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Corporate governance and CSR practices affect organizational excellence in the Grameen Bank case study

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Abstract:
This essay seeks to examine the concepts of corporate governance (CG) and corporate social responsibility (CSR) and assess their role in promoting business performance. Several firms, including banks, have experienced profound financial problems and even filed for bankruptcy within the last decade. Recently, corporate governance (CG) and corporate social responsibility (CSR) have become important tools for organisations to prevent such catastrophes. In order to accomplish the objective of the article, Grameen Bank (GB), a Bangladeshi bank operating in the microfinance sector, has been analysed through a case study investigation. The bank has experienced significant growth and achieved remarkable success over the years, even amidst the financial crisis. The report aimed to conduct a critical examination of the contributions made by the CG and CSR activities to these atypical events.

Introduction

The field of corporate governance (CG) has experienced substantial growth in the last decade, particularly following the 2001 downfall of Enron and other notable failures in other countries [1]. This study primarily focuses on the corporate governance and corporate social responsibility (CSR) concerns within alternative banking systems. The bank we have been collaborating with is Grameen Bank, renowned for pioneering microcredit in Bangladesh. Furthermore, this document has been partitioned into numerous sections. The study initially addressed the theoretical concepts of corporate social responsibility (CSR) and corporate governance (CG), along with the Micro-Credit system, non-governmental organisations (NGOs), Grameen Bank, and CG codes, with a specific focus on the Bangladeshi CG code. Furthermore, the empirical portion has comprehensively addressed the methodology, case study, and historical background of corporate governance (CG), corporate social responsibility (CSR), micro-credit, and Grameen Bank. Furthermore, the study questions have undergone thorough examination and extensive debate. Ultimately, this work concludes by presenting personal comprehension and viewpoints on the subjects. The implementation of corporate governance by Grameen Bank is driven by the research topics that the writers aim to investigate. Has the bank made any modifications to its current structure and activities in compliance with the corporate governance code?

objective of the study

The objective of this study is to tackle the research questions presented. The microcredit system of Grameen Bank has been extensively researched in relation to corporate governance (CG), corporate social responsibility (CSR), and corporate governance code (CG code) to solve the research concerns. The article aimed to determine the underlying reasons for Grameen Bank's decision to implement corporate governance (CG), as well as to evaluate the current level of CG during that period. While the primary objective of the study was to attain a specific aim, the secondary objective is to acquire a comprehensive comprehension of the corporate governance (CG) for non-governmental organisations (NGOs), which has been recognised as a serious concern in the CG code for Bangladesh.

1.2. An illustration or instance

The case study in this paper is centred around Grameen Bank. The bank was chosen based on its specific attributes as a financial institution that closely resemble those of a non-governmental organisation [2]. Grameen Bank was formally registered with Bangladesh Bank in 1983 as a specialised microloan provider in a distinct category. Grameen Bank is not an ordinary bank. There are four main sorts of institutions in Bangladesh that participate in microfinance. The institutions involved in microfinance in Bangladesh include: 1) Grameen Bank (GB), a member-owned specialised institution; 2) approximately 1500 Non-Governmental Organisations (NGOs), such as BRAC, Proshika, ASA, BURO-Tangail, BEES, CODEC, SUS, TMSS, Action-Aid, etc.; 3) Commercial and Specialised banks, such as Bangladesh Krishi Bank (BKB), Rajshahi Krishi Unnayan Bank (RAKUB); and 4) government-sponsored microfinance initiatives, such as RD-12, BRDB, and others, which are managed by multiple ministries, including the Ministry of Women & Children Affairs, the Ministry of Youth & Sports, the Ministry of Social Welfare, etc. [3]. Grameen Bank, being a specialised financial institution, exerts a substantial influence on the economy of Bangladesh and has also influenced the global implementation of its concept. In recent years, Grameen Bank has had a remarkable growth, and its receipt of the Nobel Peace Prize in 2006 has significantly increased its visibility [4]. The achievements of the organisation in Bangladesh were supported by a significant percentage of the population, who had trust and confidence in its work. Therefore, the research has chosen to examine Grameen Bank as a compelling case study for corporate governance (CG) and corporate social responsibility (CSR).

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Theoretical Framework

Corporate governance (CG) encompasses the mechanisms and procedures that govern decision-making, accountability, control, and behaviour within the governing body [5]. It is sometimes referred to as a "system" that governs and manages businesses. CG is regarded as a methodology for ensuring robust decision-making [5]. Nevertheless, it is crucial to bear in mind that the primary objective of corporate governance is to provide the procedures by which managers and directors of a company can be held accountable, while also ensuring enhanced and effective safeguarding for all stakeholders. According to the World Bank [5], the cornerstone of corporate governance should be based on the four "pillars" known as RAFT, which stands for responsibility, accountability, fairness, and transparency. Corporate governance refers to the assemblage of procedures, conventions, standards, regulations, and establishments that impact the administration, management, or governance of a corporation or organisation. Computer graphics (CG) can serve as a valuable tool for monitoring and enhancing performance, as well as supporting a company in achieving its business objectives. The concept revolves around achieving a balance between the objectives of an individual and the collective, as well as between the economic and social aspects. The main objective is to foster accountability and transparency, as they are the key drivers for attracting investors [1]. A substantial proportion of the subjects addressed in corporate governance, whether explicit or implicit, possess moral ramifications. These aspects are clearly apparent, both in a direct and indirect manner, in areas such as Corporate Social Responsibility (CSR), initiatives aimed at enhancing accountability and transparency, measures to prevent fraud, obligations of directors, rights of shareholders and stakeholders, and ultimately, the fundamental inquiry into the beneficiaries and obligations of corporations. The ethical ramifications of the convergence of corporate governance have not been extensively addressed, despite the recognition and examination of many of similar issues in other settings [6]. The major objectives of an organisation should be to optimise profits and enhance shareholder value. To put it in other words, the sole determinant of the final outcome has been the prudent management of corporate finances. However, during the past decade, there has been an increasing demand for expanded corporate responsibilities encompassing the environment, local communities, working conditions, and ethical conduct. CSR, short for corporate social responsibility, serves as a driving force. CSR, also known as the corporate "triple bottom line," is the integration of an organization's social, financial, and environmental aspects. While there is no universally agreed-upon definition of corporate social responsibility (CSR), various scholars have offered their own interpretations. The definition provided by the World Business Council for Sustainable Development is widely regarded as the most widely accepted. The definition of "corporate social responsibility" as proposed by Lord Holme and Richard Watts in their publication "Making Good Business Sense" is the enduring commitment of a business to uphold moral values, foster economic development, and improve the quality of life for employees, their families, the local community, and society as a whole [7]. While CSR has become an integral part of numerous service-based firms, there is still a lack of consensus over its role and purpose. Vogel (2005) sought to portray it as the marketplace of virtues. According to him, there was no evidence to support the claim that corporate social responsibility and profit had a negative correlation. The contemporary approach to Corporate Social Responsibility (CSR) is characterised by the concept of "Doing Good to Doing Well," whereas the conventional approach is centred around "Doing Good to Do Good" [8]. According to Yunus (2007, p. 15), there are two primary categories of "CSR." The first category, known as "weak CSR," follows the principle of avoiding any negative impact on individuals or the environment (unless such impact is necessary to maximise profit). Businesses lacking in corporate social responsibility (CSR) should abstain from marketing inferior products, disposing of waste in landfills or rivers, and engaging in bribery of government officials. The second version of CSR, known as "Strong CSR," asserts that businesses should prioritise doing good for people and the world as long as it does not compromise their profitability. Companies that embrace strong CSR actively seek opportunities to contribute to society while doing their economic activities. For example, companies might endeavour to establish environmentally sustainable practises and products, provide their employees with health benefits and educational opportunities, and support initiatives to enhance government oversight of corporate operations in a just and transparent manner. Due to Grameen Bank's concern for the environment and society, it can be categorised under the second classification. Micro-credit refers to the practise of offering very tiny loans, known as microloans, to individuals who are unemployed, destitute business owners, or other impoverished individuals who are considered uncreditworthy by banks. The definition of microcredit, as accepted at the Microcredit Summit (2-4 February 1997), is that it refers to programmes that provide modest loans to individuals living in extreme poverty. These loans are used for self-employment projects that create income, enabling borrowers to support themselves and their families. Since Grameen Bank was established based on the microcredit model, these two concepts are closely interconnected. The Grameen Bank in Bangladesh distinguishes itself from other financial entities. The primary objective of the programme was to provide microcredit exclusively to individuals living in poverty who possessed assets or a parcel of land no larger than 0.5 acres suitable for agricultural cultivation. To assist borrowers in optimising the value of their loans and achieving success in their business ventures, the company also provides comprehensive investment guidance and closely monitors their entrepreneurial activities. Furthermore, Grameen Bank provides guidance to its borrowers to abandon long-standing societal flaws and adopt a more hygienic and improved living environment. Additionally, it promotes the practise of saving money to acquire shares in the bank

[4]. The inception of Grameen Bank in 1976 marked the commencement of an experimental endeavour. In 1983, it obtained formal financial status, although its presence was limited to only 75 branches across Bangladesh. In February 2010, the Grameen Bank operated 2563 branches in 81,343 villages, serving 8.04 million members, with females comprising 97% of the total. As of today, the bank has already distributed a cumulative amount of US$ 116.92 million in loans. The bank has consistently recorded a loan recovery rate of 98 percent since its inception [10]. Governmental and non-governmental groups in other underdeveloped countries, as well as in the United States and Canada, have been motivated to implement the Grameen Bank model in their own countries because of its successful performance in Bangladesh [4].

An analysis of a specific situation

The current study was conducted utilising a case analysis methodology. The study focused on the bank that pioneered the development of the specialist banking system. This section of the article will include empirical data on the evolution of the Corporate Governance (CG) and CG code in Bangladesh, as well as the current level of Corporate Social Responsibility (CSR). Discuss the Grameen Bank case and its historical foundation.

3.1. The topic of discussion is the corporate governance practises in Bangladesh

The concept of corporate governance in Bangladesh is relatively nascent, and its present condition is far from optimal. However, it is encouraging that in recent times, entrepreneurs, corporate managers, regulators, and academics have been engaging in conversations on this subject in many venues. Most firms in Bangladesh rarely employ corporate governance practises. Indeed, Bangladesh's corporate governance has not kept up with that of its neighbouring countries or the global economy [5]. The deficiency in corporate governance can be attributed to the prevalence of family-run firms in Bangladesh. The board of directors, predominantly composed of sponsor shareholders who are often related, exercises influence over the decision-making process. Ineffectiveness is a regular occurrence in annual general meetings (AGMs). The board actively engages in management with excitement and expresses concerns over the CEO's role. Typically, a CEO wields limited authority or assumes a minor role. When independent directors are present, it is common for them to lack the ability to take independent action, effectively advocate for the interests of minority shareholders, or serve as a useful deterrent against unethical conduct. The position regarding the shareholder remains unchanged. They still have a considerable distance to cover. The absence of auditor independence often hinders transparent financial reporting. Many businesses lack a comprehensive structure of managerial accountability towards the board or shareholders. Additionally, there is an absence of a structured governmental system. Furthermore, corporations conform to the outdated practise of

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suppressing information. The company holds a negative view on corporate governance. The majority of corporate governance components in Bangladesh are ineffective due to the country's current framework lacking sufficient institutional, legal, and financial incentives to encourage and enforce corporate governance practises. There is no centralised authority responsible for enforcing corporate governance norms, not even the most basic requirements. In their research paper titled "Corporate Governance: Bangladesh Perspective," Mamtaz Uddin Ahmed and Mohammad Abu Yusuf enumerate several factors contributing to the non-implementation of corporate governance in Bangladesh. These include insufficient bankruptcy legislation, limited backing from the international investor community, a feeble regulatory structure, an unsatisfactory state of general meetings, and a dearth of proactive shareholder involvement [5]. The financial sector in Bangladesh experienced a decline in profitability, an increase in non-performing assets, shortages in provisions and capital, weakened credit discipline, widespread corruption with support from political circles, low recovery rate, below-average asset quality, managerial deficiencies, excessive interference from the government and owners, and a weak regulatory and supervisory role [5]. The internal control system, accounting, and auditing standards were deemed substandard [5]. The banks' inadequate corporate governance has been linked to a considerable number of problems. The 1999 Banking Reform Commission study and the 2003 BEI report both raise serious issues regarding the banking industry and the level of governance prevalent in Bangladesh's financial system. The state-owned enterprises in Bangladesh have similar issues as those faced by state-owned enterprises in other countries. The problem is exacerbated by political nepotism, the lack of clarity in regulatory reporting, and the absence of scrutiny from peers or stakeholders [5]. The criteria were initially implemented more than six years ago. Currently, compliance is not mandatory. The fundamental principle remains "comply or explain." Due to the legislative constraints, the SEC lacks the authority to effectively enforce compliance from uncooperative firms. It may be necessary to evaluate whether compliance should be made mandatory.

3.2. The Corporate Governance Code of Bangladesh

A committee constituted by the government has formulated Bangladesh's corporate governance code. This code examined three fundamental aspects of corporate governance codes: firstly, the objective of a corporate governance code was explored. Furthermore, what would be the implementation process for such a Code? Furthermore, what advantages might be anticipated from using a corporate governance code? The user's text is "[11].". The primary objective of a Code of Corporate Governance for Bangladesh [11] is to enhance the overall quality of corporate governance practises. Organisations can improve corporate governance (CG) by implementing explicit principles and adopting optimal practises. The objective of the unified code of corporate governance is identical to that of the code of corporate governance for

Bangladesh. The CG Code mandates organisations to enhance the quality and level of corporate governance, and in some cases, it delineates specific requirements based on legal duties in Bangladesh. As the CG code is not rigidly prescriptive, smaller businesses can progressively approach the goal of best practises by implementing it. The CG code provides directives to major corporations as well. The corporate governance (CG) code for Bangladesh is organised into principles and guidelines that outline the prescribed methods, policies, and procedures to be adhered to for the gradual implementation of improved CG practises. Organisations can initiate the process by integrating the corporate governance principles into their own activities and thereafter fully complying with the implementation standards specified in the code. The objective of Bangladesh's code of corporate governance (CG) is to augment CG by elevating overall performance and accountability in the public, commercial, and non-profit sectors, as well as in state-owned enterprises (SOEs). Furthermore, it is evident that NGOs' corporate governance regulations should consider the organisations involved in microcredit [11]. The important step taken by the Bangladeshi government to regulate NGOs since 1860 was the creation of the NGO Affairs Bureau and the designation of the Advisor for NGO Affairs, who currently occupies a ministerial position. From time to time, the government and its officials have enacted laws and regulations that apply to non-governmental organisations (NGOs), but these rules have often been ignored by the NGOs. The causes of ignorance were attributed to the incapacity to enforce and the intricacy of the subject matter. Nevertheless, experts promptly highlighted that responsible governance is an indispensable element for the well-being of any organisation, especially in the aftermath of corporate scandals that have occurred at both national and global levels. Boards can protect stakeholders' investments and interests by engaging in a system of checks and balances with management to ensure that prudent decisions are made in a responsible and legally accountable manner, advancing the organization's primary objectives [11].

3.3. Muhammad Yunus, born on June 28, 1940, in the village of Bathua near Hathazari, Chittagong, established the Grameen Bank. The protagonist's father, a successful goldsmith, consistently encouraged his sons to pursue further education. Nevertheless, Sufia Khatun, his mother, who consistently extended assistance to those in need who sought help at their residence, served as his primary source of motivation. This inspired him to commit himself wholeheartedly to eradicating poverty. In 2006, the Nobel Peace Committee awarded Muhammad Yunus and Grameen Bank the Nobel Peace Prize for their commendable endeavours in alleviating poverty via the promotion of grassroots social and economic development. Development from below also promotes the advancement of human rights and democracy [9]. After the 1971 liberation war, the region known as East Pakistan underwent a name change and became Bangladesh. Yunus worked as a professor's assistant in a foreign country. In 1972, he came back to his homeland with the aim of establishing a prosperous and liberated society. He commenced employment in the Economics

Department of Chittagong University. Nevertheless, his imagination transformed into a horrifying experience. In the early 1970s, a variety of natural disasters occurred, including cyclones, floods, droughts, and monsoons. Moreover, the profound destruction caused by the War of Liberation was impacting the entire nation. Lastly, a multitude of individuals perished during the devastating famine of 1974–75. In 1974, Professor Muhammad Yunus from Chittagong University arranged a visit to a community that was experiencing economic hardship. They interviewed Sufiya, an artisan who specialises in crafting bamboo stools. Similar to many others, Sufiya relied on the local moneylender to obtain the necessary finances for purchasing the bamboo needed for her crafts. Under the deal, she would sell her stools to the moneylender, with his discretion in determining the buying price. Due to this inequitable arrangement, she was left with a minimal profit margin. Yunus and a colleague student created a roster of individuals who had suffered as a result of the usurious business. He ascertained that a total of 42 individuals had borrowed a sum of 856 TAKA, surpassing $27 (US) throughout that period [9].

Assessment

While the Bangladesh Bank Ordinance (1983) permits the Grameen Bank to be formally recognised as a bank, it is, in reality, a non-governmental organisation [2]. Therefore, writers treat it as such in their analysis. organisations involved in microfinance or micro-credit in Bangladesh are expected to follow the corporate governance principles outlined in the code of corporate governance for non-governmental organisations (NGOs) [11]. The need from investors for increased transparency and accountability in order to mitigate investment risk has driven the development of corporate governance (CG). Consequently, nations globally established CG codes as comprehensive guidelines that enterprises were obligated to comply with. CG codes have been developed and issued by various entities such as stock exchanges, government-appointed committees, institutional investors, associations of directors and managers supported by governments and international organisations, and professional bodies representing directors, company secretaries, or academics [14]. CG norms are commonly regarded as guidelines that businesses with investment potential should adopt and implement. CG standards are undeniably essential for ensuring transparent and responsible management in all types of businesses. In relation to Bangladesh, this issue has progressed to a new phase. The code of corporate governance in Bangladesh has specific regulations for non-governmental organisations (NGOs) [11]. NGOs are considered part of the civil society. Therefore, it is important for organisations to incorporate the viewpoints of the civil society in their services and ensure transparency by making their aims, administration, funding, projects, and impact publicly accessible [11]. Therefore, it is imperative to have efficient governance procedures and structures in place in order to uphold the reputable image of NGOs. From the viewpoint of non-governmental organisations (NGOs), the term "governance" signifies their involvement in the establishment, protection, and promotion of the public interest [11]. The Code of Corporate Governance for Bangladesh stipulates that the NGO Governance Principles seek to promote the following objectives: 1) Establishing effective internal governance mechanisms that extend beyond mere managerial and financial responsibility; 2) Defining organisational mission and objectives through appropriate structures and processes; 3) Efficiently managing and implementing programmes; 4) Ensuring financial viability and responsible utilisation of funds; 5) Complying with legal and administrative regulations; and 6) Publicly disclosing organisational mission management, financing, programmes, and impact.

Conclusion

Corporate governance is responsible for the direction, management, and oversight of a corporation. It also ensures the alignment between the interests of stakeholders (such as shareholders) and the goals of the firm. The notable instances of company failures in various countries have prompted inquiries regarding the importance of enacting corporate governance. The lack of internal control, the directors' lack of independence, stewardship, honesty, and integrity, as well as their individual dominance, all had a role in causing this calamity. Corporate governance not only establishes monitoring methods to safeguard the company's stakeholders, but also facilitates the implementation of solutions to mitigate these shortcomings. The potential advantages of implementing the code serve as the main motivation for the development of the CG code for Bangladesh. The application of the CG code will benefit the entire nation, investors, and individual organisations alike. Moreover, the sector and economy will progress towards sustainable development as a result of the heightened investment. The main efforts of the Grameen Bank can be categorised as social development initiatives. The bank implemented socially advantageous initiatives with the aim of alleviating poverty. Furthermore, the bank serves as a representative for the concerns and benefits of its stakeholders. The governance principles are expected to function as a blueprint for an adequate corporate governance framework. They will guide Grameen Bank, NGO practitioners, donors, and other stakeholders in the sector towards an improved governance structure. Grameen Bank may serve as the initial prototype for a bank. Given the time-consuming nature of altering the governance code, more study can be conducted to ascertain the outcomes of the alteration.

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