

The Critical Analysis of Some Northern Asian Corporate Governance Standards After the Global Crisis – Cases In Bangladesh and Mongolia

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ABSTRACT

The aim of this paper is to present a set of comparative corporate governance standards in some Northern Asian countries including: Bangladesh and Mongolia. There are strengths and weaknesses in these codes or practices which will be identified in this paperwork.

Therefore, this paper not only identifies different points in latest corporate governance standard principles and systems in the above two (2) countries, but also provides with a summary of evaluation of current corporate governance systems in these above countries which may enable relevant organizations in re-evaluating their current ones. Last but not least, it aims to illustrate a limited comparative set of standards of Northern Asian corporate governance, and give proper recommendations to relevant governments and institutions toward a sustainable practices in business life.

Keywords: corporate governance standards, board structure, code of best practice, financial crisis, corporate scandals, market manipulation, internal audit

JEL Classification: G00, G3, G30

INTRODUCTION

The nature of the environment in which contemporary businesses function is systemic which is described in corporate governance practices or codes.

Corporate governance can enable firms to maintain vitality, growth and stability. In the light of different views on Corporate Governance and Company Acts, which are among interests of many organizations, after financial crisis 2007-2009, this paper mainly concentrates on analysis of Code of Best Practices for Corporate Governance in selected northern Asian countries and separates it from the analysis of relevant Company Act and Accounting regulations, which can be used as reference for further scopes. Despite of trying to select an easy-reading writing style, there is still some academic words need to be explained in further.

This paper is organized as following. First (1st) session is Research literature review, which gives us a summary of what has been done in

this field. Next, second (2nd) session provides some theories in corporate governance and manipulation. The third (3rd) session handles with empirical research findings and performing a comparative analysis among different Codes.

And final (4th) session turns to the conclusion and policy suggestion. Last but not least, a reference and web resources are introduced for further research and analysis. At last, there are exhibit session which covers some summary of this paper's analysis and comparison. And a glossary notes is provided with information for reference.

RESEARCH LITERATURE REVIEW

Many researches so far are done in the corporate governance area in Europe. Hopt, Klaus J., and Leyens, Patrick C., (2004) pointed recent development trend in Europe Corporate Governance is specialized rules for listed companies and indicate growing convergence in internal control mechanisms independent of board structure. EU (2002) also issues the Code of Best practices and the 2006 Directive requires

that each listed company should publish an annual corporate governance statement to what extent the company can comply with that code. Among its key principles is the separation of roles between the CEO and the Chairman as it stated “The Chairman and CEO roles should be separate and the CEO should not immediately become Chairman of either a unitary or a supervisory board”. Noia, Carmine Di., (2009) at ECIIA Conference shows after the crisis 2009 in Europe, there is no definition of shareholder due to national jealousy of company law; no harmonization of record date; and no shareholder identification. And OECD (2009) confirmed that the financial crisis can be an attribute to failures and weaknesses in corporate governance system, including risk management system and executives salaries. After crisis 2007-2008, Erkens, David., Hung, Mingyi., and Matos, Pedro., (2010), found out that during crisis, firms with more independent boards raised more equity capital, which partially caused them to experience worse stock returns. Last but not least, AFG 2010 Corporate Governance (CG) Code, France, stated the European code should be completed so that basic CG guidelines were defined to encourage best CG practices in every field for all listed companies in European Economic Area. And Aytekin et al (2013) concluded that researchers and practitioners should give special attention to board development and its functioning in order to develop corporate governance in Turkey, and also in Canada, because this factor is found to be weak compared to other factors.

But, what are the comparative guidelines of northern Asian corporate governance standards?

Theory of Corporate Governance, Scandal and Market Manipulation

Theory of Manipulation

Different ownership structure affects manipulation. In dispersed ownership regime, manager may have incentives to do some stock market manipulation. Baik, Bok Billing, Bruce K. and Morton, Richard M., (2005) expressed SEC’ concerns that managers can manipulate non-GAAP measures to mislead investors. Moreover, it can be viewed from accounting manipulation side, which covers accounting techniques (such as one-time charges,) to manipulate expenses and profits of the company. The US Exchange Act 1934 or Australian Corporation Act 2001 have a section describing

market manipulation as transactions which create an artificial price for a tradable security.

Theory of Corporate Governance and Financial Crisis

The 2012 CG Code in Pakistan mentioned good CG instills investor confidence. The UK Financial Reporting Council (2010) stated corporate governance is about what the board of a company does and how it sets the values of the company, and is to be distinguished from the day to day operational management of the company by full-time executives. We can see, therefore, different approaches on corporate governance.

RESEARCH METHODOLOGY

First of all, we perform a comparative analysis of Northern Asian corporate governance principles in each different group including: 1) Northern Asian representative Corporate Governance group, here, we select two countries: Mongolia and Bangladesh which have many modifications in their history of issuing corporate governance principles;

We also use international standards of corporate governance for reference such as: ADB and OECD’s corporate governance principles as reference.

After that, we make a suggestion on what so-called common corporate governance principles for Northern Asian which is aiming to create a basic background for relevant corporations interesting in corporate governance subject. Additionally, it can be considered as the recommendation to relevant countries’ government and other relevant organizations for public policy and necessary evaluation. For a summary of our standards, see Exhibit sessions and the below table 4.

EMPIRICAL FINDINGS

In business life, corporate governance is a framework that will guide businesses in managing interconnections of multiple and diversified elements in their internal and external environments. This framework uses sustainable development as a concept that could successfully be adapted into strategic management theory and practice. Errors in using CG framework might create manipulation and lead to the scandals and bankruptcies of many companies.

Findings on Corporate Governance Issues after Financial Crisis, Corporate Scandals and Market Manipulation

There are several popular issues including: there still lacks of the appraisal of the role of the legal division in the company which contributes to the bad results on the corporate performance and scandals.

We can point it out another CG issue. It is, the errors of financial and accounting procedures that lead to manipulation in both balance sheet and income statement.

Findings on Ways of Manipulation during Corporate Scandals

Several Manipulation Techniques found out during corporate scandals involve, but not limited to:

The Manipulation Techniques in the Income Statement

Here, the company's revenues are recorded when the company is not completing all services committed. Or managers join in cooking the firm books and manipulating the company earnings. For example, in the 2006 Health south scandal, the company earnings was boosted (\$1.4 billion from 1996 to 2003) with fictitious transactions.

The Manipulation Techniques in Both the Income Statement and Balance Sheet

In case of Lehman Brothers (2008), it is accused of using another company, Hudson Castle, for its accounting manipulation which means transferring its asset and risks. Or in 2002 Adelphia scandal, one of the largest cable firm in the US, revenues from its subsidiaries and other businesses flowed into one account which used to pay bills. Then, the management used company's line of credit for personal purchases.

The Manipulation Techniques Relevant to International Accounting Practice Code

We can see two (2) below different popular accounting rules on treatment "impairment" term which may mislead the company.

In IFRs: Impairment is recorded when an asset's carrying amount exceeds the higher of the asset's value-in-use (discounted present value of the asset's expected future cash flows) and fair value less costs to sell.

And in GAAPs: Impairment is recorded when an asset's carrying amount exceeds the expected

future cash flows to be derived from the asset on an undiscounted basis.

Other Manipulation Techniques Not Belong to Above Classifications

Manipulation can happen when the individual or company sells share when the price is high and buy back when low price to maximize the return. Moreover, manipulation happen if fund managers can use invested money for their own purposes and steal funds from investors. For example, in 2008 Mad off investment scandal, people and investors entrusted fund management but the money were used for management personal gain and investors lost \$50 billion.

Actions on Preventing or Controlling Negative Manipulation

Necessary actions to prevent or control negative market manipulation are, but not limited to, periodically re-evaluation of Code of Best Practices, enhancing board independence, and internal procedures to avoid corruption.

Findings on Construction of Limited Common Northern Asian Corporate Governance Standards

These findings will be shown in a detailed analysis of a model indicated in the later sessions.

<D.1> - Group 1 – Northern Asia Representative Corporate Governance Standards Analysis in Bangladesh

The 2004 Code of Corporate Governance mentioned boards need to have secretary or compliance officer.

One of its main characteristics is the establishment of asset-liability (ALCO) committee in FI that examine risk level of assets and liabilities. ALCO meets at least monthly to review loan approval, risk MGT and debt restructuring.

It is a good point in the Code that the financial institution (FI) should publish a code of best practice for customers.

In general, the 2004 Code has CG for SOES, FI and NGO. But it would be better to clarify roles of supervisory board.

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Table1. *The Bangladesh 2004 Corporate Governance Code (A Short Summary Evaluation)*

Subjects or parties	Main quality factors	Sub quality factors	Responsibilities	Objectives	Note
Audit committee	AC chairman be NED with financial experience;	At least 3 members;	Sign/review balance sheet, profit and loss statement;	True and fair picture of co.;	
Nomination committee	Not mentioned clearly in the Code	Not mentioned clearly in the Code	May nominate qualified persons for directorship;	Not mentioned clearly in the Code	
Compensation or Remuneration committee	Not mentioned clearly in the Code	Compensation for BD;	Not mentioned clearly in the Code	Not mentioned clearly in the Code	
CEO	Statement on effectiveness of IC, IA;	Sign/review balance sheet, profit and loss statement;	May be invited to attend committee meeting;	True and fair picture of co.;	
The Chair	Statement on effectiveness of IC, IA;	May be invited to attend committee meeting;	BD chairman prepare board agenda;	Not mentioned clearly in the Code	
CEO and The Chair relationship	Not mentioned clearly in the Code	Not mentioned clearly in the Code	may sign compliance certificate;	Not mentioned clearly in the Code	
Corporate Secretary	Coordinate b.t board and committee;	Attend committee meeting; may sign compliance certificate;	Circulate board papers; keep annual record of compliance with CG Code;	Not mentioned clearly in the Code	
Compliance officer	Not mentioned clearly in the Code	Advice on IC; sign compliance certificate;	Advise senior MGT and board on duties, liabilities, legal;	Not mentioned clearly in the Code	
Board of Directors	Add value to BD, independent judgement; not hold directorship more than 6 boards;	Not involve in day to day operational decisions; majority NEDs, independent directors;	Provide strategic policy;	in the best interests of the company and shareholders	
Executive director	Not mentioned clearly in the Code	Join BD; hold senior MGT position;	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Understood from the Code
Non-executive director	AC chairman be NED;	Join BD, AC, NC;	Not mentioned clearly in the Code	Not mentioned clearly in the Code	
(Senior) Independent director	Not have financial, commercial to the co.;	Join BD;	Not mentioned clearly in the Code	Not mentioned clearly in the Code	
CFO/Finance Director	Not mentioned clearly in the Code	Statement on effectiveness of IC, IA;	Sign/review balance sheet, profit and loss statement;	True and fair picture of co.;	
Management team	Not mentioned clearly in the Code	Accountable to BD;	BD provide direction to MGT; BD determine MGT performance criteria;	Not mentioned clearly in the Code	
Supervisory board	Not mentioned clearly in the Code	In NGO, by General body;	Not mentioned clearly in the Code	Not mentioned clearly in the Code	

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Internal control	Not mentioned clearly in the Code	Not mentioned clearly in the Code	BD monitor IC mechanism; AC review internal risk controls;	Maintain the accuracy of financial results;	
Internal audit	Ensure adequate resource , information access for IA; access any record any time any location;	AC meet IA at least once a year w/o MGT; independent from mgt;	AC approve and remove IA, review IA reports and plan; investigate all levels of co.;	Protect the co. and shareholders;	
External audit	Independent, well-qualified; rotated at least 3 yrs;	AC access objectivity of EA;	Not mentioned clearly in the Code	Not mentioned clearly in the Code	
Disclosure and transparency	Disclose shareholders owning > 10% shares	Disclose quarterly unaudited results;	Disclose annual director report, including compliance certificate;	Not mentioned clearly in the Code	
Shareholders and Minority Stockholder	Not mentioned clearly in the Code	Elect the board;	May nominate directors, audit firms;	Not mentioned clearly in the Code	
Accountability	Not mentioned clearly in the Code	Accounts audited to conform with IAS;	BD create code of conduct detailing director roles, duties;	Not mentioned clearly in the Code	
Leadership	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Act by CEO/MD, chair, BD;	Not mentioned clearly in the Code	
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties. Smaller listed companies can ignore some provisions.				

In Mongolia

It includes roles of BD and suggests an Operational rules for Board of directors.

A short summary and evaluation of this revised 2007 Code is shown in the Exhibit 1.

Besides, it pays attention to active participation in BD/committee meetings.

Another different point is the function of BD. The 2007 Code suggests BD oversee risk MGT.

In short summary, Strengths of the Mongolia Code are, but not limited to, mentioning a transparent nomination procedure for executive mgt, though the Code does not well clarify CEO and NED duties.

Exhibit1. Evaluation of 2007 Mongolia Code of Corporate Governance

Subjects or parties	Main quality factors	Sub quality factors	Responsibilities	Objectives	Note
Audit committee	At least 3 board members; 2/3 independent including chairman;	1 member with financial and accounting experience;	Exercise control over financial matters; evaluate an independent auditing firm;	Not mentioned clearly in the Code	
Nomination committee	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Gather information of candidates for executive positions;	Not mentioned clearly in the Code	
Compensation or Remuneration committee	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Set maximum limits on compensation;	Not mentioned clearly in the Code	
CEO	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Not mentioned clearly in the Code	
The Chair	Not mentioned clearly in the Code	BD chair not same as ED;	GM chairman not interrupt a person speech;	Not mentioned clearly in the Code	

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CEO and The Chair relationship	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Not mentioned clearly in the Code	
Corporate Secretary	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Reply shareholder requests; disclose dividend policy publicly;	Not mentioned clearly in the Code	
Compliance officer	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Not mentioned clearly in the Code	
Board of Directors	Sufficient no. of independent members;	Sufficient education, qualification, experience;	Join in BD/committee meetings; define objectives/strategy;	Not mentioned clearly in the Code	
Executive director	Not mentioned clearly in the Code	Sufficient time for normal operation and duties implementation;	Attend GM with BD;	Not mentioned clearly in the Code	
Non-executive director	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Not mentioned clearly in the Code	
Independent director	Not a big customer of the co.;	Independence from exe.mgt;	Not mentioned clearly in the Code	Keep effective supervision of BD on activity of executive team and managers;	
CFO	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Not mentioned clearly in the Code	
Management team (Board)	Exe.mgt have sufficient time for normal operation and duties implementation;	Executive mgt reports tasks to BD and shareholders; run by a team;	BD secure efficient and appropriate activity of executive mgt; guided by business plan;	Not mentioned clearly in the Code	
Supervisory board	Supervisory council and BD committees;	Attend GM; prof. advice from auditors, lawyers;	Effective internal supervision system;	Daily activities compliance with business plans;	
Internal control	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Not mentioned clearly in the Code	
Internal audit	Transparency;	Coherent, capable;	Divided into supervisory council and AC and internal supervision unit operated under exe.mgt;	Improve investor confidence;	
External audit	Transparency;	Independent, professional;	Not represent co. mgt, friends, business partners;	Not mentioned clearly in the Code	
Disclosure and transparency	Disclose independent audit organization;	Clear dividend distribution mechanism;	Transparent election of BD and ED; employ an officer for information disclosure;	Not mentioned clearly in the Code	
Shareholders and Minority Stockholder	Have complete information during election of BD;	Sufficient time to prepare for GM;	Access the participant list in GM to exchange opinion;	Increase shareholder/investor confidence;	
Accountability	Executive mgt not use information	BD set regulation to deal with	Exe.mgt consider interests of 3 rd parties: creditors, government,	Not mentioned clearly in the Code	

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	about the co. for own interests;	conflict of interest among shareholders;	administration;		
Leadership	Not mentioned clearly in the Code	Not mentioned clearly in the Code	Act by BD;	Not mentioned clearly in the Code	
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties.				

Comparison between Bangladesh and Mongolia Corporate Governance Standards

It is in the 2004 Bangladesh Code that the compliance officer in FI provide regular reports to BD on the adequacy of CG.

While, the Mongolia Code take into account of roles of executive management in implementing decisions of BD

Another advantage in the Bangladesh Code is the MD/CEO accountable to BD in SOEs, not to politicians or other government officials.

On the contrary, the Mongolia Code illustrates executive mgt perform decisions of supervisory council.

In Bangladesh Code, it requires that institutional shareholders should take an active role in evaluating director decisions, company performance. On the other hand, Mongolia Code stated dealing with conflict of interest set out in the Company Code.

The 1st Establishment of a So-Called Limited Northern Asian Representative Corporate Governance Standards

With the selection of Mongolia and Bangladesh as two Asian countries (limited) which represent in the construction of general corporate governance principles and standards, we build the below table with the following criteria

Firstly, it includes contents that enable firm to encounter corporate governance issues after the corporate scandals and financial crisis. It also functions as a summary of general corporate governance standards from these two Asian representative countries.

Therefore, we use the term “Limited Northern Asian Representative Corporate governance standards” to represent for the common criteria. The term “limited” here means the criteria mentioned below is better in the light of the author’s appraisal, which is considered in the context that the financial crisis and the corporate scandals caused many errors in the system of Corporate Governance in North Asia. It is also constructed in the way that being the better understandable criteria.

Table2. A Summary of A Limited Northern Asian Representative Corporate Governance General Standards

Subjects or parties	Main quality factors	Sub quality factors
Audit committee	Examine whether financial mgt done properly, whether performance of key officials proper;	Professional work experience not less than 2 yrs;
CEO and The Chair	BD chair not same as ED;	BD evaluate chair performance at least once a year;
Corporate Secretary	Reply shareholder requests; disclose dividend policy publicly;	Circulate board papers; keep annual record of compliance with CG Code;
Compliance officer	Advise senior MGT and board on duties, liabilities, legal;	Advice on IC; sign compliance certificate;
Board of Directors	those not attend at least 50% BD meeting not qualify for re-election; 7 to 15 directors;	Mix of characteristics, perspectives, EDs and NEDs, outside/independent directors;
Independent director	Not a controlling shareholder, or relative members of executive team;	At least 1/3 BD members;
Supervisory board to the Management	Supervisory council and BD committees;	By BD; internal supervisory system (monitor daily financial and economic activities, compliance with legislation);
Supervisory to the Board of Directors	BD may use an independent outsider to make an external evaluation of BD;	BD can invite senior MGT, outside professional to BD meeting;
Internal control	BD monitor IC mechanism; AC review internal risk controls;	N/A (for further research and implementation)
Internal audit	Divided into supervisory council and AC and internal supervision unit operated under exe.mgt;	Ensure adequate resource , information access for IA; access any record any time any location;

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External audit	Not represent co. mgt, friends, business partners;	Independent, well-qualified; rotated at least 3 yrs;
Disclosure and transparency	Transparent election of BD and ED; employ an officer for information disclosure;	Disclose shareholders owning > 10% shares
Shareholders	Shareholder handbook available on website;	AGM agenda covers approval of previous meeting minute;
The corporation as a whole entity (enterprise)	Prove funds for individual director training and board development;	Communicate effectively with shareholders, stakeholders;

One element of the above content is the competitive advantage. It is a sustainable approach to CG and management which are built on non-material factors such as people, social capital (values, motivations, relationships), organisation and management (organisational culture, management systems) and intangible assets (knowledge, regulations). This element can be part of a differentiation strategy when a company aims to stand out as socially sensitive and stakeholders friendly which may be appreciated by the customers and workers.

CONCLUSIONS

The Bangladesh CG Code pointed if the Code could be implemented, the reputation for Bangladesh for investment and aid will be enhanced as well as the prospects for economic growth. The concept presented in this research paper is founded on previous researches and latest governance practices which could provide guidelines of implementing the principles of sustainable corporate governance into businesses and encourage management practices.

Among several key corporate governance issues is the setting of a sound organization of committee. To do this, the Mongolia Code proposes several committees including: AC, HR and Dispute resolution committee (dealing with any conflicts arise in firm).

In consideration of corporate governance issues analyzed in the previous sessions, we proposed the main and sub quality factors in this paper a set of general corporate governance standards in a limited Northern Asian model with selected countries. It has some implications for further research and proper recommendations to relevant government and organizations.

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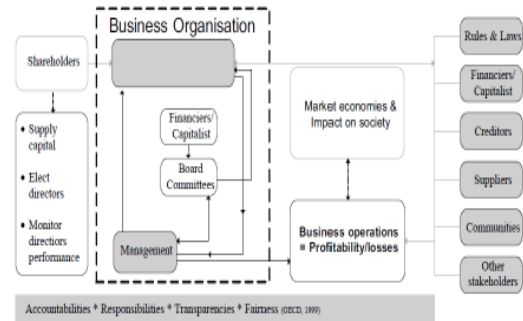
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GLOSSARY AND NOTES

AGM	Annual General Meeting, (and GM, in which can be facilitated by Internet tools)
AFG	Association Francaise de la Gestion financiere
CGB	Corporate Governance Board
GM	General Meeting (see above) or Shareholders' Meeting
AGM	Annual General Meeting
CG	Corporate Governance
DG	Directorates Governance
SB	Supervisory Board
BD	Board of Directors
SGB	Supreme Governing Body (SB and BD)
CGB	Central Governing Body (SB and BD)
CEO	Chief Executive Officer, or Chief Executive
CFO	Chief Financial Officer, or Finance Director
MB	Management Board
AC	Audit Committee
CNC	Compensation or Numeration Committee
NC	Nominating Committee
SEC	The Securities and Exchange Commission

MGT	Management
BM	Board Meeting
AR	Annual Report
IA	Internal Audit
RM	Risk Management
IC	Internal Control

Exhibit2. Corporate governance parties



Source: Loh Leong Hua & Ragayah Haji Matzin, *Corporate Governance: Theory and some insights into the Malaysian Practice*, 2007

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