population where 36 respondents from 6 listed banks as a broad stakeholder group are interviewed through convenience and snowballing technique which is not mentioned here as the data has confidentiality issue and is not found in the archival.

1. Introduction

The concept of independent directors is articulated in corporate governance policies, guidelines, and studies because of the increasing significance of this issue in corporate practice. The context of Bangladesh as an emerging and developing country presents an interesting case to study. Theeconomic situation presents a favorable scenario, while the sustainability issue raises the question about it. The perception of independent directors varies from country to country because of

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having different policy infrastructure, guidelines, practice, and social structures among other developing and developed countries mentioned in the study of Baum (2017); De Andres, Azofra, and Lopez (2005). The author Baum (2017) explained the definition of independent directors in such a way that the external non-executive directors, performing their responsibilities independently with objective judgment to enhance all the stakeholders' value through managing agency problems, act as an independent director. But this perception varies among the broad stakeholder groups in the banking sector of Bangladesh also.

Researchers urge having an independent director to improve the board's performance (Tung, 2011; Fairfax, 2010). Rashid, De Zoysa, Lodh, and Rudkin (2010) argued that the proper implementation of independent directors ensures independent judgment, transparency, and fairness at the board. The presence of a non-executive director on the board can have a significant positive impact on firm performance (O'connell & Cramer, 2010). Despite the repetitive emphasis of scholars on the necessity of independent directors in ensuring good governance, it is surprising to see that their desirability in the corporate board is yet to be warmly welcomed by the company management team. The very recent work of Merendino and Melville (2019) and Nayak and Sarangi (2016) emphasized that having a high number of independent directors on board does not always guarantee good Governance in reality as it is expected in theory. Besides, Nguyen and Nielsen (2010) expressed that an independent director challenges CEO's power and independence.

On the one hand, many studies (Adams & Mehran, 2012; De Andres &Vallelado, 2008) show that with the increase in the growth of the economy, GDP (Gross Domestic Product), and FDI (Foreign Direct Investment), the need for the banking sector is highly significant for corporate success. In case of Bangladesh, it is an issue of more concern to ensure the effectiveness of independent director as several studies conducted by Osi (2009); Shaw, Cordeiro, and Saravanan (2014) explains that the legal and regulatory authorities are weak in Bangladesh. On the other hand, there is an outcry for independent directors in Bangladesh because ensuring good Governance is critical for family-oriented businesses, economic instability, and other factors (Sarbah, Quaye, & Affum-Osei, 2016). Merino (2006) emphasized corporate accountability for corporate success. Bangladesh has several home-grown corporate scandals for accountability issues, such as the Hallmark-Sonali Bank loan scam and the Share market collapse from 2009 to 2012. Thus, it would be expensive for the country to allow any sort of misconception relating to an independent director. Many studies such as (ex: McCabe & Nowak, 2006; Gordon, 2006) have emphasized that in such circumstances, ensuring corporate success is critical in the banking sector of Bangladesh without the proper implementation of rightly defined policies.

In developed countries like the USA, UK, Australia, and Canada, the independent director act as a means of corporate success (Wheeler, 2012; Brooks, Oliver, & Veljanovski, 2009; Klein, Shapiro, & Young, 2005). In emerging developing countries like India, China, Malaysia, Maldives, Sri Lanka, Ghana as well as Bangladesh, independent directors are more challenging supported by the studies of Agyemang and Castellini (2015); Chakrabarti, Subramanian, and Tung (2010); Leung and Cheng (2013); Naimi, Nor, Rohami,and Wan-Hussin (2010). Additionally, as a developing country, Bangladesh experiences a unique culture incorporating practice than the developed countries due to weakly coordinated policies and institutional pressure (Siddiqui, 2010). Besides, this problem is more critical in Bangladesh as the corporate sector is still dominated by the family-owned business mentioned in Rashid et al., (2010). Due to concentrated family-owned companies in Bangladesh, having independent directors in board composition might not encourage them to share their power and authority.

Because of this mixed evidence, scholars like Wheeler (2012) and Clarke (2006) feared that the inclusion of an Independent Director in the decision-making process on board might be further delayed. In many cases, due to the lack of knowledge about independent directors, the companies are reluctant to have them on board, or there is a lack of cooperation with the independent directors to exercise the benefits of having an independent director (Koerniadi & Tourani-Rad, 2012). These extensive literature reviews show that independent directors act as a means of board effectiveness and better Corporate Governance by ensuring transparency and accountability by aligning proper policy infrastructure and implementation in the company. Some of the specific objectives of this study are: (i) to identify the importance of the emergence of independent directors with the policies of international standards; (ii) to reveal the concept and implications of independent directors in the developing countries of South Asia; (iii) to reveal the perception of independent directors in the broad stakeholder groups in the banking sector of Bangladesh; and (iv) to identify the challenges facing the implementation of the policies regarding independent directors in the banking sector of Bangladesh.

2. Literature Review

This section discusses the previous studies to understand the concept of independent directors and clarify the present situation that will lead to identifying the literature gap. The discussion covers the justification of methods and variables of the previous studies meant to support this study.

2.1 Previous Studies on the Emergence of the Concept of Corporate Governance and Independent Director

The concept of an independent director emerged when checking internal activities of an organization needed to ensure four pillars of Corporate Governance such as accountability, fairness, transparency, and independence (Hazard & Rock, 2004; Fields & Keys, 2003). Though Corporate Governance emerged in the mid-to-late 1970s, it was perceived as corporate law and practice. It was a prevalent issue in 1980. From 1990, it takes more awareness after arising conflicts on corporate practices (Veasey, 1992). Several corporate scandals occurred between the years 1974 to 1999 in the banking sector and share market collapse in the USA (United States of America) and UK (United Kingdom). Besides, Keating Five scandal, the Swedish banking crisis, and the Enron scandal in 2001 urged the need to ensure transparency and accountability in financial issues (Dembinsk, Lager, Cornford, & Bonvin, 2005). After that, the importance of fairness and transparency issues came in the real corporate business world. As a result, standard international guidelines referring to the code of Corporate Governance and the importance of having independent directors as members of the board of directors increase (Naciri, 2008).

At first, the concept of independent director was established internationally in Cadbury report (1992) on corporate governance mechanisms, and board compliance and Organization for Economic Cooperation and Development (OECD) established code for best practice in 1999, revised in 2004 and 2015. Finally, the Company act 2013 also discusses the board composition, share ownership of less than 1%, and protection of company interests mentioned in the Siddiqui and Ferdous (2014) study. The author Wheeler (2012) identified that the perception about the independent director is shaky as the matter of independence is misplaced for the internal management body.

An Independent Director, appointed by the board of directors is a person with some specific personal and professional attributes, having the right of independent decision making, policy coordination, monitoring internal activities and controlling mismanagement, etc. that are discussed in the study of Nayak and Sarangi (2016) and Marchesani (2005). Another study by Mahmud and Ara (2015) opined that independent directors act as a moderator to ensure stakeholders' interest through effective monitoring, formulating board meetings, agenda, and scheduling consistent with the corporate policies. The adequacy of transparent information is a must for independent directors as the decisions are taken based on the information to get an expected result for ensuring corporate success.

2.2 Importance of knowing the variation of the Concept of Independent Director

Several studies examined optimistic compliance of good governance code in developing and developed countries (for example, Akkermans, Ees, & Hermes, 2007; Pass, 2006; Werder, Talauicar, & Kolat, 2005). It is expressed in the study of Pinkowitz, Stulz, and Williamson (2006) that the basic definition and function is similar mainly in all the guidelines of the countries followed in terms of corporate functions. However, the implications are somewhat different in developing countries from the developed ones, while developed countries' code compliance yield presents a higher degree and positive impacts on firm performance (Apostolides, 2010; Rosen, 2007; Reverte, 2009).

By contrast, most developing countries reflect a poor compliance mechanism on corporate governance codes in their respective countries and the international code of corporate Governance (Alabdullah, Yahya, & Ramayah, 2014). Having CEO duality, the board size, presence, and impact of having independent directors on board are highly questionable in developing countries (Chahine & Safieddine, 2011; Olayiwola, 2010). These differences in compliance mechanisms also trigger the differences in implications of independent directors in corporate practice. As for the unique characteristics of nations, mainly developing countries, each country owes its unique culture, values, norms, policies, ownership structure, business practice, and governance mechanisms (Bebchuk & Roe, 1999), which leads to the importance of knowing these patterns for better corporate performance. The corporate structure and law, economic and political issues, and ideologies differ in the developing and developed countries that shape the governance structure. These variations highlight the importance of understanding these conceptual issues for better corporate success addressed in many studies, for example, Licht, Goldschmidt, and Schwartz (2005); and Millar, Eldomiaty, Choi, and Hilton (2005). Additionally, it urges the dire need to clarify the differences that if the institutions do not fully maintain the policies, anybody can fit there, and it may cause a rubber stamp. That's why the real benefits of having an independent director would be questionable.

2.3 Pre-requisite of Independent Directors to be Effective in the Company Performance

To ensure good governance and effectiveness of having an independent director, it urges recruiting outside non-executive directors with no material relationship with the respective company. Experts (such as Koerniadi & Tourani-Rad, 2012; McCabe & Nowak, 2006) suggested that competency issues possessed by the independent directors are reflected in certain personal and professional attributes like skilled, knowledgeable, experienced personnel, etc. which triggers the rationale of formulating their duties. Some other prior studies (for instance: Brooks et al., 2009; Clarke, 2007) emphasized the cooperative role of independent directors than the monitoring role to manage corporate conflicts among the external and internal parties. However, possessing the right to information access of independent directors (Marchesani, 2005), monitoring and evaluating directors' performance several times a year rather than once a year-end can ensure better transparency and corporate success.

Researchers like Gordiniand Rancati (2017), Marinova, Plantenga, and Remery (2016), Darko, Aribi, and Uzonwanne (2016) examined the importance of having gender diversity in the boardroom to ensure better corporate performance evidenced from Italy, Netherlands and Denmark revealed in those studies. Performing multidimensional responsibility (Adams, Akyol, & Vewwijmeren, 2018) and for a better relationship among inside and outside directors of the company emphasizes the need to possess various skills to perform the duties effectively by the independent directors. Though many scholars like Bhatt and Bhatt (2017), Reguera-Alvarado and Bravo (2017), and Nguyen and Nielsen (2010) found a significant positive relationship between firm performance and board independence with the directorship of independent directors to some extent, it is not absolute that only having independent directors in an organization could ensure corporate success.

Many prior studies, such as Ravindranath (2016), Clarke (2007), and Marchesani (2005), present some positive mechanisms of active participation and independent judgment by the independent directors in the board. However, there exist arguments of having an independent director and its positive impacts on firm performance. At this point, Mahmud and Ara (2015) emphasized the proper policy coordination of independent directors with the scope of active and independent participation in the board meeting beyond internal and external influences that would be aligned with the long-term strategic goal of the company.

But then again, Koerniadi and Tourani-Rad (2012) doubted the number of independent directors to be present on the board that might ensure transparency and fairness in the board. According to the best practice, board independence positively impacts the shareholders' value realized during corporate scandals, not properly implementing policies regarding independent directors in board decision-making mentioned by Chakrabarti, Subramanian, and Tung (2010). Another study by Duchin, Matsusaka, and Ozbas (2010) stated the cost of information and environment of decision making by the independent directors. The cost of data is relatively lower with having a friendly environment of independent decision-making. Otherwise, it might be questionable for enhancing company value.

However, the previous studies regarding independent directors discussed in the above section mainly focused on the broad concept of independent directors and their attributes and effectiveness with related international and national codes of corporate practice and guidelines. Here, the importance of revealing the actual scenario of independent directors in different developing and developed countries is also presented, such as the USA, Australia, New Zealand, Malaysia, Maldives, India, and Bangladesh. By reviewing extensive literature, it is identified that the basic concept of independent directors is primarily the same in all the guidelines and regulations, whether developing or developed countries. But the implications are somewhat different in developing countries like Bangladesh from international standards and other developing countries in South Asia.

There is no such previous study highlighting this issue. Now it urges the need to understand the perception of the concept of independent director among the broad stakeholder groups of the banking sector of Bangladesh to identify whether the actual scenario and policies are aligned or questionable. Thus, this study aims to examine the perception of independent directors in Bangladesh with a comparative analysis of Bangladesh's banking sector with International standards and developing countries in South Asia.

3. Research Methodology

3.1 Research Design

This study is designed with descriptive analysis and a qualitative approach based on grounded theory to reveal the objectives of the research. The content analysis represents a fact-based clarification of the data and the actual scenario (Hsieh & Shannon, 2005). The findings of this study are based on content analysis with an interpretation of data and facts based on theories and practical situations to analyze the in-depth context of independent directors in Bangladesh. The purpose of this study is to explore the importance of the emergence of independent directors with the policies of international standards and developing countries in South Asia and the perception and challenges of independent directors in the broad stakeholder groups in the context of the banking sector of Bangladesh.

3.2 Population

In this study, to reveal the concept of independent director and their challenges, the 32 listed banks of Dhaka Stock Exchange (DSE) are the target population as broad stakeholder groups. And the scope of this study clarifies reviewing the depth of knowledge about the concept of independent directors in different developing countries in South Asia and the guidelines in international standards.

3.3 Sampling Technique and Sample Size

Data has been collected using convenience sampling techniques and the snowball method. For this study, 6 banks has been chosen from where 36 respondents are interviewed to understand the perception and challenges of independent directors. As of having restrictions to share board related information’s of banks in Bangladesh, convenience network sampling techniques has been used to reach the banks as well as respondents of those selected banks which is also supported by He ckathorn and Cameron (2017). Besides, in Bangladesh, reaching the manager or board level members of each bank is so tough to get information because board members are so busy with their scheduled works and meeting. As the data has confidentiality issues with hard-to-reach population, the factual information is restricted in the archival of the selected banks, and that's why convenience sampling with snowball techniques of data collection is best suited for data accessibility and flexibility that is also proved by the studies of Geddes, Parker, and Scott (2018) and Koerber and McMichael (2008).

3.4 Data

The broad stakeholder group such as directors, employees, managers, sub managers, senior principal officer, management trainee officer, and the first executive officer has been interviewed as primary data sources. And for an in-depth understanding of the concept of independent directors with the policies of international standards and in different developing countries in South Asia, many previous studies are reviewed as secondary data sources.

3.5 Data Analysis

This study adopts qualitative research where the data analysis is based on content analysis. And it is descriptive with a deeper understanding of the concept and status of Independent Director that is strongly backed by previous studies using statistical tools like graphs and figures. Researchers such as Christensen, Johnson, and Turner (2015) stated that descriptive analysis summarizes the key features and data efficiently with an in-depth understanding of the facts and figures by creating a ground framework to reveal the actual phenomenon.

4. Findings and Discussion

4.1 The emergence of independent director's importance with the policies of international standards

Based on an extensive review of existing literature (for example; Chien & Hsu, 2010; Welford, 2007; Berglöf & Von Thadden, 1999), it can be agreed that the primary purpose of Corporate Governance is to balance the ownership and power with ensuring interests of the groups of the organization as shareholders, investors, boards, management body, and all other related parties. To ensure good governance and transparency, indiscriminate supervision is a must which triggers the importance of having an independent director after the financial crisis (Hopt, 2013). The basic concept of an independent director is conceptualized as a non-executive director with independent judgment and no direct and indirect relationship with the company. In this section, the issues of independent directors are clarified by international standards' regulations from the beginning of ensuring good governance in corporate practice. At first, the corporate policies and international standards represent the importance of having an independent director to ensure transparency and accountability issues are discussed here in figure 1.

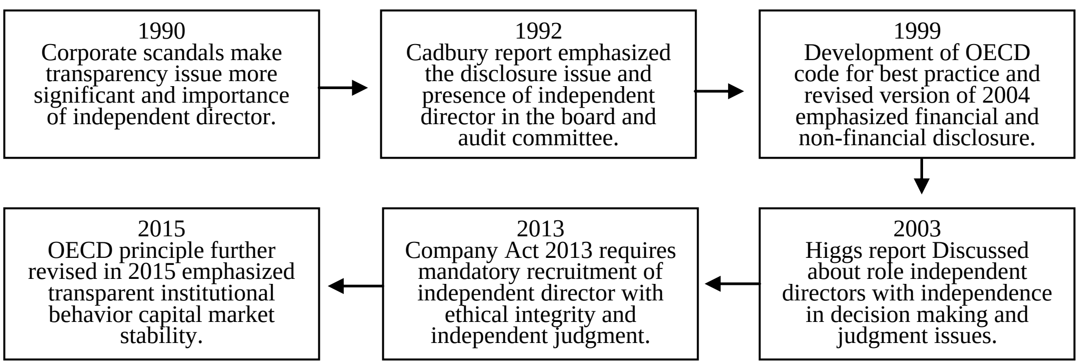

Figure 1. The emergence of the importance of independent directors with the policies of international standards.

The following figure represents the trend of emergence of the importance of independent directors to ensure corporate success. From mid-to-late 1970, corporate Governance emerged first, and several corporate failures made this issue more significant. In 1992, the Cadbury report was established to understand corporate governance mechanisms and independent directors' effectiveness for company guidance regarding compliance or explain basis (Weir & Laing, 2000). Here, the transparency in accounting and financial reporting is expressed with the policy requirements of the majority of non-executive directors to be present on the board. At least three independent directors would be in audit committee members selected by the board of directors (Jones & Pollitt, 2004).

Fairness and transparency issues created more attention after the Enron scandal in 2001, WorldCom and Tyco in 2002. After that in 1999, the Organization for Economic Cooperation and Development (OECD) also developed a code for best practice that was revised in 2004 mentioned in the study of Siddiqui and Ferdous (2014), and it was further revised in 2015 that emphasizes board structure, auditing, information disclosure and transparency to minimize corporate risks. Ensuring corporate governance framework and improving market functioning with adequate transparency in financial and non-financial disclosure issues are emphasized in the revised version of OECD principle in 2004 for OECD and non-OECD countries mentioned in Jesover and Kirkpatrick (2005). Another work of Aguilera and Crespi-Cladera (2016) expressed that the OECD principle was further revised in 2015 to promote institutional behavior and capital market integrity with more transparent disclosure issues that will lead to more capital market-based financing and economic stability.

Then in 2003, Higgs's report emphasizes the role and effectiveness of independent directors and audit committees without making a legal distinction about the responsibilities of executive and non-executive directors to make a positive contribution to the board expressed in Brennan and McDermott (2004). Here, the independence in decision making and judgment issues are clarified aligned with the existing framework of combined code and Cadbury report mentioned in the study of Jones and Pollitt (2004).

After that Company Act, 2013 emphasizes the company's interests complying with all the regulations considering stakeholders' interests. It describes the ethical integrity and objective judgment of non-executive independent directors while performing their duties. This act defines the mandatory recruitment of independent directors to ensure corporate success (Das & Dey, 2016; and Karmel, 2013).

According to OECD principles, board decisions should be analyzed objectively and free from management influence to protect the interest of broad stakeholders' groups. According to the combined code and Higgs report, at least half of the board members should be independent in decision making to ensure four pillars of Corporate Governance. Also, the Company Act 2013 (Section 166) clarifies the responsibilities of non-executive directors to protect Company interests by complying with all the regulations and independent judgment. However, at this point, it can be concluded that the primary perception and regulations of the independent director are primarily the same in all the policies and guidelines that would further contribute to ensuring transparency, fairness, accountability, and corporate success. And the experience of several corporate scandals signifies the importance of having an independent director with proper policy implementation in organizations.

4.2 The Concept and Implications of Independent Director in the Developing Countries of South Asia

The definition of independent director implies mostly similar understanding and implications in all the countries and the policies, whether developing or developing. But the fact is, the broad stakeholder groups of banking sectors of all countries may not be perceived the exact significance of having an independent director with inner meaning at the same level. Here, the study focuses on the implications in the context of developing countries in South Asia.

Developing countries refer to those emerging nations having a low industrial engagement, lower-income level, and a low Human Development Index measuring life expectancy, literacy, education, and standard of living. All are lower compared to other developed countries. According to the International Monetary Fund (IMF.) World Economic Outlook database, October 2018, the countries of South Asia (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka) are considered developing countries. Having unique characteristics of developing counties, the corporate success might not always be the same in all the countries. As for differences in corporate structure, market behavior, and board issues in developing countries mentioned in Siddiqui and Ferdous (2014), board independence and good governance implications might conclude a different phenomenon. In developing countries, lack of well-trained advisors and auditors, inadequate disclosure requirements urge the need for strict and proper policy coordination and implementation in those destabilizing sectors (Arun & Turner, 2004). The following table represents the guidelines and implications of independent directors aligned to the specific corporate governance codes, followed by the developing countries in South Asia. Here Bangladesh, India, Bhutan, Pakistan, Maldives, and Sri Lanka are focused.

Table 1. Guidelines and Implications of Independent Director in developing Countries in South Asia

Country Name	Guidelines and Implications of Independent Director
Bangladesh	The BSEC (Bangladesh Security and Exchange Commission) issued the first guideline in 2006. Finally, a revised notification in 2018 required the listed companies to maintain independent directors on the board to ensure good Governance.
India	Independent directors' implications are maintained according to the company act 2013, but corporate scandals 2009 in India urge the need of having independent directors more crucially in board success.
Bhutan	Corporate governance and independent director issues are partially observed. More auditors and independent directors might recruit aligned with the company act 2013 to ensure authentic and transparent disclosure of corporate matters.
Pakistan	The Securities and Exchange Commission of Pakistan (SECP) issued the latest code in September 2019 for the listed companies that should be maintained with specific requirements of independent directors' participation and accountability issues to ensure effective governance practice with transparency.
Maldives	In the Maldives, the corporate governance code is practiced, published by CMDA (Capital Market Development Authority) in 2008 to strictly ensure disclosure and transparency issues that clarify the attention of independent directors to corporate success.
Sri Lanka	Code of best practice in financial aspects of corporate Governance was finally updated in 2013. The Securities and Exchange Commission of Sri Lanka followed this policy to ensure ethical business behavior and corporate transparency. In Sri Lanka's case, small firms prove a more positive implementation of non-executive directors in the board.

Source: Authors Compilation.

This table summarizes the policies and guidelines of corporate governance issues followed by the respective developing countries in South Asia to understand the proper implementation of independent directors in board structure.

In Bhutan, as a developing country, corporate governance issues are partially observed. A corporate governance code should be established aligned with the Companies Act to enhance more attention about the shareholders' rights and transparency. According to the study of McGee (2010), the disclosure issues should be more authentic and transparent. And it needs more auditors and more independent directors through proper implementation of authority. In recent years, the policymakers and researchers focused on understanding the variations of implications in different levels of disclosure mechanisms through a study of 59 companies listed in the Nepal stock exchange addressed in Sharma (2014). Here in comparison with Bangladesh, for example, the guidelines of BSEC and Bangladesh bank are explicitly defined about the issues of good Governance, and independent directors' requirements and personal and professional attributes also mentioned in the study of Reaz and Arun (2006); Al-Mamun and Kamardin (2014).

In India, the implications of an independent director are maintained according to the Company Act 2013. In Bangladesh, most banks adopt the guidelines of BSEC (Bangladesh Stock Exchange Commission) and Bangladesh Bank. Chakrabarti, Subramanian, and Tung (2010) opined that the independent directors could place a positive firm value by adjusting the number of board members and performance, which provides a positive correlation that is measured in the scandal of India January 2009 when the outside independent directors cannot perform their role correctly. This critical situation might create a similar corporate breakdown or conspiracy for all countries, and it's not easy to ensure effectiveness in the same level of having independent directors. Haniffa and Cooke (2002) stated that corporate accountability and financial disclosure issues in most developing countries are somewhat inconsistent as of dominating family-owned companies in those countries. Due to family orientation, companies often face CEO duality, lack of accountability, and the absence of a non-executive director on the board. Here Bangladesh possesses the same issues regarding the majority of family-owned companies.

In these mentioned developing countries, the implications of an independent director are almost identical, and after that, India's banking sector encompasses the mandatory and voluntary code of disclosing (Pakhira & Dube, 2012; Hossain, 2008). Hence it might be evidence for other developing countries that maintaining proper guidelines and effective monitoring systems can ensure transparency of corporate issues. On the other hand, the author Pandya (2011) stated that there is no such significant correlation between corporate structure and corporate success in independent directors and CEO duality of responsibility based on the analysis of some selected Indian Listed Public and Private Banks.

In the Maldives, the corporate governance code was published by CMDA (Capital Market Development Authority) in 2008 to ensure good governance of the listed companies that belong to core principles such as responsibility, accountability, fairness & transparency. Cuomo, Mallin, and Zattoni (2016) identified a lack of female representation on the board. Also, the independent judgment and disclosure issues should follow the guidelines of the Listing Rules of the Maldives Stock Exchange to ensure board effectiveness.

According to Yasser, Entebang, and Mansor (2011) study, in Pakistan, board composition should be appropriately maintained within a limit with executive and non-executive directors to ensure board success and transparent audit issues that will reduce CEO duality and extra power of the CEO. The Securities and Exchange Commission of Pakistan (SECP) issued the latest code in September 2019 based on compliance or explain the approach for the listed companies that should be maintained with certain requirements of independent directors' participation and accountability issues to ensure adequate governance practice transparency. In Pakistan, the internal and external corporate governance mechanisms are relatively weaker, urging the need to enact bylaws and develop institutional support mentioned in Ahmed Sheikh and Wang (2012). Here, the identity of ownership matters more with less priority in transparency issues that signifies the demand of independent directors in the board to judge and monitor the mismanagement addressed in Ahmed Sheikh, Wang, and Khan (2013).

In Sri Lanka, the board size significantly impacts the increased firm value found in GuoandKga (2012) and Heenetigala (2011). And small firms lead to the more positive implementation of non-executive directors on the board. It would be more significant to maintain the independent authority of the CEO and chairman of the company that is clarified in the study of Azeez (2015).

Finally, in Bangladesh, the BSEC guidelines were first issued in 2006, the definition of independent director was not fully explained with its significance and legitimacy (Hasan, Hossain,& Rahman, 2014). After that, in 2012, the concept was fully expressed, but it was some sort of rule of thumb for institutional theory (Miah, Hossen, & Noor, 2015). It is suggested that the sponsor directors can hold 55% of the shares, and the barriers by the policy regarding sponsored directors might be inappropriate without rightly designed approaches that are mentioned in Altuwaijri and Kalyanaraman (2016). Another study by Maskay (2004) stated that public and private sector governance issues should be explicitly addressed. Establishing more transparent mechanisms might bring board effectiveness and corporate accountability monitored by the non-executive independent directors.

The above studies reveal that good governance issues are mandatory in all the developing countries in South Asia. Still, the implications of governance and transparency mechanisms vary from country to country. The importance of knowing the variations is highly appreciated to implement the policies regarding non-executive directors aligned with the country's corporate culture to ensure better performance and corporate success.

4.3 The Way of the Concept of Independent Director Perceived by the Broad Stakeholder Groups of Banking Sector in Bangladesh

Independent directors are the outside non-executive directors recruited in the company according to the guidelines of BSEC (Bangladesh Security and Exchange Commission) to perform the responsibilities with independence and objective judgment to solve corporate governance problems so that the world might not experience corporate scandals further like Enron, WorldCom. The authors (for instance, Nayak & Sarangi, 2016; Wheeler, 2012) urge the proper implementation of independent directors on board with a robust framework of corporate governance mechanisms.

This study aims to identify the concept of independent directors perceived by the broad stakeholder groups in the banking sector of Bangladesh. The BSEC (Bangladesh Security and Exchange Commission) issued a notification revised in 2018 that required the listed companies to be followed in comply or explain basis. A specific ratio of independent directors should be present in the board composition to ensure good Governance. And the code of Corporate Governance has been revised for better implications from 2006 to 2018 as conferred by section 2CC of the Securities and Exchange Ordinance, 1969 (XVII of 1969). The Commission with this supersedes its earlier Notification No. SEC/CMRRCD/2006-158/134/Admin/44. To know about the concept of independent directors, data are collected through interviews. Here the sample size is 36, representing the stakeholder groups of the banking sector of Bangladesh, and their perceptions and attributes of the independent director are explained with the following figure.

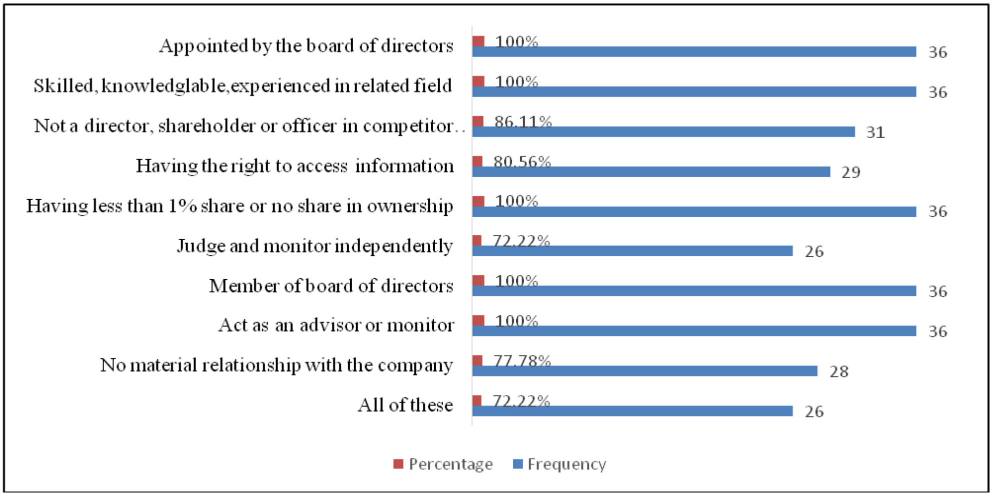

Figure 2. Attributes to understand the concept of Independent Director

The figure represents the significant attributes of the concept of independent directors, which are based on previous journals also mentioned in the literature reviews. Here, the responses support the first attribute by all the 36 respondents that the independent directors are appointed by the board of directors and approved by the shareholders in the annual general meeting. However, it is not fully supported in the broad stakeholder groups (about 78% responses). BSEC (Bangladesh Stock Exchange Commission) guidelines are followed to appoint independent directors with knowledge, experience, and skills in the related field. Independent directors are independent, not directors, shareholders (supported by 86.11% responses), or officers in any competitor company. Independent directors act as monitors and members of the board of directors with less than 1% share or no share in the ownership structure (supported by all respondents). There is no material relationship and nepotism between the company and independent directors except their responsibilities as monitoring and checking mismanagement of the company.

Besides, independent directors have the right to access information about the company to perform their tasks independently. Unfortunately, this might not reflect the actual business scenario, about 80% of responses keep in line with this requirement to access all the related information by the independent directors. About 72% of responses support those independent directors can have the opportunity to judge and perform their duties independently. And in Bangladesh, accountability issues are somewhat ignored as of ownership concentration and family dominance culture in the corporate sector (Imam & Malik, 2007; Farooque, Zijl, Dunstan, & Karim, 2007).

However, independence is the ability to 'stand apart' from wrong impacts and to be free of managerial activities, to have the opportunity to take the right decision on a given issue. Here in this study, the perception about independent directors has been revealed from the stakeholders' group, which sometimes contradicts the code of best practice of Corporate Governance in terms of the policies regarding independent directors in the banking sector of Bangladesh. Additionally, in today's corporate culture, independent directors are recruited only to maintain the requirements of BSEC (Bangladesh Securities and Exchange Commission) and Bangladesh Bank, not to ensure transparency, fairness, and accountability in the organization. That's why a percentage of the respondents stated the opposite statement contradictory to the BSEC guidelines. Also, it contradicts the appointment policies that should be free from bias. In a real scenario, family domination, relationship, and political issues are responsible for these fuzzy internal and external commitments to the corporate governance code.

4.4 The Challenges Facing the Implementation of the Policies Regarding Independent Director in the Banking Sector of Bangladesh

Though the external non-executive directors are recruited as a means of advisor and monitor to perform their tasks independently, it might be questionable in reality. In Bangladesh, the legal system, corporate structure, family ownership causes a critical scenario in practicing corporate code in the banking sector (Siddiqui & Ferdous, 2014). As a result, these undeniable facts create a challenge in implementing policies and guidelines (Mahmood, 2010). This study aims to understand the real business challenges in policy coordination and implementation in the banking sector of Bangladesh based on the data collected from the broad stakeholder group as 36 respondents from the listed banks in DSE (Dhaka Stock Exchange). Reviewing many studies and practical scenarios of the implications of independent directors, it is found that compliance with corporate policies leads to enhanced firm value and corporate success (Rouf, 2014).

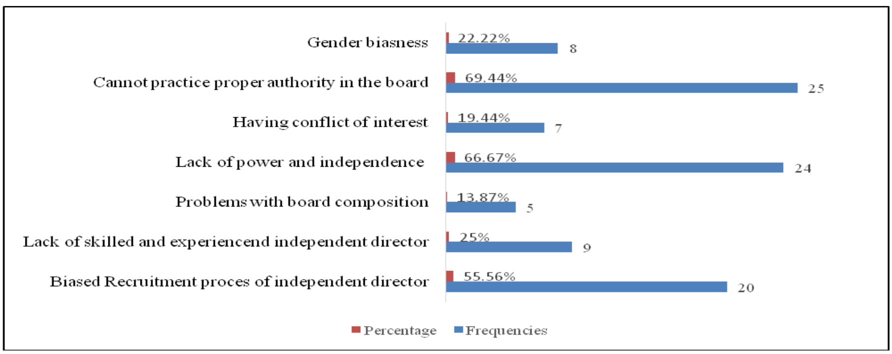

Figure 3. Challenges of implementing the policies regarding independent directors in the banking sector of Bangladesh

The following figure shows the challenges of independent directors in terms of policy implementation and independent working opportunities in the banking sector of Bangladesh according to the data of 36 respondents from the six listed banks of DSE. Although the data support the policy alignment with the corporate practice in the banks, sometimes internal corporate practice might be challenging to follow the exact guidelines of BSEC and Bangladesh Bank. However, most banks are regulated in the same way defined in the policies so that the percentage of misconception remains limited.

Here most of the interviewees opined on the satisfactory implementation of policies regarding independent directors in the banking sector of Bangladesh. The listed banks are supposed to follow BSEC and Bangladesh Bank guidelines with compliance or explanation basis. Sometimes recruitment bias exists as relationship issues, family orientation, CEO duality, and cultural practice (about 56% responses), which also cause the biased appointment of an inexperienced and unskilled person (expressed by 25% of respondents). In some cases, board composition also matters, which is not strictly maintained (about 14% responses) and might be some conflicts of interest (expressed by 19% responses). There is also a lack of power and independence of the independent directors to perform their duties (opined by 67% of respondents). Sometimes, independent directors are bound to support unethical corporate practices and decisions as having less power and authority on the board (about 69% responses). Reasonably, ensuring independent judgment and transparency in the organization is the primary motto of recruiting independent directors in the banking sector of Bangladesh so that corporate inefficiency might not cause any other corporate failure.

5. Conclusions, Limitations, and Future work

Independent directors are the non-executive directors appointed to perform their responsibilities with independent judgment and monitor their performance evaluation. This study attempts to understand the concept of independent directors with the policies by the international standards and developing countries in South Asia and to reveal the perception about independent directors of Bangladesh, especially in the banking sector. Here, many existing literatures are reviewed in developing countries in South Asia such as Bangladesh, India, Pakistan, Maldives, Sri Lanka, Nepal, and Bhutan to understand the corporate practice and implementation of policies regarding independent directors.

In Bangladesh, independent directors are recruited according to the requirements of BSEC (Bangladesh Securities and Exchange Commission) and Bangladesh bank to ensure corporate efficiency, accountability, and transparency. Unfortunately, lack of sound ethical tone and ownership structure might be responsible for challenging situations for independent directors, for instance, recruitment bias, lack of power and authority in the board decision making, conflicts of interests, internal and external influences, etc.

In other developing countries of South Asia, the basic concept of independent directors is almost the same. Still, there is confusion to be effective board performance with the presence of an independent director. Though it is believed that independent directors can place a positive firm value by adjusting board members that is all the same for every country, it's not such an easy task to make proper implementation according to the guidelines to ensure the effectiveness of independent directors in the same level for all countries. In developing countries, especially in Bangladesh, family ownership, poor legal, regulatory, and governance framework can make this situation even more challenging, which can also be a platform for future scope of research in these areas to implement the policies more effective guidelines about the independent director.

As this study focuses on identifying the concept of independent directors with the policies of international standards and the perception of developing countries in South Asia, the context of developed countries and other developing countries in the world might be the future scope of the study.

Here only the listed 32 banks of DSE are included as a population where 36 respondents from 6 listed banks as a broad stakeholder group are interviewed through convenience and snowballing technique which is not mentioned here as the data has confidentiality issue and is not found in the archival. The non-financial institutions in Bangladesh to identify the concept of independent directors in those sectors in Bangladesh and a comparative analysis of developing countries in the world can also be the further upgrading of the study.

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