INTERRELATIONSHIP BETWEEN CORPORATE GOVERNANCE, HUMAN RESOURCE MANAGEMENT PRACTICES AND FIRM PERFORMANCE IN TEXTILE INDUSTRY OF BANGLADESH: A STUDY ON THE COMPANIES LISTED IN DHAKA STOCK EXCHANGE

Submitted by:

Sutapa Bhattacharjee

Institute of Business Administration

University of Dhaka

A Thesis Submitted to the University of Dhaka, Bangladesh for the degree of

Doctor of Philosophy (PhD)

Supervised by:

Dr. Md. Mohiuddin

Professor

Institute of Business Administration

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DECLARATION

I hereby declare that this study is my work, presented to the Institute of Business Administration, the University of Dhaka towards the fulfillment of the requirements for the degree Doctor of Philosophy (PhD) and that, to the best of my Knowledge; it contains no material previously published by another person nor material which has been accepted for any kind of award or any other degree of any University, except where due acknowledgement has been made in the text.

Sutapa Bhattacharjee (REG10/2018-2019)

Supervisor:

This thesis has been submitted for examination with my approval as University supervisor.

Dr. Md. Mohiuddin

Professor

Institute of Business Administration

University of Dhaka

DEDICATION

This work is dedicated to:

My father Late Sati Bhushan Bhattacharjee who wanted his daughter to be independent

&

My mother Chhanda Bhattacharjee who dedicated own life to build her daughter's life

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I want to begin my acknowledgement by conveying my utmost gratitude towards the supreme power I believe in who bestowed his blessing upon me all the way through this journey. My lifetime indebtedness goes to Professor Md. Mohiuddin, PhD who has been providing his greatest guidance, support, encouragement from the day he accepted me as his PhD student till today. This thesis would never be a reality without his academic wisdom and scholarly advice. I express my sincere gratitude to him.

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TABLE OF CONTENTS

LIST OF ABBREVIATIONS

AC	Audit Committee
ADB	Asian Development Bank
AI	Artificial Intelligence
AMTAC	American Manufacturing Trade Action Coalition
BGMEA	Bangladesh Garments Manufacturers and Exporters Association
BKMEA	Bangladesh Knitwear Manufacturers and Exporters Association
BSEC	Bangladesh Securities and Exchange Commission
BTMA	Bangladesh Textile Mills Association
BTMC	Bangladesh Textile Mills Corporation
CAGR	Compound Annual Growth Rate
CCC	Clean Clothes Campaign
CDP	Committee for Development Policy
CG	Corporate Governance
CPD	Centre for Policy Dialogue
DFQFMA	Duty-Free-Quota-Free Market Access
EBA	Everything but Arms
EIF	Enhanced Integrated Framework
EOI	Export-Oriented Industrialization
ERM	Enterprise Risk Management
ESG	Environmental, Social, and Governance
EU	European Union
FLS	First Line Supervisors
FTA	Free Trade Agreement
GAFTT	Global Alliance for Fair Textile Trade
GDP	Gross Domestic Product
GMI	Governance Metric International
GSP	Generalized System of Preferences
HRM	Human Resource Management
IAF	International Apparel Federation
ICAB	The Institute of Chartered Accountants of Bangladesh

ICB	Investment Corporation of Bangladesh
ID	Independent Directors
IDS	Infrastructure Development Surcharge
ILO	International Labor Organization
ILRF	International Labor Rights Forum
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IR	Industrial Relations
ISI	Import Substitution Industrialization
KCGI	Key Corporate Governance Index
LC	Letter of Credit
LDC	Least Developed Country
LNG	Liquefied Natural Gas
MFA	Multi-Fibre Agreement
MSN	Maquila Solidarity Network
MTB	Market-To-Book Value
NBR	National Board of Revenue
NIHL	Noise Induced Hearing Loss
NLP	Natural Language Processing
OECD	Organization for Economic Co-operation and Development
RoO	Rules of Origin
RTA	Regional Trading Arrangements
SAFTA	South Asia Free Trade Area
SEHD	Society for Environment & Human Development
SOE	State-Owned Enterprises
TNA	Training Needs Assessment
TRIPS	Trade-Related Intellectual Property Rights
WRC	Worker Rights Consortium
WTO	World Trade Organization

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

The collapse of major corporations such as Enron and WorldCom where the top management got greedy with serving their own interest over that of the other stakeholders has provided the necessary attention to corporate governance best practices that it deserved – since a long time ago. Fast forwarding to present day – a time characterized by globalization, capitalism, and profit maximization motive – the importance of corporate governance has increased manifold. Overemphasis on profit or value extraction often leads to the ignorance of the labor or human side of the equation; while this often leads to short-term profit, doing so might be harmful for the long-term growth of an entity. To investigate the effect of sole reliance on profit extraction while ignoring the governance mechanisms, the present thesis focuses on studying the corporate governance, human resource management practices, and firm performance in the textile industry of Bangladesh.

The current thesis aims to identify the interrelationship between corporate governance, human resource management practices, and organizational performance in the textile industry of Bangladesh. In fulfilling this objective, the researcher highlights the present status of the abovementioned three variables in the textile industry, measures the bi-variate relationship between these variables, identifies the mediation effect of human resource management practices on the relationship between corporate governance practices and organizational performance, highlights the key challenges with regards to corporate governance and human resource management, and recommends key measures to address the identified challenges.

The study applied a mixed method approach – a combination of qualitative and quantitative techniques – to collect and analyze data. With the use of the mixed-method approach, data was collected from the publicly listed companies on DSE from the textile industry. The multiphase process consisted of the use of questionnaire surveys, the collection of annual report data for the analysis of organizational performance, and the use of semi-structured interviews to collect qualitative data on corporate governance practices and human resource management practices. The collected quantitative data was used for descriptive analysis, corporate governance index construction, and hypothesis testing whereas the collected qualitative data was used to supplement the quantitative data collected in the earlier phases.

The study finds out that even though most of the companies in the textile industry as a whole performed well in corporate governance practices (according to factual data), the performance was not that satisfactory according to the perception held by different internal and external stakeholders of the company - both with regards to corporate governance and human resource management. In further analysis through hypothesis testing, it was found out that there is a significant relationship between corporate governance practices and human resource management practices, and between corporate governance practices and organizational performance. However, no significant relationship was found between human resource management practices and organizational performance. Finally, it appeared that human resource management practices mediated the relationship between corporate governance and firm performance. With regards to challenges in human resource management in the textile sector, deficient job analysis, biased and unplanned recruitment and selection, outdated training and development programs along with whimsical training allocation, and unaccountable performance appraisal leading to unjustified and unfair compensation are some of the factors contributing the lack of structure in HRM. Simultaneously, with regards to corporate governance, poor corporate governance policy, concentrated board composition, family ownership, lack of independence of the agents and employees of the organization, and poor reporting and disclosure practices are some of the major challenging issues. In light of the discovered challenges in the textile industry, the recommended steps to be taken are bringing in multi-faceted diversity on the board, ensuring robust succession planning for the board members and the management committee, shifting from shareholder to stakeholder perspective, forming new board sub-committees, and adopting technology in HRM and corporate governance practices. By taking these steps, the textile sector of the country can embark upon the journey of practicing good corporate governance and HRM policies which might lead to robust firm performance in the long-run.

The findings of this study can assist macro-level government authorities to strengthen their oversight on the operating companies by increasing the coordination among different monitoring bodies, modifying existing policies to ensure that the consequences of non-compliance to major codes of corporate governance are severe and regularly executed, and replacing common blanket policies with customized ones for firms with different size, sales, and operating profit.

Simultaneously, in the academic field, by replicating this study, authors can justify the relevance and applicability of the findings at a macro-level, in other industries. Moreover, based on the findings of this study, the applicability of the stakeholder model – shifting from a shareholder model – can be an interesting field to investigate for the researchers. This thesis makes a notable contribution in a multidisciplinary field of corporate governance, human resource management practices, and firm performance – by contributing to the literature on the developing economies.

CHAPTER 01: INTRODUCTION

1.1 Introduction

The manufacturing industrial scenario is the ultimate outcome of industrial revolution. Nowadays it is a common scenario to use division of labor to attain productive efficiency. This is even present in the corporation employment structure. Initially, there was little to no regard for the stakeholders as the business owners were only driven by profit motive (Rashid, 2009). While the industrial revolution originated in the United States and European Nations due to the nature of trade, global integration was inevitable, however, profit motive alone was not a sustainable goal to extract the full potential of globalization. As a result, standard guidelines came to prominence to support a win-win situation from participating in the trade operations. Thus, the idea of corporate governance best practices started to develop to facilitate the interests of local and foreign participants to partake in the action of trade as effectively as possible.

Despite the beginning of industrial revolution in the western world, globalization and mass scale exchange of businesses made transparency a necessity and hence, the essentiality of accepted guidelines came in place. As profit alone was never a sustainable solution for operating global business, the idea of corporate governance best practices started to develop to facilitate the interests of local and foreign participants to partake in the action of trade as effectively as possible. The core principles of corporate governance is reflected by the four P's: people, purpose, process and performance (Kiradoo, 2016). The good governance frameworks have been developed for the 'purpose' of protecting the stakeholder's interests who are the 'people'. The implementation 'process' of the good governance practices benefits the financial 'performance' of the firm as the organization is perceived as a more desirable investment opportunity compared to other competitors operating in the industry. These core philosophies are essential for constructing any successful corporate governance framework.

The concept of corporate governance was introduced to effectively benefit all the market participants but the practice was not taken upon from the inception of this ideology as the necessity of good governance was not realized then (Cadbury, 2000). The collapse of rather well-regarded corporations such as Enron and WorldCom where the top management got greedy with serving their own interest of the stakeholders have provided the necessary attention to corporate governance best practices that it deserved (Karim, Sarkar & Fowzia, 2010). The investors are reassured that the economic and social objectives will be respected when the corporation commits to follow good governance practices. This serves as an indication that the stakeholder's interest will be attained rather than the selfish agendas of the top-management; this provides assurance to the long-run survival of the organization. The organizations which follow the corporate governance mandates can assess the financial performance potential of a firm (Kyere & Ausloos, 2020). This is important to attract funds when operating in the global marketplace to gain the faith of the investors.

Trial and error over the span of many years have established some well-known set of corporate governance guidelines that works better for some regions over others. It is in the best interest for all market participants to participate in this good governance best practice to survive in the global marketplace. The exchange of trade and knowledge can be facilitated more effectively when the entire globe abides by some common framework of conduct which is served by the corporate governance guidelines. Good governance has created a more integrated society when the individual's and community's objectives align. In this pursuit of establishing good governance, the human resource management division plays a major contributing role in giving the company necessary manpower and structure for establishing strong governance practices; this pursuit has been documented in many countries to have an effect on the operational and financial performance of organizations across multiple industries.

Numerous studies have done empirical analysis investigating the interplay among human resource management, corporate governance, and firm performance. A study on British firms performed a regression analysis to show the relationship between HRM and Governance while comparing them between the public and private sector (Konzelmann *et al.,* 2006). There was significant positive relationship observed of good governance practices in organizations where HRM had a well-rounded presence in the workplace to promote corporate governance practices. The atmosphere in which the human resource managers operate within a company can give an idea about its financial outcome from many perspectives (Bandyopadhyay & Srivastava, 2020). Secondly, the effects of firm performance from practicing good governance practices was observed by analyzing data from Compustat and Center of Research in Security Prices by conducting 2SLS and 3SLS analysis (Bhagat and Bolton, 2008). The study was able to establish significant return on assets improvement when the organizations implemented good corporate governance practices. The development of the firm's financial health was incremental over time and showed significant prominence. The relationship was also positively significant when gov-score (concept explained in the later chapters) was considered as the governance measure to observe the effects on the financial performance of the firm (Brown and Caylor, 2006). Moreover, a meta-analysis was performed by utilizing eight studies to establish the relationship between human resource management and firm performance (Saridakis, Lai and Cooper, 2017). It was observed in the study that there is a significant positive relationship when human resource management was able to engage the employees to feel more involved and responsible towards the organization, and consequently their productivity increased which resulted in improvement of the firm's performance. In light of such findings across different industries, the current study aims to measure this interplay of relationships among the aforementioned variables in the textile industry of Bangladesh, a major export sector of the country.

1.2 Rationale of the Study

Although there have been several reports written on corporate governance, human resource management practices, or the textile industry in Bangladesh, minimal research has been conducted to link these three topics together. To fill-in this gap, the current study aims to find out the triangular interrelationship between corporate governance, human resource management practices, and organizational performance in Bangladesh's textile industry. The reason behind conducting this research is to do a comprehensive study of these three variables, elaborating how these factors affect the textile industry in context with Bangladesh. Bangladesh**,** exporting to more than 150 countries, is a trusted hub of apparel sourcing across the globe. Currently, the apparel industry is Bangladesh's biggest export earner with value of over $27.9 billion of exports in 2019-20 financial year (BGMEA 2020).

1.3 Research Objective and Hypotheses

The primary objective of this thesis is to identify the interrelationship between corporate governance, human resource management practices, and organizational performance in the textile industry of Bangladesh.

The specific objectives are to:

- Highlight the present status of corporate governance practices, human resource management practices, and organizational performance in the textile industry;
- Measure the bi-variate relationship between corporate governance practices with human resource management practices, and organizational performance;
- Identify the mediation effect of human resource management practices on the relationship between corporate governance practices and organizational performance;
- Identify major weaknesses of corporate governance practices and human resource management practices in the textile sector; and

- Recommend the key measures to be taken for better corporate governance practices and human resource management practices in textile sector.

Based on previous investigations, literature, or experience, a researcher generally puts a research hypothesis forward, which is a particular statement of prediction that consists of a tentative answer to a research problem that can be tested. The objectivity of conducting a research hypothesis in this study is to conduct a sound and well-developed research study, thus it is essential to have a research hypothesis in order to identify the research gap. Therefore, research hypotheses tests are conducted between the three variables which are corporate governance practices, human resource management practices and the organizational performance in context of the textile industry of Bangladesh. Since research hypothesis contributes to the solution of the research problem, it is appropriate to use a hypothesis when a theory is being tested. The hypotheses to be tested in this research are:

Hypothesis 1: There is a significant relationship between corporate governance practices and human resource management practices of a company.

Hypothesis 2: There is a significant relationship between corporate governance practices and organizational performance.

Hypothesis 3: There is a significant relationship between human resource management practices and organizational performance.

Hypothesis 4: Human Resource Management practices mediate the relationship between Corporate Governance and Firm Performance.

As mentioned in the objectives and hypotheses, the purpose of this study is to analyze the relationship between corporate governance practices, human resource management practices and organizational performance in the textile industry of Bangladesh. To achieve this purpose, companies from the textile industry were chosen as a part of the study. There is a total of 56 companies enlisted in the Securities Exchange Commission (SEC) under the textile industry. From this list, although all the companies were approached for the purpose of this study, finally 39 companies could be selected; moreover, all the chosen companies were geographically located in the Dhaka division.

1.4 Research Methodology

The study incorporates multiple research strategies to ensure proper triangulation of data. The mixed-method approach applied in this research can provide robust research design that eliminates the shortfalls and disadvantages of particular methods and neutralizes the bias that might be present in specific data sources which provides more reliable and valid result. Employing a mixed-method design in this research has several advantages. Firstly, mixed-method is quite useful to understand contradictions that might arise in qualitative and quantitative findings. Therefore, the results obtained is the output of a combination of subjective and objective data, providing a far more comprehensive understanding; when the variety of different techniques gives the same conclusion, it implies that the results are robust with no biases. The mixed approach in this study is more effective in exploring the multidimensional issues of the textile industry. As a result, tools from both quantitative and qualitative research are used. While a structured questionnaire survey can form a picture regarding the different textile industry elements in a quantitative study, tools from a qualitative study such as semi-structured interviews are also necessary to assess how the prevailing structures determine the textile industry in Bangladesh.

With the use of the mixed-method approach, data were collected from 39 companies in the textile industry over five different phases. The first two phases of the data collection process consisted of the use of questionnaire surveys to collect data on corporate governance practices and human resource management practices respectively. These were collected from the company secretary, independent director, HR manager and an employee of each of the companies. The next phase consisted of the accumulation of all the annual reports from these 39 companies for the analysis of the organizational performance as a whole. Finally, the last two phases of the data collection phases consisted of the use of semi-structured interviews to collect additional data on corporate governance practices and human resource management practices respectively. The purpose of these phases was to collect additional qualitative information from the respondents from earlier phases.

Once the data collection process was done, the next process focused on the analysis of the data collected from the listed companies in the textile industry. The data analysis process also consisted of five different phases where the first two phases consisted of data analysis of the surveys on corporate governance practices and human resource management practices. These phases consisted of processes such as descriptive analysis and Likert scale analysis which were conducted with the use of MS Excel and SPSS. The third phase consisted of ratio analysis of the companies for organizational performance measurement. Phase four focused on the analysis of interview data using template analysis Finally, the last phase was linked with multiple hypothesis testing using inferential statistical techniques such as correlation analysis, regression analysis, and factor analysis to identify the possible relationship between the corporate governance practices, human resource management practices and organizational performances in the textile industry.

1.5 Key Findings of the Thesis

The study was designed to understand the relationship of the impact of corporate governance mediated by HRM policy on the firm's performance improvement; the conditions in the textile industry of Bangladesh seemed favorable at first glance. However, the detailed picture said something different.

According to quantitative data analysis, it was found out that even though most of the companies in the textile industry as a whole performed really well (according to factual data on pen and paper), the performance was not that satisfactory according to the perception held by different internal and external stakeholders of the company - both with regards to corporate governance and human resource management. This finding might indicate that the practice of compliance is done to fulfill a tick-mark exercise rather than focusing on the quality of compliance.

In further analysis through hypothesis testing, the relationship among corporate governance, human resource management, and firm performance was investigated. Based on the analysis, it was found out that there is a significant relationship between corporate governance practices and human resource management practices, and between corporate governance practices and organizational performance. However, no significant relationship was found between human resource management practices and organizational performance. Finally, it appeared that human resource management practices mediate the relationship between corporate governance and firm performance.

The qualitative analysis sheds some light as to why the study provided results that brought out major challenges in the industry. The qualitative data collected from the survey indicate the presence of unstructured human resource management practice in the industry. Deficient job analysis, biased and unplanned recruitment and selection, outdated training and development programs along with whimsical training allocation, and unaccountable performance appraisal leading to unjustified and unfair compensation are some of the factors contributing the lack of structure in HRM. With regards to HRM practices, proper HR department in most textile firms in Bangladesh does exist; it mostly serves the purpose of a flamboyant show of compliance to corporate governance practices so that foreign investors can be attracted. These shortfalls can be observed nearly in all the organizations that were surveyed for the study. Simultaneously, with regards to corporate governance, poor corporate governance, concentrated board composition, family ownership, lack of independence of the agents and employees of the organization, and poor reporting and disclosure practices are some of the major challenging issues. Moreover, the existence of rampant corruption and malpractice is very common.

Combining the abovementioned qualitative and quantitative findings, a conceptual framework was developed where it can be seen that human resource management does affect the relationship between corporate governance and firm performance. To be more specific, three aspects of HRM particularly contributes in the mediation effect: labor governance, HRM policy, and HRM practice. The area of labor governance includes worker safety, well-being, and relevant regulations to govern labor practices in the industry. The second factor contributing to the mediation effect is HRM policy; usually, the commitment of the board of directors and management – something found to be missing in majority of the textile companies of the country – to the people aspect of the organization translates into detailed and relevant policy documents. Finally, the degree of practice or implementation of the policies is the final mediating factor. Even though policies are in place, in some cases, they do not translate into practice, thus resulting in pen-and-paper compliance. So, the extent of practice of the designed HR policies affects firm performance in the textile sector.

In light of the discovered challenges in the textile industry, the recommended steps to be taken are bringing in multi-faceted diversity on the board, ensuring robust succession planning for the board members and the management committee, shifting from shareholder to stakeholder perspective, forming new board sub-committees, and adopting technology in HRM and corporate governance practices. By taking these steps, the textile sector of the country can embark upon the journey of practicing good corporate governance and HRM policies which might lead to robust firm performance in the long-run.

1.6. Limitations of the Thesis

The study is formulated by analyzing data collected through surveyed questions. When analyzing surveys, it is assumed that the participants answered the questionnaire with due diligence. However, there is always the possibility that the answers provided might not be the true reflection of the companies' actual governance practices; the respondents might have been hesitant in providing the true picture because of the power asymmetry between the employee and the employer. Also, corruption is extremely prominent in Bangladesh which can lead to dishonest disclosure of information resulting in skewed data. If that happens, the result will be inconclusive and biased. Furthermore, data collection process was significantly hampered by the current Covid-19 pandemic situation. Getting respondent access for interviews was difficult. While online interviews were conducted in some cases, face-to-face interactions might have revealed better data as many of the respondents might have felt uneasy to reveal information via online platforms.

1.7 Structure of the Thesis

The entire report is segregated into ten different parts. The report started with an overview of the textile industry of Bangladesh. Then, an elaborate discussion on literature review was portrayed which consisted of major theories and models of corporate governance along with the environment of corporate governance in Bangladesh. Afterwards, the relationships among the three variables were explained in multiple sections which are related between Corporate Governance and Human Resource Management, Corporate Governance and Firm Performance, Human Resource Management and Firm Performance and finally a triangular relationship between the three variables. In addition, the conceptual model was also explained alongside the relationship of the variables. Next, the methodology chapter explained the research objectives, questions and hypotheses; later the sub-segment of research design explained the research philosophy, methods of data collection, data analysis and validity and reliability of the study. Following this, the report showed detailed analysis of questionnaire and interview survey findings where the profile of interviewees and its findings were analyzed in sufficient detail and depth. Finally, to summarize the whole report concisely, the report ends with a concise conclusion.

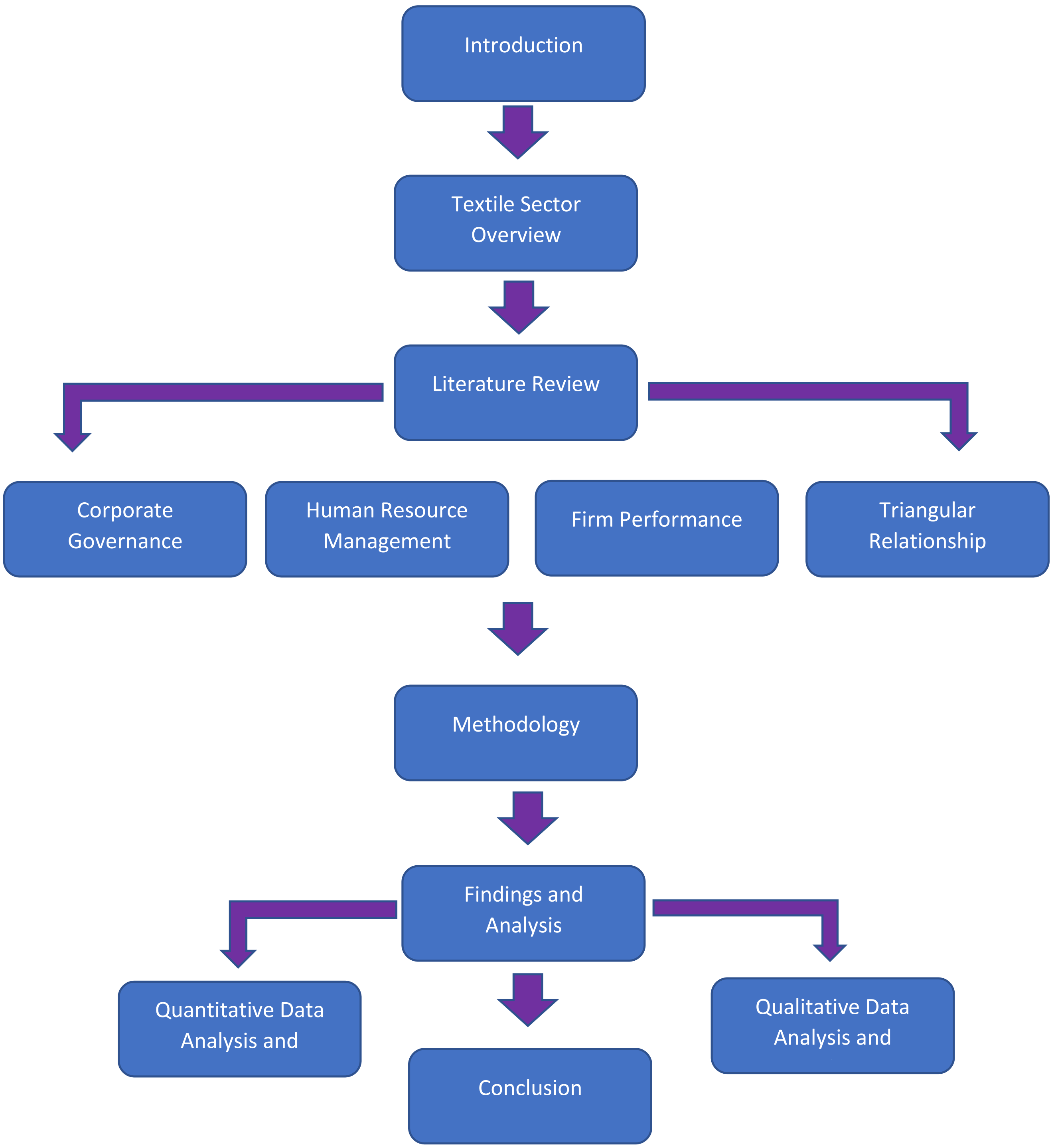

Figure 1: Thesis Structure

1.8 Conclusion

Developing economies such as Bangladesh can benefit from good governance practices as this allows them to secure foreign investments (Al Farooque *et al.*, 2007). When the corporate governance framework matches that of the developed nations, they are more likely to be familiar with the function of corporation in Bangladesh allowing them to trust the organization operating in this country.

The corporate governance practices observed in the textile industry Bangladesh is an important topic as most of our foreign revenue is earned through the textile industry. It has been found Bangladesh’s textile industry has sound corporate governance practice in place (Sinkovics, Hoque & Sinkovics, 2016). The good governance practices promote foreign investors to invest in Bangladesh. However, past incidents such as that of Rana Plaza seems to indicate that the corporate governance practices are not followed stringently in this country. This can be due to the lack of government oversight to enforce the corporate governance practices. As a result, companies get away with committing to fulfilling good governance practices while underproviding on their commitments. To increase these commitments, organizations need to take a multi-departmental effort to ensure good governance practice in the organization.

This thesis has provided with valuable insights on the corporate governance practices observed in Bangladesh. The study also focuses on whether both corporate governance and human resource management are needed; for the firm’s performance or not. The current thesis will allow to grasp the functions of human resource management in establishing corporate governance best practices in the organizations in Bangladesh and how it is affecting the firm’s performance.

CHAPTER 02: TEXTILE INDUSTRY OF BANGLADESH

2.1 Introduction

The textile industry is the largest manufacturing industry in Bangladesh. Being the key driver of Bangladesh exports for the past four decades, the textile industry has aided in generating billions as exports, thus causing a drastic GDP growth of Bangladesh. Readymade garment (RMG) industry, currently known as Bangladesh's single biggest export earner, is glorified for all its crucial contribution towards rebuilding Bangladesh and its economy. This sector accounts for 83% of total export earnings of the country and currently employs around 4.4 million workers. Majority export contracts of western brands are with European buyers; rest of the contracts are composed of American and other buyers. When the country's previous major export earner "the jute industry" started losing its golden days, it is the RMG sector that replaced it, and then, overtook it. The "Made in Bangladesh" tag has also brought glory for the country, making it a prestigious brand across the globe. Berg, Hedrich, and Tochtermann (2012) declared Bangladesh as *the next hot spot,* after China. In 2016, Bangladesh came second to China upon competing for the world's largest apparel exporter title. Bangladesh was publicized as the top choice of global customers Berg, Hedrich, & Tochtermann 2012). Quality clothing at cheaper price was its unique selling point. These two tags can show how much potential the textile industry of the country can hold, how far it has come and how far it will go. Different sources propelled the industry's development and maturity from the early days. This chapter tries to elucidate how the path of being the "*second largest apparel export*" has been for Bangladesh and, how it will change its dynamics with the changing era. The weaknesses, the challenges, and the harsh reality of the employees of this flagship sector have also been conversed here.

2.2 Growth History

2.2.1 History of Textile industry

Early History

From the very early ages, the sub-continent, especially the region of Bengal, was enriched with varieties of high-quality fabric. The Mughal era was the most prominent period in which textiles flourished far beyond this subcontinent. During 16th to 18th century, the fine Muslin, Jamdani, Silk, and various cotton fabrics were exported to Europe, Indonesia and Japan (Richards, 1995, p 202). Over 50% of textiles were produced by Bengal and around 80% of silks was imported by the Dutch from Asia. But this cottage industry faced tremendous challenges during British rule. The British imperialists forced people to cultivate Indigo Dye; a highly Nitrogen depleting plant with unpredictable harvest which gradually pulled farmers away. Tax-free and tariff-free raw cotton was also imported to British factories to manufacture textiles. Many of the finished products were exported back to Bengal (Cypher, 2014).

Moreover, the wake of industrial revolution in 18th century left Bengal in competition with the growing mechanized textile mills. Fortunately, our riverine region supplied a huge source of much needed water for the chemical process of the mills. After the termination of British rule in August 1947, the then-Pakistan pushed development towards the Western wing (present Pakistan) as the West produced more cotton than the East (Bangladesh). Even the few mills that were established here, mostly belonged to West Pakistani industrialists.

Post Liberation

After liberation in 1971, Bangladesh nationalised of all textile mills till 1982-83. Excluding small businesses, Bangladesh Textile Mills Corporation (BTMC) operatedd all spinning mills in Bangladesh and 85% of the textile industry's assets, under the Bangladesh Industrial Enterprises (Nationalization) Order, 1972 (Islam, Khan, & Islam, 2013). But gradually, the government started to shift its public policy from a socialist economy, and began to denationalize, disinvest, and reduce the role of public sector in the textile industry (Momen, 2007). Under the 1982 New Industrial Policy (NPI), privatization of factories sought to restore the rights to both private and foreign investors. Thus, Bangladesh switched from mostly *State-Owned Enterprises* (***SOE***) to *private sector-led* industrial growth (Mishu, 2019).

Bangladesh saw a shift from resource-based exports to process-based exports. In the late 1970's, there were only 9 export-oriented garment manufacturing units. Altogether, they generated hardly one million dollars of export earnings (Yunus & Yamagata, 2012). A new height of export was introduced by a small domestic textile factory, M/s Reaz Garments Ltd in 1973 when it shipped 10,000 pieces of Bangladesh made garments (men's shirts) worth 13 million Francs to a Paris-based firm in 1978 (Yunus & Yamagata, 2012). But the true landmark was founded by the late Nurool Quader Khan, owner of Desh Garments Ltd, in 1977. A joint venture between Desh and Daewoo of South Korea emerged as the single largest and most modern garment-manufacturing unit in the sub-continent (Yunus & Yamagata, 2012).

The first equity joint venture was founded between Youngones Corporation of South Korea and Trexim Ltd in 1980 with its first consignment of padded and non-padded jackets to Sweden in December, 1980 (Yunus & Yamagata, 2012). The popularity of the Ready-Made-Garments (RMG) sectors slowly skyrocketed in the late 90's. Only 47 garment manufacturing units contributed to the RMG sectors in 1947; the number rose to 587 in 1984-85. Then, in 1999, the number of RMG factories shot up to 2,900 (Rana, 2016).

Table 1: Some Important Phases of Bangladeshi RMG Industry (Islam et al., 2013 and BGMEA website)

Period	Event
1977-80	Early period of growth
1982-85	Boom days
1985	Imposition of quota restrictions
1990s	Knitwear sector developed significantly
1995-98	Child labor issue and its solution
2003	Withdrawal of Canadian quota restriction
2005	Phase out of export quota system
2017	Road to $50 billion dollar export by 2021

2.2.2 Ready Made Garments (RMG)

Currently Bangladesh is the second largest RMG exporter in the world. Over 6,000 units earn more than US$ 20 billion a year. Exports include knitwear to 152 countries and woven products to 132 countries (BKMEA, 2019c). The buyers include top brands such as H&M, Zara, Adidas, Wal-Mart, Tesco, M&S, JC Penny, IKEA, LI & Fung, Uniqlo, German Hugo Boss, etc. The following graph (Figure 2) indicates the volume of main apparel items exported from Bangladesh in last 25 years.

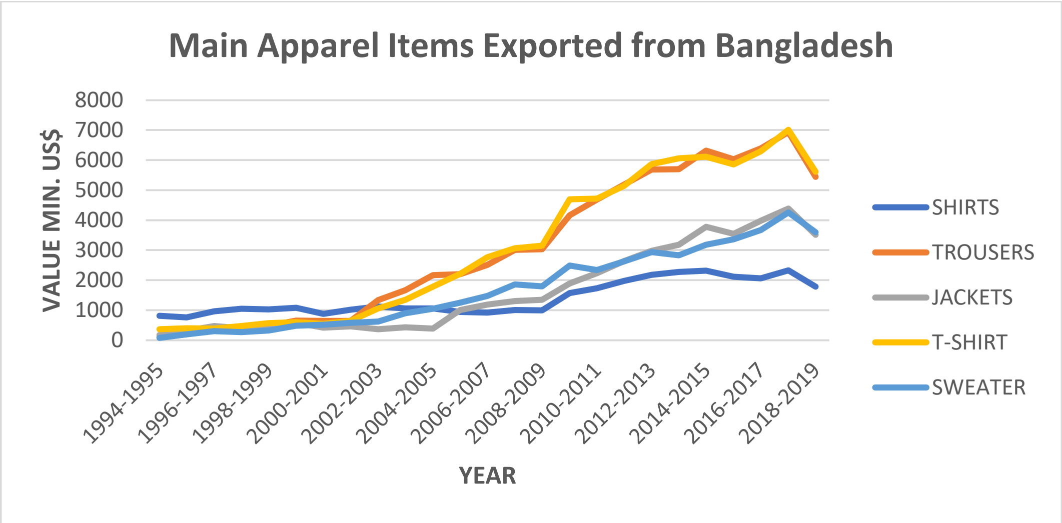

Figure 2: Main Apparel Items Exported from Bangladesh

This sector withstood many economic global blows. For example, during the 2008-09 inflation (great recession), Bangladesh RMG sector saw hardly any negative impacts. In fact, the overall growth of the export of RMG increased from 16.16% to 23.48% between FY2008 and FY2009 (Basher, 2009). In 2012, nearly 80% of Bangladesh's export was comprised of garment exports – mainly to the US and Europe (Yardley, 2012). By 2014, the RMG industry represented 81.13% of the country's total export. The following graph (Figure 3) depicts a picture of growth in RMG export over last 25 years in Bangladesh.

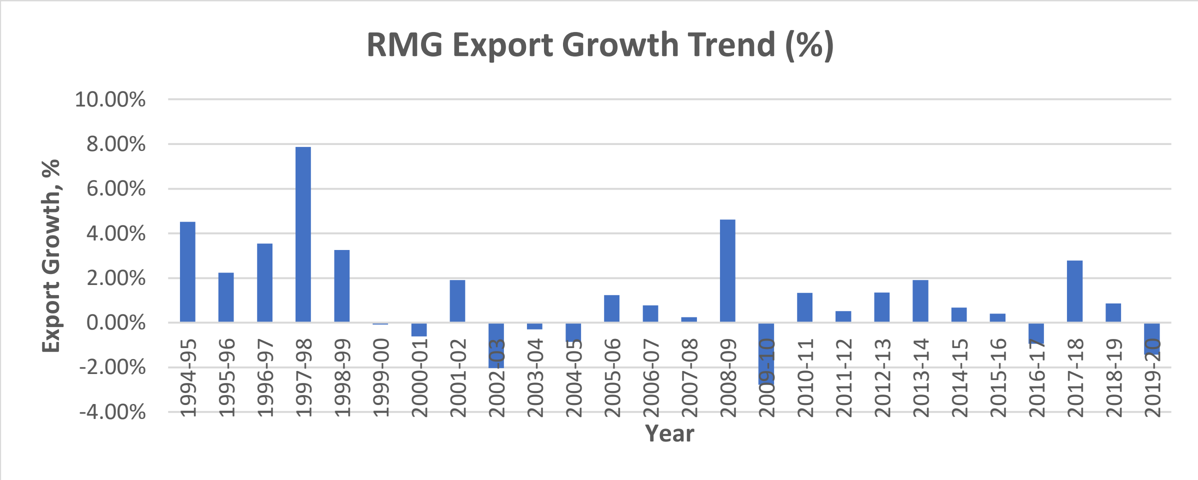

Figure 3: RMG Export Growth Trend (*BGMEA*, 2021)

Existing Mills & Factories

With the surge of industrialization, Bangladesh textile sector has flourished significantly. The Primary Textile Sector (PTS) and export oriented Ready-Made Garments (RMG) mainly make up the sector. As of December 2019, 56 textile companies have been listed in Dhaka Stock Exchange. This secondary type of industry is mainly consisted of 3 types of mills: Spinning or Yarn Manufacturer Mills, Weaving or Fabric Manufacturer Mills, and Textile product processing, i.e. Dyeing-Printing-Finishing Mills.

As of January, 2021, a total of 399 Spinning Mills (except 34 under suspension and 1 under implementation), 810 Weaving Mills and 259 Textile product processing mills are listed with

Bangladesh Textile Mills Association (BTMA). The following table gives an account of BTMA membership status in Bangladesh.

Table 2: BTMA List of Members

BTMA Members	**General Members**	**Associate members**
Spinning Mills; List of "A" Spinning (Yarn Manufacturer) Member Mills of BTMA	339	60
Fabric Manufacturing Mills; List of 'B' Weaving (Fabric Manufacturing) Member Mills of BTMA	320	490
Textile product processing; Dyeing –Printing-Finishing Member Mills of BTMA	234	25

2.3 Stakeholders in the Textile Sector

A number of Bangladeshi associations has been set up to help the textile industry with industry-friendly policy work and legislation. Some of the most prominent ones are:

Bangladesh Textile Mills Association (BTMA): BTMA was registered in 1983 with the Registrar of Joint Stock Companies as a non-profit Association, under the Companies Act 1994 (BTMA, 2018).This trade organization supports Yarn, Fabric Manufacturers and Textile Product Processors mills under private sector. Responsibilities include promoting textile, collecting & circulating statistics, undertaking special inquiries and backing up any action for amending legitimate grievances associated with the trade or commerce of its members (BTMA, 2018).

Bangladesh Garments Manufacturers and Exporters Association (BGMEA): Since its inception with only 12 companies in 1983, this organization has been promoting RMG industry, particularly the woven garments, knitwear and sweater sub-sectors. Currently, there are 4500 member factories that constitute the entire woven garment exports of Bangladesh and over 95% of sweater exports including 50% of the light knitwear exports (BGMEA, 2011).

Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA): BKMEA works with national and International bodies such as International Apparel Federation (IAF), Global Alliance for Fair Textile Trade (GAFTT) and American Manufacturing Trade Action Coalition (AMTAC), Asian Development Bank (ADB), World Bank, JICA, UNIDO, BRAC, Ministry of Finance (BKMEA, 2019b). Currently, its major activities include Green Industry Development, Training on Fire Fighting Technique, Leadership development of workers & mid-level managers etc.

2.4 Contribution of the Textile Industry

The textile industry, specially the RMG sector has made crucial contributions to our whole economy over the years. According to Latifee (2016), in 1972, the gross domestic product (GDP) of Bangladesh was US$6.29 billion which grew to $173.82 billion by 2014 according to the World Bank. In that year, exports generated $31.2 billion, 82% of which was ready-made garments. RMG industry generated US$28.14 billion in the financial year 2016-2017. This amount was 80.7% of the total export earnings and 12.36% of the GDP. In addition, the industry started adopting environmentally friendly manufacturing practices (Hossain & Hafiz, 2017). With over $30.61 billion in exports, the apparel industry stood as Bangladesh's biggest export earner in 2017-18 financial year (BGMEA, 2019). The knitwear sector & its backward linkage sector has 6.92% & 2% contribution to our GDP respectively.

Bangladesh, the once called "*Bottomless basket*" has become a "*Basket full of wonder*". With the rising number of factories, scope of employment & women empowerment has reached a record height. The total number of factories rose to 4,560 from 4,482 in FY 2016-17 (DATABD.CO, 2019).

The industry has set a profile of four billion dollars in gross value terms (Yunus & Yamagata, 2012). It has created roughly 4 million employments, providing employment scopes for millions of skilled and semi-skilled women workers. By uplifting the neglected section of the population, this sector facilitated radical transformation in the country's socio-economic conditions. 2.5% point out of 9.0%-point reduction in head-count poverty observed during 2000-2005 could be credited to success of the RMG sector (BKMEA, 2019a). Evidence of this can be traced in poverty reduction, improvement of purchasing power, improvement in health sector, structural & social development, robust economic growth, backward linkage development, shipping and logistics industry development, development of banking and insurance sector etc.

2.4.1 Exports

Textile exports have for a long time accounted for a lion's share of our overall exports. According to World Trade Organization, in 2002, 77% of Bangladesh's total merchandise exports was accredited to exports of textiles, clothing and RMG. Over the last 35 years (from 1983-84 to 2017-18), compound annual growth rate (CAGR) of export was 11.50% where CAGR of RMG export was 21.71% (EBLSL, 2018). In the FY 2017-18, the RMG sector experienced a year-on-year growth of 11.49% which accounted for 84% of total export (earnings amounted to $34.13 billion). Target earnings from apparel exports was $32.68 billion; actual export earning was 4.57% higher (Mirdha, 2019).

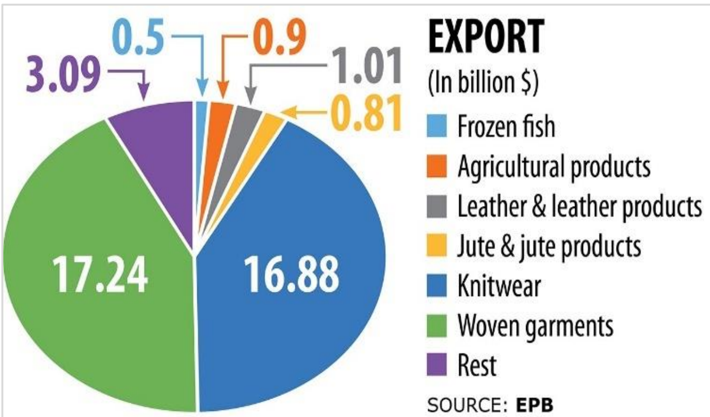

Figure 4: Bangladesh Exports FY 2017-18 (Mirdha, 2019)

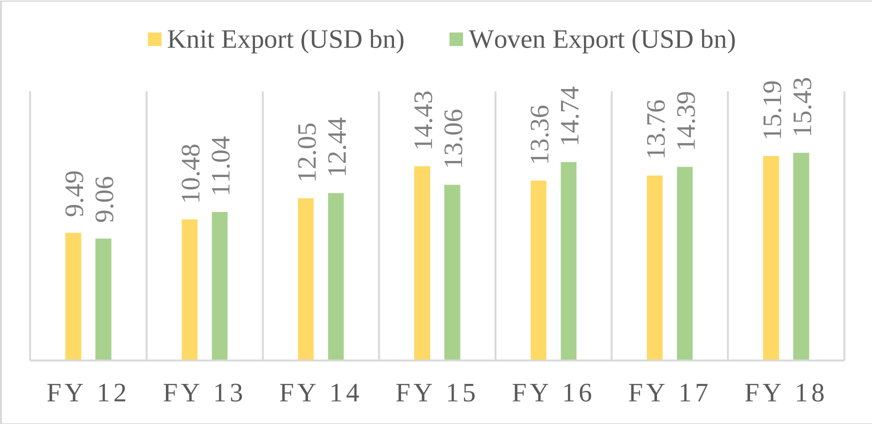

Figure 5: Knit & Woven Export of Bangladesh (ELBSL, 2018)

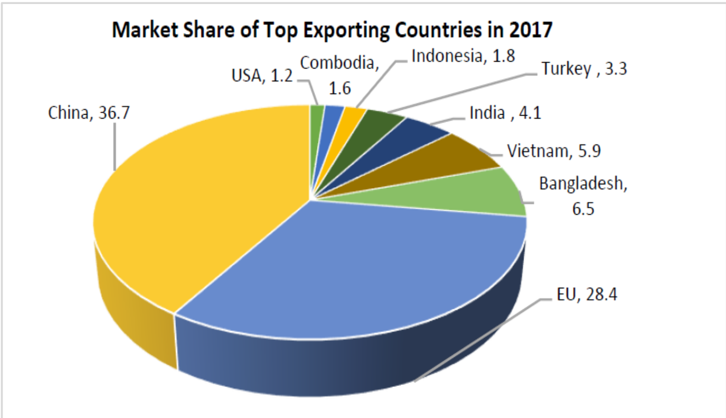

Figure 6: Market Share of Top Exporting Countries, 2017 (EBLSL, 2018)

Over the years, Bangladesh has emerged as one among the 12 largest apparel exporters in the global economy. Bangladesh has become the sixth largest supplier in the US market and the fifth largest supplier of T-shirts in the EU market (Rana, 2016). Export growth in US market has increased more than 10% in the recent months due to the US-China trade war.

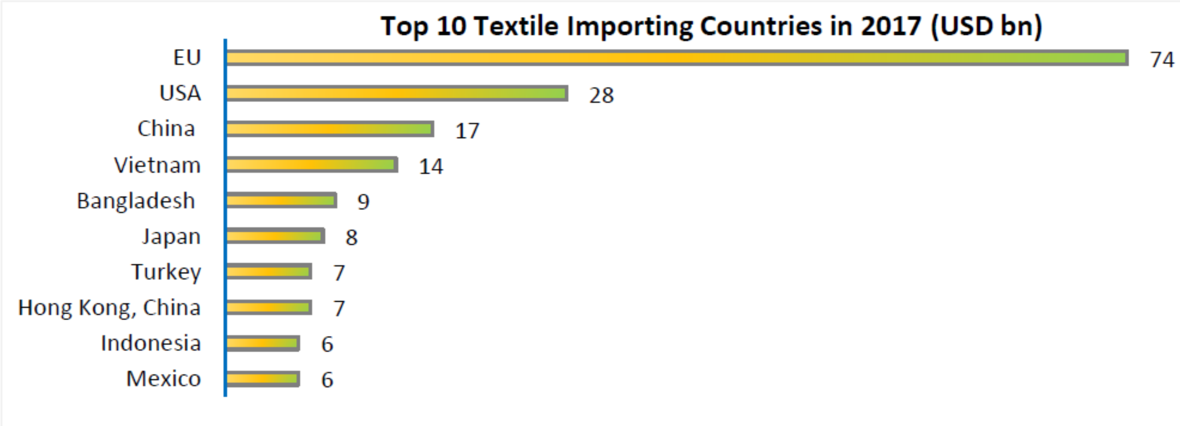

Figure 7: Top Textile Importing Companies in 2017 (EBLSL, 2018)

Comparison with Other Countries:

Bangladesh placed second to China in the run for the world's largest apparel exporter of fast fashion brands. But in overall textile export, China, European Union & India tops the chart. In 2017, the top three countries enjoyed a faster-than-average export growth, where China, EU and India experienced 5.0%, 5.8% and 5.9% growth respectively (Lu, 2018b).

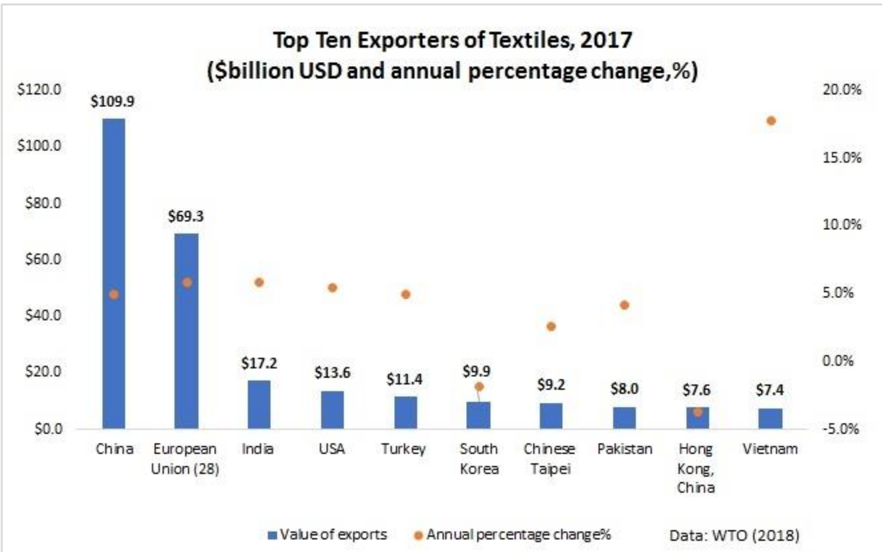

Figure 8: Top Ten Exporters of Textile 2017 (Lu, 2018)

China, the European Union, Bangladesh, and Vietnam remain at the top of the apparel industry. The top four collectively accounted for 75.8% of world market shares in 2017, a substantial increase from 68.3% back in 2007 (Lu, 2018b) whereas a year earlier, it was 74.3%.

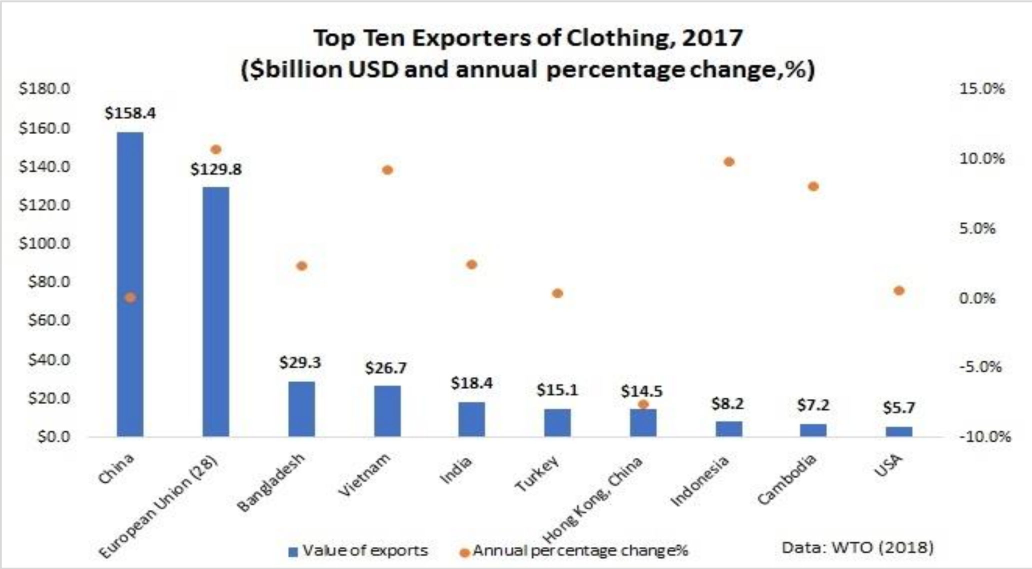

Figure 9: Top Ten Exporters of Apparel 2017 (Lu, 2018)

China is currently more keen on textile export than apparel export. Despite having record high market share of 37.1% in textile export, China endured a decrease in its apparel export in 2017. Back in 2014, its apparel export market share peaked to 38.8% but sadly reached a record low of 34.9% in 2017. Bangladesh's textile imports from China rose from 39% in 2005 to 47% in 2017 (Lu, 2018b).

2.4.2 Future Growth Opportunities

Largely owing to the trade war, there is a heavy shift away from China. In a survey by McKinsey in 2019, it was revealed that majority of the executives from North America planned to lessen their sourcing value from China by more than 10% points within the next year. Subsequently, in 2019-20 financial year, Bangladeshi apparel industry earned a total of USD 27.9 billion of export earnings (BGMEA, 2020). In 2017, merely 27% executives desired to shift away from China. This can prove to be a golden opportunity to push Bangladesh's export industry even further.

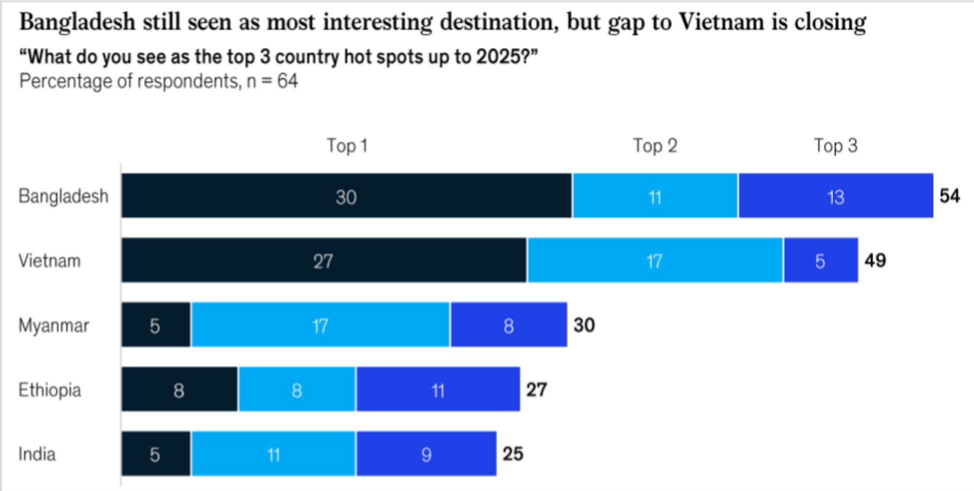

Figure 10: Top 3 hot spots up to 2025 (McKinsey, 2019)

Employment Opportunities:

The most evident change the textile industry has brought in Bangladeshi economy is the sheer number of employment opportunities it has created. Presently, around 4.4 million people are working directly under the apparel sector. Adding the forward and backward linkage, the number surely passes 1 crore (Mirdha, 2018a). According to BGMEA records of 2019, the increasing number of factories and employees can be depicted in figure 11.

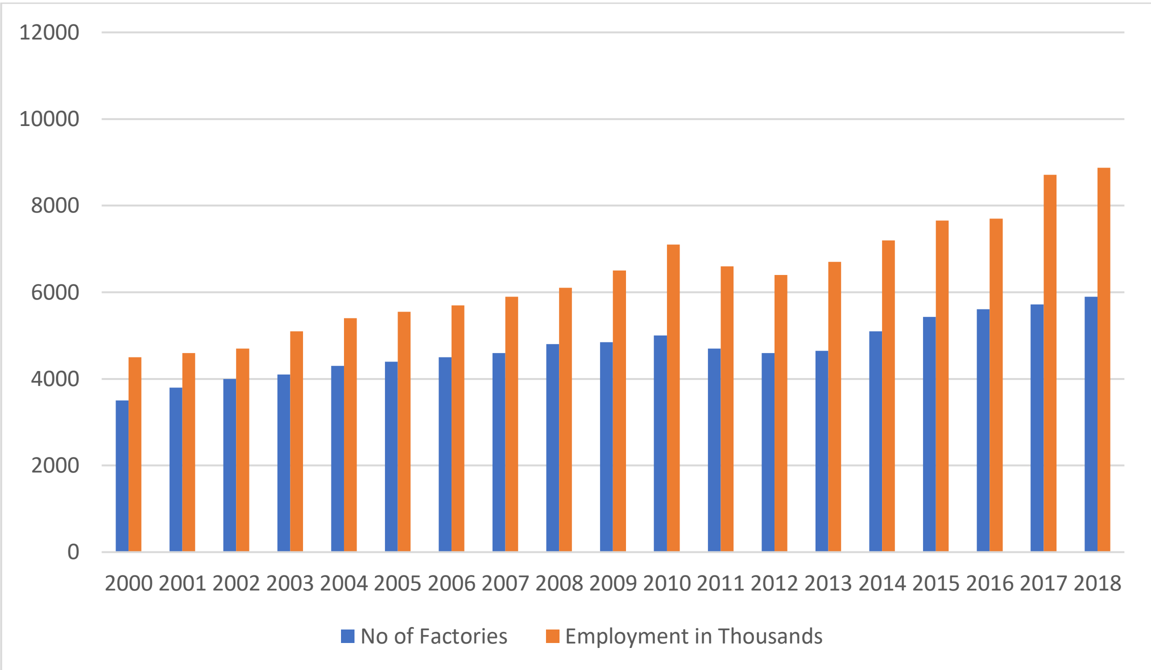

Figure 11: Garments & Employment (2000-2018)

Regrettably, in the 90's, the RMG workers were mostly children. About 5.7 million children aged between 10 to 14 years were engaged in child labor (Bureau of International Labor Affairs, 2013).The number could be as high as 15 million. This practice however dropped soon after the Child Labor Deterrence Act aka the Harkin Bill was passed. By 1993, 75% of the child workers were dismissed in the fear of retaliation from the US buyers.

Women Empowerment:

The RMG sector was the first industry to provide the underprivileged, unskilled and illiterate women with a large-scale employment opportunity. Female labor accounts for roughly 90% of the workforce. The flagship RMG sector was "*built to a large extent, on the supply of cheap and flexible female labor in the country*". Currently about 75% of all factories are in Dhaka and the rest are in Chittagong and Khulna. About 5 million people are employed here and 85% of them are illiterate rural women (Rana, 2016). According to Uddin (2014), World Bank estimated the number of female workers in the industry in the 1980's at 50,000 and brought up to 2.85 million by 2008. Now it probably lies at over 3 million.

A survey of 2012 showed that for 86% of the female workers worked for maiden wage employment in the non-EPZ areas of the garment industry (BKMEA, 2019a). From the retrospective data, 14.8% in national gain in enrolment of female can be attributed to the growth of the RMG sector (Heath & Mobarak, 2015). The employment opportunity has certainly given them a voice by making them financially stable. According to the survey, women now also take up financially contributing roles such as paying for house rents and schooling expenses for their children or siblings, enabling them to play a significant role in the decision-making process. Early marriage and pregnancies are often ruled out of their plans to pursue their career in RMG sector. Consequently, the rate of early marriage has gone down. Sadly, yet unsurprisingly, they are still paid far less than men. Their illiteracy plays a big role here. Moreover, fear of getting sacked also stops them from unionizing.

2.5 Perils of Working in Garments

In a developing, over-populated country like Bangladesh, abundance of cheap labor works as the most significant factor behind the flagship RMG sector. Though the companies are filling their pockets, the workers get very much mistreated.

2.5.1 Low Wages

It takes about 4 days for the CEO of any top five global textile brands to earn the total lifetime income of a Bangladeshi garment worker (Weiler, 2013). According to Public Radio International in figure 12, Bangladesh pays around 65% of the national average wage to the garments workers while USA pays 51% and China pays the least - 20%.

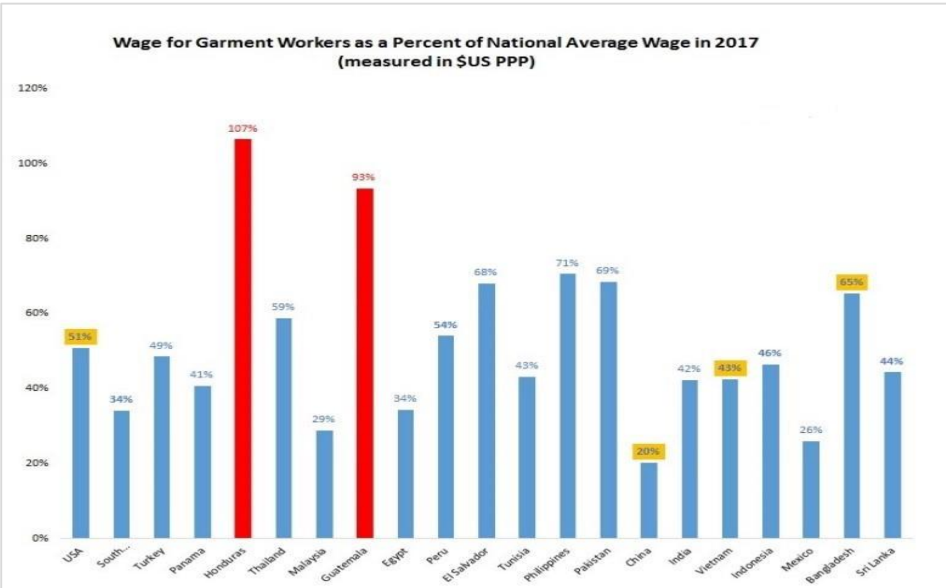

Figure 12: Wage for Garments Workers as a % of National Average Wage, 2017 (Lu, 2018a)

Though this data creates a positive image, it's only a mirage. As shown in figure 13, Bangladesh is one of the least paying countries in the world. On average, Germany pays its garments workers the most - $25 per hour (Ahamed, 2014). Then, USA is the next highest payer - $16 an hour. Bangladesh is on the end of this spectrum. The workers are paid mere $0.15 per hour. China pays more than 3 times than we do - $0.5 an hour. Moreover, local experts report that only 20% of workers used to receive the minimum legal wage for all hours, including overtime (Hossain, Sarker & Afroze, 2012).

On top of all these, most of the time, supervisors reduce monthly wage based on workers' small mistakes.

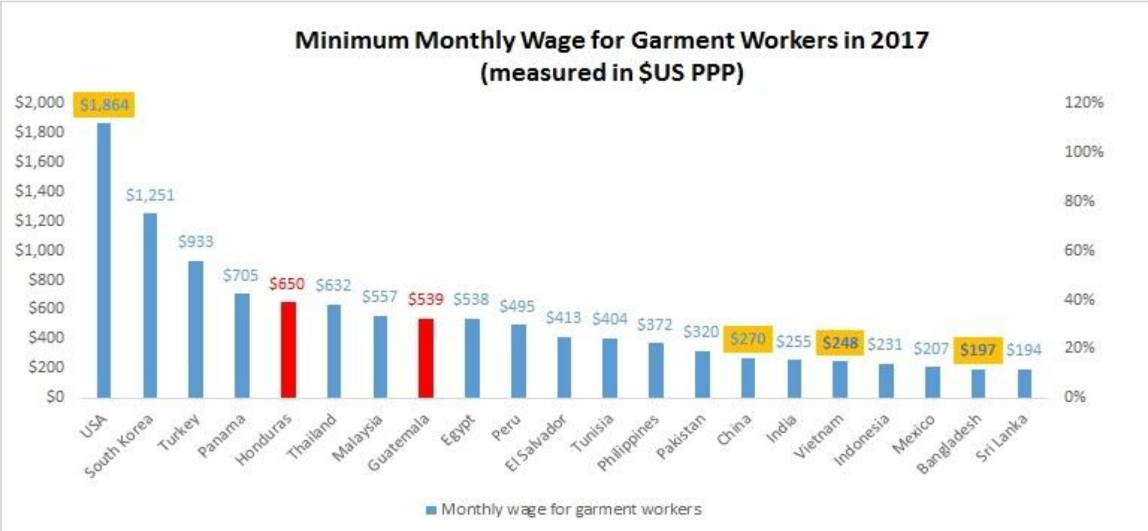

Figure 13: Minimum Monthly Wage for Garment Workers, 2017 (Lu, 2018a)

The main weapon in Bangladesh's arsenal against other competitors is the status - "*lowest labor costs in the world*." In 2012, minimum wage of a garment worker was roughly set at $37 a month. Due to Bangladesh's double-digit inflation coupled with an absence of corresponding rise in minimum wage and labor rights, protests escalated since 2010 (Yardley, 2012). With a hope of attracting more young girls to garments, the minimum wage was finally raised to $68 a month following labor disputes in 2013. Fortunately, due to outside pressure, the country raised the minimum monthly wage for the garment sector's four million workers to 8,000 Taka, or approx. $94, from December (Éireann, 2019).

2.5.2 Glass Ceiling

Glass ceiling is another considerable problem (Rashid *et al.*, 2019). Most female workers need to work beyond their shifts to complete the quota of 100 shirts a day. The supervision is so unfair on them that they even have to hide their pregnancies in fear of getting fired. Additionally, the number of female supervisors in the RMG sector is 1 out of 20. Other than simple double standard in practice, lack of gender sensitive training and mid-level management training in the RMG sector are also to be blamed for dearth of working women rising up the ranks. Stark wage difference for male-female employees are seen all over the industry. The table below gives an idea about the wages of male and female workers in 2028 (cited in Rashid et al., 2019).

Table 3: Gender Differences in Bangladesh RMG Sector (Rashid et al.,2019)

Categories	Male wages USD $/per month	Female wages USD $/per month
Operator	28.65	19.53
Cutting	50.02	15.00
Ironer	24.08	14.06
Sewing helper	15.25	9.69
Cutting helper	19.22	10.64
Finishing helper	15.37	13.00
Folder	19.42	14.71

2.5.3 Deplorable Health Conditions

Being a member of ILO since 1972, Bangladesh has ratified 33 ILO agreements and 8 Fundamental Conventions. Yet the gaps in workers' protection remains. The factories often disregard the basic health and safety of workers. Often the standing excuse is the tight deadlines. The supervisors push the workers till the order is fulfilled. Workers are often exposed to workplace hazards due to lack of safety measures from the company. Some are discussed below:

Environmental Hazards:

Most of the garment's factories are in small buildings. There is lack of sunlight and air. The workers work long hours in confinement with tiny lunch break and virtually no other recreational options. Their poorly designed work stations often cause many diseases. They are treated like machines. In the overcrowded workplaces, absence of health facilities, safety measures, staff amenities, and lack of safe drinking water etc. are common phenomena.

Ergonomic Hazards:

After working for long hours, workers are likely to develop many health issues. Musculoskeletal Disorders are often common among garment workers. Highly repetitive movements in awkward sitting positions for sewing machine operators or the operator helpers creates pain in neck, back, hands, shoulders and lower limbs (Bhowmik *et al.,* 2015). Habib (2015) conducted a case study among sewing machines operators in Bangladesh. Revelations supported that working in a sitting position by bending the neck over 30° for more than 6 to 7 hours was aligned with the high risk of developing musculoskeletal disorders. In the few factories that do have adjustable tables, the employees hardly ever use the function as it takes 10-15 minutes for set up and is considered too time consuming. This musculoskeletal disorder eventually tells upon the family of the workers as the medical bills pile on and the family slowly loses another earning hand.

Chemical Hazards:

The coloring process in denim and other fabrics contains bleaching agents, azo dye, silica, Potassium Permanganate or $KMnO_4$, etc. These substances are really harmful for human body. Workers usually get exposed to these via direct contact with the skin or inhalation of dye particles. Workers regularly in contact with these substances, often show hypersensitivity and irritant effects such as contact dermatitis and asthma, as well as exposure related concerns for such malignancies as bladder, nasal, esophagus, stomach, colon, rectal, nasopharyngeal and lung cancers along with various allergies (Iram, Mohammad, & Arshad, 2009). Some processes like sandblasting, where denim is given a worn look using silicon-based materials, are extremely hazardous to the employees. An alternative to sandblasting is using Potassium Permanganate or KmnO4. Multiple exposure to these substances is likely to cause Bronchitis, Tuberculosis, deep burns, rashes and even disclosing of the skin.

Physiological Hazards & Disabilities:

Manufacturing workers have to work in a very noisy environment. Chronic exposure to high decibels can lead to the development of Noise Induced Hearing Loss. The noise damages sensory hair cells in the inner ear. A significant contributor to NIHL among female textile workers in Bangladesh Garment is noise levels of 96-100 Decibels Adjusted (dBA) they face during work (Salehin *et al.*, 2014).

Factory Disasters:

Many of the factories are so unsafe for the employees that they go to work risking their lives against fire or risk of collapsing building. The number of dead and injured bodies also rise in masses. Around 1,700 deaths from factory crises were reported from 2005 to 2006 (Weiler, 2013). A handful of such disasters are mentioned below:

2004: In May, 9 women were trampled to death and 50 others injured when they ran for their lives after a false fire alarm. That complex in Dhaka populated 3,000 to 5,000 workers from 5 garment factories. Some exited through fire escapes but others were not as lucky as they took the main stairway to the front gate of the building only to find it locked (Shumi, 2008).

2005: In March, a fire at a garment factory outside Dhaka killed 22 workers and injured more than 50 (Paul & Rocha, 2017). In April, The Spectrum Sweater Industries Ltd, in Savar, Dhaka, collapsed after illegally built additional floors gave way, killing 64 people and injured another 80 (Mobarok, 2014).

2006: In February, 61 workers including several teenage girls were killed in a fire caused by an electrical short circuit leaving over 1000 workers injured. This factory in Chittagong was Bangladesh's second-largest garment manufacturing center. Just days later, on 24th February, two fires broke out at Phoenix Garments & Imam Group building killing 22 construction workers & 57 garment workers respectively. Many more were injured and hospitalized. Mere two weeks later, in March, 3 workers were killed and approximately 50 were injured as an electrical fire at a building housing Saiem Fashions and several other factories triggered another stampede of workers who found the exit route blocked by boxes (Nova, 2010).

2010: In February, at least 21 workers died and 50 were hurt when a fire swept through Garib & Garib Newaj company that was making clothes for budget retailers like H&M and other firms as they worked at night to fulfil orders (Hickman, 2010). In December, a fire at Ha-Meem Group's Sportswear Factory, in Ashulia, killed 31 people and injured about 100. (SEHD, 2010)

2012: In November, a fire at the Tazreen Fashions Ltd factory in, Ashulia killed 112 workers and injured 200 others (Tipu, 2018). Yet again the blaze, known as the *deadliest factory fire* in Bangladesh, was believed to have been caused by a short circuit (Paul & Rocha, 2017).

2013: In April, the collapse of the eight-storied Rana Plaza building in Dhaka, Bangladesh, which housed five garment factories, killed at least 1,132 people and injured more than 2,500 (ILO, 2018). The collapse of the Rana Plaza was the worst industrial accident in Bangladesh and the *world's deadliest industrial accident* since the 1984 Bhopal disaster in India (Paul & Rocha, 2017). Bodies and occasionally miracle survivors were dug out from under the rubble for days after the accident. Many of the surviving workers were injured for life, while many more were psychologically traumatized.

2016: Starting from a short circuit, a fire at the eight-storied building of Matrix Sweater Ltd in Gazipur injured four workers in February (The Daily Star, 2016).

July 2017: A boiler explosion in the dyeing section at Multifabs Limited, a Bangladeshi garments factory in Gazipur district of Dhaka, died 13 people, injuring at least 40 people.

2018-2020: Fortunately there was no major disaster in this sector and this lead to continue steady growth in this sector.

Aftermath of Crises:

In 2010, in an attempt to avoid any more disasters in garments, a set of recommendations regarding safety measures were offered by Clean Clothes Campaign (CCC), the International Labour Rights Forum (ILRF), the Worker Rights Consortium (WRC), and the Maquila Solidarity Network (MSN) to many of the RMG international buyers (Oxfam, 2015). In most of the cases, the factory owners don't build safety measures as it is not cost effective for them. So, an initiative started at the end of 2012 to pressurize and to assist the manufacturers build safety net for employees. November 2012 through May 2013, global clothing brands such as Primark, Loblaw, Joe Fresh, Gap, Walmart, Nike, Tchibo, Calvin Klein and Tommy Hilfiger, and retailers were asked to respond by using their economic weight to enact change. BGMEA even expelled its 850 factories for non-compliance in 2012. After the Rana Plaza incident, the US Govt. removed Bangladesh from GSP or Generalized System of Preferences.

In the wake of Rana Plaza disaster, many positive initiatives were taken. To build a safe and healthy garment industry in Bangladesh, the Accord on Fire and Building Safety in Bangladesh, a five-year independent agreement between brands, retailers and unions was signed in May 2013 (Christensen, 2016). More than 200 apparel brands, retailers and importers from over 20 countries signed the Accord. However, the low prices at which these retailers are selling their school polo shirts raises questions about the effectiveness of the Accord in improving conditions and wages for workers (Christensen, 2016).

2.5.4 Lack of Apt Human Resource Management

Majority of all the previous pitfalls for RMG workers can easily be traced back to lack of proper Human Resource practices. Often the factories simply do not have an HRM unit at all. They are largely undervalued, under-trained, underutilized and have minimal workers' rights. This had a negative impact on the RMG industry as it is labor-intensive despite technological developments

(Rashid *et al*., 2019). With “cost reduction” as an excuse, the garments provide hardly any training for the employees. This actually results in low productivity rate (Rashid *et al*., 2019).

Local officials often ignore workplace violations (Uddin , 2014). The absence of formalized human resources department or union, workers’ fear of losing economic security or their limited knowledge deters them to speak of injustices (Dhooge, 2016). Employers’ violence, tight work schedule, little break time, inappropriate overtime procedure, physical harassment etc. are just part of their life.

Poor management practices include the absence of trade unions, informal recruitment, and irregular payment, sudden termination, wage discrimination, excessive work, and abusing child labor (Ahamed, 2013; Rashid *et al*., 2019).

The recruitment process is very informal. The workers are not given any appointment letters. 72.70% of workers don’t have a job contract. Thus, they can’t claim any compensation for any accidents. This also results in a high rate of turnover. Garments worker often change their jobs because of wage arrears, lay-offs, irregular payment, excessive working hours, forced labor, ill-health or harassment from bosses and their security guards (Rashid *et al*., 2019). Interestingly, a worker gets around US$ 5 to US$ 10 increment in monthly salary if one shifts to a new job (Hossain, Sarker, & Afroze, 2012). Most of these frequent job leavers tend to leave the job just after the payment of salary with no prior notice. For them, the last cut-off day salary or long-term employment benefits are not appealing factors ((Hossain, Sarker, & Afroze, 2012). In most cases, the workers are not even well-aware of the long-term benefits. This also creates temporary unemployment. Due to lack of HR unit, most of the garments’ employees are not aware and familiar about IR (Industrial Relations) rules and acts (Ahamed, 2013; Rashid *et al*., 2019).

The relation between workers and the First Line Supervisors (FLS) is very strict and full of conflicts. FLS strictly follows chain of command and often is found to be unfair towards recommending workers holidays, leaves and overtime payments, and reacts against any direct communication between workers and administration or the HR department ((Hossain, Sarker, & Afroze, 2012).

2.5.5 Lack of Safety Procedures

All the previous accidents bear proof of how poor regards to employee health & safety eventually lead to company disasters. For lack of proper training, employees cannot even run away from such incidents. Death or injury can occur while carelessly operating automatic machinery coupled with workers' lack of education, skills and technical knowledge or due to internal misfiring (Rashid *et al*., 2019). Workers are kept locked in during office hours in many garment factories. This takes away any escape route during any disasters. Lastly, occupational hazards such as musculoskeletal disorders and other contagious diseases are causes by overcrowded workspaces (Rashid *et al*., 2019)

2.5.6 Continuous Strikes

Observing the total negligence of the company, the dissatisfied employees often call for strikes. The noncompliance from the employers creates employee's demotivation as well as labor unrest which largely affect the quality of performance. Since the first protest in 2006, periodic protests by workers often break out. In 2017, out of total 181 industrial disputes, 91 occurred in the garment sector. Some 40% of the disputes took place over arrears, 25% over rights and other claims, 10% for closure of the factories, 8% for beating workers, 4% for over-time allowance and 4% for compensation (Mirdha, 2019). BGMEA arbitration cell spent crores of taka from factories only to settle them internally. These disputes were settled at individual levels - not national level - with no legal base (Mirdha, 2018a).

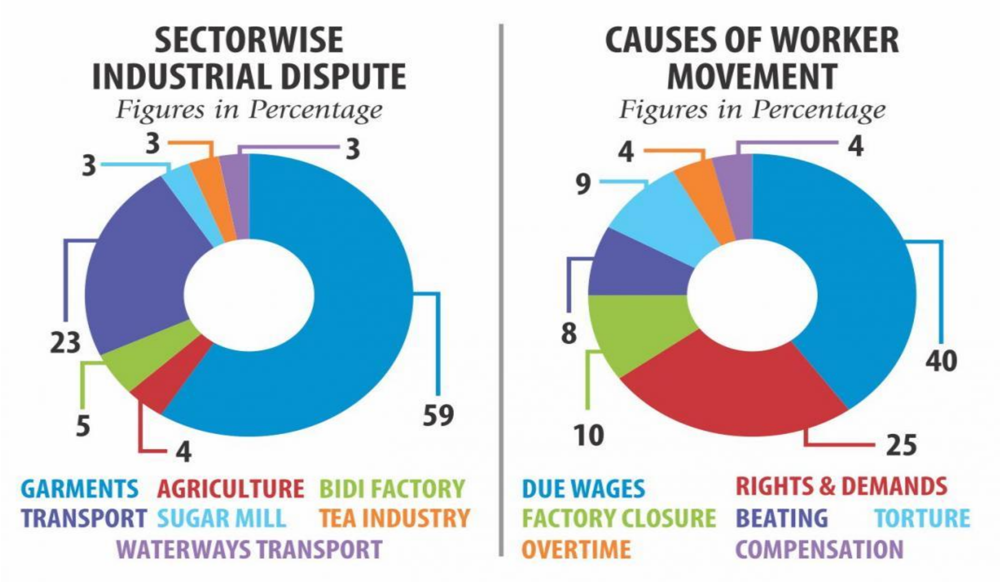

Figure 14: Industrial Movements 2017 (Mirdha, 2018a)

The number of injured or dead bodies from these strikes is quite staggering. In the April of 2019, 17 employees went in an indefinite hunger strike for being fired due to protesting sexual harassment in Savar (Hossain, 2019). Though an 18-year-old girl was sexually harassed by the assistant production manager, no harassment case was filed. In June, one striking garment worker was killed and 50 others were injured in Bangladesh after police fired rubber bullets and tear gas at around 5,000 protesters in Dhaka (Éireann, 2019). Around 5000 employees walked out of their factories demanding higher wage.

2.6 Export Policy

2.6.1 Government Policies

Aside from being one of the least labor-cost countries, exporters also enjoy some relaxed Govt. policy & international agreements regarding exports. The Govt. established judicious tariffs and taxes on imports of capital machinery, raw materials, dyes and chemicals, and reduction of interest on long- and short-term loans. Before liberation in 1971, the textile sector was part of the process of import substitution industrialization (ISI). Afterwards, export-oriented industrialization (EOI) was implemented and the government put more focus squarely on the RMG sector. Since independence in 1971 till 2011, a total of seven industrial policies have been formulated and adopted for industrial development of Bangladesh, attempting to revamp the sector with a view to creating a strong manufacturing base in the economy (Yunus & Yamagata, 2012). The clothing factories enjoy bonded warehouse facilities with government participation, back-to-back Letter of Credit (LC), bilateral, regional and free trade agreements, user-friendly rules implementation and established linkage of textile industry (BKMEA, 2019c).

According to a report by EBL Securities Ltd, as of 2018, the factories enjoy 100% direct export and deemed export companies are entitled to have 4% cash incentives from Bangladesh Government. 2% extra cash incentive is provided for the companies exporting to the EU. Moreover, any company expanding beyond USA, Canada or EU markets, are eligible for cash incentive of 4% which was 3% previously (FE Circular No. 26 dated September 10, 2018). NBR plans to publish an SRO to reduce the source tax from 0.70% to 0.60%. Additionally, corporate tax for listed RMG companies is to be reduced to 12.5% from existing 15% while corporate tax for non-listed companies is to be reduced to 15% from existing 20%. Lastly, increased VAT – from 4% to 5% - on buyers of branded garment products was imposed; this 5% VAT is applicable on non-branded garment products in local market.

2.6.2 Trade Agreements

Bangladesh gets benefited from a number of international trade agreements because of being a Least Developed Country (LDC). Recently Bangladesh turned into the most lucrative exports destination through revised draft of Rules of Origin (RoO) from European Commission. The RoO for GSP scheme is a two-stage conversion process, namely, yarn to fabric and fabric to clothing while drafted new RoO is one stage, namely, fabric to clothing (BKMEA, 2019c). In addition, duty-free access of 205 garment items by China from Bangladesh has opened further opportunities for Bangladesh (BKMEA, 2019c). Some of the most mentionable and most renowned trade agreements would be:

Multi-Fibre Agreement (MFA):

To ensure well-regulated textile & garment trade agreement in the North American market, quotas were imposed on the amount developing countries could export to developed countries from 1974 to 2004. This short-term measure was intended to make the developed countries adjust to the developing countries. According to a World Bank/International Monetary Fund (IMF) study, the system has cost the labor-intensive developing world 27 million jobs and $40 billion a year in lost exports (Chandrasekhar, 2003). Quotas were imposed on newly industrializing countries of Asia. Fortuitously, Bangladesh was an exception. Quota restricted countries like South Korea started looking for quota-free manufacturing sites aka "*quota hopping*" and consequently established Daeewoo-Desh collaboration. MFA & preferential market access to European markets led to the boom of the RMG exports in Bangladesh. After the withdrawal of the quotas in 2004, World Trade Organization (WTO) established free market. During this volatile time, Bangladesh feared strong competition from India, Pakistan, China, and Thailand. But against all odds, the textile industry experienced a tremendous growth. Exports increased by about $500 million in 2006 and reached US$10.7 billion in FY2007 according to IMF.

Generalized System of Preferences (GSP) Facility:

GSP is a US trade program designed to promote economic growth in the developing world by providing preferential duty-free entry for up to 4,800 products from 129 designated beneficiary countries and territories (Upadhyay, 2018). As per the decision of the Hong Kong Ministerial Meeting of World Trade Organization in 2005, 97% of goods originating from Bangladesh enjoy duty-free benefits on export to US markets (Mirdha, 2018b). But following the collapse of Rana Plaza, President Obama paused the GSP facility for Bangladesh showing 16 conditions to fullfill. But even after fullfillment of the conditions, the US has denied access back to GSP citing poor labour rights issues. Despite failing to meet eligibility for duty cuts under GSP, the US continues to be

Bangladesh's single largest export destination, with two-way trade hitting $7.2 billion in 2017 (Upadhyay, 2018).

Free Trade Agreement (FTA):

Bangladesh currently reaps advantage of 6 FTAs. Asia-Pacific Trade Agreement, Preferential Tariff Arrangement-Group of Eight Developing Countries and South Asian Free Trade Area are already in effect. Trade Preferential System of the Organization of the Islamic Conference has been signed (but not in effect) while for Multi-Sectoral Technical & Economic Cooperation, Free Trade Area and Pakistan-Bangladesh Free Trade Agreement, negotiations are ongoing (EBLSL, 2018). More probable FTAs with several countries including China, Bhutan, Thailand, Turkey, Malaysia, Sri Lanka, Nepal and India are under work.

2.7 Garments 4.0

"*Garments will be the worst sufferer of Industry 4.0 revolution as there is a possibility of 27 lacs or 60% of jobs being lost*," said Anir Chowdhury, Policy Adviser of the a2i project (Rahman, 2019). As the 4th revolution is knocking at the door, the apparel industry of Bangladesh is hardly ready for it. The industry suffers from lack of access to specialized services such as technology advisory services, R&D providers, skilled training providers, industrial service providers, specialist consultants, and so on. Small and medium enterprises are the worst sufferers of this, hence lacking organizational efficiency. So far in Bangladesh, there are a handful of automation in practice in the RMG sector indicating no proven existence of industry 4.0 and its establishment level in Bangladesh (Rahman, 2019). But amid all the uncertainty, there are silver linings. A tech farm called Lectra came up with the most probable outcome of 4.0 in apparel industry. Figure 15 shows just that.

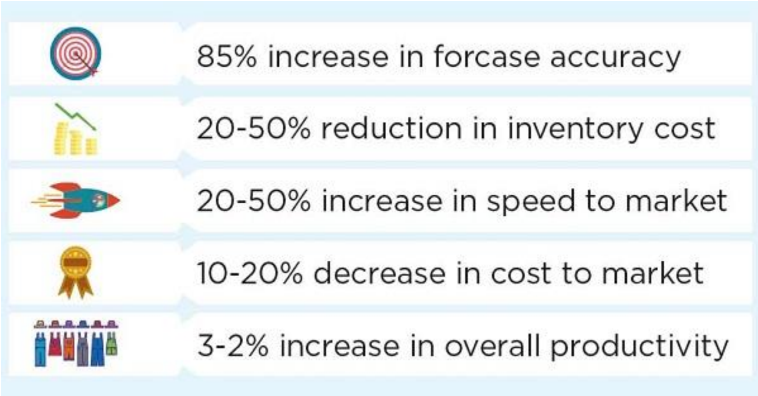

Figure 15: Beneficial Results of Apparel 4.0 by Lectra (Rahman, 2019)

Growth at the Cost of Environment:

The highest export earning flagship sector of Bangladesh, the RMG sector, is costing the nation a lot. The waste of the factories is killing the environment at a great speed. Globally, textile is one of the most pollution contributing industry. Around 20% of water waste and 10% carbon emission can be traced back to textile. Most of the factories are located on the side of a river and the disposal of the industry waste into the river threatens marine life and gradually kills the river. The Buriganga is the prime example of this. Only a mere 15% of the waste is recycled while the remaining 85% is sent to landfill. According to Asian Development Bank Report, in Bangladeshi industries:

- CO_2 emission: 16.9% which is 0.17% of world-wide emission
- Electricity consumption: 17%
- Total energy consumption (according to primary data) average:6 %
- Industrial water waste rate: 109.47 million/cubic meter/year
- Future water waste projections 2472.07 million/cubic meter/year

2.8 Challenges in the Industry

Due to the post-MFA free market economy, the RMG sector of Bangladesh is under tremendous pressure. Rapid technological development, continuous changes in customer demands, and changing global trends continuously challenge the sector.

Poor Infrastructure:

The poor strategic structure of the industry is the biggest hindrance for growth. The lack of compliance by the companies already cost Bangladesh the GSP facility. The issue of non-compliance and the dangers with it discourage a lot of buyers. The resulting labor unrest also cuts a deep portion of the earnings & efficiency of the companies.

Lack of Research & Development:

Low quality of cotton in comparison to rest of Asia is a result of insufficient R&D. Farmers are shifting to other cash crops, such as sugar cane following low profitability in cotton crops (Islam, Khan, & Islam, 2013). Local cartels and unwilling pesticide sectors are to be blamed for this. The old and obsolete equipment and machinery are also reason for the inefficiency.

Internal Issues:

The textile industry has seen some tough times due to adverse travel advisory as exporters cannot effectively market their products (Islam, Khan, & Islam, 2013). According to World Bank, the inefficient port costed as much as $600 million in 1999. As per CPD Survey 1997, the hidden costs (bribe) paid by importers per delivery ranged from Tk.4,700 to Tk.36,800 (about US$100 to $735) ((Hossain, Sarker, & Afroze, 2012). The presence of corruption and inefficient processes cost Bangladesh its competitiveness in the global market.

Realizing Potential of Unskilled Workforce:

Productivity of Bangladeshi workers is one-fourth of that of Chinese and the main reason is illiteracy (Hossan, Sarker, & Afroze, 2012), truly one of the looming challenges. However, lack of training opportunities is also responsible for lower productivity.

Raw Material Cost:

RMG sector's dependency on imported raw materials due to inefficient backward linkage which includes weaving the fabric, spinning the yarn, and dyeing, printing and finishing operations is one of the main weaknesses. Since the post-MFA, achieving self-sufficiency by strengthening backward linkage has been focused by a number of countries. But unfortunately, Bangladesh is still falling short in the race. Reasons include high cost of production due to several factors like the hike in electricity tariff, the increase in interest rate, energy crisis, devaluation of Bangladeshi taka, increasing cost of inputs, political instability, and removal of subsidy and internal dispute (Islam, Khan, & Islam, 2013). Due to double digit inflation and unstable internal condition, the cost of raw material often fluctuates.

Cotton Price:

Bangladesh has a low depreciation rate coupled with low interest rate and low conversion. All these work in our favor. But high auxiliary material price keeps Bangladesh tied to the race with India and Pakistan (Islam, Khan, & Islam, 2013). Though these countries have higher import tariffs and shipping expenses, India and Pakistan subsidize the locally sold raw cotton. Bangladesh, on the other hand, has to pay more than 30% extra for the same cotton, falling behind competitive advantage. Stipulated in the 1997/98 fiscal year, the new infrastructure development surcharge or IDS on all imports added another 2.5% to the price of imported raw cotton (Islam , Khan, & Islam, 2013).

Energy Shortage:

Load shedding reduced up to 30% production capacity of various sub-sectors and in turn reduced the export order (Islam , Khan, & Islam, 2013). A spokesman for the Bangladesh Textile Mills Corporation (BTMC) claimed that 60 to 70% of the industry had been affected due to gas shortage and was unable to accept export orders coming in from around the globe (Islam, Khan, & Islam, 2013). Many factories even were shut down due to gas shortage. Bangladesh Govt. is importing liquefied natural gas (LNG) to handle the crisis. After initiation of LNG, it was decided to impose new cost structure of gas for different sectors (EBLSL, 2018).

Table 4: Proposed Material Prices (EBLSL, 2018)

Types	Current price (BDT)	Proposed price (BDT)
Average natural Gas	7.39	12.95
Power plants	3.16	10.00
Captive Power	9.62	16.00
Industrial	7.76	15.00
Fertilizer	2.17	12.80
Tea Garden	7.42	12.80
Compressed Natural Gas-CNG	40.00	48.00

LDC Graduation:

Presently, Bangladesh is a Least Developed Country (LDC) eligible for trade facilities like GSP and GSP Plus, Everything but Arms (EBA) agreement, and Duty-Free-Quota-Free Market Access (DFQFMA) initiative (BKMEA, 2019c). But in 2024, Bangladesh is going to graduate from LDC and will therefore lose its preferential market access facilities associated with the LDCs from various unilateral, and bilateral, regional, and global initiatives. Upon graduation, some major effects are likely to take place in the export industry are:

- Tariffs facing Bangladesh's apparels are, on average, about 12% in the EU and 16-18% in Canada (Rahman, 2019). Accordingly, the depth of preference erosion will be significantly higher.
- More stringent rules of origin (RoO).
- According to Centre for Policy Dialogue (CPD), extra 6.7% tariff once the duty free, quota free (DF-QF) market access is stripped. The corresponding figures for the EU, non-EU and Canadian markets are 8.7 %, 3.9 % and 7.3 % respectively (Rahman, 2019).
- Implications due to preference erosion. Bangladesh enjoyed as a member of regional trading arrangements e.g. the South Asia Free Trade Area (SAFTA), where India, for example, offers

DF-QF market access to the four LDC members for all products including the apparels or the LDC scheme run by China (Rahman, 2019).

- Dynamic change in competition while competitors may go for aggressive regional trading arrangements (RTAs). A major competitor Vietnam is going to enjoy duty free EU FTA; Bangladeshi apparel would be duty paid.
- LDC graduation will have implications arising from stringent compliance requirements under the trade-related intellectual property rights (TRIPS) of the WTO, as also from changes in the support regime concerning the enhanced integrated framework (EIF) and the various special and differential treatment provisions of the WTO (Rahman, 2019).

Change in Global Economic Dimensions:

Market management hinges upon economic stability and upward trend of the development index (BKMEA, 2015). Like ripple effect, the risk of developed countries negatively affects the economies of the developing countries like Bangladesh, causing social chaos, and dampening individuals purchasing capabilities and consequently affecting the export business. 11 out of 28 countries of the European Union are slowly sliding towards low growth rate in their respective economies and 7 out of those 11countries are experiencing economic crisis (BKMEA, 2015). The EU zone is showing signs of loan difficulties (the huge scale debt of euro zone countries). This may affect our export industry hugely. Roughly $8 billion products are exported to US & EU. Thus, a decline of 20-30% in this export statistic means approximately 1.5-2.5 billion dollars of exports will be lost (BKMEA, 2015).

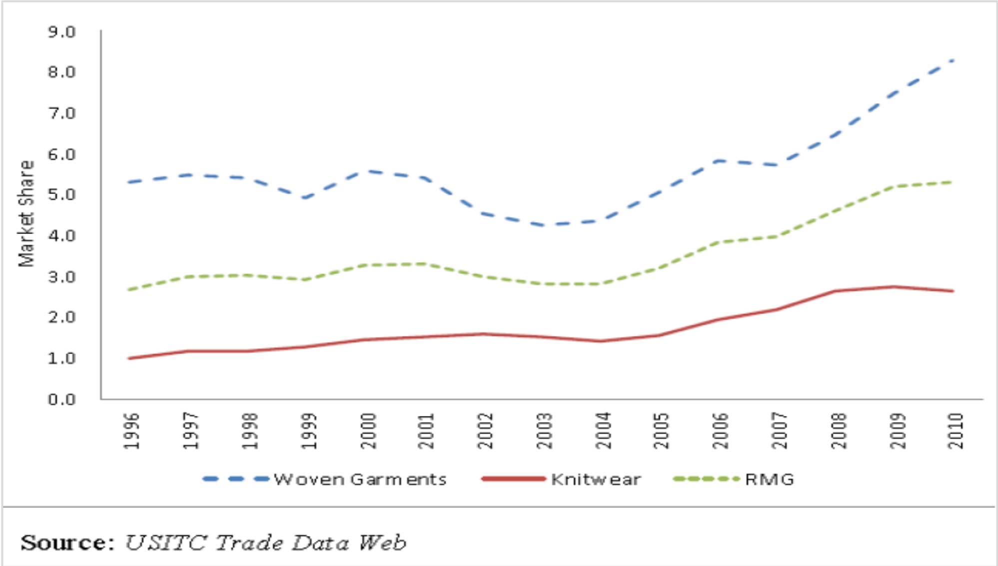

Figure 16: Share (%) of Bangladesh in the total EU & US garment import (Islam et al., 2013)

2.9 Future Scopes

To address all the challenges, Bangladesh is slowly focusing on stabilizing the textile industry. Manufacturers are considering adoption of new technology, new sourcing strategies, and stricter safety standards to improve internal efficiencies, safety, and profitability of the clothing industry.

2.9.1 Vision 2050

Based on market economy, labor economy, apparel business trends with economic caprice, and consolidation process across the globe, BKMEA has set a vision to explore new markets besides the USA & EU, and expansion of business possibilities in those markets. Recently, increase of exports of knit products in Japan, Russia, Mexico, Brazil, South Korea, Malaysia, India, South Africa, and China shows new possibilities. BKMEA has designed an extensive plan to export knit products worth at least 20 billion dollars and 30 billion dollars by 2020 and 2050 respectively (BKMEA, 2015).

Expansion of Export Destinations:

Though Bangladesh currently exports to 153 countries, it soon expects to expand to 212 countries. The most suitable target markets are Africa & Latin America. Countries of African continents were expected to exhibit the highest average development growth in the coming days according to a research conducted by the OECD in 2012 (BKMEA, 2015). A cooperative agreement with the African Customs Union will only facilitate the effort.

Product Diversification:

Though Bangladesh only exports non-fancy products (t-shirts, polo shirts and sweaters etc.) in bulk amount, soon more fashion products along with the traditional ones are to be added.

The Process:

To realize the vison, an absolute grasp of the GSP facilities in the European markets along with facility of zero tariffs for Bangladesh in 49 other countries is essential to negotiate prices accordingly (BKMEA, 2015). Thorough knowledge on topics like GDP, economy, sea port, capital & other important cities of target countries, per capita income, time gap with Bangladesh, economic demand, main tariff and non-tariff barriers etc. are necessary.

Future Projection of Bangladesh Knitwear Industry:

Fact	FY 2014-2015	Vision – 2021	Vision – 2050
Knitwear Export	$13.25 Billion (Targeted)	$21.08 Billion	$32.62 Billion
Growth of Knit (%)	15.6	20.9	32.1
Share in Apparel Export (%)	49.75	52.3	69.4
Share in National Export (%)	39.93	41.7	53.2
Share in GDP (%)	6.9	7.2	12.12
Employment Generation	1.6 Million	2.8 Million	4.9 Million
Female Empowerment (%)	45	52	67
Enhancement of Women Savings (%)	8.8	13.69	29.2
Poverty Reduction (%)	6.4	7.5	9.1
Banking & Insurance	BDT 176 Billion	BDT 187 Billion	BDT 201 Million
Shipping & Logistics Industry	$ 79 Million	$ 84 Million	$ 91 Million
Forward & Backward Linkage Industry	BDT 212 Million	BDT 221 Million	BDT 254 Million
Engineering Sector	$ 10.1 Million	$ 14.1 Million	$ 19.4 Million

Figure 17: Vision 2050 Projection (BKMEA, 2015)

2.10 Issues to Consider

2.10.1 US-China Trade War

US-China trade war provided an opening for countries like Bangladesh. Since China has a well-skilled workforce at its disposal, it easily has a competitive advantage over Bangladesh. For instance, the per capita manufacturing value-added for Bangladesh is $107.65 whereas for China and India it is $1,147.12 & $163.44 respectively (BKMEA, 2019c). Presently, China is slowly changing its strategic structure. Beijing is concentrating on high-end manufacturing and services sectors, known as vertical economy, after China's exchange-rate policy and global imbalances (BKMEA, 2019c)**.** Rising labor cost at 7% to 13% in the past two decades has cost its reputation as the lowest cost manufacturer. This actually creates more room for Bangladesh and other low-end labor-intensive South Asian countries. China is projected to buy about $20 trillion worth of goods and services in this decade and Bangladesh is a source to her. Bangladesh is a lucrative destination for Chinese consumers as the prices charged are 10 to 15% lower due to duty-free access facility (BKMEA, 2019c).

2.10.2 Emergence of new industry: Jhoot Trade

Over the last few years, a new industry based on the existing textile industry has emerged. The waste of garments is known as "*Jhoot*" and people have made an industry by recycling them. This informal sector requires little investment. It has attracted a number of underprivileged people. Every bits and pieces of waste raw materials starting from cut-pieces of clothes, zippers, buttons, thread, elastic fasteners, used plastic packets, broken cloth hangers, empty bobbins to rejected pants, shirts and t-shirts are sold from the garment factories (Parveen, 2008). The recycled and reproduced items are mostly sold in street-side stalls all over Dhaka. Some of the best qualities can be sold at Tk 35-40 per kg while the lowest quality at 1 taka. A large amount goes to Bangabazar, Doza market and New Market extension (Parveen, 2008).

Jhootpatti or area for jhoot trade has been settled around garment waste processing zones like Tongi, Gazipur, Savar and Narayanganj and the largest one in Mirpur. Every day, about 550 tons of garment waste is being exported abroad from the port of Chittagong (Textile Today, 2017). Around 50 lacs people are connected to this trade, majority being women. Till now, the business lacks legal recognition and the traders are often harassed due to the ambiguity of legality and illegality. Currently, most of these jhoot are exported to be used as raw material for sustainable fashion. With the help of proper steps, all the waste from garments can be used within Bangladesh to support green economy.

2.10.3 Post-Graduate LDC

Bangladesh is expected to graduate from LDC status by 2024 as it has met all required criteria for the first time at the CDP (Committee for Development Policy) review in March 2018 (EBLSL, 2018). After the supervision period of 6 years, the DF-QF facilities will be stripped away. But the good news is, Bangladesh is trying to achieve SDG status by 2030. Upon acquiring which Bangladesh will be eligible for GSP Plus facilities.

Though many fear that bubbles have already formed due to preference erosion from 2024, a few calculated policies at macro, meso (sectoral) and micro (enterprise) levels will help to embrace the upcoming changes. According to Rahman (2019), measures such as forming alliance with other graduates, preparing for bilateral FTAs with key trading partners, and taking a proactive stance in the WTO to create a support package towards sustainable graduation of the LDCs will be implemented. For inspiration, Bangladesh will be keeping a keen eye on the *package of support for graduating LDCs* that has been mooted in various global fora. Lastly, progressively going for *living wage systems of compensation* that align with the SDG aspirations of Bangladesh, particularly Goal 8 relating to *decent labour* will be one of the prime targets for the country (Rahman, 2019).

2.11 Conclusion

Despite many difficulties faced by Bangladesh textile sector over the past years, it has carved a niche in world market and kept continuing to show a robust performance. Industry strengths generated from 30 years of experience & reputation in garment manufacturing, competitive pricing, versatility of producing different types of products, international standard quality and a vibrant population (70% below 40 years of age) that is quick learning and dedicated. Duty free market access to many developed countries helps keep product prices low. Bangladesh textile industry has also remained compassionate throughout its years of success. For instance, upon learning about child-labor in 1994, the industry acted prudently to successfully operate free from child labor in 1995 and female employment has experienced a robust growth. Over the years, Bangladesh has successfully reaped benefits of multiple trade agreement such as MFA, GSP and FTA. Even the post-MFA era is another story of success; proving all the predictions wrong, Bangladesh conquered the post-MFA challenges. Now the apparel industry is Bangladesh's biggest export earner with value of over $30.61 billion of exports in 2017-18 financial year. After LDC graduation in 2024, the country aims to obtain SDG status by 2030 which will in turn open the doors to GSP Plus status.

However, the future scopes of Bangladesh textile industry are subject to parts of the industry entailing improvements. Bangladesh is falling behind while the global economy is preparing for the 4th industrial revolution. Experts say that the apparel industry of Bangladesh is hardly ready for it because the industry suffers from lack of technology advisory services and R&D investments towards the industry's automation. Persistent issues of poor infrastructure, lack of workplace safety, meagre health conditions in the workplace, unfair labor rights - all of these serve as barriers to achieve future goals of the sector. Therefore, for an absolute positive change in the textile industry, these root issues must be perpetually eliminated.

CHAPTER 3: CORPORATE GOVERNANCE: MAJOR THEORIES AND APPLICATIONS

3.1 Introduction

The medieval political structure revolved around the monarchs who governed the European society. For England introduced laws that respect property rights and intellectual rights during the late 17th century. This kind of policy was not present in any other part of the world which resulted in the first industrial revolution taking place within the English soil during the early 18th century. This was the birthplace of capital investment and raising entrepreneurs. When the industrial revolution was taking over some parts of the world by a storm of new change, organizations were seen as a medium to earn money or profit maker for the owner. There was very little to non-existent consideration for the stakeholders who were related to the operation of the business. However, when industrialization was starting out, the mechanism did not rely on global effort. The growth was mostly within Europe and United States. The capitalistic mindset was in rise as people began to value profits and knowledge over war which is known as the unified growth theory (Galor, 2005). The switch from agricultural production towards the industrial production was not seen until the 19th century when the transportation system became feasible at connecting regions. This was the beginning of globalization as this was the first leap towards the idea of free trade. Then international trade followed soon which mitigated the gap between the regional discrepancies in price as productivity increased. Everything took a different turn when the importance of globalization came into existence as this was the start of the new world that we are familiar with today. The idea of a business being a different entity on its own - separate from the owner or founder - became more prominent. Global cooperation of interdependence between business and sourcing investment funds gave birth to the idea of corporate governance (Rashid, 2009). Countries and corporations required a standard set of rules that would govern best practices to attract both foreign and local interest. From a timeline perspective, the idea of formulating a corporate governance framework was initiated by the likes of Bowen's (1953) literature back in the 1950s. The philanthropic ideology for the businesses to have corporate social responsibilities was carried forward by Davis in the 1960s literature. The modern corporate governance framework that we are used to today was inspired by Friedman in the 1970s (Further details with regards to the timeline is discussed later in this chapter).

Corporate governance is the parity that connects economic and social objectives with individual's and community's objectives (Cadbury, 2000). Corporate governance is the body that encourages the efficient use of resources and jointly require the responsibility for the administration of those resources. This is necessary to achieve the objectives of possible parties affiliated with the organization. Corporate governance is surging in popularity because of the impact this has on the stakeholders of the companies. As in the past few decades, there has been a few collapses of quite stable companies due to negligence and fulfillment of personal agendas by the top management such as Enron and WorldCom which has necessitated a governance body that would ensure the interest of the people who are affected by the company's decision (Karim, Sarkar and Fowzia, 2010). Corporate governance best practices provide assurance to the stakeholders of the company that their interest will be tended to (Afroze and Jahan, 2005). When companies participate in the capital market to raise funds, investors decide on their investment opportunities based on the company's ability to reward them in the future for their investments. A sound corporate governance is prerequisite to avoid poor performance in the capital market as this serves as an indicator for the company's long-term performance to hold investor confidence (Karim, Sarkar and Fowzia, 2010).

Globalization is here to stay. Corporate governance is the medium that ensures that the traction that the world has gained over the years towards a more integrated trade society does not die down. The guidelines that have been developed through trial and error over the years have the sole purpose to initiate trust between business and their stakeholders. It is in the best interest for all affiliated parties to abide by these guidelines so that win-win situations can be achieved because only sound corporate governance practices indicate that an organization is here to stay and have a desirable impact on society. The transformation of economy and economy are here to stay and constantly evolve.

3.2 Concept of Corporate Governance

The rush to conquer the global market and strides to be the industry leader has its down side. As organizations may want to achieve these milestones at any cost, this kind of mindset can have dire consequences for the stakeholders involved with the business. Past examples such as, Enron and WorldCom bear witness to this phenomenon where the top management got greedy, resulting in bankruptcy of well-established and reputable businesses. Corporate greed can harm both the business and the consumers. Even recent events such as the global financial crisis has etched the importance of corporate governance for the sound functioning of the global economy. Concept of corporate governance is growing and shows no sign to stop because this is the only sustainable way to achieve a globally dependent society.

The surge in interest of corporate governance has been due to some well-known misconduct that served the purpose of some individual at the cost of the stakeholders' interest. Even though, these acts may not have been prohibited by the rules and regulation is place, the consequences left a bitter taste (Jackson & Carter, 1995). Thus, to restore public confidence, governments introduced stricter regulations in those places that lacked government involvement; the industries resorted to set up standards that were respected and followed (Oliver, 1995). Companies had to be more transparent to cater to investor interest as a result of past conundrum (Khan, Muttakin and Siddiqui, 2013). This had a mutually beneficial implication for all parties involved. The information gap that existed due to asymmetric information where the top management knew more about the financial health of the business than the stakeholders became narrower. The top management was now more accountable to the stakeholders regarding the true health of the business. Capital market had the potential to flourish because investors were now more aware of the financial health of the business they were investing in. Top management no longer had the luxury of just acting on their own self-discretion. Corporate governance has strong implications of bridging the gap between the top leaders of a company with its investors.

We learn from our past mistakes and corporate governance is not an exception to that concept. The prime principles that constitute the main core of any corporate governance guidelines has gone through many changes. Each change made these principles stronger than before to enable organizations to establish a firm operational mechanism to serve the needs of both organizations and its stakeholders. Corporate governance has been and always will be the catalyst that brings global dependence to reality from the once conceptual idea.

3.3 Theoretical Underpinnings of Corporate Governance

The whole is greater than the sum of its parts. Corporate governance is no exception to this idea, as corporate governance exists because of the individual portions that make up the idea of good governance regulations. There are many components that dictate how an organization should be governed. These underpinnings are considered when deciding on the corporate governance policies by either the state or industry. The associations of the divergence of interest between the stakeholders of an organization is what dictates the requirement for internal and external audits to make sure that everything is in accordance to compliance of the opposing parties which have dictated the inception of some theories (Rae, Sands and Subramaniam, 2017).

3.3.1 Agency Theory

The past failures of corporations give a very important lesson. Most organizations failed because the top management got greedy. As they would receive more bonus if they are able to show more revenue earnings for the company, they would be involved with activities such as cook the books. This might have served the purpose of the top management but this involved a cost. That cost was borne by the shareholders of the company when these malpractices caused the company to go bust.

Agency theory is the concept of sheltering shareholder's interest by isolating the roles of top management of the company (Donaldson and Davis, 1991). Since the managers who are in charge of running the company want to do what is in their best interest, they may be inclined towards risky measures that do not serve the best interest of the shareholders. It is assumed that a mature market that can deal with top managers controlling the entire business operation just does not exist which results in market failures (Bonazzi & Islam, 2007). The conflict of desire drives a wedge between the opposite parties which is known as the principal-agent problem; where top management is the agent and shareholders are the principals. Thus, agency theory protects the shareholder's investments as the top management has to act under certain bindings and not free to just take care of their own interest.

Agency theory enables the top management of the company to act in a way so that they serve the purpose of the shareholders. It ensures that the interest at question does not diverge from top management and shareholders but rather they can act in harmony so that both parties can mutually benefit from the actions that are foreseen by the top management.

3.3.2 Stewardship Theory

It is known that it is only normal to act in a way that is in the best interest for the person in question who is in charge of taking key decisions. The act of fulfilling top management's own self-interest is not any different. This is a simple behavioral and psychological logic that those who possess the power will act in a way that undermines anyone and everyone below them. The individuals who are in the top position is under an illusion of not being accountable for their action to anyone which results in decisions that only serve their own agenda. So, a practice is needed that can prevent the shareholders from top management's act that is based on their own interest.

Stewardship theory is the idea that top management who are trusted with their roles to act on discretion that serves the needs of the shareholder's interest rather than relying on self-fulfillment (Donaldson and Davis, 1991). This theory has roots in more of a behavioral and psychosocial direction (Davis, Schoorman, & Donaldson, 2018) where it was stated that the top management acts as stewards of the principal where their roles align with the interest of the shareholders and no divergence of interest occurs. This ensures that the top management is accountable for their actions in such a manner so that the shareholders can benefit from them. As the theory makes it Ivery clear that top management only exists to act in a way that maximizes the shareholder's utility by only existing to act on behalf of the shareholders. This enables the leverage of being more trustworthy to the stakeholders as they are under more certainty that the top management will only engage in decisions that have their best interest in consideration. More individuals will be likely to feel comfortable to invest with such organization when their peace of mind in accounted for.

However, this theory is rather new and contradicts the utility maximization interpretations of the principal agent problem. Principal agent problem arises when the agents who are the top management does not act in the best interest of the principals who are the shareholders of the company. It can be seen that the conflict arises when consideration of utility maximization comes in place. As top management is entrusted with the position to serve the needs of the shareholders. Stewardship theory believes that top management will be happy with the intrinsic reward that they receive from serving the shareholders but they have no reason to do that since they can just maximize their own utility by acting on their self-interest as they are in a position to do so. They will be able to obtain higher utility from doing so rather than serving the stakeholders which only raises the stakeholder's utility. Thus, top management is highly unlikely to put the shareholders' interest before their own as this will only reduce their utility.

3.3.3 Stakeholder Theory

Stakeholder theory is the ideology that any decision taken my the top management should be aligned with the stakeholder's best interest in mind (Freeman & David, 1983). This has been instilled from the belief that the existence of corporation is there to serve the society's needs as they are also the stakeholders of the organization. For example, a tannery can serve the needs of those who demand their products. They can cut costs as much as possible by not abiding by the environmental guidelines. This may benefit the stockholders at the cost of others who are now being affected by the pollution. The citizens around the tannery who are being affected might revolt which have undesirable consequences for the company. The whole situation could have been avoided if the tannery considered the stakeholders' interest and not just their own. As much as the stockholder's concerns need to be addressed by the top management, they are equally liable to the stakeholders of the company.

There are two ways to distinguish stakeholder theory (Freeman & David, 1983). Firstly, "narrow definition", which is the consideration towards the stakeholder group that are vital for the survival of the corporation. For example, the suppliers, customers, and employees are essential for the survival of a company. If the corporation fails to address their wellbeing then the company will have a hard time functioning efficiently. The primary objective of any company is to sell their products in the marketplace which won't be possible without customers. The products that reach the customers need to exist in the first place which are manufactured by the employees. The employees cannot produce something out of thin air; they need raw materials which is taken care of by the suppliers. As a result, a business is dependent on all these different parameters and they are all the stakeholders of the company. The company has no choice but to value the stakeholders if they want to do business. Secondly, "wide-definition", which takes the society as a whole into consideration. This strategy has been used by many global corporations, such as Google, Ebay, etc. They address the necessity of the impact their business has on the wider society, such as community need and environmental impact etc. This idea broadens the horizon of who are either positively or negatively affected by the corporation's actions both directly and indirectly. We are no longer in the era where organization can get away with damaging the society around them to only maximize their profit. People have learned to be more inclusive of each other which is evident from the evolving views of racism. Everyone is also aware of the environmental impacts that they contribute to. This current time is such that organization needs to respond to these concerns if they want to appeal to mass market. Blessings from the stakeholders is the only way for organizations to exist in today's world. Companies need to be more responsible towards the environmental effects, consider how their funding is being utilized such as war funding and contribute to a more inclusive society. It was not long ago that organizations would do anything to maintain the image of not having any political affiliation but the situation is different now as political affiliations can now indicate a lot about a company's stance regarding the evolving global situation.

The stakeholder theory has been evolving the most out of all the corporate governance guidelines as it is the most volatile. The change in the consideration regarding who are the stakeholders of the organizations has been evolving with the society's norms. Stakeholder theory is the most prominent ideology when it comes to addressing the issue with global inclusion. This started out from the consideration of only shareholders who are investing into the company to addressing the concerns of the global community as a whole. This theory had the most dynamic affect and can be considered as the prime catalyst of corporate social responsibility that is ever so popular in recent times.

3.3.4 Resource Dependency Theory

Resource dependency theory is the concept of how external resources that are affiliated with organizations can affect the organization's decisions (Davis & Cobb, 2010). Globalization has led to interdependence when it comes to the production process. An organization is dependent on multiple individual businesses to sustain their production function smoothly. This theory is concerned with those that hold the power to run the organization and how they utilize them given the constraint of external resources that dictate development of the organization.

The one that controls the resources that are required for the efficient functioning of an organization usually holds all the power. The pursuit of obtaining market dominance is through controlling the resources that are required to carry on business. If the supply of these resources breaks down or an organization fails to secure their share, the business may lose their share of market dominance. As the company is dependent on these resources, they would cease to exist in their absence. The central idea is to mitigate that power-play so that there is fair competition in marketplace as it minimizes the uncertainty dependent on relying on few actors that can control the entire market. The more an organization have control of their value addition to the resources that they can source, the more the efficiency at controlling the whole process from start to finish. This can be true for both internal and external contexts. The top management needs to distribute the influence of certain people so that the organization does not depend on one person too much. When there is increased dependency on certain individual their role within an organization may become inflated, leading to the appearance of their inevitable power. As much as this is true for internal influence, this also applies for external influence as well. When the supplier gets too confident with an organization’s dependence on them, they may not be cooperative anymore. They may not keep up with the strict schedule demanded by the business sourcing from them and may not also offer them the best price anymore. The main idea is to mitigate influence from both internal and external agents, for those who control critical resources required for the organization’s survival.

Organizations need to cater to social impact of their actions to maintain the efficacy of autonomy to run the organization on independent terms that are constrained to the minimum from external affairs. Everyone in the economy acts on the constraint of scarcity. As resources used to add value to production is scarce, utilizing these scarce resources to their maximum potential is the most difficult challenge most businesses face. Organization commit to acts of transaction when they benefit from them. Top management's primary goal is usually to enhance the bargaining position of the company so that they can benefit from the transaction. The more influential a business can become over their competition, it will grant them that much extra privileges when they are involved in market transaction, being able to cut some costs when sourcing raw materials and being on top of brand recognition when selling the finished products result in market dominance.

3.3.5 Signaling Theory

Parties involved in the marketplace have either asymmetric or incomplete information and the choice made by them are based on the available information- this is the main concept of signaling theory (Bergh *et al.*, 2014). Due to asymmetry of information, buyers in the marketplace cannot differentiate between poor or higher quality products as they value all of them the same (Morris, 1987). A popular example regarding asymmetry of information used in literatures is the market for used cars. The previous owner has perfect knowledge about the car as s/he has used it on a regular basis for the duration of their ownership but the buyer has to make predictions on the condition as they don't know if they can trust what the owner is saying. As a result, they want to low-ball the price as much as possible. This can discourage those who are providing higher quality products from participating in the market as their offerings are not being appreciated and being bundled up with the lesser quality offerings which is not a desirable outcome for them.

The way for higher quality product producer to make a profit on their product in the marketplace is through properly reflecting the price of the good with a superior quality image of the product which acts as a signal associated with the superior quality product (Morris, 1987). A primary example for this can be luxury goods such as Apple. Apple produces electronic consumer goods just like many other players in the market who may produce not exactly but almost identical products. However, they are infamous for charging exorbitant amount of money according to some; the same specification product can be bought from other manufacturers at a cheaper rate. The only reason is that they have established their brand image in the market. Thus, people have no issue paying what Apple charges for them as buyers are under the impression that they are purchasing a higher quality product compared to their competitors when it is branded under the Apple umbrella. The ability to brand a company can give them remarkable markup ability. This is how the market for luxury goods exist. Even though, there are other products in the market that serve the same functions as the brand product, the perceived value differs when it comes to consumers. They don't mind paying exorbitant amount of money when they believe that the brand product is of better quality and the asking price is within their utility.

The idea of differentiating the individual products from what the market is offering is the core idea of signaling theory. This acts as an incentive for people to pay what the company is asking for once they have established their brand image. This is how different classification exists for the same kind of product which can reflect different monetary values in some instances even if the product might appear to be identical. The desirability is signaled by the perceived brand image.

3.3.6 Market Myopia Theory

Everyone operates under the constraint of scarcity in the marketplace. Resources are not abundant; the perceived value of these resources depend on their availability. The only way companies can differentiate their core values is by utilizing these resources most efficiently. Anyone can make a product but if the product does not address any need then that product is wasting precious resources which can have dire consequences. The companies won't be able to sell them which can lead to possible loss on top of valuable resources being wasted.

Market myopia is the idea that corporations tend to be more successful if they concentrate on their customers' need rather than only focusing on selling products (Bharath, Dittmar, & Sivadasan, 2010).

Corporation are more likely to sell products that address the needs of their target customers. If they spend the time to do proper market research to identify that need then they won't be required to spend money on campaigns to create demand for their products later on as that will be the only way left to push the existing products out in the marketplace. Resources might be misallocated if companies do not address consumer demands as they may later scramble for valuable resources when they better understand customer needs (Ralston, LeMay, & Opengart, 2017). An example to view this situation is 3D television. They were all the hype in the early 2000's and were expected to be the next big thing. However, the idea has greatly fallen out of favor and has been replaced by curved televisions. Almost all manufacturers have stopped making 3D television after they failed to get the consumer base and they are repeating the same mistake with curved televisions again. If they just addressed the consumer demand from the very beginning instead of creating a hype for products that are just not required in the marketplace, they wouldn't have wasted the valuable resources trying to sell these products later on.

Corporations can avoid rivalry in factors market if they initially focus on what the consumer wants; they can have a successful product lineup which is a more efficient plan than introducing a product that is not required and later trying to figure out how to make profit on it. The finite resources that are needed for production will be more efficiently utilized without market rivalry to secure the supply of raw materials. The resources will be subjected to more stable value over time rather than inflated value due to hype created by manufacturers to sell their products.

3.3.7 Transaction Cost Theory

When corporations participate in a market place, they incur a transaction cost when they want to trade the goods and services (Robins, 1987). These costs can drive up the cost of production, making the goods less competitive in the market place. It is in the company's best interest to mitigate any types of cost.

There are two types of transaction costs which are internal and external (Geyskens, 2006). Firstly, internal cost: as the name suggests, these costs occur internally within the corporation. This can be due to departmental differences. The individual department within an organization may not be able to work in harmony if the size of the business is large enough. This can result in misallocation of resources leading to costly consequences. This is affected by the internal governance decisions by the managers on how they want to operate their organization. Secondly, external costs: these are cost that the organization incurs from outside. This can occur from their resource suppliers, government etc. It is mostly desirable to internalize the costs as much as possible through vertical integration (Geyskens, 2006). This will enable them to isolate these internal costs from outside competition when compared against the external transaction costs. As by vertical integration organizations have more control over their suppliers and sellers – because they are able to control the whole production process from start to finish without depending on other factors outside the control of the organization – they can mitigate the variability of the costs they used to incur before.

The external transaction costs are roughly dictated by the government and industry policy which is outside the control of individual firms. This can be hard to control when the companies have to rely on market factors. As a result, the theory suggests that companies should internalize these costs as much as possible so that their operations are not dependent on external factor changes which can have an impact on their profitability.

3.4 Corporate Governance: Guidelines and Models

Globalization has led to trade dependency between economies. The market practices are not always the same in different regions of the world. The existence of corporate governance guidelines can help to enrich the bond of trust between different countries as this will ensure that the country in question will be following a set of rules that are well established. This will give investors more confidence to operate in other regions as the guidelines ensure an environment to which they are familiar with and enlisting trust will be much easier in regions where they are followed.

Corporate governance models and guidelines exist in order to comply to region specific obligations (Ahmad & Omar, 2016). Not all countries have strong institutional system in place, for example, developing economies where corruption is rampant and market leaders have very limited consideration for the stakeholders of the business. As a result, benchmark models or guidelines from the developed nations won't fare well in these economies. Some of these guidelines and models have managed to address the specific needs of the specific country which may not be suitable for other countries. Thus, as benchmark models and guidelines already exist, other nations can borrow the principle ideas of these models to cater towards their own regional specification. This will ensure that the global trust is being obtained with as limited change as possible to the domestic industrial norms.

Principles become well known because they address key concerns and allow solutions for these concerns. When countries or organizations commit to abiding by these guideline measures, they ensure to their investors and stakeholders that they want to be reliable and have plans of operating in the industry for a long duration. It is believed that adhering to these strict guidelines can mitigate the risk of unfavorable corporate governance practices which can result in the investor's funds going to waste deterring further investments in the region or industry.

3.4.1 Corporate Governance Guidelines: OECD Principles (Organization for Economic Co-operation and Development)

The OECD guidelines were first adopted by 30 OECD member countries in 1999. The guideline covered the basics of good corporate governance so well that it was suitable for adoption by non-OECD countries as well. In fact, this guideline is one of the, "twelve key standards for Sound Financial Stability Forum" (Jesover & Kirkpatrick, 2005).

OECD guidelines have gained worldwide recognition as a set standard for an idea example of corporate governance which has enabled them to be used even outside the OECD countries. The OECD guidelines have six key principles which are, “ensuring the basis for an effective corporate governance framework; the rights of shareholders; the equitable treatment of shareholders; the role of stakeholders in corporate governance; disclosure and transparency; and the responsibilities of the board” (Jesover & Kirkpatrick, 2005). These principles in theory provide a good foundation for developing and emerging economies to use as the guidelines address the main concerns when it comes to designing the effective corporate governance methodology given the economies have a responsive institutional system in place (Chen, Li, & Shapiro, 2011).

A sound corporate governance guideline ensures the principle that the top management does not exploit the stakeholders of the company. The OECD guidelines does a splendid job at addressing this concern. They enforce the rights of the stakeholders affiliated with the organization thorough transparency, equitable treatment and the accountability that the top management has towards the stakeholders. The guidelines have segregated the conflict that can arise between the shareholders and management. This is essential for publicly traded companies as it is more likely for investors to be comfortable in investing in the organization that adheres to standards the investors are familiar with (Chen, Li, & Shapiro, 2011). The global acceptance of the OECD guidelines helps in the global integration process as outside investors are more likely to be familiar with the local good governance practices, making the transition much smoother.

The principle was revised in 2004 following some corporate governance developments. As it stands today, the guidelines allow both OECD and developing economies to form a baseline for good corporate governance practices. Since its establishment, the guidelines have garnered sound response from all over the world and is considered as a benchmark for initiating corporate governance foundations. The effective implementation of globally acceptable standard is the identity of a good corporate governance practice despite the growth projection path the country is in currently.

3.4.2 Corporate Governance Models

Corporate governance models have evolved from regional needs. This has given birth to models that cater towards the structure and requirements of the region they were designed for. There are three main models of corporate governance from developed economies which are Anglo-US model, Japanese model, and German model (Hoynes, 2011).

Firstly, the Anglo-US framework addresses the integrity and authority of a business mainly for management, directors and shareholders. The framework ensures that there is no communication gap between the shareholders and the management; the communication shouldn't rely only on Annual General Meeting. The nature of this framework seems to heavily address the capital market interaction with corporate governance. This is understandable since both USA and UK rely on the capital market rather than the financial institutions when they are trying to source funds. The US does have the world's largest capital market when considering market capitalization and the most developed shareholder's right system in place (Hoynes, 2011). The US has great deal of confidence in institutional investors as they mostly supply funds for organizations. They have developed the most well-established system of voting rights for the shareholders, through proxy voting. Even if a shareholder cannot attend the annual general meeting for whatever reason, they can pass on their voting rights to another shareholder who is able to vote on their behalf. In this way all the votes are used to express shareholder's concerns regarding the business decisions. As individual ownership is an influential factor in this model, the rules of disclosure regarding business health is known to be the most stringent in the USA economy. The model is suitable for supporting the mechanism of these economies that they are used in.

Secondly, the Japanese framework is mostly involved around the idea of “keiretsu” which means that the businesses are linked together by cross holdings of debt and equity. The insider shareholders consisting of the parties that are major shareholders are the board of directors of the organization with the most control of the business operations which subdue the importance of outsider shareholder who have minute stakes in the company. As a result, independent directors merely exist as non-affiliated shareholders and don’t have much influence over Japanese corporations (Hoynes, 2011). The Japanese culture does not prominently support the idea of borrowing due to their experience after the World War II. Japanese economy suffered severe recession after they lost the war. This resulted in the idea of building everything from ground up; so, they didn’t want to rely on help especially through bank loans due to interest accumulation which can burden individuals or businesses. There is only one distinct bank for the companies that underwrites these debt and equity shares. They have obligations towards the companies that they serve both culturally and through government policies. Thus, conflict of interest is almost non-existent. The government policy regarding industrial development is very strong to support the organization’s need for finances through the main banks that serve them. Government intervention was required to support the sentiment of individuals regarding their sentiments on banks. When there is financial turmoil, the government policies are designed in such a way that it strongly favors the corporations than the banks. Also, shareholders are usually considered long-term investors in the Japanese market. Difference is opinion regarding management decisions are strictly discouraged and to reduce conflict, all the AGMs take place on the same day so that voting motions can be controlled (Hoynes, 2011). This caters towards that idea because corporations in Japan don’t directly borrow funds from the financial institution but their shares are mostly owned by the affiliated banks.

Lastly, the German model has significant difference from the previous two models despite the similarity with the Japanese model of having long-term stakes in the corporation by the banking representatives; they have two board distinction which are the management board and supervisory board. The management board consists of the insider shareholders who mostly have influence over the corporation. The supervisory board consists of worker representative. Even though there is significant foreign equity ownership for German firms, voting right restriction are in place despite share ownership position as most German companies prefer bank financing over equity finance because of their prudent business strategy when it comes to investments. As a result, German market capitalization is extremely low. Minority shareholders are given substantially more priority as the limited voting rights are based on certain proportion of the total share capital of the company which has a favorable outcome for the minority shareholders to convey their stance through voting rights carrying significant weight in relative comparison with mainstream shareholders' voting rights; in contrast, minority shareholders may receive negligible importance in other parts of the world. Also, most of the debt and equity securities are underwritten by the most prominent German banks: Deutsche Bank AG, Dresdner Bank AG, and Commerzbank AG. The state banks also play a major role as supervisory boards besides these commercial banks. However, many changes are in horizon due to global dependency. As German firms are venturing out to different countries, they need more transparent accounting rules as foreign capital markets follow more stringent GAAP (Hoynes, 2011).

The unique characteristics of each model is specific to regional structural framework. As a result, the country specific factors and conditions can be addressed effectively. If the country in question has similarity in terms of how the market functions, they can easily adopt any of the three specific models to cater towards their needs. As the models address core corporate governance best practices, they are accepted in other regions of the world. When countries follow already established models, the task of assessing the organizational workings in the country becomes much easier for investors.

3.5 Corporate Governance Index

When there is a requirement for a comparison, it is always desirable to have a numerical value against which the comparison can be done. Thus, when we are comparing the good governance practices across different countries, having an index can have substantial benefit to direct expectations regarding the state of business mechanism.

It is difficult to have a valid comparison of two things based on words. Good, better and best does not lead to anywhere. Thus, business comparison based on this is not possible. The idea behind measuring index is to define some features based on numerical values. The values which are also known as a score, against which a comparison can be made on how some individual business is doing compared against the rest of the industry. The comparison is not possible if the index does not follow the same basic features when considering the scoring method. This results in a set of guidelines that is followed to establish the scores. When the guidelines used to score certain business matches, they are comparable based on how they score on a set scale. This provides a solid foundation to do relative comparisons amongst businesses. However, cross index comparison can be difficult as not all index measures will use the same guidelines to measure the score. This can be avoidable by obtaining multiple scores from different agencies who specializes in this.

Corporate governance index is responsible for validating a firm's future potential (Khanchel, 2007). Higher index would usually indicate the company's commitment towards abiding by good governance practices. As a result, they are likely to succeed in their organizational goals. It has been shown by research that index measures have strong correlation to firm's ability to perform in a certain way as this can indicate that the firms in question are goal oriented. Scoring higher in the index measurement serves as an indication for their commitment in achieving excellence. It is also likely for firms to secure investment or government support if they score higher as this serves as an indication of the firm's ability to fulfill their obligations.

Good corporate governance scores are benchmarks against which organizations are compared. It is always beneficial to have acceptable index guidelines to enable the comparison to be made possible.

Investors can make quicker decisions in terms of which market to invest in. This is equally beneficial for all parties involved while reducing hassle of due diligence.

3.5.1 Theoretical Background of Index Development

In the era of global dependency, it is essential to have a comparison standard to be able to invest in other countries. An index provides a viable form of mechanism to be able to make that comparison. There is no need for unsubstantial claims that will lure in investment opportunities. This has given birth to certain benchmark standard form of measures that enable the comparison to be made possible.

An index is a measure that can enable stakeholders to compare with other organizations in the industry. Corporate governance index is an indicator of a firm's valuation. It is extremely important to grasp the valuation of a firm to estimate their future profitability. Corporate governance index measure can ensure the firm's long-term commitment to ensure that the organization desires to achieve further excellence down the path. Corporate governance index is based on scores for "transparency, accountability and integrity of management" within a corporation (Rani, Yadav and Jain, 2016). These indicators give the stakeholder's an idea as to the valuation position of the corporation. They are also ensured that the index will reflect any decision change the organization desire to pursue and how it will affect their profitability in the future.

However, having multiple unaffiliated index measures across different region can make the whole process of comparison quite cumbersome. As a result, some definite standard form of theses index measure exist which can be relied on. Even though, there are many measures available, they all address the core mechanisms of corporate governance enabling these measures to reflect the financial health of the business and their long-term sustainability. This makes the comparison process easier when there exists set standards.

The index measures have made the effort of achieving global dependency possible. Stakeholders can get a firm idea about the dependency of the organizations they are affiliated with from the index measure that the company follows. The setup of standards when measuring these indexes has enabled the comparison to be made effortlessly.

3.5.2 Methods of Corporate Governance Index Construction

Corporate Governance Index is mainly constructed around the mechanisms of five indicators of business operation which are "Board of Directors, Audit committee, Remuneration committee, Shareholders and investors grievances committee, and Ownership structure" (Sarkar, Sarkar & Sen, 2012). As the performance based on these measures cannot be directly observed, proxies that are directly affected by these mechanisms are used to measure the index instead (Black *et al.,* 2017). The index that is generated serves as a measure of divergence between top management and stakeholders of the organization.

The baseline mechanisms that are essential for the smooth functioning of an organization are essential consideration when an index is being constructed to reflect them. As the features cannot be directly observed, proxies are used to set up an approximate reflection of the required measures. When something cannot be observed directly, it is standard practice to use proxies to measure them. All the measure for the committees has some core features in common such as their size, percentage that are operating independently, if there are any non-executive members and their presence is measured through the number of meetings held. Ownership structure is measured by percentage of majority shareholders, percentage of foreign investments, percentage of domestic investments and the percentage of dispersed ownership. These proxy measures help to identify the core mechanisms that reflect corporate governance practices in an organization. Thus, the index can be setup to showcase these measurements.

The indicators that reflect the long-term health of an organization is hard to measure on their own. The parameters that are required to address the index measure is qualitative in nature. A proxy is required which can provide quantitative measure for the parameters. However, through using proxies, these mechanisms can be indirectly addressed. The index that reflects the good governance practices from these measurements can reflect the good governance practices that the business in question practices.

Commercial Indices:

The commercial index rating that an organization receives can either make or break them as this index measure determines the kind of investors they might attract. Thus, some well-established players exist in the market who make this possible. They have operated in the marketplace from before by providing other audit or rating services to organization who are seeking the service. As a result, their rating system can be trusted and compared against other organizations. This fulfills the main goal of organizations who want to attain a rating in the first place, that is, to enable them to have the ability of relative comparison in their industry.

Corporate Governance Indices are usually determined by outside firms who specialize in rating other agencies. When an organization rates their own agency, it is highly likely that they will be biased towards giving themselves an inflated rating which does not fairly represent their business mechanism. This situation can be avoided when another agency who specializes in rating other firms valuates the organization to rate them fairly in an unbiased manner. Depending on the agency that rated the organization, it can be an important indicator of how the business will hold up during financial turmoil which can be crucial information for investors (Daines, Gow, & Larcker, 2010). As a result, the commercial indices market is saturated with some well-known players who are considered to be industrial standard when it comes to giving a fair valuation rating to businesses.

However, as these commercial rating agencies operate based on providing rating service to other organizations, they rely on repeated business needs from new organizations. They do not want to lose their existing customer base to their competition. This creates a conflict of interest as the firms try to give more favorable index ratings to their customers then the organization deserves in reality. This can make the index rating system inflated and flawed.

GMI Rating

GMI is one of the leading and independently operated corporate governance and ESG rating and research organization. Their goal is to identify the companies that are most at risk by evaluating business mechanisms and corporate governance best practices. GMI which stands for Governance Metric International is a rating system that is based on both public and private data. The data is obtained by interviewing the senior management and board of directors. This is measured across the characteristic parameters which are “board accountability, financial disclosure, shareholder rights, compensation policies, market for control, shareholder base and corporate reputation”. The policies that are used to judge these criteria are based on “the OECD, the Commonwealth Association for Corporate Governance and the Business Roundtable” which are already well regarded to have a solid corporate governance foundation (Spanos, Tsipouri and Xanthakis, 2006). The score system for GMI is based on a scale of 1-10 which is comparative score against other companies. Thus, the index can give a substantial indication of the organization’s performance in the industry as it is based on standard guidelines which are well established and is judged based on comparative score while accounting for regional difference in corporate governance practices.

Standard and Poor’s Rating

Standard and Poor’s is an American credit rating agency. They have already established rating systems in many different business sectors and are considered as one of the most competitive market players when it comes to rating related service. The Standard and Poor’s rating system is based on OECD principles where the organization is evaluated based on both public and private data assessed through four key components- “ownership structure and influence, shareholder rights and stakeholder relations, financial transparency and information disclosure and board structure and process" (Spanos, Tsipouri and Xanthakis, 2006). The rating was launched back in 2001 in hopes of providing best in class business evaluation in terms of corporate governance that will be comparable against international benchmark for corporate governance best practices. The international recognition of Standard and Poor's from other available ratings for different business sectors and regions are expected to help make their corporate governance ratings easily comparable at a global level.

Institutional Shareholder Services

Institutional Shareholder Services stride for global convergence of corporate governance best practices and policies through effectively evaluating organizations "corporate governance practices and board of directors" (Beckley & Perrett, 2005). The index is based on five key mechanisms of "compensation systems for executive and non-executive directors, executive and non-executive stock ownership, equity structure, structure and independence of the board and independence and integrity of the audit process" (Beckley & Perrett, 2005). The rating mechanism is based on a score from 1 to 5 where each company involved gets a comparative score. As a result, the rating system allows for both domestic and international comparison for corporate governance practices of the organization being evaluated. The governance risks can be assessed through cross referencing the index scores across different regions to establish the soundness of an organization.

Credit Lyonnais Securities Asia

Credit Lyonnais Securities Asia was established in 2001 with corporate governance ratings on 495 companies in the Asian region. The other rating systems that were available before mostly came from developed economies. These ratings were not suitable for the Asian market as there were a mixture of emerging and developed economies in this region. As a result, the previously established benchmarks that are widely in use globally for comparative corporate governance ratings were not suitable for this region. Thus, a rating system addressing this issue for emerging economies was introduced. Their ratings are based on seven key components: discipline, transparency, independence, accountability, responsibility, fairness and social awareness (Shen & Chih, 2007). They have held the essence of corporate governance best practice measure by other rating agencies while considering weights for the economic standpoint of the country in question. This was a fairly innovate method for assessing the complex market structures that exist in the Asian region.

Academic Indices:

The commercial indexes have evolved to support the need for a sound corporate governance baseline feature that are required to attract investor confidence to carry on with business. However, the measures used to score by commercial indices have some flaws which the academic indexes were set to solve.

The commercial indexes are ever so popular because they are provided by well-established market players who are in the business of proving scores to access the business competence. These index calculations are based on the guidelines that were already set by different regional needs. As a result, the commercial indexes mostly try to account for a fixed range of parameters that were determined by the corporate governance guidelines, each having some minor deviations in terms of accounting for these parameters to give different flavors. They are mostly different from each other in a minor degree of separation because the parameters that the guidelines need to specify cannot be observed directly; so, each of the index assessment have their own flare at determining the proxy for these observations.

Since, the commercial index calculations are based on previously determined guidelines, they have not done much market research to improve the accuracy of these measures. Some studies have determined that these index calculations have minor flaws which can be improved. The issue arises when the methodology of these index calculation is set based on theoretical guidelines which are converted to real world parameters as proxies which are weighed. However, the commercial index calculation techniques are not widely known as this is a business strategy which means that the results from the index scores cannot be recreated by others to judge the validity of their calculations. The academic indexes ensure that the index calculations can accurately and reliably reflect the business performance which can be replicated by others if it is required. (Nerantzidis, 2016).

Commercial index is still an efficient form of validation for businesses to attract investment opportunities. Academic index can be more accurate even though they are not very well known. Their efficacy is debatable even between papers who have formed these index calculations. As a result, when considering the general norm in the market, commercial index is more suitable to score the corporate governance status of an organization.

Corporate Governance Rating

A study was conducted by Drobetz, Schillhofer and Zimmermann (2004) to observe if there was any relationship of the explanatory power of a single business's corporate governance score when compared against the industry; it was an extension of the study conducted by Gompers, Ishii and Metrick (2003). They divided the 30 corporate governance proxies collected into five categories based on questionnaires answered by 91 German firms: "corporate governance commitment, shareholder rights, transparency, management and supervisory board matters and, auditing" (Drobetz, Schillhofer, & Zimmermann, 2004). Their result reflects that the governance scores of companies have significant explanatory power in terms of how they are valued. However, they observed that when considering individual business governance scores, the stock returns can have inverse relationship but this may be caused by the lack of model's ability to control for endogeneity or due to the block ownership of shares observed in the German market.

Gov-Score

Gov-Score was modelled by Brown & Caylor (2006) as an academic index which substituted some individual mechanisms of other corporate governance index measures like ISS. They wanted to see the relationship between the performance of the firms with stronger or weaker governance scores and their implications. The score was characterized by 51 measurements that can affect the firm's governance performance from both internal and external factors. The score is based on seven key measures: "board members are elected annually, company either has no poison pill or one approved by shareholders, option re-pricing did not occur within the last three years, average options granted in the past three years as a percentage of basic shares outstanding did not exceed 3%, all directors attended at least 75% of board meetings or had a valid excuse for non-attendance, board guidelines are in each proxy statement and, directors are subjected to stock ownership guidelines" (Brown & Caylor, 2006). The study found that companies that had better gov-scores performed better as they were more profitable, had better valuation and paid out more dividends to their shareholders (Jiang, Lee & Anandarajan, 2008).

Key Corporate Governance Index (KCGI)

The KCGI index measure came into prominence while Black, Jang and Kim (2006) was analyzing the prominence of parameters at estimating the market valuation of Korean public companies as an extension of the study by Brown and Caylor (2006). This was done based on a Korean Stock Exchange survey in 2001. They looked at all the parameters that are analyzed by other index calculations such as: "board composition, shareholder activism, executive compensation, Delaware corporate law, insider share ownership and, takeover defenses" (Black, Jang, & Kim, 2006). However, they found that there was a significant interdependence between corporate governance index and valuation of Russian shares as the measures did not account for dependence of the measure on signaling theory. Thus, the study generated five sub-indexes to account for this: "shareholder rights, board structure, board procedure, disclosure and ownership parity" (Black, Jang, & Kim, 2006). The study concludes that better corporate governance scores do not necessarily imply that the business has a profitable future but higher index measure is a good determinant for the sound supply of low-cost capital as investment decisions are biased towards the companies who have a higher score. Thus, the profitability result obtained by most studies are indirectly related through low-cost capital accumulation when the endogeneity of signaling theory is accounted for.

G-Index

G-index was created by Gompers, Ishii, & Metrick (2003) by summing 24 binary governance factors into five groups which are: "tactics for delaying hostile takeover, voting rights, director/officer protection, other takeover defenses and state law" (Brown & Caylor, 2006). The binary scores were established by accessing the standing of ability to dictate key business decisions compared against the shareholders and management. The score was given one point for every instance that would reduce the shareholder's prominence when compared against top management. The score divided the management system into two groups: "Dictatorship Portfolio" and "Democracy Portfolio", which refers to "weakest shareholder rights" and "strongest shareholder rights" respectively (Gompers, Ishii, & Metrick, 2003). They found that the firms who had lower valuation was usually due to weak shareholder rights and low dividends or returns from stock ownership. This index is mostly concerned with how resilient a firm is from the possibility of being taken over by other firms.

3.6 Corporate Governance Practices in Developing Countries

In order to understand the development of the corporate governance practices in the developing countries, it is necessary to have a look at the brief background of how it came into existence in these regions. Emerging economies usually have a history of implementing Import Substitution polices. This policy was implemented to protect the local market from imported goods. These countries would produce goods locally instead of importing them. There may be import tax on goods while maintaining a subsidy on local goods. These measures were against the free market operation ideologies. When these economies couldn't manage to sustain these measures due to poor performance, they required help from IMF and World Bank. Corporate governance reforms were a part of the liberalizing measures that the international financial bodies imposed on these economies (Reed, 2002).

Corporate governance provides a mechanism for smooth functioning of organizations. This is especially important for developing economies as they have to compete with markets that have already established themselves in the global stage. The scandals in the developed countries that sparked the whole motion of emphasizing the role of corporate governance is especially important when considering emerging economies. Emerging economies tend to have more relaxed laws. As a result, organization that operate locally in these countries are susceptible to not being run properly following stringent management policies which might cause them to go out of business. In order to avoid questionable business practices and to compete with the established players in the global market place, the emerging economies adopted the well regarded guidelines for commercial corporate governance indices that are already in place, like the OECD principles (Sharma, 2007).

The tendency of emerging economies for favoring Anglo-American implementations of corporate governance could be due to the colonial past of these nations. Also, there is government bias as these economies usually rely on funds from the IMF and World Bank who would definitely favor policy implementation that are in line with the best practice guidelines they are more familiar with. Organization can be more independent from the local financial sectors as they can attract foreign investment when the local corporate governance guidelines match with the principles of the developed countries where most of the global wealth is saturated in. This makes trade easier to commence between these different economies (Reed, 2002).

3.7 Corporate Governance Practices in Bangladesh

Bangladesh has a slightly different history than that of other emerging economies that had colonial history. Bangladesh was part of Pakistan after the colonial period from which she gained independence in 1972. Initially Bangladesh was mostly an agricultural nation in heart. The newly independent country went towards the socialistic ideologies which meant that all industrial practices were owned by the state. The idea of corporate governance didn’t come into existence for Bangladesh till the period when there was massive de-nationalization of the public ownership of the industries that existed during 1975 (Al Farooque *et al.,* 2007).

Bangladesh is an emerging economy. As a result, many of the constituents of corporate governance practices closely resemble that of other developing economies. Bangladesh has been growing in popularity in many instances which is attracting many foreign investors. The existence of good corporate governance practices is essentially to secure the confidence of foreign investors in order to trust the long-term survival of the local industries. Thus, many government and institutional bodies such as “Securities and Exchange Commission, Bangladesh Bank, The Institution of Chartered Accountants of Bangladesh, Bangladesh Enterprise Institute, the Institute of Cost and Management Accountants of Bangladesh” have been active to ensure that the corporate governance practices that are followed in Bangladesh are in par with foreign best practices (Bhuiyan & Biswas, 2007).

In practice the corporate governance regulation that are enforced by the government is quite relaxed and whatever regulation are in place can be avoided due to widespread corruption. So, in terms of being kept at bay with good governance practices from the government body can be thought of as almost non-existent. Transparency and corporate social responsibilities do not get rewarded in the context of Bangladesh’s local market. The capital market barely exists which makes it hard to rely on that for a source of fund. As a result, most firms operating in Bangladesh must rely on financial institution to get their funds (Al Farooque *et al.*, 2007). However, local firms do need to trade with the international market; the government does encourage the export industry as best as they can and investment by foreign companies are almost always welcome given enormous bureaucratic work around. The international counterpart has strong preference for a sound corporate governance best practice which has created a 'mishmash' or a hybrid existence of corporate governance practices from the developed models that already exist.

Application of Corporate Governance Index in the Textile Industry of Bangladesh:

The textile industry is one of the prime examples of the interdependent industry structure that exists in the modern world. The demand for high fashion is ever so popular due to electronic device dependency which creates exposure from influencers. The fashion design trend is set in the affluent parts of the world but they are not involved in the production process for the mass market. The existence of cheap labors in developing countries have made them a desirable destination to produce these designer goods. It is evident that textile industry is one of the most prominent export revenue generators for the developing economies where foreign exchange earnings consist of more than 80% in case of Bangladesh and usually around 10% of GDP (World Bank, 2020).

When it comes to corporate governance best practices, Bangladesh like many other developing economies prefer to use the Anglo-US model (Kamal & Deegan, 2013). The model is already well established which makes the process of comparison between companies easier. It is essential for Bangladesh to cater to making this process as easy as possible because this determines if organizations are likely to invest in Bangladesh's industry. This is mostly essential for their textile industry as it has prominent influence in terms of generating foreign earnings and employment. Even though most firms operating in the country follows the mandated corporate governance and corporate social responsibility, it seems to be just a formality to attract foreign contracts. The enforcement of these principles is almost non-existent which is reflected by many disastrous incidents in the past. The Rana Plaza incident from 2013 is one of the most gruesome examples from the recent history. The drive for attracting foreign investors is so high that it is common sight to see workers doing extra shifts on a regular basis without the pay for over time (Sinkovics, Hoque, & Sinkovics, 2016). The industry exists on a marginal profit basis as the comparative advantage from Bangladesh's side is cheap labor. So, the more they can produce at the shortest time, the higher the revenue earning. This creates more incentive to give out sub-contracts that further extends the viability of corporate governance measurements as the work goes beyond the initial contract (Reinecke & Donaghey, 2015).

Theoretically Bangladesh has the foundation of measuring corporate governance standings of organizations. It is in their best interest to do so as this enables them to be comparable in the global platform when investors want to invest. However, actual enforcement of corporate governance best practices is almost negligible. High degrees of corruption and non-existent accountability measures make the process of evaluating the transparency, disclosure and management of organization difficult to verify. The textile industry of Bangladesh is riddled with unfavorable incidents while corporate governance only exists on paper, (Kamal and Deegan, 2013).

Corporate governance best practices are extremely influential when investors are comparing across different regions to invest. It is in the best interest of countries to have stronger stance on disclosure and maintenance of the corporate governance of the organization operating within the economy. The economy will prosper in the long-run without any hiccups. If incidents occur while the appearance of sound corporate governance exists, the investors can have a hard time trusting future measures that promise practice improvements. It is essential to respect the relationship of trust and respect that trust to evolve in this era of global dependency.

Corporate governance best practice is a fairly good measure when trying to evaluate an organization's long-term existence. This can be a crucial factor in determining which company to invest in. A measure to determine the company's position in a comparative manner can make the whole process of evaluating them much easier. That's where many rating agencies have evolved following the basic models and principles that were set to govern this process.

Globalization has led to interdependence between economies. This has raised the issue of business operations comparison across different regions. The idea of an index has evolved as this enabled the comparison to be made on a numerical basis. The regional differences could be accounted for through index comparison. The process of determining these indices has mostly two branches: commercial indices and academic indices. The commercial indices were introduced for growing business needs. They were created by rating agencies as they already had some degree of market experience when it came to evaluate companies to provide them with ratings. However, there were some shortfalls in terms of fairly evaluating corporate governance best practices due to conflict of interest. This has pushed the development of academic indices where the shortfalls of commercial indices were considered and possible solutions were suggested. Whatever the case maybe, the influence of these measures can either make or break organizations. It is essential to have globally agreeable forms of measure so that the task of comparison and business standing in the global market can be made possible.

There is wide disparity when considering the growth stage an economy is in. The simplified focus on business mechanism that was designed by the models and principles in determining the corporate governance best practices has made the process smoother. The popularity of cross border and industry comparison is ever so popular because of global integration, thus making corporate governance measure essential in determining the long-term health of a sound business.

The concept of corporate governance came into prominence after organizations were in deep financial turmoil from selfish acts by top management such as Enron and the global financial crisis (Škare & Hasić, 2016). The existence of a good governance practice was necessary to avoid this kind of history to repeat itself. When the organizations operating within an economy has bindings to certain regulations, they are likely to have a stable business function. The synergy of transparency and accountability is achieved between the top management and stakeholders of the business when good corporate governance practices are established.

The key ingredient that has enabled the recent dependence on corporate governance has been the trust factor (Tiwari, 2014). When an emerging economy engages in corporate governance practices observed in the developed world, they are more likely to receive foreign direct investments as the foreign investors will be familiar with the business functions in that region. This enables the region to have a consistent growth prospect. The financial sector has benefitted the most due to more rigid corporate governance practices (Arun & Turner, 2015). The firms that have adopted good governance polices have been able to reduce their cost of capital while attaining higher valuation for their organization due to more perceived resilience attached to following sound corporate governance practices. Risk of financial crisis is reduced when the management criteria of corporate governance guidelines are followed allowing for better allocation of resources raising business efficiency. The improvement of the relationship between top management and stakeholders was the major contribution of good governance practices. This has enabled organizations to better cater to the needs of their customers. The availability of cheaper fund and better organizational efficiency has enabled organization to grow exponentially resulting in solid economic development all over the world as a result of following established corporate governance guidelines that was developed to work best with the local requirements.

In order to not repeat past mistakes, the corporate governance guidelines had effective contributions of responding to regional needs of good governance policies. The emerging nations have been able to secure foreign direct investment which has been a valuable resource in achieving economic growth in the region. The development of accountable relationship between top management and stakeholders have enabled firms to operate more efficiently, resulting in better fulfillment of organizational goals.

3.8 Bangladesh: Economic Overview

When looking at a nation's relative global position, economic overview can be an important criterion in determining the country's state (Mohanasundaram & Karthikeyan, 2015). A good idea about the country's health can be found when compared with the rest of the world. Economic overview serves as a key determinant when considering the business potential in a given region.

The trend in the economic development over a range of years can print a big picture regarding the future of a country (Mohanasundaram & Karthikeyan, 2015). If a country has a history of surpassing the economic development goals of previous years, it can be predicted that they have the potential and the drive to do so in the future. This serves as a good indicator to determine the future potential of a region. Investors can accurately justify their investment decisions based on the economic forecast of a given region. However, when a country is struggling with the economic health, the indicators reflect the situation very well. Their economic indicators will be all over the place. This will deter foreign investments in that region and local industries won't be encouraged to expand their businesses as well. As a result, the trend that the countries are able to set for themselves with the economic indicators can determine their future outcome. The special attention these indicators receive while comparing the countries in the global stage is the most appropriate measure as this method has been tried and tested over the years and has proved its reliability.

Economic History

The Economic history of Bangladesh starts way back in 1947 when the British India portioned the region into Pakistan and India (Heitzman & Worden, 1989). Even though Bangladesh was part of Pakistan known as East Pakistan before 1971, West Pakistan was considered as the contemporary

Pakistan. The economic goals that were targeted were more catered towards that part of Pakistan. For example, when the five-year plan was introduced to industrialize the region, a significant portion of the budget was allocated for West Pakistan. This portrayed the regional development priorities very well. The influential bureaucratic body was situated in that region as well while East Pakistan only had skeletal functions available.

Bangladesh became independent from the reigns of Pakistan in 1971 (Heitzman & Worden, 1989). The economy in this region depended heavily on agrarian production such as jute and rice. Due to the geographical location of the region, Bangladesh was subjected to annual flooding which might have made the lands more fertile but this had disruptive consequences for the economy as the floods would dislocate families from their homes and destroy harvest. Minimal investment from the Pakistan period meant that the region had poor infrastructural development such as transportation and communication system which further exaggerated the situation of the country. Henry Kissinger famously stated that "Bangladesh is a bottomless basket" when he was visiting the newly independent country. He was not alone in this stance; the interdepartmental Washington Special Action Group classified Bangladesh as an "international basket" (Bari, 2008). The general census was that no one had any faith in the economic success of Bangladesh.

When Bangladesh emerged victorious from the war, a famine followed soon after (Heitzman & Worden, 1989). The war had taken its toll on a nation which was already neglected in terms of its financial needs. At that time, Bangladesh had the highest density in the world when considering rural population. There was massive dislocation of the people towards India due to the war and malnutrition was widespread. Even though there was massive idle supply of workers, they couldn't be utilized. The roads and bridges were destroyed during the war which crippled the transportation system. The existence of industries was negligible. The workforce lacked technical expertise and those who did poses them were few in number. Bangladesh wasn't resource independent at that time and mostly dependent on imports for even the most basic needs. The economy got a jump start initially from India as they provided aid by supplying food grains, followed by the United States and the World Bank.

The industrialization in Bangladesh was off to a rocky start. Initially after the independence, the idea of state ownership was prominent (Karunaratne & Hossain, 2001). This was due to the rise in favor of socialist ideology to serve the people of the nation better. The idea of import substitution was quite prominent as well which involved restrictive trade policies. However, the many regime change that followed soon after saw privatization of many industries due to inefficiencies that was caused by the state ownership of industries and they began to open up to trade while not fully embracing free trade; but progress was being made in the right direction even if the progress was slow. Protectionist policies and state ownership of industries might have been a required strategy just after independence to have proper control of the industries in the economy but not a sustainable goal in the long run where the comparative advantage in production determines the economic success in the global stage.

Fast Forward to the 20th century, Bangladesh is still an agrarian based economy in her heart (World Bank, 2016). The rural areas in Bangladesh is home to about 77% of the working population and almost half of them are involved in some kind of agricultural work as a source of income. The second most influential sector in Bangladesh is the ready-made garment industry which is the source to the most prominent foreign currency generation for the economy (Sarker, 2005). However, this industry was not something that was influenced by the government policy initiative, rather the investors had to venture out due to the trade quota that was imposed by the United States in the South-Asia region. So, Bangladesh just got lucky due to the imposed sanctions which has helped promote the textile sector in this region. There are other sectors that contribute to the economy such as tea cultivation, leather, ship breaking, steel, cement etc. There is a common trend in the economy: the industries that do well in this country are mostly dependent on labor dependent production process. This is due to the availability of cheap labor which gives Bangladesh a comparative advantage when it comes to producing labor intensive goods at the most competitive market price. The only high-tech industry that exists in Bangladesh is the pharmaceutical industry which garnered prominence due to the Drug Control Ordinance act that was introduced in 1982. After 2010, many other industries started to see growth such as electronics, glass, aluminum, plastic, bi-cycle and ceramic etc. Even though, the nation is self-dependent, when it comes to agricultural need, in most instances there has been a motion towards moving away from the agricultural sector towards industrial development in recent times.

Bangladesh went through several changes when it comes to her industrial development (Sarker, 2005). Some of the changes were by luck such as the readymade garment industry and some through policy development. The range of potential available in this region is endless. The country is not a basket case as it was initially thought of by the international community. Today Bangladesh is one of the fastest developing countries, fulfilling the LDC goals and stepping in to the middle-income country category. While the core of industrial potential still lies with labor dependent industries which utilize the abundant supply of labor, the future lies in high-tech service industry and the country is slowly but steadily making progress towards that direction.

Gross Domestic Product (GDP) Growth:

When it comes to comparing the economic position of a country, GDP is probably the most prominent indicator out of all other economic indicators (Picardo, 2020). When it comes to observing the economy of a country, GDP is the first indicator that will be observed. Thus, most nations solely focus on developing their GDP growth as this attracts investor’s attention as the region seems like a lucrative opportunity to invest in. The country that has the highest GDP growth rate has the most potential market for growth in the future and investors want to participate in that market. This makes this one of the most sought-after indicators to measure the economic potential and the size of a country.

GDP is short for Gross Domestic Product. This is a measure of the monetary value of the finished and services that a country produces in a given year within the borders of that particular country (Callen, 2020). The indicator is measured by accounting for consumption, investment, government expenditure and net exports. The parameters: consumption measures the amount consumers spend on their personal expenditure; investment measures the amount private sector invests; government expenditure measures the amount government spends such as on infrastructure projects; and net exports measure the difference between exports and imports. The comparison is made based on the percentage difference from one year to the next. This reflects the progressive change that takes place in the economy which makes this measure so popular to determine the size of the economy in the potential future.

Bangladesh has come a long way from the 2%-3% GDP growth rate after the war period (World Bank, 2020). She has been able to progressively increase the growth rate above the 5% mark since 2009. The highest growth rate was observed in 2019 which was 8.2%, if the 9.6% growth rate in 1974 is not considered. When compared against the growth rate of China which was 6.1% in 2019, the potential of Bangladesh becomes clearer. China has been progressing towards becoming the next super power with her economic health. Bangladesh has surpassed China’s annual GDP growth rate. Even when the comparison is made against the neighboring country India who helped Bangladesh win the war against Pakistan, the former had a growth rate of 5% in 2019. We can observe the comparative advantage GDP growth rates bestows upon us in accessing the economic potential of a given country (Garber, 2017). The consistent growth rate that Bangladesh observed over the period was mostly thanks to the RMG sector which is responsible for earning most of the foreign revenue. While the sector promoted the desired growth rate for the country, it was mostly due to the abundance of cheap labor and being a favorable location against the trade quotas introduced by the United States. Cheap labor is available in many Asian countries which can have unfavorable outcome if Bangladesh loses the quota advantage due to achieving middle-income country status. The growth may not be sustainable in the future if the country does not venture out to more technologically advanced sectors that produce higher markup products or services which is deemed as future proof. Bangladesh has not been able to attract the foreign investments she deserves because of unfavorable political situation that overshadows the region. The poor infrastructure that exists in the country can bottleneck the expansion that is being observed currently if a solution is not worked out soon enough. If the shortfalls are addressed correctly, Bangladesh has all the potential of achieving double digit GDP growth rate. The GDP indicator will always be the primary measure to be observed when comparing between economies (Picardo, 2020). The simple measure of monetary value of the finished goods and services produced in a given country over a year is quite an informative way of establishing an economic comparison. It is easy to grasp the significance of this indicator when examining investment opportunities in the region that will dominate the market in the future.

Investments:

Investment rate is one of the most prominent factors when economic growth of a country is determined (Amadeo & Barnier, 2020). A healthy increase of the investment rates indicates that the country is on its path to achieving the target growth trajectory. Investment is considered as a catalyst to increase the demand or output of an economy which causes the growth rate of the economy to increase as the gross domestic production in that economy increases.

There are two types of investments that occurs in an economy, government expenditure and private investment (Amadeo & Barnier, 2020). Firstly, government expenditure has a prominent function in terms of boosting the economic growth. For example, when governments participate in infrastructure development projects, they are inducing investment in the economy. The development project would require workers which means that more people will be employed. If more people are employed, they will be able to take care of their expenses which gives them the ability to attain better living standards, and the velocity theory of money means that circular flow of expenditure has spillover effects which improves the lives of many other who are affected by the transactions as they change hands. Also, better infrastructure means that the country will be better connected with the scattered regions which enables the transport and communication system to improve. The resources available in the country can be utilized more efficiently if the regional differences can be minimized by developing the infrastructure. This better integrates the development of the wider nation. Secondly, private investment is catered towards the development of individual businesses. The investments can allow greater expansion of the business which gives them advantage of economies of scale. They will be able to produce goods at a cheaper price because of lower production cost due to the ability of bulk purchasing of raw materials and the dilution of the overhead cost due to increased production capability.

Maintaining a healthy growth in investment rate is an important factor to fulfill the economic growth target. If investment rates drop, the GDP growth rate has the potential of slowing down. Bangladesh had an annual investment growth as a percentage of GDP of 31.8% in June, 2020 (CEIC, 2020). For China, the figure was negative 43.1% and for neighboring country India, it was negative 21.4%. When we consider the growth rate of GDP, the evidence of influence of investment rates become clear in determining the influence of investment rates on that growth rate. The higher investment rates in Bangladesh compared against these regions had a profound impact in terms of pushing the GDP growth rate in this region.

The impact investment rates have on the growth rate of a country is evident from the comparison of growth rate and investment rates. It is in the best interest of nations to maintain a healthy growth in investment rates in order to sustain the growth in GDP indicator. Thus, countries who have progressive GDP targets do maintain high investment rates in order to sustain the economic growth targets. Investment provide the boost required to either maintain or progressively increase the economic growth prospect.

Savings:

Savings is one of the key parameters that is often ignored when considering economic prospect of a country (Pettinger, 2018). Saving is the most influential factor that fuels the investments that take place in a given country. Consumption is important when it comes to boosting the economic growth but without sufficient savings the growing demand can't be fulfilled by expanding the current growth rate. Thus, the progression of savings rate in an economy is an important factor to determine the growth potential of that region impacting economic health.

Investments will be affected if there aren't enough savings to back investments up with the necessary funds. It is essential to maintain a healthy savings rate in an economy to sustain investments. Bangladesh has a gross savings rate of 30.1% in June, 2020 (CEIC, 2020). In China, it was negative 44.6% and in neighboring country India, it was negative 30.1. Due to Bangladesh having higher savings rates when compared against China and India, she was able to sustain higher investment rates when compared against countries in that region. Thus, it is evident from the comparison that countries with higher savings rate have the potential of achieving high economic growth rates.

Savings is an important parameter that shouldn't be ignored when considering the economic growth rate in an economy (Pettinger, 2018). Countries with higher savings rate will have more funds available to fund the investment need in that region. It is essential to maintain a healthy savings rate to ensure that the investment rate necessary to maintain economic growth target can be sustained. It is in the best interest of nations to provide a solid financial market where the people can save their money which can then be used to fund investment requirements of that country.

3.9 Institutional Framework of Corporate Governance in Bangladesh

Corporate Governance best practices are extremely important when it comes to retaining investor confidence (Sobhan, 2016). The regulation of corporate governance is influenced by the institutional frameworks established in individual countries. Their existence is necessary to regulate the corporate governance practices in the local economy. The guidelines are developed to sustain the local function of businesses while maintaining standards with the international corporate governance best practices. This ensures that the foreign investors do not hesitate to invest in an emerging economy when they are familiar with the guidelines in that region.

Bangladesh follows the Anglo-American guidelines when it comes to the basics of corporate governance practices (Uddin & Choudhury, 2008). This is a very popular guideline that has a good presence till this day since its introduction. This ensures that the local companies are competitive with foreign companies in terms of following the regulations which is necessary to attain investor trust. The enforcement of these guidelines is necessary to ensure that the regulations are being followed correctly (Sobhan, 2016). Auditing the companies on a regular basis that are under obligation of complying to these restrictions can ensure that they are maintaining the required transparency and accountability. Thus, the institutions need governing power to enforce the regulations which is the main idea of implementing these guidelines in the first place. The guidelines ensure that the local companies are upholding certain standards that the foreign investors are familiar with.

Corporate governance is essential to maintain the regulations of the industries in a country. This helps foreign investors to grasp the workings of local companies so that they can get involved with the economy. In order to fulfill the enforcement capacity of the compliance of local companies to these guidelines, institutional frameworks exist. The institutional frameworks ensure that the requirements are being implemented and are being fulfilled to the highest standards by the local companies.

3.9.1 The Securities and Exchange Commission

The Securities and Exchange Commission is an essential part to establishing a consistent flow of funds required for investments (Chen & Brock, 2020). Without the existence of such institutions, the market for such actions won't be very reliable. The SEC is responsible for making sure that the market for equity and debt financing is transparent in terms of information availability for the people participating in the market. This ensures that the investors can assess the risk associated with investing with the companies before committing. When the market is made stable by the body overlooking the functions, investors will be likely to participate. This enables the medium to generate funds that are required for investments.

The Bangladesh Securities and Exchange Commission which is also known as BSEC was established in 1993 on the 8th of June (BSEC, 2020). The stipulation of Bangladesh Securities and Commission Act 1993 established this body as the regulator of the capital market for Bangladesh. The main purpose of the Commission is to serve the interest of the participants that interact in the marketplace. They are responsible for dictating the rules of participating in the marketplace so that the interest of the investors can be protected. As a result, the interaction of the organizations who need the funds with the investors can take place efficiently. This ensures the development of the securities market when participation in the market can be encouraged. The Chief Executive and four other Commissioners are appointed by the Government of People's Republic of Bangladesh to govern the requirements of BSEC. At present, the role of Chief Executive is being served by Professor Shibli Rubayat-Ul-Islam and the duty of Commissioners are being served by Mr. Khondoker Kamaluzzaman, Dr. Shaikh Shamsuddin Admed, Professor Dr. Md. Mizanur Rahman and Mr. Md. Abdul Halim. Since the 22nd December of 2013, the Commission has been an 'A' category member of the International Organization of Securities Commissions (IOSCO).

The main function of this Commission is to regulate the securities market so that the investors and investee can interact effortlessly (BSEC, 2020). They ensure this by registering the participants in the securities market. This enables the parties to be informed about the right personnel to contact when they want to proceed with a trade. The commission encourages education and training so that the participants are informed regarding any change or improve their securities market literacy. The actions of fraudulent, unfair practice and insider trading is strictly discouraged and prohibited to ensure that a fair market can be established. The Commission is involved in carrying our regular inspection and audits to ensure that the information provided by participants are valid. Reports are published after research is conducted to estimate the market trend. The Commission fulfills all the function required to ensure that the securities market can function efficiently.

All the necessary steps to ensure that the securities market participants can interact was established by BSEC (BSEC, 2020). They have continuously monitored the market to ensure that a sound flow of fund is available for investees. The Commission has established the required regulations so that foul play is detected and the perpetrator is punished. The investors are likely to invest their savings in the securities market when their rights are ensured. Sound policies to maintain transparency and availability of financial literacy ensures that the investors can commit to informed decisions when they participate. All the measures ensure that the securities market is able to meet the fund need or organization through debt and equity financing. BSEC has been able to maintain good corporate governance practice in the securities market.

3.9.2 Stock Exchange

Organizations need to list their companies in the stock market in order to participate in the securities market to raise their desired fund (Mack, 2012). The stock exchange allows them to raise capital by issuing shares which provides the participants the ownership with the organizations as per their investment. This helps create the necessary floor where the trade can take place without hassle. Also, stock exchange creates the platform for secondary market of the shares being issued. This is extremely important as investors will be only interested in investing when they have the possibility of benefitting from them. The secondary market trade of shares ensures that they can exchange the shares as per the changing valuation trend. Thus, stock market is the platform that allows savers to invest in the companies where the funds are required in hopes of gaining a return from their investments.

Bangladesh has two stock exchanges: Dhaka Stock Exchange established in 1954 and Chittagong Stock Exchange established in 1995 (DSEBD, 2020). In 1952, when Calcutta Stock Exchange established restrictions against the trade of Pakistani shares, there was a discussion regarding opening a branch of Karachi Stock Exchange in Dhaka. The notion did not gain much traction by the organizing committee as per discussion held on 13th March, 1953 to address the issue chaired by A. Khaleeli who was the Secretary of the Government of East Bengal. It was suggested that East Pakistan should have independent Stock Exchange where the membership cards consisting of not more than 150 members can be purchased with RS. 2,000, each with a subscription fee of RS. 15 per month. The person appointed to conduct the procedure of exchange was Mirza Mehdi Ispahani. Even though East Pakistan Stock Exchange Association was incorporated by 8 promoters in 28th April, 1954, formal trade did not start until 1956 at Narayanganj after attaining the certificate of commencement of business. In 1958, the Stock Exchange was shifted to Dhaka and in 14th May, 1964, the name was changed to Dacca Stock Exchange from East Pakistan Stock Exchange Limited. The second Stock Exchange started operation in 10th October, 1995 in Chittagong as Chittagong Stock Exchange (CSEBD, 2020). The Stock Exchange is governed by an independent secretariat since its establishment comprised of 12 Board Members whose President was Mr. Amir Khosru Mahmud Chowdhury (MP).

The main function of the stock exchange is to monitor the securities market so that the participants can interact efficiently (BSEC, 2020). They set up the requirements for listing stocks in the platform.

This ensures that the guidelines are met to mitigate asymmetric information between investors and investee. Then the investors are able to make informed decision when investing. They also monitor the listed companies to check if the guidelines are being followed so that investor rights can be protected. Inability to maintain the requirements established by the body can result in suspension or removal from the listing. Furthermore, if companies want to participate in dual listing, the request can also be processed. These regulations ensure that the investor's best interest is met through following corporate governance best practices to encourage them to participate in the stock market.

Stock Exchange is necessary to give a platform to the investors to interact with the investee (Mack, 2012). The exchange ensures that the corporate governance best practices are being followed so that the market can perform efficiently. The investor's rights are being protected by maintaining transparency through mitigating asymmetric information. Strong guidelines can ensure the healthy growth of a stock exchange which can sustain the need for investing.

3.9.3 Bangladesh Bank

Central Bank is the key institution when it comes to implementing monetary policy (Segal & Potters, 2020). The central bank controls the production and distribution of money in the economy and regulates the member banks. The corporate governance practice guidelines are dictated by the central bank so that the institutional banks operating in the economy can conduct operations efficiently. Central Banks stabilize the financial market and promote competitive behavior which makes their presence very important to maintain corporate governance best practices.

The Central Bank regulating the corporate governance in the financial market of Bangladesh is Bangladesh Bank by the Bangladesh Bank Order of 1972 which was effective from 16th December, 1971 (Bangladesh Bank, 2020). There are 10 offices located across the country in Motijheel, Chittagong, Khula, Bogra, Rajshahi, Sylhet, Barisal, Rangpur and Mymensingh. As of 31st March, 2015, the institution is powered by 3,981 officials and 1,826 subordinate staff members.

The main function of Bangladesh Bank is to ensure that the corporate governance best practices are being met in the monetary and financial sectors of the country (Bangladesh Bank, 2020). It does this by forming regulations in the financial market. It is the lender of last resort, meaning when the private banks operating in the market are on the verge of collapse, it can bail them out. However, that is usually not desirable; so, reserve requirements are formulated so that they (organizations) are not required to be bailed out. The reserve requirement ensures that a portion of the deposits are available for withdrawal when there is a demand. The monetary and credit market is regulated so that the interest rates can be controlled in such a manner that benefit the economy by issuing currency. Furthermore, they are the main regulators who maintains the foreign reserve in the country without which international trade will be difficult to commence. These measures ensure the development of domestic financial market by regulating the banks and non-bank financial institutions.

Existence of Central Bank is necessary to maintain a sound financial market (Bangladesh Bank, 2020). Bangladesh Bank sets regulations and inspects to observe if the banks and non-bank financial institutions are following them. Thus, Bangladesh Bank is the regulator who ensures that the corporate governance best practices are being followed in the financial sector.

3.9.4 Registrar of Joint Stock Companies and Firms

The establishment of framework along which a company should operate in is important to establish the corporate governance guidelines to ensure that market can operate efficiently. The entity responsible for ensuring that in Bangladesh is the Office of the Registrar of Joint Stock Companies and Firms.

The Office of the Registrar of Joint Stock Companies was established in Chittagong after the partition of India in 1947 (RJSC, 2020). Initially there were some records for companies in Bangladesh, trade organizations and partnership firms from Kolkata. The governing body was shifted to Dhaka in 1962. At present, there are approximately 190,000 entities listed with the institution.

The main function of the governing body is to audit the ownership status of companies as they are formed as per the practice of law and order in Bangladesh (RJSC, 2020). The types of entities that fall under the operation of this governing body are: private companies, public companies, foreign companies, trade organization, societies and partnership firms. The accords that are followed by the governing body to ensure that the entities under their jurisdiction are operating based on the laws observed in Bangladesh are: Companies Act, 1994; Societies Act, 1860; and Partnership Act, 1932.

The Office of the Registrar of Joint Stock Companies and Firms ensures that the organizations that operate in Bangladesh are following the law and regulation that are followed with in the country. The accords that are used to judge the provision of business are accepted internationally to establish sound corporate governance best practices in the country. This enables the local firms to be familiar with foreign best practices and this in turn aids foreign firms to operate in the country effortlessly.

3.9.5 Investment Corporation of Bangladesh (ICB)

Investment banks can help boost the industrial development in a country to a great extent as they can make the market for gathering the funds for investment as per the requirement of the company. The security market stability over time also depends on the participation of such institutions. Investment Corporation of Bangladesh serves the same purpose in Bangladesh.

Under the Ordinance No. 40 of 1976, Investment Corporation of Bangladesh also known as ICB was established on 1st October, 1976 with an initial paid up capital of Tk. 200 million. There are 4 principle branches governing the operation where the Board of Directors consist of 10 members under the leadership of the Managing Director who is the Chief Executive of the entity. Headquarter of ICB is situated in Dhaka and there are 7 other offices in Chittagong, Rajshahi, Khulna, Barisal, Sylhet and Bogra. Three classification of reserve funds are maintained by ICB: general fund, building fund and profit equalization reserve fund. ICB started their journey by providing service as primary underwriter of issuing shares and debentures of companies situated in various industries. They then later ventured out into providing funds addressing the development of industries when there was a capital demand. They have started financing in 1999, providing finance for acquiring machineries which are funded by supervising mutual and unit funds.

The main function of ICB is to directly participate in the investment market by purchasing or selling shares (ICB , 2020b). The financing is sourced by the placement of unit and mutual funds. They provide lease financing for the development of machineries in the industrial sector. Also, other services are provided by ICB that are usually provided by investment banks: underwriting, securities portfolio management, and advance against mutual funds, bank guarantee, acting as trustee, venture capital financing, mergers and acquisitions.

The prominence of investment banks is endless when it comes to developing the industrial sector in a country. ICB provides all the necessary tools to efficiently sustain the industrial development needs of Bangladesh.

3.9.6 Board of Investment (BoI)

The local industry is always benefited when it is under pressure to compete with foreign competitors (Šušićv, 2018). Foreign investment is one of the ways to ensure that the local industries are up to date with what the competitors are offering. The investments can aid in improving local infrastructure and promote more efficient methods of conducting business. Board of Investment is the agency that facilitates the foreign private investment requirements in Bangladesh.

Board of investment was established in 1989 in order to attract private investments from both local and foreign parties who are interested in doing business in Bangladesh. The executive council is governed by the executive chairman and the members who act directly in liaison with the Prime Minister's office. Thus, the decisions that are passed from the Board of Investment are accounted as direct concerns of the government. The policy regarding the status of foreign private investment is directed by the Board of Investment to promote the government requirements for the economic development.

The main functions of this institution are to provide fast-track services regarding anything related to the setup of new business operations or information on existing industries. BoI mainly facilitates expatriates to assist them with getting approval for financing their desired industry. BoI's service provides support for work permits, financial assistance, promoting investment motive, registering industrial projects, infrastructure support to facilitate industry development, facilitate import requirements, technical assistance and approval service for companies to raise capital from the capital market. Board of Investment regularly updates the data information regarding the local market so that any foreign private investment queries can be facilitated.

The Board of Investment ensures that the local requirements of foreign private investments are fulfilled by facilitating the investors' requirements so that they can make effortless transition to the new functions of a new economy. The economy of Bangladesh benefits from this as the local industry is able to get up to date with foreign competitors in terms of achieving their efficient business practices.

3.9.7 The Institute of Chartered Accountants of Bangladesh

Chartered accountant institution is necessary to establish the functions of sound corporate governance guidelines in a given nation (CAW, 2020). The chartered accountant institutes audit the best practice in the economy to ensure that proper guidelines set by them are being followed to adapt to the best practice benchmarks set both locally and internationally.

The Institute of Chartered Accountants of Bangladesh, also known as ICAB was established under the Bangladesh Chartered Accountants Order of 1973 (ICAB, 2020). This institute was created to regulate the professional accountant society and their contributions. The administrative Ministry of ICAB is dictated under The Ministry of Commerce. It has been working on increasing the number of members and students who can offer the highest level of professional service considered acceptable both within this country and internationally. It is ensured by maintaining the compliance requirements set by the International Federation of Accountants.

The main functions of ICAB is to ensure integrity, expertise, transparency and accountability of the members when they contribute to organizations with their expertise. It ensures that the members and students maintain the highest standards of professional ethics and code of conduct when they are providing their professional expertise. All the members are subjected to rigorous training to ensure that they have sufficient knowledge regarding “accounting. auditing, taxation, corporate laws, management consultancy, information technology and related services” (ICAB, 2020) that is in line with the foreign and local best practice standards. They strive to adopt the latest and greatest technology when it comes to offering their services and ensure that all of their practices are up to date according to international standards.

The requirement of regulating the accountant society in Bangladesh is served by ICAB. They have established sound corporate governance best practices by proving the latest practices by the professionals and observing if the members are abiding by their requirements. They have ensured that transparency is maintained at international standards which is beneficial for foreign entities to comprehend the local market status. Accountant practices that respect corporate governance best practice is necessary to establish the good health of organizations as this encourages investors to trust the company.

3.10 Corporate Governance and Regulatory Environment

Corporate Governance guidelines are a set of regulations or requirements that dictate the procedure a business should follow in order to operate a business (Karim, Sarkar, & Fowzia, 2010). This ensures that the business is accountable to the stakeholders and maintains transparency so that the true condition of the business can be interpreted. The foreign investors can be encouraged to invest in business who have sound corporate governance practices as they have long-term business goals when they make effort to follow regulations. When the regulatory bodies are successful in implementing the guidelines they set, the interrelationship between top management and stakeholders improves which is desirable for economic growth, as business success has positive impact on the economy.

Bangladesh has a come a long way since the introduction of corporate governance guidelines since the 1990s due to donor requirements from Asian Development Bank, International Monetary Fund and World Bank, when the local economy was struggling (Rashid, 2011). This was a good outcome since the dependence of global trade means that countries rely on each other to conduct business operation in the modern world. When the countries involved follow suitable corporate governance best practices, investors can trust corporations more easily when they want to expand to a new region. This has had significant impact in the securities market since the investor confidence solely relies on the transparency that the business maintains through annual disclosures. The well-functioning of the stock market can aid in business fund requirements to a great extent to promote growth for that business. The need for stricter regulations is even more so important nowadays due to the ever-increasing trend in the GDP growth rate of Bangladesh (Biswas, 2015). Aggressive economic growth has always attracted foreign investors as that serves as an indicator of hot-spot for the next iconic economic development. The existence of sound corporate governance guidelines will allow the transition of the foreign investors to the local market much more effortless. The less adjustments they need to do to study the local economy, the faster they can get involved with the future growth potential.

However, even with the existence of the required institutions and sound corporate governance guidelines based on models that are well regarded in the international stage, the regulatory environment in Bangladesh was not able to keep its pace with the growth progression (Bhuiyan & Biswas, 2007). There are widespread corruption and the regulation in place is strict but they are loosely enforced which makes the measure of judging the business environment in this country rather inefficient. The financial disclosure has mostly seen success in the sectors that are mostly involved with exports and not very dependent on the local market, for example, tannery and garment sector. The financial sectors are known to maintain sufficient disclosure as the regulation measures are strict, but the non-financial sector and small or medium sized enterprises have low to non-existent disclosure policies.

Corporate governance best practices serve as a powerful tool to attract foreign investors. The economy should have regulations in place that are in accordance with international acceptance for being benchmark measure of corporate governance to attract the foreign investors, but it is also necessary to have the foundation of enforcing those regulations. If the regulatory sector does not intervene to establish the requirement for strict regulatory environment, the requirements in place do not carry much weight in terms of judging the local business practices. The successful implementation of these polices are essential to observe their effectiveness.

3.10.1 Corporate Governance Code and Guidelines in Bangladesh

Corporate governance best practices came into prominence when a few well-known companies such as Enron and WorldCom ran into trouble due to selfish actions that satisfied the top management (Siddiqui, 2010). The guidelines that followed were picked up by the developing nations such as Bangladesh which was in the footsteps of the developed nations. This is important because when developing countries follow guidelines that are similar to that of developed nations, the participants from the country feel more comfortable with investing in these regions. Thus, it is desirable to follow their lead in terms of following governance guidelines to secure a healthy flow of foreign investment.

Bangladesh has adopted the well-established Anglo-American model of corporate governance (Sobhan, 2016). As the guidelines dictated by this model is already very popular, the international community will be able to pick up the local guidelines for governance effortlessly. This ensures the consistent flow of foreign direct investments. This was not always the case when Bangladesh followed import substitution policies just as most other developing countries. When Bangladesh ran into financial trouble for not being able to compete in the international stage, World Bank, IMF and Asian Development Bank extended financial assistance to this region but with condition of establishing sound corporate governance practices. They believed that when developing economies follow governance guidelines that are similar in practice to the developed countries, then they are able to trust with their investment in these regions much easily. This theory has held up relatively well since that time, after a few decades.

The models that are well-regarded and adopted by many developing nations initially originated in developing nations (Sobhan, 2016). They were specifically designed in such a manner that the requirements of the governance guidelines are suitable at stabilizing their own economic situation. In contrast, developing countries have different cultural and institutional practices that differ from that of developed nations. For example, many of the organizations are family run which means that the top management position remains within a few families. When Anglo-American guideline is used in these regions, the top management's power is curtailed and contested which can be seen as a threat. A conflict of interest can arise if the guidelines are just adopted as it is without considering the cultural norms in that region. Unable to respect cultural practices can have undesirable consequences which can threaten the stability of organizations making the implementation of these requirements obsolete in the first place.

3.10.2 Code of Corporate Governance in Bangladesh

Bangladesh has been an economic powerhouse and in order to compete with other established global economies, the existence of corporate governance practices was necessary (Anwar, 2019). The companies operating in Bangladesh are subjected to Company Act 1994, Bank Company Act 1991, Financial Institution Act 1993, Bangladesh Securities and Exchange Commission Act 1993 and Bankruptcy Act 1997. These regulatory requirements ensure that the companies are able to maintain standards of good governance practices while conducting business and the rights of both major and minor shareholders are protected. The most prominent feature of these Acts is the importance that is received by minority shareholders in terms of company disclosure, appointing or dismissing directors through Annual General Meetings.

However, the financial and banking sector has mostly adopted these regulatory practices (Anwar, 2019). The adoption has not been so widespread in other sectors except for the companies which are listed in the stock exchange. The capital market in Bangladesh is rather non-existent and the disclosure policy do not necessarily reflect the company's valuation in the stock market due to lack of financial literacy of the participants which does not make compliance to corporate governance guidelines a lucrative investment for most firms. Furthermore, the accounting standards and disclosure requirements do not follow the International Accounting Standards in many grounds.

Irregular judiciary support and relaxed enforcement of regulators does not contribute to promoting nationwide adoption of sound corporate governance practices.

Corporate Governance Guidelines 2006:

In the early 2000s, the corporate governance environment in Bangladesh lagged behind that of her South-Asian counterparts. The non-profit and non-political research centre known as Bangladesh Enterprise Institute took the initiative to form a taskforce that consisted of "prominent individuals from the government, private sector, NGOs and other relevant bodies" (Hasan & Howlader, 2020). The outcome of their joint effort was The Code of Corporate Governance for Bangladesh. This was the initial corporate governance guidelines that was developed to address the good governance practices suitable for this region (Biswas, 2012). However, the scandals such as that of Enron and WorldCom have led Bangladesh to revise their Corporate Governance Guidelines in 2006 which caters the changes made in the governance guidelines of the developed nations. In order to develop the capital market in Bangladesh and protect the rights of the minority shareholders, Bangladesh Enterprise Institute developed the guidelines as a non-profit and non-political research institute which was later issued by the Securities and Exchange Commission on 9th January, 2006 (Ferdous, Mallin, & Ow-Yong, 2014). The notification was revised by the commissioner in 20th February, 2006. However, there were two issues which were not addressed. Firstly, the previous guideline dictated the number of independent directors to be one-fifth of the board size which was revised to one-tenth of the board size. Secondly, there was a previous obligation for the board to reveal one supplementary declaration regarding any major scheme and commitment by the organization such as: "corporate restructuring, business expansion and discontinuance of operation along with future prospects, risks and uncertainties"; this was left out from the notification (Biswas, 2012). However, it should be noted that the notification followed the 'comply or explain' criteria under which the organization subjected to this could either comply to the regulatory disclosure or give explanation for the intention of non-compliance to the regulatory disclosure. The 2006 corporate guidelines were based on voluntary compliance basis as the regulation did not have any strict legal obligation which was a similar stance followed by our neighboring country India.

The Corporate Governance Guidelines introduced in 2006 in Bangladesh was directed to ascertain certainty of business regulation in this region, given the global debacles of top management failures that preexisted. This was necessary to ensure that there is a sound flow of foreign direct investments because this shows that the local economy has committed to follow the foreign policies. Even though, the regulation followed a voluntary basis of compliance, step was taken towards the right directions of instilling the good governance ideology in this region.

Corporate Governance Guidelines 2012:

The global debacle of good governance failures led to hasty revisions of corporate governance guidelines in the developing economies (Ferdous, Mallin, & Ow-Yong, 2014). The Securities and Exchange Commission of Bangladesh instigated their version of Code of Corporate Governance in Bangladesh in 2006. The main issue with this guideline was that the compliance was voluntary. As a result, the guideline did not receive widespread adoption which makes the efforts of instilling foreign confidence in the region rather inefficient. A revision to this was required to serve the purpose of the rationale of introducing this good governance guideline in the first place.

The Code of Corporate Governance Guideline was revised on 7th August, 2012 by the Bangladesh Securities and Exchange Commission which is almost similar to the 2006 version with some new additions (Rahman & Khatun, 2017). The most important change now was that the guideline followed comply basis unlike the previous version which was voluntary compliance. The position of CEO and Chairman duties were strictly isolated as two different positions in the new revision of 2012 whereas this was only proposed in the previous corporate governance guideline (Biswas, 2012). Involvement of directors who are able to act on their own self-discretion in the active role of directing business proposals was revised to one-fifth from one-tenth of the total number of directors operating in the organization. The spectrum of the criteria of being an independent director was broadened with additional requirements in the new revision such as requiring a minimum qualification standard. The tenure for the independent directors was three (3) years under the new revision which could be extended to another term under special circumstances. The role of being an independent director was extended to the Audit Committee Chairman. All Audit Committee members were expected to hold professional qualification under the new revision which was not obligatory under the previous guideline; only the Audit Committee Chairman was required to have professional qualifications earlier. The Audits Committee's reporting to the SEC was reduced to six months from 9 months of expiry from the date when they report first to the Board of Directors or three consecutive times of reporting to the board, preference was given to the one which was done promptly. There must be one independent member present during the Audit Committee meetings to fulfill the required duties under the new revision which was not mandated before. While the roles of Audit Committee were conveyed in general terms under the previous guideline, there were 10 specific functions dictated by the revision. Also, the Audit Committee Chairman's presence was mandated in the Annual General Meetings by the new revision which was not necessary previously. Furthermore, there were many new provisions added in the revision that was not available in the 2006 version.

The earlier version of corporate governance guidelines was necessary to regain the trust of foreign direct investors but they did not rigidly enforce the good governance practices. The revision that was made in 2012 helped extend on the previous guidelines by strictly mandating some of the provisions and also adding few additional provisions to strengthen the good governance practices in the local economy. The revised code of conduct was a necessary addition to strengthening the corporate governance practices as the major flaw of the previous version was addressed through issuing the 'comply' basis in the new revision. This allowed for a solid corporate governance guideline presence that had to be obliged by in order to do business.

Corporate Governance Code 2018:

The revision of the Corporate Governance Code in 2012 was required to establish the enforcement requirements of good governance practices to attract foreign direct investments (Hasan & Howlader, 2020). The revision addressed the shortfall of the initial guidelines introduced in 2006 and changed the status of the guidelines to a 'comply' basis. At present, Bangladesh is almost graduating from the least developed countries status and the new economic identity required a revision to be made to the previous corporate governance guidelines which was developed to address the past economic status of 2012 corporate governance guidelines.

A revision was done to the Corporate Governance Guidelines of 2012 which was issued as the Corporate Governance Code 2018 on 10th June, 2018 by the Bangladesh Securities and Exchange Commission (Bala, 2018). The code has 95 guidelines under nine heads and it was introduced to elevate the good governance scenario in Bangladesh, further strengthening the 'comply' basis of the guideline. Some conditions were revised from the 2012 version but the revision mostly consists of new additions. The new revision increases the requirement for the number of board heads to be involved in business decisions from 7 to 9 (Hasan & Howlader, 2020). The most important change that was observed in the new revision was that the CEO or the Managing Director of a company was not allowed to hold the same position in any other listed companies. A new provision was added which enabled the board member to elect a nonexecutive director as the Chairman in the absence of the Audit Committee Chairperson but the grounds of their absence should be documented in the proceedings. As directed by the Bangladesh Secretarial Standards, there was an obligation introduced to record the proceeding of any board-meetings which can be used as future reference. The protection of the minority shareholder's rights was further strengthened in the new revision by requiring the companies to disclose the accounting and estimation techniques used and disclosure of changes in policies that may occur; the comparison of financial performance was mandatory, requiring industry comparison of local and global stage with explanation of possible risks and plans to be addressed in the Annual General Meetings. The internal code of conducts that are formulated in compliance with The National Register of Citizens should be posted on all company documentation to inform all the stakeholders regarding the policy stance. The certification disclosure requirement was extended to the CEO and CFO along with regular reporting of the compliance of code certification. Furthermore, the role of Managing Director or CEO, Company Secretary, CFO and Head of Internal Audit and Compliance must be fulfilled by different individuals and they cannot be removed from their position without board approval. The CEO or Managing Director and CFO's certification was mandated to be disclosed in the Annual Report.

The requirement for holding the position of independent directors has been specifically determined which states that they must not have held any executive roles in the company in the previous 2 financial years in order to qualify for the position and they cannot have a similar position outside the organization, not even in the company's subsidiaries (Hasan & Howlader, 2020). Furthermore, they cannot be company's shareholders, be engaged in internal audits of the company and have any loans or convictions with the court due to previous defaults. As specified by the guideline, the role of independent directors could be fulfilled by business leader, corporate leader, former official of government, university teacher, advocate and chartered accountant. They should have at least 10 years of experience to qualify for the position of independent directors. A provision was allowed for reappointment of a former independent director for another tenure if there was a time gap of duty for one tenure.

There were fair share of criticisms against the new revision of guidelines that was introduced in 2018 (Muqtadir, 2019). The revision mandates that the Managing Director or CEO, Company Secretary, CFO and Head of Internal Audit and Compliance cannot hold any other executive position outside the organization. This means that the companies which are conglomerates and rely on subsidiaries must appoint separate individuals for these roles which increases the operating cost. Moreover, the contents of the annual report are directed to at least address the following good corporate governance practices as directed by the guideline: “Directors' Profile; Directors' Report; Management Discussions; Certification by the CEO and CFO; Audit Committee Report; Nomination & Remuneration Committee (NRC) Report; Comparative financial data; Patterns of shareholding; Compliance check-list; and, Certificate of Compliance”; doing so will be costly and time intensive. Furthermore, the code shall be followed by all listed companies which is a one size fits all approach which disregards the size of individual companies (Muqtadir, 2019). The major criticism of this guideline was against the requirement to make peer and global industry comparisons in the published report. This required extensive expertise, and the availability of competitors’ information was highly unlikely.

The revision was a necessary step forward given the progression of Bangladesh from the previous state of being classified as a Least Developed Country status. There were some reforms to the old provisions with some new additions. The 2018 version seemed hastily constructed from the general consensus of disapproval to some of the clauses. The stricter corporate governance guidelines may have a positive impact in the economy in terms of attracting foreign direct investment as time progresses and companies get affiliated with the change.

3.11 Corporate Governance in Textile Industry

The global dependence in the production process has led to specialization where Bangladesh has developed the textile industry due to the comparative advantage resulting from cheap labor cost (Uramoto & Nachum, 2018). When compared against other countries in the global supply chain, Bangladesh is quite lower down the value chain. This has resulted in entertaining the demands of the foreign companies who outsource their production in this region. The corporate governance functions in theory is similar to the foreign countries where most business comes from to maintain good governance familiarity for the investors.

Bangladesh gained popularity in the textile sector almost by luck. When the USA introduced sanctions, Bangladesh was able to slide into the opportunity of being an alternative region to establish the textile manufacturing process. Bangladesh was the ideal region as there was more than enough manpower required to work for the industry and cheap cost of labor ensured comparative advantage compared against other regions (Khan, Muttakin and Siddiqui, 2013). Over the years, the country has been able to maintain the relationship that has developed as time passed with the textile industry. As the industry depends extensively on foreign investments because the global brands are the ones who usually place bulk orders, the existence of sound corporate governance practices became ever more evident. Bangladesh was able to sustain the requirements by becoming transparent to mitigate the difference between top management and the stakeholders of the firms (Filatotchev & Toms, 2006). The key to Bangladesh's success with attracting foreign investments is by adopting the Western style of corporate governance guidelines. Since the primary investors were form the Western economies, this fast-tacked the trust building stage by providing them with the business foundation they were already familiar with (Khan, Muttakin and Siddiqui, 2013). However, Bangladesh is one of the few regions in the global arena where a formal structure of corporate governance does not exist in general for conducting business (Khan, Muttakin and Siddiqui, 2013). The companies who decide to follow certain governance principles does it out of necessity to compete in the industry to provide a certain degree of assurance. The SEC does have the company guidelines that address governance guidelines for the organizations that are listed in the stock exchange but this does not extend to the companies which are not listed. This creates a regulation gap in the economy which can create confusion for foreign investors. Since no regulatory authority mandates the governance requirements for businesses that are not listed, their governance practices may come under scrutiny. The past history observed in Bangladesh such as the Rana Plaza incident in 2013 bears witness that the corporate governance practices are not enforced strictly in this country (Hira & Benson-Rea, 2017). Bangladesh mostly relies on production outsourcing which means that the companies are not directly involved with the textile industry in this country. If the global brands had been shareholders in the companies in this region, the corporate governance framework would have been followed much more rigidly. The ready-made garment industry has garnered success in Bangladesh but the governance infrastructure was unable to keep pace with the practices observed in the industry.

The textile industry in Bangladesh exists due to their comparative advantage of cheap labor (Hira & Benson-Rea, 2017). The conditions are dictated by the foreign firms who outsource their work. Higher wage cannot be given to the workers in this industry as this will diminish the trade advantage. The NGOs and government bodies have been trying to establish corporate governance practices in the textile industry in Bangladesh but the position of value chain observed by this country makes that target a luxury which the region cannot afford at this moment.

3.12 Conclusion

The debacle of renowned organizations in the past and the global financial crisis has showcased the flaws of selfish practices of top managements who were not accountable to the stakeholders (Okpara, 2011). Due to the financial downturn that followed form these events, the existence of sound corporate governance practices became ever more necessary. Even more so, for emerging economies who relied on foreign direct investment to achieve consistent economic growth.

The development of corporate governance practices has raised the transparency and accountability of top management towards stakeholders of the business (Okpara, 2011). The establishment of better accountability has enabled better protection of the shareholder’s interests (Mueller, 2006). When the shareholder’s rights are protected, they are encouraged to invest in the capital market which is an efficient way for firms to raise funds for their business requirements. The firms who were following sound corporate governance enjoyed higher valuation as they were expected to have more resilience. This has resulted in capital accumulation at a reduced cost. The cheaper funds enable the organizations to expand their operation by investing them which promotes their growth. When the business growth is widespread, the economy can attain robust growth. Economic growth can be justified as an indicator for the potential future development in certain regions which attracts foreign interest. The foreign interest can bring in foreign direct investment which can have even greater impact in the development of that region.

The corporate governance practices that have evolved into the prominent importance today is due to the past history of lack of accountability that has led to financial difficulty that the whole world witnessed (Okpara, 2011). This has necessitated the formulation of good governance guidelines that could address the regional differences to establish good governance practices. This has resulted in firms being more efficient. The enriched trust that resulted from solid corporate governance guidelines has helped the emerging economies such as Bangladesh to attract foreign direct investments that had significant contributions to the economic growth of the region.

CHAPTER 4: HUMAN RESOURCE MANAGEMENT

4.1 Introduction

The human resource management policy efficacy can either make or break an organization. HRM personnel are responsible for managing the employees who contribute towards the growth of the organization (Evans, 2000). In order for an organization to succeed in fulfilling its goals, it is essential that the value of the employees align with that of the corporation. When the internal framework is determined by well-defined polices of HRM, the operational improvements can trickle down to external factors. The core functions of HRM is to organize the employees so that their achievements can improve the firm's performance. This starts all the way from the recruitment process. When the employees are handpicked to sustain the development goals of the organization, their outcome will be effective in supporting the growth of the company. The productivity increase can result in financial improvements for the firm (Bhagat and Bolton, 2008). Human Resource Management serves as a conveyer of corporate governance best practices adoption by the employees so that the firm's performance improves.

In this era of technology and constant change the only constant that makes the difference is human resource of any organization. And of course, the employees can make the difference when the framework and policies enable them to do so.

4.2 Human Resource Management

As the name suggests, human resource management, also known as HRM, is nothing but the idea of a framework that enables the HRM managers to manage the employees (Legge, 1995). There are many different departments in an organization which functions on their own and the individual functions of each department sustain the company to reach its targets. It is quite possible for the top management to get carried away with achieving their departmental goals which may not serve the values of the organization. Thus, HRM managers are there to align the principles of these individual departments so that all their values align with that of the organizations to fulfill the same goal. Human resource management is the practice of utilizing the human resources that are available to the company's disposal as effectively as possible to enable the company to achieve its desired performance targets. HRM managers are responsible for effectively seeding the organization's culture into the employee's job performance so that they can align their values with that of the company's. Human Resource Management's function is to support the best practices of a firm that determines the values of the firm to improve the financial performance of the organization.

4.3 Areas of Human Resource Management

4.3.1 Job Analysis: Job Description and Job Specification

The HRM managers are responsible for sustaining the growth of their organization (Siddique, 2004). They are able to perform this effectively by understanding the key tasks that are required for a specific role. Job analysis leads to the effective understanding of the description and specification of the required tasks that are involved with a job role. As an outcome of job analysis, an HR manager gets job description and job specification; the former gives a list of responsibilities of a specific job role whereas the latter gives a list of qualifications and skills required to perform the job. Through a proper job analysis, HRM managers can efficiently recruit the talent required for that role. It is important to effectively utilize the employees by employing them to the departments they are most suitable for. Otherwise, their effective outcome cannot be fully extracted if they are paired with tasks they are unable to commit to. This can either result is inefficiency of the respective department's workflow or frequent employee turnover, both of which can have costly consequences for the organization. The important contribution of job analysis is the identification of the required employees' strength and weakness. This has important implications in terms of how they will perform in their assigned roles. Thus, the HRM managers must understand the fundamentals of the tasks that need to be fulfilled by the employees to effectively utilize the talent pool.

It is crucial as this is the guiding tool of getting the right job done by the employees and clarity of role is essential in this regard. HR managers and the organization's policy makers must put enough emphasis on this.

4.3.2 Recruitment and Selection

The recruitment and selection process have evolved to a great extent over the years. Through recruitment, HR manager creates and attracts a pool of potential candidates for a given job role; subsequently, through selection process, HR managers screen out applicants and select the final candidate for a given job role. Nowadays, the process is heavily dependent on technology (Mehrabad and Brojeny, 2007). It is extremely cost effective to select only the employees who can serve the requirements of the job title they are applying for. Companies have invested heavily in utilizing AI process to screen through the applications they receive. The process of gamifying the recruitment process have resulted in better understanding of the psychology of the candidates in one session which was not possible for humans to detect previously even with multiple interviews (Gangadharbatla & Davis., 2016). As a result, employers have better understanding of the capacities of their applicants in a short time because of automating the process. They can devise the recruitment and selection process more effectively and have a clearer understanding on the training that may benefit these applicants. However, the gamification process has its fair share of critiques. Not everyone is comfortable with the process, especially if they are not well acquitted with technology. Even veteran employees with years of job experience may not pass through the initial selection process due to their unfamiliarity with the process which results in the organization losing employees who had more curated job experience that could have benefited the company's financial performance.

4.3.3 Training and Development

Training and development programs try to ensure that the skills, attitudes, and knowledge of the employees are up-to-date so that they can perform their jobs properly. The scope and types of training provided can be diverse, ranging from on-the-job training, simulation, vestibule training to management development programs and global job rotation. Recently, the training process have been baked into the recruitment and selection process with the adoption of the gamification process of analyzing the applicants (Gangadharbatla & Davis, 2016). The psychometric and logical tests that employers utilize in recent times can provide a detailed analysis regarding the strengths and weakness of the job applicants. Then AI analyzes their development areas. Later, their gamified trainings can also be recommended by AI. The technology-based development plans allow the whole process to be dynamic. AI can track their progress and adjust the difficulty or skill concentration as they find required to develop the skill of the employee. As the gamified process was developed through extensive research, this enables the training to be effectively catered to the needs of the individual employees in question. Humans could make a mistake in identifying the employee potential but AI implementation has resulted in effective discovery and training of the talent pool.

4.3.4 Performance Appraisal

The performance appraisal process which was previously determined by rank has gone through its fair share of changes. The human resource managers are extensively dependent on HR accounting to determine the value of the inputs provided by individual employees in sustaining the organization’s value (Aggarwal & Thakur, 2013). Implementation of HR accounting also known as HRA has resulted in more effective way of investing in the talent pool so that they can have the desired outcome of contributing to the organization’s financial performance. It is important to evaluate the employee in an unbiased way to rationalize the appraisal process. Behaviorally Anchored Rating Scale also known as BARS is an effective tool used for rating individual employees so that they can be distinguished from each other. Also, assessment centers are growing in popularity in recent times.

This is again a gamified approach. Even though, this is a gamified approach, it's not done on a digital platform; so, this ensures a more effective participation for less tech savvy participants. The process gives an overall performance indication in all personal aspects that can be utilized by the organization to attain the desired targets.

4.3.5 Compensation

The key to create and maintain a productive workplace is achieving good employee morale. When the employees consider themselves to be the valued part of the company with their contributions, their desire to do even better increases. The primary way HR managers can do this is through compensation (Lamba & Choudhary 2013). Recognition of the employee's efforts towards the growth of the organization is one of the most essential tools for human resource managers to retain the talent pool.

When the employees receive the desired compensation, it gives them incentive to work harder (Katou 2008). The human resource managers are aware of this phenomenon. While efficacy in the workplace is essential, so is retaining the talent pool that organizations invest in. Compensation is the key to bring balance to the whole ecosystem of maintaining the talent pool. This serves as a measure of the skillset and abilities of the individual employee and what they bring to the table as a whole for the company. The human resource managers can section out the different roles within an organization and can provide the highest level of compensation possible so that the employees find it worthwhile to stay. Compensation is the tricky task of retaining the workforce so that the company can earn profits.

However, the gold standard of compensation, meaning the basic salary and bonus, is changing slowly but surely (Jeet and Sayeeduzzafar 2014). The human resource managers are realizing that the work environment play a huge role when job satisfaction is considered. Work-life balance is another aspect that needs to be considered in order to promote the well-being of the employee’s mental health. Compensation no longer consists of just the monetary reward but is rather a subset of other consideration the present-day employees demand.

4.3.6 Health, Safety and Hygiene

The consideration of health, safety and hygiene is a subset of the green HRM practices that has been observed in the recent times (Deshwal 2015). The trio, health, safety and hygiene, have both internal and external factors that have the potential of effecting the company’s image.

In order to promote a sustainable business model for the organization, the cooperation of the employees is the most crucial necessity (Deshwal 2015). If the employee’s health is being affected, then their productivity will fall which can cause the efficiency of the entire department to fall. Burnout is a real mental issue that a good proportion of people faces in their lifetime (Bardoel *et al*. 2014). This can also have impact on the employee’s daily roles within the organization. Safety of the employees is crucial in order to retain the talent pool. Under most circumstances, the employees are protected under insurance that the human resource managers utilize to protect the assets of the company. The trio of health, safety and hygiene is in the spotlight given the recent pandemic (Richards, 2020). The only way to sustain the growth of any organization is through respecting the health guidelines which revolve around the trio. Human resource managers are investing more towards the health, safety and hygiene of their employees so that the company and the stakeholders can benefit from the growth of the organization.

Health, safety and hygiene play an essential role in sustaining the continued operation of any business; whether considered the factory level workforce or the corporate employees, the essential contribution of the trio should not be ignored. This also boils down to the stakeholders. When the employees are able to be the productive part of a company, they turn out to be effective members of the society through their contributions.

4.3.7 Industrial Relations

The preferred market structure for most profit seeking organizations is the capitalist economy (Kaufman 2010). For some, the free-market economy may be a blessing in disguise and for the other, this can be the war where the strong and powerful prey on the weak. The idea of industrial relations promotes the interaction between the managers and the employees which can be seen as a mode of protection for the workers from this ever so popular capitalistic economy.

When the workers were not given their proper recognition for their contribution of the growth of the company, the idea of command and control was prominent (Kaufman 2001). The labor unions that were developed to mitigate this issue can be seen as make-shift human resource who protected the employee's rights. While labor unions still exist and play a major role in representing the employees or workers of organizations, at present, the human resource managers are the bridge that connects the employees with the top managers so that the growth of the business can be sustained by promoting productivity. Every industry has some different set of requirements for the workers that suits them the best. Human resource managers have fine-tuned practices to manage the employees of each industry by following a standard baseline protocol (Thompson 2011). This ensures that the employees are evaluated and rewarded in a fair manner where their rights as well as the company's best interest are protected leading to a win-win situation. When the industry is operating at its optimum level the result trickles down to being beneficial for the whole economy.

Industrial relations are essential to manage the relationship between the employees and managers in an optimized way so that all parties can benefit from the policy. The human resource managers are responsible with the duty of mitigating the conflict that may exist between the top management and the employees so that the workplace productivity can increase. The result is a common set of practices unique for each industry that can accommodate this delicate relation.

4.4 HR Policy

The role of HR policy is to align the individual employee's values with that of the organization. In order to do this effectively, they need to implement certain policies (Grobler, Bezuidenhout & Hyra, 2014). The HR policy framework allows them to properly exploit the talent pool so that they can function in the organization as effectively as possible. The traditional HR policy is reactive in nature. The possible solutions to problems are developed from the problems that the organization face. There are no set frameworks in place that can dictate the solution process to certain problems. So, the traditional policy required the oversight of battle-hardened veterans in this field of work who had prior experience of handling such issues. This did not translate too well for the fresh recruits as they lacked the required experience. The risk mitigation of daily organizational issues that arise needs to be effectively handled by the employees. The task of doing so can be a bit difficult when there is no policy framework. The whole process relied on trial and error methodology of developing solutions for the issues at hand. As a result, the traditional HR policy is falling out of favor when implementing good governance practice within the organizational practices.

4.5 Strategic HRM

Strategic HRM enables an organization to implement a proactive process to empower the employees (Grobler, Bezuidenhout & Hyra, 2014). Instead of relying on reaction-based process that was observed previously, strategic HRM implements a well-defined framework. This enables the HRM managers to be effectively prepared to tackle any challenges that can rise. The primary focus of strategic human resource management, also known as SHRM, is the association between the policies management choose to implement to organize the employees and the strategy of the business operations followed by the company (Martin *et al.*, 2016). The employees are utilizing the company's resources to generate the revenue required for the survival of the business; so, the employees are the most important asset to the organization (Su, Wright and Ulrich, 2018). The control-oriented approach is the idea of imposing the organizational policies on the employees to increase business efficiency while the commitment-oriented approach relies on rewarding the employees in order to motivate them to improve their performance, raising the efficiency of the organization. The management can utilize this asset most effectively by following policies that can strategically implement the human resources that the company employs. Thus, it is essential to use a proper policy framework to govern the employees who are fulfilling the goals of the organization. Also, following well-defined policy enables fresh recruits to perform effectively in their role as they have a benchmark to follow.

4.6 HR of the 21st Century

The HR process is on the transition towards empowering green jobs (Arulrajah, Opatha and Nawaratne, 2015). The growing impact of our daily life on the environment cannot be ignored any longer as the environmental effects become more prominent as the days go by. As a result, more and more organization are investing on cutting down on their carbon footprint and adopting more environmentally friendly policy frameworks. The job prospects that are developing in today's world come bundled with environmental responsibilities. The HRM managers try their best to effectively communicate the environmental impacts they may be having and how to mitigate them. The recent policy developments are consistent with the environmental concerns. The sustainability measure is a huge thing as a lot of companies are making it their goal to be more environmentally friendly in terms of their operations. The corporate social responsibilities are being designed to accommodate the company's environmental policies. HR has a prominent role in accommodating this policy implication because if they don't follow through and contribute to these, the goals will not be fulfilled. The performance evaluation has also revolved around the green policy idea. There are a lot more job positions being created as time progresses in the green field where the recruits better align the company values with that of the environment sustainability plans. Companies are also investing quite heavily on any improvements that can be done towards a more sustainable future through rewarding the contributors.

4.7 Impact of HRM on Firm Performance

When an organization implements a well-defined HRM practice that is prepared to tackle the issues that can arise from daily operations, the organization is likely to operate effectively. Human resource management is responsible for organizing the employees of a firm to address the necessities of the business requirements as best as possible (Bowen and Ostroff, 2004). The performance improvements are broadly translated by the effectiveness of HRM in implementing the corporate governance best practices of the organization with the employees. When the adopted HRM policy can align the best practice values of the employees with that of the organization, the core of the daily operations is likely to improve. When the employees are prepared to approach business problems with the framework knowledge they are empowered with, they have a better chance of meeting the business needs. The organization can extract all the potential of its employees by strategically developing frameworks that will allow the employees to adopt the core principles of the business. When the talent pool has a more integrated function along with the top management to execute their tasks effectively, they are likely to be productive with their work. This results in better productivity improvement for the organization which can improve the financial performance of the organization as an outcome. HRM is responsible for mediating the corporate governance best practices through better adoption by the employees, resulting in performance improvement of the firm through accounting improvements (Bhagat and Bolton, 2008).

4.8 Literature Driven Conceptual Model

From the literature discussed in this chapter, the following model portrays the inter connectivity of HRM practices

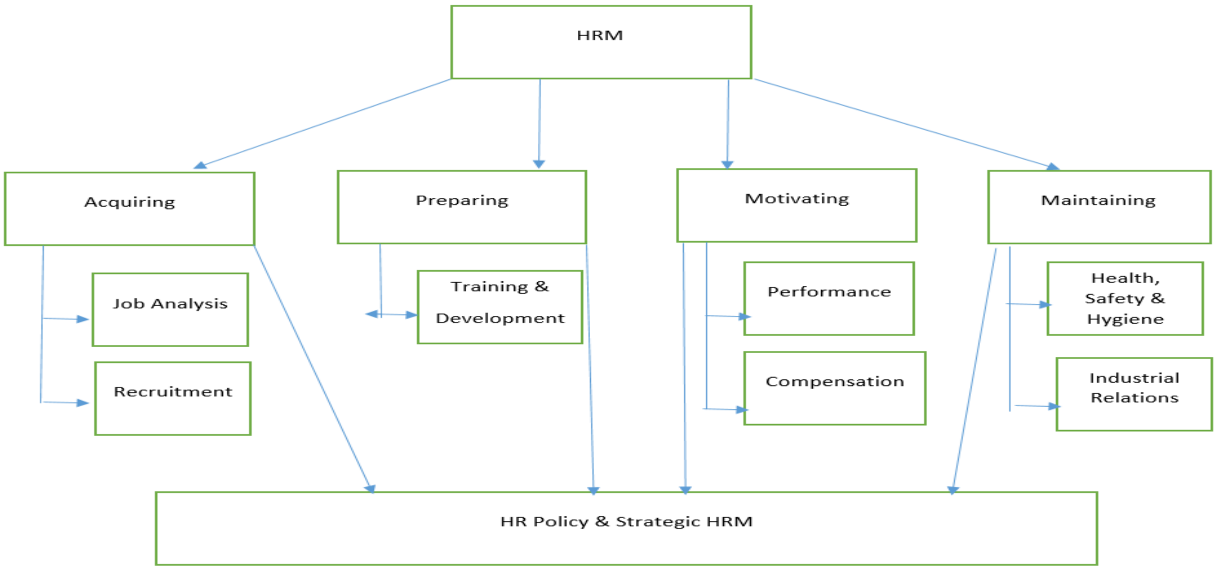

Figure 18: Summary of Literature Review on HR Practices

4.9 Conclusion

The human resource management is going through a big change as the current practice is very different form that of the traditional approach. The recent trend is utilizing technology to gamify the development of the talent acquisition. The improvements in AI is personalizing the talent hunt for individual organizations, thus resulting in better match of employees whose values align with that of the organization. This saves corporation a lot of investment that can be spent elsewhere. The organizations are able to attain talent pool who are custom tailored to support the development of the business. Also, the global impact of organization's operation is ever so popular which has resulted in more attention by the business towards their carbon footprint. The growing HRM challenge is towards acquiring the talent that can help the organizations to combat this cause. The green initiative is raising to prominence as corporations invest more heavily towards sustainability goals.

CHAPTER 5: FIRM PERFORMANCE

5.1 Introduction

A period when globalization is at its summit, firm performance is a crucial subject to understand to ensure value creation for all stakeholders. Globalization has made trade and business as convenient as possible; it facilitates business activities and firm performance, allowing organizations to expand and grow. Moreover, investors who wish to invest their capital and potential employees who are seeking for jobs will look at how well a particular firm is performing. Thus, the performance of the company is an important factor to encourage people to invest in that organization. Through new plans and procedure, a firm's operations and transactions must be updated regularly by people who are responsible for running the firm, to enhance the firm's performance. Regarding the importance of this subject of performance of firms, this chapter aims at exploring the definition, measures, and determinants of firm performance. Findings indicate that appropriate and leading measures of firm performance include sales growth, sales volume, profitability, market share, return on investment, intangibles, size of the firm, and stock market performance. In addition, relevant determinants of firm performance are corporate governance, human resource management, environmental management, product diversification, and risk management. Despite its relevance, research into firm performance suffers from problems such as lack of consensus, selection of indicators based on convenience, and little consideration of its dimensionality (Combs *et al*., 2006; Richard *et al*., 2009). Many studies measure firm performance with a single indicator and represent this concept as uni-dimensional, even while admitting its multidimensionality. If several dimensions exist, a researcher should choose the dimensions most relevant to his/her research and judge the outcomes of this choice (Richard et al., 2009). Therefore, depending on which industry the firm operates in, some measures and determinants will be more meaningful than others. Moreover, this chapter may be useful for research and practice; it can be used to understand the multidimensional nature of firm performance, and practitioners can use it to understand how to improve firm performance and what impact will their decision have on the firm.

5.2 Firm Performance

Firm performance is a comprehensive term which includes organization performance, its effectiveness, and outcomes. Therefore, an important element of an organization's effectiveness is the performance of the company. In the decade of the 21st century, firm performance focuses on how adept a company is in making the right product which helps to enhance its abilities to achieve the organization's goals and objectives. According to Cameron (1986), organizational effectiveness includes all aspects related to the functioning of an organization (Selvam et al., 2016). Therefore, apart from being generic, the concept of firms' performance is also dynamic. Its definition changes from decade to decade as a result of the focus of firms in these periods (Taouab & Issor, 2019).

At the same time, firm performance can be viewed in a broader context which includes how much the business has developed. A well performing firm will have its business growing at a more rapid rate and hence be more developed. Thus, one way to evaluate a firm's performance is to observe the efficiency of its operation. The more efficient its operation will be the higher rate of growth it will experience, and the more positive the firm's performance will be. On the other hand, Taouab & Issor (2019) describes firm performance as an achievement or results obtained by management, economics, and marketing in providing competitiveness, efficiency, and effectiveness to the company and its stakeholders. As a result, firm performance is an important variable for investors and stakeholders too. This is due to the fact that firm performance indicates whether a company is worth investing in; if investors are uncertain about the returns because of poor firm performance, investors will avoid investing in those firms.

Competitiveness, efficiency and effectiveness leads to competitive advantage of a performing company. Competitive advantage of any particular company is vital to determine a company's position in the market. Thus, the competitive position not only depicts the marketing position but considers the performance of the firm. Taking this into context, it is important to focus on the return obtained from investment, as greater is the return, higher is the business development of the company, and the better is the marketing position of the company. In addition, competitive advantage is obtained through uniqueness and specialization which must be sustainable and relevant. Besides, Taouab & Issor, (2019) believed that the goal of an organization is to be sustainable and achieve a competitive advantage in the pursuit of having increased company income, creating job opportunities, and developing high-quality products.

Finally, firm performance is a combination of financial and non-financial indicators that offers insight into the amount of accomplishment of goals. Financial measures are usually described as the lagging measures of performance while the non-financial indicators are considered to be the leading measures. Non-financial or subjective performance measures include employee satisfaction (employee turnover, investments in employees development and training, and organizational climate), customer satisfaction (number of complaints, repurchase rate, customer retention), environmental performance (recycling, material usage, energy consumption, pollution, and waste), and social performance (employment of minorities, contribution to social causes) (Selvam, et al., 2016;Taouab and Issor, 2019). In this respect, employee and customer satisfaction comprises an integral part of the firm’s performance because although in the contemporary business environment automated workforce plays a dominant role, human resources tends to comprise an important marketing asset of any organization. Therefore, the efficiency of employee’s performance consistently affects the firm’s performance.

5.3 Measures of Firm Performance

Firm performance is a multi-dimensional construct as it covers various notions such as return, growth, profitability, productivity, and stock liquidity. This fact is supported by the number of different dependent measures that have been used to measure organizational performance in research studies (Brush and VanderWerf, 1992). Thus, the measures highlighted in this chapter are sales growth, profitability, sales volume, market share, return on investment, stock market performance, product diversification and environmental management.

5.3.1 Sales Growth and Sales Volume

To measure firm performance using growth measures, it is found that a company's sales is the predominated firm growth indicator. Sales growth is measured by observing and analyzing the changes in sales growth rate over time and volume is measured using the number of units produced. Sales growth acts as an appropriate and leading measure for a number of reasons. Firstly, sales apply to virtually all types of firms. Moreover, sales figures of companies are easily available and every firm depends on the generation of sales in order to survive (Davidson *et al*., 2010). On the other hand, despite these supporting factors of sales, some researchers choose the number of employees as an indicator of firm growth. This is because the number of employees is insensitive to changes in currency rates as well as inflation.

5.3.2 Profitability

Profitability is described as a major underlying driver of a company’s cash flow and thus its resulting market valuation (Rappaport, 1986). Therefore, it is used as one of the measures of firm performance. Profitability is measured by return on equity, return on assets, and return on investment (Asheghian, 2012). Most practitioners accepted return on assets (ROA) and other financial ratios as indicators of performance in western companies (Doyle, 1994). Kim et. al. (1989De) mentioned that ROA measures the efficiency with which a company produces its output. However, as there are many dimensions to performance, positive performance in one dimension may simultaneously result in negative performance in another dimension. For example, if resource accumulation and profitability are hypothesized as separate dimensions of performance in the same model, adding resources in the form of equity may result in a lower risk adjusted return on investment. This means that the company has performed well on one dimension, resource accumulation, while it has earned lower performance on the second construct, profitability (Carton & Hofer, 2010).

5.3.3 Market Share

Most literature in market share explores whether underlying market features, such as economies of scale and market share deliberate competitive advantage (Buzzell et al., 1975). suggests the market share benefits may come from unobserved variables that create imitation relations. Jacobson and Aaker (1985) and Jacobson (1988) empirically investigated this probability, statistically controlled for unobserved features, and significantly reduced the estimated correlation between profitability and market share. In a much-discussed study using the PIMS database Buzzell, Gale and Sultan (1975) found a positive link between market share and profitability. This article showed that regardless of whether market share is defined by rank or percentage, there is a strong correlation between market share and profit margin. The PIMS data set revealed that a company with a market share of 40 percent will achieve a profit margin twice as high as the competitor with 10 percent of the market (Simon 2010). Therefore, the strategic implication of these findings is that firms should strive to achieve a higher market share in order to reap the advantages of higher economies of scale and experience. Underlying the concepts of economies and economies of scale is that a company's cost position depends on its relative market share. The higher the relative market share, the lower the company's unit costs and the higher the profit margins. The most important question about the relationship is whether it represents a mere correlation or a true causal relationship (Ailawadi, Farris and Parry 1999).

5.3.4 Return on Investment

Return on investment is a performance measure used to evaluate the efficiency of a particular investment or compare a number of investments in a firm. Return on capital employed is one of the types of return on investment (ROI) (operating profits/capital employed). It provides a test of profitability related to the source of long-term funds. The higher the ratio, the more efficient is the use of capital employed (Yalcin et. al., 2012). On the other hand, ROI can also be calculated by dividing the return of an investment with the cost of the investment. However, there are limitations with this measure given that it does not consider a project's time frame; so, when comparing different investments over time, the evaluation is not very accurate.

5.3.5 Intangibles

Intangibles - nonphysical assets such as patents, goodwill and intellectual property assets - is an important firm factor that influences a firm's performance. Hawawini, Subramanian, and Verdin (2003) refer to research and development and advertising and marketing as vital intangible assets that are important in any economic condition that measures a firm's performance. Having these activities enhances the firm's ability to compete in the market. Having a competitive advantage is especially favorable in the tough economic times to help boost the company's revenues and sustain growth. In particular, strong R&D and advertising and marketing gives the company the ability to innovate and engage in price leading strategies which in turn helps push its operations through the recessionary periods (Autor, Katz, and Krueger, 1998). Teece (1998) believes that "it is no longer in product markets but in intangibles assets where advantage is built and defended. There is no such thing as a privileged product market position—unless it rests on some upstream intangible asset".

On the other hand, according to Titman & Wessels (1988) and Rajan and Zingales (1995), there is a strong negative relationship between a firm's performance and tangibility but a positive association with long term debt. For instance, firms with relatively risky intangible assets tend to borrow less than firms with safe tangible assets. Also, companies that secure their long-term debt with tangible assets are in fact able to borrow at much lower interest rates than the ones with intangible assets (Bradley, Janell and Kim, 1984).

5.3.6 Size of the Firm

For developed economies, the size of the firm generally positively affects firm performance due to economies of scale or entry barriers. However, for a developing economy, the opposite is observed since size may stand for former large government-owned enterprises which are less efficient. Pi and Timme (1993) claims that larger companies might display more conflicts between managers and shareholders; this can lead to diminished profitability due to less control of management's behavior.

However, Mitchell (1994) strongly supports the effect of firm size on business survival and variance in operating performance. He argues that firm size is a basis of competitive advantage in the sense that larger companies tend to be more efficient than their smaller counterparts and have better resources to survive economic downturns. On the other hand, Jovanovic (1982) finds that the entry size of the firms may be small but that if the firm is successful, it will eventually expand. This implies that longer business survival is directly linked to greater operating performance and size (Jovanovic. 1982). Also, Frank (1988) suggests that the company's entry size is a good indicator of how successful the firm will be in the future. Smaller companies tend to experience higher volatility in their rate of return than their larger counterparts (Baumol, 1962). Therefore, the size of the firm could be used as a measure to evaluate firm performance.

5.3.7 Stock Market Performance

Stock liquidity, stock prices and stock market performance can be used as a measure of firm performance. Miller & Bromiley (1990) points out that finance theories are generally developed on the assumption of market efficiency which views stock price as representing the firm's fundamental value (i.e., the present value of expected future dividends). Stock market performance can be measured using market-to-book value ratio (MTB) and market return. Further relationship between stock market liquidity and firm performance was also checked, and it was found that stock market liquidity was correlated with higher firm performance as measured by Tobin's Q (Singh & Gupta, 2015). Thus, it can be stated that the value of a firm on the stock market is a reflection of its future value. Conversely, even if the assumption of market efficiency holds, Bettis (1983) argues that a firm's stock price does not necessarily reflect its fundamental value because it is influenced by the information managers choose to disclose to investors.

5.4 Determinants of Firm Performance

The determinants of firm performance described below are corporate governance, human resource management, environmental management, product diversification and risk management.

5.4.1 Corporate Governance

The field of corporate governance has grown steadily over time. It can be defined as a system of rules, principles, laws, policies and practices by which companies are governed. It includes principles of transparency and accountability that dictates how senior managers, CEO and directors oversee and regulate operations. Hence, it is a statistically strong variable to determine firm performance. Performance of a firm is significantly impacted by corporate governance. An effective corporate governance protects against any unforeseen financial challenges, attracts investment and helps in maximizing the company's funds. Many researchers have referred that a company having better quality of corporate governance brought into practice are able to raise investment funds at a lesser cost (Mishra & Mohanty, 2014;; Agrawal & Knoeber, 1996).

Furthermore, special attention has been dedicated to determining the corporate governance effectiveness through different measurement of firm performance, one that is related to the production process, namely technical efficiency (e.g. Sheu & Yang, 2005; Bozec & Dia, 2007; Destefanis & Sena, 2007; Lin et al., 2009; & Garcia-Sanchez, 2009). This is because the main element of business organization is its operation function which refers to the transformation of inputs into outputs, and wherein efficiency is very significant (Sheu & Yang, 2005). On the other hand, while some found a positive relationship between corporate governance and firm performance through accounting and market-based measurement, others revealed a negative relationship between corporate governance and firm performance.

5.4.2 Human Resource Management

Human resource management (HRM) refers to the strategic and effective management of people in an organization such that they will help the company achieve its goals. Since, human resource management is designed to maximize employee's performance as per employer's objective, it has been claimed that rigorous recruitment and selection processes, performance-contingent compensation systems, extensive development and training activities and commitment to employee involvement are generally considered parts of high-performance work systems (Becker and Huselid, 1998).

Correspondingly, salary level was revealed to be significantly associated with firm performance for both managers and non-managers in a study conducted by Fey , Björkman & Pavlovskaya (2000). In addition, promoting managers based on merit was positively associated with firm performance while ensuring job security of non-managerial employees was a key non-managerial determinant of firm performance (Fey , Björkman & Pavlovskaya, 2000).

Moreover, the study by Björkman & Xiucheng (2002) support for the hypothesized positive effects of HRM practices and HRM-strategy integration on organizational performance. Together with previous research on HRM and firm performance, their results indicate that investments in and attention to HRM pay off in terms of their effect on firm performance. However, cross-national comparative research is clearly needed to explore further the impact of the relationship between HRM and firm performance.

5.4.3 Environmental Management

Environmental management is a crucial part of environmental, social, and governance (ESG) - the buzzword of the 21st century amongst all the rising environmental and sustainability concerns. It focuses on decreasing or eliminating the detrimental environmental impact of a firm's operation and product. Some anecdotal evidence links strong environmental performance to lower manufacturing costs, often by eliminating waste (Allen 1992; Schmidheiny, 1992). Environmental performance, through both market gains and cost savings, affects firm financial performance. According to the efficient market theory, stock prices are proxies for financial performance, and thus to a large degree represent the actual financial benefits of environmental performance. Significant positive abnormal stock returns were documented following positive environmental events, highlighting the perceived value of strong environmental performance. On the other hand, significant negative returns were documented for environmental crisis adding further empirical support for a causal link between environmental and perceived future firm financial performance (Klassen & McLaughlin, 1996).

5.4.4 Product Diversification

There is a strong causal relationship between diversification and firm performance; this allows product diversification to determine firm performance. Rumelt (1974) viewed a firm's diversification strategy as having two critical dimensions: (1) the firm's commitment to diversity per se, and (2) the strengths, skills, and purposes that span this diversity, demonstrated by the way the new activities are related to the old. Taking this into context, it was found that diversified firms have on average a higher firm performance than non-diversified firms. Moreover, another study conducted by Varadarajan (1986), reveals that there is a significant difference in the performance of firms characterized by varying levels of depth and breadth in diversity. Therefore, greater extent of diversification leads to higher firm performance.

5.4.5 Risk Management

The issue of risk management has been widely discussed and evaluated since the 1950s. Enterprise risk management (ERM) is a risk management process that includes all kinds of risks that an organization faces. It also evaluates risk and opportunity together and provides reasonable assurance that the business objectives are realized. Based on the Agency Theory, the implementation of a strong risk management system such as ERM could increase the overall firm performance and shareholder value. ERM researchers argue that it benefits firms and increases shareholder value by reducing earnings and stock price fluctuation, decreasing external capital costs, and rising capital efficiency (Lechner & Gatzert, 2018). Findings by Malik et al. (2020) and Saeidi et al. (2019) indicated a positive and significant relationship between ERM and firm performance. Moreover, Gates et al. (2012) indicated that ERM could indirectly affect firm performance through increasing the capability and ability of the managers of organizations.

Every institution has its particular ERM system that is suitable for its visions, mission, objectives, and activities (M. S. Beasley et al., 2005). Consequently, based on Hoyt and Liebenberg (2011) and COSO (2004), the ERM process and system in one institution is unable to comply with the requests of other institutions. This is unique for each institution, and the use of a proper ERM system can create many benefits for that organization. As a result, the existence of such assets in an organization could create a competitive advantage and enhance overall firm performance. By utilizing a tactical and constant method (or process) for managing all of the risks of a company, ERM is believed to reduce the total risk failure of an organization, and raise the efficiency and the value of the firm and shareholders (Saeidi et al., 2020).

5.5 Corporate Governance and Firm's Performance

The corporate governance best practices followed by a company can determine the financial performance potential of a firm (Kyere & Ausloos, 2020). The good governance frameworks that the company follows can merge the divergence between the top management of the company and the stakeholders. This is essential to attract the investors who are responsible for the future financial performance of the organization. Thus, good governance practices have severe relationship in terms of determining the firm's future financial health.

The top managements who are responsible for running the show are the agents of the principals who are the shareholders of the company (Kyere & Ausloos, 2020). There are past scenarios where greedy decision made by the top management has caused the demise of rather well-functioning organization such as Enron and WorldCom. As a result, of that, the corporate governance frameworks were developed so that the stakeholders can be given the most priority. The good governance measures ensure that both the internal and external stakeholders are satisfied. When organization operate in today's world where globalization made economies interdependent on each other, the external stakeholders are ever more important consideration. The efficacy with which a corporation implements their good governance policy portrays the role of human resource management in that organization. Thus, the organization focuses on transparency, accountability and disclosure throughout all the departments. The communication between departments improves and as a result the productivity of the workers increases – often even if the size of the organization is comparatively large. The company can manage their risk more efficiently while addressing the stakeholder's requirements. The utilization of the corporate governance framework is a statement of the organization's determination towards staying in the business for the foreseeable future.

The convergence of economies in today's world has made the developed and emerging nation dependent on each other for production purposes. The corporate governance framework allows the investors to differentiate the companies based on the industry benchmark. They can make much more effective investment decision due to the good governance frameworks that allow them to compare different companies operating in the same industry. The corporate governance best practice track record serves as an indicator of the future financial potential of the firm as this is a strong determinant of their ability of securing the investors funds.

5.6 Conclusion

This chapter provides an elaborate literature review of the measures and determinants of firm performance discussed by different researchers over time. The performance measures and determinants mentioned was chosen after carrying out a detailed and comprehensive study of many papers. Measures of firm performance include sales growth, sales volume, profitability, market share, return on investment, intangibles, size of the firm and stock market performance. In addition, relevant determinants of firm performance are corporate governance, human resource management, environmental management, product diversification and risk management. Business analysts and managers can use this information to improve the performance of the firm and understand where the lag is. Finally, this chapter provides insight about how certain factors can be enhanced or incorporated to enhance the company's growth and profitability.

CHAPTER 06: TRIANGULAR RELATIONSHIP AMONG CORPORATE GOVERNANCE, HUMAN RESOURCE MANAGEMENT, AND FIRM PERFORMANCE

6.1 Introduction

The success of the corporate governance best practices followed by any organization determines that company's commitment towards maintaining the top management's accountability to the stakeholders of that company (Konzelmann *et al*., 2006). This is ensured through enforcing the company's corporate governance best practice stance within the organization so that the employees can adhere to the policies that is required for good governance. The idea of corporate governance best practices revolves around the intuition of interaction between the top management and the shareholders of the business. There needs to be a body to observe the continuous progression of the actions of the top management which the board of directors cannot always do (Konzelmann *et al*., 2006). The human resource management department often plays the role of that observing body. The human resource management division operating within a firm is responsible for maintaining the interaction of top management with the stakeholders of the organization. This is an indirect relationship as the HR department facilitates this interaction as a medium. Human resource management is responsible for hiring the employees who have the necessary requirements that synchronize with the company's value and they also observe the employees so that they do not deviate from those values. This enables them to retain the workers that contribute to the growth of the organization while fulfilling the corporate governance goals that are set by the organization. Thus, the extent to which the human resource management can rigidly enforce their practices ensures that the corporate governance best practices are followed in that organization which determines the accountability of the top management to the stakeholders of that business.

The human resource management department is the medium that enables the enforcement of the corporate governance best practices followed by any organization. Since they concentrate on the employees contributing to the organization, they are the first line of defense or enforcer of the good governance practices. As a result, the human resource management practices observed by organization can indicate a lot about the priorities they place on the stakeholders of the business through good governance practices.

6.2 HR Governance

HR management is the heart of any business they are responsible for hiring the required talent pool who work in order to fulfill business goals (Grobler, Bezuidenhout, & Hyra, 2014). The HR governance enforcement can be utilized to instill the good governance practices to empower the employees so that they can contribute towards stakeholder's interest.

Even though often it is assumed that HR governance and Human Resource Management refer to the same concept, in reality, it does not. The role of human resource management is the establishment of benchmark on the internal and external conduct of the employees to promote leadership practices (Kaehler & Grundei, 2019). However, due to vague definitions observed from the literatures, human resource management is often considered to be the same as HR governance which grew in prominence when the ISO 30408 was published. The existence of HR governance is to address and maintain the structure of conduct between internal and external stakeholders of the company. The stark difference between the two is that human resource management directly influences the employee conduct which address the stakeholder's interest while HR governance is responsible for establishing the framework which is utilized by the human resource management. Human resource management is responsible for managing the talent pool while HR governance is responsible for facilitating the good governance practices as per the human resource regulation. Thus, HR governance serves as a tool for HRM to promote good governance practices. HR governance enables the individual firm to introduce good governance practices during the early period of career development of their employees. When the new recruits join, they can be brought up to speed by the HRM so that their values align with that of the company's. The human resource management team's constant involvement with the talent pool utilized by the company is an effective way to acclimate corporate governance practices for the employees which is beneficial for the stakeholder's interest.

6.2.1 Role of HR in Ensuring Good Corporate Governance

The management and growth of the talent pool employed by any organization depends on the HR policies and practices of the company (Grobler, Bezuidenhout, & Hyra, 2014), 2014). The type of corporate governance framework followed by the managers can direct the policy stance they take in terms of ensuring good corporate governance practices within an organization and how that might affect the stakeholders of the business.

The traditional practice of HR governance is based on the requirements that arise due to regular business operations (Grobler, Bezuidenhout, & Hyra, 2014). In other words, the human resource management policies are reactive in nature. As a result, HR practices tend to evolve depending on the issues that arise from daily activities. The reactive approach can result in poor governance outcomes as the HR department is responsible for maintaining conduct and compliance within the employee talent pool that is responsible for the business to function. When a well-defined governance framework exists, the HR governance can pick a proactive practice that enables them to prepare the employee practice from beforehand. This ensures that good corporate governance can be observed in the organization. The established function of corporate governance practices can enable the HR managers to mitigate risk as the framework enables them to employ more rigid monitoring framework in place to be able to detect any undesirable practice in its early stage. HR has significant role in developing and maintaining the good governance practice values in any organization. The adoption of an effective corporate governance framework in practice by the HR managers can enable governance practices to be instilled in the employees who are responsible for delivering the business values through regular operations. Following a proactive policy rather than a reactive one can enable the organization to better cater towards the stakeholder's interest.

6.2.2 Strategic HRM and Corporate Governance

Corporate governance practice is developed within an organization through implementing the practice amongst the employees of that organization. This can ensure that the framework of good governance is followed in all sectors of the organization when the human resource managers implement them by strategically introducing them to the employees in an organized manner (Su, Wright, & Ulrich, 2018). The employees will be able to adjust to the core values of the organization in a smooth manner.

The primary focus of strategic human resource management also known as SHRM is the association between the polices management choose to implement to organize the employees and the strategy of the business operations followed by the company (Martin *et al*., 2016). The traditional interest of SHRM mostly consisted of the employees who were considered to be the most important asset of an organization while ignoring the importance of other tangible or intangible assets that the business owned (Su, Wright, & Ulrich, 2018). The idea behind this belief is that the employees are utilizing the company's resources to generate the revenue required for the survival of the business. Thus, they are the most valuable asset to the organization. This strategy can be classified into two categories: commitment-oriented and control-oriented. The control-oriented approach is the idea of imposing the organizational policies on the employees to increase business efficiency, while the commitment-oriented approach relies on rewarding the employees in order to motivate them to improve their performance raising the efficiency of the organization. The management can utilize this asset most effectively by following policies that can strategically implement the human resources that the company employees. This will result in the efficient use of resources available to the company while maintaining good governance practices.

The strategic enforcement of corporate governance best practices with the talent pool can ensure that the compliance goals within an organization is fulfilled but the idea of only emphasizing the employees as the most important asset to the organization is flawed (Martin *et al*., 2016). Over-emphasis on the value of human resource can result in negligence of other tangible and intangible assets available to the company which can be the cause of their under-utilization.

6.2.3 Empirical Findings of the Relationship Between HRM and Corporate Governance

The effects of HRM practices and its outcome of corporate governance practices can be observed from the data from the WERS98 survey which was conducted in Britain with a sample size of 3,000 workplaces (Konzelmann *et al*., 2006). The survey has a comprehensive range of firms consisting of both 75 per cent public and private firm employees in the Britain. The evaluation of the relationship was done by conducting two groups of regression analysis. Firstly, the HRM practices was predicted through observing the company's size and corporate governance practices. Secondly, the HRM outcomes were predicted by accounting for HRM practices while observing the company's size and corporate governance practices. The variable for company's size was introduced as a control variable and the private sector or public sectors firms were indicated with a dummy variable.

The first regression analysis validates the impact of organization's size on the corporate governance practices and HRM practices or outcome that can be expected to be observed. The first regression indicated that the HRM practices are inversely related to the employees' authority in the workplace (Konzelmann *et al*., 2006). It is to note that the response from managers and employees seemed to indicate the size of the company is a determining factor for HRM practice observed, thus indicating that there is a positive relationship with the size of the company and the conduct of HRM practice observed. However, according to regression output, it could be observed that the size of the company has significant negative relationship when considering job satisfaction. The impact of corporate governance can be significantly explained at 22 percent variation in the model by the commitment of the HRM managers in promoting good governance practices by the variable coefficient, measuring commitment. The commitment factor is positively related for private sector firms and negatively related for public sector firms - when the sectors are analyzed individually. This shows that the public sector firms offer significantly lower commitment by HRM managers to maintain good governance practices from private sector counterparts. However, the second most significant relationship is consultation where 12 per cent of the variation in the model is explained in terms of R^2. It can be observed that the public sector firms have more developed consultation system in place as the relation is positive for them whereas the relationship is negative for private sector firms, indicating weak enforcement of consultation by the HRM managers. The third most prominent relationship at 11 percent is explained by the incentive system observed from the size of the company. While the variation is not significant, private sectors differentiate from public sectors at just 5 percentage higher explanatory power in terms of R^2. The lack of significance of the size of the organization when considering corporate governance practices can be observed from the low explanatory power of the adjusted R-square.

The second regression more specifically dissects the HRM outcome that can be observed due to the HRM practice that is implemented. In the second regression there was a significant positive relationship of the commitment variable and employee relation variable with HRM managers affecting the good governance practices. However, there was a negative significant relationship of consultation when considering job prospects, pay and training reported by the employees even though the managers reported significantly higher levels of quality of consultation and personnel policy (Konzelmann *et al.*, 2006). This suggests that consolation won't be as effective if the employees don't experience job satisfaction. "The regression predicting the quality of employee-management relations, job satisfaction and organizational commitment were all very strong" (Konzelmann *et al*., 2006) indicating 73 percent for HRM size, 58 percent for corporate governance practices observed and 45 percent for HRM practices variation by the respective individual coefficients. The strongest relationship was observed by the employee commitment and employee influence in the work place when considering good governance effectiveness observed in the organization. Public sector employees reported at a higher level of work pressure, low levels of job satisfaction and lack of employee-management relationship. The results suggest that when the employees feel that the management is being effective with their policy implementation, they are likely to have better relation with the managers, better job satisfaction and more commitment towards practicing the company's corporate governance values.

The HRM practices can be effectively conveyed to the employees when they trust that the policies that are observed are effective. Then they can have a positive impact with widespread adoption. The relationship between the managers and the employees is extremely important to address job satisfaction and willingness of following the core values of the company. However, the quality of the consultation ability can diminish when the size of the organization increases. This can be resolved by providing better pay scales and training to encourage the communication between the managers and employees. The analysis shows that the HRM practices can be affective with maintaining sound governance practices within an organization when the relationship with the employees and HRM managers are strong and communication is maintained at all times.

The HRM practices can be the most significant influence in the corporate governance practices observed in the organization as they are responsible for hiring and maintaining the conduct of the talent pool (Konzelmann *et al*., 2006). Early exposure of the workers to the company's core values can influence their behavior throughout their career in that organization. A set good governance framework can ease them into the practices observed by that organization.

The corporate governance practices observed by an organization can be significantly related to the enforcement ability of the human resource managers (Konzelmann *et al.*, 2006). They are the primary level of interaction when considering the talent pool's relation with the organization. When the framework of good governance is established in a given company, it is extremely likely that the practices will be observed by the employees. The HRM managers will be better able to translate or instill the core practices of the organization with a set framework rather than figuring out best practices to combat with shortfalls. As a result, the size of the organization does not ensure that the corporate governance framework that is implemented translates well towards aligning the core values of the employees working in all levels with that of the organization even if the framework is well-regarded.

Human resource managers can set the motion of the governance best practices that becomes the identity of the organization when the framework is already defined and a proper exposure is maintained. The other form where SHRM practice corrects the good governance practice requirements along the way is also a popular method but with shortfalls as it relies on trial and error basis without the proper guideline is place [This was explained in detail previously]. The best approach is to get new recruits used to the organizational core practices to promote corporate governance practices.

6.3 Corporate Governance and Firm Performance

The idea of maintaining good governance practice in an organization is to address the stakeholder's concerns regarding the business's long-term commitment (Mashayekhi & Bazaz, 2008). The establishment of a well-functioning framework can ensure their support in order to promote the growth of the business. So, in theory, when an organization is committed to following corporate governance best practices, they can maintain a healthy growth which is good for increasing the firm's performance.

Corporate governance best practices ensure that the company is giving importance to the stakeholder's interest (Mashayekhi & Bazaz, 2008). This is especially true for the organizations who are operating in the developed countries as they mostly rely on the equity market to raise funds for business needs. The shareholders won't invest in companies who are not associated with good governance which might indicate a negative connotation for their long-term survival goals. As a result, having well established corporate governance practices enables firms to effectively receive funds from the equity market enabling them to expand faster which effectively increases the performance of the firms. However, the empirical evidence is not very concrete in establishing the correlation. In order to see the effective results from good governance practices, the country needs to have already established practice of corporate governance. If the practice is not enforced with proper monitoring system in place, then the effectiveness of this on the performance of the firms is not very clear. The developing countries mostly suffer from corruption and malpractice which makes the sustainability of good governance in these regions sketchy as the government body won't be able to ensure that the standards are being followed. So, when considering developing countries, the relationship does not hold but the opposite is true for developed countries.

When corporation follow corporate governance practices, they are committed to the long-term survival of the organization. This serves as a good indicator for the investors which serves as a sound financial health of the business. The funds can then enable them to fulfill business goals which can increase the organization's performance. The regional difference is a big factor when considering the effectiveness of this measure which can have either positive or negative connotation depending on which region of the world is observed.

6.3.1 Empirical Findings of the Relationship between Governance and Firm Performance

A study to establish the relationship between corporate governance and firm performance consists of ordinary least squares analysis, where there were endogeneity or cross-correlation between the parameters 2SLS (2 Stage Least Squares) and 3SLS (3 Stage Least Squares) were used respectively by adjusting for valid instrumental variables to estimate the model (Bhagat & Bolton, 2008). The main variables observed by the model were: board variables, performance, and leverage. Board variables addressed the degree of board freedom in making decisions which consisted of the "board size, median director ownership, median director age and median director tenure (Bhagat & Bolton, 2008). Performance was measured by accounting for return on assets and Tobin's Q from the data by Compustat and Center for Research in Security Prices. The instrumental variables to account for endogeneity consisted of: "CEO Tenure-to-Age, Treasury Stock, Currently Active CEOs on Board and Capital Structure instrument" (Bhagat & Bolton, 2008). The result from the analysis measures the firm performance by observing the stock market and firm's accounting change (Bhagat & Bolton, 2008). Even though, a significant correlation exists between firm performance and corporate governance measured by GIM (Governance Index Measure) and BCF (Bebchuk, Cohen & Ferrell) indices, the long-term stock returns are not significantly related to the performance measures by investor anticipation. The positive relationship holds when GIM and BCF indices are used as a measure of corporate governance to observe the relationship of firm's performance by considering return on assets. This established the impact of corporate governance on firm's performance. However, the analysis shows that the ownership structure of the firm and the separation of roles between CEO and Chairperson can have a positive relationship with the performance of the firm but the result was not significant. The improvement in corporate governance can result in "1.876% change in operating performance in the current period, a 1.567% change in next year's operating performance, and a 1.520% change in the next two years' operating performance" (Bhagat & Bolton, 2008). The model was tested for validity and strength by performing one-year lagged analysis to account for the consistency of the instrumental variables. The model was well-specified without suffering from any over specification.

The empirical analysis accounted for multiple governance measures such as GIM and BCF indices to observe the relationship of the management's discipline in maintaining good governance measures. The long-run share prices of a firm are significantly affected by the structure of independence of the board and top management's actions. The effects due to the ownership structure in determining the effects on firm's performance was not significant. The analysis suggests incremental compounded development of the firm's performance in presence of corporate governance practices which is in accordance to the literature review so far.

6.3.2 Gov-score of Corporate Governance and Firm Performance

The gov-score was used to measure the strength of a firm's corporate governance and its effect on the performance of the firm from data collected from the Institutional Shareholder Services consisting of 2,327 firms (Brown & Caylor, 2005). The typical gov-score [mentioned in previous chapters] ranges from 0 to 51 but for the sample used in this study, the gov-score ranges from 13 to 38 where the mean is 22.50 and standard deviation is 3.45. The data considers six performance estimations that are extended to three classifications which are: "operating performance, valuation and shareholder payout" (Brown & Caylor, 2005). The operating performance of the firms are measured through considering GIM, return on equity, profit margin and sales growth (Brown & Caylor, 2005). The utmost governance score deciles are arranged in descending order to distinguish the performance variation by cross-sectional analysis. Then the correlation is matched against the six performance estimators to categorize the firm's performance.

The analysis shows that the gov-score is positively correlated with these performance estimators at a significant level (Brown & Caylor, 2005). The results showed that there was a wide spread of return of equity, net profit margin, sales growth. Tobin's Q, Dividend yield and stock repurchases between the firms with good and poor gov-score measures in the extreme deciles. However, the sales growth was negative for firms that had good governance track; even though the magnitude of the estimator was small, the result was significant. The other measures had the expected positive relationship with firm performance and gov-score with the exception of sales growth as observed from the analysis where all three of the estimators were shown to have significant prominence with the largest correlation.

The empirical analysis showed significant positive relationship of gov-score and firm performance (Brown & Caylor, 2005). The gov-score is a more desirable indicator of corporate governance practices in an organization because this takes into account both the external and internal factors that can contribute to good governance observed by a company. The sales growth measure showed contrary results to what was expected but the return on shares showed the investors trust in the corporate governance practice observed by the organization as a contributing factor of accelerating the firm's performance.

The management's interest with protecting the stakeholder's concerns can be observed from observing the corporate governance index [mentioned in previous chapters](Mashayekhi & Bazaz, 2008). They serve as an indicator of the attitude of the management in committing to the task suitable for the long-term survival of the firm. The empirical analysis indicates a positive and significant correlation of good governance and firm's performance.

The good governance practices followed by the organization is an indicator of the business's commitment toward addressing the stakeholder's concerns of their long-term existence (Mashayekhi & Bazaz, 2008). The better governance indices are showing the management's resilience toward serving the stakeholder's rather than their selfish interest. This can be observed from the performance of their shares in the stock market. The funds generated from there helps boost the performance of the company. Even though there seems to be a negative relation indicated by sales growth with more rigid corporate governance performance measures, the result was just marginally significant (Brown

& Caylor, 2005). Also, the effectiveness of the corporate governance measures depends on the local governance practices and the efficacy of the indicator on the stock market to observe any sufficient correlation of corporate governance and firm's performance (Mashayekhi & Bazaz, 2008).

The contributing factor justifying the firm's performance from observing good governance practices as indicated by the empirical analysis is from the effects witnessed in the stock market (Brown & Caylor, 2005). The measure of sales growth does not show significant change in the firm's performance with corporate governance. The determining exogenous factor in justifying firm's performance improvement is throught the stock market performance and the return on assets (Bhagat & Bolton, 2008). The firms enjoy from better performance by maintaining good governance practices as indicated by the analysis of the studies.

6.4 HRM and Firm Performance

Human resource management is an integral part of any business. They are responsible for addressing the employee's responsibility to achieve the business needs (Bowen & Ostroff, 2004). In theory, when the employees are acquainted with business goals, they are able to contribute to the best of their abilities for the business to reach the desired target. HRM practice has a positive impact on the performance of the firms.

When a company has good HRM practice in place they are likely to function as a well-oiled machine. Human resource management is responsible for organizing the employees of a firm to address the necessities of the business requirements as best as possible (Bowen & Ostroff, 2004). The HRM framework has two schools of thought: HRM and Strategic HRM. The general HRM practice treats the firm performance based on the broad subject of how the HRM practices are affecting the employees. The outcome of the firm's success is determined by the HRM's ability of guiding the individuals who are responsible for the task. This approach is more of figuring out the correct conduct as the problems may arise which makes it quite volatile and unpredictable as to the governance structure. The second approach which is Strategic HRM is more consistent with the idea of having the human resource governance established beforehand. This approach is more concerned about empowering the employees with the core values of the business so that they can garner that knowledge to aid the business to grow in the direction of the policies followed by that company. The business strategy is given prominence when the strategic HRM model is developed. Thus, both the approaches are able to meet business needs of extracting the required output from the talent pool to improve firm performance as the productivity of the employees rise. This provides a unique competitive advantage for the firm which cannot be copied by their competitors. These results in improvement in the firm's financial performance which can be observed as a performance improvement for the firm.

The conceptual model developed by Bandyopadhyay & Srivastava (2020) is able to integrate the HRM policy implications in determining the future financial performance of firms. According to their conceptual model, having antecedents such as business-HR strategy fit, inter-functional importance of HR, and HR flexibility will determine the strength of HR signal which will result firm performance through affecting the firm-level employee behaviors. The study includes a broad array of parameters; the model can accommodate both the manufacturing and service industry. The cross sectoral analysis would provide a clear idea regarding the efficacy of the HR practice within the organization and how they result in improving the firm's performance. The sample firms consist of firms where the HR managers have proven their track record in their respective industry. Standardized scale is suggested to be used in order to interpret the survey data to study the relationship.

The companies who are able to utilize the employees toward contributing to the development of their business have a solid human resource management system in place. Both the HRM and SHRM frameworks are effective in implementing the core business values on their employees so that they can contribute to achieve the desired business targets. The firm's performance improves when the employees can effectively support the organizational goals.

6.4.1 Empirical Findings of the Relationship between HRM and Firm Performance

A meta-analysis of eight studies were done through collection of data on firm's performance as a result of human resource practices (Saridakis, Lai, & Cooper, 2017). The eight studies (Guest *et al*., 2003; Kim & Ployhart, 2014; Razouk, 2011; Sheehan, 2014; Snell & Youndt, 1995; Welbourne & Andrews, 1996; Wright *et al*., 2005; Youndt, Dean, & Lepak, 1996) analyzed 1661 organizations that met the criteria of "performance or productivity or turnover or profitability" improvements due effective policy implementation by human resources represented by a longitudinal-panel data (Saridakis, Lai, & Cooper, 2017). The meta-analysis used the size of the weighted correlation of the sample mean to establish if a relationship exists.

The result of the meta-analysis shows that high-performance work systems also known as HPWPs where the HRM is successful at implementing an environment where the employees have greater involvement and responsibility towards managing the organization leads to greater improvement in the performance of the firm (Saridakis, Lai, & Cooper, 2017). The result produced significant statistical difference on the measured performance of the firm in period 2 when the HPWPs is implemented in period 1 which escalated when it was paired with interlinked HRM policies. However, there were no significant evidence regarding the effects of improvement of firm's operational performance on financial performance.

Multiple HRM policies implemented through high-performance work systems can significantly improve the firm's performance through increase in productivity and accounting returns. The more the employees feel responsible and involved towards their organization, the better the efficacy of the organization's management. This may not be represented by the firm's financial health but there is statistical significance suggesting the firm's performance improvement through HRM policy implementations that utilize high-performance work systems.

In theory when a firm has effective management, they are likely to perform in a more productive manner. The efficacy of management's influence depends on the involvement of the employees in the organization's performance (Bowen & Ostroff, 2004). HPWPs can help the employees to feel more involved and responsible towards contributing to the raising the performance of the firm through increasing productivity.

The hierarchy of the management system in organization can expand to a great extent which can lead to the alienation of the employees in terms of feeling the fulfillment of their contributions in the organization's growth. The implementation of HRM policies that allows for the employees to feel greater responsibly and involvement towards contributing to the business operations can lead to a more efficient management functions which can lead to increased firm performance thorough greater improvements in the productivity and accounting improvements in the firm (Bowen & Ostroff, 2004). However, the performance improvement is better observed through longitudinal observations and there is only limited data available due to its cost (Saridakis, Lai, & Cooper, 2017). Meta-analysis has been performed to address the issue but the results suggest association rather than causation because the financial performance does not significantly improve due the HRM policies.

Employee morale in an important element when considering the productivity increase in the business operations of a firm. When there is wide range of hierarchy in the management of an organization, the significance of the worker's contribution dilutes when compared against the grand scheme of things which can have negative connotations for the productivity of the firm. HRM policies can facilitate the employees' involvement with the company to improve the employee's morale which raises their productivity resulting in improvements in the performance if the firm.

6.5 Corporate Governance, Human Resource Management, and Firm Performance

Human resource management has grown in prominence to implement the corporate governance practices within an organization to ensure that the stakeholder's interests are met (Cho, 2005). This has resulted in better management of the firms for those who could successfully implement good governance framework raising the productivity of the employees, thus ensuring that the financial performance of the company improves.

The top management is usually responsible for directing the business decisions that has profound effect in terms of the performance observed by the firm (Pelayo-maciel, Calderon-hernandez, & Serna-gomez, 2012). In order to have a persistent growth in the firm's financial performance, the management would implement corporate governance best practices so that the stakeholders can justify their investment decisions upon the long-term commitment of the organization. The stringency of commitment to these corporate governance frameworks within an organization is ensured by the human resource management through implementing these ideologies in the employees. There seems to be a connecting that ties the functions of corporate governance, human resource management and firm performance together. However, during the process of finding other similar studies which would address this relationship, only a limited number of studies could be found that strictly explored this interrelationship through empirical analysis.

The interconnection between corporate governance, human resource management and firm performance is quite obvious from the theoretical understanding from other studies but there seems to be a lack of empirical analysis done solely to explore this connection. As the paper would progress, the research gap will be explored to support the theoretical relation. Future studies may shed some light on the connection between the parameters when more research is done.

6.5.1 The Triangular Relationship

The bivariate analysis observed previously shows the prominence of human resource management and corporate governance on the improvements in firm performance. However, the interconnection between HRM, corporate governance and firm performance has not been observed yet. The idea is that there might be some correlation between the parameters that may be associated with a triangular relationship. In theory when an organization has a well-functioning human resource management system in place, they are likely to implement frameworks to effectively utilize the talent pool at their disposal which enables them to fulfill corporate governance best practices that serve the well-being of the corporation's values (Pelayo-maciel, Calderon-hernandez, & Serna-gomez, 2012) When the organization follows good governance practices, the productivity of the employees improves which results in financial incentive for the firm as the performance improves. If the path is followed onward, the improvement in firm performance incentivizes the organization to improve their talent pool selection to raise the productivity even further with likeminded employees who would withhold the values of the organization. As a result, the trend goes on as there seems to be a substantial relationship between human resource management, corporate governance and firm performance. However, not a lot of studies have portrayed the relationship in detail. During the research, few studies were found to have ((Pelayo-maciel, Calderon-hernandez, & Serna-gomez, 2012); (Cho, 2005) explored the association between the parameters to some extent but the primary focus was not intended to evaluate the establishment of this correlation. The study by Pelayo-maciel, Calderón-hernández and Serna-gómez, (2012) explores Korean firms to establish the positive outcome of corporate governance structure on the performance of the firms. While they have tried to implement the effects of HRM policies on firm's performance, no linkage was made with all three of the relations. The empirical analysis followed the same pattern with(Cho (2005) where bivariate hypothesis were established without showing any linkage between all the three parameters.

The relationship between human resource management, corporate governance, and firm performance seems prominent when analyzing the association theoretically. The lack of empirical analysis solely addressing this interrelation between the parameter needs to be explored in the near future. The topic seems rather unexplored with a lot or riddles waiting to be answered. Even though, the theoretical understandings suggest a relationship exists, there seems to be a gap in research that can be addressed.

6.5.2 HRM as a Mediator of Corporate Governance

The human resource managers are an essential part of any organization. They are responsible for talent acquisition which is considered a building block for any organization. The efficacy at which the human resource managers perform within a firm can determine their financial outcome in many aspects (Bandyopadhyay & Srivastava, 2020). The mediation abilities of HRM in instilling the corporate governance best practices within an organization is what contributes to the financial performance of firms.

The HRM managers have the ability of rewarding the best performers within an organization. They are constantly monitoring the human capital being employed by the firm in order to raise their efficacy. The allocation of the employee talents serves as a signal for rewarding employee's efficiency and productivity (Bandyopadhyay & Srivastava, 2020). Also, the HRM department usually gets to observe the bird's eye view of the business operations and future plans. They have access to information before anyone else. As a result, they are given the task of devising the plans of implementing these plans to reality. The good governance practices are incorporated very closely with these future plans so that the value of the organization can be reflected. Thus, the HR managers are able to interact with the employees at the surface level in order to implement the good governance practices. A well performing HRM policy within an organization serves as a signal for their ability of achieving future success as a company.

HRM can groom the organization in two ways: horizontal fit and vertical fit (Bandyopadhyay & Srivastava, 2020). The horizontal fit consists of developing the departmental efficiency. This policy considers the communication with a particular department. When everyone is on the same page with the goals that require to be achieved then everyone can act harmoniously. While the vertical fit focuses on the whole organization. This policy aims to synchronize all the departments together to achieve the desired results. In both cases, the HR managers plays the key role of guiding the employees towards their targets. This gives HRM very critical advantage of instilling good governance measures within the employee work ethic while raising their work efficiency.

The key to any organization's success relies on their ability of determining the suitable framework for their organization and implementing that with the daily business operations. The employee's behavior can be managed at the surface level to instill the organization's best practices with the help of HRM. The HR managers can leverage the asymmetry of information that exists between different departments within an organization in order to make them work together more cohesively. The prominence of HRM policy observed in an organization acts as a signal of how well they can perform financially.

6.6 Conceptual Model

A research study usually involves a significant number of stakeholders who are involved either throughout the process or requires progress reports at certain intervals (Robinson *et al.,* 2015). The formulation of a conceptual model allows as an indication of which way the study is heading. The process of following through the process becomes smoother for the stakeholders when they have a conceptual model.

A conceptual model provides an outline for the research content that is being processed so that all the stakeholders can have a clear understanding regarding the proceedings (Robinson et al., 2015).

The conceptual model is formulated in two stages. Firstly, the literature review is used to establish a theoretical framework. A theoretical framework is a model that is established using the general similarity of the parameters used in the empirical studies of the literature reviews. This initial model helps us identify the scope of the study to establish our hypothesis required for the research. Secondly, analysis of our data leads to new scope of improvements that can be added to our theoretical framework that was developed initially. The adjustments that take place on the theoretical framework and leads to the formulation of the final model used in our research is the conceptual model that will dictate the rest of the study. Thus, conceptual models provide with a framework that support the process of conducting a research study while ensuring the participation of the stakeholders to be able to interpret the direction of the development of the concept by observing the conceptual model.

Conceptual models act as a flow chart to direct the stakeholders through the process of development of the research study that is being taken place. The task of keeping everyone in the loop becomes easier as the stakeholders can interpret the progress through observing the conceptual model as the progressions are outlined effectively through conceptual models.

6.6.1 Model Composition

Conceptual models enable the stakeholders to have a comprehensive idea about the research proceeding while ensuring that proper transparency is maintained (Robinson *et al.*, 2015). The credibility of the model composition is developed through conceptual models as it is based on extensive literature review to justify the relation based on theoretical understanding.

The composition of the conceptual model should answer 'how' and 'why'. This enables the model to find possible research gaps that can be answered through further analysis in the current study or in a future one (Robinson *et al*., 2015). Any incomplete or inconsistent research can be addressed through the initial model building process which was developed form the theoretical framework. Then the model can be explored further to establish the fundamental relationship between the parameters. These initial steps while formulating the model composition ensures that the model can be justifiably developed through proper validation of theoretical developments of our hypothesis for the research. When the basic model can be established, the modifications can be added later on to cater to the current research developments which formulates our conceptual model. The model used in this study has three main parameters where the relationship will be investigated: corporate governance, human resource management and firm performance. The basic framework of interaction as per the bivariate analysis between the parameters was summarized in the literature review of the empirical analysis. The understanding of the interaction of the parameters forms the theoretical framework that will help us formulate the conceptual model. The model formulation will be explained in detail in the next part.

The model composition allows to establish the base of the model which is the backbone of the literature reviews that support the hypothesis. This can be later altered to accommodate the research development that may progress while keeping the core knowledge consistent. As a result, the reliability of the model composition can be verified while the modifications progress along the way.

6.6.2 Literature: Build-up of the Model

The models observed through literature review so far had several aspects in common which have significant stakes at validating the relationship being studied. The formulation of the model build-up methodology has been explored in three different segments: Factors affecting corporate governance, factors affecting human resource management and accumulation of all the literature review learnings through a conceptual model. Therefore, the following model summaries the literature in respect of corporate governance so far discussed.

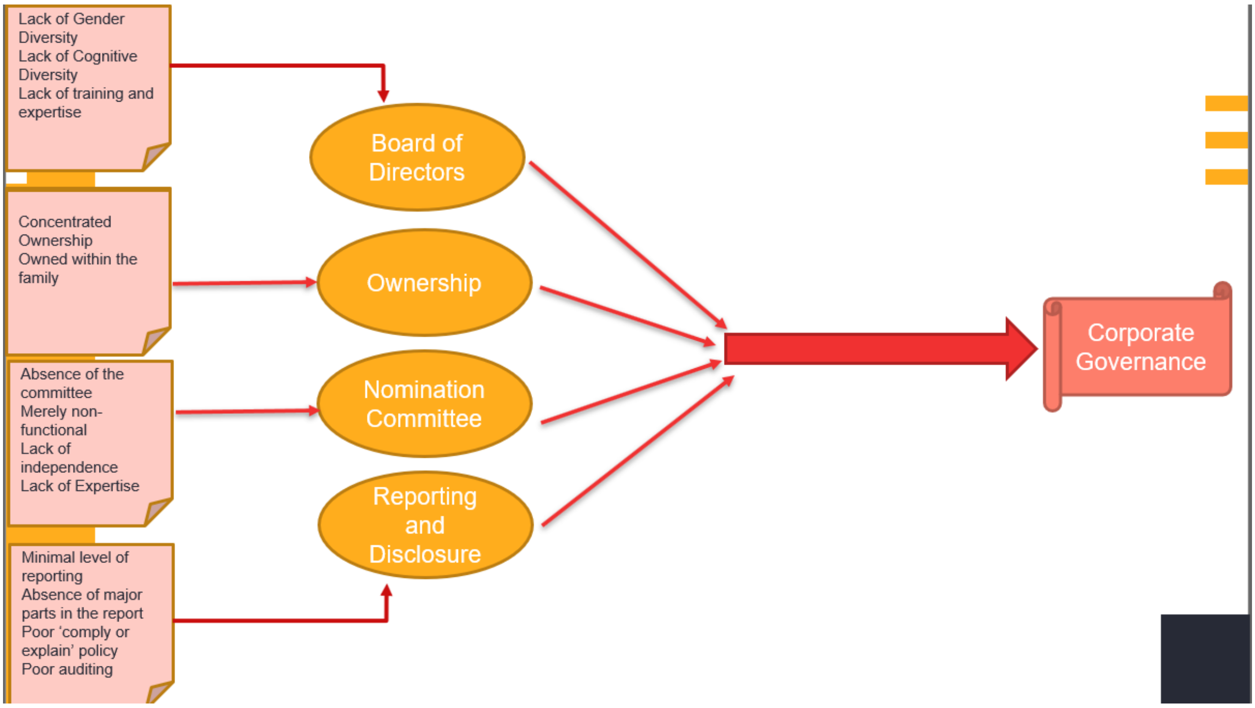

Figure 19: Factors affecting Corporate Governance

The literature review driven model indicates towards Board of Directors, Ownership and Nomination Committee to determine the corporate governance practices in a company. The parameters are estimated by the criteria dictated by the literature which is outlined towards the far left of Figure 18. When these variables have significant prominence by fulfillment of the criteria, the organization has good corporate governance practice in place. Therefore, the following conceptual model summaries the literature in respect of HR practice so far discussed.

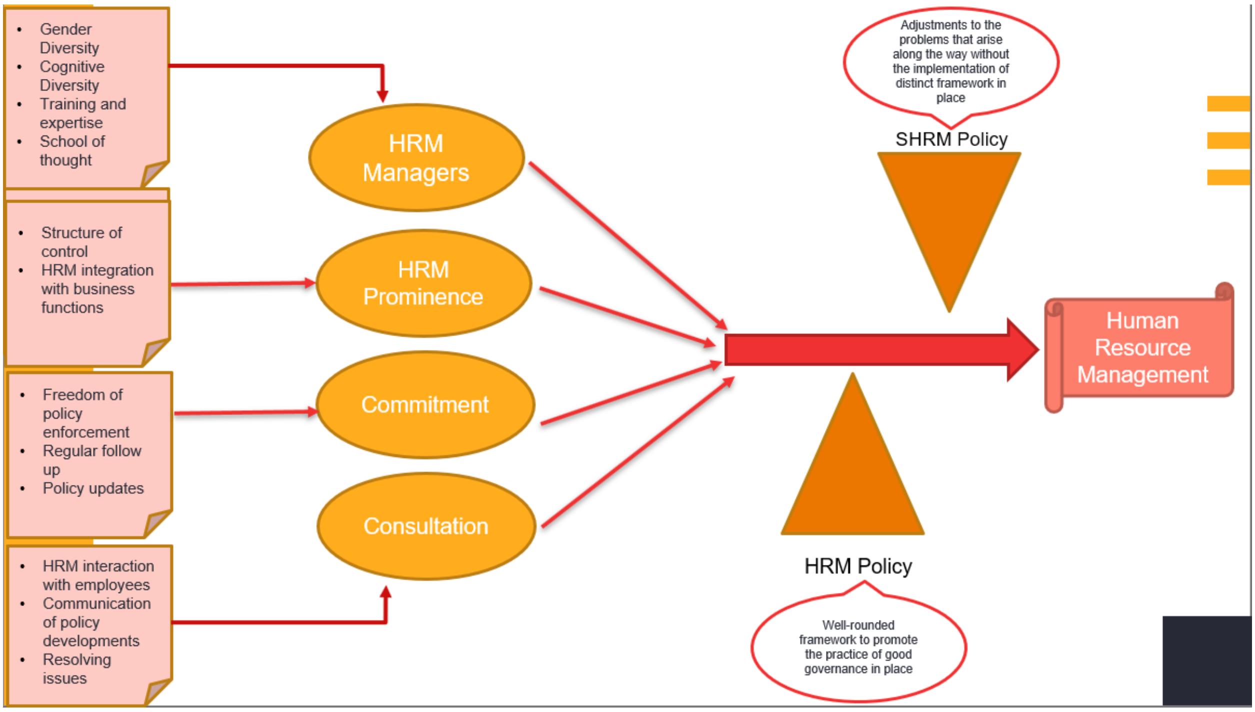

Figure 20: Factors affecting Human Resource Management

The corporate governance stringency is usually ensured by human resource management in terms of engaging the employees to participate in good governance practices (Saridakis, Lai, & Cooper, 2017). The HRM involvement with the good governance practices is important to ensure that the guidelines are followed which is measured by HRM Managers, HRM Prominence, Commitment, and Consultation. HRM is the medium that ensures that the organization is compliant towards their good governance framework.

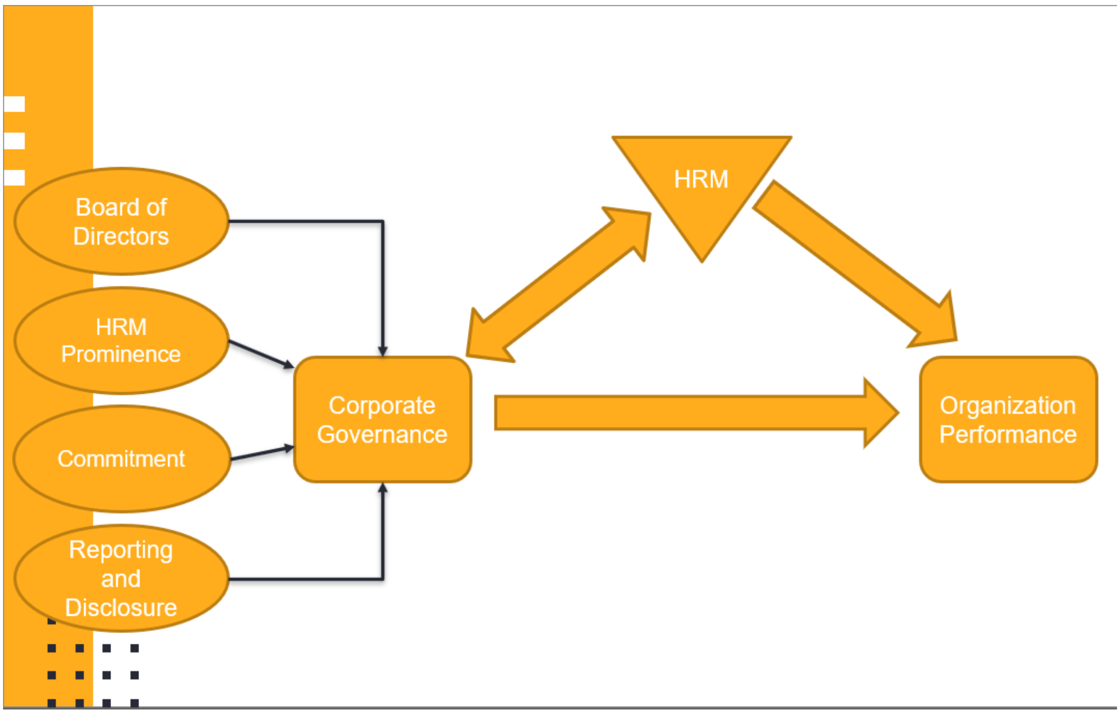

Figure 21: Conceptual Model

Literature reviews observed previously have established that corporate governance has significant impact in terms of securing investor confidence (Akbar, 2015). When an organization is acquainted with good governance practices, it is likely that they are concerned with long-term growth which serves as an indication of them strive to exist in the future. The empirical analysis observed so far suggest significant financial improvements for firms when they have sound corporate governance framework which is mediated by the HRM policies (Bhagat & Bolton, 2008). There is a strong relationship between corporate governance and HRM as HRM ensures that the polices are being followed which results in the improvement in the organization's performance. The ability of maintaining a well-functioning HR department ensures that the organization's good governance polices are implemented while achieving the goals (Bandyopadhyay & Srivastava, 2020). The close surface level functions of HRM with the employees ensure that corporate governance polices are utilized when they fulfill their functions. When good governance policies are implemented by the HR managers effectively throughout the organization, this works as a signal for the stakeholders that the firm will respect their best interest when doing business. That is how corporate governance best practices translates to the firm's performance improvement through HRM participation. The goal of the research is to establish the dynamics of this relationship. Based on this conceptual model, the upcoming chapter will propose four hypotheses which will test the interrelationship between corporate governance, human resource management, and firm performance.

The core parameter of the model has been defined similarly in the studies, observing similar relationships of corporate governance on the performance of firms. The data can be collected with respect to the analysis done in these studies to improvise and observe the relationship for other industries. There is even the possibility of answering the triangular relationship between corporate governance, human resource management and firm performance through using the same basic models along with some modifications.

6.6.3 Application of the Model in the Current Study

The literature review and empirical analysis observed so far helped identify the conceptual model when observing the implications of corporate governance on the performance of firms. The model can serve the purpose of identifying the extent of corporate governance followed in the textile industry of Bangladesh and how significantly the effects range in terms of the performance observed by that firm.

The current study focuses on exploring the relationship of corporate governance observed in the textile industry of Bangladesh. The theoretical groundwork has been done to establish the model for the analysis. When the data is collected for understanding the corporate governance structure by evaluating the parameters, a clearer picture is found when establishing the relationship. The conceptual model that was developed to explore the relationship has sufficient parameters to explore the components of corporate governance structure in the textile industry of Bangladesh which can be compared against other industries. Also, a research gap was identified between the relationship of corporate governance, human resource management and firm performance which can be explored in this study.

6.7 Conclusion

The theoretical framework that was developed provides with the base line relationship establishment. Any research gaps that may have been present during the previous studies can be identified to work out the questions that could be answered during the research that is being conducted.

Conceptual model is an essential tool to observe the progression of any research study (Robinson *et al*., 2015). Construction of conceptual model allows to implicitly portray a framework around which the work can be done. The stakeholders are benefitted from this as they can have a clear direction when they would want to evaluate the progress of the study. The model's strengths and weaknesses can be evaluated when constructing the model as well. Thus, the model can be a useful tool in terms of aiding researchers to follow through the research questions that were established to be answered.

The framework was developed by studying literature review to establish the common relationships between the parameters of corporate governance, human resource management and firm performance. The studies seemed to indicate that the interaction of corporate governance is incorporated with the firm's performance by the HRM polices. The HRM policy enabled the employee's conduct to align with that of the company's values. The conceptual framework helped to develop our research questions. In the upcoming chapters of the thesis, the hypotheses will be tested based the formulation of conceptual model that would form the back bone of this research to establish the relationship between corporate governance, human resource management and firm performance for the textile industries in Bangladesh.

CHAPTER 07: RESEARCH METHODOLOGY

7.1 Introduction

The methodology chapter in research consists of a thorough blueprint of how a researcher wants to conduct the study (Jansen & Warren, 2020). This part postulates the reliability and validity of the research result. In this chapter, the researcher also mentioned the precise procedures required to analyze the data of the research. The objective of this section mainly focuses on which type of data to gather and from whom the data can be collected. Moreover, it also focuses on how the data can be collected and analyzed for this research. Not only will this chapter consist of this information, but the researcher will also provide support for the use of a particular method and will also ensure that she has provided sufficient justification for the preferred method for the study.

This chapter started with the research rationale that provided the significance of this research and the research's reasoning. Then, the research objectives of the study are mentioned, which consists of primary and specific research questions. All the hypotheses for the research are shown after the research objectives. Afterward, the chapter consists of research philosophy, where four major worldviews are mentioned. The chapter then explains the research methods. These fundamental methods are: qualitative research, quantitative research, and mixed methods. The method best suited to fulfill the research's objective and goal are also mentioned with justification. Following this, the chapter shows a detailed explanation regarding the data collection process. A map is given where the whole process is divided into five major phases, and each of the phases is elaborately conveyed. Similarly, the entire data analysis segment wise also divided into five phases and explained in detail. This consists of the tools used to analyze the data. Finally, to put the whole chapter concisely, a brief summary is given.

7.2 Research Rationale

A research rationale is a set of reasons for conducting thorough research, including the basis for choosing a particular topic. Rationale offers justification and a brief explanation of why a research question has been selected. It also provides the reasons for addressing a topic or problem with a particular solution. Along with this, a research rationale suggests the ways researchers can provide an additional contribution to the respective field of study (Moola, 2015). Moreover, a rationale explains the significance of the research chosen, what purpose it chooses to fill, and identifies gaps in the existing research base. In addition, it supports the originality and importance of selecting a particular topic. Therefore, this paper aims to find out the interrelationship between corporate governance, human resource management practices, and organizational performance in Bangladesh's textile industry. Several reports have been written on corporate governance, human resource management practices, or the textile industry in Bangladesh; however, no research has been conducted to link these three topics together. The reason behind conducting this research is to do a comprehensive study of these three sectors, relating it to how these factors affect the textile industry.

7.3 Research Question

In the book, *Principles and Methods of Research*, Ariola (2006) mentioned that primary research questions represent the main goals which will be attained through the study. It should indicate the intention of the research exploration. Such questions help to give a summary regarding the research purpose. To illustrate, it states in general the anticipations that can be obtained from the study. In addition, it also conveys "What is the investigation for and what is accomplished by the research?" (Ariola, 2006). The research question of this study is to study:

Is there any interrelationship between corporate governance, human resource management practices and firm performance in the textile industry of Bangladesh?

7.4 Research Objectives

7.4.1 Primary Research Objective

The main objective of the whole research is expressed through a primary research objective; this helps other researchers to easily comprehend the purpose of the study. The broad objective of this research is to identify the interrelationship between corporate governance, human resource management practices, and organizational performance in the textile industry of Bangladesh.

7.4.2 Specific Research Objectives

The main goal of specific research questions is to necrotize the broad objective into small parts in order to achieve the ultimate purpose of the study. In a systematic and logical manner, the broad objective is broken down into several questions which still manage to describe the broad question (Ariola, 2006). Finding the answers of these questions will eventually solve the answers of the broad objective. That means, all the specific research objectives are connected to the broad objective. Such objectives help the researchers to focus on the essential parts of the research rather than wasting time on unwanted information. Also, it can arrange all the required information which needs to be collected in an easier and clear way. Specific research objectives act as guidelines to reach the result of the study. Various aspects of the research problem are included here in a rational manner. While making these objectives, it is always taken into consideration whether finding the answers is actually feasible or not; also, whether financially affordable or not. Research methodology can be developed with the help of specific research objectives. Researcher can decide the ways to initiate the methods of collection, analysis and interpretation of the information gathered. The specific objectives of this research are to:

- Highlight the present status of corporate governance practices, human resource management practices, and organizational performance in the textile industry;
- Measure the bi-variate relationship between corporate governance practices with human resource management practices, and organizational performance;

- Identify the mediation effect of human resource management practices on the relationship between corporate governance practices and organizational performance;
- Identify major weaknesses of corporate governance practices and human resource management practices in the textile sector; and,
- Recommend the key measures to be taken for better corporate governance practices and human resource management practices in textile sector.

7.4 Research Hypotheses

Based on previous investigations, literature, or experience, a researcher generally puts a research hypothesis forward, which is a particular statement of prediction that consists of a tentative answer to a research problem that can be tested. To conduct a sound and well-developed research study, it is essential to have a research hypothesis. Since the research hypothesis contributes to the solution of the research problem, it is appropriate to use a hypothesis when a theory is being tested, in which the definition of theory is - an idea about how things relate to each other. In research, there is a convention that the hypothesis is written in two forms: the null hypothesis and the alternative hypothesis. This usually involves proposing a possible relationship between two variables: the independent variable (what the researcher changes) and the dependent variable (what the research measures). So, in the null hypothesis, the researcher usually states that there will be no significant difference/ relationship between the two variables. On the other hand, the alternative hypothesis assumes that there are a difference/ relationship and a changed state. H_o denotes the null hypothesis, and the alternate hypothesis is indicated by either H_1 or H_a (Taylor,2019). The research hypothesis can be stated as two possibilities: there is a difference/relationship, or there is no difference/ relationship. Generally, the alternative hypothesis is identical to the research hypothesis, which implies that the null hypothesis is opposite to what the researcher expects. The null and the alternate hypothesis exclude each other; thus, the other one is assumed to be true when one is rejected. In the "Encyclopedia of Statistical Science," Kotz *et al.* (2004) pointed out that researchers' main objective is to reject the null hypothesis. They have their alternative hypothesis based on their topic. Therefore, the research hypothesis states what the researcher expects to find – it is the tentative answer to the research question that guides the entire study. The research hypotheses in this study are:

Hypothesis 1: There is a significant relationship between corporate governance practices and human resource management practices of a company

Hypothesis 2: There is a significant relationship between corporate governance practices and organizational performance

Hypothesis 3: There is a significant relationship between human resource management practices and organizational performance

Hypothesis 4: Human Resource Management mediates the relationship between corporate governance and firm performance

7.5 Research Philosophy

In the book, *Research Design: Qualitative, Quantitative, and Mixed Method Approaches*, the authors (Creswell & Creswell, 2018) stated that the philosophical worldview is an essential part of research work because this helps to choose from the different research approaches which are qualitative, quantitative and mixed-method approaches. This also helps to provide with an explanation for why a particular method was chosen. Although the word "worldview" has been described in numerous ways by different authors such as "paradigm" by Lincoln & Guba (1985) and Mertens (2010), "epistemologies and ontologies" by Crotty (1998), one thing remains certain that the worldview of the researchers depends on their previous experiences and disciplines, the research community that they belong to or even what their mentors have advised them. Although there have been many agreements and arguments regarding the researchers' worldview, four worldviews have stood out from the rest of the topics. These are post-positivism, constructivism, transformative, and pragmatism worldviews.

7.5.1 Post-positivism Worldview

Initially, this worldview was proposed by the researchers of the 19th-century (Smith, 1983). In simple terms, in a post-positivist worldview, the researcher tries to oppose the conventional belief of accepting the truth. They believe that they cannot be certain regarding human behavior (Phillips & Burbules, 2000). Post positivists have the determinations to identify various effects and outcomes from the study when it comes to this type of worldview. Also, they believe that some theories and principles regulate everything around us. These theories are required to be tested and polished so that humans understand how everything works around us. Therefore, the research is started with an initial approach, then additional data are collected to test the theory. If the results are similar to the initial theory, the researchers may accept the findings, or else, the theory is reviewed again. The post-positivism worldview is more applicable to quantitative research rather than qualitative research.

According to Phillips and Burbules (2000), there are few assumptions for the post-positivist researchers, which are as follows:

- It is believed that knowledge is hypothetical such it may never be possible to get the completed truth regarding the finding. Therefore, the findings are always considered to be flawed and uncertain.
- People start with an initial claim and believe that and try to improve upon it. If they manage to get a stronger claim, they will abandon the initial claim.
- Although it was previously mentioned that knowledge is hypothetical, data, evidence and information help shape the understanding in a manner that helps people understand a relevant topic.
- Here, the relationship between the variables is studied, and necessary hypotheses or questions are made based on the data's relationship. This relationship can be found through quantitative research.

7.5.2 Constructivism Worldview

The constructivist worldview or also known as social constructivism originated from the work of Berger and Luckmann (1967) in *The Social Construction of Reality* and Lincoln & Guba (1985) in *Naturalistic Inquiry*. Constructivist researchers believe that the best way to gain knowledge about human behaviors is through social interaction, and that is where social constructivism comes in. The main objective of this research is to gather as many participants' perspectives as possible. The constructivist worldview is more applicable to qualitative research rather than quantitative research. This is because the researcher can easily interpret different participants' responses in context to culture and historical background. This will also allow the researcher to derive a more realistic result from the responses. Unlike post-positivism, in the constructivist worldview, the theory is established from the respondents' data.

For constructivist, Crotty (1998) has stated a few assumptions which are as follows:

- When it comes to the perspectives of human beings, everyone tends to explain their beliefs differently; as a result, the findings can be accurate and portray the actual scenario. And open-ended questions are the most suitable means to get the relevant results.
- In this worldview, researchers try to understand the context of human being in order to find the relationship with the findings. Therefore, the interpretation of the researcher is shaped by their own experience with the respondents.
- For the constructivism research, an inductive approach is chosen, where the theory is developed based on the respondents' data.

7.5.3 Transformative Worldview

The transformative worldview was brought into the spotlight between the 1980s and 1990s, where researchers believe that in order to address all kinds of social sufferings, research inspection must be conjoined with both politics and political change objectives (Mertens, 2010). It was also being pointed out by the Creswell & Creswell (2018) that there is no worldview for the expatriate topics in our society such as "Marxists; feminists; racial and ethnic minorities; persons with disabilities; indigenous and postcolonial peoples; and members of the lesbian, gay, bisexual, transsexual, and queer communities." Therefore, the transformative philosophical worldview was established with the aim to address all sorts of matter from unfairness to inequality, oppression, suppression, etc. The respondents get the opportunity to recover their current conditions by bringing up their problems to the researchers. Respondents can provide guidance to researchers in making the appropriate questionnaire, data collection, and also examining the data.

According to a study by Mertens (2010), a few assumptions for the transformative worldview are as follows:

- This study focuses on the people who have either been demeaned or sidelined by others. It also focuses on how the authorities or the leaders have pressurized these groups of people.
- While studying these diverse groups of people, which may be based on race, gender, ethnic backgrounds, or even the socioeconomic class, the results tend to be unbalanced in terms of power relationships.
- These types of researches are mostly used to associate politics with any sort of injustice or discrimination.
- Transformative research helps explain people the significance of knowing about inequality, oppression, domination, and discrimination in society and tries to find the reason behind these issues.

7.5.4 Pragmatism Worldview

The term pragmatist philosophy can be traced back to the 19th century, where researchers such as Charles Sanders Pierce and Richard Rorty used this term; they introduced it to a wide range of people in 1979. In this philosophy, researchers believe that humans cannot truly forget the past experiences they have faced and tend to hold on to those experiences. These experiences are intertwined with their every action (Vibha Kaushik and Christine A.Walsh). Also, humans use the outcome of these actions to foresee the effects in the near future. As a result, researchers believe that it is not the external force that dictates the people; instead, it is the past experiences, judgment and intelligence that determine their action. Therefore, researchers have stated that everything that is revolving around us is not stationary, but it is constantly changing. Therefore, a single approach cannot determine or explain a specific subject. It requires different approaches or, as mentioned by Morgan (2007), "a mixed-method study." In this report, pragmatist philosophy has been incorporated to find the interrelationship between corporate governance, human resource management practices, and organizational performance in Bangladesh's textile industry.

The pragmatist philosophy has few bases for research, as suggested by Cherryholmes (1992) and Morgan (2007), which are:

- Pragmatism is an application of a mixed-method where the assumptions are made from qualitative and quantitative research.
- Here, the researchers are entirely free to choose whichever procedures and methods that are the most suitable for their research. In other words, based on their objectives, researchers can use techniques to conduct their research.
- In pragmatist philosophy, researchers believe that using mixed methods allows them to use different approaches for data collection and analysis, which may result in more accurate findings.
- The most prominent way to comprehend a research problem is by using both qualitative and quantitative data. Thus, pragmatist researchers prefer mixed methods to get in-depth information about research problems.

- At the beginning of the research, pragmatist researchers need to provide logical reasons for using the mixed method. The main objective behind mixing qualitative and quantitative data must be shared.
- Research can be done on a social, historical, and political context, and according to pragmatist researchers, a mixed-method is the most suitable method to gain a perspective on such context.
- Using several methods, philosophy, and assumptions, researchers can gain different insights from the findings, which may have been impossible if the researchers have only used a single method or a philosophy.

7.6 Research Methods

Research methods are definite methods used for a study's examination and data collection (Williams,2007). In another study, Jansen and Warren (2020) mentioned that to ensure authentic and reliable research results, the research method needs to be fixed. Different ideas and procedures are applied to gather information or evidence for analysis in order to discover new information; it is also done to ensure that everyone can have more precise knowledge regarding the research topic. Research methods can be broadly grouped into three categories which are qualitative research, quantitative research, and mixed methods research.

7.6.1 Quantitative Method

Quantitative research is a structured way of collecting and analyzing quantifiable data; these data are then used to perform statistical techniques to describe characteristics, find correlations, or test hypotheses. This type of research helps to make generalizations and understand relationships or patterns between variables. It gathers numerical data through techniques such as surveys or questionnaires, observations, document screening, and experiments which can then be ranked, measured, or categorized through statistical analysis. These numeric data can be analyzed using a statistical approach (Sheard, 2018) such as mean, standard deviation, inferential statistics, etc.

Research undertaken on these lines generally provides more explorative options. Moreover, this approach can be used to deal with a larger number of samples and is less time consuming which assists in the generalization of results. It also establishes more reliability and is believed to provide more concrete forms of measurement. Moreover, quantitative research also ensures unbiased results as no individual opinion is taken into consideration.

However, quantitative research is not without its shortcomings, one being that this type of study overlooks the respondent's experiences and perspectives. In highly controlled and strict settings when collecting data, there is usually no direct connection between researchers and the participants; as a result, the data obtaining method becomes objective. A further weakness of the quantitative research approach is that every response or answer in this research method must stand on its own. Since there is no option to review the responses, every solution must stand by themselves even if the answers seem invalid or confusing. Moreover, there is no access to specific feedback; the researcher will only receive a yes or no response or binary results, and so usually do not have access to subjective opinions and feedback. Nevertheless, researchers can use the quantitative approach to focus on a specific fact that they want to study in the general population; in this study, structured questionnaire survey and archival data are used as techniques to collect data for the quantitative approach.

7.6.2 Qualitative Method

Qualitative research can be defined as the analysis of data from real-world settings that includes direct fieldwork observation and open-ended interviews. To generate rich narrative descriptions and case studies, qualitative researchers engage in naturalistic inquiry; moreover, it assists in enabling researchers to interpret events and describe actions. Qualitative research provides a better understanding of cultural phenomena, social interactions, and complex concepts. According to Bhandari (2020), such non-numeric data is helpful in interpreting various opinions and occurrences. Thorough information can also be collected about any circumstances as respondents usually provide a detailed description. Furthermore, using a qualitative approach, a detailed discussion on the social settings being investigated can be produced.

Techniques or tools used to gather data for qualitative research usually include carrying out interviews, open-ended surveys, direct observation, analysis of documents, observational work, focus group discussions, visual methods, and life histories and biographies. Researchers use a minimum of two or more ways to collect data. Along with such tools, researchers also use their own insights for more profound information from the respondents (Crossman, 2020). However, these techniques are sometimes criticized for having several weaknesses. For instance, there is a lack of precision of numbers and difficulty in verifying the data collected. Moreover, qualitative research tends to consist of a smaller sample size and is generally more time-consuming. Due to the smaller sample size, another limitation of qualitative research is limited generalizability. Therefore, qualitative researches are seen as concerned with the small-scale aspects of social reality. At the same time, quantitative researchers are often depicted as being involved in uncovering large-scale social trends and connections between variables. Numerous unmanageable factors can have an impact on the data collected from qualitative research. Therefore, information often becomes unreliable (Pathak, Jena, & Kalra 2013).

On the other hand, qualitative research is not limited to a specific field, discipline, or any data. Therefore, it has a wide range of applicability and can provide enhanced quality of data and a deeper understanding of the topic since the richness of the data provides the researcher with factual information to construct a thorough analysis of the data. Moreover, researchers have the scope to get different perspectives from the respondents, which was not considered before (Bhandari, 2020). Qualitative research also provides answers to questions by examining various social settings, which does not have quantifiable data or facts available. In this study, only the semi-structured interview and documentary research are used as tools to conduct qualitative research.

7.6.3 Mixed-Method

Timans, Wouters, & Heilbron (2019) stated that the mixed method is the combination of both qualitative and quantitative approaches. This approach is preferred when better information can be collected by applying qualitative and quantitative methods rather than using either of them. Although mixed methods research had originated in the social sciences, its procedures have been developed and refined to suit a wide variety of research questions. This methodology's basic premise is that such integration permits a more complete and absolute utilization of data than conducting separate quantitative and qualitative data collection and analysis. Therefore, mixed methods research integrates both qualitative and quantitative research. The combination and analysis of the statistical data with deeper contextualized insights provide a more holistic approach. Using mixed methods also enables triangulation, or verification, of the data from two or more sources. Malina, Norreklit, & Selto (2011) suggested some significant advantages that mixed-method can cover up for each other's weaknesses. That is, quantitative data skips the perspective and opinions of the respondents. However, the qualitative method considers perspectives. Therefore, in such ways, one can cover up for another's drawbacks, and more reliable and valid data can be gathered. Findings from the mixed-method are easier to comprehend, interpret, and compare to using either one only. On the contrary, another study by Malina, Norreklit, & Selto (2011) noted that working by implementing both methods might be complicated. Balancing so many techniques might lead to errors. In addition, it is very time-consuming to design and allocate resources for mixed-method.

7.6.4 Choosing Method for the Current Study

In this study, a combination of qualitative and quantitative methods is considered, which provides the opportunity of methodological flexibility. Since it effectively incorporates multiple research strategies and shows how each study acts as a cross-checking method. Moreover, a mixed-method approach is chosen as it provides more reliable and valid results. It creates a more robust research design that eliminates the shortfalls and disadvantages of particular methods and neutralizes the bias that might be present in specific data sources.

Employing a mixed-method design in this research has several advantages. Firstly, mixed-method is quite useful to understand contradictions that might arise in qualitative and quantitative findings. Therefore, the results obtained will be a combination of subjective and objective data, providing a far more comprehensive data set. Moreover, different techniques can be used for other purposes. If the variety of different techniques give the same conclusion, it will imply that the results are robust with no biases. In this study, a structured questionnaire survey was used to obtain a first-hand account of the way corporate governance, human resource management practices, and organizational performance are embedded in the textile industry of Bangladesh.

It is expected that the mixed approach in this study is more effective in exploring the multidimensional issues of the textile industry. As a result, tools from both quantitative and qualitative research are used. While a structured questionnaire survey can form a picture regarding the different textile industry elements in a quantitative study, tools from a qualitative study such as semi-structured interviews are also necessary to assess how the prevailing structures determine the textile industry in Bangladesh.

7.7 Data Collection Methods

While the last section of this chapter discussed the methods incorporated for this study, this section focuses on a detailed portrayal of the data collection methods used to conduct the research. According to Kabir (2016), data collection refers to the accumulation of data and organization and examination of the findings to answer the research question along with various outcomes of the study. The author also stated that in order to ensure the reliability of the research, it is crucial to find authentic and relevant data that resolves the research question. In another study by Bhandari (2020), it has been stated that data collection leads to gathering ideas about the primary perception of the research. The data collection's significance is that it can assist in drawing justified conclusions about the study and supporting the relevant findings (Theme, 2020).

Although one aspect of data collection – mixed method – was discussed in the previous section, in this section, data collection methods used in this study will be analyzed and presented in further detail. These approaches can be categorized into two segments. Primary data collection methods such as factual and perceptual questionnaires and semi-structured interviews have been applied for this study. Additionally, secondary data such as annual reports of the textile industries, business magazines, and newspaper articles were also used to support the research. In the following section, a brief outline is given on how the data was collected, and the process has been categorized into detailed separate segments or also known as phases.

Overview of the Different Phases:

With the aim of collecting data efficiently, the process was grouped into five different phases. In these phases, data were gathered regarding Corporate Governance, Human Resource Management Practices, and Organizational Performance in Bangladesh's textile industry. The first phase consists of data collection on the Fact-based and Perception Measurement Questionnaire about corporate governance which was given to different textile companies' secretary and independent directors. Perception measurement questionnaires surveys on human resource management were given to various heads, admins, and employees in the Human Resource department to collect vital information in the second phase. The third phase consists of collecting financial data of the textile companies which helped comprehend the industry's financial position. Furthermore, in order to obtain further detailed information, semi-structured interviews on corporate governance were conducted with the secretaries and independent directors from different companies in phase four. Finally, additional semi-structured interviews were conducted; These interviews were designed for the specific companies' Human Resource department heads, admins, and employees.

The study was conducted on 39 different companies out of 56 companies enlisted under textile industries in Bangladesh. The research comprises of five distinct phases, which are as follows:

Figure 22: Data Collection Map

<u>Phase 1: Questionnaire Survey (Corporate Governance):</u>

<u>Objectives of Phase 1</u>

The objective of the first phase is to collect information about corporate governance in the textile industry. To gather the right information, professionals in the textile industries are the most accurate source of information. Therefore, a questionnaire survey (See Appendix 1) was used as a method of collecting data as it is the most appropriate method available to reach the source.

A questionnaire survey comprises of a group of selective questions (McLeod, 2018). The main objective of this survey is to accumulate sufficient data from participants to conduct research. Questionnaire surveys can take place in numerous ways, for instance, through Google Docs, telephone, computer, post, or via email, website posts, and also with the help of social media platforms. These surveys do not require face to face communication, and the data can be collected with much ease and convenience. Reddy (2020) suggested that to ensure whether data collected from questionnaire surveys will be useful for study, it is crucial to be aware of its benefits and limitations before choosing this method to collect data.

The most significant advantages of conducting questionnaire surveys are that unlike other methods, surveys can be sent to the maximum respondents available in the shortest period while maintaining low cost (Jones, Baxter, & Khanduja, 2013). The surveys' findings can be examined swiftly, especially if the characteristics of the questionnaire surveys are quantitative. Also, since the participants' identity is not disclosed in the report, this encourages them to share their honest opinion, which may lead to more authentic and genuine findings from the participants. The respondents can also fill-in the surveys in their leisure time with no time constraint from the interviewer. Therefore, they also can answer the survey more thoughtfully. In addition, the perceptual questionnaire which consisted of Likert scale questions were examined using software. Also, the identity of all the respondents were not disclosed, to encourage them to provide with their honest opinion.

Despite these benefits, there are some setbacks of questionnaires as well. With no interviewer to supervise the survey, respondents tend to miss a few of the study's questions. Furthermore, if they do not understand the questions, respondents will most likely skip the questions or fill in irrelevant answers. Another major drawback is that if the questions are too technical, the respondents may feel demotivated to answer the surveys or even submit the surveys. This will hamper the research and may provide misleading outcomes.

Methods of Questionnaire Survey

Questionnaires can be set in various types, which are structured, semi-structured, open-ended. Surveys based on questionnaires can be more helpful to find interrelationship between Corporate

Governance, Human Resource Management Practices, and Organizational Performance in the textile industry of Bangladesh. According to Aryal (2020), it is essential to use a suitable design for questionnaires to ensure the proper collection of research data. For this study, the questionnaire types that were applied are Factual and Perceptual.

Factual Questions (please see Appendix-A) consist of accurate, evidence-informed answers (Pappas, 2016). Such questions include WH questions like How, Who, When, Where, etc. An individual's point of view is not asked regarding any situation. All the participants have the same answers in this kind of survey, and solutions do not vary. This is because all answers are straightforward. Authors Wolf et al. (2016) mentioned in their book titled *The SAGE HANDBOOK of Survey Methodology*, that authenticity of factual questions is more than any other type of question. The author also added that the advantage of such factual questionnaires is that respondents can answer the questions speedily as direct fact-based questions are asked. Besides, such questionnaires motivate more participants to respond as these questionnaires are easy to answer compared to opinion-based questionnaires. Results are more accessible and convenient to illustrate in terms of graphical representation. On the contrary, comprehensive information cannot be collected from this type of survey. It also is not possible for the participants to justify their answers. Furthermore, sometimes factual questions bound the participants to answer complex issues in a direct manner, which is quite difficult for them.

On the other hand, Perceptual questionnaire (please see Appendix-B) includes different answers as people respond based on individual perspective. Information is gathered by how participants comprehend the meaning from their point of view (Lavrakas, 2008). While conducting my research, Likert Scale Questionnaire had been used to accumulate various opinions of the participants regarding Corporate Governance. This scale measures how an individual feels or believes about a particular topic. The benefit of using perceptual questions is that participants can quickly answer the questions by simply clicking the options. This is also a universally accepted method of collecting data as it can be easily interpreted. However, once the questionnaires have been filled, it is almost impossible to derive the participant's reasoning for choosing an answer. Besides, LaMarka (2011) pointed out that many respondents prevent selecting the "extremes."

Description of Phase 1

During Phase 1, surveys on Corporate Governance were sent to all the listed companies in the textile sector; however, not responses could not be collected from all the companies. Survey responses from 39 companies could be used for final analysis purpose. These surveys can be divided into two different major segments. In the first segment, 39 factual questionnaires were from the Company Secretaries of these different companies. This questionnaire consists of 75 questions covered over various topics that the secretaries had to fill up. The subjects were the Board of Directors, Management, Audit Committee, Nomination and Remuneration Committee (NRC), External Audit, Reporting and Disclosure, Ownership and Shareholder Protection, and Miscellaneous.

Regarding the Board of Directors, some of the common quantitative questions were how many boards of directors and independent directors were there in the company; whether the independent directors were a partner or an executive of the concerned company's statutory audit firm or audit firm engaged in internal audit services or audit firm conducting a special audit or professional certifying compliance before. Also, questions were asked about whether the Board had a code of conduct for the Chairperson of the Board, other board members, and Chief Executive Officer of the company as well as a code of ethics for all its stakeholders. Some of the questions focused on the Independent Directors of these textile industries, such as how long they have been working in the textile industry and the number of companies where they worked as executives and their experience. Furthermore, the questions also focused on the Managing Directors' and Chief Executive Officers' (CEO) experience and their respective roles and responsibilities. The next category was aimed at the management team, where the questions focused on numerous areas such as the roles and responsibilities of the Company

Secretary, Chief Financial Officers, and Head of Internal Audit and Compliance. To gain more insights on corporate governance, questions were asked on the number of board meetings held as well as the assessment of the financial statement in a given period such as weeks or months. The next sets of questions revolved around the sub-committees such as the Audit Committee, Nomination and Remuneration Committee (NRC), and External Audit. For instance, the number of members present in each of these committees and their years of service in the company were asked about. Additional questions were also set regarding the ownership and shareholders; suppose, whether the company has policies or regulations for protecting the shareholders' rights and whether the shareholders are the decision-makers for ownership change. To gain information on the company's transparency, the secretaries were asked about their reporting standards and disclosure, such as whether the shareholders' views were known to the Board of directors and how many days in advance were the shareholders notified about the AGM of the company. Finally, inquiries were made on whether they obtained any certificate annually from a practicing Professional Accountant such as a Chartered Accountant or Cost and Management Accountant regarding the compliance of the corporate governance code of the Commission.

In the second segment, perceptual questionnaires were sent to the Company Secretaries as well as the Independent Directors of all the listed companies; however, responses were not received from all of them. This perceptual questionnaire consisted of 92 questions which the Secretaries and the Independent Directors had to answer. Like the factual questionnaires, these questions were categorized under the areas of Board of Directors, Management, Risk Management, External Audit, Reporting, Audit Committee, Compensation Committee, and Nomination Committee. The purpose of including the Independent Directors as respondents was to obtain an external neutral opinion about corporate governance in Bangladesh's textile industry. Finally, perceptual questionnaire responses were received from the Company Secretaries of 39 companies and Independent Directors of 32 companies.

These series of questions, which are also known as the Likert Scale questions, required the participants to rate the level of agreement within the scale of 1 - 5 starting with Strongly Disagree, Disagree, Neutral, Agree, and finally Strongly Agree where the number corresponded with the scale, sequentially. The first topic on which the statements were made was the Board of Directors, where it was stated that the Board had set its objectives clearly and regularly assessed its performance against its goals within a particular interval. Also, the Board has been able to successfully provide a detailed list of roles and responsibilities of all the company senior executives such as the Chief Executive Officer, Head of Internal Audit and Compliance, Company Secretaries, and others, including the sub-committees such as the Audit Committee, Compensation Committee, Nomination Committee, and External Audit. In addition, statements were made on management committee and risk management; some of the statements were: the management provides a thorough analysis of the performance against budget; management provides a report on the outcome with proper remedial actions; the risk management committee has a clear set of guidelines on its maximum risk appetite; and they have designed a sound process for identifying and regularly reviewing the principal risks. Moreover, similar statements were also made on the sub-committees of these companies, for instance: for all the committees such as the Audit Committee, Compensation Committee, and External Audit all the members of these committees have sufficient knowledge on the entity's business as well as sufficient knowledge in their own respective fields; the committees also have adequate authority with access to relevant information to carry out their responsibilities successfully. Finally, statements were given on the reporting standards of these companies. Statements include: the quality of the annual report are satisfactory, and also the content of the annual report is sufficient in representing the company's actual financial status were stated in the questionnaire; the respondents were asked to express their level of agreement with these statements. The answers to these questions will show the Company Secretaries' and the Independent Directors' opinion regarding the company and allow me to understand more about corporate governance in the textile industry.

Discussion on Sample Size

To provide a brief description of the sample population and participants for Phase 1, the two types of questionnaires, which are formal structured (factual) and Likert scale (perceptual) questionnaires were sent to all the 56 listed companies in the textile sector. However, responses were not given by all the companies; moreover, few were incomplete and hence unusable for analysis. For analysis purpose, in the case of structured factual questionnaire, 39 responses from the Company Secretaries of 39 companies could be used. In the case of perceptual questionnaire, responses from the Company Secretaries of 39 companies and Independent Directors of 32 companies were used for analysis. The other responses were not received because some of the Independent Directors of the companies did not respond.

Phase 2: Questionnaire Survey (Human Resource Management):

Objectives of Phase 2

The second phase focuses on collecting data about Human Resource Management Practices in the textile industry. With the pursuit of gathering necessary information, questionnaire surveys were sent to the HR Head or Admins and to the employees from the same companies as Phase 1. Completing this phase will allow to compare the findings of this section with that of corporate governance and organizational performance findings.

Description of Phase 2

During Phase 2, surveys on the Human Resource Management Practices were sent to all the listed textile companies in Bangladesh's textile sector. Initially, perceptual questionnaires (please see Appendix-C) were sent to the Heads of the Human Resource Department or the Admins and the employees. This series of surveys consisted of 50 questions. For the Human Resource Department, the subjects were based on the Recruitment and Selection, Training and Development, Performance Appraisal, Job Description, Compensation, Compliance/Safety and Health, and Human Resource Policy. The questionnaires included both the Heads of Human Resource Department and the employees as respondents because this will allow us to get an unbiased opinion about the company's HR practices. In the second phase, 70 responses have been found, out of which 36 were from the Heads of Human Resource, and the rest of the 34 answers were from the employees. Similar to Phase 1, Likert Scale Questionnaires had been used, which consisted of 50 perceptual statements on various topics that the participants had to rate their level of agreement. As stated earlier, this would guide us to understand the Human Resource Management practices in the textile industry in Bangladesh. Some of these questions have been discussed in the following section. The first topic consists of statements on recruitment and selection; some of the statements are: the company signs contract letters for different level jobs such as factory jobs, non-managerial jobs, managerial jobs, and temporary jobs; the company also tries to ensure diversity (gender, age, religion, disabilities, etc.) during the hiring process and maintains strict guidelines during reference checking. The next statements focused on the training and development: the company conducts detailed Training Needs Assessment (TNA), and the employees perform better after the training; the company used in-house trainers and professional trainers to train the underperformers who are unable to meet the targets. For the performance appraisal, the questionnaire consists of statements such as: the organization uses an automated software-based performance appraisal system and allows employees to have self-assessment Moreover, some of the other statements from the HRM questionnaire are: the organization has created a detailed job description for the employee; the company regularly updates the terms of role, responsibility, and qualification; the relationship between job worth and compensation is satisfactory; the organization has a structured compensation package and offered incentives, bonuses, profit sharing policy, festival bonus, and pays for the employees who go for maternity leave; in terms of compliance/safety and health-related subjects, the organization maintains physical safety for employees, offers wellness programs, and helps employees have a better work-life balance; if the employee leaves the organization, the company also conducts an exit interview to find the room for improvement. Finally, statements regarding the HR policies were added, such as: the company has appropriate and satisfactory HR policies; and the organization regularly updates the policies.

Responses from these questions will indicate the opinions of both the HR Heads or Admins and the employees regarding the companies and understand more about human resource management practices in the textile industry.

Discussion on Sample Size

The questionnaires were sent to all the 56 listed companies in the textile sector. However, responses were not given by all the companies; moreover, few were incomplete and hence unusable for analysis. In the second phase, 70 responses were found for analysis, out of which 36 were from the Heads of Human Resource/ Admin, and the rest of the 34 answers were from the employees.

Phase 3: Annual Report Data (Firm Performance):

Objectives of Phase 3

The third phase focuses on gathering information such as the financial information of the textile companies in Bangladesh. This allowed to analyze how the organizational performance of the companies is affected by the change in Corporate Governance and Human Resource Management Practices.

Description of Phase 3:

During Phase 3, 31 annual reports were analyzed; the remaining companies' annual reports were not either available or did not have sufficient data required for analysis. For this study, three different ratios were used, representing the companies' average organizational performance in the textile industries. These are Sales Growth Ratio, Net Profit Margin, Return on Investment.

The purpose of choosing these three specific ratios to represent the average organizational performance was to get a clear picture of the textile industry's financial condition. These ratios represent different aspects in which the performance can be analyzed (Carlson, 2020). For instance, the sales growth ratio shows an increase in revenue over a period of time. This is an essential indicator of the organizational performance as we know that with the rise in the revenue, investors may see the potential to earn profit from these companies, and they may be interested in investing in the organization. This ratio also indicates whether there is a demand for certain products in the market and how much. Besides sales growth rate, net profit margin is another essential indicator as it influences the management of the organization and the potential investors. This ratio shows whether the organization is making enough profit from the revenue to satisfy the directors and shareholders and whether the organization is keeping its cost and expenses under control (Murphy, 2020). Finally, this study's third ratio is the return on investments (Chen, 2020). The organization's investors mostly use this as it helps them identify how much profit they have made with their investment. This ratio's results may help both the existing and potential investors compare with their other investments. The ratio helps the organization make more effective future decisions (Scott, 2019).

Phase 4: Semi-structured Interview (Corporate Governance):

Objectives of Phase 4

In this phase, the objective is to collect further information about Corporate Governance in the textile industry. Although we have performed a thorough survey with the top management's help, as it was mentioned earlier, it is not possible to gather all the information nor the justification of the answers from the survey. Therefore, to collect additional qualitative data, interview was used as a method of data collection.

In an article, Reddy (2020a) has defined an interview as a formal face-to-face talk within two or more people. An interview takes place to obtain relevant in-depth data from the interviewee. One possible advantage of an interview is that the interviewer can elaborately explain the complicated questions to the respondents. Also, they can avoid the problem of misinterpretation or misconception that may take place during the interview. Face-to-face conversations strengthen the bonding between the interviewer and interviewee. This leads to a shared understanding and more cooperation. Moreover, additional relevant information can also be gathered as such a personal conversation can make the interviewee more confident and comfortable. On the contrary, DeFranzo (2014) suggested that the cost is one of the significant drawbacks of interviews. There are transportation costs and then hiring people to conduct the interview. Along with this, the author also mentioned that meetings are very time-consuming. Sometimes it also becomes difficult to get time from the interviewee due to their busy schedule. As a result, this delays the research progress. The author also stated that it is not wise to solely collect data based on one method. He believes that different ways of collecting data should be incorporated so that the most accurate data can be gathered.

Methods of Interviews

There are several ways to conduct an interview, such as structured interviews, semi-structured interviews, situational interviews, etc. For this research purpose, semi-structured interview was carried out, unlike structured interviews where a list of fixed questions needs to be followed. In contrast, in semi-structured interviews, the interviewer does not need to follow the list but can choose to ask open-ended questions based on the response of the interviewee (Doyle, 2020). These sorts of interviews stimulate communication between both parties. This means even the interviewee can ask various questions. Thus, it leads to a friendly environment where interviewees can freely provide insights, which can help gather more information relevant to the research. This form of an interview may even be useful in obtaining sensitive information.

Description of Phase 4

During phase 4, from the 39 companies that were included in the questionnaire survey analysis, five companies cooperated and agreed to participate in an interview. The semi-structured interview consists of 5 Company Secretaries and 5 Independent Directors; a series of questions were asked on Corporate Governance. The purpose of taking an interview from these participants was to gain information about a few complicated questions which were impossible to answer in the survey.

Furthermore, Independent Directors were chosen as participants so that the industry could be seen from an external professional's perspective.

While ten interviews took place in this phase, the interviews' length was from half an hour to an hour at most. During the interview, questions (please see Appendix-D for interview checklist) were asked to the Company Secretary and Independent Directors, some of the questions are: how the company's corporate governance was better than the competitors in the industry; what essential practices should be followed to ensure improved corporate policy governance. Besides these questions, several other questions were asked to the company secretaries on what steps were being taken to ensure good corporate governance and the obstacles they faced while implementing good corporate governance. Similarly, the same questions were asked to the independent directors with the aim of getting a different take on the concept of corporate governance in the textile industry from a neutral perspective.

Phase 5: Semi-structured Interview (Human Resource Management):

Objectives of Phase 5

Phase 5 consists of collecting information about Human Resource Practices with the use of semi-structured interviews, which is a similar process to Phase 4. Unlike the questionnaire surveys in Phase 1, which consisted of both factual and perceptual questions, Phase 2 survey was entirely based on perceptual questionnaires such as Likert scale questions and without any place to provide their reasoning for the answer. This indicates that it might not be possible to identify the intention of the participants who took part in the survey. Therefore, semi-structured interviews have been chosen as a method of gathering information that was previously incomplete or vague.

Description of Phase 5:

In the last phase of data collection, which closely resembles Phase 4, 5 companies agreed to participate in the interview method. Finally, 5 Heads of Human Resource Department/Admin were chosen, and five employees were selected who took part in the semi-structured interview. Like Phase 4, both Heads of Human Resource and employees were chosen to avoid any prejudice in this phase. As a result, an accurate image of the Human Resource Practices can be shown by taking both the sides into account.

As mentioned earlier, the interview consisted of 10 respondents with whom half an hour was spent for the interview. Firstly, the interview took place with the Heads of the Human Resource Department where they were asked to briefly discuss how their practices in the HR department were different from the rest of the industry. They were also asked if they believed that the training and development actually had an impact on the employees and whether they were regularly finding ways to improve their performance. Besides, a particular question was asked to all the Heads or Admins of the Human Resource Department, which was regarding the HR practices in their organization and their recommendations to improve these existing practices. Finally, employees were interviewed after interviewing the senior management. The interview consisted of questions (please see Appendix-E for interview checklist) such as how superiors motivated employees and encouraged the latter to increase their productivity. Also, in which places the organization needs improvement in terms of HR practices and policies. Employees were requested to share their honest opinion regarding job security in their organization. The use of semi-structured interviews allowed to gather in-depth information from both the management and employees.

Pre-testing and Pilot Study

In pre-testing and pilot study, a limited number of respondents were initially chosen to conduct the survey by providing them the questionnaire (Hurst *et al.*,2015). This survey is executed before the main full-scale study can be carried out, and the purpose of which is to find out all kinds of issues and confusion that respondents might face. Data collection processes or methods are also examined by the help of pre-testing (Hassan, Schattner, & Mazza, 2006). To illustrate, it can be determined whether questionnaires, surveys, interviews are appropriate methods for the research or not. Moreover, from the result of this small survey, difficult and inappropriate questions can be identified and removed from the questionnaire. Based on the feedback, additional changes can be made on the survey questionnaire, such as the use of easier words, simple sentence structures, or even a redesign of the questionnaire. Another study by Hu (2014) suggests that pre-testing can develop data quality by minimizing measurement errors.

The major benefits of such pre-testing are that it enables to make decisions with the gathered information that determines whether to conduct the survey. Due to this, expenditure can be reduced as well as a lot of time can be saved. Along with this, more funding can be raised from the fund providers if the pre-test becomes successful. The viability of the study can be measured, which can help in reducing the wastage of resources. On the contrary, whenever the researcher conducts a pilot test of the survey, they may influence the participants to provide answers so that the result will support the researcher's views. As a result, this may lead to biases in the result of the pilot-test. In addition, incorrect assumptions and expectations might also take place due to the biased result. Furthermore, success in the pre-test and pilot study does not provide complete assurance in the full-scale study's success. As the number of people is really less in such studies, their opinion might not match the rest of the target group.

In my research, pre-testing and pilot study were conducted to ensure the feasibility of the questionnaire survey. For both the factual and perceptual questionnaires of corporate governance, five random people were selected from companies in the textile industry of Bangladesh. Likewise, for the perceptual questionnaire on human resource practices, five random people were chosen as well. Based on the feedback of the respondents, necessary changes were made in all the questionnaires.

During the process of pre-testing, several questions were pointed out by the initial respondents which were either too complex or redundant. These suggestions were immediately taken into consideration and had been modified. For example, in the factual questionnaires for the Company Secretaries and Independent Directors, a director pointed out that a question regarding annual report coverage should include some sub-points that need to be present in the report, such as industry outlook, audit committee report, and compliance certificates. Also, in one of the perceptual questions, it was previously mentioned that the company meticulously assesses its performance against its objectives at regular intervals, and one of the respondents found the word "meticulous" complex. Later on, it was changed to "realistic" for their convenience. Furthermore, in the perceptual questionnaires for the HR practices, a statement was given stating that the organization discourages phone use during office hours. One of the respondents, who was the Head of the Human Resource Management, pointed out that the statement was too vague, and the word social media instead of phone would sound more appropriate. The term was replaced along with all the other suggestions, which enabled to make a more effective questionnaire survey.

7.8 Data Analysis

This section of the research has focused on how the collected data were analyzed. One of the essential research segments is data analysis as it helps to summarize large data with which decisions can be taken. From numerous sources, data are accumulated and examined to assist in decision making from the findings. According to Galetto (2016), collected data can be interpreted and various trends and relationships can be identified by using analytical and logical reasoning. The main purpose of using data analysis in this report is to summarize and interpret all the respondents' findings with which a reliable conclusion can be drawn.

Overview of the Different Phases:

The data analysis process can be categorized into five different phases. In these phases, data related to Corporate Governance, Human Resource Management Practices, and Organizational Performance in the textile industry of Bangladesh were analyzed. The first two phases consist of survey data analysis on corporate governance and human resource management practices respectively which was collected from different textile companies' secretary, independent director, HR managers, and employees. The third phase consists of data analysis of some textile companies' financial information which can help comprehend the industry's financial position. The fourth phase consists of analyzing the interview on corporate governance and human resource management practices. Finally, phase five includes hypothesis testing using factor analysis, correlation, and regression analysis. Furthermore, all these phases were analyzed with software such as Microsoft Excel, SPSS, and NVIVO.

The analysis was done in five distinct phases which are as follows:

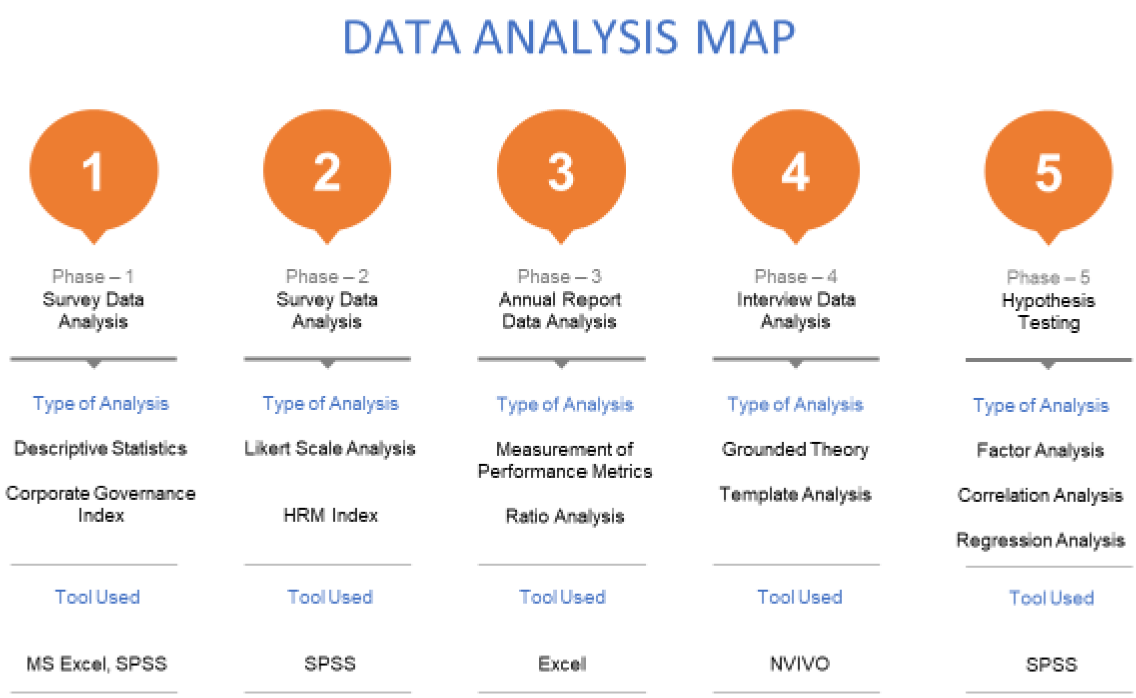

Figure 23: Data Analysis Map

Phase 1: Quantitative Data Analysis (Corporate Governance):

Descriptive Data Analysis

The main objective of descriptive data analysis on Corporate Governance is to identify whether companies in the textile industry comply with the factual questionnaire questions. These questions were based on different data on different areas of corporate governance which are the Board of Directors, Management, Audit Committee, Nomination and Remuneration Committee (NRC), External Audit, Reporting and Disclosure, Ownership and Shareholder Protection and Miscellaneous. Therefore, in this report, the level of compliance of all the companies will be explained- both individually and as a whole. In terms of percentage, it will be shown how many companies comply with the compliance statements and how many does not.

The first step of this phase was to calculate the percentage of compliance for each of the 39 companies. Based on individual compliance results, an overall average percentage was calculated to know whether the overall textile industry complies with the statements or not, and to what degree. For instance, for a particular question like "Does the company have a code of ethics for all its stakeholders and the Chairperson of the Board, other board members and Chief Executive Officer of the company?" The goal is to identify what percentage of companies actually have the code of ethics. Based on the secretaries and independent directors' responses, the companies' compliance regarding the code of ethics can be determined. These findings can also give a broader picture of the textile industry of Bangladesh in terms of corporate governance compliance.

Corporate Governance Index Construction

In order to determine whether the companies comply with the questions or not, the answers of the company secretaries and independent directors were used in a sense that, if the companies complied with a given statement, the company was awarded one point, which signified that the company had complied with the statement. If their answer was no or if the secretaries and directors had left the questions blank, then they were given a zero, which meant that they did not comply with the question.

As a result, each of the companies were graded based on 72 factual questions from the factual questionnaire, which then were converted to a 100-point scale. For example, the secretaries and the directors were asked whether the board of directors conducted board meetings regularly and whether the company recorded the minutes of the meetings as well as kept required books and records. If the respondents had replied yes, it would mean that their company complied with regular meetings and if the respondents replied no, that would indicate that their company did not comply with having regular meetings. Then, the results of individual companies of all 72 questions were shown in a graphical representation, and thus an index was formed. For instance, if a particular company had complied with only 54 of the 72 factual questions, that would be converted into a 100-point scale where the company would get 75 points out of 100, In a similar manner, all the 39 companies were given a score out of 100 and it was presented in a bar chart diagram with labelling.

In the later stage, Likert scale analysis on Corporate Governance was conducted to identify whether companies in the textile industry also complied with the perceptual questionnaire questions. The analysis of corporate governance in the textile industry was done both individually and in categories. The analysis of corporate governance consisted of another index construction, which was based on the perceptual questions' responses. This questionnaire consisted of 92 Likert scale questions categorized under eight categories: The Board of Directors, Management, Risk Management, External Audit, Reporting, Audit Committee, Compensation Committee and Nomination Committee, which was filled-in by the company secretaries and independent directors. The questionnaire's data was scored out on a 5-point scale where the level of agreement was pointed from one to five points starting with one point given for strongly disagreeing with the statements. Once the data was collected, the analysis was done on each of the categories for each company. For instance, the result of a particular company was evaluated on each and every category. For example, the Board of Directors consisted of 15 questions. After the responses were collected from the secretaries and the independent directors, the score of each of the 15 questions were converted into an average score for the Board of Directors and the similar process was done for the rest of the categories. For example, if a secretary from a particular company had a neutral opinion for the 15 questions on the Board of Directors, that would result in an average score of 3 out of 5 in the category of the Board of Directors. Then, the average score of all the categories were evaluated and presented in a graphical representation. An additional table was presented which showed the average score of each category for all the 39 companies The first phase of the analysis was conducted using Microsoft Excel and SPSS software to get reliable and accurate results on the Descriptive Statistics and Corporate Governance Index Construction.

Phase 2: Quantitative Data Analysis (Human Resource Management):

HRM Index Construction

The Human Resource Management index construction was based on the perceptual questionnaire, which was asked to the HR managers and employees of the 39 companies in the textile industry in Bangladesh. This questionnaire consisted of 50 Likert scale questions categorized under seven categories, which were Recruitment and Selection, Training and Development, Performance Appraisal, Job Description, Compensation, Compliance/Safety and Health, and HR Policy, which were filled-in by managers and employees from the companies.

Likert scale analysis on Human Resource Management Practices was conducted to identify whether the companies in the textile industry complied with the HRM practices using perceptual questionnaire. The analysis of the practices of HRM in the textiles was done both individually and for the industry as a whole. The questionnaires' data was scored out on a 5-point scale which was similar to Corporate Governance Index, where level of agreement was allocated with points from one to five. After the data was collected, the analysis was done based on each of the categories for each company. For example, the responses of both the HR manager and the employee of a particular company would be evaluated on each and every category, such as the Recruitment and Selection, Job Description, etc. For instance, the category recruitment and selection and job description consisted of 11 and 5 questions respectively which were given to the HR managers and employees. Based on the answers of the respondents, an average score would be calculated using the scores of the 11 questions under the category of recruitment and selection and 5 questions under the job description and the rest of the categories in the questionnaire. The average score of all the seven categories would then be evaluated and presented in a graphical presentation under HRM Index Construction. Each of the average scores of these seven categories would be presented in the table. The second phase analysis was conducted using only SPSS software to get reliable and accurate results on the Likert Scale Analysis and Human Resource Management Index Construction.

Phase 3: Annual Report Data Analysis (Firm Performance):

Measurement of Performance Metrics

Financial information of the textile companies in Bangladesh was gathered to analyze the performance of all companies and the industry as a whole. For this study's purpose, three different ratios were used, which represented the organizational performance of the companies in the textile industries. These are Sales Growth Ratio, Net Profit Margin, and Return on Investment. To get a clear picture of the financial condition and average organizational performance of the textile industry, these specific ratios were shown.

The above-mentioned metrics are used for ratio analysis. Ratio analysis is used to comprehend the liquidity, operational efficiency, and profitability of a company. This can be done by examining the financial statements of a company such as the income statement and balance sheet (Bloomenthal, 2020). Numerical relationships can be interpreted using ratio analysis. This interpretation helps the management of the company to know the performance over time and decide whether the company is performing well or not. Even ratios help to predict the future performance of the company. In addition, investors can also use these ratios for investment decisions in the company as ratio comparison can be done with other companies of the same industry in order to identify the better one. However, one major limitation of relying on ratio analysis is that the balance sheet's numerical data cannot justify the true value due to the occurrence of political unrest, inflation, and economic depression. This is because values in the balance sheet are recorded in historical cost, whereas the real world's cost keeps changing due to the occurrences (Carlson, 2019). This may lead to distortion in the ratio figures. Moreover, to attract potential investors and impress existing shareholders, companies manipulate their financial statements; thus, the values of the ratios become favorable for them. Often different formulas are used by other companies as there are no definite standards for the ratios. Thus, it becomes difficult to compare among different companies.

The analysis of the third phase was conducted using only Microsoft Excel to understand the measurement of performance metrics and the ratio analysis of the textile industry.

Phase 4: Qualitative Data Analysis (Interview Data):

Template Analysis: Interview Data Analysis

Template Analysis was incorporated in this study to analyze the data collected from the interviews from different respondents. For the data on corporate governance, interviews were conducted on both the company secretaries and independent directors and interviews were conducted on both the HR managers and employees on human resource management practices from a few particular companies. All the data from these interviews were compiled and analyzed using template analysis. In template analysis, based on previous research and theoretical viewpoints, a template is created in template analysis (Brooks & King, 2014). In order to ensure systematic coding and organizing, more than one similar technique is used. Here, qualitative data can be analyzed thematically. Also, in template analysis, the information gathered from participants is coded while listening to them. Then the coding is grouped into a first-order theme. The first order theme is again grouped to create a second-order theme. Finally, the second-order theme is grouped into an overarching theme to get a bigger picture of the research. Such grouping of data helps to generate essential and comprehensible relationships among the themes. When the interview takes place, the researcher could be flooded with a lot of information; however, the researcher can code while taking the interview in the template analysis. As a result, the researcher does not lose focus and narrow down the information without getting distracted or skipping any valuable information.

The analysis of the fourth phase was conducted using NVIVO to analyze the interview data.

Phase 5: Hypothesis Testing:

Hypothesis Testing: Correlation Analysis

Correlation Analysis aims is to measure the relationship between any two variables. Its objective is to find the relationship that may be either of the three results: positive correlation, negative correlation, or zero correlation (McCombes, 2019). A positive correlation means that both variables will change in the same direction. For instance, if one variable increases, the second variable will also increase, and a negative correlation means that the variables will change in the opposite direction. This means that if the first variable increases, the other variable will decrease. On the other hand, zero correlation implies that there is absolutely no relationship between the two variables. According to (McCombes, 2019), a researcher may decide to use correlational analysis in one of the two scenarios, which are:

i) The researcher simply wants to find the relationship between two variables, but he/she does not expect to find any causal relationship between the variables; and,
ii) The researcher believes that there is a causal relationship between the two variables; therefore, the researcher tries to conduct the research in such a manner that ends up with a causal relationship between the variables. However, this may not be ethical as the researcher may manipulate the data to reach a particular conclusion.

McCombes (2019) has stated that it is true that correlation analysis measures the relationship between two variables, but this analysis does not indicate any sort of causation or instigation. Therefore, researchers should not assume that if there is a correlation between two variables, that means that one variable has caused the other variable or vice-versa.

For the purpose of this study, correlation analysis was conducted to measure the bivariate relationship between the three main variables: corporate governance, human resource management practices, and the textile industry's organizational performance to analyze the interrelationship between these variables.

Factor Analysis

After performing correlation analysis, factor analysis was used as a data reduction technique using the corporate governance and human resource management questionnaire responses. The purpose of factor analysis is to reduce many variables into a few variables to make the research work simpler (Jupp, 2006). Here, variables are grouped based on the latent variable, as the main objective of factor analysis is to figure out independent latent variables. The variables are reduced in such a manner that with those reduced variables, the required information can be gathered faster rather than using all the variables. In addition, these data can be used for further analysis in research. To figure out the data set factors, various methods can be used, such as principal component analysis, common factor analysis, image factoring, maximum likelihood method, etc. The objectives of all these methods are to decrease the number of variables that can help researchers work efficiently and easily.

As mentioned in the correlation analysis, there were eight different categories under both the factual and perceptual questionnaires and the questionnaires consisted of 75 factual and 92 perceptual questions on corporate governance. Also, there were 50 perceptual questions on human resource management practices. As a result, through this study's factor analysis, the number of questions under each category was reduced to few important items that could still be significant and represent the categories that are been measured. For instance, there were 20 questions alone under the Board of

Directors in the factual questionnaire on corporate governance. Through factor analysis, these 20 items were reduced to fewer items. Moreover, these reduced items can be used again in the future to collect data to retest the hypothesis or for a new analysis.

Hypothesis Testing: Regression Analysis

Gallo (2015) defined regression as a tool to identify the relationship between two variables. Here, one variable will be dependent, and another variable will be independent. The model can also find out the strength between these variables. In addition, regression models can also predict future relationships. A number of variations exist in regression analysis. Some of them are linear and multiple linear, while others can be non-linear regression analysis. In simple linear equations, one independent variable is used to predict or explain the dependent variable. On the other hand, in multiple linear regression, more than one independent variable is used to predict or explain the dependent variable. In a regression model, one of the main objectives is to find the value of R^2 because it indicates how well the independent variable is predicting or explaining the dependent variable of the research. That is, to what extent an independent variable is able to explain the changes independent variables. The more it can explain, that means, the better the regression model. For this research, the value of R^2 is found to know whether the regression model is good or not.

In order to find out the effect of corporate governance and human resource management on firm performance, three separate regression analysis were performed. In the first one, perception scores on corporate governance were used as the independent variable whereas firm performance was used as independent variable. Next, in the second regression, perception scores obtained and human resource management practices were used as the independent variable whereas the dependent variable stayed the same as the earlier one. Finally, it also checked whether corporate governance effects human resource management practice in an organization.

Mediation Analysis

According to Fritz and Lester (2016), a mediator shows the relationship between an independent variable, also known as a predictor and a dependent variable, which is known as criterion. The authors have also added that through mediator variables, the independent variable is indirectly influencing the dependent variable. This means that the influence of independent variables is not direct towards the dependent variable as the mediator variable acts as a mechanism of change in between the dependent and independent variable. The author also stated that the simple-mediator model consists of three variables which are an antecedent, a mediator and a consequent. Usually this model is easy and simple to analyze compared to other models. In this research the independent variable is the corporate governance and the dependent variable is organization performance. Here, It has been checked whether human resource management acts as a mediator or not. That means, whether this third variable which is HRM has any influence on the other two variables or not. In order to find the effect of the mediator, Sobel test was run (Preacher & Hayes, 2004) in SPSS software to know whether HRM has any effect on corporate governance (independent variable) and organization performance (dependent variable).

7.9 Development of a Conceptual Framework

One of the major tasks of the research is to develop a conceptual framework building on the concepts of a theoretical framework. Accumulation of interrelated concepts which can act as an initial guideline for the research is known as theoretical framework (Vinz, 2015). This model comprises of theories which are gathered from scholarly literature reviews of previous researchers relevant to the study. Purpose of a good theoretical framework is to provide research direction like the things that need to be measured for the study and the statistical relationship required for the research. In addition, it becomes easier for the researchers to find out whether there is a research gap or not. This is because, based on the concepts found from the theoretical framework the researchers carry out a survey to collect data. Then, after gathering the information it is analyzed in order to compare with the theoretical framework.

Often the result of the comparison of theoretical framework and the data collected from interviews, questionnaire and hypothesis do not match completely. Therefore, the new findings are combined with the existing relevant theories of theoretical framework and a new theory is proposed. This proposal of a new combined theory for the study is known as conceptual framework. According to Swaen (2015) conceptual framework points out the related variables for the study and the result that the researcher presumes to find.

This study started with a framework of corporate governance and human resource management. On the grounds of theories in the framework, information was gathered through surveys and interviews. Based on the collected data from the interviews, questionnaire and hypothesis testing from the responses of 39 companies in the textile industry of Bangladesh, a conceptual framework was developed. This conceptual framework will be explained later in detail in the Findings chapter.

7.10 Validity and Reliability of the study

7.10.1 Validity

According to Middleton (2020), validity simply refers to the precision of the method which is used in the research. Validity is the process to find out whether the researcher measures what he/she is intended to measure for the research. It is essential to ensure validity in research because if the researcher does not guarantee proper validity, this may lead the researcher to gain inaccurate and irrelevant information. The reason why validity is important in research is that validity indicates which questions to use in a survey and whether the questions are accurate or not. It is advised by Middleton (2020) to use the highest possible standards of scientific research in order to ensure the validity of the research.

To establish validity in our research, numerous steps were taken, such as choosing the most suitable measurement methods and the appropriate sampling methods to conduct the research. While choosing the measurement method, the highest standards were ensured as the questions were designed based on established theory. Also, the questions were improved after the pilot study in order to ensure validity. The sample was also chosen properly as 39 companies were selected as the representative of the entire textile industry in Bangladesh to which the questionnaires were sent.

7.10.2 Reliability

Consistency of a measure by adopting identical methods and circumstances can be determined through reliability. Here, the objective is to make the measurements valid and accurate and ensure that every time the survey is conducted, similar answers are gathered from the respondents. Thus, reliability can be ensured regarding the study’s hypothesis and research. In addition, the findings can be shown as scientific evidence for this study. It is to mention that if the answers from the participants are different every time, this will mean that there is a deficiency in reliability. It might also happen if participants fail to understand the survey questionnaire properly. In such circumstances, the survey needs to be revised based on the necessary feedback to ensure reliability in the future. Litwin (1995) stated that there are many types of reliability; among them, the most common two are discussed below:

(i) *Test-Retest Reliability* - Here, to check the participants' answers' stability, data is collected from the same group of participants at two different points of time. If the results are the same in both the points of time, this will mean that test-retest reliability is high for the research.

(ii) *Alternate Form Reliability* - Here, participants are given two different styles of the same test. The synonyms or sentence structures are different from the same questionnaire. This is done to check the stability of the participants' answers.

7.10.3 Investigating Non-Response Bias

Lavrakas (2008) mentioned that non-response bias occurs if a considerable difference can be observed between the participants who have responded to the survey and participants who did not respond. This bias can result in serious problems because inaccurate information can be collected, and the population's interpretation might be incorrect. There are two types of non-response bias, which are item and unit non-response bias. Item non-response bias basically arises if a participant does not answer a few questions in the survey. On the other hand, if a participant or few participants refuse to respond to the survey or cannot be reached, a unit non-response bias arises in such a scenario. Such biases occur due to various reasons, which are as follows:

- If the surveys are not created adequately as per the target population convenience; thus, people will show negligence to fill-in the form.
- Few participants disremember to send back the survey.
- Often surveys do not reach all the sample participants; as a result, everyone cannot fill it up.
- As mentioned above, some participants willingly do not want to participate in the survey because they find the questions inappropriate to answer.

In order to find information about the interrelationship between Corporate Governance, Human Resource Management Practices, and Organizational Performance in the textile industry of Bangladesh, some biases took place during the data collection phase. For instance, it was ensured that the survey had made its way to all the respondents. In addition, during some of the data collection process, the researcher was present with the respondents whose sole purpose was to make sure that the respondents understood all the questions and did not leave out blank questions. This was done to prevent non-response bias while collecting data on corporate governance and human resource management practices.

7.10.4 Investigating Self Selection Bias

Often people tend to give themselves credit for all the good things that happen in their life; however, when it comes to bad events, people assign fault to external factors (Herndon, 2018). This is known as self-selection bias which occurs in many situations. Even in research, such bias can take place. For instance, if the survey outcome is positive and all the procedures to collect information went well, in such a situation, the researcher gives himself credit for all good hands. On the other hand, if the research survey does not go according to the plan, then the blame is placed on external factors. It is also known as cognitive bias. However, in our research, it was ensured that such bias did not take place. For example, as mentioned earlier, there were few biases, where factual and perceptual questionnaires on corporate governance were sent to the company secretaries and independent directors. However, during the data collection phase, some of the independent directors could not be contacted due to unavoidable circumstances where they were not present physically. In this case, the facts are understood that these directors may not have been present due to conflict of schedule or other reasons and no blame was put on these directors. In fact, it was made sure that the rest of the data on corporate governance were fully collected from the remaining secretaries and independent directors.

7.11 Conclusion

While this chapter started with an overview of the entire methodology of this research, it began with the research rationale where justification was given by stating that there was a research gap in the textile industry of Bangladesh on the topic of the relationship between corporate governance, human resource management practices and the organizational performance. In the research objective part, the primary and specific research questions were mentioned. Here primary research questions represent the main goal which will be attained through the study and the specific research questions are used to necrotize the broad objective in a systematic and logical manner, into small parts in order to achieve the ultimate purpose of the study. Next, the chapter focused on the hypotheses which dealt with identifying the relationship between corporate governance, human resource management practices, and organizational performances. The research philosophy was then discussed along with their basic assumptions. For the purpose of this research, the pragmatism worldview was used based on the application of the mixed-method research which is made from both qualitative and quantitative research. The mixed-method was chosen because it created a stronger research design that eliminated the shortfalls and disadvantages of particular methods and neutralized the bias that might be present in specific data sources.

The next segment of this chapter focused on the data collection method which consisted of five different phases. These phases started with collecting data on corporate governance and human resource management practices through the use of questionnaires and collecting annual reports on organizational performance. The final phases focused on collecting additional data through the use of semi-structured interviews on corporate governance and human resource management. Afterward, five different phases were designed for the analysis of the data collected using different software such as *Microsoft Excel, SPSS,* and *NVIVO*. Here, data on corporate governance and human resource management were analyzed and represented in different indexes in two phases. Then, the organization's performance was measured using three different ratios: sales growth ratio, net profit margin, and return on investment. The next phase consisted of interview data analysis using grounded theory. Finally, correlation analysis, regression analysis, and factor analysis were used to test multiple hypotheses, and thus identify the interrelationship between corporate governance with human resource management, and organizational performance.

CHAPTER 08: FINDINGS AND ANALYSIS OF QUESTIONNAIRE SURVEY DATA

8.1 Introduction

The analysis of the questionnaire survey findings consists of a thorough explanation of the various responses of the participants. This chapter starts with the description of data analysis which consisted of a brief description of the Factual Questionnaire (Corporate Governance) along with the respondents' backgrounds, followed by questionnaire description, and responses. Afterward, Corporate Governance Index Construction is explained. Moreover, a comparison of Cross-company differences in scores on the Corporate Governance Index is also described. The chapter then explains the analysis of HRM Data where HRM index and analysis of HRM scores were pointed out. In addition, a comparison of cross-company differences in scores on the HRM Index is also mentioned. Subsequently, the chapter shows a detailed analysis of firm performance. Also, regression analysis and Factor analysis were elaborately explained for our study. After all these above descriptions, a thorough discussion of the test results was shown.

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8.2 Descriptive Statistics

8.2.1 Factual Questionnaire (Corporate Governance)

For the purpose of descriptive statistics, factual questionnaires were used to collect information about corporate governance from different companies.

Respondents' Background:

The textile industry in Bangladesh consists of 56 companies. Formal structured (factual) and Likert scale (perceptual) questionnaires were sent to all the 56 listed companies in the textile sector. However, responses were not given by all the companies; moreover, few were incomplete and hence unusable for analysis. For analysis purpose, in the case of structured factual questionnaire on corporate governance, 39 responses from the Company Secretaries of 39 companies could be used. In the case of perceptual questionnaire on corporate governance, responses from the Company Secretaries of 39 companies and Independent Directors of 32 companies were used for analysis. The other responses were not received because some of the Independent Directors of the companies failed to submit their responses. In the case of questionnaires on HRM, the questionnaires were sent to all the 56 listed companies in the textile sector. However, responses were not given by all the companies; moreover, few were incomplete and hence unusable for analysis. In this phase, 70 responses were available for analysis, out of which 36 were from the Heads of Human Resource/ Admin, and the rest of the 34 answers were from the employees.

Questionnaire Description:

The survey that was sent to the respondents consisted of 75 factual questions that would allow me to analyze corporate governance in the textile industry. These questions were based on nine different areas such as the Board of Directors, Management, Audit Committee, Nomination, and Remuneration Committee (NRC), External Audit, Reporting and Disclosure, Ownership and Shareholder Protection, and Miscellaneous.

Questionnaire Response:

Respondent responses are discussed below in sequence of different areas of corporate governance:

<u>*Board of Directors*</u>

The very first question focused on the number of the Board of Directors that was present in each company. According to the guideline on Corporate Governance Code under Bangladesh Securities and Exchange Commission (BSEC), the total number of the board of directors shall not be below five (5) members and should not exceed twenty (20) members. According to the number of responses, out of the 39 companies, none of the companies had neither below five members nor above twenty members. In fact, 36 of the companies had between five to ten members (5-10) members and only three (3) companies had above 10 members present on the board. Therefore, all the companies had complied with the code. The diagram below shows a graphical representation of the members in the Board of Directors.

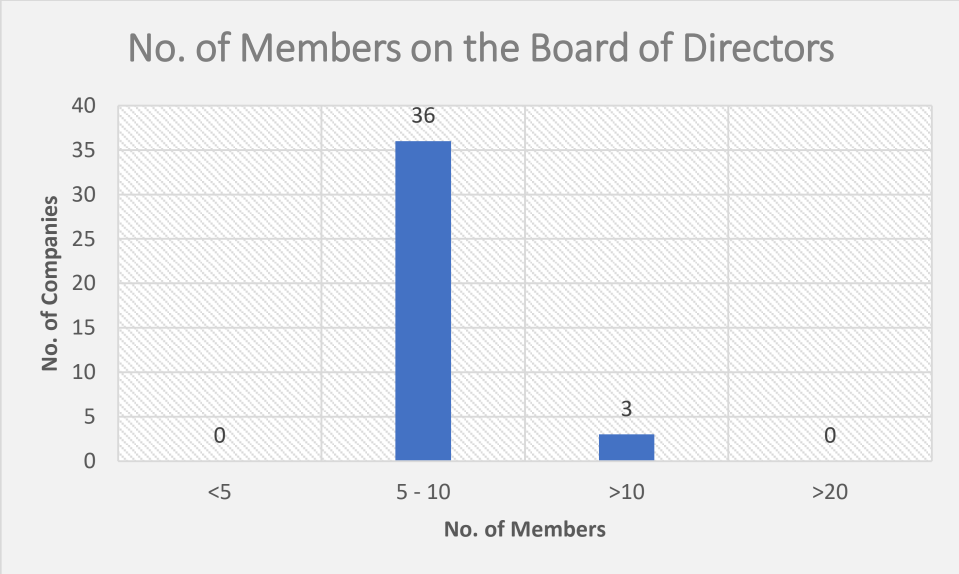

Figure 24: Number of Members on the Board

Next, the survey asked about the number of independent directors present on the Board of each company. The Corporate Governance Code as per BSEC states that the Board of Directors must comprise one-fifth of independent directors of the total members in the company and any fraction will be considered to the next integer or whole number for calculating the numbers of independent director(s). According to the response, all the 38 companies complied with the code that the Board must consist of one-fifth of Independent Directors from the total member with the exception of one company who did not comply with the code.

The next question asked whether the Independent Directors had ever been an executive of the company before and how many years ago were they the executive for the company. This was asked to verify whether the companies complied with the code which states that an independent director cannot be an executive of the company immediately preceding the two years. From the responses collected from the survey, it can be observed that 38% of the respondents were in fact an executive for the company and the remaining 62% of the respondents had never been an executive for that particular company that they were working in. Also, among the respondents who worked as an executive, 17% of independent directors had been an executive more than two years ago and the rest 21% of directors had been an executive within the two years of this study taking place. As a result, it can be stated that the majority of the companies' independent directors had not been an executive preceding the two years and they complied with the code while selecting independent directors.

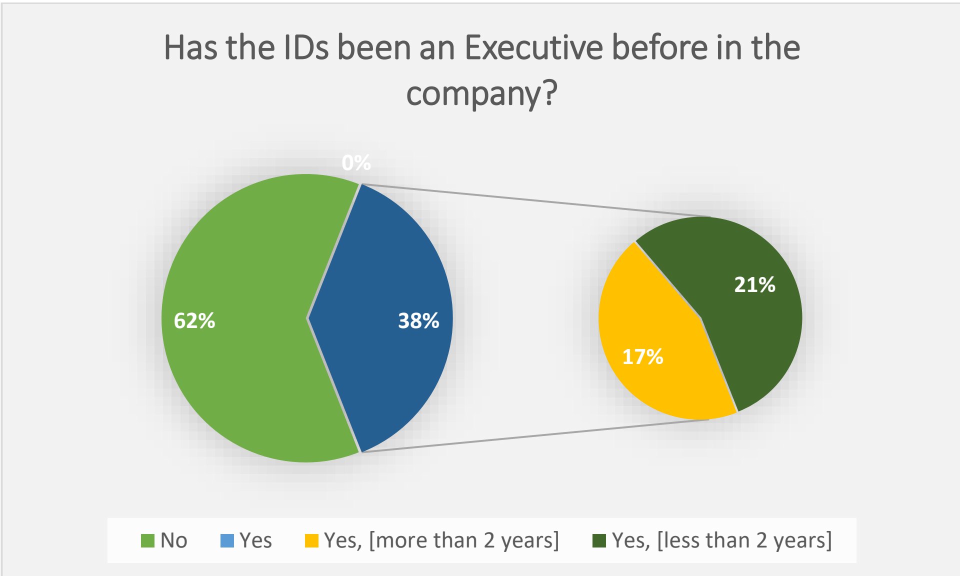

Figure 25: Has the IDs been an Executive before in the company?

The next question in the survey asked the independent directors whether they had any relationship, pecuniary or non-pecuniary, with the company, subsidiary, or any associated companies. As per the Corporate Governance Code, one of the definitions of an "independent director" which the code referred to as external director is someone who do not have any relationship with the company neither financially nor non-financially. The response showed that 96% of the independent directors did not have any relationship with their company while the remaining 4% stated that they indeed had some sort of pecuniary relationship with the company they were associated with. Therefore, almost all the textile companies in Bangladesh had complied with the code in the sense that the independent director that was chosen did not have any relationship with the company.

According to the Corporate Governance Code, an independent director should be someone who is not a partner or an executive or was not a partner of an executive during the preceding two (2) years when the concerned company's statutory audit firm or audit firm engaged in internal audit services or audit firm conducting the special audit or professional certifying compliance of the code mentioned. The independent directors were asked whether their company had complied with this code and the response was that all the respondents complied with the code. Later, the respondents were asked whether they hold the same position as an independent director in any other listed companies apart from the existing company. As per the corporate governance code, the independent director should not be playing the same role in more than five listed companies. The responses showed that only 16% of respondents were in fact working as independent directors in more than one company. Among these respondents, 13% of directors were playing the role of independent directors in three companies and 3% of directors were working in two companies. The rest of the 83% remaining respondents said that they did not associate as an independent director with any other enlisted company. Therefore, it can be stated that all the companies did comply with the code while selecting their independent directors.

The independent directors were asked whether the post of the independent directors was vacant for more than 90 days. As per the Corporate Governance Code, the post of independent director cannot remain vacant for more than 90 days. The responses showed that all the respondents stated that the post was not vacant for more than 90. As a result, it can be said that all the textile companies in Bangladesh complied with the code.

The following question focused on the classification of the independent directors and the purpose was to identify the job title of the directors. The responses indicated that 61% of the job titles were business leaders, 23% were government officials, and only 16% of the external directors held different positions in the company. The diagram below shows the distributions of the job positions of the Independent Directors.

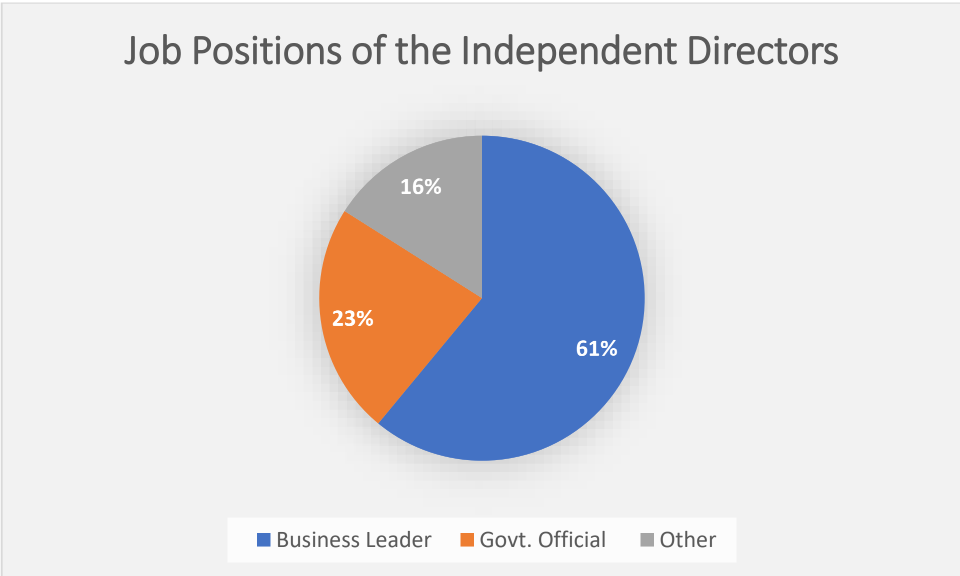

Figure 26: Job Positions of the Independent Directors

While the previous question revolved around the job title of the independent directors, the objective of the next question was to find the years of experience of the members in the fields that they have mentioned previously. This was done to identify if the companies complied with the code which required the independent directors to have at least 10 (ten) years of experience in their respective fields. The results received from them showed that the majority of the companies had independent directors that have more than 10 years of experience. As the table shows, 13% of the companies had independent directors who have less than 10 years of experience while 27% of the members had experiences ranging from 10-20 years. The remaining members of 33% had over 20 years of experience in their respective fields. This shows that all the companies except a few companies complied and hired independent directors as per the code. The chart below shows the years of experience of the Independent Directors of the companies that was surveyed.

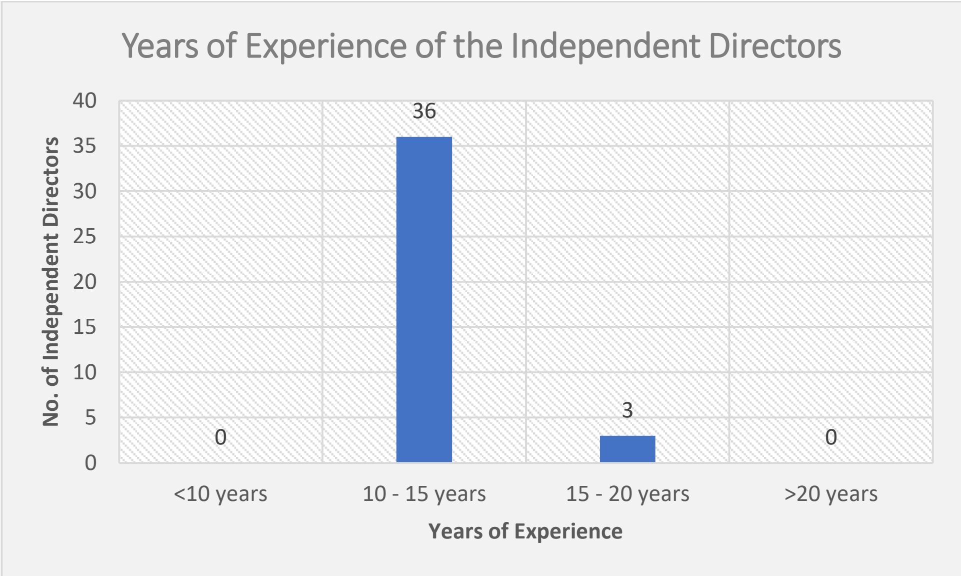

Figure 27: Years of Experience of the Independent Directors

The next question in the survey asked the Independent Directors whether the positions of the chairperson of the Board and the Managing Director (MD) and/or Chief Executive officer (CEO) of the company are filled by different individuals or not. As per the Corporate Governance Code, the positions of the chairperson of the Board and the Managing Director (MD) and/or Chief Executive officer (CEO) of the company shall be filled by different individuals. The responses showed that for 81% companies, the position is filled by different individuals whereas, on the other hand, 19% of the respondents disagreed with the statement. Thus, it can be said that the majority of the textile companies in Bangladesh had complied with the code.

The next question asked whether the Managing Director (MD) and/or Chief Executive officer (CEO) held the same position in another listed company. According to the Corporate Governance Code, the Managing Director (MD) and/or Chief Executive officer (CEO) of a listed company shall not hold the same position in another listed company. The responses indicated that the Managing Director

(MD) and/or Chief Executive officer (CEO) of a listed company did not hold the same position in another listed company. As a result, it can be said that all the textile companies in Bangladesh had complied with this code. The subsequent question in the survey asked whether the Chairperson of the Board is a non-executive director of the company. In the Corporate Governance Code, it is mentioned that the chairperson of the board shall be elected from the non-executive directors of the company. The responses showed 79% of the respondents stated that the chairpersons are elected by the non-executive directors of the company. However, 21% of the respondents disagreed with the statement. Thus, it can be said that the majority of the textile companies in Bangladesh had complied with this code.

The respondents were also asked whether the Board had clearly defined respective roles and responsibilities of the Chairperson and the Managing Director and/or Chief Executive Officer. In accordance with the Corporate Governance Code, there should be clearly defined roles and responsibilities of the Chairperson and the Managing Director and/or Chief Executive officer. From the responses of the participants, the data showed that 72% agreed with the statement of having clearly defined roles whereas 28% of them disagreed. Later on, the Corporate Governance Code states that the Board should conduct a meeting at least once a month. Therefore, the respondents were asked if the Board of their company conducted a meeting on a regular basis as per the code. The results showed that 27% of the companies conducted meetings less than once a month and 47% of companies conducted a meeting once every month as per the code. 26% of the companies conducted board meetings twice a month. The chart below shows the frequency of board meetings held.

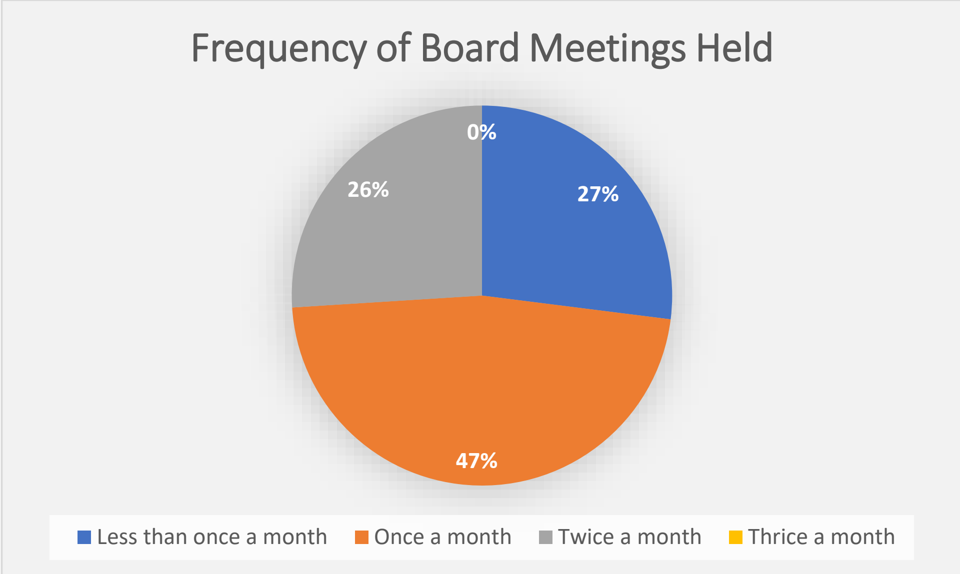

Figure 28: Frequency of Board Meetings Held

The purpose of the following question was to be aware of whether the company records the minutes of the meetings and the required books. In the Corporate Governance Code, it is stated that there should be a record of meeting minutes and books. According to the collected information from the respondents it was found out that 87% agreed that the company records both meeting minutes and keep required books whereas 13% responded no to the question. Therefore, it can be concluded by saying that majority of the companies complied with the corporate governance code.

Next question asked whether the Board has a code of conduct for everyone in the Board such as Chairperson of the Board, Chief Executive Officer of the company, and other board members. The Corporate Governance Code states that there should be a code of conduct for each and every member of the Board and 91% of the companies did in fact have a code of conduct for everyone. In the next question, all the respondents were asked to know whether the company has a code of ethics for all its shareholders. Companies should have ethics for all of their stakeholders in accordance with the Corporate Governance Code. In response, it was found out that 77% agreed that companies have a code of conduct. However, 23% disagreed with the statement. Thus, the majority of the textile companies of Bangladesh had complied with the code. In order to find out whether or not the board monitors the company's risk management and internal control systems responses were collected from the participants. According to the Corporate Governance Code, the board should monitor the company's risk management and internal control. 71% of them responded stating that the board monitors whereas 29% disagreed. The subsequent question in the survey was there to know if the new directors receive full, formal, and tailored induction on joining the board. In accordance with the Corporate Governance Code, directors should receive induction on joining the board. The responses of the participants showed that 63% agreed that new directors receive induction.

To find out whether or not the chairman regularly reviews each director and assesses their training and development needs, data were collected from the respondents. The chairman should regularly review as per the Corporate Governance Code. Here, majority (63% of the respondents mentioned that chairman reviews regularly whereas 37% did not agree with this.

Management

Participants were surveyed to know if the Board appointed a Managing Director (MD) or Chief Executive Officer (CEO), a Company Secretary (CS), a Chief Financial Officer (CFO), and a Head of Internal Audit and Compliance (HIAC). In the Corporate Governance Code, it is stated that the board should appoint them. The survey result showed that 84% of the participants agreed that the board appointed them.

As per the Code, the positions of the Managing Director (MD), Chief Executive Officer (CEO), Company Secretary (CS), Chief Financial Officer (CFO), and Head of Internal Audit and Compliance (HIAC) must be filled by different individuals. 97% of the companies did have different individuals for each of the positions while the remaining 3% companies did not comply with the code and had a certain individual who held more than one of the stated positions in the same company. The next question focused on identifying whether the members from the company in the positions which were stated earlier held any executive position in any other company at the same time while working in their respective company. The code states that the individuals occupying these positions should not hold any executive position in any other company; the results showed that in 89% of the companies, relevant personnel did not hold an executive position in an external company.

According to the Corporate Governance Code, there should be clearly defined roles and responsibilities and duties for the Chief Financial Officer (CFO), the Head of Internal Audit and Compliance (HIAC), and the Company Secretary (CS). The responses showed that 79% agreed with the statement of having clearly defined roles, responsibilities, and duties in the respective positions whereas 21% of them disagreed with the statement. Thereby, it can be said that the majority of the companies in the textile industry complied with the code while some of the companies might have failed to comply with the code. In the subsequent question, participants were asked to know if the Managing Director (MD) or Chief Executive Officer (CEO), Company Secretary (CS), Chief Financial Officer (CFO), and Head of Internal Audit and Compliance (HIAC) of the company regularly attended the meeting of the board. The members of the stated position should always regularly attend the board meeting as per the Corporate Governance code. 92% of the respondents mentioned that the stated position holders regularly attend the meeting. On that account, it can be said that the majority of the textile companies in Bangladesh complied with the code. Additionally, the Corporate Governance Code states that the Managing Director (MD), Chief Executive Officer (CEO), and the Chief Financial Officer (CFO) must certify to the Board that they have reviewed the company's financial statements for the year. The results from the survey showed that all of the companies complied with this code as the stated positions did certify with the Board.

Audit Committee

According to the Corporate Governance Code, the companies should have an Audit Committee as a subcommittee of the Board. From the responses of the respondents, it was found that all respondents agreed that companies have an audit committee as per the code. Therefore, all the textile companies of Bangladesh complied with the code. To find out whether or not the Audit Committee clearly sets forth its duties in writing, data was collected from the participants. As per the Corporate Governance Code, they should clearly be outlined in writing. All of the respondents agreed that duties of the audit committee were distinctly set forth in writing. This indicates compliance with the code by the companies. Moreover, it is stated in the Corporate Governance Code that there should be at least three members in the audit committee. From the survey, it was found out that all the respondents agreed that there are at least 3 members in their audit committee. Thus, all the companies comply with the code.

In accordance with the Corporate Governance Code, Board should appoint members of the Audit Committee who are non-executive directors of the company except the Chairperson of the Board. 100% of the respondents mentioned that members of the Audit Committee are appointed who are non-executive directors. The next question was asked with the objective to know the number of independent directors (ID) in the AC. In the Corporate Governance Code, it is mentioned that there should be at least 1 ID in the AC. All the respondents stated that there is at least 1 ID which means that all the companies have complied with the code. The purpose of the next question was to be aware of whether or not there is at least 1 member who has an accounting or related financial management background and 10 years of such experience. As per the Corporate Governance Code, there should be at least one member with accounting or related experience. 100% of the respondents agreed that there was at least 1 member. This indicates all the textile companies of Bangladesh complied with the code.

One of the codes of Corporate Governance is that the Company secretary should act as the secretary of the committee. The survey result showed that 100% of the respondents mentioned that the company secretary acts as the secretary of the committee. Therefore, it can be said that the code is followed by all companies. Moreover, the chairperson of the Audit Committee should be an independent director according to the Corporate Governance Code. It can be stated that all the companies comply with the code because all the respondents agreed the chairman person of the Audit Committee is an independent director. Next survey question was asked to know about the number of meetings being conducted in the last financial year. In accordance with the corporate governance code, the Audit Committee should conduct at least four meetings in the financial statement. The survey result showed that 77% of the respondents mentioned that companies conduct 4 meetings. As low as 12% mentioned that companies conduct less than 4 meetings whereas 11% mentioned companies conduct more than 4 meetings. Thus, it can be said that the majority of the companies had complied with the code. To set a meeting agenda by AC before any meeting is a code of Corporate Governance. From the responses, it was found out that 78% stated that the agenda was set beforehand. The subsequent question was asked to know how many days before the meeting the agenda was circulated among the committee members. The Corporate Governance Code states that before 3 working days, the meeting agenda should be circulated. 17% stated that the agenda was not circulated beforehand. 9% stated it was circulated a day before the meeting whereas five percent (5%) mentioned that it was circulated two (2) days earlier. However, 65% of the participants mentioned that it was stated 3 working days and four (4%) stated that the agenda was provided more than seven (7) days earlier. From the above result, it can be concluded that the majority of the companies complied with the code.

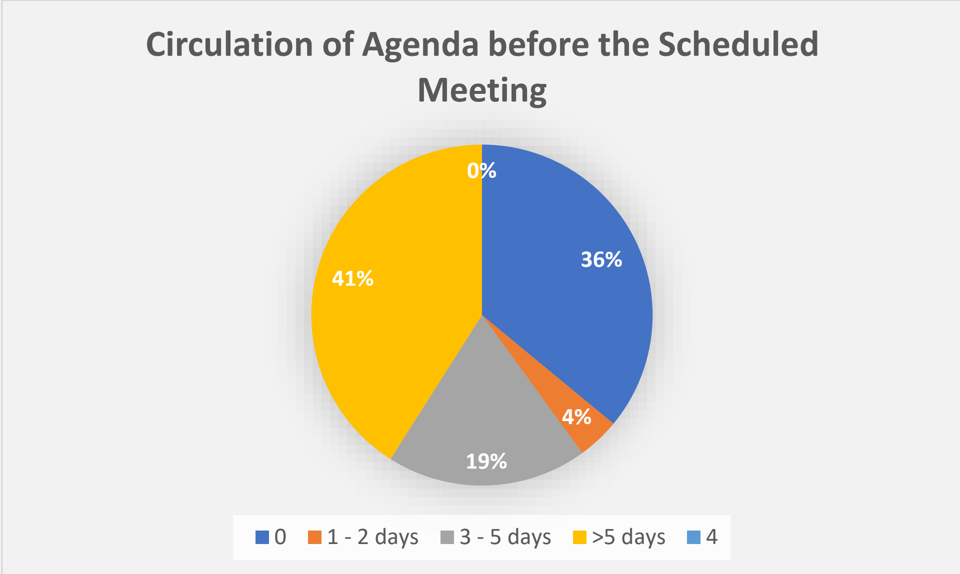

Figure 29: Circulation of Agenda before the Scheduled Meeting

The next question was asked to know whether the audit committee completed all the duties under its scope. Among the respondents, 44% mentioned that all the duties are completed under the scope whereas 31% of respondents stated that about 90% of work was completed whereas 16% of respondents believed that 80% of work was completed. Lastly, nine (9%) of respondents stated less than 80% of work was completed. The chart below also shows the completion of the audit committees’ duties. As per the Corporate Governance Code, the audit committee must complete all the duties under its scope and most of the companies claimed to do so.

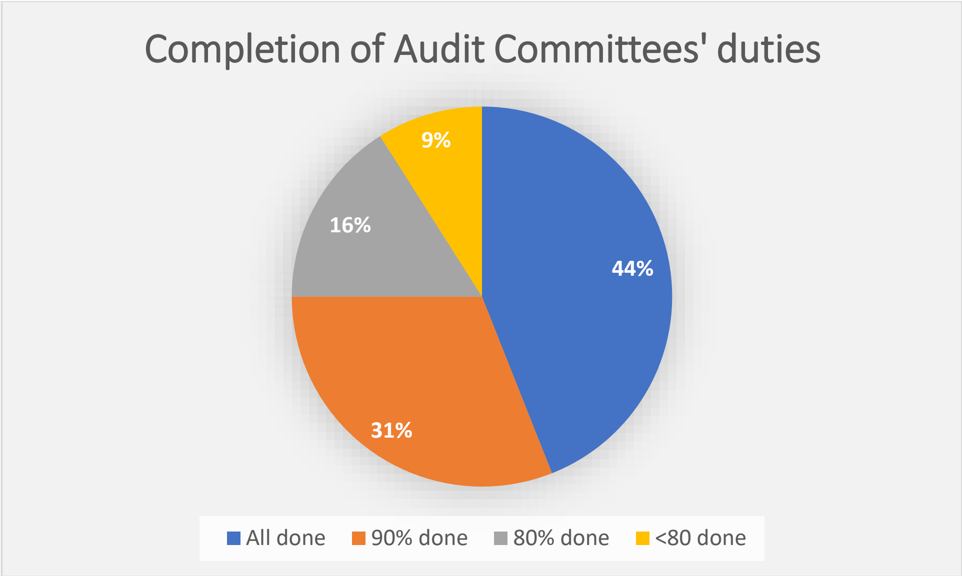

Figure 30: Completion of Audit Committees' duties

Nomination and Remuneration Committee

In accordance with the Corporate Governance Code, the company should have a Nomination and Remuneration Committee (NRC) as a sub-committee of the Board. 77% of the respondents stated that companies have NRC as a sub-committee however, 23% disagreed with the statement. The next question focused on whether or not the Terms of Reference of the NRC was clearly set forth in writing or not. In the Corporate Governance Code, it is mentioned that there should be a clearly outlined writing for Terms of Reference. According to the collected information from the respondents, 57% of them stated that the terms are clearly set. However, 43% disagreed with this statement. Thus, it can be said that compliance to this code is not prevalent in the industry. Moreover, there should be at least three (3) members in the Nomination and Remuneration as per the Corporate Governance Code. From the responses of the survey, it was found that 71% of the respondents mentioned that there are at least three (3) members whereas 6% stated that there are less than 3 members. Additionally, one of the codes of corporate governance stated that there should be at least 1 independent director for the NRC. The results from the survey showed that the companies that had an NR committee had at least one (1) ID on the board.

The next question was asked to know whether the company secretary acted as the secretary of the committee. As per the Corporate Governance Code, the company secretary should act as the secretary of the committee. According to the survey, it was found that the companies that had an NRC, had company secretary as the secretary of the committee. Moreover, as per the code, the chairperson of the committee should be an independent director. All the companies with an NRC complied with this code.

The purpose of the next question was to know the number of meetings conducted by the NRC in a financial year. In the Corporate Governance Code, it is mentioned that there should be at least one meeting in a financial year. The results along with a table below showed that 58% mentioned having at least one meeting. As low as nine (9%) mentioned that they held two (2) meetings and 6% mentioned having three (3) meetings. None of them mentioned about four meetings. Given data suggests that the majority of the companies had complied with the codes.

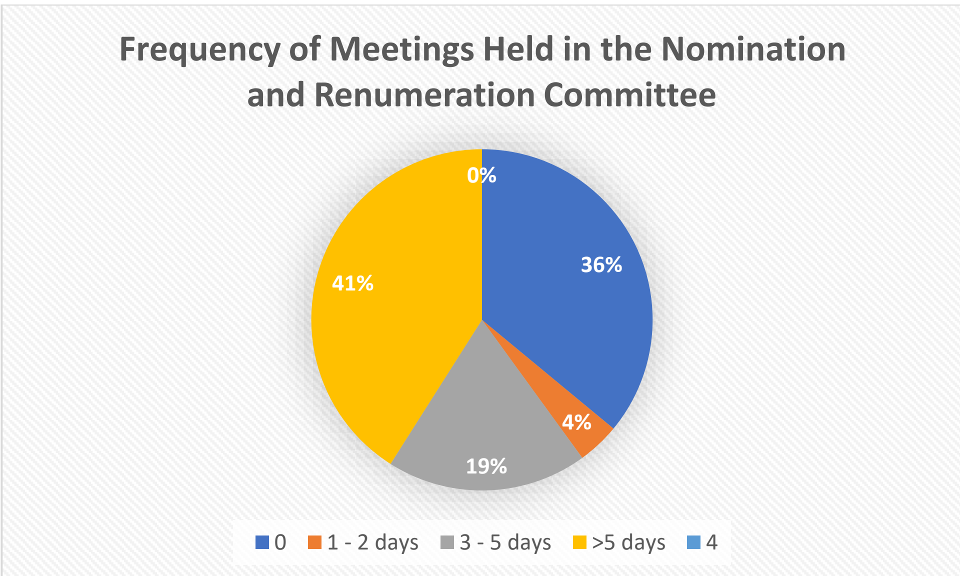

Figure 31: Frequency of Meetings Held in the Nomination and Renumeration Committee

As per the Corporate Governance Code, AC should set a meeting agenda before they conduct the meetings. The responses showed that 64% agreed to state that the agenda was set before the meeting.

Later, participants were asked how many days before the scheduled meeting, the agenda was circulated among the committee members. From the results of the respondents which has also been presented in the chart below, it was found that 36% stated the agenda was not circulated before the meeting. On the other hand, four (4%) stated that the agenda was circulated before 1 to 2 days whereas 19% stated circulation before three (3) to four (4) days. However, 51% stated the agenda was circulated before more than five (5) days.

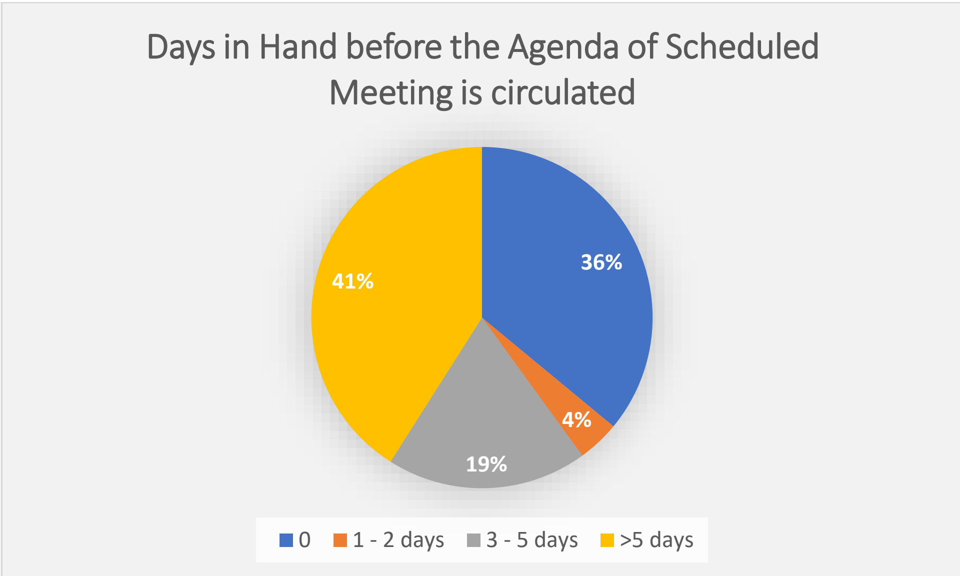

Figure 32: Days in Hand before the Agenda of Scheduled Meeting is Circulated

The proceedings of each meeting of the NRC should be duly recorded in minutes as per the Corporate Governance Code. 82% mentioned that meetings were duly recorded in minutes.

External Audit

The Corporate Governance Code mentioned that companies should not engage their external or statutory auditors to perform specific services of the company. All the respondents stated that companies did not engage its external or statutory to perform such services. Moreover, the code states that any partner or employees of the external audit firms must not possess any shares of the company that they are auditing for at least during the tenure of their audit assignment of the company. The findings from the survey showed that none of the partners or employees from the external audit firms held any shares of the company they were auditing. Additionally, there should be the presence of the representatives of external or statutory auditors in the AGMs of the company, as per the Corporate Governance Code. 83% stated that there was presence of the representative of external or statutory auditors in the AGMs. The agenda for the next question was to know whether or not the performance of the external auditors was evaluated. All the participants responded that the external auditor’s performance was evaluated which indicated that all the companies had complied with the code. On the other hand, as per the Corporate Governance Code Audit Committee should evaluate the performance; all the respondents stated that the evaluation of the performance of the external auditors was done by the Audit Committee.

Reporting and Disclosure

Publishing the annual report is one of the codes of Corporate Governance. From the survey results, it was found that all the respondents stated that companies publish annual reports. It was also asked whether the annual report contained the Director's report. In accordance with the Corporate Governance Code, there must be Directors' report. The responses showed that all the companies had Directors’ reports in their annual report. Moreover, according to the Corporate Governance Code, companies should obtain a certificate from a practicing Professional Accountants or Secretary other than its statutory auditors or audit firms. The responses showed that all the respondents did so. Moreover, complying with the code, the directors of the company stated in the directors’ report the compliance of the company with these conditions.

The Corporate Governance Code states that it is the responsibility of the directors to describe the principal risks and explain how they are being managed or mitigated in their annual report. 88% of the company did comply with this code and described the principal risks along with the mitigation of the risk. On the other hand, 12% of companies did not include this information in their annual report.

Subsequently, while preparing the annual report, the company must identify the individuals holding the positions of the chairman, the deputy chairman (if there is any), the chief executive, the senior independent director, and the chairmen and the members of the board committees present in the company. The respondents stated that 93% of their companies did identify these positions in the annual report while the rest did not include them in their annual reports. Moreover, the annual report must disclose the number of meetings of the board and committees and individual attendance by the directors that took place. This allows the shareholders to have more trust in the board and the company itself. It was found out that 79% of the companies did set out the number of meetings along with the individual attendance by the directors.

The next question was asked in order to determine whether the company had arranged an appropriate insurance coverage in respect of legal actions against its directors. 71% of companies managed to organize an appropriate insurance coverage. The respondents were also asked if the Board of their company provides a performance evaluation of the board, its committees, and its directors, and on what basis was the evaluation conducted in their annual report. Only 64% of the companies provided information on how the evaluation was conducted in the annual reports while the rest of the 36% of companies did not provide such information.

Ownership and Shareholder Protection

While the Board is running the companies, the Corporate Governance Code states that the views and the interest of the shareholders must be communicated to the board as a whole so that the board is aware of the expectations of the shareholders. All the respondents said that their companies ensured that the views were in fact communicated properly and effectively. Moreover, the companies must have policies and regulations present for the protection of the shareholders' rights. The responses showed that all the companies claimed to have such policies and regulations implemented that would protect the rights of the shareholders. However, in case of ownership of shares, a huge percentage of the shares of most of the companies are held by the sponsors or directors; moreover, institutional shareholding is non-existent in many company cases. Such concentrated ownership might have negative consequences from corporate governance perspective – this issue will be discussed in the next chapter, in light of the qualitative data findings and analysis.

According to the Corporate Governance Code, the chairmen of the audit, remuneration, and nomination committees must always remain present during the Annual General Meeting (AGM) to answer the questions of the shareholders as per the code. 94% of the companies stated that the chairmen of the committees were present during the meeting while the rest were not present. Finally, respondents were asked if their company had policies for paying off their creditors as instructed by the Corporate Governance Code. 91% of the companies had complied with the code and implemented the policies for paying off the debts to their creditors while the 9% failed to comply and did not have any policy.

8.2.2 Perceptual Questionnaire (Corporate Governance and MRH)

As discussed earlier, respondents were asked about their perception of various aspects of corporate governance and human resource management through a Likert-scale questionnaire survey. The findings of these questionnaire surveys are illustrated below:

Corporate Governance Practices:

<u>*Board of Directors*</u>

First part of the perceptual questionnaire on the Corporate Governance practices consisted of 15 Likert-scale questions based on the Board of Directors of the companies of the textile industry of Bangladesh. The survey consisted of statements about the Board of Directors such as whether the board sets clear objectives and realistically assesses its performance against its objectives at regular intervals; whether the board is also effective in reviewing and implementing senior executive succession plans and establishing a corporate environment that promotes timely and effective disclosure, fiscal accountability, high ethical standards and compliance. The respondents were also asked whether the code of conduct was effectively followed for the Chairperson of the Board, other Board members and the Chief Executive Officer.

The average score received from the Company Secretaries and the Independent Directors was 3.794 out of 5 (five). In the Board of Directors category, in order to calculate the total average score, the average score of all the Independent Directors and the Company Secretaries were added. The results of the survey showed that the average score of Company Secretaries was 4.234 out of 5 (five). On the other hand, the average score of the Independent Directors was 3.354 out of 5 (five). Between these two average scores of the Independent Directors and Company Secretaries, a significant difference of 26% was observed. This may indicate that there might be a reason behind this notable difference in opinion from both the parties which will be discovered later in a qualitative interview.

Management

The Management category consisted of only 5 Likert-scale questions in the perceptual survey. The survey consists of questions such as whether the roles and duties were clearly defined for those who were working under the management like the Chief Financial Officer (CFO), the Head of Internal Audit and Compliance (HIAC), the Company Secretary (CS). Also, whether the duties of the management are mentioned such as providing performance analysis against budget, regularly reporting to the board about key outcomes, targets, post evaluation reviews for all major projects and programs; and, whether management alerts the board regarding any upcoming problems that can adversely affect the performance of the company.

The average score in the Management category questions that was received from the respondents was 3.834 out of 5 (five). The average score in the Management category was determined by calculating the average scores of the Independent Directors and the Company Secretaries. The average scores of the Company Secretaries was 4.047 out of 5 (five), and the average scores of the Independent Directors was 3.620 out of 5 (five). The difference between the scores of both the respondents was 12%. This indicates that both the respondents seemed to have similar opinions regarding the practices in the management categories with little difference of opinion regarding some questions. This will be discussed later in further details in the qualitative interview on the management category.

Risk Management

The questionnaire on the Corporate Governance practices incorporated only 5 Likert-scale questions under the category of Risk Management. The survey consisted of questions about setting clear guidelines on maximum risk appetite and regular identification and review of principal risks.

From the given result of the survey, it was found out that the average score of the Risk Management category was 3.874 out of 5 (five). The total average score was calculated by adding the averages of total Company Secretary and the total average of Independent Directors. From the survey result it was observed that the average score of the Company Secretary was 4.229 out of 5 (five) and the average score of the Independent Directors was 3.518 out of 5 (five). A difference of 20% between these two average scores was observed. This may indicate that there might be a reason behind this notable difference in opinion between the Company Secretary and Independent Directors which will be discovered later in a qualitative interview analysis section.

External Audit

In the perceptual survey on the Corporate Governance practices, the fourth category was External Audit where the respondents were asked 6 questions on the external audit practices of the companies they were associated with. The average score of the External Audit category was 3.601 out of 5 (five). While the total average of the External Audit was 3.601, this was determined through the addition of the average score of the Company Secretaries and Independent Directors which was 3.709 and 3.494

out of 5 (five) respectively. The difference in the scores of the respondents was about six percent (6%). This meant that the impression on the External Audit of both the respondent groups were almost close. Their reasoning behind such a close average score will be discussed using the data that was acquired from the qualitative interview on the Corporate Governance practices.

Reporting

The subsequent category in the perceptual survey on the Corporate Governance practices consisted of four (4) Likert-scale questions. The questions of the category are mainly based on Reporting. These questions asked to what extent did the respondents agree that the quality of the annual report was satisfactory and how sufficient were the content of the annual report in representing the true financial status of the company. Respondents were also asked whether their companies prepared and provided regular and insightful reports on the organization’s risk management and internal control systems in the annual report. They were also asked to share their opinions by answering if their company provided reliable projections of the future cash flows as well as providing methods of mitigating the risk of falling behind schedule.

The average score received from both Company Secretary and Independent director was 3.760 on a scale of 5 (five). In the Reporting category of the questionnaire the total average score was determined by adding the individual average score of Company secretary and Independent Director. The average score from Company secretary was 4.412 out of scale 5 (five) and the average score from Individual Director was 3.107 out of scale 5 (five). From the above results it was observed that there was a notable difference of 42% in point of views between the two parties. This may indicate that there might be a significant reason for the difference in the opinion from both the parties which will be figured out later in a qualitative interview.

Audit Committee

The next category consisted of 23 Likert-scale questions on the Audit Committee which was designed to get an insight on the perception of the respondents. Perceptual questions on the Audit Committee focused on different areas of the audit committee starting from clearly outlining the objectives, duties and responsibility to making sure that the members in the committee have the proper understanding about their roles and responsibilities as well as adequate authority to carry out their responsibilities. Some questions were asked to know whether the respondent felt that the audit committee members' level of knowledge on the entity's business, accounting and auditing practices were sufficient or not. While other questions focused on the topic like whether the audit committee properly monitored the information such as the external audit firm's compliance with the existing ethical and regulatory requirements in Bangladesh and the effectiveness of the internal audit functions.

From all the 23 questions, the average scores of both the respondents were 4.210 out of 5 (five). Moreover, the average score of the Audit Committee was determined by calculating the average scores of the Company Secretaries and the Independent Directors which was 4.240 and 4.179 respectively on a 5 (five) point scale. The point of view of both the respondents were so close that there was only a difference of about 1% in the average scores. This shows that perception held regarding the audit committee of all the companies in the textile industry was similar across all respondent groups.

Compensation Committee

The Compensation category of the perceptual questionnaire consisted of 18 Likert-scale questions. The questions focused on various areas relevant to the compensation committee. For instance: to what extent the Compensation Committee has a clear understanding of their responsibilities, enough knowledge about the business, and appropriate experience and skills about their work. Furthermore, some questions were asked to know whether the Compensation Committee has sufficient authority to carry out their responsibilities, work independently, express their opinions freely and independently. While other questions focused on setting clear objectives, duties and responsibilities of the Compensation committee and whether the CC effectively reviewed and recommended to the board or not.

The average score received from the two parties which are Company secretaries and the Independent Directors was 4.007 out of 5 (five). The Compensation Committee average score was determined by adding the average score of Company Secretaries and Independent Directors. The average score of Company secretaries was 4.524 while the average score of the Independent Directors was 3.490. A significant difference of 30% was observed between the point of views of both the parties. Therefore, this may indicate that there might be a reason for the notable difference in the opinion from both the parties which can be figured out later in a qualitative interview.

Nomination Committee

The last section of the perceptual survey consisted of 16 Likert-scale questions on the Nomination Committee. These Likert-scale questions were used to gain an insight on the opinion of the respondents on the Nomination Committee of their companies. For instance: the respondents were asked if they agreed to statements such as the committee had properly outlined the objectives, duties and responsibilities for all the members; the background of all the potential board members were thoroughly investigated by the committee. The respondents were also asked whether the agenda and related materials were provided fairly ahead of the meetings and the committee held sufficient number of meetings in the committee to help the members to carry out their tasks.

The average score received from the Company Secretaries and the Independent Directors was 3.920 out of 5 (five). A closer look at the average scores in the category shows that the average scores of the Company Secretaries was 4.446 out of 5 (five), while the average scores of the Independent

Directors was 3.394 out of 5 (five). Therefore, there is a notable difference of 31% in the scores of both the types of respondents. This may indicate that there might be a reason for the difference in the opinion from both the parties which will be discovered later in a qualitative interview.

Human Resource Management Practices:

<u>*Recruitment and Selection*</u>

First section of the perceptual questionnaire on Human Resource Management practices consisted of eleven (11) Likert-scale questions based on the Recruitment and selection of the companies of the textile industry of Bangladesh. The survey consisted of statements such as the organization signs and contract letter for factory level jobs, non-managerial level jobs, managerial job level and temporary job. Also, few more questions were asked to know whether the organizations prefer to hire male candidates more than female, and whether diversity is ensured while hiring. Furthermore, whether references are strictly checked by the company, and to what extent higher positions are filled based on reference and personal connection.

The average score received from the HR/Admin and the employees was 3.621 out of 5 (five). In the recruitment and selection category, in order to calculate the total average score, the average score of all the HR/Admin and the Employees were added. The results of the survey showed that the average score of HR/Admin was 4.261 out of 5 (five). On the other hand, the average score of the employees was 2.981 out of 5 (five). Between these two average scores of the HR Admin and the employees a significant difference of 43% was observed. This may indicate that there might be a reason behind this notable difference in opinion from both the parties which will be discovered later in a qualitative interview.

Training and Development

The Training and Development category consisted of nine (9) Likert-scale questions in the perceptual survey. The survey consists of questions like whether the duration of the organization's orientation program is sufficient or not, and whether the organization conducted a detailed Training Need Assessments (TNA), whether the organization trains the underperformers who are unable to meet the targets, uses in house and professional trainers to train employees and whether it calculates the return on Investment (ROI) of each of the trainings. Finally, the HR Heads and the employees were asked if they agreed to the questions that stated that the employees performed better after the training was conducted.

The average score of all these questions in the Training and Development category that was received from the respondents was 4.172 out of 5 (five). Moreover, the average score in the Training and Development category was determined by calculating the average scores of the HR/Admin and the Employees. The average scores of the HR/Admin was 4.377 out of 5 (five), and the average scores of the employees was 3.967 out of 5 (five). The difference between the scores of both the respondents was 10%. This indicates that both the respondents seemed to have similar opinions regarding the practices in the Training and Development categories with little difference of opinion regarding some questions. This will be discussed later in further details in the qualitative interview on the Training and Development category.

Performance Appraisal

The questionnaire on the Human Resource practices incorporated five (5) Likert-scale questions under the category of Performance Appraisal. These questions asked to what extent the respondents agreed that the performance appraisal was satisfactory and whether the company conducts one performance appraisal yearly. Respondents were also asked if their company used automated software-based performance appraisal systems or not. They were also asked to share if employees were allowed for self-assessment or not and also to mention regarding interim appraisal in terms of months quarterly or half-yearly. From the given result of the survey, it was found out that the average score of the Performance Appraisal category was 3.845 out of 5 (five). The total average score was calculated by adding the averages of total HR/Admin and the total average of the Employees. From the survey result it was observed that the average score of the HR/Admin was 4.419 out of 5 (five) and the average score of the Independent Directors was 3.271 out of 5 (five). A difference of 35% between these two average scores was observed. This may indicate that there might be a reason behind this notable difference in opinion between the HR/Admin and the Employees which will be discovered later in a qualitative interview.

Job Description

In the perceptual survey on the Human Resource Management practices, the fourth category was on the Job Description, where the respondents were asked five (5) questions on the job description of the companies they were associated with. The purpose of these questions was to understand how the roles and responsibility of the jobs were described from both the perspective of the HR Head and the employees in the organization. For instance, they were asked to share their opinion by rating statements such as every job has a specific job description available for the employees in that area to read and each and every one of them receives this job description at the beginning of the appointment; these job descriptions are always updated in regards with the respective roles, responsibilities and qualifications of the individual employee and these responsibilities conform with the official job description.

The average score of all the responses in the Job Description category was 3.601 out of 5 (five). While the total average of the Job Description was 3.601, this was determined through the addition of the average score of the HR/Admin and the Employees which was 3.876 and 3.184 out of 5 (five) respectively. The difference in the scores of the respondents was about 22%. This meant that the impression on the Job Description of both the respondents were not that close. Their reasoning behind such a different average score will be discussed using the data that was acquired from the qualitative interview on the Human Resource practices.

Compensation

The subsequent category in the perceptual survey on the Human Resource practices consisted of eight (8) Likert-scale questions. The question focused on various areas relevant to the compensation. For instance, to what extent the organization has structured a compensation package. Furthermore, some questions were asked to know whether the compensation ties with performance; whether the organization pays every month without failing. Questions also focused on organization providing festival bonus, incentive bonus, and payment during maternity leave.

The average score received from the both HR/Admin and the Employees was 3.358 out of 5 (five) scale. In the Compensation category of the questionnaire the total average score was determined by adding the individual average score of HR/Admin and the Employees. The average score of HR/Admin was 3.976 out of scale 5 (five) and the average score of the Employees was 2.741 out of scale 5 (five). From the above results it was observed that there was a notable difference of 45% in point of views between the two parties. This may indicate that there might be a significant reason for the difference in the opinion from both the parties which will be figured out later in a qualitative interview.

Compliance/Safety and Health

The next category consisted of nine (9) Likert-scale questions on Compliance/Safety and Health. The perceptual questions on the Compliance/Safety and Health focused on a few aspects of this category starting with statements like the organization maintains proper physical safety for employees and offers wellness programs. Furthermore, statements also asked whether the organization also has a very clear dress code and stands against sexual harassment and takes care of the emotional safety such as anti-harassment and anti-bullying of employees in the company. Respondents were asked about their opinion regarding these questions.

From all the 10 questions, the average scores of both the respondents were 3.768 out of 5 (five). The average score of the Compliance/Safety and Health was determined by calculating the average scores of the HR/Admin and the Employees which was 4.282 and 3.254 respectively out of 5 (five) point scale. The point of view of both the respondents were not close that there was a difference of about 32% in the average scores. This may indicate that there might be a significant reason for the difference in the opinion from both the parties which will be figured out later in a qualitative interview.

HR Policy

The last section of the perceptual survey consisted of three (3) Likert-scale questions on the HR Policy. These Likert-scale questions were used to gain an insight on the opinion of the respondents on the HR policies of their companies. For instance, the respondents were asked if they agreed to the statements that the company has appropriate HR policies in order to make HR related decisions. The respondents were also asked whether or not the HR policies are satisfactory and appropriate

The average score received from the HR/Admin and the Employees was 3.702 out of 5 (five). A closer look at the average scores in the category shows that the average scores of the HR/Admins was 4.182 out of 5 (five), while the average scores of the Independent Directors was 3.222 out of 5 (five). Therefore, there is a notable difference of 30% in the scores of both the types of respondents. This may indicate that there might be a reason for the difference in the opinion from both the parties which will be figured out later in a qualitative interview.

8.3 Index Construction: Corporate Governance and Human Resource Management

8.3.1 Corporate Governance Index (Factual Data)

As discussed in the methodology section of this thesis, a corporate governance index was constructed combining all the scores of all the companies collected through the factual questionnaire survey in the study. As mentioned earlier, there are 75 questions in the questionnaire survey and compliance to each of these questions contributed to obtaining one point. The maximum a company could get was 75. Now, for index construction all of these scores out of 75 were re-calculated on 100-point scale.

From the graph below, it can be seen that out of 39 companies, 25% scored more than 90%, whereas 22% of the companies scored less than 85%.; this means majority of the remaining companies scored between 85 to 90%. Moreover, average score obtained by all of these companies is 88.89%. If this average is considered as a proxy for the corporate governance compliance status in the textile industry, the score represents a very healthy compliance status.

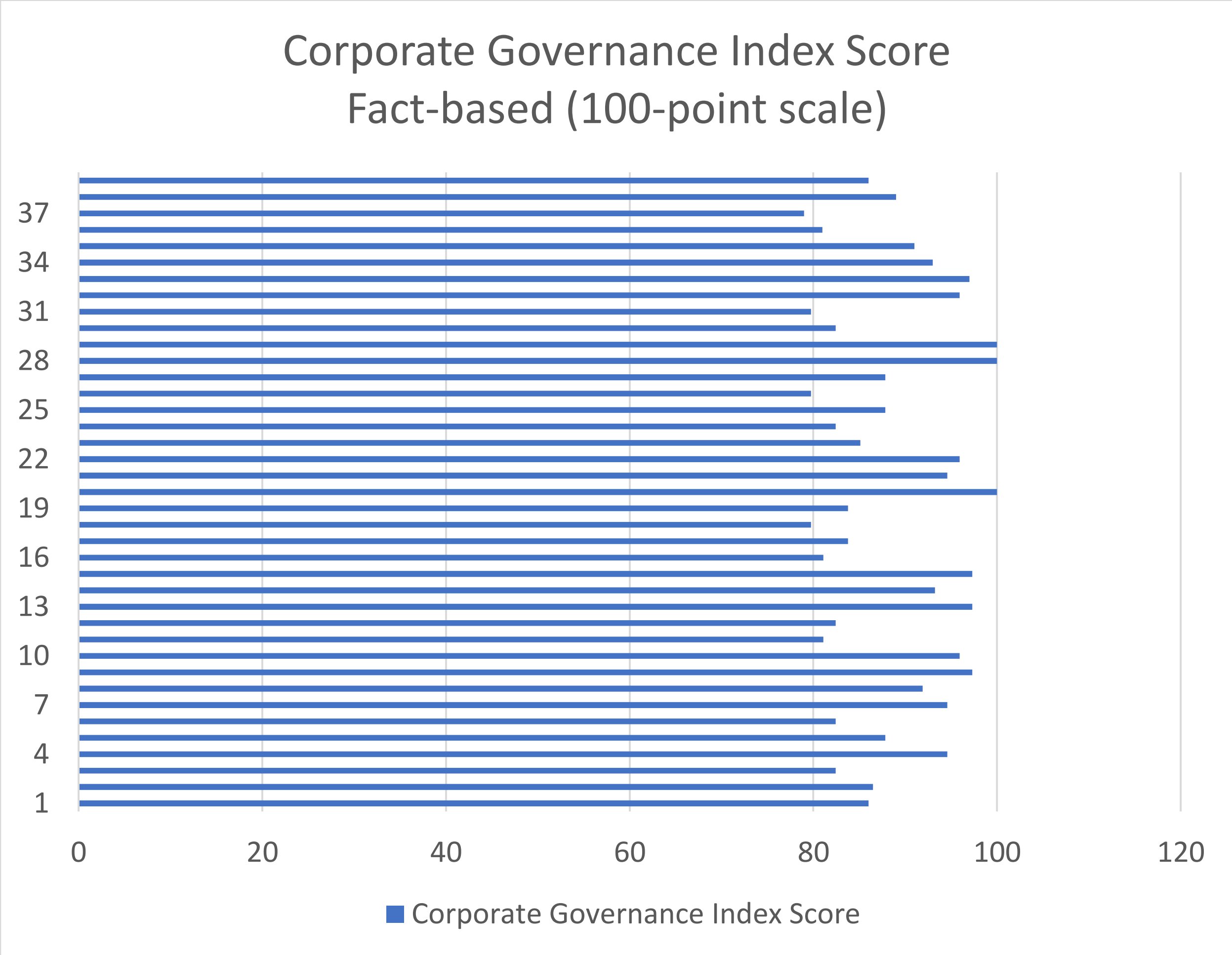

Figure 33: Corporate Governance Index Score (Fact-based)

8.3.2 Corporate Governance Index (Perceptual Data)

Even though on pen and paper, quantitatively the score above shows a really good picture of corporate governance compliance, the qualitative aspect of such compliance is not apparent here. In order to find out whether the companies were practicing authentic compliance or fulfilling a tick-mark exercise, a perceptual questionnaire survey was rolled out. According to the survey results, the textile industry companies did not do so well on the perception scale. On a 5-point scale, the average score obtained by the companies is 3.44 only. This shows a stark difference in the score obtained on the two indices: while on the fact-based index, companies scored 89%, on the perception scale, they scored only 68%.

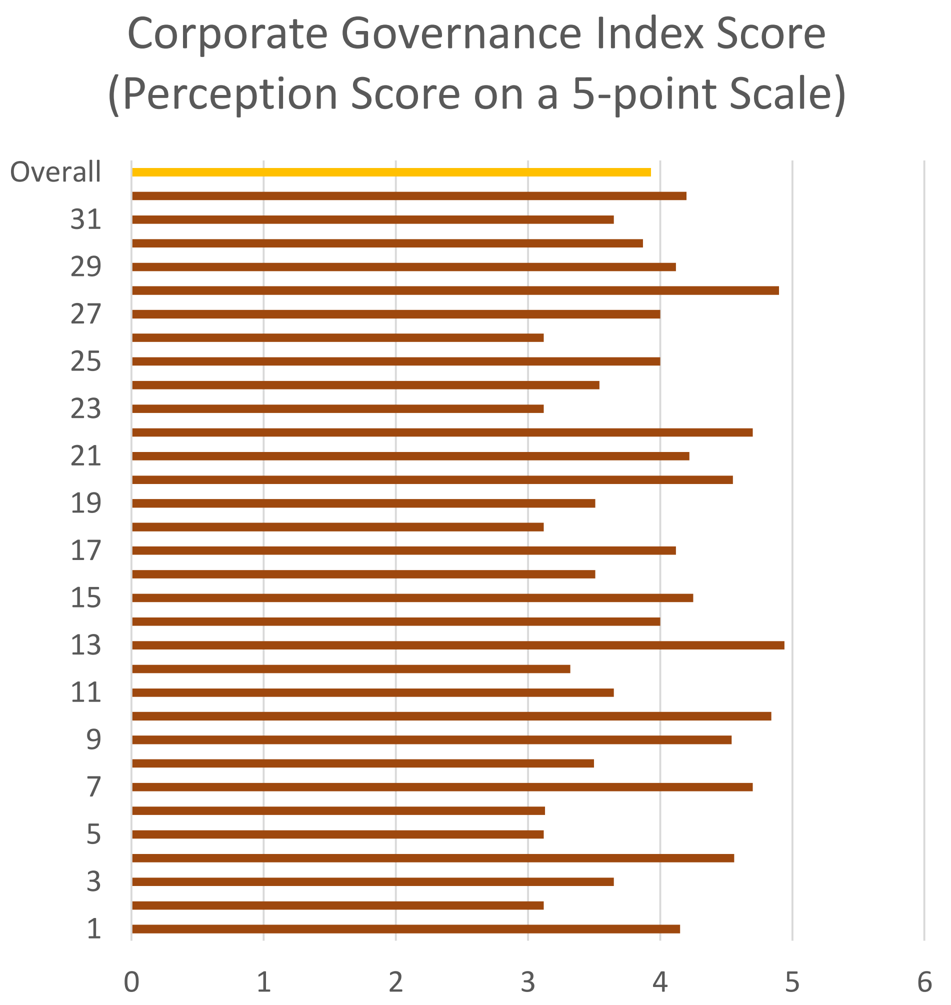

Figure 34: Corporate Governance Index Score (Perceptual)

By dissecting further and looking into the performance in different areas of corporate governance, it can be seen that some of the areas performed really poor, thus bringing down the average score. Among all the different areas, external audit followed by board of directors scored the lowest whereas audit committee obtained the highest perception score from the respondents.

Table 5: Perception Scores in Different Areas of Corporate Governance

Area	**Score**
Board of Directors	3.79
Management	3.83

Risk Management	3.87
External Audit	3.60
Reporting	3.76
Audit Committee	4.21
Nomination Committee	3.9
Compensation Committee	4.0

While the score obtained by most of the categories are already poor, the gravity of the situation further comes into light when difference or variance in perception scores given by two different groups of respondents are considered. As discussed in the previous section, in some of these categories, there is a difference of up to 30 to 45% in the scores given by the internal and the external stakeholders. There is a possibility that the score given by the internal stakeholders might be inflated because of the higher stake they have in the organization; on the other hand, the perception score given by the external stakeholders might be assumed to be a better reflection of the true perception held by many. The cause of this poor perception score will be analyzed further in the qualitative data analysis section where interview data gathered will be analyzed to find out the multi-level themes and their interrelationships in this study.

8.3.3 HRM Index (Perceptual Data)

Similar to the case of corporate governance, a perceptual questionnaire survey was developed to measure respondent perception with regards to human resource management practices in the textile industry. Based on the data collected from 34 companies, it can be easily seen from the graph below that the performance is not that satisfactory in the human resources area as well. The average score obtained by these companies is 3.71. So, average score obtained is 75% on a 5-point scale which is not that satisfactory score.

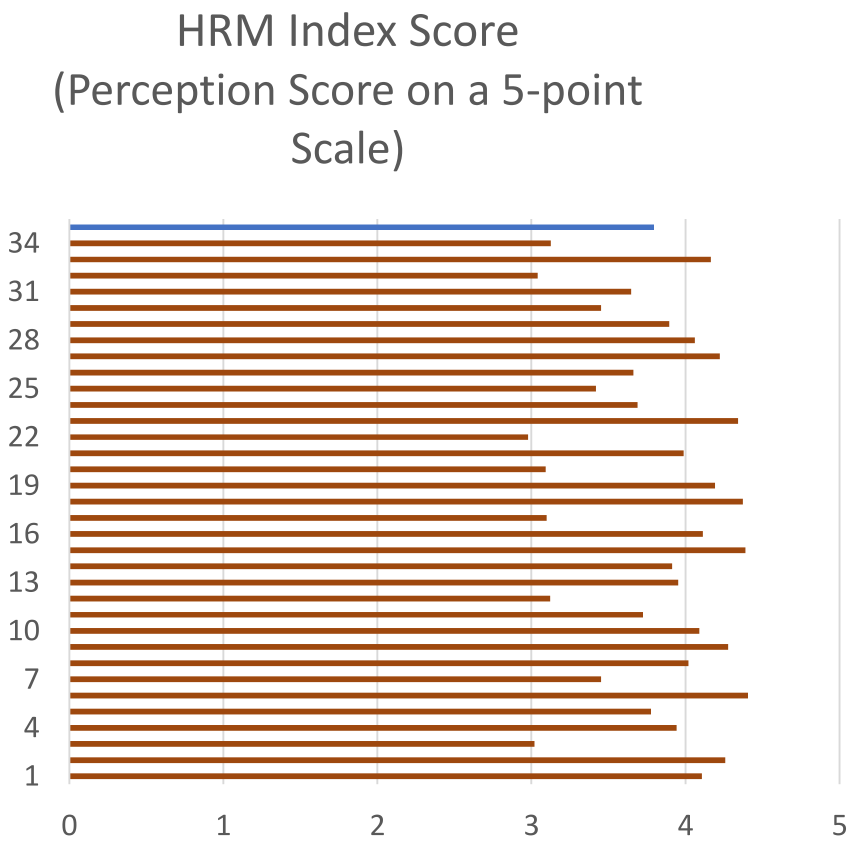

Figure 35: HRM Index Score (Perception Score on a 5-point Scale)

Just as before, going deeper, it can be found out that among the seven different areas of human resource management practices, some areas performed well whereas most of the others scored poor. As it can be seen from the table below, compensation and job description performed the worst among all the different areas whereas training scored the highest. It is also to mention here that similar to the perception scores of corporate governance practices, there was a major difference in the perception held by internal and external stakeholders in the case of human resource management practices as well; the driving forces and reasons behind these differences will be elaborated through qualitative data analysis.

Table 6: Perception Scores in Different Areas of Human Resource Management

Area	Score
Recruitment	3.61
Training	4.17
Appraisal	3.84
Job Description	3.53
Compensation	3.35
Health & Safety	3.76
HR Policy	3.70

8.4 Analysis of Firm Performance

In order to measure from performance of the companies in the textile industry, three variables was chosen based on literature review: sales growth, net profit margin, and return on capital employed. For all the companies involved in the study, data of these three variables while collected for the year 2015 to 2019.

Table 7: Summary of Firm Performance

Company	Sales Growth Rate	Net Profit Margin	Return on Capital Employed
1	0.05	0.0474	0.324
2	-0.1193	0.1718	0.1404
3	-0.1348	0.0103	0.0963
4	1.8756	0.0819	0.1087
5	-0.0911	-0.0322	-0.0103
6	-0.1515	0.0956	0.0958

Company	Sales Growth Rate	Net Profit Margin	Return on Capital Employed
7	0.3112	0.0839	0.1005
8	-0.0123	0.0672	0.0523
9	0.221	0.0639	0.0543
10	0.0816	0.1036	0.0494
11	-0.0463	0.0524	0.1301
12	-0.0573	0.0434	0.1379
13	0.2881	0.0678	0.0869
14	-0.038	0.0242	0.0212
15	0.1262	0.0688	0.0724
16	-0.0708	0.0635	0.0727
17	0.5193	0.1223	0.0657
18	-0.0245	0.1278	0.1098
19	-0.1636	-0.0071	0.014
20	0.0185	0.1093	0.0729
21	0.3274	0.0343	0.034
22	0.6389	0.0477	-0.0026
23	-0.0808	0.1419	0.0941
24	-0.1093	0.0909	0.0731
25	0.0422	0.0238	0.0766
26	-0.0287	0.08	0.0549
27	0.0029	0.1122	0.0628
28	0.4258	0.0857	0.0233
29	-0.109	0.0804	0.0769

Company	Sales Growth Rate	Net Profit Margin	Return on Capital Employed
30	-0.0935	0.0747	0.0766
31	-0.1927	0.0704	0.0752
32	0.10984516	0.071219	0.078706
Average	0.10984516	0.071219	0.078706

In the table above, the five-year average figures for each of the variables are calculated for each of the companies. Finally, the company averages of these three variables are used as a proxy of the industry average figures. As shown above, textile industry's average sales growth rate is 10.98%, profit margin is 7.12%, and finally return on capital employed is 7.87% - based on the last five years' figures. Now, these values will be used separately as dependent variables in regression analysis in the next section in order to find out whether corporate governance and human resource management work as determinants of firm performance.

8.5 Factor Analysis

In the later phase of the data analysis process, regression analysis has been done to find out the association between corporate governance and firm performance. Moreover, the mediation effect of human resource management on the relationship between the earlier mentioned two variables will be tested. However, before that, factor analysis will be done as a data reduction technique in order to reduce the number of items used in the questionnaire. In the perceptual questionnaire survey, more than 80 questions were used to measure various constructs of corporate governance. Through factor analysis, a number of factors or components will be identified. After identifying these factors or components, regression analysis will be performed by using these components as independent variables to measure their association with the dependent variable - firm performance.

For factor analysis, first of all the questions in the perceptual questionnaire survey was entered for analysis purpose in SPSS software. As per the correlation matrix, all the correlation values were above 0.3; moreover, as shown in the table below, the KMO measure of sampling adequacy is more than 0.5, and the Bartlett's test of Sphericity has a significance value of less than 0.05. Thus, all the assumptions for running a factor analysis are fulfilled.

Table 8: KMO and Bartlett's Test

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.908
Bartlett's Test of Sphericity	Approx. Chi-Square	288.318
	df	21
	Sig.	.000

From the 'Total Variance Explained' table below, it can be seen that the first six components have an initial eigenvalue of more than one. These six components explain 70% of the variance in total. These six constructs and the relevant items that load significantly on to these constructs will be used in the subsequent regression analysis. From the component matrix, it can be seen that most of the items load quite strongly on these six constructs or components. Simultaneously, from the pattern matrix, it is found out that nine items load 0.3 or more on the 1st construct, four items load 0.35 or more on the second construct, four items on the 3rd, 7 items on the 4th, five items on the 5th, and finally tree items on the 6th component. It is mention that when doing regression analysis, responses to only these items that load 0.3 or more on the relevant constructs will be considered.

Table 9: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	**% of Variance**	**Cumulative %**	**Total**	**% of Variance**	**Cumulative %**
1	2.761	18.408	18.408	2.761	18.408	18.408
2	1.892	12.614	31.022	1.892	12.614	31.022
3	1.805	12.032	43.054	1.805	12.032	43.054
4	1.510	10.065	53.120	1.510	10.065	53.120
5	1.368	9.118	62.238	1.368	9.118	62.238

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
6	1.177	7.848	70.086	1.177	7.848	70.086
7	.991	6.606	76.691			
8	.848	5.654	82.346			
9	.675	4.503	86.849			
10	.523	3.489	90.338			
11	.507	3.382	93.720			
12	.395	2.633	96.353			
13	.239	1.593	97.946			
14	.197	1.310	99.256			
15	.112	.744	100.000			

8.6 Regression Analysis

In order to find out the effect of corporate governance and human resource management on firm performance, three separate regression analysis were performed. In the first one, perception scores on corporate governance were used as the independent variable whereas firm performance was used as independent variable. Next, in the second regression, perception scores obtained and human resource management practices were used as the independent variable whereas the dependent variable stayed the same as the earlier one. Finally, it also checked whether corporate governance effects human resource management practice in an organization.

8.6.1 Corporate Governance and Firm Performance

In this regression, perception scores on different areas of corporate governance were used as the independent variable whereas firm performance was considered the dependent variable. It is to mention here that among the three metrics of firm performance such as sales growth, net profit margin, and return on capital employed, only sales growth led to a significant regression model. The use of the other two matrices in the regression model led to insignificant results as indicated by the p value (.41 and .26 respectively).

Before explaining the results of regression between sales growth and corporate governance perception, several assumptions had to be checked. First of all, as shown in the table below, all the independent variables have correlations more than 0.3 with the dependent variable - sales growth rate. Moreover, none of the independent variables have correlation of more than 0.7 with each other. So, the variables fulfill the assumption of bivariate relationship of less than 0.7 with one another. Simultaneously, all the tolerance values are more than 0.10, thus indicating no multicollinearity.

Table 10: Correlation Matrix

Correlations

		Sales_Growth_Rate	BoD	Management	AC	NRC	External_Audit	Disclosure	Ownership
Pearson Correlation	Sales_Growth_Rate	1.000	.395	.508	.534	.627	.579	.476	.424
	BoD	.395	1.000	.621	.533	.599	.679	.403	.464
	Management	.508	.621	1.000	.689	.602	.679	.525	.313
	AC	.534	.533	.689	1.000	.538	.687	.415	.323
	NRC	.627	.599	.602	.538	1.000	.513	.604	.532
	External_Audit	.579	.679	.679	.687	.513	1.000	.688	.698
	Disclosure	.476	.403	.525	.415	.604	.688	1.000	.612
	Ownership	.424	.464	.313	.323	.532	.698	.612	1.000
Sig. (1-tailed)	Sales_Growth_Rate	.	.014	.002	.001	.000	.000	.003	.009
	BoD	.014	.	.000	.000	.000	.000	.000	.000
	Management	.002	.000	.	.000	.000	.000	.000	.000
	AC	.001	.000	.000	.	.000	.000	.000	.000
	NRC	.000	.000	.000	.000	.	.000	.000	.000
	External_Audit	.000	.000	.000	.000	.000	.	.000	.000
	Disclosure	.003	.000	.000	.000	.000	.000	.	.000
	Ownership	.009	.000	.000	.000	.000	.000	.000	.
N	Sales_Growth_Rate	31	31	31	31	31	31	31	31
	BoD	31	31	31	31	31	31	31	31
	Management	31	31	31	31	31	31	31	31
	AC	31	31	31	31	31	31	31	31
	NRC	31	31	31	31	31	31	31	31
	External_Audit	31	31	31	31	31	31	31	31
	Disclosure	31	31	31	31	31	31	31	31
	Ownership	31	31	31	31	31	31	31	31

As all the assumptions are fulfilled, it was safe to continue with the regression analysis. Now, from the table below, it can be seen that the R^2 value is 60.2%. So, according to the results, 60.2% of the variance in sales growth rate can be explained by the model (It is to mention that as per Factor analysis results, questions from BoD and the Management area denoted the same construct).

Table 11: Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.776[a]	.602	.481	.2804542	1.889

a. Predictors: (Constant), Ownership, External_Audit, AC, Management, Disclosure, NRC, BoD

b. Dependent Variable: Sales_Growth_Rate

Moreover, the p-value for this model is .002; as the value is less than .05, the result is significant. Finally, from the model summary table, it can be seen that the Durbin-Watson figure is 1.889. As the value is very close to 2, it is safe to say that there is no autocorrelation among the variables.

Table 12: ANOVA Table

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.737	7	.391	4.971	.002[b]
	Residual	1.809	23	.079		
	Total	4.546	30			

a. Dependent Variable: Sales_Growth_Rate

b. Predictors: (Constant), Ownership, External_Audit, AC, Management, Disclosure, NRC, BoD

From the coefficients table, the exact equation that demonstrates the association between the end brain dependent variables can be developed. the regression equation in this case would be:

Sales Growth Rate = -1.150 -.720* BoD + .149*Management +.217*AC +.577*NRC +.230*External Audit -.089*Disclosure - .064*Ownership

Moreover, from the following table, it can be seen that among all the different areas of corporate governance, the perception scores on nomination and regulation committee make the highest unique contribution in explaining the variance in sales growth rate when variance explained by all the other independent variables are controlled for.

Table 13: Coefficients Table

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-1.150	.384		-2.993	.007
	BoD	-.720	.302	.141	-2.383	.026
	Management	.149	.274	.224	.543	.592
	AC	.217	.167	.352	1.300	.206
	NRC	.577	.250	1.016	2.306	.030
	External_Audit	.230	.212	.395	1.082	.290
	Disclosure	-.089	.228	-.154	-.389	.700
	Ownership	-.064	.184	-.098	-.346	.733

a. Dependent Variable: Sales_Growth_Rate

8.6.2 Human Resource Management and Firm Performance

In this regression, perception scores on different areas of human resource management were used as the independent variable whereas firm performance was considered the dependent variable. It is to mention here as well that among the three metrics of firm performance such as sales growth, net profit margin, and return on capital employed, only sales growth led to a significant regression model. The use of the other two matrices in the regression model led to insignificant results as indicated by the p value (.11 and .44 respectively).

Before explaining the results of regression between sales growth and human resource management perception, several assumptions had to be checked. First of all, as shown in the table below, all the independent variables have correlation values more than 0.3 with the dependent variable sales growth rate. Moreover, none of the independent variables have correlation of more than 0.7 with each other. So, the variables fulfill the assumption of bivariate relationship of less than 0.7 with one another. Simultaneously, all the tolerance values are more than 0.10, thus indicating no multicollinearity.

Table 14: Correlation Matrix

Correlations

		Sales_Growth_Rate	Recruitment	Training	Appraisal	Job_Description	Compensation	Safety	HR_Policy
Pearson Correlation	Sales_Growth_Rate	1.000	.520	-.339	.456	.567	-.332	.376	-.008
	Recruitment	.520	1.000	.535	.511	.631	.349	.528	.643
	Training	-.339	.535	1.000	.474	.762	.444	.662	.660
	Appraisal	.456	.511	.474	1.000	.583	.270	.501	.532
	Job_Description	.567	.631	.762	.583	1.000	.342	.688	.516
	Compensation	-.332	.349	.444	.270	.342	1.000	.443	.469
	Safety	.376	.528	.662	.501	.688	.443	1.000	.652
	HR_Policy	-.008	.643	.660	.532	.516	.469	.652	1.000
Sig. (1-tailed)	Sales_Growth_Rate	.	.118	.417	.200	.359	.239	.341	.483
	Recruitment	.118	.	.001	.002	.000	.088	.001	.000
	Training	.417	.001	.	.004	.000	.006	.000	.000
	Appraisal	.200	.002	.004	.	.000	.071	.002	.001
	Job_Description	.359	.000	.000	.000	.	.030	.000	.000
	Compensation	.239	.088	.006	.071	.030	.	.006	.004
	Safety	.341	.001	.000	.002	.000	.006	.	.000
	HR_Policy	.483	.000	.000	.001	.000	.004	.000	.
N	Sales_Growth_Rate	31	31	31	31	31	31	31	31
	Recruitment	31	31	31	31	31	31	31	31
	Training	31	31	31	31	31	31	31	31
	Appraisal	31	31	31	31	31	31	31	31
	Job_Description	31	31	31	31	31	31	31	31
	Compensation	31	31	31	31	31	31	31	31
	Safety	31	31	31	31	31	31	31	31
	HR_Policy	31	31	31	31	31	31	31	31

As all the assumptions are fulfilled, it was safe to continue with the regression analysis. Now, from the table below can be seen that the R^2 value is 15.5%. So, according to the results, 15.5% of the variance in sales growth rate can be explained by the model.

Table 15: Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.394[a]	.155	.102	.4085911	2.158

a. Predictors: (Constant), HR_Policy, Compensation, Appraisal, Recruitment, Job_Description, Safety, Training

b. Dependent Variable: Sales_Growth_Rate

However, the p value for this model is 74.6%; as the value is way more than .05, the result is insignificant.

Table 16: ANOVA Table

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.706	7	.101	.604	.746[b]
	Residual	3.840	23	.167		
	Total	4.546	30			

a. Dependent Variable: Sales_Growth_Rate

b. Predictors: (Constant), HR_Policy, Compensation, Appraisal, Recruitment, Job_Description, Safety, Training

8.6.3 Corporate Governance and Human Resource Management

In this regression, perception scores on different areas of corporate governance were used as the independent variable whereas human resource management was considered the dependent variable. Before explaining the results of regression, several assumptions had to be checked. First of all, as shown in the table below, the independent variable had correlation values more than 0.3 with the dependent variable human resource management. Simultaneously, the tolerance value was more than 0.10, thus indicating no multicollinearity. As all the assumptions were fulfilled, it was safe to continue with the regression analysis. Now, from the table below can be seen that the R^2 value is 37.9%. So, according to the results, 37.9% of the variance in sales growth rate can be explained by the model

Table 17: Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.616[a]	.379	.291	.45060	2.612

a. Predictors: (Constant), P_CG

b. Dependent Variable: P_HR

Moreover, the p value for this model is .008; as the value is less than .05, the result is significant. Finally, from the model summary table, it can be seen that the Durbin-Watson figure is 2.612. As the value is very close to 2, it is safe to say that there is no autocorrelation among the variables.

Table 18: ANOVA Table

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1851.252	1	925.626	5.537	.008[b]
	Residual	6185.485	29	167231.000		
	Total	8013.243	30			

a. Dependent Variable: P_HR

b. Predictors: (Constant), P_CG

From the coefficients table, the exact equation that demonstrates the association between the independent and the dependent variables can be developed. The regression equation in this case would be:

Human Resource Management = 4.139 +1.096*Corporate Governance

Table 19: Coefficients Table

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	4.139	.668		6.194	.000	2.773	5.506					
	P_CG	1.096	.169	1.106	.008	.008	-.441	.248	-.106	-.106	-.106	1.000	1.000

a. Dependent Variable: P_HR

8.7 Mediation Analysis

From the three regression tests above, it was found out that there is a significant relationship between corporate governance and firm performance as well as corporate governance and human resource management. Now, as stated in the objective section of this study, the researcher is supposed to analyze whether human resource management mediates the relationship between corporate governance and firm performance. In order to measure the mediation effect, Sobel test was used. For using this test, inputs from two separate regression tests were required. First of all, regression was run between human resource management and corporate governance in order to find out the coefficient and standard error of the independent variable in the above-mentioned regression. Next, another regression was run where firm performance was used as the dependent variable and corporate governance and human resource management were used as the dependent variables. From this regression, the coefficient and standard error of the mediator under consideration was used as inputs in the Sobel test. The coefficients and standard errors of these two regression tests are listed in the table below. From there, it can be seen that the p value of this Sobel test is .026 which is less than 5%. As a result, based on this p value, it can be said that there is a significant mediation effect of human resource management on the relationship between corporate governance and firm performance.

Table 20: Sobel Test Results

		Sobel Test Output	
Coefficient of IV (a) (Regression between HRM and CG)	0.928	Test Statistic	2.233
S.E. of IV	0.136	S.E.	0.316
Coefficient of Mediator (Regression between Firm Performance, CG, and HRM)	0.761	p-value	0.026
S.E. of Mediator	0.322		

8.8 Conclusion

In this chapter, numerous quantitative aspects of the current thesis were analyzed. First of all, descriptive data with regards to numerous variables were presented; under this section, the results of factual as well as perceptual questionnaire survey were discussed (summary findings of questionnaire survey are attached in three different tables i.e. Appendix-F, Appendix-G and Appendix-H) . Using these results, corporate governance as well as human resource management indices were formed to summarize the compliance performance of the companies in the textile industry. After that, financial and operational performance of these companies were also presented. Once these descriptive data were analyzed, the next section elaborated the findings with regards to hypothesis testing. Here, first, factor analysis was performed to reduce the number of items from the questionnaire survey. Second, after necessary data reduction, regression analysis was performed to identify the association among firm performance, corporate governance and human resource management. Finally, in order to better understand the relationship among these variables, mediation test was done to identify whether human resource management mediates the relationship between corporate governance and from performance,

According to the descriptive data analysis, it was found out that even though most of the companies in the textile industry as a whole performed really well on the factual corporate governance index, the performance was not that satisfactory according to the perception held by different internal and external stakeholders of the company - both with regards to corporate governance and human resource management. This finding might indicate that the practice of compliance is done to fulfill a tick-mark exercise rather than focusing on the quality of compliance.

Moving on to inferential statistics in the next section, it was found out that the items in the questionnaire survey of corporate governance basically loads onto 6 major constructs. The responses to these loading items in the questionnaire were later used as inputs in the independent variable of regression analysis. From multiple regression analysis, it was found out that there is a significant relationship between corporate governance and firm performance as well as corporate governance and human resource management. Finally, to better understand the association among these variables, mediation analysis was done which indicated that there is a significant mediation effect of human resource management on the relationship between corporate governance and firm performance.

Based on the analysis of the inferential statistics section in this chapter, it can be said that for hypothesis 1, 2, and 4 mentioned in the introductory chapter, the null hypothesis can be rejected whereas for hypothesis 3, the null hypothesis cannot be rejected. Summary of decisions in respect of all hypotheses are:

Hypothesis 01: There is a significant relationship between corporate governance practices and human resource management practices of a company.

Hypothesis 02: There is a significant relationship between corporate governance practices and organizational performance

Hypothesis 03: There is no significant relationship between human resource management practices and organizational performance

Hypothesis 04: Human Resource Management practices mediate the relationship between Corporate Governance and Firm Performance

In the next chapter, the quantitative findings of this chapter will be supplemented with numerous qualitative aspects; doing so will not only triangulate our findings but also might lead to a better understanding of the reasoning behind the mechanisms and interrelationships among the numerous variables under study.

CHAPTER 09: FINDINGS AND ANALYSIS OF QUALITATIVE DATA

9.1 Introduction

In order to have a thorough understanding of the triangular relationship between corporate governance, human resource management, and find performance, collecting data from both qualitative and quantitative sources is important. In the last chapter, quantitative data collection and analysis was performed with regards to the relevant variables. In this chapter, the researcher is going to supplement the findings from the previous chapter with necessary qualitative data. In this regard, data collected from semi structured interviews and in-depth interviews and focus group discussions were analyzed using template analysis.

Multifaceted interview data was used as input for qualitative data analysis. For qualitative data collection, five company secretaries and five independent directors were interviewed on questions from corporate governance; to cover the human resource management area, 5 Heads of HR/ Admin and five employees were interviewed. Besides, focus group discussion was conducted with 8 CEOs and Managing Directors from different organizations. Besides these primary data, various secondary data was also collected to have a detailed understanding of the industry's corporate governance and human resource practices. In this regard, various industry report, newspaper, articles were analyzed. In addition, companies' internal documents regarding human resource policies and corporate governance policies were also significant input in the qualitative data analysis process. All these collected qualitative data were processed in the analysis phase. First of all, the interview and focus group discussion data were transcribed. Then, these transcribed data along with other secondary data were used as input in the template analysis process. All the transcriptions were first used for creating first order themes which were later grouped to create second order themes. Finally, the second order themes were grouped to create overarching themes. These overarching themes basically summarize the findings from the qualitative data collected in this research.

In this chapter, the researcher presents a wholesome picture of all the qualitative data collected in the research process. First of all, the key findings from all the collected primary data is presented and discussed. Later, the transition of all these data from first order themes to overarching themes is presented with proper justification. Finally, the chapter ends with a thorough discussion which shows how the qualitative data supplements the findings from the quantitative analysis of this research. It is to mention that in the closing discussion, a conceptual model is proposed based on the discussion of all the qualitative and quantitative data. This conceptual model lays out all the interrelationships among the different variables involved in this study. In this process, the model demonstrates which factors of corporate governance and human resource management mostly effect the performance of a firm; the mediation effect of human resource management is also a crucial demonstration of this model.

9.2 Findings and Analysis of Qualitative Data

The findings with regards to corporate governance, human resource management, and firm performance are discussed below:

9.2.1 Challenges in the Textile Industry

Human Resource Management:

The major aspects of human resource management that came up in the interviews and focus group discussions are presented below:

<u>*Unstructured Human Resource Management Practice*</u>

Lack of structure and policy was the most common phrase that came up in the interview discussions. While the degree of lack of structure varied across companies, this lack was mentioned by most of the respondents. The following section discusses the major issues contributing to the lacking of human resource practices of an organization with real life expressions.

Deficient Job Analysis

Majority of the organizations lack a properly designed job analysis process. While some of the interviewed organizations mentioned that they perform job analysis for the management level positions, most of the organizations do not have any formal and structured job analysis process for the workers. When asked about the practice of job analysis in the organization, the indifference was clear in some of the accounts. On top of that, some of the human resource or admin managers did not have sufficient knowledge about relevant terminologies such as job analysis, job description, or job specification:

> *Job analysis? Can you please explain the term in more detail? (Admin Manager)*

> *Well, we do have some job analysis process for the managerial positions. We spend sufficient amount of time for such important roles. But we don't do this for the workers. You obviously understand why right? All the workers already know what they're supposed to do when they join the organization. So, there is no need for going through all the hassle. Their task is pretty basic. (HR Manager)*

While the HR or admin managers believe that the task of production line workers is easy to understand, new workers - especially those who entered the job market for the first time - face a lot of difficulty in understanding the norms and the duties that they're supposed to carry out.

> *When I first joined the organization, I had no clue what to do. It was my first job. I knew very little about sewing and clothes. I had to go from one place to another and take help from people. Everyone was busy. (Worker)*

While the absence of a job description or job specification was already missing in many organizations, the lack of detail and relevant information in the output of job analysis process was another crucial factor contributing to the lack of structure. There were cases where even though the companies had a job description and job specification for certain job roles, the documents were pretty basic; many of them were just one to two pages in length. Through documentary analysis, it was found out that many of the job descriptions did not have any subsection under the 'responsibilities' category; most of the documents mainly focused on the salary/ wages and the working hours. Additionally, some of the job descriptions and job specifications were last updated 7 to 10 years ago:

> *You know this document is 9 to 10 years old... when new workers come in, we just take the piece of paper with us, explain the responsibilities written here... and say the rest from our memory, I mean the new responsibilities. It is very easy to memorize the new responsibilities. We work with them all the time you know. (HR manager)*

<u>Recruitment and Selection</u>

Most of the employees recruited for many organizations are either through referral or using informal method. The use of formal advertisement or circular seems to be very uncommon in this industry. In the case of workers, recruitment happens through the network of other workers whereas in the case of managerial positions, referrals or family relatives are the most reliable options. At the time of recruiting and selection, the written qualifications in the job specification are often not followed - especially when the recruit comes from family members.

> *We usually recruit from our known circle. That way we know the person better. You know that whether this person is going to leave or stay. We value retention more than qualities... You know it is not that tough a job. If you are willing to stay, we can show you how to do it. (HR manager)*

This lack of structure is often noticed in the selection process as well. Almost all these selections are based on interviews or basic written tests in the case of managerial positions, and sometimes, simple work demonstration in the case of worker selection. There is no written policy for selecting the final candidates for different grades of job roles. It appeared that the interviewers select the final candidate based on their subjective judgment only. Most of the time they rely on unstructured questions; if a specific interview board likes a candidate, that person is hired; if not, they are rejected.

> *We do not have a specific structure for taking interviews or selecting candidates. You know, it is a technical job. Most of the time, the line manager or senior employees of that department takes the interview... Yes, HR is there during the interview. But we don't ask questions too often. We just complete the formal process. On pen and paper. (HR manager)*

This account shows that the role of HR Department in the recruitment and selection process of a specific candidate is restricted to documentation mostly. It proves the silo style traditional management of organizations. The lack of integration across different functions might be a major contributing factor in the non-development of a proper structure throughout the organization.

<u>Training and Development</u>

In terms of training and development, most of the organizations have some structure when it comes to training the workers and the employees on technical skills such as operating machineries and gathering new product knowledge. High level officials are often sent to trainings abroad to get acquainted with the latest technology. However, the allocation of training among the employees did not seem to follow any specific structure. The allocation was done randomly or based on the recommendation of one’s supervisor:

> *Yes, there is training... but there are people who got a lot of training in the last two years. But there are some who received one or two local trainings in the last five years or so. I don't know how the system works; I mean how they decide who is going to get a training and who's no.t (Employee)*

In addition to that, the trainings that were being provided were designed a long time ago. While technology in this sector is upgrading rapidly, the contents of the training are not being kept in pace with that change. This lack of upgradation is either intentional or due to lack of necessary expertise. As most of the HR functions are often done by administrative people, they lack necessary HR knowledge to develop training programs that will ultimately contribute to the betterment of the organization. For the same reason, many organizations are focused only on the training part of the employees; development programs are rarely seen in this industry. Only seven organizations had structured management development programs. However, the allocated budget for these development programs is really limited. In this regard, lack of HR expertise can be named as one of the main reasons for not realizing the long-term impact of management development programs. Besides, availability of foreign national for top management posts is another reason for the ignorance in developing Bangladeshis for top management candidates.

> *Why spend so much money on developing managerial skills? We can easily hire people from abroad. They're ready to work from tomorrow. You know, we always deal with a lot of orders, we are always running against time. We do not have the time to develop skills that will take this long it's better to buy rather than build. (CEO)*

<u>Performance Appraisal</u>

Performance of the employees in many of these organizations are done on an ad hoc basis. Instead of a full-fledged structured appraisal system, the admin or HR department mostly follows a forced distribution system where a preset percentage of employees are promoted, certain percentage remains unchanged and the rest are fired; it happens irrespective of their performance of the organization for a specific year. While the management tends to think that this strategy is better suited for the organization as it gives a clear idea about the HR department's compensation budget, based on the interview account with the employees, it was found out that it's not completely true. Because of the lack of jobs available in the market, certain portion of the workforce remains with the organization, irrespective of the reward given to them based on their performance. However, qualified employees with better track records often leave the organization because of the perceived unfairness in the appraisal system.

> *I have seen many good employees leave the organization. They were not happy with what they got. No matter how hard they worked here, they didn't get what they wanted. Why would they stay? (Employee)*

> *If they like you, you will be promoted. If you are in the circle, you will be promoted. If you are from one of their families, you will be promoted. No matter how many blunders you make. It is all about connections. (Employee)*

As qualified employees often leave the organization, this leads to a fall in organizational performance. This is especially true for merchandisers working in the sales department. Qualified merchandisers who are unsatisfied with the level of salary they get often leave the organization, and set up their own business, on a small scale. Sometimes, they take away small scale buyers with them when they leave, thus negatively affecting the sales of the earlier organization.

Corporate Governance:

Poor Labor Governance

Bangladesh has long been known as a destination for cheap sourcing of clothes. The low minimum wage rate is one of the main reasons behind this cheap sourcing. While this may lead to increased profitability for local owners and international buyers, the labor side of the profit equation suffers from low pay, poor working conditions, worker voice, and lack of trade union rights. It is really frightening to see that a major exporting industry in the country has one of the lowest union densities in the world (TUC, 2016). There have been many reported cases of owners or management trying to thwart the formation of trade unions.

The working condition is not that good. We often get very scared while working. Yes, there is food, lunch, and everything. But what if a fire catches on the floor? There are so many people. I doubt the fire exit is going to save these many people when it is needed. (Employee)

Yes, we have a trade union. But I have not seen anything good come out of it. And you know right? There is this bribe thing. They pay the leader and suddenly all the problems go away. (Employee)

Even though there are labor inspection rules and policies in place, the implementation of these policies is a far cry, primarily due to corruption of the labor inspectors. According to most of the interview accounts, the result of local inspection depends on the amount of money or bribes given to them. If they get the envelope, they'll write anything the owner wants.

Two years ago, a labor inspector came in. We decided not to pay any bribe … he decided to send notice to our place even though there was no fault from our side … This is very common. We're used to it. (Admin Head)

The labor governance status in Bangladesh has improved to some degree because of international buyer and consumer pressure post-Rana Plaza incident. After the GSP facilities was cancelled for Bangladesh, Accord and Alliance was formed to inspect workplace safety of the laborers. While earlier international brands often used to abandon clothing suppliers who did not comply with safety rules, through Accord and Alliance, many of these brands actively participated in ensuring labor governance at the root level. Based on the report of the Accord and Alliance, many reforms have been made such as increase in minimum wage, freedom of association, and improvement in worker safety.

Even though improvements have been made, surprisingly, the request for an extension of Accord and Alliance's purview in Bangladesh has been denied. A three-year extension was proposed where the scope of Accord's work was extended to include worker voice and right to form trade unions, thus going beyond workplace safety. Even though the inspection of Accord led to a remediation rate of 79%, which is a significant improvement over the previous 20% remediation rate, the request of extension was denied.

Concentrated Board Composition

In most of the textile companies in Bangladesh, the composition of the board and the board subcommittees consist of family members and relatives of the founder or promoter. As a result, there is severe lack of diversity in the board. As depicted earlier, female presence on the board is really low; in addition to that, many of the boards who have female members, have those members from within the family - either a daughter, wife, our daughter in law. The ownership concentration can also be found in the share ownership as well. Because of such concentrated presence of the family members in the board, naturally, the interest of other important stakeholders is often overlooked. The presence of family members is not confined to the board only; often times it was found out that the management committee or the executive committee is also comprised of members of the family. Such dominant often leads to total ignorance of the perspective of the remaining stakeholders.

> *I have seen the management committee of some of the textile organizations are made up of people who are somehow related to the owner of the organization. Other than focusing on talent and experience, they often go for relationships. The absence of expertise is really visible here. Many organizations are running at below per performance levels. Even though the owner often realizes that keeping that person in that position is a grave mistake, they don't change it. (Independent Director)*

In the absence of a true performance evaluation system for the board members, rampant and whimsical decision-making keeps on going unaccounted for. The frustration was apparent in the interview accounts of the internal stakeholders of the company.

> *It doesn't matter if they make some mistakes. They will never be punished. I have seen cases where they have made a mistake, however the scapegoat was somebody else; someone totally innocent often loses their job. (Employee)*

From the above interview accounts, it seems that for many of the companies' boards, compliance to corporate governance is often a tick-box exercise; as long as it is about fulfilling a condition given in the corporate governance code, the boards often try to just meet that criteria. The true essence of the purpose of developing the code is rarely achieved.

Lack of Independence

A resultant effect of the lack of proper performance evaluation of the board members is the lack of independence of relevant stakeholders in carrying out their duties and responsibilities. In this regard, the case of independent directors is quite notable. Even though independent directors are supposed to express their neutral views, and play the role of a watchdog on the board, in reality that is not the case. Their opinion and decision taking power is often limited by the influence of the board of directors. According to the interview accounts, there have been cases where independent directors have been removed from the board because of going against the views of the owner of the company.

> *As independent directors, we do not enjoy the full freedom that we're supposed to have. I guess it is not the situation in the case of textile companies only; it is common across all the companies in Bangladesh especially local ones. If you go against them, you will be removed in some way or the other. So, even if you have to say something you have to tone down the recommendation to a larger extent. (Independent Director)*

Moreover, there have been cases where even though independent directors came up with certain recommendations, those were not implemented as certain members on the board did not go in favor of the proposed changes. Again, here as well, a tick-box exercise seems to be in play.

Poor Reporting and Disclosure Practices

The reporting and disclosure practices of many of the textile companies in Bangladesh are quite poor. While in other areas of corporate governance, companies are fulfilling or ticking the box dor many of the required compliance areas, in case of financial reporting and disclosure practices, some of the companies are even failing to fulfill the basic requirements. There are many organizations who have an annual report consisting of very rudimentary balance sheet, income statement, and cash flow statement; the other components of an annual report are close to nonexistent. At the same time, there are companies who have a company background, director's report, and other required financial and non-financial disclosures; however, they are at a very basic level. It will be quite impossible for an investor to take an informed decision regarding whether to make an investment in the company by just looking at the annual reports of those entities.

> *The annual reports all these companies are really surprising. I mean how come there are auditors who approved and signed these reports. Oftentimes I think that the existence of these reports would not make much of a difference to an investor. I mean, they are barely a true reflection of the reality in that company. (Independent Director)*

It is to mention that some of the companies often maintain multiple accounts for submitting to multiple authorities. They try to portray a really healthy picture of the company when it comes to submitting accounts to Bangladesh bank and the SEC, whereas the picture is completely opposite when it comes to submitting to the NBR authorities for tax purposes.

When going through the annual reports of some companies, it was found out that there was a section in their annual report which stated their compliance status to corporate governance code. Interestingly, there were issues of noncompliance where companies admitted that they were not complying to a condition then, and in the comment section, they mentioned that it would be complied with soon, and necessary steps would be taken. However, upon inspection it was found out that the same comment and compliance status were written for up to four consecutive years. From there, it seemed that the lack of proper accountability made it possible for some companies to continue their operations without complying to certain conditions for quite a long time. Even though, numerous micro and macro level authorities such as the financial reporting council (FRC), Bangladesh Bank (BB), and Securities and Exchange Commission (SEC) are there to monitor the quality of and compliance to financial reporting, it seems that in reality, some organizations are yet capable of running their day-to-day business without proper accountability for their deficient activities.

> *On pen and paper there are many organizations to catch the wrongdoings of these textile companies. But it seems organizations are somehow going away with their actions. I mean how come they are being able to submit two completely different reports to two different authorities and not being held accounted for? I think a lot of coordination is needed and these different regulatory bodies and watchdogs (Industry Expert)*

9.2.2 Recommendations

The recommendations made by the interviewees are discussed in this section:

Multi-faceted Diversity on the Board:

Lack of diversity on the board of Bangladeshi textile companies is widely apparent. For the board to be more robust, the interviewees suggested to increase the diversity in the board composition. However, instead of focusing on demographic or gender diversity only, they insisted on addressing racial and cognitive diversity as well. In light of the recent emphasis on diversity and inclusion efforts, taking this step might be really important in attracting and retaining international customers. While gender diversity is being addressed internationally - and this is leading to increased participation by women on the board (the representation of women on the board of Russell 3000 companies went from 9% in 2009 to 19% in 2019) - other forms of diversity are still to be adequately addressed in many countries. However, pressure from institutional investors to address underrepresented groups on the board is increasing; not only are they focusing on the current number of under-represented people on the board, there is pressure to report future succession plans and strategies to increase such diversity on the board. Such pressure is very likely to come to our country as well.

> *Internationally other countries are focusing on racial and cognitive diversity; they have made considerable progress in gender diversity. However, our country is still lagging behind. Most of the boards are still dominated by men; the ones that have women, they are from within the family ... If you want to go big, it is high time you addressed these issues. (Independent Director)*

Robust Succession Planning for the Board Members and the Management Committee:

Most of the boards of the textile industry are family centric; as a result, there is very little cognitive as well as demographic diversity. To address this issue, organization, with the help of its HR department, needs to develop a succession plan that not only addresses the short-term issues, rather properly weighs in the long-term effects as well. Here, the first thing the organization needs to do is to develop a robust personnel skills inventory so that it has a total database of potential candidates for upcoming positions. Doing so will enable the organization in identifying and comparing internal and external candidates as and when necessary. However, the purpose of succession planning does not end there; the interviewees suggested that to integrate the newly recruited personnel with the environment of the organization, there has to be a robust onboarding program. Interestingly, in this regard, launch of a sponsorship program instead of a mentorship program was suggested in two of the in-depth interview accounts:

> *Having mentors is good. However, to make sure that the best talent, and the internal candidate, is being promoted to the top positions, we need to have sponsors in the senior management. These sponsors will not only advise, help, or guide junior employees; they will also vouch for the latter to the senior management when it comes to deciding who gets promoted. In short, sponsors will fight for their own junior employees ... many qualified*

offspring do not make it to the top just because there is no sponsor … we do not see people with higher qualifications applying in this industry because of this (CEO)

Shift from Shareholder to Stakeholder Perspective:

The primacy of shareholders has long been followed all over the world. However, with the case of COVID-19 and increasing interconnectedness in the world of globalization, this primacy is shifting slowly to all the stakeholders of the business. Specially, the pandemic has made many businesses realize that employees are crucial cornerstone of a business. Instead of just shareholders, the focus should be on customers, suppliers, employees, the shareholders, and the community as a whole.

It's not just about the shareholders anymore. If you ignore one of the stakeholders in the business, you never know what's going to happen. If you can create value for all of them, if you can keep them happy, only then it's going to be successful in the long run. We need to make the board members understand this. Not only about shareholders; it's not customer is the king anymore (Independent Director)

At present, most of the companies in Bangladesh only focus on customers and shareholders only. This has led to devastating accidents like the Rana Plaza and Tazin fashion. While international pressure has led to initiatives to increase worker safety, these are not done based on voluntary compliance basis; most of it is done based on business case or viability.

In today’s world, every organization needs to have a thorough policy in place which addresses the need and value for all the stakeholders. Rather than being a static set of documents, it has to be dynamic so that the prioritization can be changed depending on the situation at hand. For example, the current Covid case requires prioritization of the employees over other stakeholders right at the moment. In order to ensure that the organization stick to the stakeholder perspective, the interviewees suggested the following steps:

- List all the financial and non-financial outcomes that are dependent on each of the stakeholder groups. Doing so may grab the board’s attention to giving importance to all these stakeholders;
- Develop periodic multiyear goals to ensure a smooth transitioning from the shareholder perspective to the stockholders' perspective; and,
- Mandate the reporting of value creation for all the stakeholders of the business ecosystem.

Besides stakeholder perspective, another important issue to consider is the macro level aspects and impacts of business. With increasing vigilance of customers and investors on the impact of an organization's activities on the environment and the society, businesses now have to consider the environmental and social impact of its activities.

> *Rana Plaza created a lot of global protests all over the world. That was six years back. Now the world is even more responsive to these issues. With the advent of rising number of social media and other Internet platforms, it is very easy to bring down a company just through naming and shaming campaigns done by the general public … ESG cannot be ignored by any means (CEO)*

Formation of New Board Sub-Committees:

In order to develop a 360-degree corporate governance initiative in the organization, the formation of new board subcommittees was recommended by some of the interviewees. Among those, the formation of a sustainability committee- with special focus on ESG - and a technology committee was notable. First, with regards to ESG committee, given the pressure from international buyers as well as environmentally conscious consumers, top-level management and board member focus is a mandatory requirement of the 21st century. Currently, in most of the organizations, the task of risk management is done by the audit committee; moreover, by risk, most of the organizations denote only financial or operational risk. However, according to most of the interview accounts, risk can be of many more types such as environmental risk, reputational risk, country risk and so on. In order to ensure long-term sustainability, experts recommend organizations to account for all these risks.

> *Instead of relying on one single committee to oversee all the different types of risk, we need dedicated committees and teams formed with relevant subject matter experts (Independent Director).*
>
> *Currently, organizations deal with risk that mostly affect shareholders only. But they need to consider the suppliers, the employees … all the stakeholder risks. Otherwise, why would they care about the organization? (Independent Director)*

With increasing advances in technology in the textile industry, technological upgradation and data integrity is a crying need now. It is to mention here that ensuring cyber security and operational agility, protection of data, and ethical integration of technology throughout the industry are much needed.

Currently in Bangladesh, most of the companies do not have any data protection or integration committee. They are yet to realize the importance of data whereas most of the global companies are spending lots of money on this. Without board commitment to data and technology, the textile industry might not be able to cope with the technological revolution that is already on the way. Analysis of secondary data also reveals that ignoring data security can lead to massive losses for an organization. Data security breaches has been documented to lead to 8.64-million-dollar losses per incident in the US (Keywell, 2020); the effects can be even more devastating for developing countries like ours. So, it is recommended that organizations take preventive measures to stop massive losses. To do so, board members, management committee, and human resource management department have a major role to play. Besides forming a technology subcommittee, at the company level, formation of cross functional team was suggested for implementing and spreading data driven culture throughout the organization. For the cross functional team, HR department has to hire subject matter experts and IT leaders. Simultaneously, to ensure companywide implementation and monitoring, a corporate data policy has to be developed. After the initial implementation, the management and HR department has to ensure that relevant KPI's are included in the performance appraisal process to measure compliance to the data policy. Moreover, training at regular intervals is recommended to ensure that the commitment to data integration keeps continuing. Finally, through regular data reporting to the management and the board committee, the organization and the industry can make a huge leap towards a data driven culture.

Adoption of Technology in HRM and Corporate Governance Practices:

With the emergence of Industry 04 worldwide, adoption of technology is a must in the textile sector of Bangladesh. However, to ensure proper corporate governance and HRM policies throughout the organization, the adoption of technology has to be there in both the production and non-production related activities in the organization. First of all, in the area of human resource management, the adoption of technology can reduce the occurrence of bias in recruitment, selection and training allocation process that are currently existent in many of the companies. HR automation in the area of recruitment and selection is a very common practice throughout the world. While many organizations use HR personnel to take interviews and sort out resumes of applicants, the whole process can be done by using automated screening tools. In this process, AI can be used in screening out applications that fulfill the required criteria for a specific job role. Once initial screening is done, the shortlisted candidates are going to be invited to a digital interview where the interview performance is assessed digitally, without any sort of human intervention; doing so can reduce the possibility of discrimination and bias currently occurring in the recruitment and selection process. Similar use of automation can be done in the allocation of training and performance appraisal system as well. Based on the inputs in the personnel skills inventory and personnel replacement chart, technology can ensure that the right candidate or employee gets the required training at the right time. The adoption of technology throughout the organization is supposed to bring superior results in the long run; however, implementation of this process might take some time. As the organizations do not have necessary expertise in the HR department, outsourcing the task to personal recruiting organizations such as Hirevue can be an initial solution. Simultaneously, organizations have to ensure that they develop necessary expertise within the organization who will be able to continue the automation process in the long run.

While the adoption of technology in the field of HRM is a necessary step, organizations need to ensure that this technology is being used ethically and responsibly. The mass scale data that is going to be collected from the candidates should not be misused by the organization by selling it to a third party. Moreover, privacy and protection of the collected data is a big responsibility for the organizations. To ensure ethical use of technology, the development of a technology or a cyber-security subcommittee of the board - as mentioned earlier - is a major requirement.

9.3 Development of Conceptual Framework

From the qualitative and quantitative data analysis in the earlier sections, a conceptual framework can be developed, incorporating all the discussions above. In describing the conceptual framework, first of all, a model will be shown illustrating all the factors that affect the corporate governance performance in the textile industry; there, all the underlying reasons of the illustrated factors affecting corporate governance will also be shown. Later, in the second framework, a relationship between corporate governance, human resource management, and firm performance will be illustrated based on the discussion done till now. In that model or framework, the qualitative and the quantitative aspects of the thesis findings will be incorporated.

As shown in the framework below, corporate governance practices in the textile industry are primarily affected by four factors: board of directors, ownership, board subcommittees and reporting and disclosure practices. While the quantitative analysis of data showed several other factors influence on corporate governance, triangulation through qualitative data analysis showed that these four factors appeared to be the prime ones. With regards to board of directors, lack of gender diversity as well as cognitive diversity on the board was one of the major reasons contributing to the inefficiency in performing their allocated duties. Moreover, the absence of proper succession planning, induction program, and training and development programs also contribute to the inefficiency of the board members. Another major factor contributing to the lack of corporate governance practices is the concentrated ownership of the companies. Most of the companies are heavily owned within the family members and kith and kin of the owner or promoter of the company. Because of such concentrated ownership, the perspective of the other stakeholders in the business often gets ignored. The effect of this concentrated ownership is very much visible in the management and board of directors as well. Majority of the management committees consist of referrals and direct or indirect family members of the owners. So, the presence of a selected few is very much apparent in the ownership structure as well as the management of day-to-day activities of the company.

The next factor affecting the present poor and performance of corporate governance in this industry is the non-optimal operation of the board subcommittees. There are cases where in some companies, nomination committee or remuneration committee was missing. Although total absence of subcommittees is not widespread within the industry, the sub-optimal functionality of many of the boards have were well documented. This lack of functionality was because of quite a number of factors: lack of expertise, absence of accountability of the board members, and lack of independence. First of all, as mentioned earlier, because of recruitment through referrals and in the absence of a well-defined training program and succession plan, necessary expertise is missing. Because of the lack of expertise and vision, the board members often do not realize the necessity of forming new sub-committees such as a technology subcommittee or an ESG subcommittee.

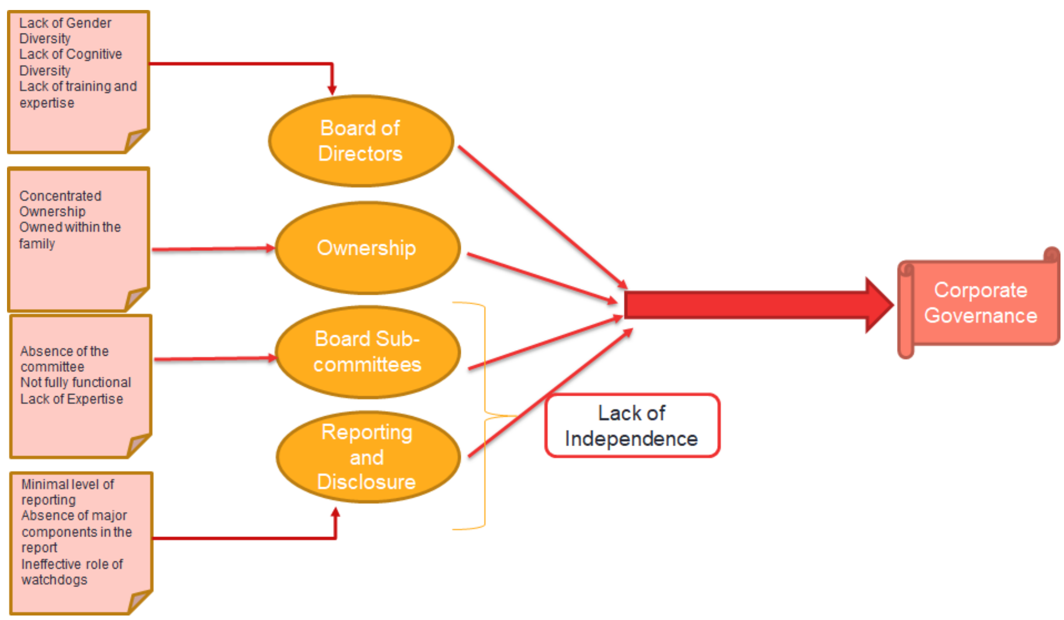

Figure 36: Factors affecting Corporate Governance (Conceptual Model)

Moreover, this lack of functionality of the board can be attributed to the absence of proper accountability to the regulatory bodies. While many of the companies fulfill corporate governance practices on a tick mark compliance basis, the actual practice within the organization is to some extent questionable. To make things worse, some of the organizations have been continuing to run their operations without compliance to some of the conditions in the corporate governance code for consecutive number of years. Finally, one of the major reasons of the inefficiency of the board in terms of functionality is the lack of independence of the board as a whole from the owners of the company. While there are independent directors on the board and board subcommittees, their neutral views and recommendations are often ignored, especially when it does not align with what the owners want. To illustrate, in some cases, when the independent director recommended a change in the external auditing company, it was not considered; even though the quality of the audit and the annual report was below par, the same audit company had been working in those companies for years. Because of the non-implementation of crucial recommendations like these, the presence of the subcommittees often fails to fulfill its purpose. The final factor affecting corporate governance in the textile industry is the quality of reporting and disclosure. This area works as a bridge between the investor and the organization by working as an information portal for the outsiders. Moreover, the quality of corporate governance practices in a given organization is supposed to be visible through robust financial reporting and disclosure policies. Surprisingly, the quality of reporting is questionable in the case of many organizations in this industry. Many organizations were found out to do minimal level of reporting where major components such as management discussion and analysis and industry analysis were missing. Even though it was quite visible that the level of information presented in the audited and unaudited financial reports were minimal for a general investor to get an idea about the company's operations, no major actions were taken by the relevant authorities, both at the micro and macro level. Even though there are multiple authorities who are supposed to play the role of watchdogs, because of lack of coordination among these regulators, many companies are getting away with such minimal levels of reporting.

All of the above-mentioned factors contribute to the level of corporate governance practices in the textile industry of Bangladesh. Now, in the final framework, the relationship between corporate governance and find performance will be illustrated, considering the effect of human resource management on these two valuables.

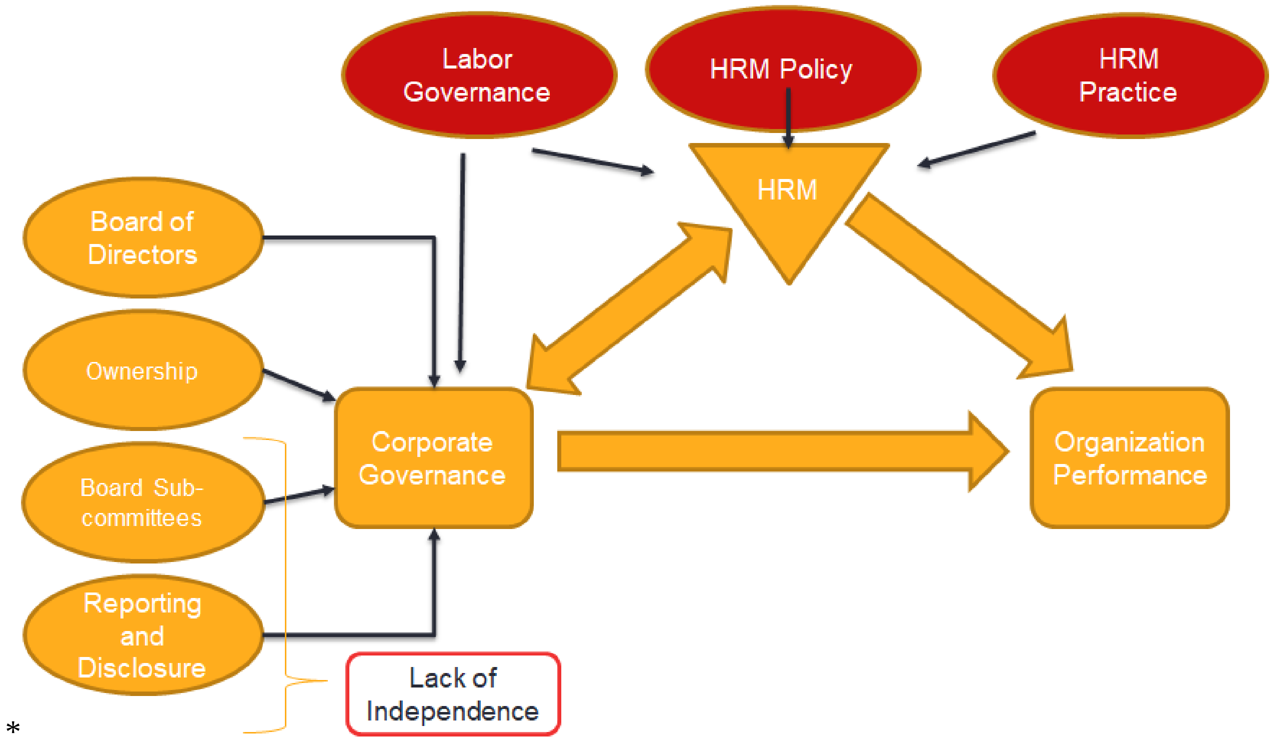

Figure 37: Interrelationship between Corporate Governance, Human Resource Management, and Firm Performance (Conceptual Model)

From the diagram above, it can be seen that human resource management does affect the relationship between corporate governance and firm performance. As found out by analyzing the quantitative data, the qualitative data also supports the mediation effect of HRM. It is to mention that three aspects of HRM particularly contributes in the mediation effect: labor governance, HRM policy, and HRM practice. First of all, the area of labor governance includes worker safety, well-being, and relevant regulations to govern labor practices in the industry. This area directly affects both corporate governance and human resource management. First, naturally, governance of labor relates to HRM as it deals with the management of people. In addition, the rules and regulations aspect - in order to regulate or govern the labor aspects - comes from the corporate governance aspect, especially from the management and board of directors' area of corporate governance. The level of commitment of these two groups ultimately affect the degree of labor governance practiced in the organization, which later affect the relationship between corporate governance and firm performance: theoretically, the better the labor governance, the better the labor productivity, and the better the performance in the long run.

The second factor contributing to the mediation effect is HRM policy. The commitment of the board of directors and management to the people aspect of the organization translates into detailed and relevant policy documents. The presence and implementation of these policies determine the degree of effect corporate governance is going to have on firm performance. It is to mention that the scope of these policies includes areas of recruitment, selection, training, compensation, and performance appraisal. This broader scope of policy ultimately determines whether the corporate governance aspects will translate into higher firm performance. In addition to this designing policies, the degree of practice or implementation of the policies is the final mediating factor. As elaborated earlier, even though policies are in place, in some cases, they do not translate into practice, thus resulting in pen-and-paper compliance. So, the extent of practice of the designed HR policies affects firm performance in the textile sector.

9.4 Overall Discussion

Globalization has established a form of interdependence between nations which has fast-paced trade faster than ever before (Sharma, 2007). The idea of good governance practice in necessary to address the regional difference in the cultural practices that can result in different approach to business practices. This is especially true for developing economies where the countries rely on foreign investments. Investors are likely to invest in economies where the organization’s governance policy ensures the business’s long-term survival. Therefore, they can be rewarded from their investment decisions.

The success of the textile sector in Bangladesh does indicate a lucrative opportunity on the surface of things (Al Farooque *et al.*, 2007). When observing the factual data which was measured on a score out of 100, it can be observed that the corporate governance practices are being observed to the desirable level that is expected to achieve investor confidence. Nearly, most of the companies that were observed in the survey, managed to get exceptional scores. However, when the perceptual data is observed which is scored out of 5 points, it was seen that their corporate governance practices fall short. This scenario shows evidence that even though on pen and paper, the good governance practices are implemented to the highest standards, they fall short when the actual implementation of corporate governance practice that takes place in day-to-day operations is considered. Situations such as the one stated above is common practice in the emerging regions (Al Farooque *et al.* 2007). While good governance practice serves as an indicator for the long-term health of the organization, government oversight is quite relaxed in terms of ensuring that the standards are being followed. As transparency and corporate social responsibility is not rewarded by the governments in the developing economies, organizations do not feel strong inclination to actually implement good governance practices because they do not have any inclination to do so by the governing body. Also, corruption is extremely rampant in these regions which enables these organizations to get away with poor governance practices with flying colors. Rana plaza incident from 2013 serves as a gruesome example (Sinkovics, Hoque, and Sinkovics 2016). While the organization might show in pen and paper that they are following strict corporate governance practices, in reality there is no way to ensure that this is actually occurring.

According to quantitative data analysis, it was found out that even though most of the companies in the textile industry as a whole performed really well on the factual corporate governance index, the performance was not that satisfactory according to the perception held by different internal and external stakeholders of the company - both with regards to corporate governance and human resource management. This finding might indicate that the practice of compliance is done to fulfill a tick-mark exercise rather than focusing on the quality of compliance.

In further analysis through hypothesis testing, the relationship among corporate governance, human resource management, and firm performance was investigated. Based on the analysis, it was found out that there is a significant relationship between corporate governance practices and human resource management practices, and between corporate governance practices and organizational performance. However, no significant relationship was found between human resource management practices and organizational performance. Finally, it appeared that human resource management practices mediate the relationship between corporate governance and firm performance.

The qualitative analysis in this chapter sheds some light as to why the study provided results that brought out major challenges in the industry. The main purpose of corporate governance best practices is to differentiate the future potential of organization that provides a relative comparison based on how strongly they implement good governance practices. However, both empirical studies and qualitative research finding show that emerging economies such as Bangladesh can get away with following these guidelines on pen and paper, while in reality, some of the companies have bare intention of implementing these guidelines. Thus, observing the impact of corporate governance practices on the firm's performance, improvement is a challenge when trying to establish the relationship in the context of the textile industry in Bangladesh.

In an ideal world, the existence of a well-defined corporate governance framework won't necessarily translate for improving in the firm's performance. In order for that to happen, there need to be widespread adoption of the framework within an organization. That is why human resource management is one of the most essential organs of any business to ensure that the business operations run like a well-oiled machine (Bowen and Ostroff 2004). The HRM policy must strategically align with that of the organization's core values in order to implement the good governance practices. However, the textile industry in Bangladesh mostly exists based on the nature of comparative advantage due to cheap labor that has led to the massive popularity of outsourcing projects in this region (Hira and Benson-Rea 2017). As a result, in order to attract the foreign investors, there does exist HR service in almost all of the organizations surveyed in this research but they are only there to fulfill certain requirements rather than serving their mandated purpose. The qualitative analysis sheds some light as to why the study provided results that brought out major challenges in the industry. The qualitative data collected from the survey indicate the presence of unstructured human resource management practice in the industry. Deficient job analysis, biased and unplanned recruitment and selection, outdated training and development programs along with whimsical training allocation, and unaccountable performance appraisal leading to unjustified and unfair compensation are some of the factors contributing the lack of structure in HRM. With regards to HRM practices, proper HR department in most textile firms in Bangladesh does exist; it mostly serves the purpose of a flamboyant show of compliance to corporate governance practices so that foreign investors can be attracted. These shortfalls can be observed in nearly all the organizations that were surveyed for the study.

The hype surrounding corporate governance in not for the sake of the framework itself but its more to do with the outcome it generates. Sound corporate governance guideline implementation enables the organization to sustain a good health in terms of their sustainable business operation (Mashayekhi and Bazaz 2008). The main focus is the performance of the firm that makes it desirable for the investors to invest in. Bangladesh has many entities that exist to ensure that the financial disclosures that the organization's produce uphold a certain standard: "Securities and Exchange Commission, Bangladesh Bank, The Institution of Chartered Accountants of Bangladesh, Bangladesh Enterprise Institute, the Institute of Cost and Management Accountants of Bangladesh" (Bhuiyan and Biswas 2007). This is essential to determine the financial health of the business and determine how likely the firm is to survive in the foreseeable future. However, even though most of the organizations seem to pass this criterion with flying colors at first sight the reality is very different when the situation is analyzed further. While the financial situation seemed extremely healthy when they were disclosing reports to Bangladesh Bank, SEC and the picture was completely reversed when they submitted reports to NBR and tax authorities. This gives evidence that disclosure practices in Bangladesh in not very transparent and the same applies for the textile industry (Al Farooque *et al*. 2007). The practice observed in Bangladesh is to maximize profit as much as possible in the short run at any cost which leads to unfavorable practices. There is evidence in the survey that some organizations do not only lack implementation of basic governance practices but they also get away with their non-compliance to certain stipulations without any major consequences. The survey has observed that some companies have been doing this even for consecutive years with no sign of implementing these guidelines. With regards to corporate governance, poor corporate governance, concentrated board composition, family ownership, lack of independence of the agents and employees of the organization, and poor reporting and disclosure practices are some of the major challenging issues. Moreover, the existence of rampant corruption and malpractice is very common.

The financial performance of firms is the most important factor when determining the investment potential for a firm. Even though, on the surface, the firms seem to be fulfilling this requirement, the validity is questionable. The existence of rampant corruption does not help the case (Al Farooque *et al*. 2007). The organization can get away with maintaining fabricated transparency documentation while bribing government officials. The entities responsible of validating these paper work are not fulfilling their duties which makes the documentation questionable. Moreover, with regards to ownership, the idea of keeping the growth of an industry within a certain family is a common scenario in the Asian region (Claessens, Djankov, and Lang 2000). This can be observed in the older companies that have existed throughout generations in Korea, Japan and China. The same is true for the developing economies in this region such as: Bangladesh, India and Vietnam. However, the practice is slightly different. While conducting the survey, it was observed that in the textile industry of Bangladesh, the employees are hired based on their relationship with the already employed workers. The employment is not dictated by the worker's capability but rather their networking skill. The organizations value worker retention more than their skill; that is why the organizations prefer hiring from their known circle of family members and kins. This is the basic idea behind this practice of keeping things within the family in this region. They believe that having ties will enforce the loyalty factor. This makes the task of Independent Directors rather ineffective which was observed from the research. The family network is given the upmost importance rather that upholding the corporate governance principles.

The loyalty factor may have worked well in retaining the loyal employees but the ideology had its fair share of consequences. Examples such as Rana Plaza provides evidence that the HRM function is rather ineffective in the textile industry of Bangladesh (Sinkovics, Hoque and Sinkovics, 2016). They have failed to ensure worker's safety and welfare which is evident as they are unable to fulfill their duties autonomously. They have been greatly outnumbered when considering the employee to HR manager ratio which shows that they are there to just maintain the formalities. This has paved the way for prominent rise in labor union activist groups (Baumann-Pauly, Labowitz &Stein, 2018). However, the success of ensuring worker's rights have been marginal at best by the labor unions. The changes that might have been enforced is only on the surface level. The periodic protest carried out by the union for poor working conditions or salary or misconduct can halt production work for long stretch of time. However, scenarios like this is common place in the East-Asian region. When the comparative advantage of the industry depends on the low wage rates, room for improvement is hard to implement.

The textile industry in Bangladesh may seem to be perfect at first glance. When the situation is examined further the flaws become clear. However, the situation is not unique to only Bangladesh as other Asian countries may resonate the same situation.

Proper Governance and the way Forward:

From the previous discussion it is observed that there are some misconduct taking place but they are not deal breakers if considered as a room for improvement. The concerns that have been stated so far can be improved if the proper steps are taken. In light of the discovered challenges in the textile industry, the recommended steps to be taken are bringing in multi-faceted diversity on the board, ensuring robust succession planning for the board members and the management committee, shifting from shareholder to stakeholder perspective, forming new board sub-committees, and adopting technology in HRM and corporate governance practices.

Moreover, the companies have to ensure better accountability by the government entities. If the organizations do not feel the urgency to maintain transparency for their financial disclosure, then they will not feel the necessity to comply. As long as they can get away with bribing government officials, they have no incentive to maintain proper financial reports. Even though, Bangladesh has made few reforms regarding this issue, they are still enforced in a relaxed manner. Another major issue is the concern of adopting corporate governance guidelines. While some organization get away with giving the hope of implementation of good governance practices sometime in the near future, this can be addressed if the government authority becomes more vigilant. However, the HRM practice need to change from within the organization. As HRM is to a certain degree responsible for implementing the corporate governance practices within a corporation's culture, they need to have authority in terms of fulfilling their duties. If they can conduct their duties in an unbiased manner such as recruiting talent outside the employee network based on the workers' ability, then the organization's operational efficiency can improve further. Moreover, adoption or technology such as Hirevue and Kohn Ferry can ensure that the talent acquisition is taking place in an effective and in an unbiased manner. Instead of relying on random process of providing training and development facility for the employees, they can rely on these technology-based solutions to determine the most effective route. Last but not least is the ideology of keeping the business control within the family. It is understandable that this practice may not be confronted with its demise anytime in recent history. However, it is essential to promote the growth of governing structure in the company based on capability and talent. The board of directors should have autonomy in their operation in order to have the most effective outcome for the organization.

There is a fair share of shortfalls in term of accountability and transparency maintained by the textile industry in Bangladesh. However, all the issues mentioned so far have possible solutions which can be addressed. There is a steep implementation curve in order to improve the operational behavior but with small baby steps, they can be incorporated in the textile industry of Bangladesh.

CHAPTER 10: CONCLUSION

10.1 Introduction

Corporate governance practices rose in prominence in the Asian region when the countries tried to achieve competitive edge when competing against the established Western counterparts who already have a strong foot-hold in the global market (Sharma, 2007). The OECD principles and Anglo-American implementation of corporate governance was favorable in accommodating the norms in this region which explains its widespread adoption. When a well-regarded corporate governance policy is followed, it generally serves the investors' interest as they can follow up on the good governance practices of that organization. As a result, the long-term health of the organization can be predicted (Reed, 2002). When the corporate governance best practices align with that of the investors, it can ensure a smooth flow of funds. The corporate governance practices of organization operating in Bangladesh resembles that of the developing nations (Bhuiyan and Biswas, 2007). The existence of good corporate governance practice is essential to attract foreign investment in the country to ensure that the local economy and industry can have fast-paced development. However, the current study suggests the existence of numerous challenges in the path of corporate governance practice implementation in the textile industry of Bangladesh. Given the relationship between corporate governance and firm performance, mediated by human resource management practices, it is crucial to address these challenges in order to ensure sustainable healthy growth in the textile sector of the country.

10.2 Summary of the Findings

The success of the textile sector in Bangladesh does indicate a lucrative opportunity on the surface of things (Al Farooque *et al.*, 2007). The good governance practices on paper seem to indicate that they are being followed to the highest standards. The study was designed to understand the relationship of the impact of corporate governance mediated by HRM policy on the firm's performance improvement; the conditions in the textile industry of Bangladesh seemed favorable at first glance. However, the detailed picture said something different.

According to quantitative data analysis, it was found out that even though most of the companies in the textile industry as a whole performed really well on the factual corporate governance index, the performance was not that satisfactory according to the perception held by different internal and external stakeholders of the company - both with regards to corporate governance and human resource management. This finding might indicate that the practice of compliance is done to fulfill a tick-mark exercise rather than focusing on the quality of compliance.

In further analysis, the relationship among corporate governance, human resource management, and firm performance was investigated. Based on the analysis, it was found out that there is a significant relationship between corporate governance practices and human resource management practices, and between corporate governance practices and organizational performance. However, no significant relationship was found between human resource management practices and organizational performance. Finally, it appeared that human resource management practices mediate the relationship between corporate governance and firm performance.

The qualitative analysis sheds some light as to why the study provided results that brought out major challenges in the industry. The qualitative data collected from the survey indicate the presence of unstructured human resource management practice in the industry. Deficient job analysis, biased and unplanned recruitment and selection, outdated training and development programs along with whimsical training allocation, and unaccountable performance appraisal leading to unjustified and unfair compensation are some of the factors contributing the lack of structure in HRM. With regards to HRM practices, proper HR department in most textile firms in Bangladesh does exist; it mostly serves the purpose of a flamboyant show of compliance to corporate governance practices so that foreign investors can be attracted. These shortfalls can be observed in nearly all the organizations that were surveyed for the study. Simultaneously, with regards to corporate governance, poor corporate governance, concentrated board composition, family ownership, lack of independence of the agents and employees of the organization, and poor reporting and disclosure practices are some of the major challenging issues. Moreover, the existence of rampant corruption and malpractice is very common.

Combining the abovementioned qualitative and quantitative findings, a conceptual framework was developed where it can be seen that human resource management does affect the relationship between corporate governance and firm performance. To be more specific, three aspects of HRM particularly contributes in the mediation effect: labor governance, HRM policy, and HRM practice. The area of labor governance includes worker safety, well-being, and relevant regulations to govern labor practices in the industry. The second factor contributing to the mediation effect is HRM policy; usually, the commitment of the board of directors and management – something documented to be missing in majority of the textile companies of the country – to the people aspect of the organization translates into detailed and relevant policy documents. Finally, the degree of practice or implementation of the policies is the final mediating factor. Even though policies are in place, in some cases, they do not translate into practice, thus resulting in pen-and-paper compliance. So, the extent of practice of the designed HR policies affects firm performance in the textile sector.

In light of the discovered challenges in the textile industry, the recommended steps to be taken are bringing in multi-faceted diversity on the board, ensuring robust succession planning for the board members and the management committee, shifting from shareholder to stakeholder perspective, forming new board sub-committees, and adopting technology in HRM and corporate governance practices. By taking these steps, the textile sector of the country can embark upon the journey of practicing good corporate governance and HRM policies which might lead to robust firm performance in the long-run.

10.3 Research Implications

The textile industry in Bangladesh exists with its fair share of flaws but as it was stated earlier situations such as this is not uncommon in this region (Claessens, Djankov, and Lang 2000). There is room for improvement which, if implemented, can properly reflect the relationships by the parameters used in this study.

10.3.1. Policy (Macro-level) Implications

Initially looking at the micro level perspective, it can be observed that the local industry is not performing at the optimum level. The lack of government oversight due to relaxed accountability measure has made it possible for the companies to neglect their good governance duties. While on pen and paper they are implementing the policies, this is not translating too well towards measuring their implications on firm's performance improvements. In the given circumstances, the findings of this study can assist the macro-level government authorities to strengthen their oversight on the operating companies. In this regard, few strategies might be taken. First, co-ordination among the different monitoring bodies can be enhanced to ensure that the textile organizations are bound to present the same true picture of compliance, be it corporate governance or HRM. Second, in order to stop the ignorance of numerous companies to complying with the codes and rules of corporate governance, policies can be modified to ensure that the consequences of non-compliance to major conditions are severe and regularly executed. Finally, in the short-term, to bring the companies on board and make them comply to good corporate governance and human resource practices, regulatory authorities can sit with the organizations to design policies that are comparatively easier to comply with in the short-run. Moreover, rather than designing common blanket policies for all the organizations, policies can be customized for different firms depending on their size, sales, operating profit, and other relevant factors; the current policy might be difficult for certain organizations, specially the small organizations, to implement or comply. However, it is to mention that this is a short-term strategy. In the long run, to ensure proper governance practices, the relaxation of policies might be taken away.

10.3.2 Organizational (Micro-level) Implications

Depending on the study findings, organizations at an individual-level can implement numerous strategies recommended in the study. Firstly, the survey shows that there is a general lack of board diversity in textile industry of Bangladesh. This is not only limited to gender or demographic diversity but also extend to racial and cognitive diversity. Bangladesh is influenced by keeping the business within the family just like other nations in this region which has severe influence in the composition of the board. However, this wouldn't have been an issue if the HRM policy could have implemented robust succession plans. This is necessary to address the future continuity of the business and is an area of concern for the investors. The strong inclination towards only hiring loyal workforce who are related to the current workers severely hind sides the HR's role in effectively implementing good governance practices with the workforce. By demonstrating the impact of these shortfalls on the firm performance, as demonstrated in this thesis, authorities can encourage listed organizations to come up with firm-level strategies to ensure good governance and HRM practices.

Secondly, the textile industry in Bangladesh is still stuck in the primitive ideology of corporate governance of placing upmost importance of the shareholders of the business. The lack of concern for the stakeholders is clear from the countless incidents such as Rana Plaza. The covid-19 pandemic is shedding more light on this situation as the industry is realizing the importance of the stakeholders of the business. Lastly, there is lack of implementation of technology in the textile industry of Bangladesh. This can be observed from basic talent acquisition to the topmost concern of data breach. The development of proper infrastructure based on technology is not a choice anymore; all companies must implement them. Utilizing the findings of this thesis, organizations can start developing necessary infrastructures as well.

10.3.3. Academic Implications

In the current study, a conceptual model was proposed, elaborating the relationship among corporate governance, human resource management, and firm performance. This conceptual model can be investigated further through an abductive research to find out its further contribution in developing a theoretical model. In the process, by replicating this study in other industries, authors can justify the relevance and applicability of this model at a macro-level. Moreover, based on the findings of this study, the applicability of the stakeholder model – shifting from a shareholder model – can be an interesting field to investigate for the researchers. This thesis makes a notable contribution in a multidisciplinary field of corporate governance, human resource management, and firm performance – by contributing to the literature of doing business in the developing economies.

10.4. Potential for Future Study

The findings of the present thesis can be used to conduct further studies in the future in the field of corporate governance, human resource management, and firm performance. First, as mentioned earlier, this study can be extended to the listed companies in other industries to find out the applicability of the proposed conceptual model at a macro-level. While doing so, the scope of this study can be broadened further by exploring multi-variate relationships instead of bi-variate ones. Moreover, in analyzing mediation, besides HRM, the impact of other aspects such as supply chain, global value chain, production process, and administration can be explored.

Along with the mentioned quantitative strategies in extending the scope of the study, certain qualitative aspects can be incorporated as well. In future studies, texts in the policy documents can be analyzed using natural language processing (NLP) to further enrich the findings of this study. Incorporation of AI in the process can contribute in discovering minute details that might add significant value in the field of research for developing economies, especially given the anomalous nature of these economies compared to the developed ones. By broadening the scope of the present thesis in the proposed ways, it might be possible to better understand the intricate relationship among corporate governance, human resource management, and firm performance in the textile industry of Bangladesh, and subsequently recommend robust strategies for this industry to ensure that it remains on the growth trajectory in a sustainable manner.

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APPENDIX-A: Survey Questionnaire on Corporate Governance (Factual)

Questionnaire (To be filled up by Company Secretary)

Interrelationship Between Corporate Governance, Human Resource Management Practices and Firm Performance in Textile Industry of Bangladesh: A Study on the Companies Listed in Dhaka Stock Exchange

Institute of Business Administration (IBA)
University of Dhaka

Sutapa Bhattcaharjee (PhD Researcher)
Associate Professor
Institute of Business Administration
University of Dhaka

Under the supervision of:
Dr. Md. Mohiuddin
Professor
Institute of Business Administration
University of Dhaka

Dear Respondent:

Please note that this questionnaire has been designed specifically to collect perceptual data about the corporate governance practices in the textile industry of Bangladesh. Considering the fact that you are sparing valuable moments from your busy schedule in order to respond to this survey, I have tried to keep the survey of such length so that it can be completed with minimum time and effort.

May I also take this opportunity of thanking you in advance for your contribution and cooperation by devoting a few moments of your time in this interesting and topical piece of research on 'Corporate Governance Practices in the Textile Industry of Bangladesh.' I hereby reassure that the details provided in the completed questionnaire will be treated with utmost confidentiality and will be used solely for academic purpose.

.

Kind regards.

Yours sincerely,

Sutapa Bhattacharjee

Participant Information Sheet

Name of the Participant:____

Designation:____

Organization:____

Contact Number:____

EmailAddress:____

Cell: ____

QUESTIONNAIRE (FACTUAL)

Please provide appropriate answers to the following factual questions:

Questions	Response
BOARD OF DIRECTORS	
1. How many members are there in the Board of Directors?	
2. How many of the members on the Board are Independent Directors?	
3. Has the ID been an executive of the company before? If so, how many years ago?	
4. Do the IDs have any other relationship, whether pecuniary or otherwise, with the company or its subsidiary or associated companies?	
5. Were the IDs a partner or an executive of the concerned company's statutory audit firm or audit firm engaged in internal audit services or audit firm conducting special audit or professional certifying compliance before? If so, how many years ago?	
6. Are the IDs playing another ID role in any other listed companies? If so, in how many companies?	
7. Was the position of independent director(s) vacant for more than 90 (ninety) days? If so, for how many days?	
8. Do the IDs fulfill any of the following classifications? What was the job title? a. Business Leader who is or was a promoter or director of an unlisted company having minimum paid-up capital of Tk. 100.00 million or any listed company or a member of any national or international chamber of commerce or business association; or b. Corporate Leader who is or was a top-level executive not lower than Chief Executive Officer or Managing Director or Deputy Managing Director or Chief Financial Officer or c. Head of Finance or Accounts or Company Secretary or Head of Internal Audit and Compliance or Head of Legal Service or a candidate with equivalent position of an unlisted company having minimum paid-up capital of Tk. 100.00 million or of a listed company; or d. Former official of government or statutory or autonomous or regulatory body in the position not below 5th Grade of the national pay scale, who has at least educational background of bachelor's degree in economics or commerce or business or Law; or e. University Teacher who has educational background in Economics or Commerce or Business Studies or Law; or f. Professional who is or was an advocate practicing at least in the High Court Division of Bangladesh Supreme Court or a Chartered Accountant or Cost and Management Accountant or Chartered Financial Analyst or Chartered Certified Accountant or Certified Public Accountant or Chartered Management Accountant or Chartered Secretary or equivalent qualification	
9. How many years of experience in the field mentioned above do the independent directors have?	
10. Are the positions of the Chairperson of the Board and the Managing Director (MD) and/or Chief Executive Officer (CEO) of the company filled by different individuals?	
11. Does the Managing Director (MD) and/or Chief Executive Officer (CEO) hold the same position in another listed company?	
12. Is the Chairperson of the Board a non-executive director of the company?	
13. Does the Board have clearly defined respective roles and responsibilities of the Chairperson and the Managing Director and/or Chief Executive Officer (Please provide a copy)	
14. Does the company conduct its Board meetings on a regular basis? How frequently? (Please provide a memo)	

15. Does the company record the minutes of the meetings as well as keep required books and records?	
16. Does the Board have a code of conduct for the Chairperson of the Board, other board members and Chief Executive Officer of the company? (if yes, please provide a copy)	
17. Does the company have a code of ethics for all its stakeholders? (if yes, please provide a copy)	
18. Does the board monitor the company's risk management and internal control systems?	
19. Do the new directors receive a full, formal and tailored induction on joining the board?	
20. Does the chairman regularly review each director and assess their training and development needs?	
MANAGEMENT	
21. Has the Board appointed a Managing Director (MD) or Chief Executive Officer (CEO), a Company Secretary (CS), a Chief Financial Officer (CFO) and a Head of Internal Audit and Compliance (HIAC)?	
22. Are the positions of the Managing Director (MD) or Chief Executive Officer (CEO), Company Secretary (CS), Chief Financial Officer (CFO) and Head of Internal Audit and Compliance (HIAC) filled by different individuals?	
23. Do the MD or CEO, CS, CFO and HIAC hold any executive position in any other company at the same time?	
24. Does the Board have clearly defined respective roles, responsibilities and duties of the CFO, the HIAC and the CS?	
25. Do the MD or CEO, CS, CFO and HIAC of the company regularly attend the meetings of the Board?	
26. Do the MD or CEO and CFO certify to the Board that they have reviewed financial statements for the year?	
SUB-COMMITTEES	
AUDIT COMMITTEE	
27. Does the company have an Audit Committee as a subcommittee of the Board?	
28. Are the duties of the Audit Committee clearly set forth in writing?	
29. How many members are there in the Audit Committee?	
30. Does the Board appoint members of the Audit Committee who are non-executive directors of the company except the Chairperson of the Board?	
31. How many IDs are there in the AC?	
32. Does at least 1 (one) member have accounting or related financial management background and 10 (ten) years of such experience?	
33. Does the company secretary act as the secretary of the Committee?	
34. Is the Chairperson of the Audit Committee an independent director?	
35. How many meetings did the Audit Committee conduct in the last financial year?	
36. Does the AC set any meeting agenda before the conduct of the meetings?	
37. How many days before the scheduled meeting is the meeting agenda circulated among the committee members?	
38. Which of the following falls within the scope of responsibilities of the audit committee? (i) Review of the results of an audit with management and external auditors (ii) Ensuring compliance with applicable laws, regulations, standards and best practice guidelines (iii) Appointment, compensation and oversight of the work of the auditor (iv) Meeting with external auditors to discuss matters that the committee or auditors believe should be discussed privately (v) Review of proposed audit approaches and handling of coordination of the audit effort with internal audit staff (vi) Meeting with internal auditors and management on a periodic basis to discuss matters of concern that may arise	

NRC COMMITTEE	
39. Does the company have a Nomination and Remuneration Committee (NRC) as a sub-committee of the Board?	
40. Are the Terms of Reference (ToR) of the NRC clearly set forth in writing?	
41. How many members are there in the Nomination and Remuneration Committee?	
42. How many IDs are there in the NRC?	
43. Does the company secretary act as the secretary of the Committee?	
44. Is the Chairperson of the committee an independent director?	
45. How many meetings did the NRC conduct in the last financial year?	
46. Does the AC set any meeting agenda before the conduct of the meetings?	
47. How many days before the scheduled meeting is the meeting agenda circulated among the committee members?	
48. Are the proceedings of each meeting of the NRC duly recorded in the minutes?	
EXTERNAL AUDIT	
49. Does the company engage its external or statutory auditors to perform the following services of the company? - a. appraisal or valuation services or fairness opinions; b. financial information systems design and implementation; c. book-keeping or other services related to the accounting d. records or financial statements; e. broker-dealer services; f. actuarial services; g. internal audit services or special audit services; h. any service that the Audit Committee determines; i. audit or certification services on compliance of corporate governance as required under condition No. 9(1); and j. any other service that creates conflict of interest	
50. Do any partner or employees of the external audit firms possess any share of the company they audit, at least during the tenure of their audit assignment of that company?	
51. Do the family members of the partner or employees of the external audit firms hold any shares in the said company?	
52. Does the representative of external or statutory auditors remain present in the Annual General Meeting?	
53. Is the performance of external auditors evaluated? Who evaluates the performance?	
REPORTING AND DISCLOSURE	
54. Does the company publish annual report?	
55. Does the annual report contain the Directors' report?	
56. Does the annual report cover the following areas? a. Industry outlook b. Segment-wise or product wise performance report c. Key operating and financial data of last five years d. Clause regarding cash dividend/bonus share e. Shareholding of parent or subsidiary company f. List of directors, executives and top 10 shareholders g. A separate section for reporting Corporate Governance of the company h. Audit Committee (AC) report i. Reporting and compliance certificates	
57. Does the company obtain a certificate from a practicing Professional Accountant or Secretary (Chartered Accountant or Cost and Management Accountant or Chartered Secretary) other than its statutory auditors or audit firm on yearly basis regarding compliance of conditions of Corporate Governance Code of the Commission?	

58. Do the directors of the company state in the directors' report whether the company has complied with these conditions or not?	
59. Do the directors describe the principal risks and explain how they are being managed or mitigated in the annual report?	
60. Does the annual report identify the chairman, the deputy chairman (where there is one), the chief executive, the senior independent director and the chairmen and members of the board committees?	
61. Does the Annual Report set out the number of meetings of the board and committees and individual attendance by directors?	
62. Does the company arrange appropriate insurance coverage in respect of legal action against its directors?	
63. Does the board state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted?	
OWNERSHIP AND SHAREHOLDER PROTECTION	
64. What is the total number of shares in the company?	
65. What is the total number of voting shares?	
66. What percentage of the voting shares are owned by the controlling shareholders?	
67. Has the company charter established arbitration to resolve corporate conflicts?	
68. Does the company grant tag along rights beyond what is legally required?	
69. Are the shareholders the decision makers for ownership change?	
70. Are the views of shareholders communicated to the board as a whole?	
71. Does the company have policies or regulations for the protection of the shareholders' rights?	
72. Are the chairmen of the audit, remuneration and nomination committees always present at the AGM to answer questions?	
73. How many days before the AGM is the notice of the AGM communicated with the shareholders?	
MISCELLANEOUS	
74. Does the company have policies for paying off the creditors?	
75. Has the company ever defaulted any of its loans? If defaulted, how many times?	

STUDY FEEDBACK

Would you like to receive a copy of the summary findings of this research?

a. Yes
b. No

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THANK YOU ONCE AGAIN FOR YOUR GENEROUS CONSIDERATION

APPENDIX-B: Survey Questionnaire on Corporate Governance (Perceptual)

Questionnaire (To be filled up by Company secretary and Independent Director)

Interrelationship Between Corporate Governance, Human Resource Management Practices and Firm Performance in Textile Industry of Bangladesh: A Study on the Companies Listed in Dhaka Stock Exchange

Institute of Business Administration (IBA)

University of Dhaka

Sutapa Bhattcaharjee (PhD Researcher)

Associate Professor

Institute of Business Administration

University of Dhaka

Under the supervision of:

Dr. Md. Mohiuddin

Professor

Institute of Business Administration

University of Dhaka

Dear Respondent:

Please note that this questionnaire has been designed specifically to collect perceptual data about the corporate governance practices in the textile industry of Bangladesh. Considering the fact that you are sparing valuable moments from your busy schedule in order to respond to this survey, I have tried to keep the survey of such length so that it can be completed with minimum time and effort.

May I also take this opportunity of thanking you in advance for your contribution and cooperation by devoting a few moments of your time in this interesting and topical piece of research on ‘Corporate Governance Practices in the Textile Industry of Bangladesh.’ I hereby reassure that the details provided in the completed questionnaire will be treated with utmost confidentiality and will be used solely for academic purpose.

Kind regards.

Yours sincerely,

Sutapa Bhattacharjee

Participant Information Sheet

Name of the Participant:____

Designation:____

Organization:____

Contact Number:____

EmailAddress:____

Cell: ____

Perceptual Questionnaire

Please indicate the extent to which you agree or disagree with each of the following statements by circling only one number, where; 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, and 5= Strongly Agree. For example, if you strongly agree with any particular statement, please circle the number 5.

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
BOARD OF DIRECTORS					
1. The board has clearly set objectives	1	2	3	4	5
2. The board realistically assesses its performance against its objectives at regular intervals	1	2	3	4	5
3. The board devotes sufficient time for reviewing the implementation of the strategy	1	2	3	4	5
4. The Board is effective in reviewing and implementing senior executive succession plans	1	2	3	4	5
5. The Board is effective in establishing a corporate environment that promotes timely and effective disclosure, fiscal accountability, high ethical standards and compliance with applicable laws and regulations	1	2	3	4	5
6. Induction and development programs are effective in ensuring that board members remain up-to-date throughout their time on the board	1	2	3	4	5
7. Board members and management staff responsibilities are clearly set out in writing	1	2	3	4	5
8. Board and the relevant sub-committee roles are clearly defined	1	2	3	4	5
9. The Board is effective in evaluating the performance of the company's senior executives	1	2	3	4	5
10. The Board formally evaluates the CEO's performance	1	2	3	4	5
11. Effective reports are produced detailing the Board's/subcommittees/management's objectives for the year and progress against these objectives	1	2	3	4	5
12. The Board is provided with sufficient information and time to address issues that might present a conflict of interest	1	2	3	4	5
13. The length of each board meeting is generally adequate for the Board to effectively cover appropriate business	1	2	3	4	5
14. The number of meetings during the year is sufficient for the Board to be effective	1	2	3	4	5
15. The code of conduct for the Chairperson of the Board, other board members and Chief Executive Officer of the company are effectively followed	1	2	3	4	5
MANAGEMENT					
16. There are clearly defined respective roles, responsibilities and duties of the CFO, the HIAC and the CS	1	2	3	4	5
17. Management regularly reports to the board on key outcomes and targets	1	2	3	4	5
18. The Board gets early-warning signals from the management about all problems/irregularities ahead that will adversely affect key outcomes, targets or financial performance	1	2	3	4	5
19. Management provides a thorough analysis of performance against budget, targets and key outcomes, and discusses any necessary remedial action	1	2	3	4	5

20. The management provides the Board timely and robust post-evaluation reviews for all major projects and programmes	1	2	3	4	5
RISK MANAGEMENT					
21. The organization has clearly set guidelines on its maximum risk appetite	1	2	3	4	5
22. There is a sound process for identifying and regularly reviewing the principal risks	1	2	3	4	5
23. Sound health and safety, employment and other practices are implemented to protect the organization against unnecessary litigation and reputation risk	1	2	3	4	5
24. The organization has an established system to raise concerns	1	2	3	4	5
25. The system for raising concern is reviewed regularly to ascertain effectiveness	1	2	3	4	5
EXTERNAL AUDIT					
26. The external audit effectively audits the quality and compliance level of financial reporting activities	1	2	3	4	5
27. External audit can independently perform their duties	1	2	3	4	5
28. The performance of the external auditors is effectively evaluated	1	2	3	4	5
29. Th external auditor effectively inspects the internal systems and controls of the company	1	2	3	4	5
30. The external auditor performs effective audits on non-financial areas such as health and safety, IT.	1	2	3	4	5
31. The auditor provides effective recommendations based on audit findings	1	2	3	4	5
REPORTING	1	2	3	4	5
32. The quality of the annual report is satisfactory	1	2	3	4	5
33. The content of the annual report is sufficient in representing the true financial status of the company	1	2	3	4	5
34. Regular, insightful reports on the organization's risk management and internal control systems are prepared	1	2	3	4	5
35. Reliable projections of future cash flows for the medium as well as the short term are made to mitigate the risk of falling behind schedule	1	2	3	4	5
AUDIT COMMITTEE					
36. The AC has a charter which clearly outlines its objectives, duties and responsibilities	1	2	3	4	5
37. The AC members have a clear understanding of their responsibilities	1	2	3	4	5
38. The number of Audit Committee meetings is sufficient for it to accomplish its tasks	1	2	3	4	5
39. The agenda and related materials are provided to members fairly ahead of the meetings	1	2	3	4	5
40. The composition and size of the Audit Committee are appropriate	1	2	3	4	5
41. The company makes a proper review of external auditor's work	1	2	3	4	5
42. The AC members have sufficient knowledge on the entity's business	1	2	3	4	5
43. The AC members have sufficient knowledge on Accounting and/or Auditing practices.	1	2	3	4	5
44. The AC has adequate authority in order to carry out its responsibilities	1	2	3	4	5
45. The AC has ready access to relevant information if required	1	2	3	4	5
46. The AC receives prompt responses from the management in carrying out its duties	1	2	3	4	5

47. The AC members devote sufficient time to the committee's affairs	1	2	3	4	5
48. All members can express their views freely and independently in the meetings	1	2	3	4	5
49. The AC members effectively carry out their roles as laid out in the charter	1	2	3	4	5
50. The frequency of the AC meetings is sufficient to carry out its responsibilities	1	2	3	4	5
51. The duration of the AC meetings is sufficient for a full discussion of important issues	1	2	3	4	5
52. The AC assesses and reviews the expertise and resources of the external auditors	1	2	3	4	5
53. The AC monitors the external audit firm's compliance with the existing ethical and regulatory requirements in Bangladesh	1	2	3	4	5
54. The AC reviews the findings of the annual audit obtained by the external auditors	1	2	3	4	5
55. The AC assesses and reviews the annual internal audit work plan	1	2	3	4	5
56. The AC enhances the independence of the internal auditors of the company	1	2	3	4	5
57. The AC monitors and evaluates the effectiveness of the internal audit function	1	2	3	4	5
58. The AC can work independently	1	2	3	4	5
COMPENSATION COMMITTEE					
59. The CC has a charter which clearly outlines its objectives, duties and responsibilities	1	2	3	4	5
60. The Compensation Committee is addressing effectively the matters delegated to it in its charter	1	2	3	4	5
61. The number of Committee meetings is sufficient for it to accomplish its tasks	1	2	3	4	5
62. The agenda and related materials are provided to members fairly ahead of the meetings	1	2	3	4	5
63. The composition and size of the Committee are appropriate	1	2	3	4	5
64. The committee members have sufficient knowledge on the entity's business	1	2	3	4	5
65. The CC has adequate authority in order to carry out its responsibilities	1	2	3	4	5
66. The CC is provided with sufficient resources including secretarial support to carry out its duties	1	2	3	4	5
67. The CC members have a clear understanding of their responsibilities	1	2	3	4	5
68. The CC members devote sufficient time to the committee's affairs	1	2	3	4	5
69. All members can express their views freely and independently in the meetings	1	2	3	4	5
70. The frequency of the CC meetings is sufficient to carry out its responsibilities	1	2	3	4	5
71. The duration of the CC meetings is sufficient for a full discussion of important issues	1	2	3	4	5
72. The CC can work independently	1	2	3	4	5
73. Members of the compensation committee are individuals with an appropriate range of experience and skills including a working knowledge	1	2	3	4	5
74. The compensation committee takes full responsibility for the content of the published compensation report and proactively drives the decisions on the disclosures contained therein	1	2	3	4	5
75. Minutes of the meetings are prepared and circulated for review on a timely basis	1	2	3	4	5

76. The committee members effectively review and recommend to the Board, or approve, the annual salary, bonus, and other benefits of the President and other officers and directors	1	2	3	4	5
NOMINATION COMMITTEE					
77. The background of the potential board members is properly investigated	1	2	3	4	5
78. The NC has a charter which clearly outlines its objectives, duties and responsibilities					
79. The NC is addressing effectively the matters delegated to it in its charter	1	2	3	4	5
80. The number of Committee meetings is sufficient for it to accomplish its tasks	1	2	3	4	5
81. The agenda and related materials are provided to members fairly ahead of the meetings	1	2	3	4	5
82. The composition and size of the Committee are appropriate	1	2	3	4	5
83. The committee members have sufficient knowledge on the entity's business	1	2	3	4	5
84. The NC has adequate authority in order to carry out its responsibilities	1	2	3	4	5
85. The NC is provided with sufficient resources including secretarial support to carry out its duties	1	2	3	4	5
86. The NC members have a clear understanding of their responsibilities	1	2	3	4	5
87. The NC members devote sufficient time to the committee's affairs	1	2	3	4	5
88. All members can express their views freely and independently in the meetings	1	2	3	4	5
89. The frequency of the NC meetings is sufficient to carry out its responsibilities	1	2	3	4	5
90. The duration of the NC meetings is sufficient for a full discussion of important issues	1	2	3	4	5
91. The minutes of the NC meetings are circulated to all members of the Board of Directors (BODs).	1	2	3	4	5
92. The NC can work independently	1	2	3	4	5

STUDY FEEDBACK

Would you like to receive a copy of the summary findings of this research?

c. Yes
d. No

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E-mail: sutapab@iba-du.edu

THANK YOU ONCE AGAIN FOR YOUR GENEROUS CONSIDERATION

APPENDIX-C: Survey Questionnaire on Human Resource Management (Perceptual)

Questionnaire (To be filled up by HR Head)

Interrelationship Between Corporate Governance, Human Resource Management Practices and Firm Performance in Textile Industry of Bangladesh: A Study on the Companies Listed in Dhaka Stock Exchange

Institute of Business Administration (IBA)

University of Dhaka

Sutapa Bhattcaharjee (PhD Researcher)

Associate Professor

Institute of Business Administration

University of Dhaka

Under the supervision of:

Dr. Md. Mohiuddin

Professor

Institute of Business Administration

University of Dhaka

Dear Respondent:

Please note that this questionnaire has been designed specifically to collect perceptual data about the corporate governance practices in the textile industry of Bangladesh. Considering the fact that you are sparing valuable moments from your busy schedule in order to respond to this survey, I have tried to keep the survey of such length so that it can be completed with minimum time and effort.

May I also take this opportunity of thanking you in advance for your contribution and cooperation by devoting a few moments of your time in this interesting and topical piece of research on 'Corporate Governance Practices in the Textile Industry of Bangladesh.' I hereby reassure that the details provided in the completed questionnaire will be treated with utmost confidentiality and will be used solely for academic purpose.

Kind regards.

Yours sincerely,

Sutapa Bhattacharjee

Participant Information Sheet

Name of the Participant:____

Designation:____

Organization:____

Contact Number:____

Email Address:____

Cell: ____

Perceptual Questionnaire

Please indicate the extent to which you agree or disagree with each of the following statements by circling only one number, where; 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, and 5= Strongly Agree. For example, if you strongly agree with any particular statement, please circle the number 5.

Statements	Strongly Disagree	Disag ree	Neutral	Agre e	Strongly Agree
A. Recruitment and Selection					
1. 1. The organization signs contract letter for factory level jobs	1	2	3	4	5
2. 2. The organization signs contract letter for non-managerial level jobs.	1	2	3	4	5
3. 3The organization signs contract letter for managerial level jobs.	1	2	3	4	5
4.					
5. 4. The organization signs contract letter for temporary jobs	1	2	3	4	5
6. 5. The organization goes for public advertisement newspaper, job sites) for vacant positions	1	2	3	4	5
7. 6. The higher level jobs are usually filled up by reference and personal connections.	1	2	3	4	5
8. 7. The organization tries to ensure diversity (gender, age, religion, disability, etc) during hiring process	1	2	3	4	5
9. 6. The higher level jobs are usually filled up by reference and personal connections.	1	2	3	4	5
10. The organization prefers to hire male candidates to females.	1	2	3	4	5
11. The organization is very strict about reference check	1	2	3	4	5
B. Training and Development					
12. the duration of organization's orientation program is sufficient	1	2	3	4	5
13. Please specify the time duration of induction and /or orientation program					
14. The organization conducts detailed Training Needs Assessment (TNA)	1	2	3	4	5
15. The organization also trains the underperformers who are unable to meet the targets	1	2	3	4	5
16. Employees perform better after training.	1	2	3	4	5
17. The organization uses in house trainer for conducting training	1	2	3	4	5
18. The organization uses professional trainer for conducting training					
19. The organization calculates ROI (Return on					

Investment) of training					
20. Promotion is positively correlated with training					
C. Performance appraisal					
21. The organization conducts one formal performance appraisal every year	1	2	3	4	5
22. Please specify if you have interim appraisal? If yes, monthly/ quarterly/ half yearly?					
23. The organization uses automated software based performance appraisal system	1	2	3	4	5
24. The organization allows employees to have self-assessment.	1	2	3	4	5
25. The organization formally allows to have supervisor-subordinate meeting before the submission of assessment score	1	2	3	4	5
D. Job Description					
26. Every Job has a specific Job description	1	2	3	4	5
27. Every employee gets a job description in the beginning of an appointment	1	2	3	4	5
28. Everyday Job responsibility conforms to official job description	1	2	3	4	5
29. The job descriptions are always updated in terms of role, responsibility and qualifications	1	2	3	4	5
30. The relationship between job worth and compensation is satisfactory	1	2	3	4	5
E. Compensation					
31. The organization has a structured compensation package.	1	2	3	4	5
32. The organization pays every month without failing.	1	2	3	4	5
33. The organization ties the compensation with performance	1	2	3	4	5
34. The higher level jobs are usually filled up by reference and personal connections.	1	2	3	4	5
35. The organization offers incentive bonus	1	2	3	4	5
36. The organization has a profit sharing policy.	1	2	3	4	5
37. The organization provides festival bonus.	1	2	3	4	5
38. The organization pays employees who go for maternity leave	1	2	3	4	5
F. Compliance/Safety and Health					
39. The organization maintains physical safety for employees	1	2	3	4	5
40. The organization takes care of emotional safety (anti-harassment anti-bullying) of employees	1	2	3	4	5
41. The organization conducts exit interview to find out room for improvement	1	2	3	4	5
42. The organization offers wellness programs (quit smoking, alcoholism, losing overweight etc.)	1	2	3	4	5
43. The organization helps employees having better work life balance.	1	2	3	4	5

44. The organization has a clear stand against sexual harassment.	1	2	3	4	5
45. The organization has a clear dress code (including tattoos, hair colour and styles, body piercings, perfumes	1	2	3	4	5
46. The intensity of personal relationships in the workplace is defined.	1	2	3	4	5
47. The organization discourages using social networking sites during office hours.	1	2	3	4	5
G. HR Policy					
48. The company has appropriate HR policies for making HR related decisions					
49. The HR policies are regularly updated by the organization					
50. The HR policies are appropriate and satisfactory					

STUDY FEEDBACK

Would you like to receive a copy of the summary findings of this research?

e. Yes
f. No

Researchers' Contacts:
Room # 305
Institute of Business Administration (IBA)
University of Dhaka
Dhaka 1000, Bangladesh.
Mobile: +88 01743355199
E-mail: sutapab@iba-du.edu

THANK YOU ONCE AGAIN FOR YOUR GENEROUS COOPERATION!

APPENDIX-D: Interview Checklist (Corporate Governance)

Theme	Interview Questions
Current Practices	1. How has the corporate governance scenario in the textile sector changed in the last 10 years?
Board of Directors/ Independent Directors/ Management/ Audit Committee/ Nomination Committee	1. What is your opinion about the effectiveness of the board of directors (and others) in implementing corporate governance practices in your company? 2. What recent steps were taken by the Board (and others) to ensure good governance? 3. What changes would you recommend for the BoD (and others) for better implementation of Corporate Governance? 4. What challenges, if any, are you facing due to the non-existence of an Audit Committee/ Nomination Committee/ other sub-committees?
External Audit	1. Can you give an example where the external auditor has played an active watchdog role in policing non-compliance?
Reporting and Disclosure	1. Provide your opinion on the level of disclosure and reporting of your company's financial and non-financial data 2. What challenges, if any, do you think exist because of the limited level of reporting and disclosure done by your company?
Ownership	1. What difficulties in terms of governance might occur due to the concentrated ownership of your organization?
Challenge	1. What are the three major challenges in implementing effective governance in the textile sector?
Recommendations	1. What are your recommendations for improving the governance scenario in your organization?

APPENDIX-E: Interview Checklist (Human Resource Management)

Theme	Interview Questions
Current Practices	1. How does the human resource practices differ from what it was 10 years ago?
Recruitment and Selection	1. What is your opinion is the most effective policy for the recruitment and selection process of employees? 2. How much of the recruitment and selection process has been automated over the years? 3. In your opinion which do you think is better, automated software based or physical in-person recruitment and selection is better? Why? 4. What are the current challenges faced in the recruitment and selection process?
Training and Development	1. What factors are evaluated before designing training and development programs? 2. What criteria determines the training and development intensity of each employee? 3. Is there facility to retrain employees who are being inefficient? How is it done?
Performance Appraisal	1. What are the criteria that are considered before conducting a formal performance appraisal session? 2. How are the decision regarding performance appraisal taken? Based on group or individual decision? 3. How much of the performance appraisal decisions are based on referrals if any?
Job Description	1. What are the difficulties that are faced during job description process for a role? 2. How are the effectivities of the job description for a particular role decided? Based on individual or team decision?
Compensation	1. What are the factors that are evaluated before deciding on the compensation for a certain role? 2. How is the fairness of the compensation offered evaluated?
Safety and Health	1. What are the standards that are followed when designing health and safety guidelines? 2. Who evaluates (Team/individual) the state of current health and safety standards in your organization? 3. Are the health and safety measure audited by external parties?
HR Policy	1. How is the effectiveness of the HR polices evaluated? 2. What is the process of introducing new HR policy in your organization? 3. What is the general response for the HR polices in your organization?
Challenge	1. What are the three major challenges faced by the human resource department in this day and age?
Recommendations	1. What are your recommendations for improving the human resource roles in your organization?

APPENDIX-F: Summary Findings of Questionnaire Survey (Corporate Governance: Factual)

Governance Area	Theory/Literature/Codes	Practical Finding	Remarks
Board of Directors	Number of directors has to be between minimum 5 to maximum 20	Most of the responding companies have board members between 5 to 10 members and a few have more than 10 members	Among all the 39 companies in the textile industry of Bangladesh, majority of the companies comply with good governance practices while some companies fail to comply with such practices
	At least 10 years of experience is required by the Independent Directors.	Majority of the responding companies' independent directors have experience of at least 10 years or more. However, 13% responded to having less than 10 years' experience.	
	Chairperson of the Board shall be chosen from the non-executive directors of the company	While 79% of the companies elected a chairperson from the non-executive directors, the remaining 21% companies did not elect from the non-executive directors	
	Companies should have code of ethics for all its stakeholders	77% of the responding companies have code of ethics for all its shareholders whereas 23% do not have for all their stakeholders	
Management	The Board should appoint the following positions: Managing Director (MD) or Chief Executive Officer (CEO), Company Secretary (CS), Chief Financial Officer (CFO), & Head of Internal Audit Compliance (HIAC).	The board of 84% responding companies had appointed employees for the required positions. However, 16% of the companies did not appoint for all the required positions.	Good management practices were found in significant majority of the organizations
	The following positions of Managing Director (MD) or Chief Executive Officer (CEO), Company Secretary (CS), Chief Financial Officer (CFO), & Head of Internal Audit Compliance (HIAC), should be filled by a different individual.	97% of the responding companies have different individuals for all the required positions. On the other hand, 3% of the companies had the same individuals filling up multiple positions	
	The Managing Director (MD) or Chief Executive Officer (CEO),	The following positions of all the listed textile	

Governance Area	Theory/Literature/Codes	Practical Finding	Remarks
	and Chief Financial Officer needs to certify the Board on their review of the financial statement.	companies certified to the respective boards of their companies on the financial statement of each and every year.	
Audit Committee	There should be at least 3 members in the Audit Committee.	All the responding companies have at least 3 members in their audit committee.	In the Audit Committee category, the majority of the companies have fulfilled the basic governance practices. However, in some cases, other audit committee related governance practices were missing for often more than 20% of the companies
	There should be at least one Independent director in the Audit Committee.	All the responding companies have at least one Independent Director in their Audit Committee.	
	At least four meetings shall be conducted by the Audit committee in a financial year.	88% of the responding companies have conducted at least four or more meetings whereas 12% conducted less than four meetings in a financial year.	
	Meeting agenda should be set by the Audit Committee before the conduct of the meeting.	The Audit Committees of the 78% responding companies set the meeting agenda before conducting the meeting.	
	Meeting agenda should be circulated before 3 working days from the scheduled meeting.	The Audit Committee of the 78% responding companies set the meeting agenda before conducting the meeting	
NRC Committee	The NRC Committee should be a sub-committee of the Board.	The NRC Committee of 77% of the companies were a sub-committee whereas the remaining 23% companies did not consider the NRC committee as a sub-committee of the Board.	Governance practices in this category was lower than that of the audit committee category. In the case of the NRC Committee of the Textile industry, it can be seen that few of the companies did not emphasize on the NRC Committee. These companies did not consider the NRC committee as a sub-committee of the board and did not conduct meetings as per the code of conduct.
	The Term of Reference (ToR) of the NRC Committee shall be set forth in writing.	57% of the companies had clearly set forth the Terms of Reference in writing whereas 43% of the companies did not do so as per the code.	
	The Company Secretary (CS) shall act as secretary of the NRC committee.	The company secretary of majority of the companies had in fact acted as the secretary of the NRC committee and in the case of the remaining 23, the	

Governance Area	Theory/Literature/Codes	Practical Finding	Remarks
		secretary had been someone from the committee itself rather than the company secretary.	
	The code stated that the committees of the company shall hold at least one meeting annually.	While the majority of the NRC committees of the companies had 1 to 3 meetings, the data showed that 27% of the committees did not hold any meetings in the last financial year.	
	The NRC Committee should set an agenda for the meeting before it takes place.	The data showed that 82% of the NRC committee had set an agenda for its members while the remaining 18% NRC committee did not set any agenda before conducting the meeting.	
External Audit	The family members of the partner or employees of the external audit firms should not hold any shares in the company.	All the responding companies' external audit firms' family members of their partners or employees do not hold any shares in the company.	The findings of the External Audit Category showed that the majority of the companies have good governance practice in place.
	Representatives of external or statutory auditors should remain present in the Annual General Meeting.	83% of the company's representative of external or statutory auditors were present in the Annual General Meeting.	
	The Audit Committee should evaluate the performance external auditors.	All the responding companies Audit Committee have evaluated the performance of their external Auditor.	
Reporting and Disclosure	The listed companies shall publish its annual reports.	All the 39 listed companies in the textile industry had published their annual reports in their websites as per the code.	The findings in the section of Reporting and Disclosure shows that all the companies in the textile industry had sufficient good governance practice in place
	The listed companies shall also include a Directors' report in their annual reports.	All the textile companies had also included the Directors' report in the annual report.	

Governance Area	Theory/Literature/Codes	Practical Finding	Remarks
	It is required to describe how the directors had dealt and solved the principal risk in their company.	Majority of the company directors had discussed their dealings with the principal risks that they were involved with except 12% of the company directors who did not explain their situations in their annual reports.	
Ownership and Shareholder Protection	Companies should establish arbitration to resolve corporate conflicts	91% of the responding companies have stated that their companies have established arbitration to resolve corporate conflicts.	Most of the companies took necessary measures for the protection of Ownership and Shareholders.
	Views of all the shareholders of their respective companies should be communicated properly	The views of all the shareholders of their respective companies were communicated properly to the board of directors.	
	Companies should have appropriate policies and regulations to protect the shareholders' rights	All the textile companies had the appropriate policies and regulations to protect the shareholders' rights.	
	Chairmen of all the committees such audit committee, external audit and NRC committee should be present during the AGM	94% of the chairmen of all the committees such audit committee, external audit and NRC committee were present during the AGM meeting while the remaining 6% chairmen were not present during the AGM meetings.	

APPENDIX-G: Summary Findings of Questionnaire Survey (Corporate Governance: Perceptual Data)

Governance Area	Practical Finding	Remarks
Board of Directors	Accountability and disclosure standards maintained by the board is average at best.	There is difference in opinion regarding the score provided by the company secretaries and Independent Directors. The difference was in the score for the category was 26% which is significant. The perceptual score is just average which is in stark contrast with the factual score.
	The board's responsibilities were clearly represented on writing which but the efficacy of their duty is questionable.	
	The performance appraisal was mostly realistic.	
Management	The individual representative roles were clearly defined.	All groups of respondents both agreed to good management practices with marginal difference in opinion.
	The management's performance analysis is in general robust as suggested by the score.	
	The code of conduct was generally agreed to be followed by the different management levels.	
Audit Committee	The members fulfill the qualification requirements and provides sufficient knowledge in their respective field.	Companies achieved a good perception score, as indicated by nearly identical scores, given by both the company secretaries and Independent Directors.
	The audit company meets on a regular basis to address the affairs of the company.	
	The committee devotes sufficient resources to mandate proper guidelines.	
NRC Committee	The background of the members in the committee is sufficient to support the industry.	There was notable difference in opinion regarding the scoring of this committee between the company secretaries and Independent Directors.
	The fair evaluation of the policies is questionable.	
	The consistency with which the board conducts meeting can be considered as average.	
External Audit	The efficacy of the external audits is questionable.	The external audit score was rather poor when compared against the rest of the scores. The Independent Directors and the company secretaries had almost similar opinion regarding the scores.
	Their parties could not agree on their performance appraisal.	
	The recommendations provided by the committee has been rather ineffective in evaluating the company's needs.	

Governance Area	Practical Finding	Remarks
Reporting and Disclosure	The annual reports were presented but if the proper guidelines were mandated is questionable.	The most significant difference in opinion between the company secretaries and Independent Directors occurred in this category. The perceptual score is rather poor in this segment which contradicts with the factual score.
	The accuracy final status represented by the annual reports is not mutually agreed upon by all parties.	
	The insights provided by the reports and disclosure is questionable due to difference in opinion.	
Ownership and Shareholder Protection	All the companies had policies to resolve corporate conflicts.	The general consensus between both the company secretaries and Independent Directors was that the companies in general protected the shareholder's rights.
	The shareholders' opinion was translated effectively to the board members.	
	All the textile companies had the appropriate policies and regulations to protect the shareholders' rights.	

APPENDIX-H: Summary Findings of Questionnaire Survey (Human Resource Management: Perceptual)

HR Area	Practical Findings	Remarks
Recruitment and Selection	Policy for contracts is properly mandated for both temporary and permanent employees. Diversity in the workplace in not mandated properly in general. The selection and recruitment usually take place thorough references which is results in biased hiring process.	There was significant discrepancy in opinion observed between the administration and the employees which suggests that this area is poorly governed in the textile sector.
Training and Development	The duration of the training and development programs are perceived as ideal for the given roles. The TNA is maintained properly which is also reflected by the training polices for underperformers. Professional trainers are utilized to improve the efficiency of the employees.	This category received nearly similar scores from both the respondent groups which indicated that the training and development programs in the textile industry is perceived as robust.
Performance Appraisal	The formal annual performance appraisal might not be effective. The textile industry has not adopted automated software-based performance appraisal systems. Supervisor meeting before formal performance appraisal may be biased as suggested by the general response.	There was notable difference in opinion between two respondent groups in this category. This indicates that all the parties mutually do not agree on the fairness of performance appraisal polices utilized in the textile industry as indicated by the average score.
Job Description	The job descriptions are generally inadequately defined across the industry. The job description provided to employees upon joining the company is questionable. The compensation is not perceived to be adequate for the job title.	This category also suffered from difference in opinion which may be caused by inadequate effort put into job description.
Compensation	Monthly compensations are not paid out consistently. Incentive bonus just exists on paper. Profit sharing does not take place.	The two respondent groups do not mutually agree on the score of this category which suggests that the compensation policy may not be fairly evaluated in the textile industry.
Compliance/Safety and Health	Physical safety for the employees is not properly mandated by the industry. Emotional wellness polices for the employees is non-existent. Work life balance is not resembled by the textile industry where frequent over time without the extra pay is prominent.	Stark difference in opinion is observed between both the parties which indicates that the general health and safety polies adopted in the textile industry may not be perceived as sufficient. General perception regarding this category's effectiveness is poor

HR Area	Practical Findings	Remarks
HR Policy	HR only exists on the basis of skeletal functions.	The employees and Administration could not agree on the effectiveness of HR policy in the textile industry. General perception regarding this category's effectiveness is poor
	HR policies are inadequately mandated within the companies and the polices in general are medieval in nature.	
	The HR polices are not considered as either appropriate or satisfactory.	