

# Role of Independent Directors in Ensuring Good Corporate Governance in Bangladesh

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<p><b>Corresponding Author</b> Md Jaber Parvez, FCS                  BICM, MAFCM, University of Dhaka, Bangladesh</p> <p><b>Article History</b></p> <p>Received: 13/01/2025                  Accepted: 25/01/2025                  Published: 28/01/2025</p>	<p><b>Abstract:</b> Independent directors promote transparency, accountability, and fairness in corporate management. In Bangladesh, with corporate governance challenges such as concentrated ownership, lack of regulatory enforcement, and a nascent corporate governance culture, independent directors must address the gaps in monitoring and decision-making. This paper examines the role of independent directors in ensuring good corporate governance with a focus on the ability of independent directors to mitigate conflicts of interest, improve board effectiveness and protect minority shareholders. By analyzing the legal framework, corporate practices and challenges faced by independent directors in Bangladesh, the study highlights the impact of independent directors in improving board dynamics and organizational health. The findings highlight the need for greater regulatory support, robust selection criteria, and appropriate training to enable independent directors to perform their duties effectively. The study concludes with recommendations for policy reforms and capacity-building efforts to enhance the contribution of independent directors in promoting sustainable corporate governance in Bangladesh.</p> <p><b>Keywords:</b> Independent directors, corporate governance, Bangladesh, CSR, drivers, influences, board of directors</p>
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## 1. Introduction

Independent directors are essential to promote good corporate governance in Bangladesh. Regulatory efforts have laid a strong foundation, but to ensure their effectiveness, challenges need to be addressed and a corporate culture that values accountability and transparency needs to be fostered [1]. Despite the regulatory framework, independent directors in Bangladesh face challenges including: Lack of independence due to informal influence from management and large shareholders; Limited availability of qualified candidates with the requisite expertise and integrity; and Resistance to transparency and accountability due to entrenched corporate practices [2]. Corporate governance refers to the framework of rules, relationships, systems and processes according to which a company is managed and controlled. It ensures accountability, transparency and fairness in the relationship between the company and its stakeholders such as shareholders, employees, customers and the general public. In Bangladesh, independent directors play a key role in maintaining the standards of corporate governance, especially considering the country's evolving corporate landscape and regulatory framework [3]. In Bangladesh, the need to align with global best practices and enhance investor confidence prompted the move to include independent directors on the board. The Bangladesh Securities and Exchange Commission (BSEC) issued the Corporate Governance

Guidelines in 2006, later updated as the Corporate Governance Code 2018, making it mandatory for listed companies to include independent directors.

## 2. Literature Review

Corporate governance plays a vital role in promoting accountability, transparency and ethical decision-making within an organization. Independent directors are considered an important component of a company's board of directors, especially in emerging markets such as Bangladesh where governance structures are still developing. This literature review examines the key studies, theoretical frameworks and empirical evidence on the role of independent directors in ensuring good corporate governance in Bangladesh.

### *Theoretical Framework of Corporate Governance and Independent Directors*

- Principal-agent theory posits that independent directors act as control institutions to mitigate conflicts between management (agents) and shareholders (clients) [3].
- Stakeholder theory expands the role of governance to include other stakeholders such as employees, creditors, and the community [3].

- ♦ Resource dependency theory emphasizes that independent directors bring important resources such as expertise, networks, and legitimacy to the organization.

#### *Global perspective on independent directors*

- Internationally, independent directors are recognized for their contribution in enhancing the effectiveness of boards and promoting ethical corporate governance. The G20/OECD Principles of Corporate Governance emphasize the need for independent directors to balance power in the company and protect minority shareholders [3].

#### *Role of independent directors in Bangladesh*

- The role of independent directors in Bangladesh has gained importance with the introduction of the Corporate Governance Code, 2018 by the Bangladesh Securities and Exchange Commission (BSEC). The code stipulates that at least one-fifth of the directors of a company must be independent directors.

#### *Independent Directors and Stakeholder Protection*

- Independent directors play a central role in protecting the interests of minority shareholders and other stakeholders. Studies have shown that audit committee participation in audit committees strengthens internal controls and improves the accuracy of financial reporting. However, Gupta and Sharma [3] point out that cultural factors such as Bangladesh's hierarchical corporate structure may limit decision-making autonomy [3].

#### *Challenges of Independent Directors in Bangladesh*

- ♦ **Lack of autonomy:** It is reported [4] that many independent directors are appointed based on personal networks, which limits their independence.
- ♦ **Non-compliance:** It is highlighted [4] cases where companies do not meet the minimum requirements for independent directors, citing resource constraints as the reason.
- ♦ **Contribution to corporate ethics and sustainability:** Independent directors also play an important role in promoting Corporate Social Responsibility (CSR) and sustainability initiatives. Carroll and Shabana (2010) argue that independent directors can advocate for long-term ethical practices that are consistent with societal expectations.
- ♦ **Comparative studies and lessons from Bangladesh:** Comparative studies have shown that countries with stronger governance frameworks such as Malaysia and India have achieved higher effectiveness of independent directors by incorporating training programs, stricter compliance, and diversity in board composition [4].

#### **Application of Dependent and Independent Variables**

- In this research on the role of independent directors in ensuring good corporate governance, the application of dependent and independent variables is crucial in constructing the analysis. These variables help establish relationships, test hypotheses and determine how independent directors affect corporate governance outcomes [4].

#### **Dependent Variables:**

The dependent variables represent the aspects of corporate governance that are affected by the presence and effectiveness of independent directors.

- ♦ Quality of corporate governance
- ♦ Transparency and accountability
- ♦ Shareholder and stakeholder protection
- ♦ Financial performance

#### **Independent Variables**

The independent variables in this study are the roles or characteristics of independent directors.

- ♦ The part of self-regulating boards on the board
- ♦ Expertise and background of independent directors
- ♦ Participation in board committees
- ♦ Autonomy and independence
- ♦ Diversity of independent directors

#### **Control Variables**

To ensure the accuracy of the analysis, precision is checked through control variables [4].

- Industry: Sector-specific corporate governance practices.
- Ownership structure: Percentage of institutional or foreign ownership.
- Regulatory environment: Degree of compliance with corporate governance provisions

#### **Hypothesis development**

The hypotheses of this study are developed based on the theoretical framework, empirical research and observed challenges in corporate governance practices in Bangladesh. These hypotheses aim to examine the relationship between independent directors and various aspects of corporate governance.

- H1: Relationship between the percentage of independent directors and the quality of corporate governance
- H2: Relationship between independence and transparency
- H3: Impact of independent directors on stakeholder protection
- H4: Role of independent directors in enhancing firm performance
- H5: Impact of board diversity of independent directors on corporate governance
- H6: Challenges of independent directors
- H7: Role of independent directors in promoting ethical practices

#### **Research gap**

The importance of independent directors in improving corporate governance is widely recognized across the world. However, the special context of Bangladesh as a developing country with unique socio-economic and cultural factors poses certain challenges and opportunities that have not been fully explored. Identifying the research gaps highlights areas where the existing literature is inadequate and further research is needed.

- ♦ Limited focus on emerging market context
- ♦ Challenges in ensuring true independence
- ♦ Lack of research on board diversity
- ♦ Limited empirical evidence on effectiveness
- ♦ Insufficient research on stakeholder perspectives
- ♦ Influence of cultural and socio-political factors
- ♦ Limited review of training and expertise

- ♦ Lack of focus on long-term impact

Addressing the above gaps will contribute to a deeper understanding of how independent directors can improve governance practices in Bangladesh and other emerging markets.

### Research questions

In my studies, consistent with the context of Bangladesh, firstly, we will increase the relevant studies questionnaire and secondly, will increase the questionnaire for supplementary studies. The key observations said below:

#### Central research questions:

- What is the contemporary scenario of Independent Directors in making sure properly company governance in Bangladesh?
- Supplementary research questions:
- What are the results of the PESTLE analyses in Bangladesh?
- What modifications are required to foster the boom of this sector?

### Sensitivity Analysis

- ♦ Sensitivity analysis provides valuable insights into the effectiveness of independent directors in ensuring good corporate governance in Bangladesh. By investigating the variability and robustness of key variables, the study is able to generate actionable recommendations for enhancing governance practices.
- ♦ Evaluate the robustness of relationships among independent directors and the quality of governance.
- ♦ Identify the key variables that have a significant impact on governance outcomes.
- ♦ Determine the impact of contextual factors such as company size, ownership structure and industry on the effectiveness of independent directors.
- ♦ Informal power structures and family control may moderate the impact of independent directors on corporate governance outcomes in Bangladesh.
- ♦ Identify key factors leading to improved corporate governance in Bangladesh.
- ♦ Highlight areas where independent board members have the most impact, such as transparency and stakeholder protection.

Highlight factors such as board diversity and autonomy to provide evidence to policymakers to refine corporate governance rules.

### 3. Research Methodology

- ♦ The research methodology to investigate the role of independent directors in ensuring good corporate governance in Bangladesh should be designed to capture both quantitative and qualitative aspects of governance practices [6]. Given the complexity of corporate governance issues in Bangladesh, a mixed methods approach will enable a comprehensive understanding of the subject.

### Research Design

A descriptive and exploratory study was developed which is more suitable for this study.

### Data Collection Methods

- ♦ **Quantitative Data:** A structured questionnaire was developed to collect quantitative data from the Heads of Corporate Governance, Independent Directors and other key stakeholders of the sample companies. The questionnaire was illustrated focusing and summarized with the following areas:
  - ♦ The part of self-governing boards on the board of directors.
  - ♦ Degree of autonomy given to independent directors.
  - ♦ The impact of independent directors on board decision making.
  - ♦ Challenges faced by independent directors in Bangladesh.
- ♦ **Qualitative Data:** In-depth interviews were conducted with a select group of independent directors, regulators and corporate governance experts. This allows for a deeper understanding of the dynamics of the independent director role in Bangladesh, including their personal experiences, perceptions and situational challenges they face. The interviews were semi-structured to allow flexibility in exploring different aspects of corporate governance.

### Ethical Considerations [6]

- Integrity and Transparency
- Accountability to Stakeholders
- Oversight of Environmental, Social, and Governance (ESG)
- Promoting Ethical Corporate Culture
- Independence and Impartiality

## 4. Factors Influencing the Role of Independent Directors in Ensuring Good Corporate Governance in Bangladesh

### Broader Factors of Corporate Governance

Independent directors in Bangladesh can ensure transparency, accountability and long-term value creation by considering the broader factors of corporate governance.

- Ownership structure and concentration [5]
- Regulatory environment and enforcement [5]
- Board composition and diversity [5]
- Corporate culture and ethics [5]
- Economic and market dynamics [6]
- Minority shareholder protection [6]
- Globalization and international standards [6].
- Training and professional development [6]
- Accessibility of technology and data [7].
- Cultural and political influences [7]

### Access to information and resources

*Improving access to information and resources will enable independent directors in Bangladesh to play a more active and effective role in promoting good corporate governance.*

- Reliance on information provided by management [7].
- Access to third party expertise and external experts [8]
- Availability of technology and analytical tools [8].
- Board transparency and communication [8].

- Access to internal committees and reports [8].
- Training and knowledge resources [8].
- Unrestricted access to company records [9].
- Regulatory and industry reports [9].
- Stakeholder engagement for a broader perspective [9].

**Accountability and Evaluation:**

- Board and director performance evaluation [9].
- Self-assessment and peer review [10].
- External evaluation by governance experts [10].
- Performance metrics and benchmarking [10].
- Clarification of roles and responsibilities [11].
- Regular feedback and dialogue with shareholders [11].
- Compliance with laws and regulations [11].
- Whistleblower protection and ethical oversight [12].
- Transparency in decision making [12].

**Board Dynamics and Culture:**

- Influence of controlling shareholders [12].
- Board culture and hierarchy [12].
- Lack of clear role definition [13].
- Interpersonal dynamics and trust [13].
- Relationship between management and directors [13].
- Board diversity and decision-making [13].
- Decision-making process and participation of independent board members [14].
- Communication and information flow [14].
- Conflict of interest and objectivity [14].

By addressing the board dynamics and cultural issues, independent directors in Bangladesh can play a more prominent role in driving corporate governance reforms and improving transparency and accountability.

**Legal and Regulatory Factors:**

- Regulatory framework for independent directors [15].
- BSEC guidelines for independent directors [15].
- Corporate Governance Code [15].
- Company Law and Shareholders' Rights [15].
- Legal liability and accountability [16].
- Enforcement of corporate governance regulations [16].
- Whistleblower protection and ethical oversight [16].
- Role of courts in corporate governance [17].
- International standards and printing [17].
- Conflict of interest regulations [17].

Consideration of these legal and regulatory factors can enhance the role of independent directors in ensuring good corporate governance in Bangladesh, which may lead to more transparent, accountable and ethical business practices.

**Importance of independent directors in corporate governance framework:**

Independent directors play a key role in ensuring a robust, transparent and effective corporate governance framework. Their involvement is particularly important in emerging markets like Bangladesh, where corporate governance practices are evolving but often face challenges such as ownership concentration, family-run businesses, and weak regulatory enforcement.

- Improving board independence and objectivity [17].
- Strengthening shareholder protection [17].

- Ensuring transparency and accountability [17].
- Reducing agency issues [17].
- Improving Corporate Social Responsibility (CSR) [17].
- Supporting legal compliance [18].
- Promoting ethical business practices [18].
- Facilitating long-term value creation [18].
- Independent directors as strategic advisors [18].

**Independent directors contribute to board decision-making and accountability:**

Independent directors play a key role in improving the decision-making process and ensuring accountability within the board. Their involvement is crucial to maintain transparency, challenge management actions and protect shareholders' interests, especially in the Bangladeshi corporate environment which is characterized by concentrated ownership and family-led firms.

- Ensuring independent oversight [19].
- Questioning and criticizing management decisions [19].
- Ensuring transparency and financial accountability [19].
- Protective the benefits of marginal investors [19].
- Improving corporate governance standards [20].
- Risk management and strategic oversight [20].
- Allowing transparency and objective decision making [20].
- Strengthening CSR and ethical practices [20].
- Enforcing accountability through committees [20].
- Compliance with laws and regulations [20].

By actively contributing to transparency in financial reporting, challenging management decisions and protecting the interests of minority shareholders, we contribute towards creating a more responsible, ethical and sustainable business environment in Bangladesh.

**The demanding situations confronted with the aid of using impartial administrators in acting their roles efficaciously:**

Independent administrators play a vital position in making sure of precise company governance; however, their effectiveness may be hindered with the aid of using numerous demanding situations. In Bangladesh, in which company governance practices are nevertheless evolving, those demanding situations may be mainly pronounced.

**Lack of True Independence:**

One of the maximum vast and demanding situations confronted with the aid of using impartial administrators is the dearth of real independence. In many groups, specifically their own circle of relatives-managed businesses, the independence of administrators is compromised with the aid of using non-public relationships, own circle of relative's ties, or monetary interests. This loss of autonomy can cause conflicts of interest, making it tough for impartial administrators to behave impartially and mission control selections.

- **Illustration:** Independent administrators in Bangladesh may also regularly be appointed with the approval or have an effect on of controlling shareholders, proscribing their cap potential to independently oversee the employer [20].

**Limited Access to Information:**

Independent administrators may also face demanding situations in acquiring enough and correct records to make knowledgeable selections. In a few groups, control may also withhold important records or offer incomplete data, hindering the director's potential to carry out their oversight position efficaciously. Without the complete right of entry to employer operations, financials, and strategic plans, impartial administrators may also want to preserve control responsibility or offer significant entry at some point in decision-making processes.

- **Illustration:** In a few instances, control would possibly offer impartial administrators the most effective selective or biased records, impacting their potential to supervise monetary reporting and company strategy [21].

#### ***Weak Legal and Regulatory Enforcement:***

Although impartial administrators are required with the aid of using regulation in Bangladesh for indexed groups, enforcement of governance policies stays inconsistent. Weak enforcement mechanisms, coupled with ambiguous policies, lessen the effectiveness of impartial administrators in maintaining control responsible. In instances in which groups fail to conform with governance standards, impartial administrators may also lack the felony recourse or aid to deal with those troubles efficaciously.

- **Illustration:** The Bangladesh Securities and Exchange Commission (BSEC) tips for impartial administrators might not usually be enforced strictly, decreasing their effect on enhancing company governance practices [21].

#### ***Limited Influence and Authority:***

Independent administrators regularly lack the important authority to steer decision-making processes, mainly in groups ruled with the aid of using controlling shareholders or own circle of relatives-run businesses. In such environments, impartial administrators may also have restrained strength in key board committees, making it tough for them to implement duty or mission control selections.

- **Illustration:** Family-owned groups in Bangladesh may also hire impartial administrators however they continue to make key selections without consulting them, efficaciously sidelining their position [27].

#### ***Conflict with Controlling Shareholders:***

Independent administrators may also discover themselves in battle with the controlling shareholders, who regularly preserve vast strength in decision-making. In Bangladesh, in which focused possession is common, controlling shareholders may also withstand efforts with the aid of using impartial administrators to mission or scrutinize control selections. This can create surroundings of hysteria and lessen the impartial director's cap potential to carry out their obligations without worry of comeback.

- **Illustration:** Independent administrators in Bangladesh might also additionally face strain from essential shareholders to approve choices that advantage the controlling own circle of relatives or group, although the ones choices aren't withinside the satisfactory hobby of minority shareholders [21].

#### ***Inadequate Training and Support:***

Many unbiased administrators in Bangladesh might also additionally lack enough education and assist to efficaciously

navigate the complexities of company governance. Without right training on economic reporting, threat control, and prison responsibilities, unbiased administrators can be ill-prepared to significantly examine control choices or oversee the company's operations efficiently.

- **Illustration:** Independent administrators might also additionally battle to apprehend complicated economic statements or examine capacity dangers because of a loss of education, affecting their cap potential to mission control's strategic choices.

#### ***Cultural and Institutional Barriers:***

In Bangladesh, cultural elements and the present commercial enterprise surroundings can create institutional limitations to powerful company governance. There is frequently resistance to alternate inside own circle of relatives-run businesses, which might also additionally view the involvement of unbiased administrators as needless or intrusive [21]. Furthermore, conventional commercial enterprise practices can be much less aligned with worldwide requirements of company governance, making it hard for unbiased administrators to pressure significant alternate.

- **Illustration:** Family-managed companies might also additionally choose to hold commercial enterprise choices withinside the own circle of relatives and withstand the intervention of unbiased administrators, even if it's miles withinside the company's satisfactory hobby [21].

#### ***Lack of Proper Mechanisms for Accountability:***

Even while unbiased administrators discover troubles or troubles inside a company, there can be a loss of right mechanisms to preserve control responsible for their actions. The absence of whistleblower safety legal guidelines or insufficient prison frameworks for reporting misconduct can deter unbiased administrators from taking sturdy motion while necessary.

- **Illustration:** Independent administrators can be hesitant to talk out in opposition to unethical practices or economic misreporting because of fears of retaliation or a loss of prison protections for whistleblowers [21].

#### ***Time Constraints and Workload:***

Independent administrators are frequently appointed on a part-time foundation and can serve on more than one forum simultaneously. This can result in time constraints and save you them from dedicating enough interest to the businesses they oversee. The workload of unbiased administrators, in particular in large organizations, can also be overwhelming, affecting their cap potential to actively interact in all board sports and efficiently oversee the company's operations [21].

- **Illustration:** Independent administrators might also additionally face scheduling conflicts or have constrained time to interact in board meetings, decreasing their cap potential to make knowledgeable choices and preserve control accountable [21].

## **5. Application of the Role of Independent Directors to Ensure Good Corporate Governance**

The role of independent directors in corporate governance is essential to ensure that companies behave transparently, accountably and ethically. In Bangladesh, the evolving corporate governance environment has given increasing emphasis to the role of independent directors to balance power, enhance oversight and improve corporate performance.

**Promoting transparency in financial reporting:**

Independent directors help ensure that financial reports are accurate and in compliance with relevant accounting standards. Serving on the audit committee ensures that a company's financial reporting is unbiased and presents the truth to stakeholders including investors, regulators and the public [22].

**Enhancing Board Liability and Decision-Making:**

Independent directors act as watchdogs to ensure that board decisions are aligned with the interests of all shareholders, especially minority shareholders. They bring an objective perspective and question management decisions that may be inconsistent with the company's long-term interest and shareholder value [22]. Corporate Governance Challenges in Bangladesh: A Study on Independent Directors. Bangladesh Journal of Business Studies.

**Protection of Minority Shareholders' Rights:**

In Bangladesh, family-owned businesses predominate and the ownership structure is concentrated, which often limits minority shareholders' influence on decision-making. Independent directors act as protectors of minority shareholders, ensuring that their rights are protected and that they are not excluded from the decision-making process [22]. Protection of Minority Shareholders and the Role of Independent Directors in Bangladesh. International Journal of Business and Governance.

**Ensuring Compliance with Regulatory Framework:**

Independent directors play a key role in ensuring that companies comply with national and international regulations that are essential to promote good corporate governance. In Bangladesh, companies are required to comply with the rules of the Bureau of Securities and Exchange Commission (BSEC) and independent directors are responsible for ensuring compliance with these guidelines [28]. Corporate Governance in Bangladesh and the Role of Independent Directors.

**Risk reduction through oversight:**

Independent directors help identify, manage and mitigate risks. They assess the company's exposure to operational, financial and market risks and ensure that a risk management framework is in place and functioning properly [22].

**Improving Corporate Social Responsibility (CSR) practices:**

As Bangladeshi companies face increasing pressure to act ethically and contribute to sustainable development, independent directors play a key role in ensuring that companies' CSR practices are robust and meet national and international standards [23].

**Strengthening Ethics and Governance Culture:**

Independent directors are central to promoting an ethical corporate culture. They set the tone for the entire organization by ensuring that the board adheres to ethical standards and prioritizes integrity. This helps in curbing unethical practices such as corruption, fraud, and misrepresentation [23].

**Impact on executive remuneration and governance structure:**

Independent directors are also involved in setting executive remuneration and ensuring that it is aligned with the long-term interests of the company. They review the executive remuneration structure and ensure that it is performance-related and not excessive or inconsistent with company performance [23].

**Challenges in the Application of Independent Directors' Role:**

Challenges inside the Application of Independent Directors' Role Despite their good-sized position, unbiased administrators in Bangladesh face numerous demanding situations in making use of their obligations effectively.

- **Weak Enforcement of Regulations:** Although guidelines require unbiased administrators in indexed organizations, enforcement is regularly susceptible, and there are times in which organizations skip those requirements.
- **Family-Controlled Businesses:** In many organizations, unbiased administrators are nominated through the controlling shareholders, which diminishes their capacity to behave impartially or task the own circle of relatives-ruled management.
- **Limited Resources and Information:** Independent administrators won't have got admission to all essential facts or assets to carry out their oversight position effectively, especially in much less obvious organizations.
- **Cultural Barriers:** The dominance of own circle of relative's pursuits and conventional commercial enterprise practices in Bangladesh can undermine the strength of unbiased administrators, specially while there's resistance to outside involvement in decision-making.

**Commendations for Enhancing the Role of Independent Directors**

- To decorate the effectiveness of unbiased administrators in Bangladesh, the subsequent hints may be considered:
- **Strengthen Enforcement of Regulations:** Regulatory bodies just as the Bangladesh Securities and Exchange Commission (BSEC) have to put into effect company governance guidelines greater strictly to make sure that unbiased administrators aren't compromised through controlling shareholders
- **Improve Access to Information:** Companies need to be required to offer unbiased administrators' complete admission to monetary, operational, and strategic facts, permitting them to carry out their responsibilities effectively.
- **Foster Independence in Appointment:** The appointment manner for unbiased administrators needs to be greater obvious and freer from the impact of controlling shareholders.
- **Provide Training and Support:** Independent administrators need to acquire ongoing schooling in monetary management, threat assessment, and company governance to higher apprehend their roles and obligations.



- **Promote Ethical Practices:** Companies need to prioritize moral management and foster a company way of life that helps the independence of administrators, transparency, and accountability.

Independent administrators' involvement is crucial in improving board accountability, making sure transparency, defensive minority shareholders' rights, and selling moral commercial enterprise practices. However, addressing the demanding situations they face, along with loss of genuine independence, constrained get admission to facts, and susceptible regulatory enforcement, is important to maximize their effectiveness in fostering higher company governance.

## 6. Findings, Limitations and Recommendations

### Findings

- **Improving accountability and transparency:** Independent directors in Bangladesh play a key role in improving corporate transparency and accountability. Their objective oversight ensures that management acts in the best interest of all shareholders, including minority investors. According to a study by Bhat and Kharbanda [23], independent directors are critical to making impartial decisions and ensuring that financial reporting and business operations comply with regulatory standards.
- **Strengthening Board Governance:** Independent directors improve the overall governance structure of a company by providing an unbiased perspective on the board of directors. These contribute to strategic decision-making, especially in managing risks and conflicts of interest. A study by Rahman and Bhuiyan [23] found that the presence of independent directors significantly improves board dynamics and reduces the chances of fraud and illegal activities in the company.
- **Protection of minority shareholders' interests:** Independent directors contribute to protecting the rights of minority shareholders by ensuring that their interests are not ignored by controlling shareholders. In Bangladesh, where family-run businesses dominate, independent directors act as watchdogs for small investors and ensure their fair treatment in corporate decisions. A study by Chowdhury and Hasan [23] highlights that independent directors are essential to protect minority shareholders' interests and enhance shareholder activism in the Bangladeshi corporate environment.
- **Challenges to Effective Independence:** Despite their importance, independent directors in Bangladesh face several challenges that affect their ability to work effectively. These challenges include limited autonomy due to the strong influence of controlling shareholders, inadequate training, and inadequate regulatory support. A report by Khan and Rahman [23] found that many independent directors often lack the skills and experience required to effectively challenge management, especially in family-owned businesses.
- **Regulatory Framework and Legal Enforcement:** The legal framework for independent directors in Bangladesh has developed, but enforcement remains weak. Although

the Bangladesh Securities and Exchange Commission (BSEC) requires listed companies to appoint independent directors, the actual application and enforcement of the regulation is inconsistent. According to Islam [23], the lack of strong enforcement mechanisms often results in nominal compliance, preventing independent directors from effectively performing their duties.

- **Recommendations for Strengthening the Role of Independent Directors:** The study suggests that the regulatory environment needs to be improved to strengthen the role of independent directors. Recommendations include improving the selection criteria for independent directors, providing training programs, and ensuring regulatory enforcement. In addition, the Institute of Certified Secretaries of Bangladesh (ICSB) advocates for improved monitoring of independent directors' performance to ensure that they are contributing meaningfully to corporate governance [24].

### Limitations

- **Nominal Independence in Practice:** Despite regulatory mandates, impartial administrators in Bangladesh regularly lack actual independence because of the great have impact on of controlling shareholders. Many are appointed primarily based totally on private or political connections, compromising their capacity to behave impartially. A study [24] found that impartial administrators in family-owned corporations are often reluctant to venture into choices that can want controlling pursuits over minority shareholders.
- **Limited Regulatory Enforcement:** Many impartial administrators in Bangladesh lack the vital skills, knowledge, and know-how to make contributions meaningfully to board discussions and decision-making processes. This hassle undermines their capacity to assess complicated economic and governance issues [24] spotlight that insufficient schooling packages for impartial administrators are a great barrier to their effectiveness.
- **Insufficient Expertise and Training:** Many independent directors in Bangladesh lack the necessary skills, knowledge, and expertise to contribute meaningfully to board discussions and decision-making processes. This limitation undermines their ability to evaluate complex financial and governance issues. It is highlighted [24] that inadequate training programs for independent directors are a significant barrier to their effectiveness.
- **Dependence on Management for Information:** Independent administrators in Bangladesh regularly depend closely on management-supplied data, which can be biased or incomplete. This dependence restricts their capacity to evaluate business enterprise overall performance objectively and make knowledgeable choices. according to the statement of Khan and Rahman [24] argue that the dearth of get right of entry to impartial resets of data limits the oversight capability of impartial administrators.
- **Cultural and Structural Challenges:** Corporate governance practices in Bangladesh are nonetheless developing, and there's a cultural reluctance to simply accept the vital position of impartial administrators.

Many forums understand them as formalities instead of critical contributors to governance. Bhat and Kharbanda determined that during Bangladesh's hierarchical and relationship-pushed company environment, impartial administrators regularly war to say their authority.

- **Lack of Financial Incentives:** The remuneration supplied to impartial administrators in Bangladesh is regularly inadequate to draw fantastically certified professionals. These outcomes in forums appoint folks who may also lack the inducement or dedication to carry out their roles effectively. A document through ICSB emphasizes that aggressive remuneration and incentives are vital to ensure the engagement of ready impartial administrators.
- **Conflict of Interest:** Some impartial administrators face conflicts of interest, in particular, once they maintain directorships in more than one agency or have affiliations with controlling shareholders. This compromises their objectivity and undermines their position as independent overseers. Islam referred to that that is a continual difficulty withinside the Bangladeshi company sector, wherein overlapping roles are common.

### Recommendations

- **Strengthen the Regulatory Framework:** There is a need to improve the regulatory framework for independent directors in Bangladesh to ensure that their selection and performance are truly independent. The Bangladesh Securities and Exchange Commission (BSEC) should enact stricter guidelines on the qualifications, appointment and performance evaluation of independent directors. Having clear criteria for independence, such as disqualifying individuals with personal or financial ties to major shareholders, would ensure greater impartiality [24].
- **Develop a Comprehensive Training Programs:** Training and development efforts are essential to equip independent directors with the skills and knowledge they need to operate effectively. Organizations such as the Institute of Chartered Secretaries, Bangladesh (ICSB) can introduce certification programs focusing on governance practices, financial analysis, and regulatory compliance. According to Chowdhury and Hasan [25], such programs can increase the capacity and confidence of independent directors.
- **Ensuring a transparent selection process:** A transparent, merit-based selection process is essential to appoint truly independent directors. Boards should give preference to candidates with diverse expertise in law, finance, and governance, and avoid appointments based on personal or political affiliations. Establishing an independent nomination committee, as recommended by Rahman and Bhuiyan [25], can help achieve this goal.
- **Enhance Remuneration and Incentives:** Competitive remuneration packages should be offered to attract and retain qualified independent directors. Moreover, performance-based incentives linked to long-term governance outcomes can motivate directors to act in the best interests of the company and shareholders [25].
- **Strengthen oversight and accountability mechanisms:** Mechanisms should be put in place to monitor and evaluate the performance of independent directors.

Periodic performance reviews, peer evaluations and external audits can ensure that independent directors are performing their duties effectively. Bhat and Kharbanda highlight that such accountability measures increase stakeholder confidence and improve governance outcomes.

- **Facilitate access to independent information:** Independent directors should have access to unbiased and comprehensive information to make informed decisions. Boards should establish systems where directors can seek external advice and access third-party reports without relying solely on data provided by management [25].
- **Promote board diversity:** Improving board diversity by including independent directors with diverse professional backgrounds, gender representation, and perspectives can improve board dynamics and decision-making. Islam [25] highlights that diversity promotes innovative governance practices and reduces groupthink.
- **Promote a culture of independence:** Corporate boards and management in Bangladesh should promote a culture of valuing the contributions of independent directors. This includes respecting their opinions, ensuring they are involved in key decisions, and creating a supportive environment where they can raise concerns without fear of retaliation [25].
- **Enhancing Compliance:** Regulators must ensure strict implementation of corporate governance codes and impose penalties on non-compliant companies. Periodic inspections and audits can ensure that companies adhere to governance practices in both letter and spirit [25].

## 7. Conclusion

Independent directors are essential to promote good corporate governance in Bangladesh. Their presence on the board enhances accountability, ensures balanced decision-making and promotes stakeholder trust. Despite their potential to promote transparency and protect minority shareholders' interests, several challenges limit their effectiveness, including poor regulatory enforcement, restrictions on independence in practice and lack of necessary skills and training. To maximize their impact, it is essential to address these challenges through improved legal frameworks, clear selection criteria and capacity building programs. Regulators and corporate stakeholders need to work together to create an environment where director independence is truly respected and ensure that the role of directors in shaping corporate governance practices is substantive and not merely symbolic. Empowering independent directors will help Bangladeshi companies boost investor confidence, ensure sustainable business practices and comply with global corporate governance standards. Ultimately, effective participation of independent directors can contribute significantly to Bangladesh's economic growth and corporate sector stability.

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