

**Corporate Governance Awareness  
Among SMEs in Bangladesh**

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### **Abstract**

The small and medium enterprises (SMEs) of Bangladesh constitute overwhelming majority of all industrial units, provide significant employment and contribute a significant proportion to national gross domestic product. In the recent years, SMEs are facing challenges of globalization. Corporate Governance (CG) may not be the panacea but is conceived by the scholars to be one of the very strongest tools for facing the challenges of globalization. Although most of the SMEs are not in a position to adopt the need of corporate governance practice yet they should consider the possible benefits of corporate governance in terms of increased inner control, higher credit - rating and improved corporate image and thereby higher profitability. Although corporate governance is largely associated with larger companies and agency problems but nowadays scholars have started argument for introduction of corporate governance in SMEs. With a view to improving SMEs' prospect of obtaining fund from banks and financial institution, investors and venture capitalists and to increasing operational transparency and profitability. This study was designed to identify the corporate governance awareness among SMEs in Bangladesh. More than 100 SMEs from manufacturing, trading and service industries have been interviewed with a structured questionnaire. The findings were frustrating showing a little awareness about government regulatory activities, banks' credit rating system and their disclosure standards. The level of concern of the SMEs' owners managers that corporate governance would help increase inner control, credit - rating position, organizational image and thereby profitability of the enterprises was also insignificant.

### **1. INTRODUCTION**

A vibrant SME sector is one of the principal driving forces in the development of a market economy. SMEs stimulate private ownership and entrepreneurial skills. They are flexible and can adapt quickly to changing market demand and supply situations, generate employment and help diversify economic activity. But in the era of globalization, SMEs are most vulnerable to the affect of liberalized economic system, especially in developing countries due to inadequate framework conditions. Majority of the SMEs in developing countries like Bangladesh are on the brink of failure while surviving in the age of globalization.

To survive, SMEs need to become internationally competitive and explore expansion opportunities by taking advantages of international market possibilities. In this regard the upcoming challenge for them is Corporate Governance practice.

Corporate Governance for SMEs is a very recent idea. As we know, most of the SMEs are single-unit organizations whose chief executive is none other than the entrepreneur himself and they are not professionally managed. SMEs are also not able to fully appreciate the importance of various national regulations and, thus, unintentionally are not able to exhibit the kind of transparency that large companies do in their operations. The growing concern of international bodies like WTO about compliant with international Accounting Standard (IAS), Basel II etc. would compel SMEs to maintain standard set of accounts and disclosure systems within next few years. That is why it is imperative to conduct an in-depth study to identify the level of awareness of CG among the SMEs in Bangladesh.

## **2. CURRENT STATUS OF SME SECTOR IN BANGLADESH**

In the context of the industrial scenario of Bangladesh, barring a small number of large fertilizer factories, composite textile mills, modern chemical and pharmaceutical plants, etc. the bulk of the existing industries may be notionally called either medium or small enterprises by global standards.

Development partners involved in the SME sector have different definitions of SMEs. The Industrial Policy 1999 defines SMEs as enterprises employing fewer than 99 workers and/or with a fixed capital investment under Tk 300 million. “Small industry” refers to enterprises (excluding cottage units) employing fewer than 50 workers and/or with a fixed capital investment of less than Tk 100 million while “medium industry” covers enterprises employing between 50 to 99 workers and/or with a fixed capital investment of between Tk 100 million and Tk 300 million ( Bangladesh government, 1999). The Bangladesh Bureau of Statistics (BBS) classifies enterprises solely according to total persons employed or “engaged” (including proprietor) in the Economic Census. The major commercial banks follow the Industrial Policy definition in terms of investment capital for lending purposes.

There are varying estimates of the SME population in line with different definitions of SMEs. Based on the Economic Census, the total number of SMEs is estimated at 79,754 establishments, of which 93.6% are small and 6.4% are medium (Awal, 2006). There are approximately 6 million micro, small and medium enterprises (MSMEs), which included enterprises with up to 100 workers employing a total of 31 million people, equivalent to 40 per cent of the population of the country of age 15 years and above (ICG,2003). About three quarters or more of the household income in both urban and rural areas is provided by the MSMEs (Awal, 2006).

The industrial structure of SMEs consisted of primarily wholesale and retail trade and repairs (40 per cent), production and sale of agricultural goods (22 percent), services (15 percent), and manufacturing

only (14 per cent). SMEs contributed BDT 741 (\$ 12.5) billion or nearly 25 per cent of the GDP (BDT 2,996 billion) in 2003 (ICG, 2003).

The sectoral contribution of SMEs to the GDP is also interesting. Manufacturing sector contributed the highest proportion (38%), followed by Agriculture (24%) and closely following, wholesale and Retail Trade and Repairs (23%) (Awal, 2006). For LDCs like Bangladesh, SMEs are a highly cost-effective route to industrial development.

### **3. LITERATURE REVIEW**

#### **3.1 Corporate Governance**

This section is designed to accumulate knowledge on existing literature on Corporate Governance and to conceptualize some of the important concepts which have guided the research process.

Corporate Governance is a field in business and economics that investigates how to secure / motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure / motivate that the corporate managers will deliver a competitive rate of return (Mathiesen, 2002)? Corporate Governance is one key element in improving economic efficiency and growth as well as enhancing investor confidence. It involves a set of relationships between a company's management and its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set and the means of achieving those objectives as well as monitoring performance are determined (OECD, 2004). Corporate Governance is not an abstract goal, but exists to serve corporate purposes by providing a structure within which stockholders, directors and management can pursue most effectively the objectives of the corporation. It is the relationship between the shareholders, directors and management of a company, as defined by the corporate charter, bylaws, formal policy and rule of law. Corporate Governance is about how suppliers of capital get managers to return profits, make sure managers do not misuse the capital by investing in bad projects, and how shareholders and creditors monitor managers (American Management Association, 2001).

In a nutshell Corporate Governance is the standard of managerial practice to be followed in a corporation which ensures the board of directors is accountable for the pursuit of corporate objectives, the board is working for the best interest of all the stakeholders and that the corporation itself conforms to the law and regulations.

#### **3.2 Corporate Governance Elements**

This section is designed to identify the elements of corporate governance so as to develop the variables to identify corporate governance in SMEs. For that pursuit the effort of the Organization for Economic Cooperation and Development (OECD) has been used as a benchmark. OECD in cooperation with

Global Corporate Governance Forum, World Bank and non-OECD countries worked out an international standard code of Corporate Governance (OECD, 2004). According to their suggestion the key elements of Corporate Governance are:

### **The Board of Directors**

#### **• Board's constitution**

While constituting the board the following standards should be maintained: a minimum standard quality of directors, a minimum standard number of independent directors in the board and board – committees, shareholders' opportunities to nominate directors, separation of operating and strategic roles, provisions for training of directors, quorum with a majority of independent directors.

#### **• Board's responsibilities**

The board is expected to discharge the responsibilities such as approving a core philosophy and mission, monitoring and evaluating corporate strategy, ensuring corporate and board performance, reviewing and approving material transactions not in the course of ordinary business, determining executive compensation, managing Executive Director's / CEO's succession and maintaining legal and ethical practices.

### **Shareholder interests**

A main purpose of Corporate Governance is to protect the interest of a company's owners - the shareholders. The OECD principles on Corporate Governance pay special attention to the rights of shareholders and their equitable treatment. Basic shareholder's rights should include right to:

- secure ways of registering ownership, transfer shares,
- obtain timely and relevant information about the corporation,
- vote in general shareholder meetings, elect members of the board, and share in the profits.
- participate in, and be sufficiently informed on decisions concerning fundamental corporate changes such as amendments to the statutes, or articles of incorporation or similar governing documents, and extraordinary transactions that in effect result in the sale of the company.
- receive equitable treatment, including minority and foreign shareholders.

### **Disclosure**

Disclosure should include material information - information whose omission or misstatement could influence the economic decisions taken by the users - on: company objectives, major share ownership and voting rights, members of the board and key executives, the company's financial and operating results, material issues affecting employees and other stakeholders, managerial compensation, related party transactions, new loan, new creditors and credit rating and contractual agreements, contingent liabilities and ongoing, or pending legal actions against the company.

### **Accounting standards**

Companies should prepare financial statements ensuring: compliance with all Bangladesh Accounting Standards as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) and disclosure of

not only information on financial performance, but also the intangibles and non-financial information that matter most to value creation and sound decision-making

#### **Audit**

As a general rule audits should be conducted by a qualified and independent auditor and all listed companies must have an internal audit system.

### **3.3 Corporate Governance for SMEs**

The application of Corporate Governance to SMEs has been a recent growing call of globalization trend and similar guidelines that apply to listed companies should also be applicable to SMEs (Tan & Tan 2003). SMEs, generally, are not in position to appreciate the need and importance of Corporate Governance and corporate social responsibility (Agrawal, 2004). But those who realize them, at the same time, are unable to put in to practice these concepts owing to various limitations. He also added that SMEs should be educated about the benefits of Corporate Governance in terms of their contribution in increased sales, higher productivity and improved corporate image. In the recent years International Finance Corporation (IFC)'s policy has been focusing on awareness about and application of Corporate Governance in SMEs through a strong presence in low-income countries and regions. They are running numbers of project in cooperation with the network of Project Development Facilities (PDFs) which allows them to work closely with SME clients on an ongoing basis and build support of the local business community and policy makers (Outcomes, September 2005).

The Task Force on Corporate Governance in Lebanon (Adwan, 2003), recommended that in the short term there are necessity for

- awareness raising about corporate governance, and related local and international tools
- economic incentives for the implementation of International Standards in SMEs.

His recommendation to be followed in the long term; emphasized introduction of tools and solutions for Corporate Governance in SMEs and SOEs, either through local efforts or international cooperation.

The Hong Kong Institute of Directors (HKIoD) held a forum on 27-28 November, 2005 designed to equip directors with fundamental concepts of Corporate Governance for SMEs that will ensure they can successfully face the challenges of today's markets in the medium to long-term (HKIoD, 2005). The forum talked about significant and pressing issues that affect Hong Kong's SMEs in relation to the growing trend for Corporate Governance in the business sector, including:

- The challenges faced by SME directors in surviving and thriving in today's dynamic world
- The relevance of Corporate Governance to SMEs

The forum expressed that early adoption of Corporate Governance standards by Hong Kong SMEs may be crucial in enhancing their growth and medium to long-term competitiveness in the face of challenging market conditions. In today's challenging economic environment, SMEs have to start early to develop a track record for good governance in order to better attract and keep customers, suppliers, shareholders and investors (Ming, 2005).

The family owned small firms can better survive through adopting some Corporate Governance elements into their management practice; such as: adoption a clear organizational structure which would include: creation of an effective board with competent, independent, outside directors and designing a clear and understood structure separating governance of the firm and affairs of the family (Ward, 2003). To become more globally competitive, Asian corporations including SMEs; need to:

- upgrade their management systems by benchmarking world best practices and rethinking their business strategy.
- enhance Corporate Governance and
- adopt sound business ethics on the conduct of business (Yeoh , 2005).

He said Asia should combine the best of our traditional Asian values with the best of Western management practices so that Asian companies can compete in the global arena.

Though the concept of "corporate governance" is more familiar to large private corporations, publicly-listed companies and public organizations; the concept is equally relevant for SMEs. Corporate Governance practice would benefit SMEs in their strive to take full advantage of the business opportunities arising from aligning with WTO agreement, to further develop and prosper in their respective industries/sectors, and to co-exist with large corporations in an increasingly competitive and globalized market (Law, 2005). Practicing good Corporate Governance could help SMEs establish robust business processes and prepare them for future expansion through creating more confidence of investors and potential partners (Samara and Bishara 2005). The widespread neglect of the Corporate Governance topic with regard to SMEs bears some alarming risks (Steger 2005); like increase of financial difficulties, worsening of the climate between SMEs and financial institutions, decrease of public confidence, increase of problems with top-management succession and increase of criminality in the SME sector. He recommended that there should be a consensus about the necessity of a broad debate about Corporate Governance in SMEs is needed among the key actors of the field and a Corporate Governance Code for SMEs must be created. He added that the academic discussion of Corporate Governance should widen its focus. The narrow focus of most academics has fostered the aversion of SMEs to the Corporate Governance topic in the past. Now a clear step ahead is needed which especially includes SMEs as well as other legal forms of enterprises, alternative approaches beyond the classic principal-agents perspective and a more differentiated spectrum of actors (Steger 2004). By this, academic experts of Corporate Governance may lead the way to considerable improvements for SMEs in the future.

Corporate Governance is needed for survival and long succession of the SMEs in the turbulent business environment created by globalization though requirements of Corporate Governance for large enlisted corporations and SMEs should be totally different (The Hong Kong Institute of Directors, 2003). Recently in the conference 'The Pathology of Corporate Law' organized by The Corporate Law Teachers' Association of Australia in association with The University of Queensland, Australia during 5-7 February, 2006 with due emphasis on need of Corporate Governance for SMEs. Thus it is evident from the above discussion that corporate governance is a very emerging issue in the field of SMEs.

#### **4. WHY SMEs OF BANGLADESH SHOULD BE CONCERNED ABOUT CORPORATE GOVERNANCE**

Corporate Governance is largely associated with larger companies and the agency problem. The agency problem comes about when members of an organization have conflicts of interests and within a firm there is separation between ownership and control of firm is often cited. So at first sight, Corporate Governance would not apply to SMEs since there is no separation between management and owner in SME. Further, SMEs are not accountable to the public since they usually do not use public investment for funding leading to the applicability of the disclosure and transparency associated with corporate governance.

Under absence of agency problems, profit maximization, increasing net market value and minimizing costs are the common aims of members of an SME. Since these members will be remunerated directly, incentives are not needed to motivate them. The members of an SME are normally family members or relatives and friends. Hence there is observed absence of disagreements which would also mean the need of governance structures to resolve them. On the other hand there are reasons SMEs, especially growing entrepreneurial firms, should adopt Corporate Governance practices. Introduction of Corporate Governance will improve SMEs' prospect of obtaining funding from banks and national and international investors. The presence of proper accounting and bookkeeping practices increase confidence in the firm and makes them less risky to invest or finance. Firms that have information disclosure tend to have healthier growth rates and ratios of ordinary profits to that of capital than firms who do not do so.

When SMEs grow, the need to introduce professional governance practices and managers arises. By the introduction of professional managers, the separation between owner and management will begin and agency problems will exist between them. Incentives must be provided to professional managers in order to gain from their expertise. Next, clear and distinct and accounting controls, internal audits will help to assess the performance of these managers. Thus, agency argument from large firms then applies to SMEs.

According to Japan Small Enterprise Agency, SMEs with very high growth rates use non-executive directors more actively than larger firms. In research on corporate governance, it has been found that strategy influences corporate performance (McGahan & Porter, 1997) and that external board members challenge strategies proposed by the management (Pettigrew & McNulty, 1995). Hence if presence of external board members is welcomed, this could culminate to better management decisions as well as introduce creativity and innovation into the SMEs.

Using a stakeholder approach, a firm is not just responsible to its shareholder but also its constituency of stakeholders. These stakeholders include contractual partners, like employees, suppliers; social



stakeholders like the members of the community; and the environment. Since Corporate Governance can protect the interest of stakeholders, it is suggested it be introduced to SMEs.

The counter-argument is that the introduction of Corporate Governance would increase operational costs for SMEs. To fill additional roles in audit, remuneration and nomination committees, new and more directors have to be hired. The more active roles and heavier responsibilities that non executive directors have to undertake would also mean higher remuneration. This, however, can be resolved by providing appropriate government subsidies. Granted that the government is interested in developing a resilient SME sector, the government would provide the necessary subsidies. Costs will then be reduced and more SMEs would be willing to introduce Corporate Governance practices.

In so far as SMEs in Bangladesh, the concepts of Corporate Governance and corporate culture are still somewhat foreign to the majority of them. Few are aware of their importance. Still less have actual experience of implementing good Corporate Governance standards or cultivating strong, consistent corporate culture in their own firm.

This is not surprising at all if we understand how the majority of our SMEs operate. The main thrust of Corporate Governance is to enhance transparency and accountability in the relationship among the various stakeholders of a company. But most of our SMEs have rather simple organizational structures comprising only the owner- manager who may also be the sole proprietor, plus a few employees, who are usually his immediate family members or relatives. The main preoccupation of the owner is to sell certain goods or services to his customers.

The owner-manager of a small firm can hardly afford the energy to focus on other things. He probably is not accountable to any third party. He would not expect his part-time accountant or auditor to perform functions other than those required to fulfill the bare minimum requirements. He probably does not see his suppliers and customers as strategic partners. Nor does he envisage the need to set long term goals with his staff. In such a somewhat "closed" system, there will not be many incentives for an SME to look beyond his day-to-day preoccupations to think about seemingly philosophical concepts like corporate governance. But, the fast pace of globalization has brought before us some basic questions like: how long would SMEs expect to be able to continue to operate in such an "old fashioned manner" before they are overtaken by their competitors? and, how long could they remain competitive to meet the new opportunities and challenges lying of globalization without paying attention to values such as transparency, disclosure, accountability and openness? For many SMEs, the answer might unknown.

The increasingly globalised world economy, the advent of the knowledge-based economy, the changes that are brought about by the advancement in information technology, and the opening up of the market through WTO have created tremendous pressure on corporations. Whether they are SMEs or large corporations, they need to change their way of doing business, to enhance their capabilities in all aspects,

and to reposition themselves in order to remain competitive and take full advantage of new business opportunities.

The advent of information technology, particularly e-commerce and internet, has cut cross all national boundaries. This means greater and easier access to new markets and new customers almost anywhere in the world at very low cost. It is possible for SMEs to reach potential international investors or venture – capitalist in a lower cost through help of internet and e-commerce. But the foreign investors would look for properly run firms for business and investment or strategic partnership. Subsequently they will look for a common platform to judge business risk of ‘Franchising’ or ‘Sub – contracting’ with Bangladeshi SMEs. And Corporate Governance codes might act as the most reliable platform., as these are more easily observable indicators of the extent of openness, integrity, accountability, trustworthiness and capabilities of a corporation. So for working as strategic partners of foreign investors, our SMEs must maintain a minimum Corporate Governance standard.

## **5. Objectives of the Study**

The rationales behind application of corporate governance in SMEs are as strong as the world-wide concern of business people in this field. But the SMEs in our country are not aware of this upcoming challenge nor do they know clearly what corporate governance means and the expected benefits that can be derived from corporate governance practice. Apart from the owners of SMEs, the other actors of the field, especially the policy makers are also not actively thinking in this regard. Hence our present study is aimed at *to find out the awareness situation of SMEs relating to corporate governance and its applicability in their companies.*

More specifically the study focuses on to:

1. find out the awareness level of SMEs on corporate governance in general.
2. find out the differences among awareness level of different types of SMEs.
3. find out the association between awareness level and different variables; namely: age of the company, capital investment by the company, number of directors and number of employees.
4. identify the variables responsible for high or low level of awareness through development of a model.
5. suggest the recommendations fro SMEs and policy makers for their future actions.

## **6.Methodology**

### **6.1 Sample**

The sample size was fifty. All the companies have their head office in Dhaka. Among the companies 20% were sole proprietorship (10), 18% were partnership (9) and 62 % were private limited company (31). Most of companies are established within last 10-15 years’ time-frame. On an average the companies employ 80 employees and have 3 directors. The highest capital investment by the companies

is taka 25 crore and lowest is Taka 1.5 crore. The interesting thing is that the boards of all the sample private companies are composed of family -member -directors.

## **6.2 The questionnaire**

The questionnaire was based on the core elements of Corporate Governance .The objective was to find out whether the top management of the SMEs are aware of the elements. Actually the top management of SMEs might not have the theoretical knowledge about what Corporate Governance is but they are also performing Corporate Governance practice up to some extent. Last part of the questionnaire is directly related with the Corporate Governance awareness and its relation to the globalization of trade. The questionnaire has 40 questions. But there are 6 questions relating to shareholders' interest which were not applicable for the sample, because there were no public limited company among them. So the appropriate questions were only 34.

## **6.3 Collection of data**

The data was collected through personal interview of the top management position of each of the sample SMEs. Most of the respondents hold the position of MD or CEO. The respondents were interviewed with a structured questionnaire in a pre-scheduled time. The data were processed using SPSS program.

## **6.4 Statistical Methods for Data analysis**

Data were analyzed on three different dimensions as outlined hereunder:

**Dimension-1:** Study on the awareness score of SMEs relating to different elements of corporate governance. For this purpose the descriptive analysis was conducted to find out mean, median, standard deviation etc. For this purpose, Forced Sample Design was used assigning the value '1' for every 'yes' answer and '0' for every 'no' answer. If a company has full awareness i.e. answer 'yes' for all the questions in the questionnaire; the highest possible score (HPS) should be 34.

**Dimension-2:** Studying the influence of different variables namely: type of company, age of the company and capital investment by the company; on the level of awareness to develop a model on that basis. For this purpose, multiple regression analysis was applied.

**Dimension-3:** Measuring the association between overall awareness and awareness on different corporate governance elements. For this purpose, Pearson multiple correlation analysis was applied.

## **7. Findings**

The section accommodates the findings of the empirical study and is classified into the three dimensions.

### **7.1 Corporate Governance Awareness**

A number of six variables namely Type of company, Age of company, Capital Investment, Number of employees, Number of directors and Number of family members as directors and other factors have been used to assess the awareness about corporate governance of SMEs.

Using the statistical methodology as described in section 6.4 the awareness of SMEs for corporate governance have been measured as shown in table 1. The Table 1 shows that the mean overall awareness score is '14.08' with a standard deviation of 5.785, and the median is also 14 which is below 50

percentile of HPS. The analysis on awareness score has been detailed out to different elements of corporate governance. At first come the element 'Composition and duties of Board of Directors'. The mean awareness score for the element is 4.64 with standard deviation of 2.45 and the median is 5 but the HPS should be 11. In analyzing the question –wise responses it was found that, a majority of the respondents (66%) have an opinion that directors of SMEs do not need professional knowledge to well manage their business. Rather they think that the experience that they have in running the business is more important. Most of the family firms are in the favor of this opinion, especially who have support from experienced first generation owner –managers. A very small portion of the companies (7%) have such directors who have directorship in more than six boards.

Almost all the respondents (92%) think that CEO and Chairman of the board should be one person. Majority of them (70%) also think long term planning is not necessary for their business and such plans are not submitted to the board for approval. Only 20% of the companies said that they hold AGM and financial records are submitted there. They said they hold on an average 6 board meetings in a year. And usually all the directors attend the meeting. Most of the respondents (78%) said that they do not feel need for risk analysis mechanism or professional help for risk analysis of their business project. Not surprisingly all sample companies said that they comply with all the legal requirements.

The questionnaire holds a part for shareholders' interest, but the sample companies do not have any share holders. The element is 'Disclosure of information' by the companies'. Analysis shows that the mean awareness score for the element is 3.6 with standard deviation of 1.37 and the median is 4 but the HPS should be 7.

Almost all the respondents (94%) said that they have no idea about the rating system banks follow in analyzing loan application from companies. All the companies were found to be ignorant about the new standard rating system to be followed by all the banks; namely 'BASEL II'. They were indifferent about whether lack of transparency in record keeping block the way of getting bank-loans or not. The respondents were divided in two similar groups ( yes=46% , no=54%) regarding this opinion .Most of the respondents (88%) said, formal disclosure to stakeholders is good for the company's image and future though they do not practice it or they do not need to.

In the case of the element 'Accounting Practices' the mean awareness score is 1.1 with standard deviation of 1.12 and the median is 1 but the HPS should be 3. The majority of the respondents (70%) said that they know little about the international and national accounting standards but they believe their companies are following most of the standards in record keeping. Only a few companies (6%) employ CA as their accountants; others employ no professional accountants.

For the element 'Audit' the mean awareness score is .58 with standard deviation of .70 and the median is .00 but the HPS should be 2. An overwhelming majority of the companies (90%) conduct audit annually because of income tax purpose but most of them (88%) do not use any internal auditing system.

In regard the questions related to general awareness about Corporate Governance; most of the answers were negative. The mean awareness score is 4.12 with standard deviation of 2.06 and the median is 4 but the HPS should be 11. 94 % of SMEs are not aware of IFC SME fund and how to get access to it. Most of them (72 %) believe Globalization will create no opportunity for them to grow or flourish. Most of them (88%) think that Corporate Governance is not a concern of SME and their companies need not to worry about it. Majority of them (66%) think that it is not important to have knowledge of Corporate Governance for their kind of companies. Seventy-four percent of them believe they do not need any internal control system. Only a negligible proportion (10%) of them acknowledged that they are thinking installation of Corporate Governance mechanism in near future. However, most of the respondents were positive about the fact that lack of transparency in SME business processes might increase fraud, corruption and criminal activities day by day and Government should exert more control over SMEs to make sure Stakeholders' rights are maintained. Also they think it is true that Corporate Governance practice can enhance company image. But majority of them (60%) think they will not face any problem in near future because of lack of Corporate Governance knowledge or practice.

## 7.2 Findings of Dimension-2 analysis

We have applied regression analysis to understand the influence of three independent variables on the level of awareness. Here the independent variables are type of company, age of the company and the amount of capital investment by the company. Six different regression models have been developed for the following dependent variables like Overall Awareness, Board of Directors, Disclosure, Accounting Practice, Audit, General awareness about Corporate Governance. The results of analysis have been presented in the Table 1.

Table1: Regression Model Estimates

Variables		B	Std. Error	P Value
Model-1: Overall Awareness				
Type of company	Sole trade	-6.906	1.726	.000
	Partnership	-5.486	1.725	.003
	Private Limited company <sup>®</sup>	...	...	...
Age of the company		6.924E-02	.085	.418
Capital investment by the Company		.289	.120	.020
Model-2: Board of Directors				
Type of company	Sole trade	-3.091	.723	.000
	Partnership	-2.338	.723	.002
	Private Limited company <sup>®</sup>	...	...	...
Age of the company		8.200E-03	.035	.818
Capital investment by the Company		.118	.050	.024
Model-3: Disclosure				
Type of	Sole trade	.524	.554	.350

company	Partnership	.332	.554	.551
	Private Limited company <sup>®</sup>	...	...	...
	Age of the company	6.645E-02	.027	.019
	Capital investment by the Company	-3.574E-02	.038	.358
Model-4: Accounting Practice				
Type of	Sole trade	-1.384	.322	.000
company	Partnership	-1.134	.322	.001
	Private Limited company <sup>®</sup>	...	...	...
	Age of the company	-1.451E-02	.016	.364
	Capital investment by the Company	5.474E-02	.022	.018
Model-5: Audit				
Type of	Sole trade	-.732	.249	.005
company	Partnership	-.705	.248	.007
	Private Limited company <sup>®</sup>	...	...	...
	Age of the company	1.381E-02	.012	.264
	Capital investment by the Company	1.929E-02	.017	.269
Model-6: General awareness about Corporate Governance				
Type of	Sole trade	-2.223	.617	.001
company	Partnership	-1.641	.617	.011
	Private Limited company <sup>®</sup>	...	...	...
	Age of the company	-4.711E-03	.030	.877
	Capital investment by the Company	.133	.043	.003

For overall awareness, the regression model suggests that type of company has significant influence on the awareness score (P value=.002 and .003 for sole trade and partnership respectively). The correlation of sole trade and partnership with the awareness score is negative (-6.906 and -5.486 respectively). The awareness score is not influenced by age of the company (P value= .418). But capital investment has positive correlations with the awareness score of the companies; every 1 unit (taka 1 crore) increase in capital would lead to 28% increase in the awareness score.

Model-2 designed for 'Board of directors' related awareness has produced a similar result. The correlation of sole trade and partnership with the awareness score is negative (-3.091 and -2.338 respectively) and every 1 unit (taka 1 crore) increase in capital would lead to 11% increase in the awareness score.

Model-3 designed for 'Disclosure' related awareness has produced a totally different result. The correlation of sole trade and partnership with the awareness score is positive and correlation with capital investment is negative but insignificant. Only age of the company has significant positive influence on awareness though it is very small (6%). Awareness of the SMEs on 'Accounting Practice' is analyzed in model-3 which shows that the correlation of sole trade and partnership with the awareness score is

negative (-3.091 and -2.338 respectively). Capital investment has positive significant influence (P value=018).

But model-4 (audit) and model-5 (general awareness on corporate governance) shows a different result. Only type of company has significant negative relationship with awareness score (-.732 and -2.223 for sole trade; -.705 and -1.641 for partnership in model-4 and 5 respectively)

### 7.3 Findings of Dimension-3 Analysis

The different elements of corporate governance obviously have positive correlation with the overall awareness. The correlations are significant because total awareness is summation of these elements. As we can see from the table 2

Table2: Correlation matrix between Corporate Awareness and other variables

		Awareness	BOD	DISC	ACCST	AUDITS	GEN
Awareness	Pearson	1	.891	.166	.879	.661	.917
	Correlation						
	Sig. (2-tailed)	.	.000	.248	.000	.000	.000
	N	50	50	50	50	50	50
BOD	Pearson	.891	1	-.116	.698	.656	.773
	Correlation						
	Sig. (2-tailed)	.000	.	.421	.000	.000	.000
	N	50	50	50	50	50	50
DISC	Pearson	.166	-.116	1	.050	-.221	-.011
	Correlation						
	Sig. (2-tailed)	.248	.421	.	.729	.124	.937
	N	50	50	50	50	50	50
ACCST	Pearson	.879	.698	.050	1	.592	.845
	Correlation						
	Sig. (2-tailed)	.000	.000	.729	.	.000	.000
	N	50	50	50	50	50	50
AUDITS	Pearson	.661	.656	-.221	.592	1	.550
	Correlation						
	Sig. (2-tailed)	.000	.000	.124	.000	.	.000
	N	50	50	50	50	50	50
GEN	Pearson	.917	.773	-.011	.845	.550	1
	Correlation						

Sig. (2-tailed)	.000	.000	.937	.000	.000	.
N	50	50	50	50	50	50

\*\* Correlation is significant at the 0.01 level (2-tailed).

All the elements has significant influence on overall awareness but the different result is derived in the case of disclosure of information, the result is p value =0.248. This means the increase in disclosure does not increase awareness significantly.

## 8. CONCLUSION AND RECOMMENDATION

### 8.1 SMEs' Interest in Adopting Corporate Governance

The above discussion proves it undoubtedly that SMEs need Corporate Governance to survive and grow in the era of globalization as well as avail of the opportunities of globalization. SME's have in general at least four major interests in adopting good corporate governance.

**First**, adopting good Corporate Governance practices leads to a better system of internal control, thus leading to greater accountability and better profit margins.

**Second**, it will free up the owner operator from operational duties as well as prevent a source of disputes. Often in closely-held SMEs, dissolution or resignation of directors revolve around misunderstandings between the managers and the owners or a failure to separate the two functions.

**Third**, good Corporate Governance practices will pave the way for possible future growth, diversification, or a sale, including the ability to attract national and international equity investors to free SMEs from dependence on high-interest bank loans.

**Fourth**, Corporate Governance would lead to a better position of the SMEs among stakeholders by enhancing their corporate image.

In a nutshell, practicing good Corporate Governance could help SMEs establish robust business processes and prepare them for future expansion. Often small to medium businesses seeking new funds find themselves obliged to undertake serious Corporate Governance reforms at a high cost upon the demand of outsiders, often in a time of crisis. When the foundations are already in place investors and potential partners will have more confidence in investing in or expanding the operation.

### 8.2 Recommendation for policy- makers

Thoughts from the Corporate Governance discussion for large enterprises can be partially applied on SMES. There may be need for public education efforts to promote the understanding of principles of good governance in SMEs. The author is suggesting some actions of policy- makers which should be taken in the future for upholding the awareness of all major actors in this field.



1. To establish a consensus among the key actors of the field about the necessity of Corporate Governance in SMEs
2. To make SMEs realize the necessity of corporate governance to become more competitive in the globalized market
3. To increase the awareness of SMEs in different elements of corporate governance through seminars and workshop and
4. To create a Corporate Governance Code for SMEs

The code can be established with the help of an expert group with members of all relevant institutions of the field should be based on three main principles, namely:

- a. a strong orientation towards the particular needs of SMEs
- b. a flexible framework that can be adapted to the heterogeneous field of SMEs as well as
- c. a clear and easily understandable content by which it can be adapted to the daily problems of SMEs.

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#### Appendix A: Descriptive Statistics

		Awareness	AGE of the enterprises	Capital investment	Number of employee	Number of directors	Family members as directors
N	Valid	50	50	50	50	50	50
	Missing	0	0	0	0	0	0
Mean		14.08	10.90	7.16	82.14	2.30	2.26
Std. Error of Mean		.818	.980	.841	18.773	.308	.303
Median		14.00	11.00	5.00	30.00	2.50	2.50
Std. Deviation		5.785	6.932	5.947	132.746	2.178	2.146
Skewness		.640	.486	1.269	2.562	.832	.887
Std. Error of Skewness		.337	.337	.337	.337	.337	.337
Kurtosis		-.475	-.751	.778	5.201	.825	1.086

Std. Error of Kurtosis	.662	.662	.662	.662	.662	.662
Minimum	8	2	2	16	0	0
Maximum	26	25	25	500	9	9

## Appendix B: Descriptive Statistics

		Board of directors	Disclosure	Accounting standard	Audit	General awareness
N	Valid	50	50	50	50	50
	Missing	0	0	0	0	0
Mean		4.6400	3.6000	1.1400	.5800	4.1200
Median		5.0000	4.0000	1.0000	.0000	4.0000
Std. Deviation		2.4558	1.3702	1.1250	.7025	2.0863
Variance		6.0310	1.8776	1.2657	.4935	4.3527
Skewness		.530	-1.904	.609	.808	.691
Std. Error of Skewness		.337	.337	.337	.337	.337
Kurtosis		-.565	2.787	-.992	-.542	-.512
Std. Error of Kurtosis		.662	.662	.662	.662	.662
Minimum		2.00	.00	.00	.00	2.00
Maximum		10.00	5.00	3.00	2.00	9.00