Research Monograph 76

2025

Institutional Sustainability of the Fourth-Generation Banks in Bangladesh: An Analysis from the Socio-Psychological Perspective

Md. Akhtaruzzaman, Ph.D.
Director General BIBM

Mohammad Tazul Islam, Ph.D.
Professor, BIBM

Md. Shahid Ullah, Ph.D.
Associate Professor, BIBM

Mohammad Monirul Islam Sarker, Ph.D.
Faculty Member (on Deputation), BIBM and Director, Bangladesh Bank

Mahmud Salahuddin Naser
Director, Monetary Policy Department (MPD), Bangladesh Bank

Bangladesh Institute of Bank Management (BIBM)
Section No. 2, Mirpur, Dhaka-1216

RESEARCH MONOGRAPH 76

Institutional Sustainability of the Fourth-Generation Banks in Bangladesh: An Analysis from the Socio-Psychological Perspective

Md. Akhtaruzzaman, Ph.D.
Director General, BIBM

Mohammad Tazul Islam, Ph.D.
Professor, BIBM

Md. Shahid Ullah, Ph.D.
Associate Professor, BIBM

Mohammad Monirul Islam Sarker, Ph.D.
Faculty Member (on Deputation), BIBM and Director, Bangladesh Bank

Mahmud Salahuddin Naser
Director, Monetary Policy Department (MPD), Bangladesh Bank

BANGLADESH INSTITUTE OF BANK MANAGEMENT (BIBM)
Dhaka, Bangladesh

Institutional Sustainability of the Fourth-Generation Banks in Bangladesh: An Analysis from the Socio-Psychological Perspective

Research Team
Md. Akhtaruzzaman, Ph.D., Director General, BIBM
Mohammad Tazul Islam, Ph.D., Professor, BIBM
Md. Shahid Ullah, Ph.D., Associate Professor, BIBM
Mohammad Monirul Islam Sarker, Ph.D., Faculty Member (on Deputation), BIBM and Director, Bangladesh Bank
Mahmud Salahuddin Naser, Director, Monetary Policy Department (MPD), Bangladesh Bank

Editorial Advisor
Md. Akhtaruzzaman, Ph.D.
Director General, BIBM

Editor
Md. Shihab Uddin Khan
Professor and Director (Research, Development and Consultancy), BIBM

Support Team
Research, Development and Consultancy Wing
Papon Tabassum, Assistant Senior *Officer, BIBM*
Sk. Md. Azizur Rahman, *Officer, BIBM*
Md. Awalad Hossain, *Officer, BIBM*

Publications-cum-Public Relations Section
Md. Al-Mamun Khan, *Senior Officer (PPR), BIBM*
Md. Morshadur Rahman, *Officer (PPR), BIBM*

Design & Illustration **Sk. Md. Azizur Rahman,** *Officer, BIBM*

Published in March, 2025

Published by Bangladesh Institute of Bank Management (BIBM)
Plot No. 4, Main Road No. 1 (South), Section No. 2
Mirpur, Dhaka-1216, Bangladesh.
PABX : 88-02-48032091-4, 88-02-48032097-8, 48032104
E-mail : bibmresearch@bibm.org.bd
Web : www.bibm.org.bd

Printed by **…………………………………………….**

Foreword

As part of the ongoing dissemination of BIBM research outputs, the present research monograph contains the findings of the research project titled "Institutional Sustainability of the Fourth-Generation Banks in Bangladesh: An Analysis from the Socio-Psychological Perspective". The study was conducted in 2022-2023 and the paper was presented in a seminar held in November 2024. Institutional sustainability refers to the resilience and longevity of institutions, distinguishing it from the broader concept of sustainability often discussed in sustainable development literature. Traditional sustainability encompasses meeting present needs without compromising future generations, focusing on the triple bottom line: profit, planet, and people. Social, political, cultural, regulatory structure and superstructure as institutions affects the institutional sustainability of the banks. Further, the relationship governance structures, regulatory frameworks, and social norms, assessing their collective impact on the resilience and operational efficiency of these financial institutions. The study focuses on exploring the institutional dimension of sustainability, particularly how socio-psychological factors affect the institutional sustainability of banks in Bangladesh.

It gives me immense pleasure to publish and distribute this research output to the practitioners of the banks and financial institutions, regulatory agencies, academics and the common readers. I hope this monograph will be a valuable resource for professionals, especially for the banking community for ensuring operating governance in the banking industry in Bangladesh.

Md. Akhtaruzzaman, Ph.D.
Director General, BIBM

Acknowledgement

We would like to extend our gratitude to Dr. Md. Akhtaruzzaman, Honorable Director General of BIBM for his valuable guidance and suggestions to complete the study comprehensively.

The research team is grateful to Professor Md. Shihab Uddin Khan, Director (Research, Development & Consultancy), BIBM for his consistent support in finalizing the paper.

We would like to thank the respondents of our questionnaires and the learned discussants, who provided their valuable inputs for the successful finalization of the report. We are also thankful to all our colleagues for their cooperation and support.

Md. Akhtaruzzaman, Ph.D.
Mohammad Tazul Islam, Ph.D.
Md. Shahid Ullah, Ph.D.
Mohammad Monirul Islam Sarker, Ph.D.
Mahmud Salahuddin Naser

RESEARCH MONOGRAPH 76

Institutional Sustainability of the Fourth-Generation Banks in Bangladesh: An Analysis from the Socio-Psychological Perspective

Contents

List of Tables

List of Figures

List of Abbreviations

ACRL	Alpha Credit Rating Limited
ADR	Advance-Deposit Ratio
AI	Artificial Intelligence
APPS	Applications
ATGR	Annual Trend Growth Rate
ATGR	Annual Trend Growth Rate
ATGR	Capital Growth
AVE	Average Variance Extracted
AVE	Average Variance Extracted
BNP	Bangladesh Nationalist Party
BOCI	Board Conflict of Interest
BoD	Board of Directors
CEO	Chef Executive Officer
CG	Corporate Governance
CG	Cultural Cognitive
CR	Composite Reliability
CRAB	Credit Rating Agency of Bangladesh Limited
CRAR	Capital to Risk-Weighted Assets Ratio
CRISL	Credit Rating Information and Services Limited
CRISL	Credit Rating Information and Services Limited
CSR	Corporate Social Responsibility
ECRL	Emerging Credit Rating Limited
ESG	Environmental, Social, and Governance
FGD	Focus Group Discussion
FL	Factor Loading
FSRP	Financial Sector Reform Program
IS	Institutional Sustainability
IT	Information Technology
NPA	Non-Performing Assets
NPL	Non-Performing Loan
PET	Political Economy Theory
ROA	Return on Assets
ROA	Return on Assets
ROE	Return on Equity
SE	Shareholders Equity
SEM	Structural Equation Model
SEM-PLS	Structural Equation Model – Partial Least Square
SEM-PLS	Structural-Equation Model with Partial Least Square
SEM-PLS	Structural Equation Modeling-Partial Least Squares
TA	Total Assets

Executive Summary

This study examines the institutional sustainability of fourth-generation banks in Bangladesh, with a particular focus on the socio-psychological factors that shape their long-term viability. It explores the intricate relationship between governance structures, regulatory frameworks, and social norms, assessing their collective impact on the resilience and operational efficiency of these financial institutions. The research aims to analyze the performance of fourth-generation banks while investigating the socio-psychological dimensions that influence their sustainability.

A mixed-methods approach was employed, integrating both qualitative and quantitative research techniques. Data collection methods included focus group discussions with key stakeholders such as heads of credit, risk officers, and board secretariat members. A semi-structured questionnaire survey was conducted among bank employees to capture their perspectives on institutional sustainability. Additionally, secondary data from annual reports, bank websites, and regulatory guidelines were analyzed to assess financial performance indicators, including total assets, equity, deposits, loans, Non-performing Loans (NPLs), and profitability ratios. The study further employed Structural Equation Modeling – Partial Least Square (SEM-PLS) to empirically test the hypothesized relationships between socio-psychological factors and institutional sustainability.

Thematic analysis of qualitative data from focus group discussions identified recurring patterns and insights, while quantitative survey data were examined using descriptive statistics and factor analysis. Key findings highlight that good governance, regulatory oversight, customer satisfaction, and ethical banking practices are fundamental to organizational sustainability. Employee motivation, job satisfaction, and workplace culture emerged as significant contributors to institutional resilience. A strong correlation was observed between the advance deposit ratio (ADR) and NPLs, suggesting that higher ADR levels are associated with increased loan defaults. Additionally, normative factors such as ethical values and employee satisfaction positively influence sustainability, whereas cultural-cognitive and coercive factors have negligible effects. However, the study also identifies critical challenges facing fourth-generation banks, including governance failures, unhealthy competition, liquidity crises, high NPLs, and political interference.

The findings underscore the urgency of reinforcing governance structures, promoting ethical banking practices, and strengthening regulatory oversight to safeguard the long-term sustainability of these banks. Addressing socio-psychological determinants, particularly employee motivation and workplace culture, is essential for enhancing institutional resilience. To this end, several policy recommendations are proposed: enhancing corporate governance and regulatory compliance, mitigating political interference in bank licensing and governance, addressing liquidity crises and NPL management through robust risk assessment frameworks, fostering financial literacy and ethical banking practices to rebuild public trust, encouraging mergers and consolidations to stabilize weaker banks, and strengthening regulatory bodies to ensure effective supervision.

By implementing these recommendations, policymakers can create an enabling environment that fosters sustainable growth and stability in Bangladesh's banking sector.

Institutional Sustainability of the Fourth-Generation Banks in Bangladesh: An Analysis from the Socio-Psychological Perspective

1. Background

Institutional sustainability refers to the resilience and longevity of institutions, distinguishing it from the broader concept of sustainability often discussed in sustainable development literature. Traditional sustainability encompasses meeting present needs without compromising future generations, focusing on the triple bottom line: profit, planet, and people (Szekely & Dossa, 2017). This framework integrates environmental, social, and governance (ESG) factors, as highlighted by Islam and Kokubu (2018). The literature indicates that effective compliance and sustainability characteristics align closely with core institutional objectives, suggesting that the institutional dimension is crucial for sustainability (Spangenberg, 2002). Spangenberg further elaborates that sustainability encompasses four dimensions: environmental, social, economic, and institutional. The environmental dimension integrates bio-geological processes, while the social dimension emphasizes well-being and interpersonal qualities. The economic dimension, often referred to as "man-made capital," includes both formal and informal economic activities that enhance monetary income and living standards (Spangenberg & Lorek, 2002; Spangenberg, 2002). The institutional dimension is characterized by interpersonal processes, such as communication and cooperation, which govern societal interactions (Spangenberg, 2002). Therefore, institutional sustainability is a fundamental aspect of the broader sustainability framework, encompassing internal business processes, governance systems, and the influence of social norms and political governance.

Our research focuses on exploring the institutional dimension of sustainability, particularly how socio-psychological factors affect the institutional sustainability of banks in Bangladesh. Previous studies have primarily examined sustainability through environmental, social, and economic lenses (Islam & Kokubu, 2018; Islam et al., 2021), with limited attention given to the institutional dimension (Spangenberg, 2002). This study aims to elucidate institutional sustainability from socio-psychological perspectives, positing that social variables, rather than biological instincts, significantly shape individual personalities. Socio-psychological factors, which encompass both social (e.g., family, society, wealth, religion) and psychological elements (e.g., feelings, thoughts, beliefs), play a pivotal role in personality development and behavioral responses to external circumstances.

The banking sector is vital for fostering economic development in Bangladesh (Islam & Uddin, 2023), serving as a primary source of credit for companies in developing nations

(Uddin et al., 2022). Since its independence in 1971, the Bangladeshi banking sector has undergone significant reforms, including nationalization and subsequent privatization, alongside frequent political and regulatory changes that have influenced corporate governance mechanisms. The financial crisis that began in the EU in mid-2007 further necessitated a re-evaluation of corporate governance globally. In particular, corporate governance (CG) structures, especially board dynamics, are critical in linking political and business interests, impacting firm behavior (Uddin et al., 2022). The rising levels of Non-Performing Loans (NPLs) and stagnant private sector credit growth raise concerns regarding the governance efficacy within Bangladesh's banking system (Mamun et al., 2021). Siddique et al. (2022) note that bank CEOs often rely on board directors for critical corporate decisions, including loan sanctions and employee management, with many board members selected based on political affiliations. Furthermore, Islam and Uddin (2013) identify board conflict of interest (BOCI) as a significant determinant of board effectiveness, adversely affecting bank performance. Notably, as on 30th June 2022, NPLs in state-owned commercial banks in Bangladesh reached 25.00%, compared to 6.50% in private commercial banks, 4.80% in foreign banks, and 12.10% in specialized banks (Bangladesh Bank, 2023, p. 34).

The banking system of Bangladesh has gone through substantial structural changes in the past decades. The banking industry in Bangladesh has gone through some structural reforms by nationalization under president's order No.26 of 1972; denationalization of some commercial banks and permission of private local banks to compete in the banking sector in 1982; National Commission on Money, Banking and Credit in 1986; Financial Sector Reform Program (FSRP) in 1990; and Bank Reform Committee (BRC) in 1996. Particularly since 1993, the Banking Companies Act was amended in 9 times i.e. in 1993, 1995, 1997, 2001, 2003, 2007, 2013, 2017 and 2023. In 2017, some major amendments have been done in the Bank Companies Act specially tenure of the Board of the Directors have been extended from six years to nine years of a private commercial banks; the elected chairman, directors and the managing director of a private bank will require the consent of Bangladesh Bank prior to assuming office instead they have to seek permission from Bangladesh Bank before participating in the election; up to four member of a family may be appointed as Board of Directors (BoD) for a bank, while it was two member from one family (Uddin et al., 2022). Further, in 2023, some major amendments have been made – share of the banks cannot be concentrated to particular person, organization or family which is confined to 10 percent; maximum 20 directors including 3 independent directors and 2 independent directors for less than 20 directors; maximum tenure for the directors is 12 years (since 2018) and after 3 years gap can be reappointed; maximum 3 directors from a single family.

Further, after the independence in 1971, banking industry in Bangladesh started its journey with 6 nationalized commercialized banks, 2 state owned specialized banks and 3 foreign banks (Islam, 2017). There are 61 scheduled banks (6 state owned commercial banks, 3 specialized banks, 43 private commercial banks (33 conventional and 10 Islamic banks), and 9 foreign commercial banks) in Bangladesh (Bangladesh Bank, 2023). Again, based on the year of establishment, the banking sector is clustered into four generations. Banks incorporated in 1971-1990; 1991-2000; 2001-2012; and after 2013 are called first, second, third, and fourth generation banks respectively (Islam, 2017; Bangladesh Bank, 2019). The number of banks based on the generation is shown in Table-1.1.

Table 1.1: Number of Banks Based on Generation

Sl. No.	Generation of Banks	Period (During)	Number of Banks
1	First Generation	1971 – 1990	24
2	Second Generation	1991 – 2000	17
3	Third Generation	2001 – 2012	7
4	Fourth Generation	2013 to onward	12
Total			61

There is a political synthesis between political government and generation of banks in Bangladesh. The nationalized and state-owned specialized banks are fully owned by the government, hence, control of the board of these banks laid under the political government of the country. Among the 43 private commercial banks, during 1982 to 1990, 8 banks got license while 18 banks during 1991 to 2000, 3 banks during 2001 to 2012 and 14 banks since 2013. Further, 8 banks got license to start their operation during the political government of "Jatiya Party" (1982-1990) while 7 banks of "Bangladesh Nationalist Party (BNP)" (1991-1996) and 28 banks of "Awame League" (14 banks during 1996-2001 and 14 banks since 2013).

This study aims to investigate the capacity of institutions to thrive amid challenging economic, political, and social contexts that undermine their legitimacy. The specific objectives include analysing the performance of fourth-generation banks in Bangladesh and examining the socio-psychological factors influencing their institutional sustainability.

2. Literature Review

Institutional theory revolves around the concept of "institutions," which emerge and persist through human interactions and the distribution of resources. According to Scott (2001), institutions are resilient social structures composed of cultural-cognitive, normative, and regulatory elements that, along with related activities and resources, contribute to societal stability and meaning. Giddens (1984) describes institutions as enduring components of social life, while Searle (2005) views them as a collective set of socially accepted rules that shape institutional beliefs. Institutions are inherently resistant to change (Zucker, 1987), emphasizing the fundamental role of human engagement in sustaining them. Berger and Luckmann (1991) argue that institutions remain inactive unless continuously reinforced through human actions. Furthermore, for institutional norms and rules to be effective, they must be backed by sanctioning power and cultural values, often embedded in resource structures (Sewell, 1992).

Institutions serve to establish order, stability, and a shared sense of meaning; however, they are also subject to both gradual evolution and sudden transformations (Scott, 2001, p. 48). Unlike classical institutional theory, neo-institutionalists perceive institutions as not only mirroring existing social structures but also as dynamic entities shaped by institutionalization and deinstitutionalization processes (Oliver, 1992; Tolbert & Zucker, 1996). Broadly speaking, institutions drive firms to adopt comparable strategies in response to coercive, normative, and cognitive forces (Scott, 2008), with adherence to these institutional pressures being critical for organizational survival and expansion.

In conventional societies, individuals are embedded in tightly knit groups from birth, receiving lifelong security in return for steadfast loyalty (Hofstede, Hofstede, & Minkov, 2005, p. 515). As a result, the cultural-cognitive perspective is particularly useful in analyzing corporate behaviors in Bangladesh, given its distinct socio-economic, political, and cultural dynamics. Bangladesh operates as a mixed economy with characteristics of high-power distance, a masculine-oriented society, and strong collectivist tendencies (Hofstede, 1984, 2001). The country functions under a guided democratic system, largely dominated by two political dynasties, and is characterized by political instability, widespread corruption, and a deep-rooted entanglement of business, politics, and bureaucracy (Uddin & Choudhury, 2008).

In numerous developing nations, legal systems often cater to the interests of the powerful, enabling them to act without consequences while marginalizing the weaker sections of society (Carver, 2018, p. 18). In traditional settings such as Bangladesh, allegiance to individuals, hierarchical relationships, and displays of subservience frequently take precedence over institutional authority (Weber, 1978; Dyball, Fong Chua, & Poullaos, 2006). Law enforcement is often subject to the discretion of those in power, with governing authorities shaping legal frameworks and their implementation to serve their own interests.

Political economy refers to the interconnected social, political, and economic systems that shape human interactions (Gray et al., 1996, p. 47). Since economic matters are deeply intertwined with social, political, and institutional factors, they cannot be analyzed in isolation from the broader context in which businesses operate (Deegan, 2014, p. 341). Political economy theory (PET) can be interpreted through two primary lenses: classical and bourgeois (Gray, Owen, & Adams, 2009, p. 20). The classical viewpoint highlights structural inequalities, wherein the affluent dominate limited resources, perpetuating disadvantages for the less privileged (Deegan, 2014, p. 342).

In contrast, the bourgeois perspective prioritizes group interactions within a pluralistic society while overlooking social struggles and inequalities. Legitimacy theory and stakeholder theory, both of which refrain from challenging existing social structures or conflicts, stem from this perspective. Legitimacy theory considers society as an integrated whole, whereas stakeholder theory argues that certain groups hold greater influence than others (Mitchell, Agle, & Wood, 1997; Jain, Aguilera, & Jamali, 2017). However, this pluralistic approach has limitations, as it often disregards evidence that a small elite dominates and marginalizes the majority (Cooper & Sherer, 1984). Institutional theory, by contrast, is valuable due to its applicability within both classical and bourgeois political economy frameworks (Deegan, 2014, p. 343).

3. Institutional Theory, Institutional Sustainability and Hypothesis Development

Institutional theory asserts that organizations assimilate the prevailing norms, beliefs, values, and principles of society, adapting their behaviors to align with contextual requirements critical for their survival (Dacin, 1997; Fuenfschilling & Truffer, 2014). Among the various institutional forces shaping organizational conduct, coercive pressure is often regarded as the most influential (Islam & Deegan, 2008).

The three foundational pillars of institutional theory—coercive, normative, and cultural-cognitive—are interconnected and coexist, forming a spectrum that ranges from conscious adherence to implicit acceptance, transitioning from legally mandated regulations to deeply ingrained societal assumptions. While one or two pillars may exert greater influence at particular moments, they collectively establish a robust social framework through their dynamic interactions and mutual reinforcement (Hoffman, 2001, p. 36).

Figure-3.1 explains the conceptual framework for institutional sustainability of an organization.

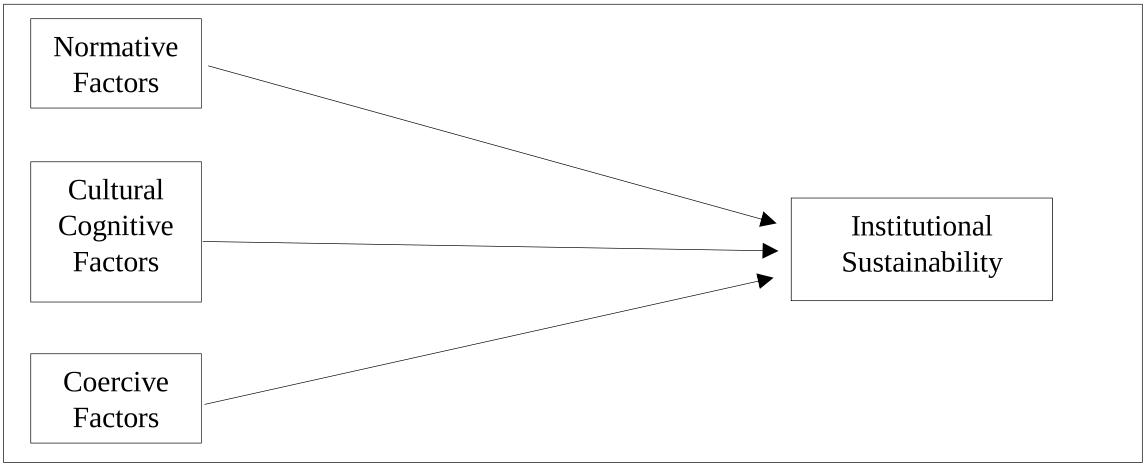


Figure-3.1: Conceptual Framework for Institutional Sustainability

Normative pressures, which are founded on social obligations and binding expectations, lead to organizational compliance stemming from internalized moral obligations to act in socially appropriate ways (Lee et al., 2022; Liu et al., 2009). Factors such as certifications, accreditations, professional experiences, and formal education contribute to the creation and maintenance of these normative institutions (Lee et al., 2022; Liu et al., 2009).

The internalization of these normative pressures can enhance an organization's ability to align its behaviors with the contexts essential for its long-term survival and success, thereby improving its institutional sustainability (Lee et al., 2022; Gunarathne et al., 2020). Normative pressure can foster a sense of shared values, beliefs, and principles within the organization, which can facilitate the adoption of sustainable practices and the development of a strong organizational culture that supports institutional longevity (Lee et al., 2022; Liu et al., 2009; Gunarathne et al., 2020).

Furthermore, the relationship between normative pressure and institutional sustainability may be mediated by organizational learning and the development of internal capabilities (Lee et al., 2022; Zhang & Zhu, 2019). As organizations internalize normative pressures, they may engage in organizational learning processes that enable them to adapt and respond effectively to changing environmental and social demands, ultimately enhancing their institutional sustainability (Lee et al., 2022; Zhang & Zhu, 2019). Based on the above literature, the first hypothesis is –

H1: Normative factors positively affect the institutional sustainability

Cultural-cognitive pressures are based on taken-for-granted beliefs, norms, and shared understandings within a given society (García-Hernández & Salgado, 2015; Amarante &

Crubellate, 2020). Adherence to these accepted norms and beliefs is crucial for the success and survival of organizations, as alternative behaviors become unthinkable (García-Hernández & Salgado, 2015; , Amarante & Crubellate, 2020). This cognitive pillar of institutions is perpetuated through mimicry, where organizations facing uncertainty tend to imitate their more successful peers (García-Hernández & Salgado, 2015; Amarante & Crubellate, 2020).

The cognitive-cultural pressure exerted on organizations to conform to societal expectations and norms can enhance their institutional sustainability (García-Hernández & Salgado, 2015; Amarante & Crubellate, 2020; , Palthe, 2014). By aligning their practices and behaviors with the prevailing cultural-cognitive institutions, organizations can gain legitimacy and secure their long-term viability within the institutional environment.

Furthermore, the integration of sustainability-related values, beliefs, and practices into the cognitive-cultural framework of an organization can contribute to its overall institutional sustainability (Asa, 2023; Salleh et al., 2019). When sustainability becomes a taken-for-granted aspect of an organization's identity and operations, it can foster a more resilient and adaptable institution capable of navigating complex environmental, social, and economic challenges.

However, in the absence of strong cognitive cultural pressures the relationship can be insignificant or indifferent. Based on the above discussion, the second hypothesis is –

H2: Strong cognitive cultural pressures positively affect the institutional sustainability

Coercive isomorphism, as defined by DiMaggio and Powell (1983), results from formal and informal pressures exerted on organizations that are dependent on cultural expectations within the society in which they operate (Masocha & Fatoki, 2018). Regulative institutions, often enforced by the government or powerful stakeholders, serve as coercive mechanisms that compel organizational compliance, regardless of individual choice (Masocha & Fatoki, 2018; Krause et al., 2019).

The fear of non-conformance to legal rules and coercive impositions leads organizations to adopt practices and structures that are deemed legitimate and sustainable within their institutional environment (Masocha & Fatoki, 2018; Krause et al., 2019; Chughtai et al., 2021). This is because the effectiveness of the institutional pillar relies not only on the existence of rules and laws but also on the capacity of agents to establish, implement, and enforce these laws and sanctions (Masocha & Fatoki, 2018).

Several studies have empirically demonstrated the significant impact of coercive pressures on various dimensions of organizational sustainability, including economic, environmental, and social sustainability (Masocha & Fatoki, 2018; Chughtai et al., 2021). Additionally, coercive isomorphic pressures have been found to ripple through organizational networks, leading to the diffusion of sustainable practices and the enhancement of institutional sustainability (Krause et al., 2019). However, due to the weak enforcement of governance in the tradintional setting like Bangladesh, the relationship may be different. Based on the above discussion, the third hypothesis is -

H3: Coercive factors positively affect the institutional sustainability

4. Research Methods

This study has used both primary and secondary sources for data collection and covered the period from 2013 to 2022 related to the fourth generational banks. Secondary data has been collected from the annual reports of banks, bank websites, and BB prudential regulations and guidelines. A mixed-method approach (Creswell and Clark, 2011) with a triangulation design has been used in this research (Morse, 1991). A mixed method with a triangulation design combines a qualitative and quantitative research approach (Islam et al., 2021; Siddique et al., 2022).

4.1 Focus Group Discussion

A focus group discussion with the heads of credit, chief risk officers, heads of loan recovery, and heads of credit administration are from the fourth-generation banks in Bangladesh was conducted on 05 September, 2023 in BIBM. A total of 19 representatives from the 4th generation banks participated in the FGD.

4.2 Questionnaire Survey

Besides the FGD, a semi-structured questionnaire (Appendix-I) has been designed to assess how the socio-psychological factors influencing institutional sustainability of the fourth-generation banks in Bangladesh. A snowball sampling technique has been used to collect the data from the respondents. A total of 321 respondents' responses were received and analyzed.

4.3 Performance Data Analysis

The study collects data of fourth generation banks during 2013 – 2023 for analyzing performance of banks in Bangladesh. The performance data includes deposit, loans and advances, Net Profit After Tax, Capital Adequacy Ratio, Total Assets (TA), Shareholders Equity (SE). Non-Performing Loans, Loan/Investment to Deposit ratio, Capital to Risk-weighted assets ratio, ROA, ROE. Moreover, credit rating of these fourth-generation banks has been included in the performance analysis of the banks. There are 13 fourth-generation banks in Bangladesh (Table-4.1), however the study considers 08 banks because of the outlier effect and non-availability of data.

Table 4.1: List of Fourth Generation Banks

Sl. No	Name of the Banks	Year of Establishment
1	NRBC Bank PLC	2013
2	SBAC Bank PLC	2013
3	Meghna Bank PLC	2013
4	Midland Bank PLC	2013
5	Union Bank PLC	2013
6	Global Islami Bank PLC	2013
7	NRB Bank Ltd.	2013
8	Modhumoti Bank PLC	2013
9	Shimanto Bank PLC	2016
10	Padma Bank PLC, (Former Farmers Bank Ltd.)	2019 (Farmers Bank in 2013)
11	Community Bank Bangladesh PLC	2019
12	Bengal Commercial Bank PLC	2020
13	Citizen Bank PLC	2020

4.4 Biography Analysis of the Founder Chainman

The study collects biographic information of the founder Chairman of the fourth-generation banks in Bangladesh. It includes their educational qualification, occupation, and regional and political affiliation of the founding chairman.

4.5 Empirical Analysis

The study conducted an empirical analysis using the survey data. Structural Equation Model – Partial Least Square (SEM-PLS) is used data analysis. Data for dependent and independent variables from the same persons may generate common method variance, which needs to be free in the data set (Hair et al., 2013; Ali et al., 2016). The study has used the following steps. First, each measurement scale has been separated with different explanations. Second, the researchers were personally involved in data collection and assured the respondents anonymity and confidentiality. Finally, factor analysis (FA) with factor loading at a cut-off point of 0.700 for item consideration has been used. Again, the study analysed the hypothesized model using SEM-PLS (SmartPLS-3.0) with 5000 bootstrapping for model accuracy.

5. Biography Analysis of the Chairman of the Fourth-Generation Banks

As mentioned in Table 5.1, there are thirteen fourth-generation banks in Bangladesh. The name of these fourth-generation banks along with the name of founding chairmen, their educational qualification, and regional and political identity are shown in Table 5.1. It finds that almost all of these fourth-generation banks got licence based on political consideration.

Table-5.1: Biography Analysis of the Chairman of the Fourth-Generation Banks

Sl. No	Name of the Banks	Year of Establishment	Founding Chairman	Political Affiliation	Home District	Educational Qualification	Occupation	Reasons
1	NRBC Bank PLC	2013	Mr. S. M. Parvez Tamal	Independent	Barisal	Master's in Statistics and Economics	IT Consultant	He has achieved the CIP Award multiple times
2	SBAC Bank PLC	2013	Mr. A.Z.M. Shofiuddin (Shamim)	Bangladesh Awami League	Cumilla	MBA	Business/ Politics	He was the parliament member of the Awami League in Cumilla-8.
3	Meghna Bank PLC	2013	Mr. H. N. Ashequr Rahman	Bangladesh Awami League	Rangpur	MA	Business/ Politics	He was the parliament member of the Awami League in Rangpur-5.
4	Midland Bank PLC	2013	Ms. Nilufar Zafarullah	Bangladesh Awami League	Faridpur	Bachelor of Architecture	Architect/ Politics	She was the parliament member of the Awami league in Faridpur-25.
5	Union Bank PLC	2013	Dr. Md. Salim Uddin	Bangladesh Awami League	Chattogram	FCA and Ph.D.	Teaching	Nominated by S. Alam Group
6	Global Islami Bank PLC	2013	Mr. Nizam Chowdhury	Bangladesh Awami League	Feni	MBA	Bank Consultant at abroad	He was the Senior Joint Secretary of US Awami League.
7	NRB Bank Ltd.	2013	Mr. Mohammed Mahtabur Rahman	Bangladesh Awami League	Sylhet	Honorary Ph.D. in World Peace and Morality	Business	He is the top CIP and chairman of AI Haramain Perfumes Group of Companies

Sl. No	Name of the Banks	Year of Establishment	Founding Chairman	Political Affiliation	Home District	Educational Qualification	Occupation	Reasons
8	Modhumoti Bank PLC	2013	Mr. Humayun Kabir	Bangladesh Awami League	Brahmanbaria	MA	Teaching	Businessman (Relative of Mr. Fazle Nur Taposh)
9	Shimanto Bank PLC	2016	Major General Aziz Ahmed	Bangladesh Awami League (in secret)	Narayangonj	Ph.D. on Border Management	Army	He was the Chief of Army Staff from 25 June 2018 to 24 June 2021.
10	Padma Bank PLC, formerly the Farmers Bank Ltd.	2019 (Farmers Bank in 2013)	Dr. Chowdhury Nafeez Sarafat	Bangladesh Awami League	Gopalganj	Ph. D. in Business Administration	Business/ Teaching	He is the founding chairman of Canadian University of Bangladesh
11	Community Bank Bangladesh PLC	2019	Chowdhury Abdullah Al-Mamun	Bangladesh Awami League (in secret)	Sunamganj	BA	Police	He was the IGP from 30 September 2022 to 6 August 2024
12	Bengal Commercial Bank PLC	2020	Mr. Md. Jashim Uddin	Bangladesh Awami League	Noakhali	BCom	Business	He is the Vice Chairman of Bengal Group and was the President of FBCCI.
13	Citizen Bank PLC	2020	Ms. Towfika Aftab	Bangladesh Awami League	Cumilla	Master's in Political Science and LLB	Lawyer	Her husband, Mr. A. K. M. Aftab ul Islam, FCA, is the Director of BB Board.

Source: Authors' compilation based on banks' (fourth-generation)

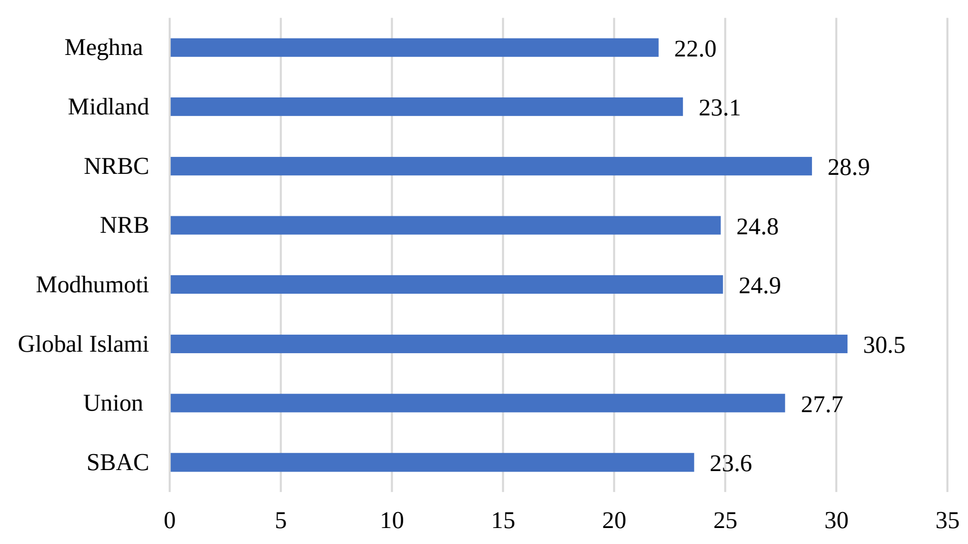
6. Performance of the Fourth-Generation Banks

Among the 13 fourth-generation banks, we have taken into consideration 8 banks on the basis of the availability of their related data and information. Now to analyze the relative performance of the fourth-generation banks, we have intended to discuss the movements of eleven core indicators, which include: total assets, total equity, total deposits, loans and advances, non-performing loans, advance/investment deposit ratio, capital-to-risk weighted asset ratio, return on assets, return on equity, and credit ratings of the banks.

6.1 Total Assets of the Banks

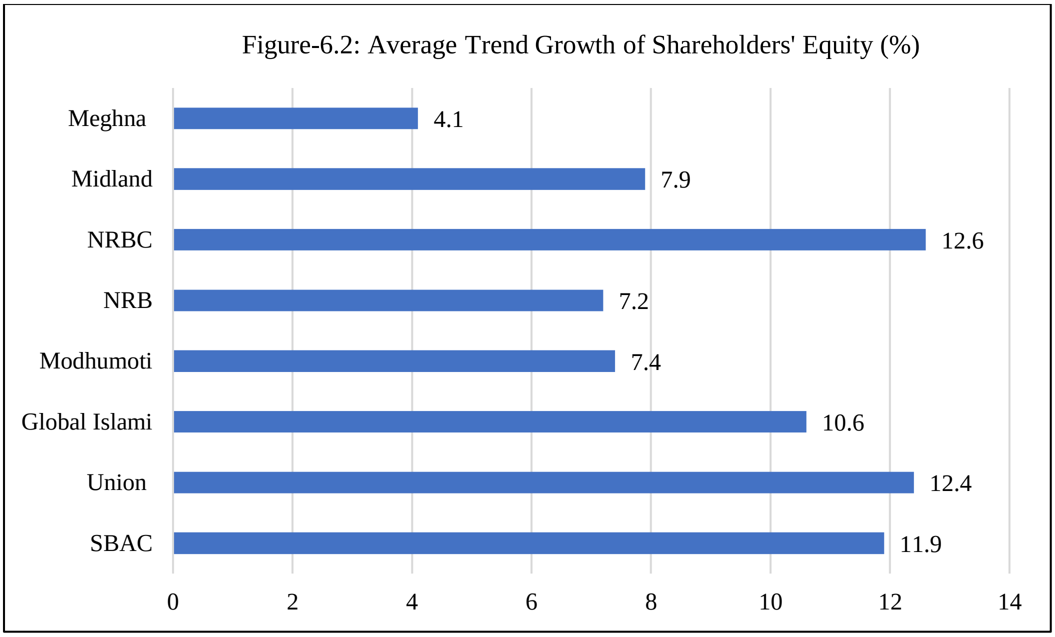
The total assets of the fourth-generation banks significantly increased over the years as compared to the total assets of the banking system. Thus, the annual trend growth rate (ATGR) of the assets of the fourth-generation banks reached above 22 percent during 2013-2022 (10 years). Among the 8 fourth-generation banks, Global Islami Bank PLC recorded the highest ATGR of total assets followed by NRBC Bank PLC, Union Bank PLC, Modhumoti Bank PLC, and NRB Bank Limited during 2013-2022.

Figure-6.1: Average Trend Growth of Total Assets (%)



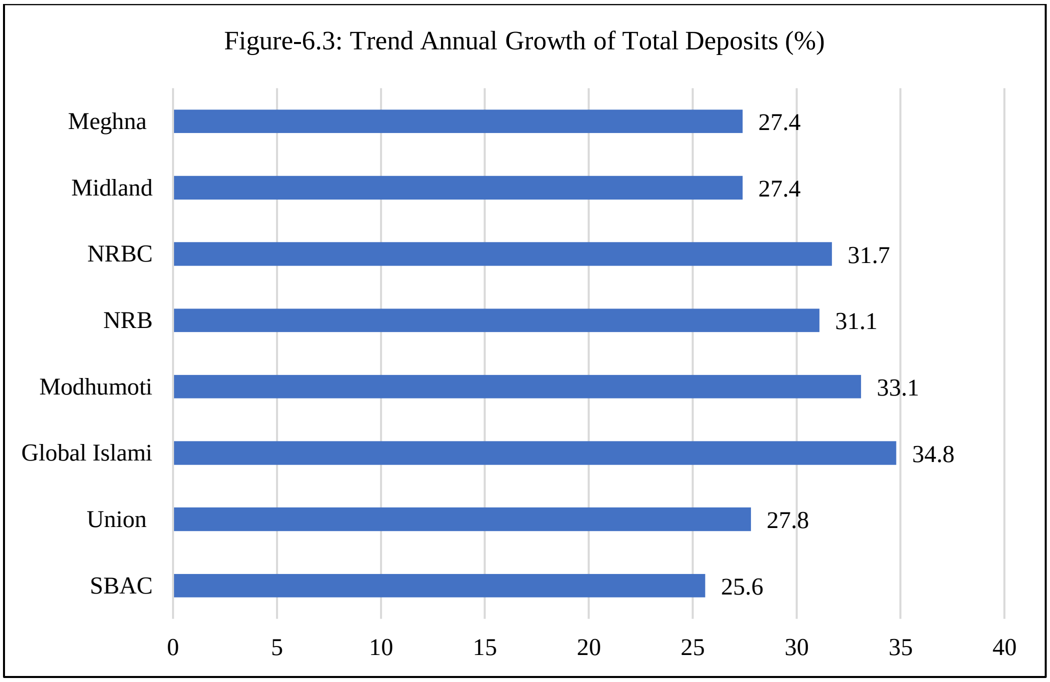
6.2 Shareholders' Equity

Equity growth of the fourth-generation banks registered a mixed scenario. Among the better performers, the NRBC bank recorded the highest equity growth during 2013–2022, followed by Union Bank, SBAC Bank, and Global Islami Bank.



6.3 Total Deposits in the Banks

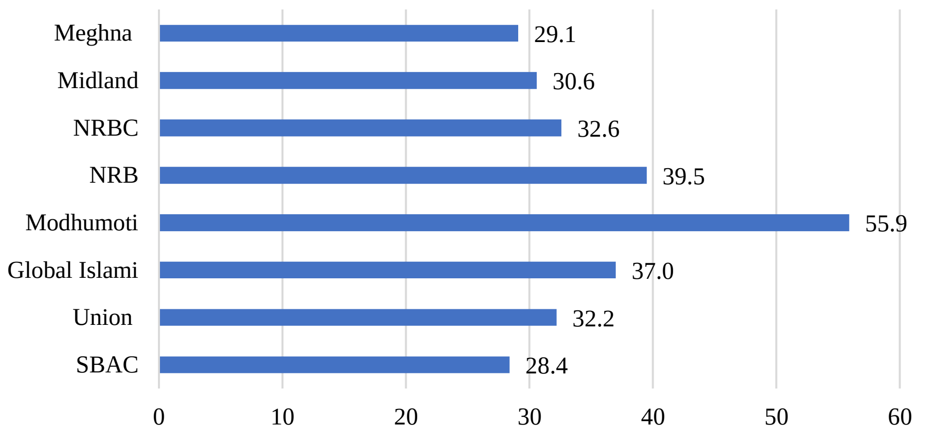
The annual trend growth rate (ATGR) of the deposits of fourth-generation banks reached above 25 percent during 2013-2022. Among the all fourth-generation banks, Global Islami Bank obtained the highest deposit growth followed by Modhumoti Bank Limited, NRBC Bank PLC and NRB Bank Limited.



6.4 Loans and Advances

The trend growth of loans and advances of the fourth-generation banks reached above 28 percent during 2013-2022. Among the 10 fourth-generation banks, Modhumoti Bank PLC showed the highest loans and advances growth, followed by NRB Bank Limited, Global Islami Bank PLC, NBRC Bank PLC, and Union Bank PLC.

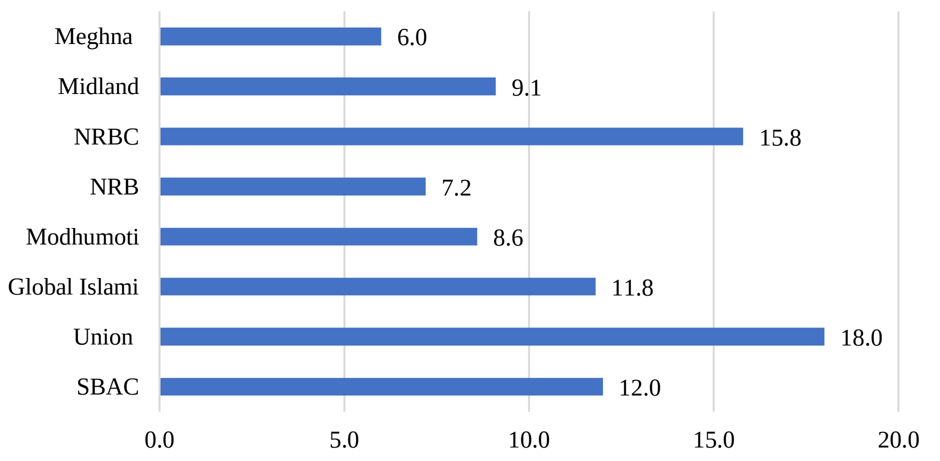
Figure-6.4: Trend Annual Growth Rate of Loans and Advances (%)



6.5 Capital

The trend growth of total capital (Tier 1 plus Tier 2) of Union Bank limited during 2013-2022 was unusually high as compared to that of other 7 fourth-generation banks. Among the other 7 fourth-generation banks, the capital growth (ATGR) of NRBC was also significantly high followed by SBAC Bank PLC, and Global Islami Bank PLC.

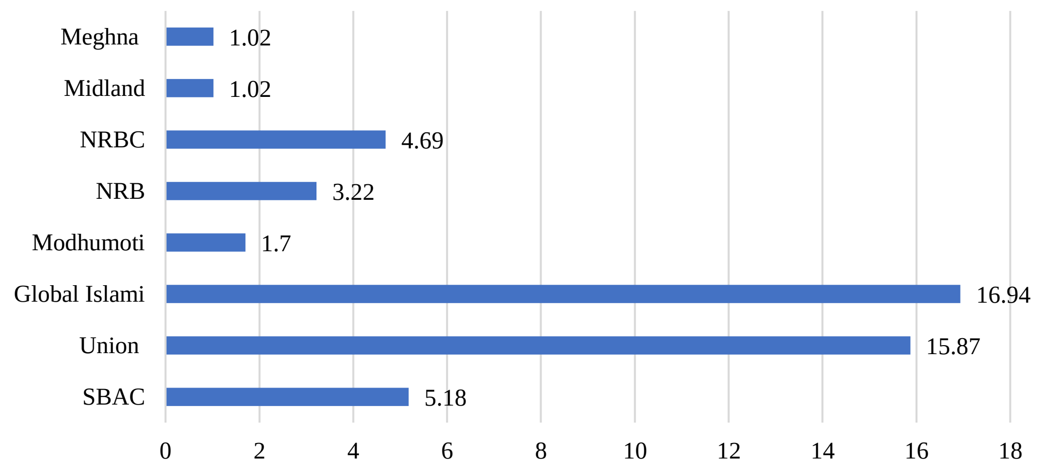
Figure- 6.5: Trend Annual Growth Rate of Capital (%)



6.6 Non-Performing Loans

Among the 8 fourth-generation banks, Global Islami Bank experienced the highest non-performing loans (NPLs) ratio[1], followed by Union Bank PLC in 2022. However, the NPL ratios in the other 6 banks are around 5%.

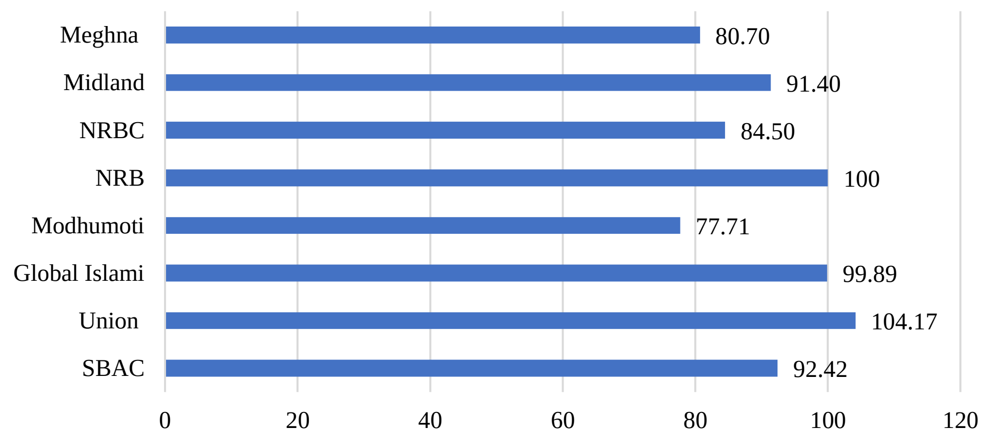
Figure-6.6: Non-Performing Loans Ratio (%)



6.7 Advance/Investment to Deposit Ratio

Among the 8 fourth-generation banks, two shariah-based Islami banks—Global Islami Bank PLC and Union Bank PLC—overcome their 92 percent ceiling set for investment to deposit ratio in 2022. Similarly, 3 fourth-generation conventional banks—NRB Bank Limited, Midland Bank PLC, and SBAC Bank PLC—also exceeded their 87 percent ceiling set for advance-deposit ratio (ADR) in 2022.

Figure-6.7: Advance/Investment to Deposit Ratio (%)

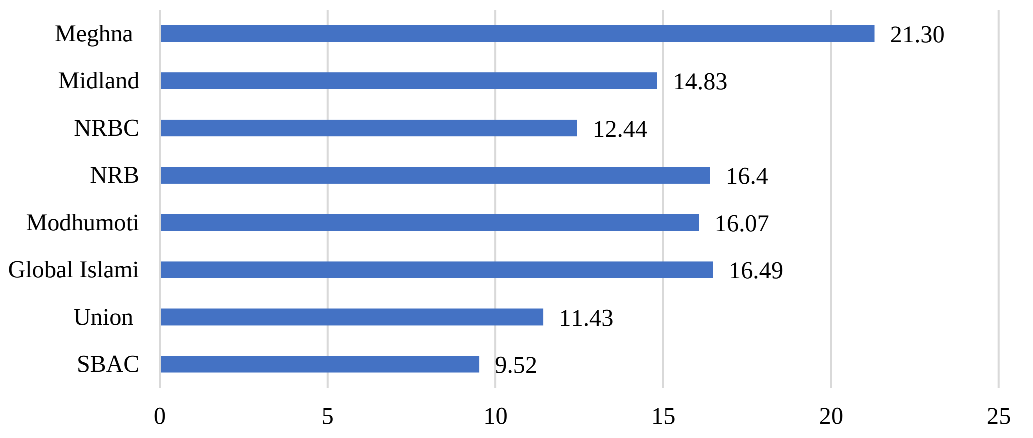


[1]The NPL ratio indicates the ratio of total NPLs over total loans.

6.8 Capital to Risk-weighted Assets Ratio

The capital to risk-weighted assets ratio (CRAR) of most of the fourth-generation banks was above the threshold (floor) level (10 percent) SBAC Bank PLC in 2022.

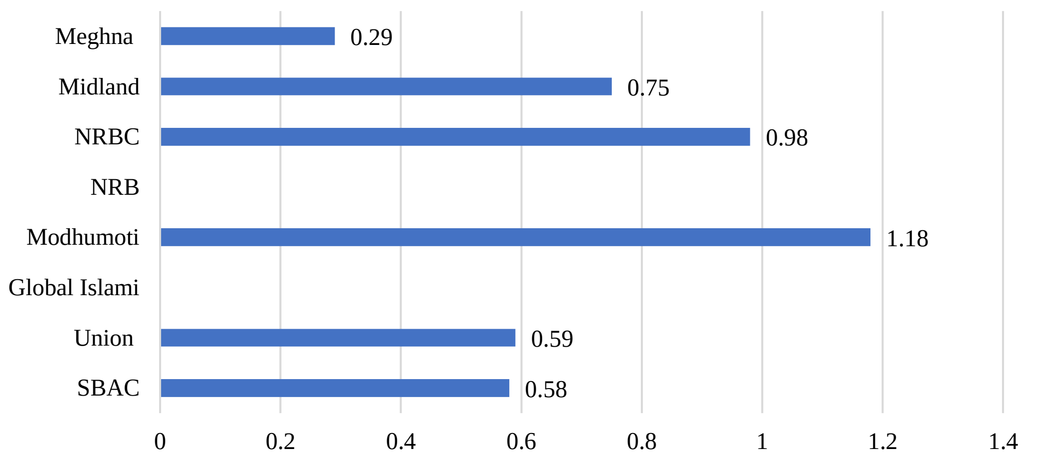
Figure-6.8: Capital-to-Risk-weighted Assets Ratio (%)



6.9 Return on Assets

Profitability, which is measured by return on assets (ROA), was above the banking system average (0.50 percent) for most of the fourth-generation banks, including Modhumoti Bank PLC, NRBC Bank PLC, Midland Bank PLC, Union Bank PLC, and SBAC Bank Limited for 2022. However, the ROA of Megna Bank Limited was below the average level in 2022.

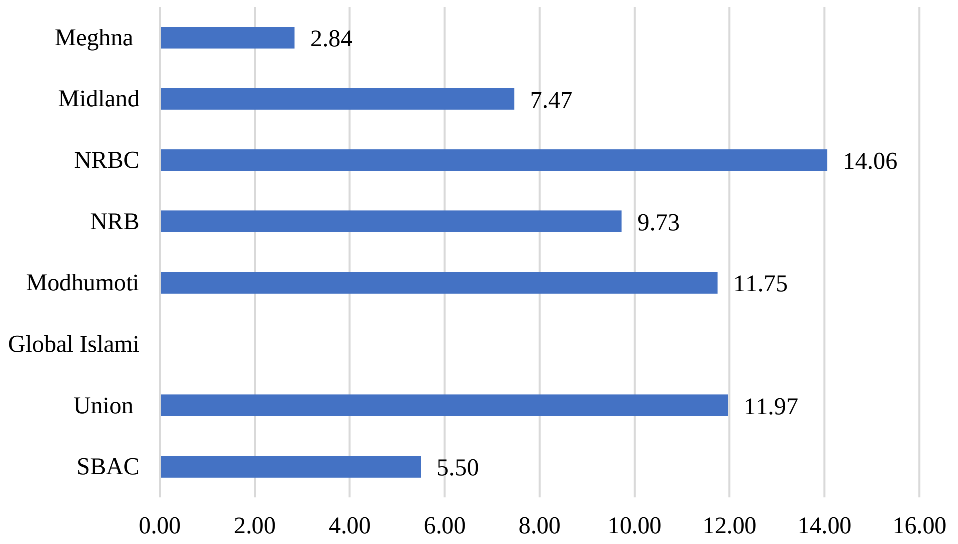
Figure-6.9: Return on Assets in 2022 (%)



6.10 Return on Equity

As with ROA, the return on equity (ROE) also measures the profitability of banks. Among the 8 fourth-generation banks, 5 banks, including NRBC Bank PLC, Union Bank PLC, Modhumoti Bank PLC, NRB Bank Limited, and Midland Bank PLC, witnessed the higher ROE. However, the ROEs in Megna Bank Limited, and SBAC Bank PLC were below the average level.

Figure-6.10: Return on Equity in 2022 (%)



6.11 Credit Ratings of the Banks

Table-6.1: ECAIs Long Term Credit Rating of Scheduled Banks for FY23@

Name of the Banks	Rating Agency	Credit Rating
NRBC Bank Limited	Emerging Credit Rating Limited (ECRL)	A+
SBAC Bank Limited	Credit Rating Information and Services Limited (CRISL)	A
Union Bank Limited	Alpha Credit Rating Limited (ACRL)	A+
Megna Bank Limited	Alpha Credit Rating Limited (ACRL)	AA3
Midland Bank Limited	Emerging Credit Rating Limited (ECRL)	A+
Global Islami Bank Limited	Alpha Credit Rating Limited (ACRL)	A+
NRB Bank Limited	Credit Rating Information and Services Limited (CRISL)	A+
Modhumoti Bank Limited	Credit Rating Agency of Bangladesh Limited (CRAB)	AA3

Source: Annual Report, Bangladesh Bank. @External credit assessment institutions (ECAIs) are the credit rating agencies recognized by the European Union for the purposes of the capital requirements directive.

The above table shows the capacity of the 10 fourth-generation banks in meeting their financial commitments for FY23, assessed by different credit rating agencies. It is observed that most of the fourth-generation banks are moderately capable of meeting their financial commitments up to FY23.

6.12 Correlation between ADR and NPL

Table 6.6 presents the correlation coefficients between the advance-to-deposit ratio and non-performing loans ratio across ten 4th generation banks, revealing both patterns and exceptions. The highest positive correlation is observed in Global Islami Bank (0.82), indicating a strong association between higher ADR and elevated NPL levels, suggesting potential risk in aggressive lending practices. In contrast, SBAC Bank shows an exception with a near-zero correlation (-0.05), implying no significant relationship between ADR and NPL, which may reflect unique operational dynamics or risk management strategies. Union Bank (0.75) and Midland Bank (0.67) also exhibit strong positive correlations, while NRBC share the lowest correlations (0.50), indicating weaker links between ADR and NPL. The overall trend suggests a general positive association between ADR and NPL, with the strength varying significantly among banks, potentially reflecting differences in credit policies, portfolio quality, and management efficiency.

Interpretation of these findings underscores that banks with higher ADR may face elevated credit risk as evidenced by higher NPL correlations. However, the outlier (SBAC) highlights the importance of individualized analysis, as systemic patterns may not uniformly apply across institutions. This variability emphasizes the need for tailored strategies to manage loan portfolios effectively while maintaining sustainable growth.

Table 6.6: Correlation between ADR and NPL Ratio (%) in the 4the Generation banks

Bank Name	Coefficient of Correlation
Meghna	0.61
Midland	0.67
NRBC	0.50
NRB	0.66
SBAC	0.05
Union	0.75
Global Islami	0.82
Modhumoti	0.52

Source: Authors' calculation based on the annual report of the respective bank.

7. Case Analysis

Case-7.1: How Bank Money Skimmed Off – in a fourth-generation bank

S. M. Amzad Hossain, a former chairman and current board director of a fourth-generation bank, orchestrated a financial fraud before fleeing the country. In 2016, he secured a loan of Tk. 3 crore from the bank under the name of a shell company, Ador Enterprise. However, instead of utilizing the funds for legitimate business purposes, Tk. 2 crore was diverted to distribute a cash dividend to investors of Khulna Printing & Packaging Limited (KPPL), a struggling entity listed on the Dhaka Stock Exchange (DSE) and part of Lockpur Group, which he owned. KPPL had declared a 10 percent cash dividend in 2015, which was paid out the following year using the misappropriated loan.

Subsequently, the outstanding loan was covered by obtaining another loan through the creation of a second shell company, Rahi Mahi Corporation. Despite the absence of any actual repayment, the bank refrained from classifying the loan as defaulted and instead continued to increase the loan ceiling periodically. Additionally, these loans were not reported to the Credit Information Bureau (CIB), allowing the financial irregularities to go undetected. This fraudulent scheme involved systematically siphoning off bank funds by setting up a series of fictitious companies, enabling the embezzlement of money under the guise of legitimate lending.

How Swindling Took Place

On February 16, 2016, Johirul Islam, the proprietor of Ador Enterprise, opened an account at the Motijheel branch of the Bank and, on the same day, submitted a loan application for Tk. 3.5 crore. The branch conducted a rapid inspection of the applicant's office and immediately forwarded the loan proposal to the head office. The next day, on February 17, the bank’s executive committee sanctioned a loan of Tk. 3 crore. The loan was secured using 25 lakh shares of Sonar Bangla Insurance, which had a market valuation of Tk. 3.62 crore at that time. These shares, pledged as collateral, were owned by Captain Moazzam Hossain, a then-serving board director of the Bank, and his son, Ehsan E. Moazzam.

A subsequent investigation by the central bank revealed that Johirul Islam was actually an employee of Moazzam Hossain. The probe further found that Ador Enterprise’s office had not been inspected prior to the loan proposal’s submission to the head office. Instead, a bank official visited the office of E-Securities, a company owned by Moazzam, carrying an account opening form for Johirul Islam on the day of the investigation. Following the loan approval, Tk. 2 crore was transferred to the account of Khulna Printing & Packaging Limited (KPPL), while Tk. 1 crore was deposited into the account of Fareast Social Foundation.

Subsequently, a new loan was secured under the name of another company to adjust the previous loan. In June 2017, Tk. 3 crore was sanctioned in favor of Rahi-Mahi Corporation, backed by the same Sonar Bangla shares that had been used as collateral for Ador Enterprise. Later, in November 2018, the loan ceiling for Rahi-Mahi Corporation was increased to Tk. 12 crore.

Despite the absence of any repayment against this loan, the board approved the higher loan limit instead of classifying it as default.

In 2019, the Bijaynagar branch sanctioned a loan of Tk. 6.40 crore to Al-Amin Corporation, owned by Masudur Rahman, without obtaining formal approval. The loan was disbursed solely based on verbal instructions from the then Managing Director, Golam Faruque. Subsequently, officials from the credit division formally notified the investigation team about the irregularity. The funds were later withdrawn by an employee of Lockpur Group and redirected into the bank accounts of various companies within the same business group, confirming that Amzad was the ultimate beneficiary. Although the loan was issued under the name of Al-Amin Corporation, the withdrawal of funds occurred without the knowledge of its owner.

On August 5, 2019, Tk. 1.35 crore was withdrawn from Al-Amin Corporation’s account at the bank’s principal branch by a Lockpur Group employee, facilitated by Branch Manager Nurul Azim. This transaction took place outside regular banking hours, without the account holder’s awareness. Despite these findings, Nurul Azim continues to serve as the principal branch manager. Additionally, several officials identified in the investigation report as being complicit in the misappropriation of bank funds remain employed at the institution, with some even receiving promotions.

Source: The Business Standard, 28 January 2022.

Case-7.2: Former chairman of an audit committee, Fourth-Generation Bank **arrested in connection with a Tk 136-crore laundering case.**

Mahabubul Haque Chisty, the former chairman of the audit committee of a Fourth-Generation Bank, was arrested in relation to five cases involving the illegal accumulation of over Tk 135.45 crore. The arrest order was issued by Judge KM Emrul Kayesh of the Senior Special Judge's Court in Dhaka after Mohammad Faisal, an assistant director and investigation officer of the Anti-Corruption Commission (ACC), filed five separate petitions.

Chisty's son, Rashedul Haque, was also arrested in two of the cases. Both Chisty and Rashedul were presented before the court during the hearing. The ACC had filed the five cases against Chisty, his wife Ruzy Chisty, his son, daughter Rimi Chisty, and his daughter-in-law Farhana Ahmed on December 15 of the previous year. Ruzy and Rimi are currently on bail, while Farhana remains unaccounted for.

The prosecution claims that Chisty accumulated Tk 28.55 crore in illegal wealth, while his wife Ruzy amassed Tk 37.38 crore. Rashedul is accused of possessing Tk 32.68 crore in illicit wealth, Farhana allegedly holds Tk 13.68 crore, and Rimi's illegal assets are valued at Tk 21.20 crore. This is not the first time Chisty and his son have been implicated in such cases; they were previously arrested in 2018 in connection with a Tk 160-crore money laundering case.

Source: The Daily Star, 10 April 2018

Case-7.3: BB probe into a Fourth-Generation Bank: 'S Alam staffer' took Tk 118cr sans approval

A staff member of S Alam Group withdrew Tk 118 crore from a fourth-generation bank without proper authorization or adherence to banking protocols, revealing the controversial conglomerate's manipulation of the bank. During a recent inspection, Bangladesh Bank found that withdrawals continued even after the bank's board was restructured in August. The inspection team uncovered that S Alam Group and its associated companies had extracted Tk 17,229.10 crore from the bank through fraudulent activities, which constitutes 67% of the total loans disbursed by the bank. As of December of the previous year, the bank's outstanding loans amounted to Tk 25,507 crore, according to BB data.

The central bank carried out the inspection last month, based on the bank's financial statement up until December 2023. The inspection report revealed that the Panthapath branch of the fourth-generation bank had approved a Tk 118.63 crore loan to a customer without clearance from the bank's head office. The bank had authorized loans totaling Tk 11,423.13 crore to 247 beneficiaries connected to S Alam Group. The current outstanding loans of these companies now stand at Tk 17,229.10 crore, the report states.

The investigation also highlighted that both the bank's management and board were complicit in approving these loans and facilitating the transfer of funds to various accounts linked to the controversial group and its affiliates. Before the board restructuring, many members of the S Alam family were part of the bank's board. On September 3 and 9, ABM Mokammel Hoque Chowdhury, the bank's Managing Director and a close associate of S Alam, withdrew Tk 2.32 crore from the bank when customers were unable to recover their deposited funds. In August, Md Rashedul Alam, S Alam's brother, withdrew Tk 8 crore from the Kodomtali branch in Chattogram, transferring the funds to multiple accounts. Additionally, Arshad Mahmood, a relative of S Alam, withdrew Tk 4.22 crore from the Lichubagan branch, while a trading house linked to S Alam Group withdrew Tk 12.29 crore from the Khatunganj and Agrabad branches, as revealed in the BB investigation.

Source: The Daily Star, 29 October 2024

8. Focus Group Discussion Findings

The study conducted a focus group discussion (FGD) with the heads of credit, heads of recovery, and heads of the board secretariat of the fourth-generation banks in Bangladesh. Total 19 (nineteen) focus group discussants from five banks (Padma Bank, Meghna Bank, Global Islami Bank, Community Bank, and Union Bank) were present in the FGD. The discussion lasted for 4 (four) hours. The major discussion thematic area of the FGD was:

- Background of licensing the fourth-generation banks
- Why are some of the fourth-generation banks performing well while others are not?

- The impact of the licensing for the fourth-generation banks on the banking sector of Bangladesh.
- Why can banks in Bangladesh continue their operation despite having negative equity?

8.1 Background of Licencing the Fourth-Generation Banks

The participants in the FGD explained that the licensing of these banks has many orthodox logics. These logics are explained from four broad aspects: regulatory, researchers, academicians, and bankers. Political desires of the government, which are anchored by the Central Bank of Bangladesh, are one of the prime reasons for licensing the fourth-generation banks. Although the government of Bangladesh has explained that the number of banks is not sufficient to ensure financial inclusion and access to finance—an agenda of the government—many researchers and academicians went against the licensing of the new banks. Rather, they (researchers and academicians) emphasized the expansion of the branches to the rural level, improving the quality of banking services, improving the asset quality of the banks, and reducing the non-performing assets (NPA) of the banks.

By referring to the name of the former Finance Ministry of the People Republic of Bangladesh, a discussant of the FGD said:

> "It was the desire of the government to give licenses to new banks—hence the fourth-generation banks have born."
>
> "The regulators of the banks in Bangladesh issued licenses to these fourth-generation banks to satisfy the political desire without assessing the feasibility study—by political pressure."

Moreover, the founder and chairman of these banks have strong political ties and/or have political persuasion directly or indirectly for getting a banking business license. The discussant of the FGD emphasized that the licensing of these fourth-generation banks might have political benefits. They said that we don't believe that many banks are required to ensure sustainable banking growth, financial inclusion, and access to finance. They emphasized that the licensing was purely political, and social perspectives were not considered.

However, we cannot blame only the 'political desire' to give licenses to the fourth-generation banks in Bangladesh. The society can be benefited by filling the untapped needs of the customers by financial inclusion, increasing financial literacy, expanding the business horizon to the rural level using different business models, doing more CSR, ensuring green and sustainable banking, etc. These factors will give the fourth-generation banks' licensing legitimacy for business operations in Bangladesh.

8.2 Why Are Some of the Fourth Generation Banks Performing Well While Others Are Not?

Although the fourth-generation banks started their business operations almost at the same period with the same paid-up capital, their business growth and performance in terms of NPL, ROA, and ROE are not at par. Few of these fourth-generation banks are doing better than the others due to their strong corporate culture, governance structure, very good credit management, NPL management, disclosure and transparency in transactions, compliance with the laws and regulations, and long-term strategic vision to fulfil society's demand for financial inclusion. The participants in the FGD also explained that:

> "Few banks are doing better because of their good governance, loan diversification, and very good credit administration."

For example, Meghna, Midland, NRBC and NRB have good governance, and good credit management. While the other fourth-generation banks started their banking business with the ambition that they would focus on their vision and mission in developing their business strategy. Rather, most of the banks set up their businesses within the city region with aggressive deposit mobilization and lending.

8.3 The Impact of the Fourth-Generation Banks on the Banking Sector of Bangladesh

Newly licensed banks might be negatively affected in performance by the practicing banks in Bangladesh. The governance system, credit administration, NPL, and loan/investment recovery culture of the practicing banks that create the banking business culture will have spillover effects on the upcoming or newly licensed banks. Moreover, credit norms and repayment behaviour of the borrowers are shaped by society's governance, political governance, and the governance system of the regulators. Hence, the existing banks' governance structure will impact the governance structure of the upcoming or newly licensed banks. A discussion of the FGD uttered:

> "We (newly licensed banks) are junior, and our seniors (existing banks) credit administration culture and banking governance system in the banking operation—we will follow our senior doorstep—as bankers of the existing banks join the newly licensed banks."

However, the newly licensed banks governance system, their business mechanism network and infrastructure, HR management, etc. will affect the already practicing banks in Bangladesh. A discussant of the FGD said that:

> "As new banks are not very familiar to the customer, they offer a higher deposit rate than the market rate and offer a lower lending rate to the borrowers—it creates unhealthy market competition, which also affects the business culture of the existing bank."

Further, immediately after getting the license of these fourth-generation banks, the board of directors, in collaboration with the top management, has started cross-lending, name-lending, fund diversion, related party transactions, etc., which also affect the banking business culture in Bangladesh. Further, to penetrate the market, these banks offer aggressive lending and deposit rates that destroy market discipline as well.

8.4 Why Can Banks in Bangladesh Continue Their Operation Despite Having Negative Equity?

Although few of these fourth-generation banks are suffering from the capital shortfall, they are continuing their banking business with active support from the regulators. With the active support from the regulatory bodies, these banks continue their operation despite having negative equity.

9.0 Findings

The study analysed the survey data into tabular or graphic forms following by empirical analysis using SEM-PLS.

Survey Data Analysis: The collected data using 5-point Likert Scale has been analysed and presented in the following ways.

9.1 Organizational Sustainability Factors

The organizational sustainability factors for a bank includes its product innovation and adaptability, customer satisfaction, employee satisfaction/well-being and motivation, ethical and social responsibility, good governance, IT readiness and IT investment, regulatory monitoring and supervision. Based on the survey data, the study finds that 64% respondents strongly agreed that prevailing good governance is one of the predominant factors for organizational sustainability. Moreover, regulatory monitoring and supervision (60% strongly agreed), customer satisfaction (57% strongly agreed) and ethical and social responsibility (54% strongly agreed) are the other factors of organizational sustainability.

Table-9.1: Organizational Sustainability Factors

	Factors	Least Important to Most Important (in %)				
		1	2	3	4	5
6	Good governance	10	8	9	8	64
8	Regulatory Monitoring and Supervision	4	7	12	17	60
2	Customer satisfaction	4	3	15	20	57
5	Ethical and social responsibility	7	5	12	21	54
4	Employee satisfaction/ well-being and motivation	7	8	12	20	53
7	IT readiness and IT investment	3	4	12	30	50
1	Product Innovation and adaptability	2	9	19	33	37

9.2 Socio-Psychological Factors for Institutional Sustainability

According to the Institutional Theory literature, the socio-psychological factors for institutional sustainability is grouped into three – normative factors, cultural-cognitive factors and coercive factors.

9.2.1 Normative Factors

Among the identified normative factors using institutional theory, the study finds that employee motivation positively affects the long-term sustainability of the banks (61% strongly agreed) most followed by the level of job satisfaction among employees affect the institution's performance and longevity (59% strongly agreed). Again, the study added that 53% respondents strongly agreed that positive workplace culture is another key factor for institutional sustainability of banks in Bangladesh. However, bankers getting involve with the irregulates for undue benefits is not the key reason for organizational unsustainability, they respondents added (Table-9.2).

Table-9.2: Normative Factors for Institutional Sustainability

Sl No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Positive workplace culture contributes to the institutional sustainability of banks.	3	3	6	35	53
2	Employee motivation positively affect the long-term sustainability of banks.	2	4	5	27	61
3	A strong sense of social responsibility within the institution enhances its sustainability.	2	4	18	45	30
4	The level of job satisfaction among employees affect the institution's performance and longevity.	4	3	4	30	59
5	Bankers get involve with irregulates for undue benefits.	16	23	24	29	8

9.2.2 Cultural-Cognitive Factors

The study identified three key factors for cultural-cognitive factors for institutional sustainability. These are government support, society's tolerance level for accepting irregularities and people attitudes toward the bank deposit. It finds that 25% respondents remained neutral to express their opinion regarding government attitude that government help weak banks and the bank will not be closed. Findings on 'government attitude toward supporting weak bank' is very generic because the respondent might fear to express their opinion regarding this although the study entrusted them regarding anonymous disclosure. Again, 47% respondents strongly disagree that irregularities in banks such as loan scam, fund diversion, financing in unnamed projects, etc are accepted/tolerated by the society. This might be because of corruption is every share of the institutional organs – state organs of the country.

Table-9.3: Cultural-Cognitive Factors for Institutional Sustainability

Sl No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Government will help weak bank and the banks will not be closed.	17	19	25	20	19
2	Irregularities in banks are tolerated/accepted by society.	47	26	9	11	7
3	People trust banks and deposit their money with banks without considering the governance and financial health of banks.	22	25	18	23	12

9.2.3 Coercive Factors

Coercive factors include rule-setting, monitoring and sanctioning activities such as reward or punishment. The study finds that 31% respondents strongly agreed that wilful loan defaulter are not getting punishment which cause institutional unsuitability. Thirty-four percent respondents also agreed that wilful defaulters sometimes are more powerful than the regulator and the state. They define the regulators and state rules for banks in Bangladesh. However, 31% respondents remained neutral to explain that the bankers, board and borrower compromises with the rule-setting and its implementation (Table-9.4).

Table-9.4: Coercive Factors for Institutional Sustainability

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Wilful defaulters get no punishment.	26	8	7	27	31
2	Wilful defaulters are more powerful than the regulators and the state.	18	10	20	18	34
3	Compromises among the bankers, board and borrowers.	15	9	31	29	15

9.4 Reasons for the Weak Financial Health of a Bank

The study also identified some key factors for the weak financial health in the banking system of Bangladesh. The factors include lack of integrity and ethics among bank management, employees and board members, inability of the board members, management and employees to perform their duties properly, lack of integrity and ethics of the regulators and inability of the regulators to perform their duties properly. The study finds that 37% respondents agreed that lack of integrity and ethics among the regulator is one of the prime causes for the weak financial health of the bank in Bangladesh followed by 34%

respondents agreed that lack of integrity and ethics among bank management and is another reason for such weak financial health of a bank (Table-9.5).

Table-9.5: Reasons for the Weak Financial Health of a Bank

Sl No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Lack of integrity and ethics among bank management and employees.	14	14	28	34	10
2	Lack of integrity and ethics among board members.	10	11	18	31	29
3	Inability of the board members to perform their duties properly.	9	15	18	30	28
4	Inability of the management and employees in performing its duties properly.	9	20	31	28	10
5	Lack of integrity and ethics among regulators.	12	6	23	37	22
6	Inability of the regulators to perform their duties properly.	12	14	18	31	24

9.5 Reasons for Poor Performance of Some of the 4th Generation Banks

Some fourth-generation banks are doing well while others are not. The study identified some key factors for the poor performance of some fourth-generation banks in Bangladesh based on the Focus Group Discussion (FGD) with employees of the fourth-generation banks. It includes governance mechanism and management structure. The study finds that among the governance mechanism and management structure, poor corporate governance and ineffective board is one of the prime reasons for the poor performance of the 4th generation banks in Bangladesh (weighted by 54% respondents). The other important factors include lack of integrity of board, unhealthy competition among the banks, lack of management skills and name lending and misappropriation of fund weighted by 50%, 46% and 43% respectively (Table-9.6).

Table-9.6: Reasons for Poor Performance of Some of the 4th Generation Banks

Sl No	Statements	From Least to Most Important				
	Particulars	1	2	3	4	5
1	Poor corporate governance and ineffective Board	6	1	10	28	54
2	Lack of integrity of Board	7	1	11	31	50
3	Undue influence by the outsiders	7	7	14	34	39
4	Lack of skilled Management	7	12	18	41	21
5	Lack of integrity of Management	5	14	22	37	22
6	Unhealthy competition among the banks	8	2	12	32	46
7	High cost of fund	4	7	20	37	31
8	Business loss of the large borrowers	13	15	23	28	20
9	Name lending and misappropriation of fund	6	4	9	37	43

9.6 Sustainability Factors of the Banking Sector in Bangladesh

The study investigates whether fourth-generation banks affect the sustainability in the banking sectors of Bangladesh. It covers numbers banks in Bangladesh, competition among the banks, capacity of Bangladesh Bank in supervision and monitoring the commercial banks and affectivity of fourth-generation banks on the banks and bankers in Bangladesh. Figure-9.1 explains whether there are too many banks in Bangladesh and necessity to give licence more banks in Bangladesh. It finds 60% respondents strongly agreed that there are too many banks and there is no need to give licence more banks in Bangladesh. One of the prime objectives of introducing new banks is to extend coverage of the financial facilities.

Figure-9.1: Too Many Banks and Not Needed to give Licence 4th Generation Banks

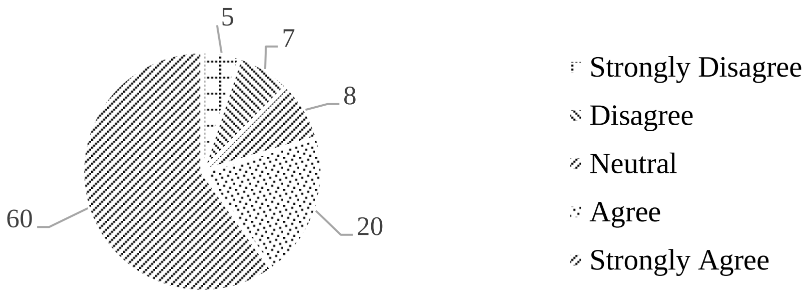


Figure-9.2 and Figure-9.3 indicates whether fourth generation banks created unhealthy competition among the banks and reduced profitability in the banking sectors respectively. While 58% respondents strongly agreed that newly licenced banks created unhealthy competition by higher deposit rate, lower lending rate, and other charges while 31% respondents strongly agreed that it reduced profitability of the banking sector of Bangladesh.

Figure-9.2: Fourth Generation Banks Created Unhealthy Competition among the Banks

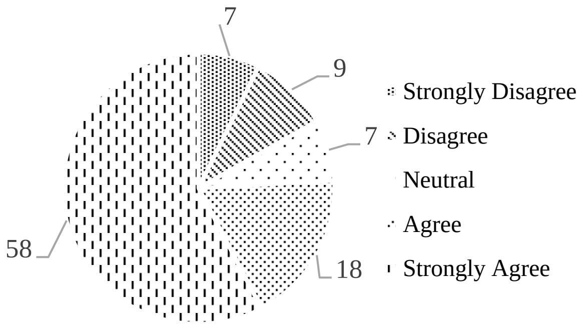
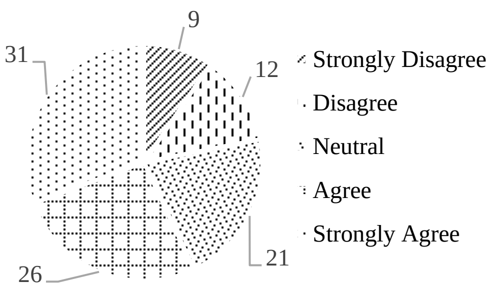


Figure-9.3: Fourth Generation Banks Reduced the Profitability of the Banking Sector



Further Figure 9.4 and Figure 9.5 depict whether fourth generation banks adversely affect the bankers and weak banks should be merged respectively. The study finds that 40% respondents strongly agreed that fourth generation banks adversely affect bankers. These newly banks gave excessive deposit and lending target to their employees which spill over to other healthy banks. Now it became market culture to fix and prioritize business target for their employees. Moreover, 45% respondents strongly opined that weak bank should be merged or liquidate from the market.

Figure-9.4: Fourth generation banks affected the bankers adversely/negatively

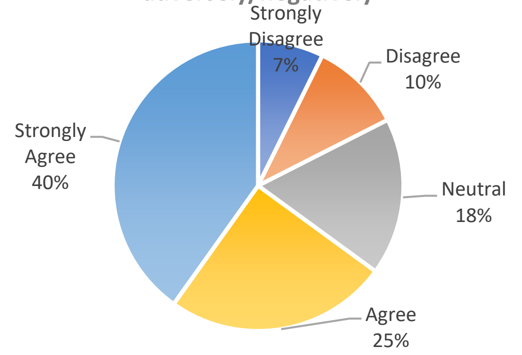
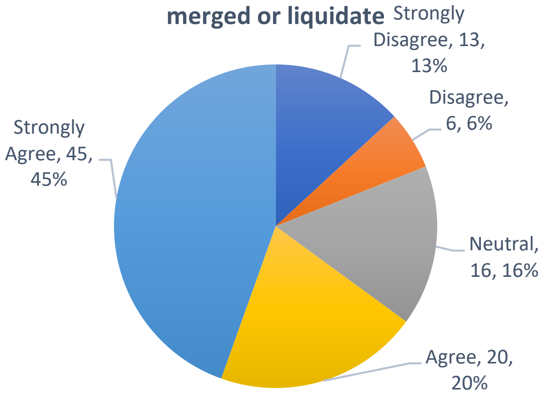


Figure-9.5: Weak Banks should be merged or liquidate



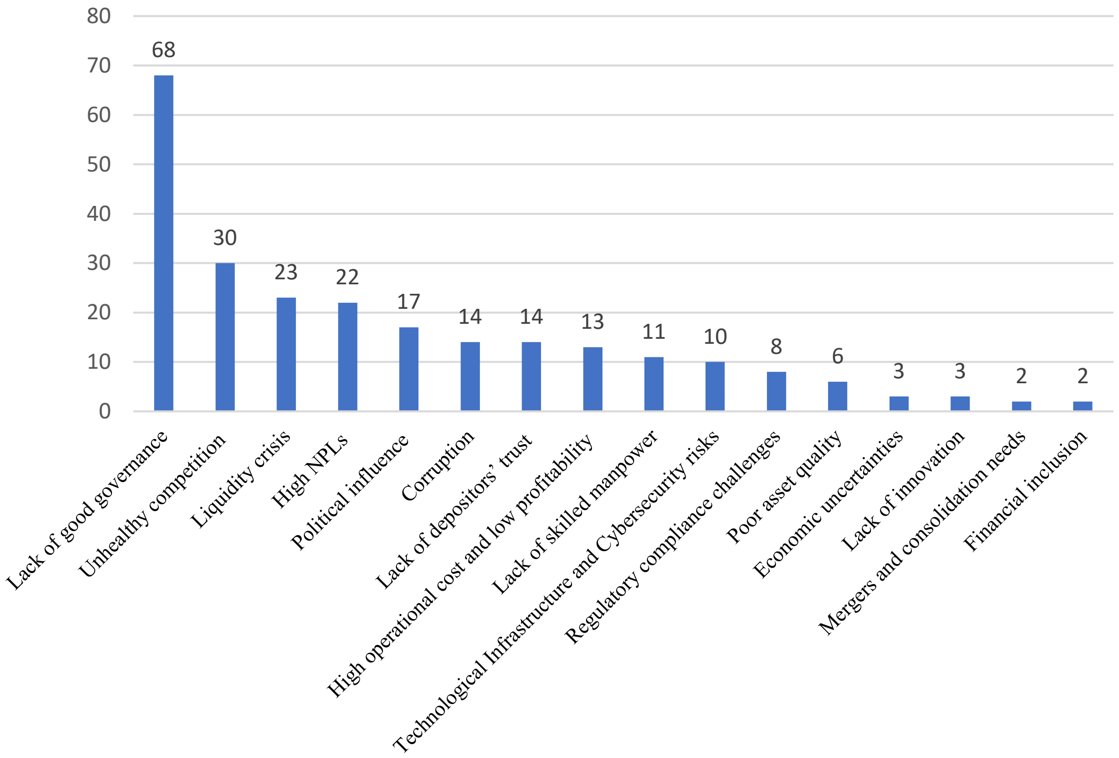
9.7 Challenges that are Facing by the 4th Generation Banks for their Institutional Sustainability

Table-9.7 lists challenges faced by 4th generation banks in maintaining their institutional sustainability. It reveals a complex landscape, where the **lack of good governance** dominates with the highest frequency of 68, encompassing issues such as weak corporate governance, ethical lapses, and dishonest boards, which undermine institutional integrity. **Unhealthy competition** (30) resulting from market saturation and an overcrowded financial sector exacerbates inefficiencies. A **liquidity crisis** (23), driven by high funding costs and shortages, further pressures financial institutions. Alarmingly, **high non-performing loans (NPLs)** (22) point to systemic failures in credit management, exacerbated by willful defaulters and poor recovery mechanisms. **Political influence** (17) and **corruption** (14) disrupt regulatory frameworks, eroding operational transparency and trust. **Depositor confidence** is also at stake (14), while **high operational costs** coupled with low profitability (13) hamper financial stability. Workforce inadequacies (11), along with **technological and cybersecurity risks** (10), and regulatory compliance burdens (8) present operational bottlenecks. Asset quality issues (6), economic uncertainties (3), and lack of innovation (3) hinder progress, highlighting an urgent need for **mergers, consolidation (2)**, and enhanced **financial inclusion** (2) to ensure sustainable growth. These multi-faceted challenges demand a strategic overhaul, prioritizing governance, innovation, and structural reform to safeguard the sector's future.

Table-9.7: Challenges Faced by 4th Generation Banks in Maintaining their Institutional Sustainability

Sl	Challenge
1.	Lack of good governance (includes poor governance, weak corporate governance, dishonest boards, lack of integrity, ethical challenges)
2.	Unhealthy competition (includes market saturation, overcrowded financial sector)
3.	Liquidity crisis (includes high cost of funds, shortage of funds)
4.	High NPLs (Non-Performing Loans) (includes bad loans, willful defaulters, classified loans)
5.	Political influence (includes undue influence, regulatory violations due to politics)
6.	Corruption (includes ill-motivated or dishonest boards, lack of transparency in recruitment)
7.	Lack of depositors' trust (Customer acquisition and retention)
8.	High operational cost and low profitability
9.	Lack of skilled manpower (includes lack of capacity building, inefficient workforce)
10.	Technological Infrastructure and Cybersecurity risks
11.	Regulatory compliance challenges
12.	Poor asset quality (includes poor loan recovery, asset mismanagement)
13.	Economic uncertainties
14.	Lack of innovation
15.	Mergers and consolidation
16.	Financial inclusion

Figure-9.6: Most Importance Challenges faced by 4th generation banks in maintaining their institutional sustainability (Figure in Index)

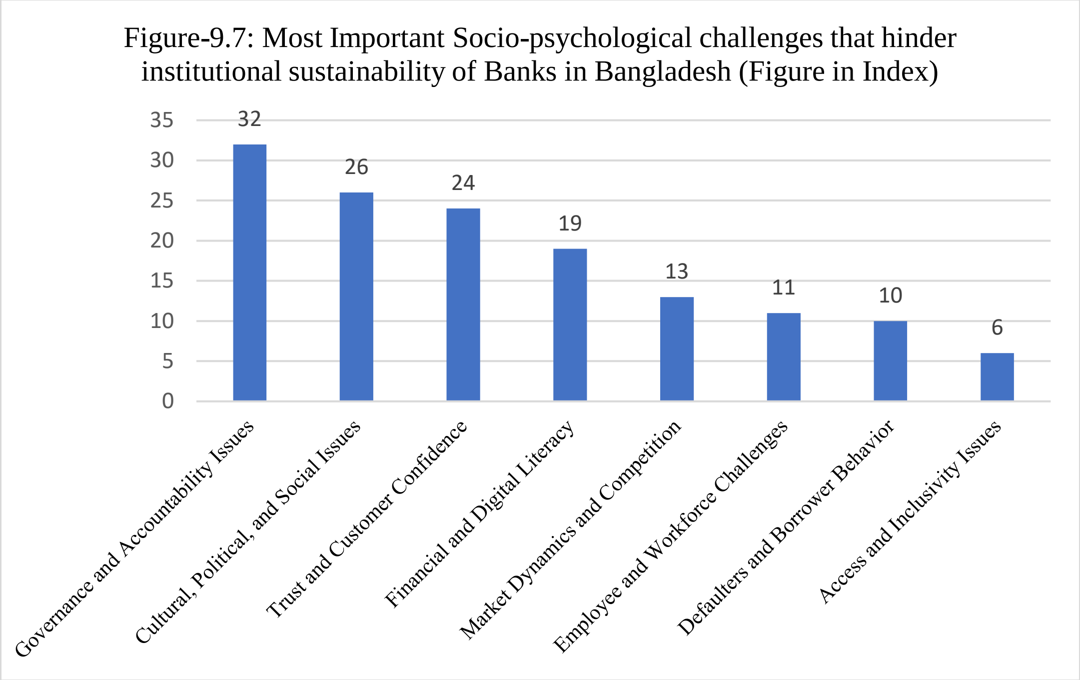


9.8 Specific Socio-Psychological Challenges that 4th Generation Banks are facing for their Institutional Sustainability

Table 9.8 shows that the banking sector in Bangladesh faces a multitude of socio-psychological challenges that significantly impede institutional sustainability. Governance and accountability issues dominate with a frequency of 32, encompassing poor governance, corruption, weak regulatory oversight, and unethical practices, which collectively undermine the integrity and operational efficiency of banks. Cultural, political, and social influences, with a frequency of 26, highlight the detrimental effects of entrenched norms, political interference, and undue influence from powerful borrowers, further complicating financial governance. A substantial trust deficit, alongside inadequate customer engagement and limited public awareness of banking services, reflects a critical barrier to building and retaining customer confidence (24). Financial and digital literacy challenges, including the digital divide and lack of financial awareness, are prevalent (19), exacerbating the missing link between banks and underserved communities. Unhealthy competition, high-risk perceptions, and an overemphasis on profit (13) add to market instability. Employee-related challenges, such as low motivation, high pressure, and job insecurity (11), hinder workforce efficiency, while the behaviours of wilful defaulters (10) strain financial stability. Finally, limited access to banking services and fear of uncertainty (6) underscore the need for greater inclusivity in the financial ecosystem. Addressing these intertwined challenges requires systemic reforms, capacity building, and a focus on strengthening trust, accountability, and innovation to ensure long-term sustainability.

Table-9.8: Socio-psychological challenges that hinder institutional sustainability of Banks in Bangladesh

Sl	**Broad Socio-psychological challenges**	**Detailed Socio-psychological challenges**
1.	Governance and Accountability Issues	Poor Governance and Accountability, Corruption, Lack of Proper Implementation of Law, Weak Regulatory Monitoring, Unethical Practices
2.	Cultural, Political, and Social Issues	Cultural Factors/Norms, Political Influence, Powerful Borrower/Business Influence, Social Dynamics and Preferences
3.	Trust and Customer Confidence	Trust Deficit, Customer Engagement Issues, Perception of Banks as Elitist, Lack of Awareness of Banking Sector
4.	Financial and Digital Literacy	Lack of Financial Literacy, Limited Digital Literacy, Digital Divide
5.	Market Dynamics and Competition	Unhealthy Competition, Risk Perception, Overemphasis on Profit
6.	Employee and Workforce Challenges	Employee Motivation and Efficiency, Pressure on Employees/Targets, Fear of Losing Jobs
7.	Defaulters and Borrower Behavior	Willful Defaulters, Mentality of Willful Defaulters
8.	Access and Inclusivity Issues	Limited Access to Banking Services, Fear of Uncertainty



Empirical Findings: The findings of the empirical data analysis using Structural-Equation Model with Partial Least Square (SEM-PLS) has been presented below.

9.9 Measurement model

Table below 9.9 presents the information relating to the validity and reliability of the constructs. Nineteen latent variables were extracted by using factor analysis (FA) with a cut-off point 0.700 of factor loading (FL). Again, average variance extracted (AVE) explains the overall variance of the constructs caused for the latent variables that cross the cut-off value 0.500, while composite reliability (CR) explains the degree of the constructs of the study and represents the latent variables that are higher than the cut-off value 0.700 (Hair et al., 2013).

Table-9.9: Validity and Reliability of the Constructs

Constructs	Acronyms	Items	Factor Loadings	AVE	CR	Cronbach's Alpha
Normative (n)	n1	Positive workplace culture contributes to the institutional sustainability of banks.	0.985	0.766	0.963	0.956
	n2	Employee motivation positively affect the long-term sustainability of banks.	0.813			
	n3	A strong sense of social responsibility within the institution enhances its sustainability.	0.792			

Constructs	Acronyms	Items	Factor Loadings	AVE	CR	Cronbach's Alpha
	n4	The level of job satisfaction among employees affect the institution's performance and longevity.	0.537			
	n5d	Bankers get involve with irregulates for undue benefits.	0.155			
Cultural Cognitive (cg)	cg1	Government will help weak bank and the banks will not be closed.	-0.208			
	cg2	Irregularities in banks are tolerated/accepted by society.	0.787			
	cg3	People trust banks and deposit their money with banks without considering the governance and financial health of banks.	0.767			
Coercive (c)	c1	Willful defaulter get no punishment.	-0.015			
	c2	Willful defaulters are more powerful than the regulators and the state.	0.856			
	c3	Compromises among the bankers, board and borrowers.	0.207			
Institutional Sustainability (is)	is1	Financial stability	0.848			
	is2	Product Innovation and adaptability	0.820			
	is3	Customer satisfaction	0.876			
	is4	Employee satisfaction/ well-being and motivation	0.908			
	is5	Ethical and social responsibility	0.877			
	is6	Good governance	0.917			
	is7	IT readiness and IT investment	0.876			
	is8	Compliance with regulatory monitoring and supervision	0.874			

Note: CR = Composite Reliability; AVE = Average Variance Extracted; Factor Loadings, CR, and AVE are from SEM-PLS output.

9.10 Correlation Matrix

The correlation matrix of normative, cultural cognitive and normative factors with the institutional sustainability is place in table 9.10. It shows that normative factors have positive association with the institutional sustainability while other factors – coercive and cultural cognitive factors have less signification association with the institutional of the Banks in Bangladesh.

Table-9.10: Correlation Matrix

	Coercive	Cultural Cognitive	Normative	Institutional Sustainability
Coercive	1.000			
Cultural Cognitive	0.172	1.000		
Normative	0.134	-0.146	1.000	
Institutional Sustainability	-0.132	-0.160	0.403	1.000

9.11 Structural Equation Model (SEM) and Hypothesis Testing

Table 9.11 presents the findings of the structural hypothesis testing. The study hypothesizes that normative factors (H_1), cultural cognitive factors (H_2), coercive factors (H_3) affect institutional sustainability of banks in Bangladesh. It finds that normative pressures positively affect institutional sustainability of 4th generation banks in Bangladesh ($\beta = 0.417$) which is statistically significant with 1% ($P<0.00$) while cultural cognitive and coercive pressures have insignificant relationships with the institutional sustainability. The results suggest that normative factors such as code of conduct, certifications, accreditations, professional experiences, and formal education, accreditation, morality, and the level of employee job satisfaction significantly improves institutional sustainability. Hence, the first hypothesis (H_1) is accepted.

However, the relationship between cultural cognitive factors and institutional sustainability is insignificant ($\beta = -0.071$). It implies that cultural cognitive factors, such as beliefs, norms, values, practices and shared understandings within a given society, society's tolerance level to the irregularities do not contribute towards the institutional sustainability of banks. Hence, the second hypothesis (H_2) is rejected. It may be because of the factors such as less sensitivity to irregularities and impunity, submissive attitude, fear of the social and economic insecurity, fear of the suppress by the government law and enforcement agencies, etc.

Likewise, the relationship between coercive factors and institutional sustainability is insignificant ($\beta = -0.176$). So, the third hypothesis (H3) is rejected. It indicates that coercive factors such as less effective judiciary system, weak enforcement of law, inactive civil society organisations are not strong enough to contain will defaulters, unethical practices of bank management and board, which debilitate the institutional sustainability of the banks. On the other hand, the laws enacted by the ill-motivated politician-cum-businessman lawmakers have intentional loopholes so that they can unduly influence the board and management of the banks and no stern actions can be taken against the defaulters. Moreover, despite having excellent/very strong external rating, some of the 4th generation banks struggling to honour depositors' withdrawal request. The external credit assessment institutions (ECAIs) have neither any accountability nor there no legal course of action against them for lack due diligence.

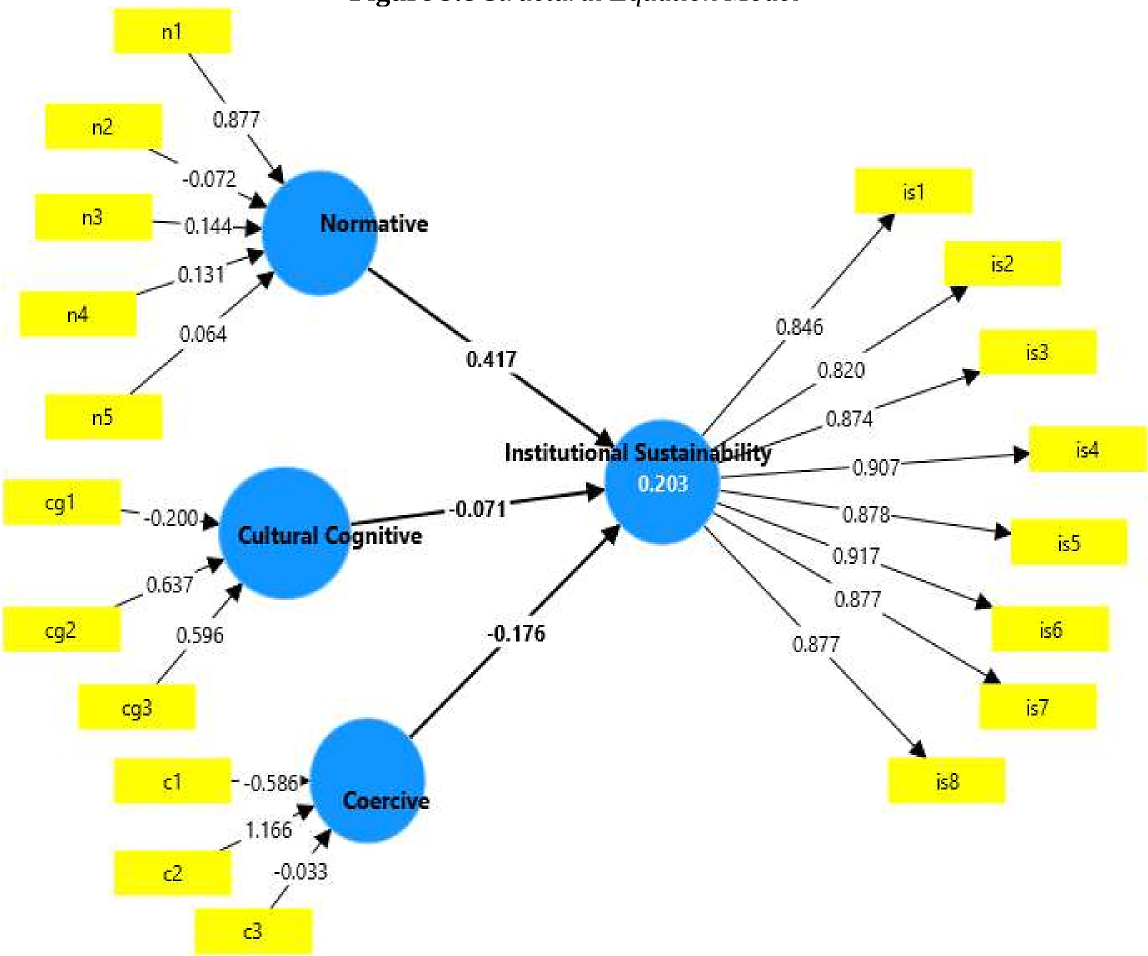
Table-9.11: Structural Hypothesis Testing

Hypothesis	β	T Statistics	Hypothesis Decision	Findings
H_1: Normative (N) -> Institutional Sustainability (IS)	0.417	4.147***	Accepted	+
H_2: Cultural Cognitive (CG) -> Institutional Sustainability (IS)	-0.071	0.767	Rejected	Indifference
H_3: Coercive -> Institutional Sustainability (IS)	-0.176	1.119	Rejected	Indifference

Note: *** indicates at 1% significance level

Figure 9.8 depicts the structural equation model that links the normative, cultural cognitive and coercive factors to the institutional sustainability.

Figure 9.8 *Structural Equation Model*



Note: Values indicate path coefficient (β)

10. Discussion

The study conducted an extensive analysis of the factors influencing the sustainability of banks in Bangladesh, leveraging survey data and empirical analysis through Structural Equation Modeling-Partial Least Squares (SEM-PLS). The findings highlight a complex interplay of organizational, socio-psychological, and institutional determinants that shape the sustainability and performance of the banking sector.

Organizational Sustainability Factors

The study identifies good governance as the most critical factor for organizational sustainability, with 64% of respondents strongly agreeing on its significance. Additionally, regulatory monitoring and supervision (60%), customer satisfaction (57%), and ethical and social responsibility (54%) emerged as other crucial determinants. These findings suggest that a well-regulated banking sector with robust governance and ethical considerations is essential for long-term sustainability.

Socio-Psychological Factors and Institutional Sustainability

The Institutional Theory framework categorizes socio-psychological factors into normative, cultural-cognitive, and coercive dimensions. Among normative factors, employee motivation (61%) and job satisfaction (59%) were identified as key contributors to institutional sustainability. Furthermore, 53% of respondents acknowledged the role of workplace culture in maintaining institutional longevity. Conversely, cultural-cognitive factors, including government support and societal tolerance of banking irregularities, presented mixed insights. A notable 47% of respondents strongly disagreed that banking irregularities are tolerated by society, underscoring the prevailing dissatisfaction with systemic corruption. Coercive factors, such as the ineffective enforcement of penalties against willful defaulters, were also highlighted, with 31% of respondents agreeing that such defaulters evade punishment.

Weak Financial Health and Poor Performance of Fourth-Generation Banks

The study reveals governance and management inadequacies as prime reasons for weak financial health in Bangladesh’s banking sector. A lack of integrity among regulators (37%) and bank management (34%) were cited as primary contributors. Additionally, fourth-generation banks face governance challenges, with poor corporate governance (54%) and lack of board integrity (50%) being key concerns. The introduction of new banks has also intensified unhealthy competition (58%), reduced profitability (31%), and imposed excessive performance pressure on bankers (40%).

Challenges and Sustainability of the Banking Sector

Challenges to sustainability include governance failures (68%), unhealthy competition (30%), liquidity crises (23%), and high non-performing loans (22%). Additionally, political influence (17%) and corruption (14%) further destabilize the sector. The empirical findings confirm that normative factors positively impact institutional sustainability ($\beta = 0.417$, $p < 0.00$), while cultural-cognitive and coercive factors have insignificant effects. This indicates that regulatory frameworks and enforcement mechanisms must be strengthened to curb unethical practices and reinforce institutional sustainability.

The findings underscore the need for enhanced governance, ethical banking practices, and effective regulatory oversight. Addressing these challenges through strategic reforms and institutional restructuring will be essential for the long-term stability of Bangladesh's banking sector.

11. Conclusion

The specific objectives of the study are to analyse the performance of fourth-generation banks in Bangladesh and examining the socio-psychological factors influencing their institutional sustainability. Using Focus Group Discussion (FGD), Survey Data analysis using SEM-PLS the study finds that almost all of the fourth-generation banks got licence based on political consideration. Although some of these fourth-generation banks doing well some of them are facing liquidity crisis, higher NPL, reputation crisis, regulators restriction and penalties, etc. The reasons for such difficulties are due to their poor corporate culture, governance structure, credit management and NPL management. Non-disclosure and absence of transparency in transactions, non-compliance with the laws and regulations, and short-term strategic vision are also the key reasons. Fourth-generation banks' uncontrolled lending and deposit rate with aggressive lending target distort the market competition structure. Moreover, there is a strong association between the Advance Deposit Ratio (ADR) and Non-Performing Loans (NPLs). Higher the ADR indicates aggressive lending which leads to higher NPLs in the bank.

The survey study finds that good governance, financial stability and regulatory monitoring and supervision are the three key factors for organizational sustainability which are strongly agreed by 64%, 60% and 60% respondents respectively. Moreover, 60% respondents strongly agreed that there are too many banks and it was no needed to give licence to banks newly. The most important challenges for the fourth-generation banks are lack of good governance, unhealthy competition, liquidity crisis, high NPLs, political influences, corruption, lack of depositor's trust, etc. Moreover, governance and accountability issues, cultural, political and social issues, trust and customer confidence, financial and digital literacy, market dynamics and competition, etc. are the most important socio-psychological challenges that hinder institutional sustainability of banks in Bangladesh. The empirical analysis finds that normative factors such as code of conduct, certifications, accreditations, professional experiences, and formal education, accreditation, morality, and the level of employee job satisfaction significantly improves institutional sustainability. on the other hand, cultural cognitive and coercive forces have insignificance influences to the institutional sustainability. It implies that cultural cognitive factors, such as beliefs, norms, values, practices and shared understandings within a given society, society's tolerance level to the irregularities do not contribute towards the institutional sustainability of banks. It may be because of the factors such as less sensitivity to irregularities and impunity, submissive attitude, fear of the social and economic insecurity, fear of the suppress by the government law and enforcement agencies, etc. *Similarly,* coercive factors such as less effective judiciary system, weak enforcement of law, inactive civil society organisations are not strong enough to contain will defaulters, unethical practices of bank management and board, which debilitate the institutional sustainability of the banks. On the other hand, the laws enacted by the ill-motivated politician-cum-businessman lawmakers have intentional loopholes so that they can unduly influence the board and management of the banks and no stern actions can be taken against the defaulters.

References

Ahmed, M., Mubarik, M. S., & Shahbaz, M. (2021). Factors affecting the outcome of corporate sustainability policy

BB (2023), Schedule Bank Statistics, Accessed 01 October 2023 available at https://www.bb.org.bd//pub/quaterly/schbanksta/sbs_apr_jun_23.pdf

Berger, P. L., & Luckmann, T. (1991). The Social Construction of Reality: A Treatise in the Sociology of Knowledge. Anchor Books.

Carver, T. (2018). Political Theory: A Very Short Introduction. Oxford University Press.

Contrafatto, K. (2014). The role of cultural-cognitive institutions in organizational change. Journal of Organizational Change Management, 27(5), 1-15.

Cooper, D. J., & Sherer, L. (1984). The role of institutional investors in corporate governance: A review of the literature. Journal of Business Finance & Accounting, 11(1), 1-20.

Dacin, M. T. (1997). Isomorphism in context: The interplay of institutional and competitive processes in the evolution of organizational fields. Journal of Management Studies, 34(3), 1-27.

Dacin, M. T., Goodstein, J., & Scott, W. R. (2002). Institutional theory and institutional change: Introduction to the special research forum. *Academy of Management Journal*, 45(1), 1-20.

Davies et al. (2009) Islam, M. A., & Kokubu, K. (2018). Sustainability and corporate governance: A review of the literature. Corporate Governance: The International Journal of Business in Society, 18(2), 1-15.

Deegan, C. (2014). Financial Accounting Theory. McGraw-Hill Education.

Dey & Singh (2022) Islam, M. A., & Uddin, M. N. (2023). The banking sector's role in economic development: A case study of Bangladesh. Journal of Economic Studies, 50(3), 1-20.

DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. American Sociological Review, 48(2), 147-160.

Dyball, M., Fong Chua, W., & Poullaos, C. (2006). The role of accounting in the construction of the social order. Accounting, Organizations and Society, 31(6), 511-533. –

Fassin, Y., De Colle, S., & Freeman, R. E. (2017). Stakeholder management and corporate social responsibility: A critical review. Business Ethics: A European Review, 26(2), 1-15. –

Fuenfschilling, L., & Truffer, B. (2014). The interplay of institutions and technologies in sustainability transitions: A conceptual framework. Research Policy, 43(2), 1-12

Giblin, M. J., & Burruss, G. W. (2009). Developing a measurement model of institutional processes in policing. Policing: An International Journal of Police Strategies & Management, 32(3), 1-20.

Giddens, A. (1984). The Constitution of Society: Outline of the Theory of Structuration. University of California Press.

Gray, R., Owen, D. L., & Adams, C. (2009). Accountability, Social Responsibility and Sustainability: Accounting for Society and the Environment. Pearson Education.

Gupta et al. (2011) Spangenberg, J. H. (2002). Institutional sustainability: The role of institutions in sustainability. Sustainability: Science, Practice, & Policy, 2(1), 1-10.

Haniffa & Hudaib (2006) Siddique, M. A., et al. (2022). Board dynamics and decision-making in Bangladeshi banks. Journal of Banking and Finance, 45(1), 1-15.

Harwood & Sultzer (2002) Mamun, A., et al. (2021). Non-Performing Loans in Bangladesh: An analysis of the banking sector. Bangladesh Bank Research Journal, 15(1), 1-30. –

Hoffman, A. J. (2001). Linking organizational and field-level analyses: The diffusion of corporate environmental practice. SSRN Electronic Journal. doi:10.2139/ssrn.2944037

Hofstede, G. (1984). Culture's Consequences: International Differences in Work-Related Values. Sage Publications.

Hofstede, G., Hofstede, G. J., & Minkov, M. (2005). Cultures and Organizations: Software of the Mind. McGraw-Hill.

Islam, M. A., & Deegan, C. (2008). The legitimacy of the corporate social responsibility agenda in Bangladesh: A critical analysis. Journal of Business Ethics, 82(3), 1-15.

Jones, M. T., & Reitano, J. (2023). Copy once or twice? Isomorphic pressures and special district fiscal reserves. Public Administration Quarterly, 47(2), 1-20.

Lounsbury, M. (2008). Institutional rationality and practice variation: New directions in the institutional analysis of practice. Research in Organizational Behavior, 28, 1-24.

Mitchell, R. K., Agle, B. R., & Wood, D. J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. Academy of Management Review, 22(4), 853-886.

Oliver, C. (1992). The antecedents of deinstitutionalization. Organization Studies, 13(4), 563-588.

Scott, W. R. (2001). Institutions and Organizations. Thousand Oaks, CA: Sage Publications.

Scott, W. R. (2001b). Institutions and organizations. Thousand Oaks, CA: Sage Publications.

Scott, W. R. (2002). The role of institutions in the economy. Journal of Economic Issues, 36(1), 1-20.

Scott, W. R. (2008). Institutions and organizations: Ideas, interests, and identities. Thousand Oaks, CA: Sage Publications.

Searle, J. R. (2005). Social Ontology: Some Basic Principles. In Social Ontology (pp. 1-25). Cambridge University Press.

Sewell, W. H. (1992). A theory of structure: Duality, agency, and transformation. American Journal of Sociology, 98(1), 1-29.

Shabunina (2023) Bangladesh Bank. (2020). Financial Stability Report.

Shaikh & Karjaluoto (2016) Szekely, F., & Dossa, K. (2017). The role of sustainability in corporate governance. Journal of Business Ethics, 145(2), 1-15.

Spangenberg, J. H. (2002). Institutional sustainability indicator: An analysis of institutions in agenda 21 and a draft set of indicators for monitoring their efficiency. Sustainable Development, Vol. 10, pp. 103-105.

Sulaiman et al. (2015) Islam, M. (2017). Evolution of the banking sector in Bangladesh: A historical perspective. Bangladesh Journal of Banking Studies, 10(1), 1-20.

Szekely, F. and Dossa, Z. (2017). The Beyond the Triple Bottom Line: Eight Steps toward a Sustainable Business Model. The MIT Press

Talala et al. (2011) Uddin, M. N., et al. (2022). Corporate governance in Bangladesh: Challenges and reforms. International Journal of Business Governance and Ethics, 17(2), 1-25.

Tolbert, P. S., & Zucker, L. G. (1996). The institutionalization of institutional theory. In Sociological Perspectives on Social Psychology (pp. 169-184). Westview Press.

Ullmann, A. A. (1985). Data in search of a theory: A critical examination of the relationships among social performance, social disclosure, and economic performance of U.S. firms. Academy of Management Review, 10(3), 540-557.

Weber, M. (1978). Economy and Society: An Outline of Interpretive Sociology. University of California Press.

Zucker, L. G. (1987). Institutional theories of organization. In Research in Organizational Behavior (pp. 1-47). JAI Press.

Appendix: Questionnaire

The research project titled: 'Institutional sustainability of the 4th generation banks in Bangladesh: An Analysis from the Socio-psychological perspective'

A. Organizational Sustainability

Please rate the following factors considering their importance for organizational sustainability of banks.

Please write 1 = Least Important

5 = Most Important

	Factors	1	2	3	4	5
1	Financial stability					
2	Product Innovation and adaptability					
3	Customer satisfaction					
4	Employee satisfaction/ well-being and motivation					
5	Ethical and social responsibility					
6	Good governance					
7	IT readiness and IT investment					
8	Regulatory Monitoring and Supervision					

B. Socio-Psychological Factors

To what extent do you agree with the following statements.

Please write 1 = Strongly Disagree

2 = Disagree

3 = Neutral

4 = Agree

5 = Strongly Agree

		1	2	3	4	5
1	Positive workplace culture contributes to the institutional sustainability of banks.					
2	Employee motivation positively affect the long-term sustainability of banks.					
3	A strong sense of social responsibility within the institution enhances its sustainability.					
4	The level of job satisfaction among employees affect the institution's performance and longevity.					
5	Government will help weak bank and the banks will not be closed.					
6	Irregularities in banks are tolerated/accepted by society.					
7	People trust banks and deposit their money with banks without considering the governance and financial health of banks.					
8	Wilful defaulter get no punishment.					
9	Wilful defaulters are more powerful than the regulators and the state.					
10	Compromises among the bankers, board and borrowers.					
11	Bankers get involve with irregulates for undue benefits.					
12	Lack of integrity and ethics among bank management and employees.					
13	Lack of integrity and ethics among board members.					
14	Inability of the board members to perform their duties properly.					
15	Inability of the management and employees in performing its duties properly.					
16	Lack of integrity and ethics among regulators.					
17	Inability of the regulators to perform their duties properly.					

C. Reasons for Poor performance of some of the 4th Generation Banks

Some of the 4th Generation Banks are doing well while others are not. How would you rate the following factors as reasons for poor performance of the 4th generation bank?

Please write 1 = Least Important

5 = Most Important

	Particulars	**1**	**2**	**3**	**4**	**5**
1	Poor corporate governance and ineffective Board					
2	Lack of integrity of Board					
3	Undue influence by the outsiders					
4	Lack of skilled Management					
5	Lack of integrity of Management					
6	Unhealthy competition among the banks					
7	High cost of fund					
8	Business loss of the large borrowers					
9	Name lending and misappropriation of fund					

D. Sustainability of the Banking Sector in Bangladesh

To what extent do you agree with the following statements.

Please write 1 = Strongly Disagree (SD)

2 = Disagree (D)

3 = Neutral (N)

4 = Agree (A)

5 = Strongly Agree (SA)

Particulars	**1**	**2**	**3**	**4**	**5**
There are too many banks in a small country. I think that there was no need of giving licence to the 4^{th} generation banks.					
Giving Licence to the 4^{th} generation Banks created unhealthy competition among the banks.					
Giving Licence to the 4^{th} generation Banks reduced the profitability of banks in Bangladesh.					
Giving Licence to the 4^{th} generation banks affected the bankers adversely/negatively.					
Giving Licence to the 4^{th} generation banks affected the other banks negatively.					
Bangladesh Bank is facing difficulties in supervising a large number of banks.					
Weak banks should be merged.					

Challenges and Opportunities [Open-ended]

1. What challenges do you think 4^{th} generation banks are facing in maintaining their institutional sustainability?

____

____

2. Are there any specific socio-psychological challenges that hinder institutional sustainability of banking sector in Bangladesh? Please specify.

____

____

Bangladesh Institute of Bank Management (BIBM)
Plot No. 4, Main Road No. 1 (South), Section No. 2, Mirpur, Dhaka-1216
Tel: 48032091-4; 48032096-7, 48032104,E-mail bibmresearch@bibm.org.bd; Web: www.bibm.org.bd

Price: BDT 300.00
USD 8.00