

CORPORATE GOVERNANCE AND ACCOUNTABILITY

**Myth versus Reality**

by M. Shamsul Haque

major recommendations were to set up SEC and another stock exchange (Chittagong). DSE members in the committee were resisting both the recommendations and tried their best to stop them. When the SEC was finally set up after an Act passed by the parliament, the government chose an old retired civil servant as its first chairman, following the tradition that civil service is the reservoir of all skills in third world countries. In private and public meetings the chairman disclosed that he did not have any knowledge and experience for this job. Afterwards two other chairmen of SEC also came from the same cadre service. In the meantime a big scam took place in Oct-Nov 1996 after the AL came to power, and withdrawn 'look in' period for foreign investors. Thousands of small investors lost their fortune and over Tk 12.00 billion was taken out of the country by the scam stars. Again a mini scam took place after automation

rate governance, there are scopes for him (the auditor) to falter and his reports to be manipulated.

At last we have started to talk about these problems and it indicates serious shortcomings in the existing set up for corporate governance in Bangladesh. To change the situation we have to improve the oversight functions by effective regulatory agencies and a responsive media. For market and societal failures, 'sunlight is the best of disinfectant' wrote Justice L Brandies of the US Supreme Court. It is a pity that the criminals of 1996 stock market scam are yet to be tried although thousands of small savers were robbed by a few, that the Economist called as 'slaughter of the innocent.' As a result the economy as a whole

accounting is going to see some global standards whatever might have happened so far under International Accounting Standards Committee. IASC now has Mr Paul Volcker, former head of FRS of US as President and Sir Bryan Carsberg, a reputed professor specialised in financial reporting, as its Secretary General. An article in the Financial Express (Nov 5, 2000) by Michael Peel claims that the new IASC will be practical rather than theoretical and friendly to business. "The IASC's new rules would bring far reaching changes" Peel wrote and required companies to disclose 'fair value' of its business including the economic effects of all activities. IOSCO, the club of world stock market regulators quickly backed IASC in that task. Although many differences between USA and the EU will continue for some years on some issues, one can see a convergence towards a set of worldwide standards for accounting disclosures within the next few years. In this backdrop we cannot remain isolated and indifferent to the new concepts and practices of both accounting and auditing if we want to remain as part of the global economy. And given the impending bindings under WTO there is no choice for LDCs such as Bangladesh but to move in that direction.

**It is doubtful if initiatives by donors will improve corporate governance and accountability in the near future if truly democratic institutions do not function at local and national levels in the country. We have to change the "financial architecture" and not fiddle with some parts of the structure. It seems a long way ahead for the common people to derive maximum benefits out of expenditure made both in public and private sectors in Bangladesh.**

in DSE when manipulators played with 'small capitalisation and unprofitable' companies with zero investment. They also made huge profits without taking any risk. When the last chairman was posted out of the SEC as Chief Election Commissioner, a professional accountant has been finally appointed as chairman, SEC somewhat by default. Within last six months he has taken some actions that should have been taken four-five years back to improve the quality of flow of information to the investors. The point is that such a position is not merely one of administrative types as it involves protecting the interest of the common people against fraud and manipulation. And only people with sufficient knowledge on the complexities of share market and related agencies can be effective with support from other agencies such as ICAB, the Ministry of Finance and Bangladesh Bank.

investors, fund managers and small investors, and to stop accounting firms to get fat payments for consulting services from the companies in which they also act as auditors. This reminds me of similar remarks by Mr Saifur Rahman the former finance minister and a professional accountant himself in quality of audits performed by his colleagues, specially those working for the banking industry. In this backdrop the paper on 'corporate governance' published in The Accountant of ICAB and Portfolio of CSE deserves to be given serious considerations by CAG, BB, SEC, ICAB and others involved in improving the oversight functions in both public and private sectors in Bangladesh. The authors of the paper, Mr Barea and Mr Ahmad correctly concluded that 'corporate governance at its core is not about power; it is about finding ways to ensure effective decision making.'

was put on a recessionary path. Earlier in India such scam stars, Mehta and gong, were heavily penalised by courts. Financial transactions these days leave trail that can be traced quite well if there is will to do so. Why blame the bank defaulters alone for not repaying overdue loans? A report in The Daily Star (1.12.2000) raised questions on the effectiveness of the Public Accounts Committee of the Parliament as it is bogged down with little resources to review audit objections in government departments. It might take 12 years to cover 450 audit reports from past years. Currently PAC has been working on 1986 objections and for some reason they also jumped to 1996. Such audit reports normally cover small sums and non-compliance with rules and budgets. More significant issues of 'value for money' and the quality of works hardly get mentioned. We have to put lots of such things in the sunlight as soon as possible if we want to improve business conditions in Bangladesh. The print media seems to be doing some of it these days and that trend should be encouraged for improving oversight functions here.

Full disclosure is the name of a sailboat owned by Mr Arthur Levitt, soon to retire as the Chairman of NYSE. His father Levitt Sr was the custodian of the once second largest pension fund in the USA. Levitt Jr maintained a life-long interest in improving protection for small investors in the securities market. While recognising the importance of broad based capitalism in American economy Mr Levitt 'blamed the security industry for mistreating small investors as early as 1972.' This was restated in an article in the Economist with an appropriate heading 'shining light on the markets', (October 28-November 3, 2000). It was noted that Mr Levitt was 'embroiled in furious battles with Wall Street's most powerful companies and with the world's biggest accounting firms' on improving the quality of information flowing to investors, the small ones in particular. In this background of the strongest market economy of the world where the thrust of financial regulation over last 72 years has always been 'fairness and transparency' this article will address some related aspects with reference to Bangladesh. This has been prompted from the paper on 'corporate governance' reprinted in Portfolio, April-June 2000, following a SAFA seminar at Dhaka and a big international conference on 'oversight functions' recently held at Dhaka. Judging from the American experience on financial and accounting regulation this writer is convinced that it is the person(s) at the top of such bodies that is more important than regulations per se for raising the standards for the matters. There is lesson to be learnt for managing the oversight functions in Bangladesh.

Both the authors are Chartered Accountants. Earlier the paper cited the East Asian financial crisis arising, among other things, due to lack of transparency and accountability in corporate governance. The authors have advised adoption of strategic decision making process involving the shareholders, directors and managers of companies. Given the concern expressed by Mr Levitt from the competitive markets of USA, it is doubtful if such a decision-making system will be tried in Bangladesh in the near future. The same issue of Portfolio carried another article on corporate governance and auditor's role by Mr Asif, FCMA, who desired for highest standard of integrity and work ethics in auditing. He recognised that 'under the existing system and conditions of corpo-

Under the WTO regime

**The Rise and Fall of Patrice Lumumba**

by AK Roy

PATRICE Emery Lumumba (1925-1961) was the first prime minister of the Republic of the Congo. His fame rests on the manner of his death and on the symbolic character of his short public life.

Patrice Lumumba was born on July 2, 1925, at Onalua near the town of Katakombi in the Sankuru district of northeastern Kasai. His tribe, the Batetela, is a peripheral but dynamic branch of the Mongo-Nkutshu family of central Congo. He attended Protestant and then Catholic missionary schools and, after completing his secondary education, found a job as a postal clerk in the provincial capital of Statesville (now Kisangan) in 1954.

party (July 1959), as a result of which most of the original founders of the party rallied behind Albert Kalonji while Lumumba retained the bulk of the rank and file. Lumumba was briefly imprisoned in November 1959 on charges of inciting riots in Stanleyville, but he was set free in time to attend the Round Table Conference in Brussels, where his dramatic appearance stole the show from other Congolese leaders. Lumumba's efforts throughout this period were directed more steadfastly than those of any other Congolese politician toward the organization of a nationwide movement. To this effect, he took full advantage of local political situations, of his earlier connections in Stanleyville, and of his own ethnic background, which pro-



Lumumba rapidly emerged as a leader of the evolve community and organized a postal workers' union. He also became a protégé of local sympathizers of the Belgian Liberal party at a time when the policy of the Liberal minister of colonies Auguste Buisseret toward mission schools was raising violent conflicts between Catholic and non-Catholic members of the colonial establishment. This patronage led to an extensive interview with King Baudouin when he visited the Congo in 1955 and helped minimize the legal aftermath of an embezzlement charge raised against Lumumba in 1956. In 1957, having been appointed to the much better paid position of sales director for an important brewery, Lumumba left Stanleyville for Leopoldville just in time to witness the first manifestation of organized political activity in the form of a bitterly fought municipal election that was won by Joseph Kasavubu's ABAKO. Lumumba's debut on the Leopoldville political scene was in the relatively modest role of leader of a tribal association which took part in an alliance of non-Bakongo elements in the capital.

vided him with an initial foothold in many districts of the Congo. His linguistic abilities unlike Kasavubu or Moïse Tshombe, Lumumba was an effective speaker in each of the Congo's major languages as well as in French also helped his campaigning.

The World Bank and UNDP recently sponsored several studies on Bangladesh Country Financial Accountability Assessment for improving disclosure, auditing, public sector budgeting and accountability. They also have been urging for long on good governance. One of the supported study identified serious shortcomings in the CAG's functioning in Bangladesh. The trouble with such urgings by donors is that more they do so worse things go. That is why there is perhaps a need for them to look for alternative strategies instead of asking GOB and designated agencies themselves to change. That has happened in the field of micro credit due to the initiative of Prof Yunus and the Grameen Bank. The micro finance architecture may be integrated with development financing as an alternative.

Head of Government

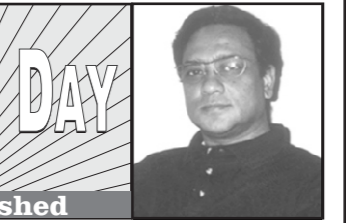
In the May 1960 general elections, Lumumba and his allies won 41 of 137 seats in the National Assembly and held significant positions in four of six provincial governments. As leader of the largest single party (the MNC's nearest competitor had only 15 seats), Lumumba was somewhat reluctantly selected by the Belgians to form a coalition cabinet and became the Congo's first prime minister (and minister of defense) a week before independence, and Kasavubu, leader of the Bakongo, became president of the republic with Lumumba's tacit support. During his brief incumbency, Lumumba had to face conjunction of emergencies such as has seldom been met by a newly independent country: the mutiny of the army and the secession of Katanga and then of southern Kasai, aided and abetted by Belgian interests and the unilateral intervention of Belgian forces. Lumumba turned to the United Nations for support, only to discover that they had no intention of accepting his definition of the Congo's national interest and insisted on opposing the use of force whether by legal or illegal authorities. In desperation, Lumumba asked for Soviet logisti-

Lumumba soon became involved, however, in a less parochial endeavor namely, the foundation of a supra-ethnic movement called Movement National Congolais (MNC), a group initially dominated by educated Congolese linked to Catholic circles who wanted to broaden their appeal. Lumumba's dynamism and oratorical talents soon won him prominence in the party. He led an MNC delegation to the December 1958 All-African Peoples' Conference in Accra, where he met Kwame Nkrumah, with whom he remained in touch during the rest of his own short political career.

Lumumba had not been a communist, had little interest in ideologies, and was more opportunistic than truly radical, but this has not prevented his name from being invoked after his death from a number of different quarters. The most legitimate use of Lumumba's memory is probably that which associates it with an attitude of intransigent nationalism and opposition to neocolonialism.

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cal support to mount an offensive against the breakaway regimes of Southern Kasai and Katanga but was stopped in his tracks when President Kasavubu dismissed him from office on Sept. 5, 1960.



**Dr. Rubaiul Murshed**

All health information to keep you up to date

**Food and Nutrition**

To much sugar causes acidity

If you have a sweet tooth there are more chances of your suffering from acidity. Sugar and sweets leave behind an acidic residue. Also it helps the process of fermentation leading to production of alcohol. Therefore, people suffering from acidity should cut down their sugar intake significantly. It has also been proved that excess sugar intake increases the risk of a heart attack.

**Commonly asked questions**

**How to use ear drops**

Ear drops for outer ear disorder are more easily and efficiently administered if you have someone to help you. Lie on your side while the other person drops the medication into the ear cavity ensuring that the dropper does not touch the ear. If possible, it is advisable to remain lying in that position for a few minutes in order to allow the drops to bathe the ear canal. Ear drops should be discarded when the course of treatment has been completed.

Tomorrow: Know your medicines and other tips

**Applying Principled Negotiation Method in Agreements**

by A B M S Zahur

NEGOTIATION is a fact of life. It is a basic means of getting what you want from others. More and more occasions require negotiation. People differ, and they use negotiation to handle their differences. However, it is not easy to do well. Standard strategies for negotiation often leave people dissatisfied. People find themselves in a dilemma, whether to go soft or hard way. The soft negotiator wants to avoid personal conflict and so makes concessions readily. A hard negotiator sees any situation as a contest of wills. He wants to win. There is, however, a third way to negotiate. Harvard negotiation project developed the method of principled negotiation. The method is hard on the merits, soft on the people. It shows you how to obtain what you are entitled to and still be decent. It enables you to be fair while protecting you against those who would take advantage of your fairness. It can be used whether there is one issue or several. It applies whether the other side is more experienced or less, hard bargainer or a friendly one. It is an all-purpose strategy.

Any method of negotiation may be fairly judged by three criteria: It should produce a wise agreement if agreement is possible; it should be

efficient; and it should improve or at least not damage the relationship between parties. The most common form of negotiation depends upon successively taking a sequence of positions. When negotiators bargain over positions, they tend to lock themselves into those positions. As more attention is paid to positions less attention is devoted to meeting the underlying concerns of the parties.

The standard method of negotiation may produce either agreement or breakdown. Bargaining over positions creates incentives that stall settlements. In positional bargaining one tries to improve the chance that any settlement reached is favourable to it by starting with an extreme position, by stubbornly holding to it, by deceiving the other party as to its true views, and by making small concessions only as necessary to keep the negotiation going on. The more extreme the opening positions and the smaller the concessions, the more time and effort it will take to discover whether or not agreement is possible. Positional bargaining becomes a contest of will. The task of jointly devising an acceptable solution tends to become a battle. The more each side tries through sheer will power to force the other people

involved in a negotiation, the more serious the drawbacks to positional bargaining.

Many people recognise the high costs of hard positional bargaining. They hope to avoid them by following a more gentle style of negotiation. Instead of seeing the other side as adversaries they prefer to see them as friends. Rather than emphasizing a goal of victory, they emphasize the necessity for avoiding confrontation.

The soft negotiating game emphasises the importance of building and maintaining a relationship. The process tends to be efficient at least to the extent of producing results quickly. But it may not be a wise one. Any negotiation primarily concerned with the relationship runs the risk of producing a sloppy agreement. Pursuing a soft and friendly form of positional bargaining makes you vulnerable to someone who plays a hard game of positional bargaining. In such a bargaining, a hard game dominates a soft one. If the hard bargainer insists on concessions and makes threats while the soft bargainer yields in order to avoid confrontation, the negotiation game is biased in favour of the hard player. The process will produce an agreement, although it may not be a wise one.

Thus it may be appropriate to find out an alternative form of bargaining. The game of negotiation takes place at two levels. At one level, negotiation addresses the substance. At another, it focuses on the procedure for dealing with the substance.

At the Harvard negotiation project an alternative to positional bargaining has been developed. The method is called 'principled negotiation or negotiation on the merits'.

It has four basic points: (I) people, (II) interests, (III) options, and (IV) criteria. The first point responds to the fact that human beings are not computers. They are creatures of strong emotions. Emotions typically become entangled with the objective merits of the problem. Hence, before working on the substantive problem, the 'people's problem' should be disentangled from it and dealt with separately.

The second point is designed to overcome the drawback of focusing on people's stated positions when the object of a negotiation is to satisfy their underlying interests. A negotiating position often obscures what you really want. Thus one should focus on interests, not on positions.

The third point responds to the difficulty of designing optimal

solutions while under pressure. Trying to decide in the presence of an adversary narrows your vision. Having a lot at stake inhibits creativity. So does searching for the one right solution. These constraints can be avoided by setting aside a designated time to think up a wide range of possible solutions that advance shared interests and creatively reconcile differing interests.

Where interests are directly opposed a negotiator may be able to obtain a favourable result simply by being stubborn. That method tends to reward intransigence and produce arbitrary results. One can counter such a negotiator by insisting that his single 'no' is not enough and that the agreement may reflect some fair standard independent of the will of the either side. This does not mean insisting the terms to be based on the standard you select, but only that some fair standard be based on the standard you select. By discussing such criteria rather than what the parties are willing or unwilling to do neither party need give in to the other; both can defer to a fair solution.

The four propositions of principled negotiation are relevant from the time one begins to think about negotiating until the time either an agreement is reached or you decide

to break off the effort. That period may be divided into three stages: At the analysis stage attempt is made for diagnosing the situation. During the planning stage one has to deal with the same four elements i.e. people, interests, options and criteria once again. At the discussion stage the same four elements are discussed. Differences in perception, feelings of frustration and anger, and difficulties in communication can be acknowledged and addressed.

The principled negotiation method of focusing on basic interests, mutually satisfying options, and fair standards typically results in wise agreements. This method permits you to reach a gradual consensus on a joint decision efficiently without all the transactional costs of digging in to positions only to have to dig yourself out of them. If the method of principled negotiation could be successfully followed in Bangladesh politics, we could possibly see better days in future.

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