

Corporate Governance Practices in the Paint Industry of Bangladesh – A Case Study on Berger Paints Bangladesh Ltd.

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Abstract. Corporate governance (CG) has attracted much attention among different stakeholders over past decades. Recent development in the corporate world has demanded the organizations to be more transparent and accountable. So it becomes imperative to have industry specific measurement for 'good corporate governance' that leads to social legitimacy. Bangladesh Security and Exchange Commission (BSEC) issued a draft Report on CG Guidance for listed companies. The main objective of this research is to find out the current scenario of the paint industry of Bangladesh and the level of practices of CG in the industry. The data were collected from both primary and secondary sources. The major findings of the study involved the impact of CG on financial performance of the industry. It also involves stakeholder's perception towards the inclusion of female and a young director in the board composition. The findings suggest for disclosing product wise performance in reports for more accountability and fairness for making investment decision.

Keywords: Corporate governance, paint industry, board composition, product wise performance, BSEC.

1 Introduction

CG received wide consideration in both practical and academic research. A good governance has been viewed as an essential element for improving the long term value of stakeholders in the business. Demands from speculators and others for more noteworthy responsibility from corporation prompt more effective capital markets. The BSEC is playing required role for improving CG practices in Bangladesh for reinforcing investor's trust in the capital market.

It is to be mentioned that the paint industry of Bangladesh is one of the most thriving sectors of the nation. CG allows companies to showcase their positive traits which are directly related to the framework of capital market. Gender and age diversity has not been considered as a developmental process for a very long time in Bangladesh. A board requires a diversity of skills, cultures, and views to make smart decisions with lasting impact for making the organization more effective.

1.1 Objectives of the Study

The objectives of this study are as follows:

- To study the current scenario of the paint industry of Bangladesh and how CG can promote the industry for investors.
- To explore the relationship between Berger Paints Bangladesh Ltd.'s CG and organizational performance.
- To identify the major changes in CG guideline of 2012 from 2017 proposal.

1.2 Research Questions

In order to satisfy the research objectives, following few research questions have been developed:

- Q1:** Is gender diversity in board of directors accepted by people in Bangladeshi context?
Q2: Does age influence the inclusion of young director in board composition?

Q3: Is the disclosing of product wise performance in annual reports demanded by potential investor?

1.3 Research Hypotheses

The required hypotheses have been formulated for investigating the existence of a significant relationship between age, gender and investors relation to board of directors and annual reports. The hypotheses have been stated below:

The significant effect of including a female director in the board of directors

HO: including a female director on board is not effected by gender.

HA: including a female director on board is effected by gender.

The selection of diversity of age in the board of directors

HO: age does not influence to include a young director in board composition.

HA: age does influence to include a young director in board composition.

The demand for disclosing product wise performance in annual reports.

HO: It is not demanded to disclose product wise performance in annual reports.

HA: It is demanded to disclose product wise performance in annual reports.

2 Review of Literature

CG is generally defined as means to disciplining the corporate managers. Corporate managers manage companies affairs in a manner so as to maximize benefits for shareholders. Marck, Shleifer, and Vishny (1988) and Hermalin and Weisbach (1991) investigated the effect of ownership structure on company performance. They found out an important and positive correlation between ownership structure and company performance. However, Shahryari (2009) in his research concluded that there is no significant correlation between arrangement of board of directors and financial performance of firms.

In Bangladesh, Hossain, D. M., and A. R. Khan.(2006) conducted an extensive survey of 100 sample companies of DSE and CSE (Chittagong Stock Exchange) and found significant relationship between CG disclosures and some corporate attributes such as multinational affiliation, linkage of auditor with big four audit firms, concentrated ownership by sponsors and banking companies influence. Muhammad Saifuddin Khondaker(2010) identified that the factors that affect and explain customer satisfactions and can be utilized as a CG tool in state-owned commercial banks (SCBs) of Bangladesh. He found out that customers ranked responsiveness of the bank employees for satisfaction, first followed by physical comfort and assurance as important factors for satisfactory service.

Another study by Mohammad Shamsuddoha(2010) CG examines the external mechanisms through like corporate forums, media analysts, structural reforms and governance ratings to incorporate CG codes into corporations. The researchers recommended regarding governance issues that can help a lot for developing corporate sectors in Bangladesh.

Recently, Haque, F. &Arun, T.G. (2016) stated that there is an influence of firm-level CG on financial performance of the listed firms in Bangladesh. The study results partly confirm the prediction of the agency theory, which suggests that better CG reduces expropriation costs. However, the relationship between firm level CG and operating performance seems inconclusive.

3 Research Methodology

This is a quantitative research where data were gathered from primary sources using survey technique. Secondary sources were also used for collecting required data.

The target population of this study was all the individual stakeholders ranging from business owner to service holder. Since the number of individuals is unknown and the population size is huge, the sample size was calculated using the following formula-

$$n = (Z \text{ value})^2 \times \text{standard deviation} (1 - \text{standard deviation}) / (\text{margin of error})^2$$

Here,

n = sample size

Z score = the constant value for the confidence level

Standard deviation = the expected variance in the responses by the researcher
 Margin of error = how much error to be allowed by the researcher

The confidence level for this study has been set at 90%. According to the Z-score table, the Z score at 90% level of confidence is 1.68. The margin of error is set to be 5% and the standard deviation is set to be .088 to guarantee that the sample size estimate is sufficiently substantial.

So, the sample size, $n = \{(1.68)^2 \times .088 \times (1-.092)\} / (.05)^2 = 90$

4 Findings and Analysis

The current situation of the paint industry in Bangladesh has been studied in its lengths and breadths. Some 10 to 12 top companies hold 85% market share of the total market. Berger Paints Bangladesh is the market leader with 55% market share of the total market size. The closest competitor of Berger Paints is Asian Paints with 16% market share. Except the branded player of the market like Berger, Asian, Elite or Pailac, some other regional paint manufacturers hold 11% of the market share.

As Berger is the market leader, they have put up a benchmark for the rest of the companies in terms of CG. As there is no standard way for measuring a single company's CG, the impact can be better understood by analyzing the trend of dividend history as it is directly related to stock and capital market.

Table 1. Divided History of Berger Paints Ltd (Annual Report).

Dividends	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Cash Dividend	180%	220%	220%	370%	660%
Payout Ratio	50.9%	56.5%	43.1%	51%	72.7%
Retention rate	49.1%	43.5%	56.9%	49.0%	27.3%

Table 1 shows dividends paid to shareholders with payout ratio and Retention rate for different years which clearly show an upward trend. To in CG in the emerging paint industry, it is imperative to understand the current draft of the governance guideline. The revised guidelines of CG issued in 2017 are similar to those issued in 2012 in different respects. In fact, the new notification is more elaborate that retains all the guideline conditions of 2012 and includes some new conditions. The guideline of 2012 is of 15 pages while the proposed one is of 78 pages. The draft is also separated into six (6) chapters. Some of the more effective changes are as follows:

1. There are many detailed requirements of
 - a. The role of board of directors and its composition.
 - b. Qualification required for independent directors.
 - c. Governance of subsidiary companies.
 - d. Composition of senior management stuffs and their appointment and removal.
 - e. Duties of managing director.
 - f. Annual general meeting, price sensitive information, website, reporting of CG.
2. Inclusion of at least one female director in Board of directors
3. besides the audit committee there will be a total of four more committees as sub-committees
 - a. Nomination and Remuneration Committee (NRC),
 - b. Risk Management Committee (RMC)
 - c. Environment and Social Responsibility Committee (ESRC)
 - d. Executive Committee (EC)
4. At least one-tenth of the board members shall have to be between the ages of 25 and 40
5. the draft guidelines, if made effective as it is, will make it mandatory to include non-controlling shareholders in the board in proportion of their shareholding
6. BSEC from time to time shall determine minimum percentage of shareholdings both jointly and individually by sponsors or promoters and directors
7. all of the board discussions are to be recorded
8. if a company distributes less than the earning per share as cash dividend, it shall have to explain why it is distributing less and what it will do with the retained or undistributed income

With the new proposal that is notified, it is imperative to find out the significance of the new changes that are to be in effect when it is implemented. As the conditions are vast and time consuming, only the effect of three conditions were tested through surveying- the inclusion of female director, mandating a young director of age 25 on board and the inclusion of product wise performance in annual report.

The significant effect of including a female director in the board of directors: The respondents were asked if they think including a female director on board was mandatory in corporate governance. About 77.8% people believe that it is mandatory to include a female director. Fair employment policy for women are presently an important part of numerous social investments. Hence, the result of the survey has demonstrated a positive light on the social thought process of the public. Moreover, Berger Paints Bangladesh have established themselves on that aspect as they have a female managing director and contributed to women empowerment. As such gender diversity should be on a company's agenda as more women are on top positions.

The selection of diversity of age in the board of directors: The respondents were asked whether they think including a young person (of age 25) will help maintain a better CG. About 73.3% of the respondents believe a young director on board will give a good outcome. In an effort to make more diversified board, speculators essentially need to realize that boards must have the correct blend of varieties of abilities, practicalities, and viewpoints to address the developing strategic issues companies face. Age is rapidly turning into a mixed diversity center, and institutional speculators are positioning in to help.

The demand for disclosing product wise performance in annual reports: the respondents were asked if they believed it was important to release product wise performance of products in annual report. Almost 82.2% believe it's necessary to disclose product wise performance. Product wise performance is a business secret that the organizations are not willing to inform to competitors. An organization may have several strategies to have a competitive advantage. Unveiling and talking about every one of those could hinder their profitability. But it will also help a company to have more transparency and accessibility which are the perquisite for CG.

Testing of hypotheses

The test on the selected hypotheses have been showed below:

HO: including a female director on board is not effected by gender

HA: including a female director on board is effected by gender

Table 2. Regression analysis (primary)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.134	1	.134	.605	.131 ^b
	Residual	19.521	88	.222		
	Total	19.656	89			

Table 2 shows, the p-value (.131) is greater than 0.05, therefore the null hypothesis is accepted and the alternative hypothesis is rejected that means including a female director is not affected by individuals. Thus, people have a positive attitude towards adding a female director on board.

HO: age does not influence to include a young director in board composition

HA: age does influence to include a young director in board composition

Table 3. Regression analysis (primary)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.467	1	.467	.649	.133 ^b
	Residual	63.322	88	.720		
	Total	63.789	89			

Sources: Calculated using IBM SPSS

Table 3 shows that p value (.133) is greater than .05, Here null hypothesis is accepted and alternative hypothesis is rejected that means age does not influence on inclusion of young directors on board. While

the respondents who are younger may seem more inclined towards it, in retrospect all age believes it's acceptable to include a young director.

HO: It is not demanded to disclose product wise performance in annual reports.

HA: It is demanded to disclose product wise performance in annual reports

Table 4. Regression analysis (primary)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.986	1	1.986	2.112	.150 ^b
	Residual	82.736	88	.940		
	Total	84.722	89			

Here the p value (.150) is greater than .05 as shows in Table 4, we null hypothesis is accepted. As product wise performance is considered as a business secret, people may not be inclined to disclose all of it to the annual reports. The summary of the hypotheses testing has been stated in the following table:

Table 5. Summary of hypothesis testing (primary)

SL	Hypotheses	Null Hypotheses Accept / Reject
1	HO: including a female director on board is not effected by gender HA: including a female director on board is effected by gender	Accept
2	HO: age does not influence to include a young director in board composition HA: age does influences to include a young director in board composition	Accept
3	HO: It is not demanded to disclose product wise performance in annual reports. HA: It is demanded to disclose product wise performance in annual reports	Accept

From the summary of hypothesis testing it can be found that there were no enough statistical reasons available to reject all null hypotheses.

5 Discussion

According to the data analysis, the new draft proposal shows a positive acceptance by the respondents. This paves the way for implementing the standards of good CG, which may be essentially same for all organizations. There is lot of scopes for development in applying such standards to the particular conditions of singular firms. The paint industry of Bangladesh needs much reforms and it is imperative to start implementing CG at an early stage. To attract long-term capital, any industry must follow clear standards of CG at the international level. Berger Paints Bangladesh has made some progress in adopting the key standards of CG which are transparency, fairness, disclosure and accountability and these gauges have been solidly settled upon. It has thus enabled them to increase their investment income from time to time.

6 Conclusions and Recommendations

This study examines the need for a good CG on an emerging industry such as the paint industry. The world is turning into a globalized village and corporations need a balanced system. A good CG can be a possible system to implement that coordination. But most of the studies has pointed out that, it is difficult to measure CG directly. However, a company may have productivity metrics for the company and by department which will often unveil efficiencies or inefficiencies related to CG. The study also confirmed that the significant changes on board of directors, based on age and gender diversity is accepted by the respondents. This shows a positive side as the implementation of CG will have a far-reaching impact on the nation's economic development and integration on a global basis. Through this investigation it can be argued that CG is specifically needed for financing and investment.

The study recommends that statutory bodies should mandate all firms to go beyond and look at other areas of improvement. Management of the paint industry should take advantage of CG in order to increase dominance and enhance their corporate performance. Following suggestions have been made:

- Create public awareness regarding CG among the mass people, academics, managers, and other stakeholders so that they view it objectively and get benefit from it.
- Skill development initiatives should be developed for both the internal and external parties. If young directors are going to be elected, then they should have the appropriate knowledge and skills rather than just academic degrees.
- Smaller and some medium scale companies have little knowledge about CG. They often do not possess the human and financial resources required for implementation. But fostering governance SMEs is crucial for the overall success in countries like Bangladesh.
- The paint industry must follow active participation in the stock market to both increase their profitability and also contribute towards Bangladesh's economy.

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