Corporate Governance Environment in South Asia: A comparative analysis of Bangladesh and Sri Lanka

Syed A. Mamun
School of Business Studies, Southeast University

Mohammad Fahad Noor
School of Business, Independent University, Bangladesh

S. M. Musa
Rotterdam School of Management, Erasmus University

ABSTRACT

Corporate governance environment refers to various country level factors affect the firm level governance practices. The main objective of this paper is to explore the corporate governance environment of two South Asian countries namely Bangladesh and Sri Lanka. Findings of the study represents that both of the countries take various initiatives to develop their corporate governance environment in the line of international standard. The current paper extends the scarce literature on corporate governance environment which, in turn, assists policy makers and corporate decision makers to understand the phenomena in a better way.
Key Words: Corporate Governance Environment, Accounting environment, South Asia

INTRODUCTION

Corporate governance environment is the composition of country level factors which affect the corporate governance practise of firms operated in a particular economy. Jensen and Meckling (1976) explained a firm as a nexus of contracts among its stakeholders i.e. managers, employees, shareholders, creditors, suppliers, customers, community, markets, politics, culture etc. Similarly, based on the stakeholder perspective, Gillan (2006) defined corporate governance environment as the composition of law and regulation, capital markets, market for corporate control, labour markets, product markets, providers of capital market information, accounting, auditing, finance and legal service providers external to the firm, the media and external lawsuits. Indeed, the stakeholder perspective indicates that corporate governance practices at firm level depends on governance environment in which the firm operates (Gillan 2006).A Firm, as economic and social unit, cannot make proper decisions avoiding the realities in the environment it operates. Prior research (e.g., Chen et al., 2005; Diane and McConnell, 2003; La Porta et al., 1997) also observed the influence of external corporate governance mechanisms i.e. governance environment on the firm level (i.e. internal) corporate governance practices. Therefore, the current study attempts to analyse the corporate governance environment of two emerging South Asian economies namely Bangladesh and Sri Lanka. This paper contributes in the scarce governance environment literature and helps policy makers, corporate managers and regulators to understand the corporate governance environment from comparative perspective with a similar structure and economy.

The following parts of the paper are organized as the second part discusses economic backdrop of Bangladesh and Sri Lanka to analyse their economic environments and labour markets particularly. Third section describes financial environment of both countries which follows the discussion of corporate legal environment in fourth part. Afterwards, fifth section of the paper discusses about the accounting environment and section six presents the accounting environment. Finally this paper ends with the conclusion and its implications.

ECONOMIC BACKDROP OF BANGLADESH AND SRI LANKA

Economic Overview of Bangladesh

Bangladesh ranks second in population (142.9 million), third in GDP (7,987 billion Tk) and fifth in area (144,000 square kilometres) in South Asia according to the data of 2011. In term of density of population, Bangladesh is the eleventh largest country in the world, and recent report by World Bank has classified Bangladesh as low-income country. In fact, the major challenges for Bangladesh are poverty, high population growth, political instability and natural disaster which the country is trying to overcome through economic development. In spite of steady economic growth, this country suffers from high unemployment rate with its overburden population.

Table I: Economic Indicators of Bangladesh

	Economy - Bangladesh									
Items	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Total	126.7	128.4	130.2	131.9	133.7	135.5	137.3	139.1	141.0	142.9

population million; as of 1 July										
Labor Force (in thousand)	...	46.3	...	...	49.5	...	...	...	56.7	...
Unemployment rate (%)	...	4.3	...	...	4.2	...	...	...	4.5	...
GNI per Capita (Tk)	22552	24701	26921	29540	33129	37472	43278	48216	53825	60827
GDP (Billion Tk)	2732	3006	3330	3707	4157	4725	5458	6148	6943	7967
Structure of Output percentage of GDP at current prices										
Agriculture	22.7	21.8	21.0	20.1	19.6	19.2	19.0	18.6	18.6	18.3
Industry	26.4	26.3	26.6	27.2	27.9	28.4	28.5	28.6	28.4	28.2
Services	50.9	52.0	52.4	52.6	52.5	52.4	52.5	52.8	53.0	53.5
BALANCE OF PAYMENTS million US Dollars; calendar year										
Current account	157	176	176	-557	824	936	702	2416	3724	995
Balance on goods	-1768	-2215	-2319	-3297	-3458	-3458	-5330	-4710	-5155	-7328
Exports	5929	6492	7521	8573	10412	12053	14151	15581	16233	23008
Imports	-7697	-8707	-9840	-11870	-13301	-15511	-19481	-20291	-21388	-30336
GDP Growth	4.4	5.3	6.3	6.0	6.6	6.4	6.2	5.9	5.9	6.7
Inflation Rate	3.7	5.4	6.1	7	6.8	9.1	8.9	5.4	8.1	8.8

Source: Asian Development Bank (ADB), World Bank, Bangladesh Bank.

Table I shows that GDP of Bangladesh increased from tk. 2732 in 2002 to tk.7967 in 2011 which is almost 192%. The GDP growth rate was also escalating steady over the decade. In addition, Bangladesh experienced upward trend over the period. In 2002 per capita GNI of Bangladesh was Tk. 22552 which ended up in Tk. 60828 in 2011. In Bangladesh, more than 90% of its GDP comes from three broad sectors i.e., agriculture, industry and services, and only service sector contributes more than 50% of the GDP which is almost similar like Sri Lanka. With the steady economic growth, Bangladesh was struggling to control the increasing trend of inflation rate. In 2011 inflation rate was 8.8% which was 8.1% in the previous year, and this high inflation rate might offset the positive impact of economic growth in the country.

Financial system of Bangladesh is developing rapidly where commercial banks are playing a major role in capital formation compare to capital markets. Bangladesh Bank, central bank of the country, is the main regulator of the financial institutions while Bangladesh Securities & Exchange Commission (BSEC) is the primary regulator of its capital market.

Economic Overview of Sri Lanka

Sri Lanka has been recovering its economic down turn it faced due to 30 year long civil war, a devastating tsunami, high inflation and weak reserve system. Based on data of 2011, Sri Lanka ranks sixth in South Asia in population (20.9 million) and area (65000 square kilometres), and World Bank classified Sri Lanka as a lower middle income country. However, in term of GDP the country ranks fourth in the South Asian region.

With the growth of country's economy and population, labor force of the country is also growing while country's unemployment rate is decreasing over time. In 2011, Sri Lanka's unemployment rate was 4.0% which was twice (8%) in 2002.

Table II: Economic Indicators of Sri Lanka

	Economy - Sri Lanka									
Items	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Total population million; as of 1 July	19.0	19.3	19.5	19.6	19.9	20.0	20.2	20.5	20.7	20.9
LABOR FORCE thousand; calendar year	7148.2	7655.7	8063.1	7597.8	7598.8	7488.9	7568.7	7572.4	7610.4	7737.3
Unemployment rate (%)	8.8	8.4	8.3	7.4	6.5	6.0	5.2	5.7	4.9	4.0
GNI per capita (Rs)	84842	93572	106159	123609	145641	176982	213151	233146	267359	309599
GDP (Billion Rs)	1636	1822	2091	2453	2939	3579	4411	4835	5604	6543
Structure of Output parent of GDP at current prices										
Agriculture	14.3	13.2	12.5	11.8	11.3	11.7	13.4	12.7	12.8	12.1
Industry	28.0	28.4	28.6	30.2	30.6	29.9	29.4	29.7	29.4	29.9
Services	57.7	58.3	58.8	58.0	58.0	58.4	57.2	57.6	57.8	58.0
BALANCE OF PAYMENTS million US Dollars; calendar year										
Current account	-237.4	-70	-647.2	-649.6	-1498	-1401	-3886	-214.4	-1075	-4615.4
Balance on goods	-1407	-1539	-2243	-2516	-3370	-3657	-5981	-3122	-4825	-9710
Exports	4699	5133	5757	6347	6883	7640	8110.6	7084.5	8625.8	10559
Imports	-6106	-6672	-8000	-8863	-10253	-11297	-14091	-10207	-13451	-20269

GDP Growth Rate	4.0	5.9	5.4	6.2	7.7	6.8	6.0	3.5	8.0	8.3
Inflation Rate	9.6	9.0	9.0	11.0	10.0	15.8	22.6	3.4	5.9	6.7

Source: Asian Development Bank (ADB), World Bank, Central Bank of Sri Lana.

In 2011 Sri Lanka's GDP was Rs 6543 billion which was Rs 5604 billion in 2010. Over the last ten years the country has seen almost 300% growth of its economy. Sri Lanka achieved an 8.3% GDP growth in 2011 which was 8.0% in 2010.Gross National Income (GNI) of the country also experienced the increasing trend over the last decade. Per Capita GNI in 2011 was Rs 309599 which was Rs 267359 in 2010 and only Rs 84842 in 2002. Like Bangladesh, three broad sectors namely Agriculture, Industry and services contributed more than 90% of country's GDP formation. Services sector alone contributes more than 50% of Sri Lanka's GDP.

Sri Lanka's high GDP growth rate was accompanied by high rate of inflation. In the last decade Sri Lanka faced difficulties in controlling its inflation. In 2008 country's inflation reached its peak to 22.6% which was 15.8% in 2007. Inflation rate was brought under control in 2009 (3.4%) which ended up in 6.7% in 2011.

Financial system of Sri Lanka is relatively well developed comparing to other South Asian countries which has been possible due to its modern market infrastructure. Like all other South Asian countries Sri Lanka has the bank-based financial system. Commercial banks alone hold about 56% of financial asset and are main source of funds for both corporations and individual. Central Bank of Sri Lanka is the main regulator of country's financial institutions while Securities & Exchange Commission of Sri Lanka (SEC) is the primary regulator of its capital market.

FINANCIAL ENVIRONMENT

The nature of financial system of a country has a critical role to build its corporate governance environment. Typically, two types of predominant corporate governance model such as Market-based and Bank-based can be observed (Berglof,1997). Market- based corporate governance model is developed in USA and UK where capital market plays the fundamental role to protects shareholders' interests by creating pressure on managers to make decision in favour of shareholders(La Porta et al., 1997). On the other hand, Bank-based corporate governance model can be observed in Germany and Japan where banks supplies the major part of corporate capital. As banks holds the lion stake in the concentrated ownership structure, they have the strong incentives to monitor managers (Schmidth, 1998) even appointing their representative directors in the corporate board. Though both Bangladesh and Sri Lanka have their own capital market, their financial structures are dominated by financial institutions mainly banks. Therefore, to deepen the understanding of corporate governance environment, the following section presents the discussion of different elements of financial environment of these two countries comprising financial institutions, capital market and regulatory environment of financial system.

Financial Institutions of Bangladesh and Sri Lanka

Both Bangladesh and Sri Lanka are bank-based economy where financial institutions supply the major percentage of corporate capital. However, bank-based corporate governance structure can be observed in these countries for two major reasons. One, as banks supply debt capital as creditor rather equity capital, they rarely can nominate directors on corporate board. Second, political influences play critical role to disburse loans, especially, for large corporate projects. Notwithstanding, banks can contribute to enhance corporate governance environment by imposing favourable debt covenants to protect the interest of diverse stakeholders, particularly, in bank-based economies.

Financial Institutions of Bangladesh

The formal financial system of Bangladesh mainly comprises three types of financial institutions such as banks, non-bank financial institutions (NBFIs) and insurance companies. There are 60 banks operating in Bangladesh comprising 31 conventional private commercial banks, 8 **Islami Shariah** based banks, 9 foreign commercial banks, 12 state owned banks. In addition, 31 NBFIs and 62 insurance companies are operated in Bangladesh. The aggregated fund provided by banking sector is Taka 5147.2 billion in 2014 which is higher than the amount Taka 4718.2 billion in 2013 (BB, 2015). This increasing trend of capital contribution of banks indicates their amplifying role in improvement of corporate governance environment of Bangladesh. However, overall Return on Assets (ROA) of banking sector declines from 0.9% in 2007 to 0.5% in 2015 (BB, 2015). One of the major reasons of such a declining trend of banking profitability is heavy burden of non-performing loan specially by the state-owned banks.

Financial Institutions of Sri Lanka

There are 3 banks in Sri Lanka comprising 12 domestic commercial banks, 12 foreign commercial banks and 9 specialized banks (CBS, 2013). In addition, 45 licensed finance companies and 29 insurance companies are operated in Sri Lanka. The investment of the fund generated by the banks increased in the share of investments in total assets increasing from 23.9 % in 2012 to 28.5 % in 2013. However, the aggregated ROA decreased from 1.80% in 2010 to 1.30% in 2013 along with increasing trend of non-performing loan over the period (CBS, 2013).

Capital Market of Bangladesh and Sri Lanka

As capital market can control managers to be more disciplined, it is treated as one of the most important element of corporate governance environment (Gillan, 2006). In addition, capital market of a country play crucial role to develop the corporate ownership structure which ultimately affect the firm level corporate governance practices in the country. For example, block shareholders monitor managers to create value for all types of shareholders (Bethel et al., 1998). Following, thus, discussion sheds light on the capital markets of Bangladesh and Sri Lanka.

Stock Exchanges of Bangladesh

At present, there are two capital markets namely Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE-BD) are operating in Bangladesh. Though DSE was incorporated on April 28, 1954, its trading was suspended during the liberation war in 1971. Afterwards, the trading was resumed 16 August, 1976 with 9 listed companies. At the end of 2015, there are 287 companies listed in DSE with total market capitalization of USD 40.11 billion (see in table 3) which was USD0.92 billion in 2001. The CSE-BD, the second stock market of Bangladesh, was incorporated as a limited company on April 1, 1995 and started trading on October 10, 1995. Both of the stock exchanges of Bangladesh operate its activities as a Public Limited Company under its Articles of Association along with the Securities and Exchange Ordinance 1969, Companies Act 1994, and Securities & Exchange Commission Act 1993. In addition, both the DSE and CSE has separate listing requirements i.e., 'Dhaka Stock Exchange (Direct Listing) Regulation 2006' and 'Chittagong Stock Exchange (Direct Listing) Regulation 2006' respectively. These stringent listing requirements can influence the improvement of corporate governance practices of listing companies. For example, as per the listing requirement, a company apply for enlisting in any of the stock exchange need to submit the audited financial statement for last three years which, in turn, create pressure on the company to improve the quality of their financial reporting.

Stock exchange of Sri Lanka

The Colombo Stock Exchange (CSE) is the only stock exchange in Sri Lanka established in 1985 as a company limited by guarantee under the Companies Act 1982. At the end of 2015, 294 companies are listed in CSE with the total market capitalization of USD 20.80 billion (see in table 3) which was only USD 0.95 billion in 2001. This stock exchange operates its activities under its Article of Association, Securities Council Act 1987 (now amended as the Securities & Exchange Commission Act), and Companies Act 1982. The CSE has specified listed rules for the companies intend to be listed in this stock exchange, and the listing rules are updated continuously to enhance transparency and accountability of listing entities.

Table III: Information about capital markets of Bangladesh & Sri Lanka

	Capital Market		
	Bangladesh		Sri Lanka
	DSE	**CSE-BD**	**CSE**
Establishment Year	1954	1995	1985
No. of Listed Companies (2015)	287	287	294
Major indices	DGEN, DSE30, DSEX	CSE30, CSE50, CSE all & CASPI	ASPI, S&P SL20
Market Capitalization (in USD billion) (2015)	40.12	31.60	20.8
Market Capitalization as % of GDP (2015)	20.88	16.45	26.16

Source: web sites of DSE, CSE-BD & CSES

Table III presents the comparative analysis of some basic information about the capital markets of Bangladesh and Sri Lanka. Results show that though the listed companies in CSE is higher than DSE, its total market capitalization is half of the DSE. However, the percentage of total market capitalization of CSE to the country CGP for 20015 is 26.16% which higher than DSE's 20.88% which, in fact, suggest that capital market player higher role in the Sri Lanka compare to Bangladesh in capital formation as per the volume of economic activities.

Regulatory Environment

The central bank of Bangladesh namely Bangladesh Bank (BB) is sole regulatory authority of banks and NBFIs in Bangladesh, and Insurance Development and Regulatory Authority (IDRA) is responsible authority to regulate the insurance companies in Bangladesh. Similarly, Central Bank of Sri Lanka (CBS) regulates the activities of banks and NBFIs in Sri Lanka, while Insurance Board of Sri Lanka (IBS) is the regulatory authority to regulate the operations of insurance companies. The ultimate purpose of these regulatory bodies of both countries to regulate and monitor the activities of financial institutions so that their corporate governance can be enhanced which is essential to protested the interest of diverse stakeholders.

	Bangladesh	Sri Lanka
Banks & NBFIs	**BB**	**CSB**
Insurance Companies	**IDRA**	**IBS**
Capital Markets	**BSEC**	**SEC**

Figure I: Regulatory Environment of Bangladesh & Sri Lanka

The Bangladesh Securities and Exchange Commission (BSEC) is the regulator of two capital markets such as DSE and CSE in Bangladesh through enactment of Securities and Exchange Commission Act 1993. The main responsibilities of BSEC are to formulate securities legislation and regulate the capital markets to protect the interest of shareholders. However, the capital market collapse in1996 and in 2011 reflects the inefficiency of BSEC to monitor and regulate the markets to protect the markets from market manipulators. In Sri Lanka, Securities and Exchange Commission of Sri Lanka (SEC) is the responsible authority to regulate the only capital markets i.e. CBS under Securities and Exchange Commission of Sri Lanka Act 1987 for ensuring the efficient functioning of the market. Figure 1 shows the regulatory matrix of financial markets of Bangladesh and Sri Lanka.

CORPORATE LEGAL ENVIRONMENT

Corporate legal environment of a country comprises laws and regulation directing corporate activities in order to protect the interests of different corporate stakeholders. Krishnamurti et al. (2005) observed that legal environment of a country has critical role to protect the expropriation of minority shareholders by managers and block shareholders. As role of corporate legal environment to protect the interest of corporate stakeholders affect the firm-level corporate governance practices, the following discussion highlights the corporate legal environment of Bangladesh and Sri Lanka.

The central point of the corporate legal environment of Bangladesh is the Companies Act 1994. Registered companies are mainly governed by this Act. The Companies Act 1994 defines the rights and responsibilities of board, management and shareholders, and specify the mechanisms to exercise those rights and discharge their responsibilities. In addition, Financial Institution Act 1993, Banking

Companies (Amended) Act 2013, Insurance Act 1938, Securities and Exchange Commission Act 1993, Bankruptcy Act 1997 are some important laws guiding companies operated in Bangladesh to function in line with protecting interests of diverse corporate stakeholders. Moreover, regulators and relevant government authorities promulgated different regulations in case basis for companies in Bangladesh.

The corporate legal environment of Sri Lanka primarily encompasses Companies Act no. 17 of 1982, Banking Act no. 30 of 1988, Finance business Act no. 42 of 2011, Finance leasing Act no. 56 of 2000, Regulation of Industry Act no. 43 of 2000, Securities and Exchange Commission Act no. 36 of 1987. This set of laws provides a foundation of corporate governance to develop firm-level corporate governance practices. For example, Companies Act 1982 specify the process of formulation of board and its different committees so that board works for protecting the interests of shareholders.

Though Bangladesh and Sri Lanka both are common law countries as well as British colonial countries, many similarities can be observed in setting laws and regulation, some differences might be realized in case of implementation of these laws and regulation. For example, Bangladesh experiences two severe scams for last two decades, but none such acute capital market scam can be observed in Sri Lanka.

CODE OF CORPORATE GOVERNANCE

Codes of good governance is a set of best practices regarding the board of directors and other governance mechanisms designed to improve the transparency and accountability of corporate management (Fernandez-Rodriguez et al., 2004). The main functions of the code are to compensate for deficiencies in the corporate legal system and encourage the board of directors to play an active and independent role in controlling the opportunistic behavior of corporate management to protect the interests of shareholders (Zattoni and Cuomo, 2008). As part of the corporate governance reform initiatives in post Enron scandal era, BSEC promulgated the code of corporate governance in Bangladesh in 2006 as 'comply or explain' basis. Afterwards, the code was amended in 2012 and makes it mandatory for all listed companies with some important changes such as increasing the requirement of independent directors, independent chairman of audit committee, mandatory certification of corporate governance disclosure report by independent professional accountants or chartered secretary etc. However, the first code of corporate governance was developed in Bangladesh by a non-government organization namely Bangladesh Enterprise Institution (BEI) in 2004.

In 1997, Institute of Chartered Accountants of Sri Lanka (ICASL) for the first time promulgated the code of corporate governance on matters relating focuses on the financial aspects of corporate governance. Due to rapid changes of corporate governance landscape around the world in the post Asian Crisis 1997-98 and Enron collapse period, ICASL circulated the ‘Code of Best Practice on Corporate Governance’ in 2003 replacing the previous one (Senaratnea & Gunaratne, 2007). Furthermore, a number of supplementary codes and guidelines were developed to strengthen the corporate governance environment of Sri Lanka. ‘ICASL Code of Best Practice on Audit Committees 2002’ for example, was promulgated to provide the detail guidance on the scope and functions of the audit committee of listed companies. In addition, ‘Code of Corporate Governance for Banks and Other Financial Institutions 2002’ was issued by CBS, and ‘Guidelines for Listed Companies in respect of Audit and Audit Committees 2004’ issued by SEC (Senaratnea & Gunaratne, 2007). As these codes were voluntary in nature and did not require 'comply or explain' provision, it was not mandatory for companies to explain the reasons of non-compliance of the codes. Therefore, CSE incorporated mandatory provision of corporate governance requirements in its Listing Rules in April 2008. In addition, ICASL along with SEC issued the code of best practices in 2008 to be complied voluntarily by companies in conjunction with the mandatory rules. Figure 2 shows the time line of promulgating code of corporate governance in Bangladesh and Sri Lanka, and some key local and global factors drive expedite the adopt of these codes by both the countries. In comparison, Sri Lanka experienced the first code in 1997 much earlier than 2004 in Bangladesh. However, both countries revised their codes continuously in last two decades to improve their corporate governance practices in line with international standard.

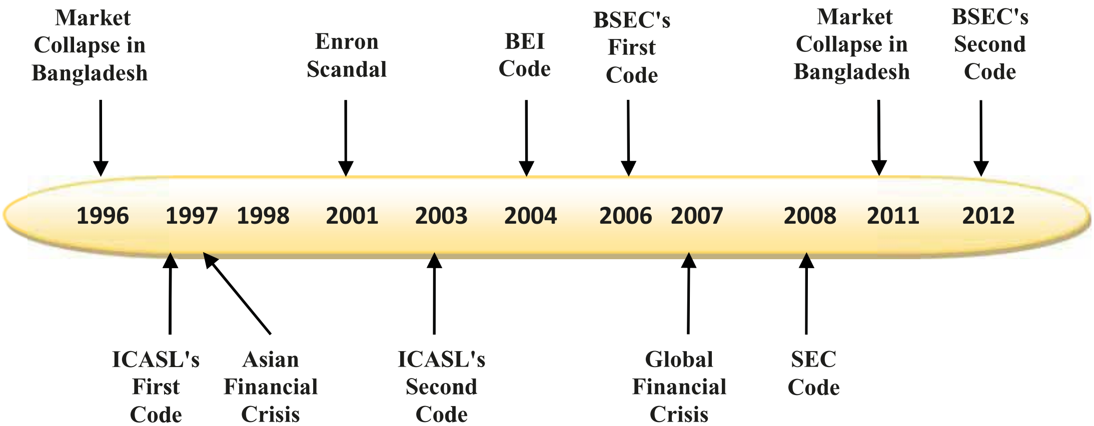

Figure II: Time line of Code of Corporate Governance

ACCOUNTING ENVIRONMENT

Accounting environment refers to the institutional environment, legal systems, accounting conventions affect the accounting and auditing systems of a country. Quality of the financial reporting of companies significantly depends on the accounting environment emerged in a country. In addition, as investors rely on the information disclosed in the financial statements and verified by the auditors, quality of the information is the great concern to them for the prudent decision making, which, indeed, determine credibility of the financial reporting of a company to the investors as well as community as a whole. Therefore, accounting environment is the critical element of corporate governance environment can affect the accountability and transparency of companies operating in a country. The accounting environment of Bangladesh and Sri Lanka are discussed as follows:

Accounting Environment in Bangladesh

Though Bangladesh has got its independence in 1971, the accounting profession of this country has a longer and glorious history. Being a British colonial state, Bangladesh still inherits a British legal structure. Consequently accounting environment of this country is also largely influenced by the British accounting practices and standards. For example, After being independent from Pakistan, Bangladesh adopted the Companies Act 1913 which is predominantly reflects the British legal provisions. Though, as per the company, all public limited companies need to be audited by independent auditors. Consequently, Institute of Chartered Accountants of Bangladesh (ICAB), first national professional financial accounting body of Bangladesh, was established under the Bangladesh Chartered Accountants Order, 1913. Afterwards, Institute of Cost and Management Accountants of Bangladesh (ICMAB), second management accounting professional body of the country, was established in 1977 under the 'Cost and Management Accounting Ordinance, 1977' to regulate and expedite cost and management accounting practices in Bangladesh. These two professional accounting bodies are working as the autonomous body under the ministry of commerce to build highly skilled accounting professionals, and to lead the accounting practices in Bangladesh. However, immediate past capital market scam in 2011 creates a barrage of criticism about the role of professional accountants in certifying high quality financial reports. Therefore, Bangladesh government has passed the Financial Reporting Act 2015 under which Financial Reporting Council will be formed to oversees the quality of the accounting practices in Bangladesh.

To enhance the harmony of accounting practices with global context, Bangladesh adopted International Accounting Standard (IAS) and International Financial Reporting Standard (IFRS) issued by International Accounting Standard Board (IASB) as Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS) respectively. As on July 2012, a version of all IFRS (and IAS) issued by the IASB had been adopted as BFRS by the ICAB, with the following exceptions:

- IAS 29 *Financial Reporting in Hyperinflationary Economies* - this has not been adopted as it is considered impracticable in the Bangladeshi context
- IFRS 9 *Financial Instruments.*

Though Adopted BAS/BFRS are legally enforceable for listed companies under the SEC Rules, these are not mandatorily enforceable through the ICAB by-laws.

Accounting Environment in Sri Lanka

Though the accounting environment of Sri Lankan is influenced by British legal framework, its accounting system, more recently, is converging with international arrangements and practices. During British period, the main channels of the development of accountancy profession in Sri Lanka were British Capital and Company legislature (Yapa, 2010). The colonial British authority established Sri Lanka's first accountancy body namely 'the Accountancy Board' in 1941. After independence, Sri Lanka established its first financial accounting professional body called 'Institute of Chartered Accountants of Sri Lanka' (ICASL) in 1959 under the Institute of Chartered Accountants Act (No. 23) 1959 (Yapa, 2010). The professional management accounting body was established in Sri Lanka as "Society of Certified Management Accountants of Sri Lanka" which got its legal status under the Institute of Certified Management Accountants, Act No. 23 of 2009 and renamed as Institute of Certified Management Accountants of Sri Lanka (ICMAS). In addition, Sri Lanka has few more functioning accounting bodies such as the Association of Accounting Technicians of Sri Lanka (AATSL), the Society of Certified Management Accountants of Sri Lanka, the Institute of Internal Auditors (IIA), and the Institute of Public Finance and Development Accountancy (IPFDA).

Before 1970, Sri Lankan financial reporting requirements were primarily based upon the prescriptions of the Companies' Ordinance of Ceylon, UK legislation and the recommendations of the Institute of Chartered Accountants of England and Wales (ICAEW). In 1970, the ICASL, for the first time, issued accounting standards namely Sri Lankan Accounting Standards (SLAS) which was yet to be legally mandated upto 1995 for all type of organizations. Moreover, the Statutory Accounting Standards Committee (ASC) and the Auditing Standards Committee (AuSC) were established under the Sri Lanka Accounting and Auditing Standards Act 1995 to improve the quality of financial reporting in Sri Lanka. The ASC's accounting setting-standard process is broadly similar to that of IASB (International Accounting Standard Board), and focuses on reviewing IASs and IFRSs for adoption for Sri Lanka. Sri Lanka adopted IASs and IFRS as Sri Lanka Accounting Standards(SLAS) and Sri Lanka Financial Reporting Standards (SLFRS) respectively effected from January 1, 2012.

CONCLUSION AND IMPLICATIONS

This paper aims to investigate the corporate governance environment of two South Asian emerging economies namely Bangladesh and Sri Lanka. Findings of this study show that both of the countries, with the similar economic backdrop, legal origin and capital market infrastructure, are trying to improve their corporate governance environment in line with international standard. For example, both Bangladesh and Sri Lanka adopted code for best corporate governance practices in the similar period and revised subsequently in consistent with changes of international best practices. However, these countries are still lack behind of the reform of relevant corporate governance rules and regulations compare to other developed countries. Overall, this paper contributes in the corporate governance environment literature and assists politicians, regulators, corporate policy makers and managers to understand the development of comparative corporate governance environment in a same economic block. However, out of different governance environment elements, the current paper focuses on above mentioned factors considering their relevance in selected countries. Moreover, this paper is only limited to two South Asian economies. Further studies, thus, can initiate the in-depth analysis of governance environment considering comprehensive set of factors and extend the current study to other similar emerging economies to depict the wider picture of corporate governance environment.

REFERENCES

Bangladesh Enterprise Institute (2004). *The Code of Corporate Governance for Bangladesh,* The Taskforce on Corporate Governance and Bangladesh Enterprise Institute, Dhaka

Bangladesh Bank (2015). *Annual report 2014-205 of Bangladesh Bank (BB).*Dhaka, Bangladesh.

Chen, M.C., Cheng, S.J. & Hwang, Y. (2005). An empirical investigation of the relationship between intellectual capital and firms' market value and financial performance. *Journal of Intellectual Capital, 6(2)159-76.*

Diane, K. D. & McConnell, J. J. (2003). International Corporate Governance.*Journal of Financial Quantitative Analysis,* 38 (1).

Farooque, O. A., Zijl, T. V., Dunstan, K. & Karim, W. (2007). *Corporate Governance in Bangladesh: Link between Ownership and Financial Performance*, Corporate Governance: *An International Review,* 15(6): 1453-68

Gillan, S. L. (2006). Recent Developments in Corporate Governance: An Overview. *Journalof Corporate Finance,* 12(3), 381-402

Jensen, M. & Meckling, W. H. (1976).Theory of the firm: Managerial behavior, Agency Costs, and ownership structure. *Journal of Financial Economics, 3(4), 303–60.*

La Porta, R., Lopez-De-Silanes, F., Shleifer, A., & Vishny, R. W. (1997). Legal determinants of external finance. *Journal of Finance,* 52(3), 1131–50.

Parry, M. & Khan, F. (1984), A Survey of Published Accounts in Bangladesh, The Institute of Chartered Accountants of Bangladesh and United Nations Department of Technical Co-operation for Development: Dhaka.

Krishnamurti, C., Sěvić, A., & Šević, Ž. (2005). Legal environment, firm-level corporate governance and expropriation of minority shareholders in Asia. *Economic Change and Restructuring*, *38*(1), 85-111.

Rashid, M. A. (2009). Corporate Governance in Developing Countries: a case study of Bangladesh. *Doctor of Philosophy thesis*, School of Accounting & Finance, University of Wollongong.

SECB (2004). *Annual Report 2003-04,* Securities and Exchange Commission Bangladesh, Dhaka.

SECB (2005). *Annual Report 2004-05,* Securities and Exchange Commission Bangladesh, Dhaka.

Senaratne S, (2010). "Genesis of Corporate Governance Reforms in Sri Lanka", Proceedings of the National Seminar on 'Welfare Paradigms and Social Sectors', Christ University, Bangalore, India.

Senaratne, S. & Gunaratne& P. S. M. (2007). *Significant Features and Associated Issues of Corporate Governance Practices of Sri Lankan Listed Companies*. Proceedings from International Research Conference onKnowledge for Growth and Development.Faculty of Management and Finance, University of Colombo, Sri Lanka.

Yapa, P. W. S. (2010). 'The Imperial Roots of Accounting Closure: The Case of Sri Lanka'. In Accountancy and Empire: The British Legacy of Professional Organization, ed. Poullaos, C., and Sian, S.

Zattoni, A., & Cuomo, F. (2008). Why adopt codes of good governance? A comparison of institutional and efficiency perspectives. *Corporate governance: an international review*, *16*(1), 1-15.