LOAN SCAMS AND CORPORATE GOVERNANCE FAILURE IN THE STATE-OWNED BANKS OF A DEVELOPING COUNTRY

Zahir Uddin Ahmed *, Shahanaz Begum **, Kazi Saidul Islam ***, Yousuf Kamal ****

* *Corresponding author*, Department of Accounting, Auckland University of Technology, Auckland, New Zealand
Contact details: Department of Accounting, Auckland University of Technology, Private Bag 92006, Auckland 1142, New Zealand
** Power Grid Company of Bangladesh (PGCB) Ltd., Dhaka, Bangladesh
*** School of Business and Law, Central Queensland University (CQU), Brisbane, Australia
**** School of Accounting and Finance, Derby Business School, University of Derby, United Kingdom

OPEN ACCESS

How to cite this paper: Ahmed, Z. U., Begum, S., Islam, K. S., & Kamal, Y. (2022). Loan scams and corporate governance failure in the state-owned banks of a developing country. *Corporate Ownership & Control, 20*(1), 46–58. https://doi.org/10.22495/cocv20i1art4

ISSN Online: 1810-3057
ISSN Print: 1727-9232

Received: 11.09.2022
Accepted: 11.11.2022

JEL Classification: E50, G21, M41, M48, M49
DOI: 10.22495/cocv20i1art4

Abstract

The corporate world has witnessed significant corporate governance failures during the last two decades. Although most of these collapses happened in the context of developed countries, the cases within developing counties were not negligible. Yet, there is limited research on corporate governance failures that occurred in developing countries. In this study, we attempted to unfold the underlying reasons for corporate governance failures in the banking sector in a developing country. We collected data from media reports published in local and international media about the loan scandals that happened in Bangladesh between 2008 and 2020. We analyzed over ninety-four media reports to understand the significant factors contributing to such corporate governance failures. We applied the "control fraud theory" to interpret our findings. We have found that weak regulatory framework, political influence, lack of oversight by the corporate regulatory bodies, and personal collusion of bank personnel are the major factors that lead to corporate governance failures in Bangladesh. Our results suggest stern measures to be taken by the regulatory bodies to reduce loan scams and corporate governance failures in the future.

Keywords: Corporate Governance, Developing Country, Control Fraud Theory, Media Reports, Loan Scams, Bangladesh

Authors' individual contribution: Conceptualization — Z.U.A. and S.B.; Methodology — Z.U.A. and K.S.I.; Formal Analysis — Z.U.A., S.B., and Y.K.; Investigation — Z.U.A. and S.B.; Resources — Z.U.A., S.B., K.S.I., and Y.K.; Writing — Original Draft —S.B.; Writing — Review & Editing — Z.U.A. and Y.K.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

1. INTRODUCTION

While corporate governance receives wide media and political attention following major corporate collapses, academic research rarely addresses the corporate governance practices of collapsed firms or intends to unfold the underlying reasons for such corporate governance failures (Monem, 2011). Prior research on corporate collapses mainly focused on developing and testing bankruptcy prediction models (Agarwal & Taffler, 2008; Albrecht et al., 2004; Cultrera & Brédart, 2016; Erickson et al., 2006; Hensher & Jones, 2007; Knapp & Knapp, 2007). Accounting scandals, loan scandals, and subprime scandals are popularly known terminologies used to explain corporate scandals, some of which resulted in corporate collapses. As such, "corporate scandals" refers to a situation where a business firm encounters recurring traumas and eventually becomes bankrupt.

Banks and insurance companies represent influential sectors of the economy. Despite the regulatory scrutiny, these sectors exposed themselves several times to severe crises resulting in unexpected failures (Sikka, 2009). Even financial irregularities occurred in giant enterprises, such as Fannie Mae, Freddie Mac, and American International Insurance (AIG). These enterprises were bailed out by the US Government in the public interest. Many banks and financial organizations, such as HIH, Allco Finance Group, Babcock & Brown, Centro, Lehman Brothers, and New Century Financial Corporation, eventually collapsed, causing direct contagion effects on the owners, employees, and other stakeholders. The India-Bangladesh sub-continent claims to be accelerating development with substantial economic growth. However, several corporate scandals hit the reputation of their economies (for example, Satyam, Punjab National Bank, and Saradha Group in India; Bismillah Group and Hallmark Group in Bangladesh). For this study, we have selected a developing country — Bangladesh — as researchers have a growing interest in understanding the governance, transparency, and disclosure practices of organizations operating in developing countries (Belal & Cooper, 2011; Islam & Deegan, 2008).

Bangladesh has been endeavoring to achieve steady but sustainable economic growth. Its growth is currently one of the highest in South Asia. However, the country came across political volatility, governance challenges, and several scandals in the capital market and money market, resulting in corporate governance failures. Bangladeshi corporate culture has been characterized by weak governance, poor reporting quality, and a lack of accountability and transparency (Siddiqui, 2010). The trend of loan defaults in the banking sector has been seen since its independence in 1971. After the independence of Bangladesh, all banks were nationalized and merged into six state-owned commercial banks (SCBs). In 1982, two of them were denationalized, and in 1985 private-owned commercial banks (PCBs) were allowed to operate. Currently, sixty-three banks are operating in Bangladesh, of which six are SCBs, three are specialized banks (SBs), forty-three are PCBs, and nine are foreign commercial banks (FCBs). In 2011, non-performing loans (NPLs) of SCBs were approximately $907 million out of a total loan of $2,243 million. However, the amount has increased to $4,340 million by June 2021, comprising approximately 44% of all default loans (Bangladesh Bank, 2022). The political governments control the governance and operations of these banks. The international financiers raised concern about the irregularities in the banking systems and suggested that "corporate governance should be strengthened and careful due diligence followed in lending decisions" (Dey, 2019, p. 7); however, no sign of improvement has been observed. The significance of assessing and preventing loan scams is, firstly, they are not accidental but carried out with fraudulent objectives. Secondly, loan scams test the nature and effectiveness of banks' corporate governance and regulatory oversight. Thirdly, the entity, industry, stakeholders, and society may suffer if any bank is susceptible to its survival because of colossal loan scams; and finally, recurring loan scams in banks may cause a capital adequacy crisis in the banking sector. These facts come to light and become part of public knowledge when captured in the media headlines. Likewise, the unexpectedness of failure of Lehman Brothers, Storm Financial, and Madoff Securities was unknown until their fraudulent schemes came to light.

While the financial scandals have been under the continuous scrutiny of the media, there is a lack of intensive research analyzing in-depth the corporate governance failures that undermine the efficacy and sustainability of banks. Our study attempts to fill this research gap. The main objective of this research is to understand the factors that contributed to the loan scams (in particular) and corporate governance failures (in general) in the banking sector of Bangladesh. In particular, the study explores why the banking sector in Bangladesh recurrently attracted severe public criticism in relation to loan scandals, money laundering, and embezzlement of funds by individuals. To provide an overview of Bangladesh's banking sector problems, the study then looks at the loan scam and corporate governance factors that led to the rise of loan scams in the state-owned banks in Bangladesh. The "control fraud theory" is applied to interpret the research findings.

The paper is structured into six sections. Relevant literature is discussed in Section 2. Section 3 explains the theoretical framework. Section 4 describes the research methodology of the study. Section 5 outlines an overview of the loan scam and corporate governance irregularities in the state-owned commercial banks in Bangladesh. The study's overall findings of the study are discussed in Section 6. Section 7 concludes the paper with suggestions for policy implications.

2. LITERATURE REVIEW

Researchers increasingly recognize corporate governance as one of the fundamental principles to ensure the efficiency of banks (Chaity & Islam, 2022; Fariha et al., 2022; Fu et al., 2014; Mahbub et al., 2019; Rashid et al., 2020). To increase the operational efficiency of an entity, it is imperative to implement successful corporate governance by ensuring risk mitigation, creating value, and enhancing public accountability (Fu et al., 2014; Otero et al., 2020; Van Greuning & Bratanovic, 2020). Investors, government agencies, and banks are interested in finding out how maintaining good corporate governance can improve organizational performance (Deb et al., 2017; Fariha et al., 2022; Molla et al., 2021; Rashid et al., 2020; Shehzad & de Haan, 2015). However, the corporate governance problems of banks are qualitatively and quantitatively different from those of other firms (Bahoo, 2020; de Haan & Vlahu, 2016; Macey & O'Hara, 2016). Prior literature addressed the effects of state ownership on banks' performance (Cornett et al., 2010; Haß et al., 2019). Cornett et al. (2010) find that state-owned banks operate less profitably, hold less core capital, and have greater credit risk than privately-owned banks. They also find that the performance differences are more significant in those countries with greater government involvement and political corruption in the banking system (also see Baum et al., 2019; Nurunnabi, 2018; Sobhan and Bose, 2019). Dinç (2005) finds that government-owned banks increase their lending in election years relative to private banks, whereas Chen et al. (2018) find that government banks with politically-affiliated Chief Executive Officers (CEOs) experience significantly higher loan default rates and poorer operational performance during the crisis than those without politically-affiliated CEOs. However, these politically affiliated CEOs are less likely to be penalized for their banks' poor performance to reap private benefits, thereby making their banks more vulnerable.

The ownership structure is one of the key elements of bank performance, as it creates unique governance complexities for employees, central banks, shareholders, and depositors (Macey & O'Hara, 2003, 2016). Conflicts of interest arise for the government in the case of government ownership of commercial banks. Radon and Thaler (2005) argue that such a problem stems from the state's dual role being played as the owner as well as manager of state-owned firms, and as a corporate regulator to protect the public interest. Like other state-owned companies, SCBs are controlled by political bureaucrats who have high control powers; hence they have the incentive to maximize personal interest by tunneling the resources rather than optimizing the value of banks (Chen et al., 2018; Dinç, 2005). The political connections also impact the bank lending decision and result in poor corporate governance and high corruption (Chen et al., 2017; Claessens et al., 2008; Liedong & Rajwani, 2018). Bank lending corruption affects the credit and operational risk of banks and results in an increase in non-performing loans (NPLs) (Chen et al., 2015; Fiordelisi et al., 2014).

Otero et al. (2020) explore the relationship between corporate governance and the risk-taking behavior of banks operating in the Middle East and North African (MENA) countries and find that good governance acting in the interests of shareholders can lead to excessive risk-taking. Sarkar and Sarkar (2018) present evidence of strong ownership effects with board independence, showing a positive correlation with private bank performance but a negative correlation with state-owned bank performance. Lazzarini and Musacchio (2018) argue that although governments use state-owned enterprises (SOEs) to pursue social and political objectives, they also provide rents and protection that help them perform well or even better than similar private firms. In the context of emerging and developing economies, Panizza (2022) argues that lending by state-owned banks is less procyclical than private bank lending. Similarly, Nabi et al. (2019) find that state-owned banks in Bangladesh are the least inefficient compared to other banks. In the Vietnam context, Le et al. (2019) also report a similar result that the state-owned banks outperformed all other types of banks. Mahbub et al. (2019) find that family-dominated banks in Bangladesh are less efficient and less profitable.

In Bangladesh, the trend of loan defaults in the banking sector has been noticed since its independence in 1971. It was argued that the government's "expansion of credit" policies, along with weak banking infrastructure increased the flow of credit in the economy. However, research finds that despite the liberalizing and privatizing of the banking sector in the 1980s with a view to increasing efficiency and competition, the robustness of the credit environment deteriorated further because of the lack of effective lenders' recourse to borrowers (Adhikary, 2006). According to the International Monetary Fund (IMF), poor governance at bank boards, inadequate credit information, and inadequate financial statements of borrowers are the major factors contributing to poor asset quality. Moreover, lengthy legal procedures involving disputed loans make it difficult for banks to recover value from NPLs or their collateral, further exacerbating loan losses. Asadullah and Chakravorty (2019) also find a growing governance deficit in the financial sector of Bangladesh. Mahbub et al. (2019) find that poor corporate governance is one of the major sources of high NPLs whereas Khan et al. (2021) report that NPLs have adverse effects on the firm value of banks in Bangladesh.

3. CONTROL FRAUD THEORY AND BANGLADESHI CORPORATE FRAUD

Control fraud happens when a trusted person or institution in a high position in society or a person with a given responsibility within an entity (could be a company, a corporation, or a state) subverts the entity and involves massive fraud for personal gain. The term "control fraud" was first introduced by Black (2005) to refer both to the acts of fraud and to the individuals who commit fraud.

As Black (2005) said, "I coined the term 'control fraud' to describe situations in which those who control firms or nations use the entity as a means to defraud customers, creditors, shareholders, donors or the general public" (p. 734). Black suggests the widespread scope of his theory to examine the fraud circumstances in both the public sector and private sector in the USA and many other nations. Black (2005) explains, "private sector (for-profit and not-for-profit) control frauds cause more significant financial losses than all other forms of property crimes combined. Public sector control frauds, called kleptocracies, cause enormous losses that can keep entire nations locked in poverty generations" (p. 735). However, so far to our knowledge, there is limited research that explores fraud in the banking sector by using this theoretical paradigm. We think the "control fraud theory" would be a relevant theory to understand loan scandals and corporate governance failures within the banking industry of Bangladesh. The following section provides some justifications to use this particular theoretical framework to inform the findings of this study.

Whenever corporate scandals lead to corporate failure, questions have been raised to find the links between the fraudulent objectives of rational actors and the nature of corporate governance. Researchers use critical perspectives and insights and apply theories explaining the interactive factors of corporate scandals, fraud, and corporate failure. Loan scandals, misappropriation of funds, and money laundering are the major dimensions of corporate scandals that signify the corporate governance anomalies and financial disorders associated with the control environment[1] of banks in Bangladesh. Conventionally, banks are featured with specific products and active matrix in Bangladesh's socio-economic and political background. Usually, both private and public sector banks have a governance mechanism operationalized by the board. Auditing is a regulatory requirement to assure that banks comply with applicable rules and accounting standards, frauds are detected and prevented on time, and hence financial reports exhibit a true and fair view of the financial realities of a firm. Despite these operating and governance mechanisms, managers, other employees, loanees (customers), owners, and directors are frequently captured in the media headlines for their involvement in fraudulent activities or their lack of duty of care. Since society trusted individuals such as bank managers or CEOs or the board of directors of banks but eventually, they are being cheated, we think "control fraud" occurred here as suggested by Black (2005).

In an institutional environment, the incentives and power of the individuals who discharge corporate governance responsibilities are critical in understanding their legitimate or fraudulent behavior and rationalizing arguments supporting the decisions and actions to direct and control a firm. As economists, sociologists and criminologists frequently explain such incentives, power, and behavior, Black (2005), while introducing the control fraud theory, was so liberal in respecting the conventional knowledge of governance and fraud encompassed in extant theories. A dominant social-psychological or criminological theory is the white-collar crime theory. The link of control fraud to white-collar crime is very robust and specific. Black (2005) referred to Wheeler and Rothman (1982), who explained the corporation as a "weapon" and "shield" in white-collar crime (that is, a weapon and victim of fraud). White-collar crime is an offense or fraudulent activity perpetrated by upper-class people who are influential in society and may have political connections to avoid enforcement (Sutherland, 1949). Black (2005) asserts that this type of fraud operates openly. That is, "the public and the government know who the frauds are, but the corporate frauds are so powerful that can plunder with immunity" and destabilize "the legitimate structure and objectives to the short-term advantage of those who control them" (Black, 2005, p. 735).

Economists and accounting academics have long considered the power of information. Accounting processes and produces corporate information, while top-level managers have the regulative responsibilities to communicate information to various stakeholders. Although accounting is expected to produce relevant and reliable information, accountants and executives may communicate misleading or deceitful information that is not useful in making decisions by the stakeholders. Black (2005) argues that accounting can produce fictional, non-transparent information that deceives stakeholders and increases the opportunities for insiders (dominantly managers) to increase their incentives (such as bonuses and stock options). The control fraud theory recognizes "information asymmetry", which is a situation in which the firm's insiders know more about the business than the outsiders. The downside of information asymmetry is that it creates an opportunity to deceit the stakeholders who know less about the firm and its products.

A critical appreciation of the control fraud theory further provides an opportunity to compare and contrast the salient features of this theory with other management, criminological and social-psychological theories that explain the behavioral aspects of fraud. The fraud triangle theory developed by (Cressey, 1953) has recently been adopted by the accounting profession. The auditing standards such as SAS 99 (USA), ASA 240 (Australia), and ISA 240 (IFAC) have considered the interactions of the three factors captured in the fraud triangle (incentives/pressures-opportunities-attitudes/rationalizations) as the explanation of the conditions of fraud. The CEO's self-interests (incentives or bonus) and dominant role in suppressing the oversight role (governance role) of the board, auditors, and external regulators (enforcement agencies), and ability to rationalize fraudulent actions being considered in the fraud triangle are to a great extent comparable to the personality traits (incentives, power, and ability) of the CEO explained in the control fraud theory.

4. RESEARCH METHODOLOGY

This study uses a case study approach for an in-depth analysis of the loan scams and corporate irregularities of state-owned banks in Bangladesh. The underlying rationale for using the case study approach is that a case study can develop an understanding of the situations — complex and interrelated phenomena, uncertainties, and value conflicts (Cooper & Morgan, 2008; Yin, 2009). It facilitates a researcher to explain how powerful individuals in firm discharge responsibilities and construct reality (Scapens, 1990, 2004).

The study first provides an overview of the loan scams and corporate governance anomalies in five state-controlled banks. They are Sonali Bank, Janata Bank, Agrani Bank, Rupali Bank, and BASIC Bank. The first four of these banks were established in 1972 as nationalized commercial banks but became public limited companies in 2007 while BASIC Bank was originally established as a public limited company in 1988 and was later nationalized to avoid collapse. Although these banks are listed on the Dhaka Stock Exchange, they are called state-controlled because the Government of Bangladesh holds most of their shares, and the Central Bank of Bangladesh, Bangladesh Bank, has the absolute authority to appoint the senior executives and members of the board of directors of these banks. The Government has the accountability to oversee whether these banks have effective corporate

[1] According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Integrated and Enterprise Risk Management (ERM) frameworks, control environment refers to the people working in a firm and arrangements for controlling their work, incentives, and behavior for the successful accomplishment of corporate activities. People's commitment to integrity and ethics, management philosophies, board's accountability to perform oversight role over the management, keeping efficient employees and holding them accountable for achieving internal control objectives, identifying, and assessing risks, preventing fraud, and establishing mechanisms for transparent reporting of corporate realities are the keys to a controlled environment.

governance mechanisms to run the business successfully. Several loan scams in these banks in the twenty-first century motivated us to select these banks and to explore further their inherent corporate governance irregularities.

This study makes the context analysis of the media reports. The reason is that the context of this study comprises two aspects, loan scams, and corporate governance irregularities. The media (the press) typically works as a watchdog of the corporate cataclysms. The media packaged information and opinions from a variety of groups of people, including selected banks' executives, directors, and central bank officials, Ministers of the Government, depositors, employees, researchers, and the public in general, about the causes, ways, effects, and remedies of the loan scams and inherent corporate governance irregularities. As these facts are highly localized, not the outcome of any global trauma, we largely used domestic newspapers, including *Prothom Alo* (a popular Bangla periodical). *The Financial Express* (a business English periodical), *The Daily Star* (a non-business English periodical), and other national newspapers. All these are daily newspapers. The relevant media articles are searched through these newspapers' websites between 2008 and 2020. For international news coverage, the *Dow Jones Factiva* search engine reports pertaining to the loan scandals of Bangladeshi banks have been used. We have analyzed over ninety-four media reports to understand the significant factors that led to the corporate governance failure and specifically report on the scandals of the sample banks. Because of the investigative role of the media that produced the data for this study, we have not conducted any interviews or surveys. Wherever necessary, we did a textual analysis of the selected banks' press releases, annual reports, and website information. Direct quotes from some media reports are provided in the finding section to substantiate our findings. The size and volume of the selected banks do not impact our research findings. We have not compared the performance of banks, nor have we considered dependent and independent factors as usually considered by quantitative researchers. The knowledge learned through this study is structured in view of the key features of the control fraud theory used in this study.

5. FINDINGS

5.1. Loan scams: Brief descriptions about what actually happened

5.1.1. Sonali Bank

Sonali Bank is the largest commercial bank in Bangladesh. It experienced the most extensive banking scandal, named "The Hallmark scandal" in Bangladesh's history. The Hallmark Group is one of the biggest debt scandals in the banking history of Bangladesh. The Hallmark scandal was carried out through collusion between officials of Hallmark Group and Sonali Bank. The CEO of Hallmark Group and the head of Sonali Bank's Ruposhi Bangla Hotel branch have been accused of being involved in an illegal business transaction. In May 2012, the Central Bank of Bangladesh, Bangladesh Bank, reported that Sonali Bank's Ruposhi Bangla Hotel branch illegally transferred $422 million between 2010 and 2012 to six companies, of which the largest share of $328 million went to one corporate group, Hallmark. Hallmark Group has used forty-two different companies to withdraw this huge amount. Bangladesh Bank found that in cooperation with bank officials, Hallmark had unscrupulously embezzled this significant amount of money. They used the letter of credit (L/C) system to finance trade. Hallmark created fictional entities called Anwara Spinning Mill, Max Spinning Mill, and Star Spinning Mill to buy yarn. These companies were reported as recipients of LCs. On March 28, 2012, Hallmark opened $61 million LCs in favor of these three companies in the Ruposhi Bangla Hotel branch to buy yarn. When Hallmark guaranteed payment, the bank began purchasing the bill of acceptance and transferred the money to three companies' accounts. After a few days, the money was transferred from the bank to the Hallmark Group account on the instructions of the three spinning mills. Hallmark later transferred the money to a current account of Century International, a concern of the group. A number of other companies have embezzled a total of BDT3,550 crore ($355 million) from this branch by adopting almost the same process. "The Hallmark scandal" within Bangladesh is a classic example of a financial scandal that draws academic researchers' attention to further investigate it in light of corporate governance and control fraud mechanisms.

5.1.2. Janata Bank

Janata Bank is the second-largest commercial bank in Bangladesh. Bangladesh Bank found that Bismillah Group, a terry towel manufacturer for the export market, allegedly received about $134 million from state-owned Janata Bank and four private commercial banks — Prime Bank, Shahjalal Bank, Jamuna Bank, and Premier Bank — with the help of bank employees between June 2011 and July 2012. The board approved the loan without due diligence, and management was directly involved in the fraud. The company conducted sham exports through fake sales contracts outside of Bangladesh and opened letters of credit using the name of fake foreign buyers. According to a Bangladesh Bank report, the Bismillah Group, in cooperation with bank officials, embezzled the money by taking advantage of the purchase of domestic bills of exchange and overpricing non-existent export items to secure cash incentives against forged export documents. The group chairperson and CEO have been sued in twelve cases by the Bangladesh Anti-Corruption Commission (ACC) for perpetrating the lending scandal by opening fake institutions abroad and masquerading as buyers of the same institution. The commission also filed cases against fifty-three bank officials. Janata Bank also bought a $10 million bill from Anwara Spinning Mill and Max Spinning Mill without proper verification of documents. Both of these companies were later found to be fictitious. The bank could not ask for any information about the company's machine park for which the loan had been granted. In addition, the companies had some overdue invoices even though the bank granted the credit by violating the credit rules. These are some of the evidence of the financial scandal that happened within Janata Bank, Bangladesh.

5.1.3. Agrani Bank

Agrani Bank is the third largest commercial bank in Bangladesh. According to an inspection conducted by the Office of the Controller and Auditor General (OCGA), around a $352 million loan issued by Agrani Bank is stuck in various companies. In 2010, Agrani Bank invested $37 million in buyback share transactions of the Unique Hotel, Brextex, and GMG Airlines, and it was agreed that these companies would buy the shares at a 20% interest rate after one year. But the transaction had never taken place. These companies were supposed to pay a total of $27 million in interest but only paid $0.9 million. In 2015, the stock held by the bank was valued only at $33 million, resulting in a net loss of $51 million. Also, the bank could not get the amount back by selling the shares on the stock exchange as no shares were transferred to the bank eventually. In March 2012, GMG Airlines was closed, resulting in a non-recovery of an $8 million loan granted to them by Agrani Bank in 2010. The bank also invested $114 million in the stock market but crashed to $85 million on December 31, 2012. In 2011, the bank paid out $30 million to Beximco Limited (a company led by powerful political gurus), for which $40 million worth of stock was taken as collateral, and the stock value fell to $7 million at one point, resulting in huge losses. It was alleged that this state-owned bank granted loans against deferred and cash LCs under the director's instructions without any collateral, resulting in a further loss of $21 million. In addition, the managing director approved a further $8 million receivables loan to Nurjahan Super Oil, although they could not pay the $16 million against deferred LC. Most of these loans had been granted in violation of banking regulations as management failed to consult the board of directors, and there was no discussion regarding the loan proposal in the board meeting. One of its branches allegedly granted $25 million to Khaleque and Sons, a sister company of Nurjahan Super Oil Ltd, and a further $18 million to Escrow and extend the LC facility without adequate collateral. The bank faced another $50 million loss because it did not take enough collateral. According to the OCGA report, the bank disbursed a further $9 million loan that was later classified.

5.1.4. Rupali Bank

Rupali Bank is another influential state-owned commercial bank in Bangladesh. The ACC sued three Rupali Bank officials on September 16, 2012, for granting a $20 million loan against a loan application between August 16, 2010, and January 30, 2011, without proper review and verification of documents. It further granted $30 million to Everest Holding and Technology Limited in the same way. The allegation was that both Rupali Bank officials and the company laundered the money based on forged documents. The accused at Rupali Bank were the general manager, deputy general manager, and the CEO of the Dilkusha branch. Everest Holding and Technology Limited chairman and CEO have also been accused of this financial fraud. According to an inspection report by Bangladesh Bank, Rupali Bank made 55% of its total loan to just twenty customers ($549 million out of a total of $1 billion). Of course, most of these customers were not creditworthy, and the loans had been granted without proper verification of the documents. Out of these twenty customers, five corporate groups held 22% of the total loan disbursed. Bangladesh Bank gave an alarming signal about these loan defaulters and instructed them to take strict collection measures. On December 31, 2013, the bank collected only $13 million from these twenty borrowers. According to a report published by *Prothom Alo* on November 29, 2016, a Feni-based gold trader borrowed $19 million from Rupali Bank without submitting proper documents. The so-called goldsmith applied for the loan from a small branch of Feni, located on Islampur Road, and surprisingly, the branch granted a total of $19 million, of which he alone held $18 million. The goldsmith took out this loan on behalf of his jewelry business but instead bought land in Feni district, Bangladesh. It was alleged that the loan had been granted without Board's approval. These are some of the financial anomalies that occurred by the unscrupulous bank officials of this state-owned bank of Bangladesh.

5.1.5. BASIC Bank

BASIC Bank Limited (Bangladesh Small Industries and Commerce Bank Limited) was one of the top state-owned banks in Bangladesh before the allegations were made against the bank's leading managers of loan fraud in 2009–2013. Bangladesh Bank's Economic Intelligence Unit found massive anomalies in four branches of BASIC Bank located in Motijheel, Shantinagar, Dilkusha, and Gulshan. It was alleged that more than BDT45 billion ($440 million) in the loan was defaulted from the bank, and many of these loans were granted to companies that existed only on paper. It was also alleged that most of these loans were granted during the tenure and direct support of its former chairperson Sheikh Abdul Hye Bachhu (an influential government-backed political leader). It was later revealed that only 100 of its borrowers accounted for 86% of the total defaulted loans. Bangladesh Bank also found that one of its branches located in Gulshan had granted $200 million without analysis and verification of the proper documents. It was found that the bank allowed the customers immediate credit approval as soon as the account was opened. In addition, the bank's board of directors approved loans to many fake companies before the branch sent the proposal to its head office. Aware of the fact that many borrowers redirected their funds as they promised, the bank's top management did nothing. The bank reported interest as income on many loans that had not been repaid in violation of bank rules. Despite being aware of massive irregularities at BASIC Bank in September 2011, Bangladesh Bank failed to take the necessary regulatory action against those responsible. Bangladesh Bank inspection report shows that the Dilkusha branch made $80 million in loans to sixteen borrowers, and the money was taken unlawfully. At the Shantinagar branch, forty money orders were transferred from multiple credit accounts to fake company accounts in 2012. It also found evidence of apparent board involvement in severe anomalies in approving the loan. In addition to money embezzlement at BASIC Bank, there were massive irregularities in staff recruitment. The executive director of Transparency International Bangladesh) told *Prothom Alo* that recruiting 731 officers without advertising the posts and meeting a minimum recruitment standard was an abuse of power, and it reflects state-controlled corruption and nepotism (Hasan, 2015). However, after that incident, the Anti-Corruption Commission (ACC) filed fifty-six cases in 2015, accusing 110 people and organizations of gross credit irregularities worth over $530 million. The next sub-section will discuss the factors responsible for these financial scandals. As noted earlier, we have identified these factors based on our analysis of the media reports collected for this study.

5.2. Factors facilitate loan scams

5.2.1. Political influences

Political influences were significantly observed in the state-owned banks while considering the viability of loan applications. For example, we have found evidence that the loan was given to people who are familiar with the board of directors and top management or who possess a significant political identity. In most of the allegations we documented earlier, it was found that most of the loans had been granted by using political consideration and ignoring formal due process. Sometimes the board of directors and management approve loans beyond bank rules and regulations. Often, governing body members and top officials are appointed based on political considerations and nepotism, although they are not efficient, professional, and qualified enough for the post. As a result, the performance of the banking sector has deteriorated over the years. In addition, the moral and ethical practices of high-level personnel have been declining, which eventually posed a threat to the entire banking sector of the country.

We find that often government high officials tried to back up some of these loan scandals. For example, when media reports revealed "The Hallmark scandal", the then finance minister commented that the amount was negligible. The following quote provides further insights:

"It is a matter of BDT3000 or 4000 crores ($35–400 million). Nonsense! You, [the media], are harming the banking sector by publicizing it" (The Daily Star, 2012).

The above quote further demonstrates the political support for the large-scale looting of bank money in a developing country.

We find another quote from the executive director of Transparency International Bangladesh:

"Despite allegations of involvement of some high-ups in such corruption cases, they are spared somehow. This was also evident in some other cases, including Sonali Bank. In most cases, influential persons are handled softly or given protection, while officers and employees are punished. If the prime suspects are not brought to book, such corruption may be repeated; he warned" (Noman, 2015).

This study also finds that the loan fraud of the Hallmark Group indicates direct influences of political power to appoint high banking officials such as managers, who often break bank rules to favor borrowers. For example, Sonali Bank's deputy general manager bought $59 million worth of acceptances, whereas he was only authorized to buy $3.5 million worth of acceptances under the current bank regulations. Later, however, the ACC found that an adviser to the prime minister put political pressure on the Sonali Bank Authority to grant such a sizeable loan. The alleged advisor also tried to prevent Bangladesh Bank's audit team from auditing the Ruposhi Bangla Hotel branch. In addition, Sonali Bank's managing director failed to take adequate steps to uncover the massive financial irregularities of 2010–2015 that also posed a threat to management's capability. This study also finds that due to the influence of political power, loans had been sanctioned without proper scrutiny, abusing power and breaking banking norms and credit rules.

5.2.2. Weak internal control systems

We found significant weaknesses in the internal control systems of the banks we studied for this research. In most cases, we find that the board of directors lacks strict oversight of management, leaving management scope for fraudulent activity. Top-level management often fails to control and oversee lower-level management for which branch managers or loan officers are involved in fraud. The credit department sends an incomplete credit proposal to the head office (HO) without proper verification of sufficient documents, and accordingly, the HO approves the credit. This leads to catastrophic credit fraud in the banking sector and invariably shows the weakness of the internal control system.

The bank approved the loan to the customer without strictly checking the supporting documents, which led to fraud. According to an inspection report by Bangladesh Bank, the CEO of Agrani Bank illegally sanctioned a $97 million loan between 2011 and 2015. In 2011, Taraka Tradecom International was approved by the Agrani Bank Board of Directors for a $14.63 million loan, subject to additional collateral being posted. Agrani Bank also granted a loan of $36.58 million to Moon Bangladesh Ltd, a sister company of Moon Group, in 2011, who provided forged documents in support of their loan application. On the loan application, they noted to construct three office buildings worth $14.02 million, but the money was later used for other purposes, which was not mentioned in the loan application. One branch of Agrani Bank bought $12.75 million in local bills from Hallmark, Paragon, Nakshi, and some other companies without obtaining head office approval.

The current laws also forbid banks to take legal action against defaulters if they cannot provide adequate evidence. For example, the BASIC bank kept a fixed deposit as collateral, but the client withdrew the money without settling the loan. Bank ignores the appropriate investigation of the exporter and importer in case of opening LC. For example, the Hallmark Group and Bismillah Group created fake companies and documents for import and export transactions. As a result, they swindled a significant amount of money from the state-owned Sonali Bank and Janata Bank. Borrowers submit a sham mortgage to the banking authority as collateral for the loan. Hallmark did this type of scam with Sonali Bank. They pledged land as collateral for the loan, but the land did not exist. Approving a loan without proper investigation of borrowers, documents, and collateral demonstrates the inefficiency of the banking authority. Sometimes the bank extends the loan to a handful of customers. Inefficient management and an incompetent board of directors of the bank had resulted in much of the loan being disbursed to a handful of customers (Ahmed, 2012). Although it is imperative for banks to choose the person who is physically and mentally able to repay the loan amount, in most cases we documented earlier, this had not happened. Instead, they provided loans to persons who had low credit scores and had been identified before as loan defaulters.

5.2.3. Lack of accountability and transparency

This study finds a lack of accountability and transparency of the board of directors and bank's high officials. For example, in most cases, the banks failed to oversee and monitor the borrowers' activity of using the loan, such as where the fund is being used and how it is being used, which might reduce the possibility of fund diversion. Often, borrowers take out the loan for a specific purpose and later move the loan to another sector. This diversion of the fund renders the borrower unable to repay the loan. As a result, there are corporate failures in the banking sector.

Under Sections 45, 46, and 47 of the Banking Companies Act 1991, the Central Bank has full autonomy over domestic and foreign-owned commercial banks. However, it does not have the power to remove directors of SCBs (Banking Company Act, 1991). This deficiency leads to mismanagement in the state banks and gives scope for the abuse of political power. The inspection team of Bangladesh Bank requested the finance ministry to take action against Sonali Bank officials after detecting the Hallmark scandal. But the politically amenable Finance Ministry did not act on Central Bank's request. After the media unearthed the scandal, Bangladesh Bank officially requested the ministry to reconstitute the Sonali Bank Board as it is full of politicians rather than professionals. Instead of punishing the responsible directors and bank officials, the ministry rewarded the directors with two years extension within ten days of exposure to the scandal (The Daily Star, 2013). *"The Bangladesh Bank must be given full autonomy for monitoring the activities of state-owned banks. There should not be any interference of the Banking Division of the Ministry of Finance"*, said the president of the International Chamber of Commerce Bangladesh (ICCB). The conflict between the Bangladesh Bank and the Ministry of Finance creates hurdles in ensuring accountability, transparency, and good governance in the banking and financial sector.

Officials at state-owned banks have sometimes disbursed loans violating the Banking Company Act, 1991, Bangladesh Bank's rules and regulations, and credit policies. The human resources of the banking sector are hired under political considerations, and nepotism leads to unethical behavior of the staff. The government-appointed chairperson of the BASIC Bank for six consecutive years under policy consideration helped the bank get into the current situation. *"As international trade is growing, all parties involved in the trade are also exposed to the risk of fraud. The more the import-export market is expanding, the more we face the risk of unknown events, including fraudulence"*, said he president of the ICCB in a seminar on Trade Fair in Bangladesh organized by the ICCB. He said the recent scam in some of the state-owned banks has shaken the private commercial banks and created a threat to the genuine companies to have financing from the banks for their operations in connivance with a group of bank officials and influential groups (ICC Bangladesh, 2013). Lack of accountability and transparency encourages bank officials to engage in fraudulent activities to plunder bank funds. Due to unfair auditing practices, bank officials may engage in fraudulent activities. Sometimes, under pressure from management, auditors do not reflect the true picture of the bank's performance, or sometimes they are corrupt themselves.

5.2.4. Lack of good governance

We found a severe lack of good governance in the overall corporate governance practices within the banking industry of Bangladesh. In most of the allegations we documented above, we find that there is a lack of accountability, poor oversight, lack of due process, weak internal control systems, and weak regulatory framework, which are essential for good corporate governance practices. We found that the fraudsters include the top management, bank officials, and often their politically connected kith and kin. As we discussed earlier, most customers embezzled bank money with the help of corrupt bank officials such as branch managers and chief officials. We also find that due to management's involvement in the loan disbursement process, NPLs increased exponentially. Sometimes senior officials from the management team submit fake documents to get the approval of board of directors. They make loan proposals for clients who are their relatives even though they do not have sufficient collateral. We documented evidence from Rupali Bank management, who submitted fake loan approval documents. The following quote from the chairperson of Rupali Bank provides further insights:

"Management submitted a loan proposal to the board after consideration. We had no other way of learning about the loan other than the offer itself" (Sakib, 2016).

The above quote indicates that in the case of BASIC Bank, the prime culprit was the chairperson himself, and of course, the branch manager of Sonali Bank's Ruposhi Bangla Hotel branch was actively involved in the Hallmark forgery.

From our media reports analysis, we also find that the regulators have failed to prevent corporate collapse. For example, Bangladesh Bank does not have full autonomy and authority over public banks. Bangladesh Bank fully regulates private banking, while state banks are regulated by both Bangladesh Bank and Treasury (the Ministry of Finance), causing chaos in the banking sector. The Treasury also oversees state-owned banks and appoints banks' boards, which challenge accountability, transparency, and good governance in the banking sector. There is always a conflicting stance between the Bangladesh Bank and the Ministry of Finance, which raises questions about the government's position should an investigation be made. The Ministry often alleged not to supervise the bank properly. We find substantial evidence reflecting the lack of good governance in the country's entire financial sector. The following quote is just one example:

"Due to weakness in the management of the bank, weakness in internal oversight and control, and, most of all, due to the collaboration of some insiders in the bank and outsiders, the scams occur. I see the situation also reflects the lack of governance and overall control of the Banks' Board of Directors because they should have exercised their supervision and control over such a huge amount of loan. Usually, banks conduct an audit of a branch once a year, sometimes twice. So here, it is important to look into how the Board of Directors and the management, led by the managing director, supervised the process of providing such a huge amount to a single company. Generally, the monitoring and control by the bank's Board of Directors and its Audit Committee, and the Asset Liability Management Committee (ALCO) are imperative in such a big transaction. If proper audit had been conducted in this case, several questions could be raised, such as why did the management (managing director and the staff below that) and the Board of Directors not examine the audit report? And if they did, then why have they not expressed their opinion or take action against the perpetrators? If audit reports were not placed before the Board, why the Board did not take action at the right time? This is an instance of an amazing combination of abject lack of supervision, control, unwillingness to take action, failure of policy direction, greed, forgery, and corruption" (Ahmed, 2012).

The five state banks are in chaos over pro-government boards and politically influenced lending. Former deputy governor of Bangladesh Bank, Mr. Ibrahim Khaled, says:

"Since the government is unable to control these banks, they should just keep Sonali Bank and hand over the rest to the private sector" (Hossain & Ahmed, 2014).

In some cases, the management also prevented the auditing of the branch concerned. For example, in the case of Sonali Bank, the manager tried to block the audit of the Ruposhi Bangla Hotel branch and moved the audit team to a branch outside of Dhaka. Later the bank was recognized as low risk in the inspection and audit of the bank despite significant financial irregularities. In fact, according to audit wing reports, the branch manager was managing the branch very well with his extraordinary talent, efficiency, and affords. All these failures could further be linked with the failure of corporate governance in broad terms. From the above analysis, we can argue that having the absence or little presence of all the attributes of good corporate governance practices, the banking sector of Bangladesh can ideally be cited as an example of corporate governance failure within a developing country context.

6. DISCUSSION AND ALIGNMENT WITH CONTROL FRAUD THEORY

The ongoing financial scandal within the banking sector has had an adverse impact on the overall financial sector of Bangladesh. Due to the misappropriation of a considerable amount of money, the state-owned banks fall in capital shortfall and failed to approve large amounts of credit to borrowers or invest money in other sectors. The government had to bail out the state-owned banks to fill their capital deficits. The fraud in the banking sector has questioned the country's entire financial system and undermined depositor confidence. This study complements Ahmed and Uddin's (2018) findings that despite the liberalizing and privatizing of the banking sectors in the 1980s to increase efficiency and competition, the robustness of the credit environment deteriorated further because of the lack of effective lenders' recourse to borrowers. The finding also supports that the ownership structure influences the performance of banks. For example, aggressive stimulus policies by managers or bureaucrats of state-owned banks are responsible for the banks' poor performance compared to their counterparts who receive bonuses or stock options from commercial banks. The government sets its pay scales. State-owned bank executives consider themselves government employees, and thus their appointments appear to be bureaucratic. Their wages are primarily determined by the national collective bargaining system, not by incentive systems for measuring performance. They work within the political-administrative leadership of the Central Bank and the Ministry of Finance. They approve the loan to a handful of clients who are politically affiliated with the government, and this increases the default loan percentage.

We find that the poor bankruptcy laws, no push by the international investment community, limited or no disclosure of related party transactions, weak regulatory system, general meeting scenarios, and lack of active shareholder participation are some of the distinct components that have been identified as reasons for the lack of corporate governance. Banks in Bangladesh face a high risk of sharking due to massive state ownership, a lack of prudential regulation, weak legal protection, and the presence of interest groups. Moreover, internal controls, accounting information, and quality reviews are critical to reducing unexpected corporate scandals. Bank insider proprietary trading is dangerous to the performance and survival of banks, as numerous previous bank failures have been caused by unsafe bank insider proprietary trading. The sector observed declining profitability, growing distressed assets, provision and capital constraints, eroded credit discipline, rampant corruption supported by political circles, low recovery rate, substandard asset quality, management weaknesses, excessive government and owner intervention, weak regulation, oversight role, etc. So, it is evident that the corporate governance practices in Bangladesh's banking sector are deplorable, leading to a recent financial scandal. The lack of proper corporate governance practices and the recent frauds in the banking sector has made the financial sector very disastrous, calling into question the country's regulatory systems. Weaknesses in the system of governance harm the entire financial system and the government's economy. The recent banking scandal in Bangladesh was exposed as a financial fraud in which management participated in fake loan disbursements without the board's knowledge. Nevertheless, the annual audit reports of most of the banks were unqualified. The practice of forensic accounting has not been widely adopted in Bangladesh. But the rate at which financial fraud occurs, specifically in the banking sector, warrants emphasizing the use of forensic accounting practices in Bangladesh. With regard to this problem, the study determines the extent to which forensic accounting can be used to combat fraudulent activities in Bangladesh's banking sector. Management is accountable to the shareholder and other stakeholders. Unfortunately, the external auditor failed to uncover fraud plaguing Bangladesh's banking sector. Here comes the role of forensic accountants with special financial skills to ensure transparency and accountability to prevent fraud by management in Bangladesh state banks. It also strengthens leadership by providing software packages and increases management efficiency to detect and deter fraudsters and fraudulent activities.

The classifications of private and public sector control fraud provide relevant insights into the unstoppable impact of scandals in Bangladesh's financial sectors. Both types of commercial banks in Bangladesh have profit motives. However, the notion of ownership and CEO position requires further interpretation to explain the control mechanism of state-owned banks in Bangladesh. Control fraud theory bears a resemblance to a capitalist notion-based agency model and positive accounting theory (Jensen & Meckling, 1976; Watts & Zimmerman, 1978, 1986, 1990) in perceiving fraud conditions in terms of position, incentives, and the rational behavior, and strategic decision-making authority of the principal-agent, the CEO. Bangladesh's public sector banks have an exceptional model. Although their shares can be traded on the stock exchange, most of their shares are held by the government. The position and compensation of their CEOs are determined as per government regulations and are not based on their performance and incentives. Because the CEOs and top executives are accountable for their activities to the central bank and the government-structured board, these banks are state-controlled. Senior managers do not have significant independence in conducting their businesses.

In addition, commercial and social objectives are simultaneously integrated into the business model of state-owned banks. Given the control environment and governance mechanisms, CEOs cannot be held solely responsible for using a company to achieve self-interest. Another point that needs to be viewed critically is that banks manage the business in thousands of places to collect a deposit and provide loans. Misappropriation of the fund in a branch can result in employee involvement at the operational level and even without the knowledge of the CEO, other top-level managers, and the board of directors. However, the broader political-economic and cultural context explained in the control fraud theory offers insights to explain the upheavals in state-controlled banks in Bangladesh. It is an open secret that large borrowers, bank officers, and employees can have a political connection. Many borrowers are in politics and can wield power to avoid penalties for default on loans. The central bank sometimes even offers loan restructuring options. This arrangement works like a double-edged sword. The realistically failed loan is converted into a legally sound loan. The CEO and operational level managers can breathe easily, not as underperformers but as good managers. The government sometimes comes up with semi-structured bailout proposals. Given the macro-level control environment, when banks are used as vehicles for looting, the share of depositors will be seriously threatened at one stage, posing a challenge for the Bangladeshi government and people. As Black (2005) suggests "weak regulation, supervision, and ethics produce epidemics of control fraud that cause systemic economic damage" (p. 734), this study effectively utilizes control fraud theory to explain state-backed fraud in the developing country context.

7. CONCLUSION

A country's economy largely depends on the banking sector. The banking industry in Bangladesh is under constant pressure due to loan default culture, inefficient management, lack of governance, and bureaucratic oversight process. Misconduct has been inflicted on state-owned banks, causing an alarming situation for Bangladesh's financial sector. Due to the recent financial crimes in the state-owned banking sector, the overall performance of the banking sector has slowed. The study used content analysis based on texts from various media reports to uncover the real causes of these financial crimes and the losses caused by these crimes. The study finds that state-owned banks find it difficult to sustain businesses due to capital inadequacy attributed to NPLs. Sometimes they need the government's help injecting fresh capital into them. The government injects fresh capital almost every year. Violation of banking regulations, lack of adequate control, abuse of power and position, weak internal control, lack of corporate governance, management inefficiency with the ineffective board of directors, political influence on the operation of banking business, nepotism, lack of moral and ethical values, audit failure, collusion between banks and corporate authorities, etc. are the main reasons behind fraudulent activities in the state-owned banks of Bangladesh.

Varying levels of financial fraud and high levels of NPLs left Bangladesh's banking sector vulnerable. This requires a review and reform of the industry. As the banking sector is the lifeline of the financial sector of an economy, the collapse of the banking sector would eventually cause the entire economy to collapse. To avoid such a potential collapse of the economy and to achieve rapid economic growth, Bangladesh needs a solid and efficient banking system. The people involved in the banking scandals must be brought under ethical leadership, law, and enforcement. Employment in leadership positions must be based on talent, financial expertise, honesty, and integrity without political affiliation or intervention. Our finding support (Nurunnabi, 2018) that the government should develop an effective deterrent system (i.e., good corporate governance and strong enforcement), without which the risk of corruption in the financial sector can never be controlled.

Efficient oversight of Bangladesh Bank over the banking sector must be ensured, and it should be given the power to oversee and supervise all banks, including state-owned banks. If Bangladesh Bank has full autonomy from state-owned banks, it can tightly manage the banking sector, which would create effective internal control over the entire financial system. This would lead to a reduction in counterfeiting in the banking sector. Transparency and accountability must be ensured in the financial system, for which an independent central bank must set standards of supervision and management free from political and administrative change. Bangladesh Bank should strengthen the regulatory audit and supervision of all government, private and specialized banks to make them qualified and adaptable. In addition, the Bangladesh Bank should engage an independent external auditor to oversee the affairs of all banks efficiently. Finally, simultaneous efforts of Bangladesh Bank, the Ministry of Finance, and other government agencies are critical to protecting the banking sector from loan scams, money laundering, and other financial crimes.

The study contributes to the literature by using the control fraud theory, a comparatively new theory but proposes thoughtful insights into the interaction factors of fraud and corporate scandals. The results of the study can be useful for auditors and individuals or authorities with oversight responsibilities to investigate and assess the risk factors of loan scams, other financial crimes, and corporate failure. Regulators can use the input from this study when formulating policies and enforcement rules to prevent loan scams and unexpected bank failures, thereby protecting the public interest.

The research has some limitations, which provide opportunities for future research. First, the study is conducted based on media and newspaper reports. The results of the study could be robust if the different stakeholders were interviewed and the findings were tallied. Therefore, future research can focus on it. Second, the study only covers SCBs. However, the credit default culture has recently become increasingly visible at all other banks. Future studies can be conducted involving all types of banks. Finally, while this study is based on a single country, future research could extend this study to a cross-country setting to understand if the identified factors favoring loan scams in SCBs are associated with these countries.

REFERENCES

1. Adhikary, B. K. (2006). Nonperforming loans in the banking sector of Bangladesh: Realities and challenges. *Bangladesh Institute of Bank Management, 4*(26), 75–95. https://www.apu.ac.jp/rcaps/uploads/fckeditor/publications/journal/RJAPS_V21_Adhikary.pdf
2. Agarwal, V., & Taffler, R. (2008). Comparing the performance of market-based and accounting-based bankruptcy prediction models. *Journal of Banking & Finance, 32*(8), 1541–1551. https://doi.org/10.1016/j.jbankfin.2007.07.014
3. Ahmed, S. (2012, September 4). Hallmark scam: Cracks in management and monitoring systems of banks. *The Daily Star*. https://www.thedailystar.net/news-detail-248237
4. Ahmed, S., & Uddin, S. (2018). Toward a political economy of corporate governance change and stability in family business groups: A morphogenetic approach. *Accounting, Auditing & Accountability Journal, 31*(8), 2192–2217. https://doi.org/10.1108/AAAJ-01-2017-2833
5. Albrecht, W., Albrecht, C. C., & Albrecht, C. O. (2004). Fraud and corporate executives: Agency, stewardship and broken trust. *Journal of Forensic Accounting, 5*(2004), 109–130. http://ruby.fgcu.edu/courses/cpacini/courses/common/fraudandcorporate.pdf
6. Asadullah, M. N., & Chakravorty, N. N. T. (2019). Growth, governance and corruption in Bangladesh: A re-assessment. *Third World Quarterly, 40*(5), 947–965. https://doi.org/10.1080/01436597.2019.1599854
7. Bahoo, S. (2020). Corruption in banks: A bibliometric review and agenda. *Finance Research Letters, 35*, 101499. https://doi.org/10.1016/j.frl.2020.101499
8. Bangladesh Bank. (2022). *Annual report 2020–2021*. https://www.bb.org.bd/pub/openpdf_new.php
9. Banking Company Act, 1991. https://www.bb.org.bd/en/index.php/about/lawsnacts
10. Baum, M. A., Hackney, C., Medas, P., & Sy, M. (2019). *Governance and state-owned enterprises: How costly is corruption?* (International Monetary Fund Working Paper, 253). https://doi.org/10.2139/ssrn.3523126
11. Belal, A. R., & Cooper, S. (2011). The absence of corporate social responsibility reporting in Bangladesh. *Critical Perspectives on Accounting, 22*(7), 654–667. https://doi.org/10.1016/j.cpa.2010.06.020
12. Black, W. K. (2005). "Control frauds" as financial super-predators: How "pathogens" make financial markets inefficient. *The Journal of Socio-Economics, 34*(6), 734–755. https://doi.org/10.1016/j.socec.2005.07.026
13. Chaity, N. S., & Islam, K. M. Z. (2022). Bank efficiency and practice of earnings management: A study on listed commercial banks of Bangladesh. *Asian Journal of Accounting Research, 7*(2), 114–128. https://doi.org/10.1108/AJAR-09-2020-0080
14. Chen, D., Guan, Y., Zhang, T., & Zhao, G. (2017). Political connection of financial intermediaries: Evidence from China's IPO market. *Journal of Banking & Finance, 76*, 15–31. https://doi.org/10.1016/j.jbankfin.2016.11.023
15. Chen, H.-K., Liao, Y.-C., Lin, C.-Y., & Yen, J.-F. (2018). The effect of the political connections of government bank CEOs on bank performance during the financial crisis. *Journal of Financial Stability, 36*, 130–143. https://doi.org/10.1016/j.jfs.2018.02.010
16. Chen, M., Jeon, B. N., Wang, R., & Wu, J. (2015). Corruption and bank risk-taking: Evidence from emerging economies. *Emerging Markets Review, 24*, 122–148. https://doi.org/10.1016/j.ememar.2015.05.009
17. Claessens, S., Feijen, E., & Laeven, L. (2008). Political connections and preferential access to finance: The role of campaign contributions. *Journal of Financial Economics, 88*(3), 554–580. https://doi.org/10.1016/j.jfineco.2006.11.003
18. Cooper, D. J., & Morgan, W. (2008). Case study research in accounting. *Accounting Horizons, 22*(2), 159–178. https://doi.org/10.2308/acch.2008.22.2.159

19. Cornett, M. M., Guo, L., Khaksari, S., & Tehranian, H. (2010). The impact of state ownership on performance differences in privately-owned versus state-owned banks: An international comparison. *Journal of Financial Intermediation, 19*(1), 74–94. https://doi.org/10.1016/j.jfi.2008.09.005
20. Cressey, D. R. (1953). *Other people's money: A study of the social psychology of embezzlement.* Montclair, NJ: Wadsworth Publishing.
21. Cultrera, L., & Brédart, X. (2016). Bankruptcy prediction: the case of Belgian SMEs. *Review of Accounting and Finance, 15*(1), 101–119. https://doi.org/10.1108/RAF-06-2014-0059
22. de Haan, J., & Vlahu, R. (2016). Corporate governance of banks: A survey. *Journal of Economic Surveys, 30*(2), 228–277. https://doi.org/10.1111/joes.12101
23. Deb, B. C., Sarker, A., & Siddique, F. K. (2017). Relationship between corporate governance and financial performance of banking industry in Bangladesh. *Journal of Management (JOM), 4*(2), 50–61. https://sdbindex.com/Documents/index/00000015/00000-47485
24. Dey, B. K. (2019). *Managing nonperforming loans in Bangladesh* (ADB Briefs No. 116). Asian Development Bank. https://doi.org/10.22617/BRF190507-2
25. Dinç, I. S. (2005). Politicians and banks: Political influences on government-owned banks in emerging markets. *Journal of Financial Economics, 77*(2), 453–479. https://doi.org/10.1016/j.jfineco.2004.06.011.
26. Erickson, M., Hanlon, M., & Maydew, E. L. (2006). Is there a link between executive equity incentives and accounting fraud? *Journal of Accounting Research, 44*(1), 113–143. https://doi.org/10.1111/j.1475-679X.2006.00194.x
27. Fariha, R., Hossain, M. M., & Ghosh, R. (2022). Board characteristics, audit committee attributes and firm performance: Empirical evidence from emerging economy. *Asian Journal of Accounting Research, 7*(1), 84–96. https://doi.org/10.1108/AJAR-11-2020-0115
28. Fiordelisi, F., Soana, M.-G., & Schwizer, P. (2014). Reputational losses and operational risk in banking. *The European Journal of Finance, 20*(2), 105–124. https://doi.org/10.1080/1351847X.2012.684218
29. Fu, X. M., Lin, Y. R., & Molyneux, P. (2014). Bank efficiency and shareholder value in Asia Pacific. *Journal of International Financial Markets, Institutions and Money, 33*, 200–222. https://doi.org/10.1016/j.intfin.2014.08.004
30. Hasan, S. (2015, August 13). Gross anomalies detected in Basic Bank recruitment. *Prothom Alo.* https://en.prothomalo.com/bangladesh/Irregularities-in-appointing-731-officials-to
31. Haß, L. H., Vergauwe, S., & Zhang, Z. (2019). State-ownership and bank loan contracting: Evidence from corporate fraud. *The European Journal of Finance, 25*(6), 550–567. https://doi.org/10.1080/1351847X.2017.1328454
32. Hensher, D. A., & Jones, S. (2007). Forecasting corporate bankruptcy: Optimizing the performance of the mixed logit model. *Abacus, 43*(3), 241–264. https://doi.org/10.1111/j.1467-6281.2007.00228.x
33. Hossain, S., & Ahmed, M. (2014, September 22). Five state-owned banks in poor condition. *Prothom Alo.* https://en.prothomalo.com/bangladesh/Five-state-owned-banks-in-poor-condition
34. ICC Bangladesh. (2013, October 2). *ICCB President hopes Central Bank and commercial banks could develop appropriate mechanism for detecting and preventing future fraud.* https://iccbangladesh.org.bd/2013/02/10/iccb-president-hopes-central-bank-and-commercial-banks-could-develop-appropriate-mechanism-for-detecting-and-preventing-future-fraud/
35. Islam, M. A., & Deegan, C. (2008). Motivations for an organisation within a developing country to report social responsibility information: Evidence from Bangladesh. *Accounting, Auditing & Accountability Journal, 21*(6), 850–874. https://doi.org/10.1108/09513570810893272
36. Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X
37. Khan, H. Z., Bose, S., Sheehy, B., & Quazi, A. (2021). Green banking disclosure, firm value and the moderating role of a contextual factor: Evidence from a distinctive regulatory setting. *Business Strategy and the Environment, 30*(8), 3651–3670. https://doi.org/10.1002/bse.2832
38. Knapp, M. C., & Knapp, C. A. (2007). Europe's Enron: Royal Ahold, N.V. *Issues in Accounting Education, 22*(4), 641–660. https://doi.org/10.2308/iace.2007.22.4.641
39. Lazzarini, S. G., & Musacchio, A. (2018). State ownership reinvented? Explaining performance differences between state-owned and private firms. *Corporate Governance: An International Review, 26*(4), 255–272. https://doi.org/10.1111/corg.12239
40. Le, P. T., Harvie, C., Arjomandi, A., & Borthwick, J. (2019). Financial liberalisation, bank ownership type and performance in a transition economy: The case of Vietnam. *Pacific-Basin Finance Journal, 57*, 101182. https://doi.org/10.1016/j.pacfin.2019.101182
41. Liedong, T. A., & Rajwani, T. (2018). The impact of managerial political ties on corporate governance and debt financing: Evidence from Ghana. *Long Range Planning, 51*(5), 666–679. https://doi.org/10.1016/j.lrp.2017.06.006
42. Macey, J. R., & O'Hara, M. (2003). The corporate governance of banks. *Economic Policy Review, 9*(1), 91–107. https://www.newyorkfed.org/medialibrary/media/research/epr/03v09n1/0304mace.pdf
43. Macey, J. R., & O'Hara, M. (2016). Bank corporate governance: A proposal for the post-crisis world. *Economic Policy Review,* 85–105. https://ssrn.com/abstract=2828076
44. Mahbub, T., Matthews, K., & Barker, K. (2019). Other people's money: The profit performance of Bangladeshi family dominated banks. *Journal of Behavioral and Experimental Finance, 21*, 103–112. https://doi.org/10.1016/j.jbef.2018.11.005
45. Molla, M. I., Islam, M. S., & Rahaman, M. K. B. (2021). Corporate governance structure and bank performance: Evidence from an emerging economy. *Journal of Economic and Administrative Sciences.* Advance online publication. https://doi.org/10.1108/JEAS-05-2021-0083
46. Monem, R. (2011). The One.Tel Collapse: Lessons for corporate governance. *Australian Accounting Review, 21*(4), 340–351. https://doi.org/10.1111/j.1835-2561.2011.00151.x
47. Nabi, M. G., Islam, M. A., & Bakar, R. (2019). Do private commercial banks outperform state-owned commercial banks? Empirical Evidence from Bangladesh. *Journal of Applied Finance and Banking, 9*(5), 167–186. https://cutt.ly/gNZvGP9
48. Noman, M. (2015, June 20). ACC probe into Basic Bank scam halts. *Prothom Alo.* https://en.prothomalo.com/bangladesh/ACC-probe-into-Basic-Bank-loan-scam-halts

49. Nurunnabi, M. (2018). Corruption in Bangladesh: Insights from the financial sector. In B. Warf (Ed.), *Handbook on the geographies of corruption* (pp. 300–312). https://doi.org/10.4337/9781786434753.00024
50. Otero, L., Alaraj, R., & Lado-Sestayo, R. (2020). How corporate governance and ownership affect banks' risk-taking in the MENA countries? *European Journal of Management and Business Economics, 29*(2), 182–198. https://doi.org/10.1108/EJMBE-01-2019-0010
51. Panizza, U. (2022). State-owned commercial banks. *Journal of Economic Policy Reform*. Advance online publication. https://doi.org/10.1080/17487870.2022.2076678
52. Radon, J., & Thaler, J. (2005). Resolving conflicts of interest in state-owned enterprises. *International Social Science Journal, 57*(s1), 11–20. https://doi.org/10.1111/j.1468-2451.2009.00702.x
53. Rashid, M. H. U., Zobair, S. A. M., Chowdhury, M. A. I., & Islam, A. (2020). Corporate governance and banks' productivity: Evidence from the banking industry in Bangladesh. *Business Research, 13*(2), 615–637. https://doi.org/10.1007/s40685-020-00109-x
54. Sakib, S. (2016, November 29). 'Gold' Anwar's treasury Rupali Bank! *Prothom Alo*. https://en.prothomalo.com/bangladesh/Gold-Anwar-s-treasury-Rupali-Bank
55. Sarkar, J., & Sarkar, S. (2018). Bank ownership, board characteristics and performance: Evidence from commercial banks in India. *International Journal of Financial Studies, 6*(1), 17. https://doi.org/10.3390/ijfs6010017
56. Scapens, R. W. (1990). Researching management accounting practice: The role of case study methods. *The British Accounting Review, 22*(3), 259–281. https://doi.org/10.1016/0890-8389(90)90008-6
57. Scapens, R. W. (2004). Doing case study research. In C. Humphrey, & B. Lee (Eds.), *The real life guide to accounting research: A behind-the-scenes view of using qualitative research methods* (pp. 257–279). https://doi.org/10.1016/B978-008043972-3/50017-7
58. Shehzad, C. T., & de Haan, J. (2015). Supervisory powers and bank risk taking. *Journal of International Financial Markets, Institutions and Money, 39*, 15–24. https://doi.org/10.1016/j.intfin.2015.05.004
59. Siddiqui, J. (2010). Development of corporate governance regulations: The case of an emerging economy. *Journal of Business Ethics, 91*(2), 253–274. https://doi.org/10.1007/s10551-009-0082-4
60. Sikka, P. (2009). Financial crisis and the silence of the auditors. *Accounting, Organizations and Society, 34*(6–7), 868–873. https://doi.org/10.1016/j.aos.2009.01.004
61. Sobhan, A., & Bose, S. (Eds.). (2019). Institutional characteristics and outcomes of corporate governance in Bangladesh: Research challenges. In *The Routledge companion to accounting in emerging economies* (pp. 196–209). https://doi.org/10.4324/9781351128506-16
62. Sutherland, A. E., Jr. (1949). Due process and disestablishment. *Harvard Law Review, 62*(8), 1306–1344. https://doi.org/10.2307/1336468
63. The Daily Star. (2012, September 5). *Hall-Mark Scam. Nonsense!: Muhith ridicules media outcry; experts shocked.* https://www.thedailystar.net/news-detail-248398
64. The Daily Star. (2013, August 25). *Banking scams are growing faster than central bank's actions: ICCB.* https://www.thedailystar.net/news/banking-scams-are-growing-faster-than-central-banks-actions-iccb
65. Van Greuning, H., & Bratanovic, S. B. (2020). *Analyzing banking risk (4th edition): A framework for assessing corporate governance and risk management*. World Bank. https://openknowledge.worldbank.org/handle/10986/33860
66. Watts, R. L., & Zimmerman, J. L. (1978). Towards a positive theory of the determination of accounting standards. *The Accounting Review, 53*(1), 112–134. https://www.jstor.org/stable/245729
67. Watts, R. L., & Zimmerman, J. L. (1986). *Positive accounting theory*. Englewood Cliffs, NJ: Prentice-Hall, Inc.
68. Watts, R. L., & Zimmerman, J. L. (1990). Positive accounting theory: A ten year perspective. *The Accounting Review, 65*(1), 131–156. https://www.jstor.org/stable/247880
69. Wheeler, S., & Rothman, M. L. (1982). The organization as weapon in white-collar crime. *Michigan Law Review, 80*(7), 1403–1426. https://doi.org/10.2307/1288554
70. Yin, R. K. (2009). *Case study research: Design and methods* (4th ed.). Thousand Oaks, CA: Sage.