**Corporate Governance in the Banking Sector of Bangladesh: Current Practices and Future Prospects**

***Abstract***

This article delves into the evolving landscape of corporate governance in the banking sector of Bangladesh, exploring its current practices, challenges, and future directions. As the backbone of the nation's economy, banks face pressing governance challenges that impact their stability and growth. While recent strides have been made in regulatory compliance, risk management, and transparency, significant gaps remain, particularly in board diversity, stakeholder engagement, and ethical oversight. Using a descriptive analysis based on secondary sources, this study examines governance frameworks through academic literature, regulatory guidelines, and reports from Bangladesh Bank and other governing bodies. The findings reveal a mixed landscape: while banks have strengthened their governance structures through independent board oversight, risk management frameworks, and regulatory compliance, persistent issues such as political influence, inadequate risk assessment, and weak whistleblower protections continue to pose risks. Moreover, gaps in disclosure practices hinder transparency and accountability. The study advocates for a more robust governance framework that aligns with international best practices, such as the Basel Committee’s corporate governance principles. The analysis primarily focused on existing practices and the data available at the time, which may not fully capture the complexities or evolving trends within all banking institutions in Bangladesh. Additionally, the field of corporate governance is continuously evolving, and some of the recommendations made here may not fully reflect the most recent changes in governance models, regulations, or global trends. A collaborative approach involving banks, regulators, and policymakers is essential to fostering a culture of ethical banking, proactive risk management, and stakeholder inclusivity. By embracing these changes, the banking sector in Bangladesh can enhance resilience, attract investment, and secure a sustainable future in an increasingly competitive global financial landscape.

***Keywords*:** Corporate Governance, Regulatory Compliance, Risk Management, Banking Sector, Bangladesh

1. **Introduction**

In recent years, the banking industry is facing increased competition to improve its services, forced by technological changes and deregulations. As a consequent of the increasing focus in the banking arena, the emphasis has been given to the improvement of the efficiency of the banking industry (Rashid et al., 2020). Corporate governance in the global banking sector has gained prominence due to its pivotal role in ensuring financial stability, enhancing investor confidence, and fostering economic growth. The Organization for Economic Co-operation and Development (OECD) defines corporate governance as a system of principles, procedures, and policies that govern how an organization is directed and controlled, ensuring accountability, transparency, and equitable decision-making (OECD, 2015). The World Bank (2007) highlights its importance in improving economic efficiency and strengthening investor confidence, while the Bank for International Settlements (BIS, 2015) emphasizes its contribution to financial stability. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance (Datta et al., 2023).

In Bangladesh, the banking sector serves as the primary facilitator of financial intermediation, supporting economic development by providing essential financial services to individuals and businesses. Given its systemic significance, strong corporate governance mechanisms are crucial to maintaining the integrity, efficiency, and resilience of banking institutions. Weak governance can result in financial instability, corruption, mismanagement, and crises, as illustrated by global banking failures, including the 2008 financial crisis. Bangladesh has also experienced corporate governance failures, such as the Hallmark Group and Basic Bank scandals, underscoring the urgency for reinforced governance measures.

Academic research extensively covers corporate governance within the banking sector, particularly in emerging economies like Bangladesh. Mamun (2020) underscores the significance of corporate governance in safeguarding depositors’ funds while maximizing shareholder value. The study identifies nine critical governance factors, including independent board oversight, rigorous internal controls, and stringent regulatory policies. Similarly, Ahasanuzzaman (2022) establishes a strong positive correlation between corporate governance and financial performance in Bangladeshi commercial banks, as indicated by Return on Assets (ROA) and Return on Equity (ROE).

Despite regulatory improvements, several studies reveal ongoing governance challenges. Mahmud and Ara (2015) explore corporate governance structures in Bangladeshi banks, identifying issues related to board effectiveness, audit frameworks, and regulatory enforcement. They argue that governance failures often stem from a lack of transparency and weak enforcement mechanisms. Additionally, Mahmood and Islam (2015) highlight financial fraud and governance breaches within the banking industry, citing examples of misappropriation and regulatory non-compliance. Siddiqui (2010) critiques the adoption of the Anglo-American corporate governance model in Bangladesh, arguing that it may not be entirely suited to the country’s socio-economic context.

Research from other South Asian economies, such as Sri Lanka, further enriches this discourse. Ajanthan, Balaputhiran, and Nimalathashan (2013) investigate governance practices in Sri Lankan banks, emphasizing the significance of board diversity, external directors, and governance committees in enhancing banking performance. Their findings suggest that South Asian banking sectors face common governance challenges, including political interference, weak regulatory frameworks, and inadequate risk assessment strategies.

Given the interconnected nature of the financial system, strengthening corporate governance in the banking sector of Bangladesh carries significant implications. Well-structured governance frameworks can:

* Enhance financial stability by mitigating risks associated with poor management and unethical practices.
* Bolster investor confidence and attract foreign investments by ensuring transparency and accountability.
* Promote a culture of ethical banking, reducing corruption and mismanagement.
* Strengthen regulatory oversight and align governance practices with international standards, such as the Basel Committee’s principles.

This article aims to provide a comprehensive analysis of corporate governance practices in Bangladesh’s banking sector, identifying major challenges and proposing policy recommendations to enhance governance structures. Addressing governance shortcomings will enable the banking sector to build resilience, mitigate financial risks, and support sustainable economic growth.

1. **Literature review**

Corporate governance refers to the principles, regulations, and procedures that guide a company's management and decision-making to uphold accountability, transparency, and fairness in its interactions with various stakeholders, such as shareholders, executives, customers, regulators, and the broader community. It provides a structured approach to achieving long-term objectives, improving operational effectiveness, and preserving corporate integrity. Strong corporate governance plays a vital role in minimizing risks, deterring fraudulent activities, and enhancing investor trust by ensuring that decisions adhere to ethical guidelines and legal requirements. In the banking industry, effective governance is especially important as it protects depositors' funds, maintains financial stability, and ensures adherence to regulatory standards.

In the context of the banking sector of Bangladesh, corporate governance is pivotal for promoting economic growth and ensuring financial stability. Mamun (2020) emphasizes the vital role that governance plays in the banking industry, noting that effective management is essential not only for protecting depositors’ funds but also for maximizing shareholder value. The study identifies nine critical factors that contribute to effective corporate governance in Bangladeshi banks, highlighting the need for a sound regulatory framework and a competitive banking environment to foster good governance practices.

Ahasanuzzaman (2022) provides an in-depth analysis of the relationship between corporate governance practices and financial performance in Bangladeshi commercial banks. The study evaluates the impact of corporate governance on two key performance metrics: ROA and ROE. The study examines seven core components of corporate governance as independent variables, testing their relationship with ROA and ROE through multiple hypotheses. Results indicate a significant positive correlation between corporate governance practices and financial performance, underscoring the importance of robust governance structures in driving profitability and operational success in banks.

Mahmud and Ara's (2015) study focuses on corporate governance practices within the banking industry, revealing significant governance challenges. The authors assess the roles and understanding of boards of directors, the structure of various organizational committees, and the quality of audit procedures and independent directors' contributions. The study’s findings indicate that the regulatory framework for corporate governance in Bangladesh’s banking sector is inadequate. Factors such as insufficient accountability, a lack of transparency and fairness in practices, and ineffective audit and disclosure mechanisms have contributed to widespread corruption in the industry.

The importance of corporate governance in the banking sector has become increasingly apparent, especially following high-profile corporate failures and fraud cases that have highlighted governance weaknesses (Mahmood & Islam, 2015). In Bangladesh, the central bank, Bangladesh Bank, issues guidelines that are critical for maintaining financial stability within the banking sector. However, scandals, such as the Hallmark Group’s BDT 4000 crore scam and the Bismillah Group and Basic Bank scams, underscore a pervasive lack of adherence to corporate governance principles, resulting in significant financial harm (Mahmood & Islam, 2015).

The study by Ajanthan, Balaputhiran, and Nimalathashan (2013) examines the relationship between corporate governance and banking performance in Sri Lanka, with a comparative focus on the state and private banking sectors. The study investigates how various corporate governance factors, such as board size (BS), board diversity (BD), outside directors' percentage (OSDP), and board meeting frequency (BMF), correlate with performance indicators in banks. These performance indicators are specifically measured through ROE and ROA, two widely recognized metrics of profitability and operational efficiency in the banking sector.

Siddiqui (2010) explores corporate governance regulation development in Bangladesh, illustrating how emerging economies face unique governance challenges. Bangladesh has adopted the Anglo-American shareholder model, commonly used in Western economies, despite its potential misalignment with local contexts. The study employs new institutionalism theory, suggesting that legitimacy pressures from global actors, rather than efficiency motivations, have driven this adoption, as seen in similar developing countries (DiMaggio & Powell, 1983; Carson, 2003). Such findings underscore the tension between global standards and local realities in governance reform.

This study addresses several gaps identified in the existing literature by offering an updated and context-specific examination of governance practices in Bangladeshi banks. While prior studies have highlighted the importance of corporate governance in boosting financial stability and performance (Ahasanuzzaman, 2022; Mamun, 2020) and noted issues with regulatory compliance and governance frameworks (Mahmud & Ara, 2015; Mahmood & Islam, 2015), they often lack tailored recommendations for improving governance practices in Bangladesh. By addressing these gaps, the study may offer valuable insights into more effective governance structures and regulatory approaches that can foster both stability and growth within the banking sector of Bangladesh.

**Objectives**

The broad objective of this study is to analyze the practices of corporate governance in the banking sector of Bangladesh. Specifically, the study aims to examine existing practices, and key challenges, review the regulatory framework, and promote ethical practices for fostering effective corporate governance in the banking sector of Bangladesh.

1. **Methodology**

This study employs a descriptive analysis utilizing exclusively secondary sources to examine corporate governance practices in the banking sector of Bangladesh. Existing academic literature, including journal articles, books, and conference papers, has been reviewed (Ahasanuzzaman, 2022; Mamun, 2020; Mahmud & Ara, 2015; Mahmood & Islam, 2015; Ajanthan, Balaputhiran, and Nimalathashan, 2013). This review focuses on previous research related to corporate governance in the banking sector, particularly in the context of Bangladesh. Sources included reputable academic databases such as Google Scholar and Scopus, relevant regulatory frameworks and guidelines issued by Bangladesh Bank and other governing bodies have been analyzed, including corporate governance codes, compliance reports, and policy papers that outline the standards and expectations for practicing corporate governance in the banking sector of Bangladesh (Bangladesh Bank, 2018). Comprehensive reports on various banks operating in Bangladesh have also been reviewed, providing valuable information on governance structures, board composition, and risk management practices. By utilizing secondary data, this study aims to provide a robust and well-rounded understanding of corporate governance in Bangladeshi banks, contributing valuable insights for stakeholders and policymakers.

1. **Results and Discussion**

This section begins by outlining the conceptual framework that underpins corporate governance, setting the foundation for understanding governance in the context of banking institutions. Following this, the Basel Committee’s principles on corporate governance in banks are examined to highlight international standards relevant to Bangladesh’s financial system. Revisions of the specific laws, regulations, and guidelines enforced by Bangladeshi regulatory bodies have also been incorporated. These regulatory frameworks are crucial in shaping accountability, transparency, and ethical conduct across the sector. The analysis then turns to the current practices of corporate governance identifying notable strengths and areas that require improvement. This includes an evaluation of board composition, ownership structures, and risk management processes. Finally, discussions have been made on future directions to align Bangladeshi banking governance more closely with global standards and to better prepare for emerging challenges.

**4.1 Corporate Governance-Conceptual Framework**

The conceptual framework of corporate governance in the banking sector of Bangladesh encompasses a set of principles, practices, and systems that guide how banks are directed and controlled. This framework is designed to enhance accountability, transparency, and ethical behavior, ensuring that banks operate in the best interests of their stakeholders, including shareholders, customers, employees, regulators, and the broader community.

Below is a detailed examination of the key components of this framework.

**4.1.1 Core Principles of Corporate Governance**

**Accountability**

* Board Responsibilities: The board of directors is accountable for the strategic direction and overall performance of the bank. This includes overseeing management, ensuring compliance, and protecting stakeholder interests.
* Performance Evaluation: Regular assessments of board and executive performance help ensure accountability and continuous improvement.

**Transparency**

* Disclosure Requirements: Banks are required to disclose relevant financial and non-financial information, enabling stakeholders to make informed decisions. This includes annual reports, audit findings, and governance practices.
* Communication Channels: Establishing effective communication channels with stakeholders fosters transparency and trust.

**4.1.2 Governance Structure**

**Board of Directors**

* **Composition**: The board should comprise a mix of executive, non-executive, and independent directors. This diversity enhances decision-making and provides a broader perspective on governance issues.
* **Committees**: Establishing specialized committees, such as audit, risk, and remuneration committees, allows for more focused oversight and expertise in critical governance areas.

**Management**

* **Separation of Roles**: Delineating the roles of the board and management is vital to avoid power concentration and ensure checks and balances within the organization.
* **Leadership Development**: Continuous leadership development programs ensure that management is equipped with the necessary skills and knowledge to uphold governance standards.

**4.1.3 Risk Management Framework**

**Comprehensive Risk Policies**

* **Integrated Risk Management**: Banks should adopt an integrated approach to risk management that encompasses credit, market, operational, and reputational risks, aligning with overall governance objectives.

**Risk Culture**

* **Encouraging Open Dialogue**: Fostering a culture that encourages employees to report risks and ethical concerns promotes proactive risk management and strengthens governance.

**4.1.4 Stakeholder Engagement**

**Engagement Strategies**

* **Regular Consultations**: Conducting regular consultations with stakeholders and soliciting feedback can enhance trust and inform governance practices.
* **Corporate Social Responsibility (CSR)**: Engaging in CSR initiatives aligns banks with community interests and promotes a positive corporate image.

**4.1.5 Internal Controls and Auditing**

**Internal Control Systems**

* **Robust Internal Controls**: Implementing effective internal control systems helps mitigate risks, prevent fraud, and ensure compliance with regulations.

**Internal and External Audits**

* **Independent Audits**: Regular internal and external audits assure the effectiveness of governance practices and compliance with regulatory requirements.

**4.1.6 Ethical Framework**

**Code of Ethics**

* **Establishing Ethical Standards**: Developing a comprehensive code of ethics that outlines expected behaviors and decision-making principles helps promote integrity within the organization.

**Whistleblower Protection**

* **Encouraging Reporting**: Implementing mechanisms that protect whistleblowers from retaliation fosters a culture of transparency and accountability.

**4.2 Basel Principles on Corporate Governance in Banks**

In July 2015, the Basel Committee on Banking Supervision released its updated corporate governance principles for banks. These 13 revised principles establish a framework for banks and regulators to ensure effective and transparent risk management and decision-making.

**Principle1: Board Responsibility**

The board holds ultimate responsibility for the bank, including the approval and oversight of management’s execution of strategic goals, governance frameworks, and corporate culture. **Principle 2: Board Qualifications and Composition**

The board should comprise a balanced mix of skills, diversity, and expertise suitable for the bank's size, complexity, and risk profile. Board members must be qualified for their roles and understand their governance responsibilities.

**Principle 3: Board Structure and Practices**

Regular performance evaluations of the board, its chair, and its committees are essential. The chair should be an independent or non-executive member.

**Principle 4: Senior Management Guidance**

Clear definitions of the roles, skills, appointment processes, delegation of duties, and accountability for senior management are crucial. They must align the bank's operations with the strategic goals, risk appetite, and policies approved by the board.

**Principle 5: Governance of Group Structures**

The parent company’s board must understand material risks and issues impacting the banking group and its subsidiaries while providing adequate oversight.

**Principle 6: Risk Management Function**

An independent risk management function should be led by a chief risk officer (CRO) with the authority, resources, and access to the board necessary for effective operation.

**Principle 7: Risk Identification and Monitoring**

A risk governance framework should include comprehensive policies and control processes to ensure effective risk identification, aggregation, mitigation, and monitoring aligned with the bank’s size and complexity.

**Principle 8: Risk Communication**

Timely, accurate, and comprehensible communication of risk-related information is essential within the bank and to the board and senior management.

**Principle 9: Compliance Function**

An independent compliance function should be established, with policies and processes for identifying, assessing, and reporting compliance risks.

**Principle 10: Internal Audit**

The internal audit function should have a defined mandate, accountability to the board, and independence from the activities it audits. It must possess the authority, resources, and skills necessary to provide independent assurance of the effectiveness of the bank’s internal controls, risk management, and governance processes.

**Principle 11: Compensation Structure**

The remuneration framework should align with the bank's business strategy, objectives, values, and long-term interests, reflecting risk-taking and outcomes while preventing conflicts of interest.

**Principle 12: Disclosure and Transparency**

Banks must disclose material information related to their objectives, governance structures, ownership, related-party transactions, recruitment and compensation policies, and risk exposures. This transparency is essential for shareholders, depositors, and other stakeholders.

**Principle 13: Supervisory Role**

Supervisors should guide and oversee corporate governance in banks through evaluations and ongoing interactions with boards and senior management.

**4.3 Laws, Regulations and Guidelines**

Bangladesh Bank has established several laws and regulations to enhance corporate governance in the banking sector. These guidelines aim to ensure transparency, accountability, and effective management practices. Here are the key regulations and guidelines:

Table 1: Law, Regulation and Guidelines for Bangladesh bank

* 1. **Bangladesh Bank Guidelines on Corporate Governance (2004)**

|  |  |
| --- | --- |
| **Purpose** | **Key Provisions** |
| These guidelines were issued to improve the governance structure of banks and financial institutions in Bangladesh. | * Establishment of a clear governance framework outlining the roles and responsibilities of the board, management, and shareholders. * Emphasis on the independence and qualifications of board members, requiring a certain percentage of independent directors. * Requirements for the formation of various committees (e.g., audit, risk management, credit management) to oversee key governance areas. |

* 1. **Bank Companies Act, 1991**

|  |  |
| --- | --- |
| **Purpose** | **Key Provisions** |
| This Act provides the legal framework for the operation of banks in Bangladesh and includes provisions related to corporate governance. | * Requirements for the formation of a board of directors and their responsibilities. * Regulations regarding the appointment, qualifications, and disqualifications of directors. * Provisions related to the management of bank assets and liabilities, ensuring prudent financial management. |

* 1. **Financial Institutions Act, 1993**

|  |  |
| --- | --- |
| **Purpose** | **Key Provisions** |
| This Act governs non-banking financial institutions (NBFIs) and includes corporate governance provisions similar to those in the Bank Companies Act. | * Governance structures for NBFIs, including board composition and responsibilities. * Requirements for transparency and accountability in financial reporting. |

* 1. **Companies Act, 1994**

|  |  |
| --- | --- |
| **Purpose** | **Key Provisions** |
| While this Act applies to all companies, it includes relevant provisions that impact corporate governance in banks. | * Regulations concerning the duties and responsibilities of directors and officers of companies. * Provisions for shareholder rights, including voting and participation in decision-making processes. |

* 1. **Bangladesh Securities and Exchange Commission (BSEC) Regulations**

|  |  |
| --- | --- |
| **Purpose** | **Key Provisions** |
| Banks listed on the stock exchange must adhere to additional regulations set forth by the BSEC. | * Corporate governance codes emphasize transparency, accountability, and ethical behavior. * Requirements for regular disclosure of financial and non-financial information to stakeholders. |

* 1. **Risk Management Guidelines (2010)**

|  |  |
| --- | --- |
| **Purpose** | **Key Provisions** |
| These guidelines require banks to establish comprehensive risk management frameworks. | * Development of risk management policies and procedures. * Establishment of a risk management committee at the board level to oversee risk-related activities. |

**4.4 Current Practices of Corporate Governance in the Banking Sector of Bangladesh**

The corporate governance landscape in the banking sector of Bangladesh has undergone significant transformation in recent years. The need for increased transparency and the growing importance of accountability, banks in Bangladesh are adopting various practices to enhance their governance frameworks. This section provides an overview of the current practices of corporate governance within the Bangladeshi banking sector.

1. **Regulatory Framework**

The foundation of corporate governance in Bangladesh’s banking sector is shaped by regulations set forth by the Bangladesh Bank, the central bank of the country. Key regulations include:

* **Corporate Governance Guidelines:** These guidelines emphasize the need for banks to adopt a robust governance framework. They outline the roles and responsibilities of the board of directors, management, and shareholders.
* **Banking Companies Act, 1991**: This act provides the legal framework for the establishment and operation of banks in Bangladesh, mandating adherence to corporate governance principles.
* **The Companies Act, 1994**: This act complements banking regulations by establishing standards for corporate governance applicable to all companies, including banks.

1. **Board Composition and Structure**

A key aspect of corporate governance is the composition and structure of the board of directors. Current practices include:

* **Independence**: The guidelines stipulate that a certain percentage of board members must be independent directors. This is designed to enhance oversight and reduce conflicts of interest.
* **Diversity**: There is an increasing emphasis on diversity of boards with varied professional backgrounds.
* **Committees**: Banks are required to establish various committees, including audit, risk management, and remuneration committees. These committees play a crucial role in overseeing specific areas of governance, ensuring that expert input informs key decisions.

1. **Risk Management Framework**

Given the inherent risks in the banking sector, robust risk management practices are essential:

* **Risk Management Policies**: Banks are mandated to develop comprehensive risk management policies that identify, assess, and manage different types of risks, including credit, market, operational, and liquidity risks.
* **Regular Audits**: Independent internal and external audits are conducted to evaluate the effectiveness of risk management systems and ensure compliance with regulatory requirements.
* **Stress Testing**: Banks are increasingly using stress testing to assess their resilience to various economic scenarios, allowing for proactive management of potential risks.

1. **Disclosure and Transparency**

Transparency is vital for building trust and credibility in the banking sector. Current practices include:

* **Financial Reporting**: Banks are required to provide timely and accurate financial reports to stakeholders, including shareholders and regulatory authorities.
* **Disclosure of Information**: Banks must disclose information regarding their governance structures, risk management practices, and financial performance.
* **Shareholder Communication**: Engaging with shareholders through regular updates, meetings, and reports fosters transparency and accountability, allowing shareholders to voice their concerns and contribute to governance discussions.

1. **Ethical Conduct and Compliance**

A commitment to ethical conduct is essential for maintaining stakeholder trust:

* **Code of Conduct**: Many banks have established codes of conduct outlining ethical standards and expected behaviors for employees and management.
* **Compliance Departments**: Banks typically have dedicated compliance departments responsible for ensuring adherence to regulatory requirements and internal policies.

**4.5 Challenges of Practicing Corporate Governance in the Banking Sector of Bangladesh**

This study explores the challenges associated with corporate governance in Bangladesh’s banking sector by conducting an in-depth analysis of various sources, including a literature review, existing studies, local practices, and international benchmarks. The literature review sheds light on governance shortcomings, regulatory deficiencies, and the adverse effects of weak governance on financial performance, as identified in prior research. Empirical studies provide further evidence of governance-related issues, such as ineffective regulatory enforcement, conflicts of interest, and inadequate risk management frameworks. Moreover, an assessment of local banking practices uncovers systemic inefficiencies, including political and familial influence over decision-making, a lack of transparency in financial disclosures, and weak whistleblower protections. To compare governance practices, the study also reviews international standards, such as those established by the Basel Committee on Banking Supervision and the OECD Principles of Corporate Governance, highlighting gaps between global best practices and the governance structures in Bangladeshi banks. By integrating these perspectives, the study effectively identifies critical governance challenges and lays the foundation for strategic reforms to enhance corporate governance in the country’s banking sector. Below are the key challenges faced in implementing corporate governance in this sector:

* 1. **Weak Regulatory Oversight**: While the Bangladesh Bank has established guidelines for corporate governance, the enforcement mechanisms often lack strength.
  2. **Familial and Political Connections**: In many cases, familial ties and political affiliations significantly influence decision-making processes in banks. This can undermine the independence of board members and lead to conflicts of interest, ultimately compromising the integrity of governance practices.
  3. **Limited Understanding of Governance Principles**: Many board members and executives may lack comprehensive understanding of corporate governance principles. This gap can hinder effective oversight and decision-making, preventing banks from fully realizing the benefits of good governance.
  4. **Inadequate Risk Management Frameworks**: Many banks struggle to implement comprehensive risk management frameworks that align with corporate governance principles. This inadequacy can expose banks to various financial and operational risks.
  5. **Limited Capacity for Risk Assessment**: Banks may lack the tools and expertise needed for effective risk assessment and monitoring. This can lead to reactive rather than proactive risk management, increasing vulnerabilities.
  6. **Insufficient Disclosure Practices**: While banks are required to disclose financial and governance-related information, the quality and timeliness of these disclosures can vary significantly. Insufficient transparency can erode stakeholder trust and make it difficult for investors to make informed decisions.
  7. **Whistleblower Protections**: Many banks do not have effective mechanisms in place to protect whistleblowers. This can discourage employees from reporting unethical practices, allowing misconduct to go unchecked.

**Conclusion**

In conclusion, this article emphasizes the crucial importance of effective corporate governance in the banking sector of Bangladesh. The findings from the analysis highlight both progress and persistent challenges within the sector. While there have been significant strides made in regulatory compliance and risk management practices, there remain several fundamental issues that need urgent attention. Among these, the lack of sufficient board diversity, inadequate engagement with stakeholders, and a deficiency in transparency in banking operations are some of the most pressing concerns. If these issues are not addressed effectively, they could undermine the trust and confidence required to attract both domestic and foreign investments, which are essential for the long-term stability and growth of the banking sector.

It is also important to consider the limitations of this study. The analysis primarily focused on existing practices and the data available at the time, which may not fully capture the complexities or evolving trends within all banking institutions in Bangladesh. Additionally, the field of corporate governance is continuously evolving, and some of the recommendations made here may not fully reflect the most recent changes in governance models, regulations, or global trends. As such, these limitations suggest that further research is needed to provide a more comprehensive understanding of the governance landscape and to assess the impact of emerging best practices in the sector.

Looking ahead, banks, regulators, and policymakers in Bangladesh need to work together closely in developing more comprehensive and forward-looking governance frameworks that are in alignment with international best practices. Such collaboration is critical to addressing the existing gaps in governance and ensuring that ethical standards, transparency, and accountability are promoted at all levels of operation. By taking these steps, Bangladesh can foster an environment that enhances trust and encourages investment, both of which are crucial for the sector’s resilience.

Moreover, continuous research and the monitoring of governance reforms will be necessary to measure their effectiveness over time and adjust strategies as needed. By prioritizing these improvements, Bangladesh can significantly strengthen its banking sector, enhancing its ability to navigate the complexities of an increasingly interconnected and competitive global financial market. With a focus on long-term sustainability, these efforts will not only improve the stability of the banking system but will also help position Bangladesh as a robust player in the international financial landscape.

1. **Future Directions**

As the banking sector in Bangladesh continues to evolve, enhancing corporate governance practices will be critical for ensuring financial stability, fostering investor confidence, and promoting sustainable economic growth. The following are key future directions for practising corporate governance in the banking sector of Bangladesh:

**Enhanced Regulatory Compliance**: The Bangladesh Bank should focus on strengthening compliance mechanisms to ensure that banks adhere to corporate governance guidelines rigorously. This could involve more frequent audits and assessments, coupled with increased penalties for non-compliance.

**Clearer Guidelines and Standards**: Establishing more detailed guidelines that align with international best practices can help banks understand their obligations better and implement effective governance practices.

**Board Diversity and Independence**: Encouraging greater diversity on boards, including gender and professional background, can enhance decision-making and oversight. Additionally, ensuring that independent directors have genuine autonomy can help mitigate conflicts of interest.

**Integrated Risk Management Frameworks**: Banks should adopt comprehensive risk management frameworks that encompass all risk types—credit, market, operational, and reputational. This holistic approach will enable better identification and mitigation of risks.

**Stress Testing and Scenario Analysis**: Regular stress testing and scenario analysis should become standard practices, allowing banks to prepare for potential economic shocks and enhance their resilience.

**Comprehensive Disclosure Policies**: Banks should develop robust disclosure policies that go beyond financial performance to include governance practices, risk management strategies, and ESG (Environmental, Social, and Governance) considerations.

**Strengthening Ethical Standards**: Establishing a clear code of conduct and ethical standards, alongside training programs, can promote a culture of integrity within banks. Encouraging whistleblower protections will also help address unethical practices.

**Sustainable Governance Practices**: Integrating sustainability considerations into governance frameworks can align banks with global trends and enhance long-term viability. This includes adopting ESG criteria in decision-making processes.

1. **Policy implications**

By promoting proper corporate governance practices, Bangladesh can create a more resilient banking sector that serves the interests of all parties involved, ultimately contributing to a stable and prosperous economy. Implementing robust corporate governance practices in the banking sector of Bangladesh can yield significant benefits for customers, banks, regulatory authorities, the government, and stakeholders. The following outlines how each entity can benefit from such implementation:

Table 2: Benefits of each entity from Policy implication

|  |  |
| --- | --- |
| **Entity** | **Outcomes** |
| **Customers** | * **Increased Trust and Confidence**: Transparent governance practices foster customer trust, leading to greater customer loyalty and retention. * **Enhanced Service Quality**: A focus on ethical conduct and accountability ensures better service delivery and responsiveness to customer needs. * **Protection of Interests**: Strong governance frameworks safeguard customer rights, ensuring fair treatment and reducing the risk of fraudulent activities. |
| **Banks** | * **Improved Risk Management**: Effective governance enhances banks’ ability to identify, assess, and manage risks, leading to greater financial stability. * **Better Decision-Making**: Diverse and independent boards can make more informed and balanced decisions, positively impacting long-term performance. * **Access to Capital**: Well-governed banks are viewed as lower-risk investments, which can enhance access to capital markets and favorable financing conditions. |
| **Regulatory Authorities** | * **Easier Supervision and Compliance**: Clear governance structures enable regulators to monitor compliance more effectively, facilitating timely interventions when necessary. * **Data-Driven Insights**: Enhanced reporting and transparency allow regulatory authorities to gather critical data for informed policy-making and sectorial assessments. * **Strengthened Regulatory Framework**: By observing improved governance practices, regulators can refine existing frameworks to better address emerging challenges. |
| **Government** | * **Economic Stability**: Strong corporate governance in banks contributes to the overall stability of the financial system, which is essential for economic growth and development. * **Enhanced Foreign Investment**: A transparent and accountable banking sector attracts foreign investors, boosting economic prospects and creating job opportunities. * **Improved Public Policy**: Insights gained from a well-governed banking sector can inform government policies related to financial regulation and economic development. |
| **Stakeholders** | * **Increased Accountability**: Stakeholders benefit from enhanced accountability and transparency, leading to improved relationships and trust between banks and their stakeholders. * **Long-Term Value Creation**: Proper governance practices lead to sustainable business models that benefit all stakeholders through consistent growth and profitability. * **Community Engagement**: A commitment to ethical practices encourages banks to engage with local communities, leading to social responsibility initiatives that benefit society at large. |

1. **Study Gaps and Future Research Directions**

While this study sheds light on corporate governance practices in Bangladesh’s banking sector, several areas remain underexplored, warranting further research.

**Identified Gaps in the Study**

This research predominantly relies on secondary data, highlighting the need for future studies to incorporate primary data collection methods such as surveys, interviews, or case studies to provide empirical insights. Additionally, comparative assessments between corporate governance in Bangladesh’s banking sector and other South Asian or emerging economies remain limited, preventing a broader understanding of best practices and key differentiators. The increasing digitization of banking services introduces new governance challenges, such as cybersecurity risks and digital compliance, yet this study does not deeply examine their implications. Furthermore, the role of corporate social responsibility (CSR) and environmental, social, and governance (ESG) factors in shaping governance policies and practices in the banking sector has not been thoroughly explored, presenting another area for future research.

**Potential Areas for Further Research**

Future research should focus on conducting long-term studies to analyze corporate governance reforms and assess their effectiveness over time. More in-depth studies are needed to evaluate the impact of recent regulatory changes introduced by Bangladesh Bank and their influence on governance standards within financial institutions. Additionally, with the rise of Islamic banking in Bangladesh, it would be valuable to explore the differences in governance structures between Islamic and conventional banking institutions. Investigating stakeholder perspectives, including those of investors, customers, and employees, could provide deeper insights into the perceived efficiency of corporate governance frameworks. Lastly, analyzing specific cases of governance failures within Bangladesh’s banking sector could yield practical lessons on risk mitigation and policy improvements, enhancing governance strategies and regulatory frameworks.

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