Presenting a Model of Deficiencies and Governance Problems in the Banking System

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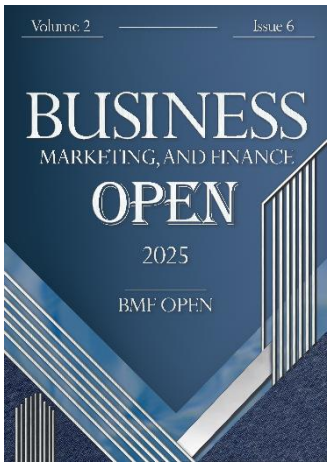

Citation: Mohammadi, M., Kazemi, H., & Rezaei, F. (2025). Presenting a Model of Deficiencies and Governance Problems in the Banking System. *Business, Marketing, and Finance Open*, 2(6), 1-13.

Received: 07 March 2025
Revised: 01 May 2025
Accepted: 12 May 2025
Published: 01 November 2025

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Abstract: Corporate governance in Iran's banking system holds significant importance, as it plays a vital role in ensuring the sound and transparent functioning of banks. However, the Iranian banking system faces various challenges in the areas of management, supervision, and transparency, which can negatively affect public trust and the efficiency of these institutions. This article investigates the current state of corporate governance in Iranian banks and offers strategies for its improvement. The present study is applied in terms of its objective and follows a mixed-method research design in terms of methodology and data collection. The statistical population in the qualitative section includes 15 experts, comprising bank managers and faculty members. The primary data collection instrument is a semi-structured interview (in the qualitative section). In this study, after coding the interview transcripts, synonymous and frequently repeated criteria were removed, and the final criteria were categorized and classified. As a result, six main categories, 13 subcomponents, and 107 indicators were identified. The extracted main categories include: information disclosure, core organizational values, intellectual ownership in the virtual world, governance competency, legal and regulatory structures, and financial and communication capability. Finally, in order to determine the causal relationships and hierarchies among the themes, Interpretive Structural Modeling (ISM) was employed. According to the results, the themes were distributed across five levels.

Keywords: banking system, banking, governance system problems.

1. Introduction

The banking system, as one of the key pillars of every country's economy, plays a vital role in financing, facilitating transactions, and maintaining economic stability. In Iran, due to its specific economic and structural characteristics, the banking system faces numerous challenges that can lead to deficiencies and governance problems.

In recent years, the issues within Iran's banking system—particularly following the imposition of international sanctions and domestic financial crises—have reached a critical level [1]. These problems have not only affected the performance of banks but have also clearly had negative impacts on the country's overall economy. The deficiencies and governance problems in Iran's banking system are linked to issues such as lack of transparency, corruption, mismanagement, weak oversight, inefficiencies in supervisory institutions like the Central Bank, and the absence

of appropriate laws and regulations concerning corporate governance. This matter is especially important for banks, given their crucial role in financing large-scale projects and urban infrastructure [2, 3].

Over the past decades, Iran's banking system has encountered multiple crises. Specifically, economic pressures arising from sanctions and problems in managing domestic financial resources have jeopardized the country's financial stability and driven many banks into a critical state. Liquidity problems, weak financial solvency, and deficiencies in the supervisory and regulatory framework of banks are among the major causes of these crises [4, 5]. Moreover, the presence of legal loopholes and poor information transparency within the banking system has provided fertile ground for corruption and financial abuse in this sector [6]. Under these conditions, it is essential to conduct a comprehensive analysis of the causes and dimensions of the deficiencies in Iran's banking system and to develop models aimed at process reform and improved governance in banks.

One of the main problems of Iran's banking system is the absence of an effective bank bankruptcy process and the lack of adherence to corporate governance principles. In times of financial crisis, the absence of a transparent and efficient system to resolve banks' financial problems results in systemic risks, which may pose a serious threat to the national economy [7]. This underscores the importance of implementing corporate governance mechanisms in banks. Corporate governance, which encompasses principles such as transparency, accountability, and protection of stakeholder rights, can significantly contribute to improving bank performance and preventing financial crises [8].

In this regard, focusing on corporate governance standards and reforming the managerial and supervisory structures of banks can enhance accountability and transparency while reducing risk and corruption in the banking system. However, in Iran's banking system, due to weaknesses in supervisory processes and lack of coordination between banks and regulatory bodies, major problems persist. In particular, structural weaknesses in the Central Bank and the absence of specific laws for implementing corporate governance principles in banks are among the most significant challenges [9].

The aim of this study is to examine and analyze the deficiencies and governance problems in Iran's banking system and to present a comprehensive model to identify the underlying causes and influencing factors in this area. Considering the importance of banks in financing large-scale projects, especially in urban development, identifying and addressing these problems can improve bank performance and ultimately strengthen the national economy. Furthermore, taking into account the country's specific cultural, social, and economic contexts in analyzing these issues may lead to the discovery of effective solutions for improving the current situation.

2. Methodology

The primary objective of the present study is to identify the deficiencies and governance problems in Iran's banking system and to analyze them using both qualitative and quantitative approaches. For this purpose, a mixed-methods research design (qualitative-quantitative) has been employed. From a research objective standpoint, this study falls within the category of developmental research, and in terms of its nature, it is classified as descriptive-analytical research. The study was conducted in two main stages:

Stage One – Qualitative Analysis:

In this stage, qualitative data were collected through semi-structured interviews with banking specialists and experts. The interview questions were specifically designed to identify and examine factors related to deficiencies and governance problems in Iran's banking system, aiming to uncover the primary factors contributing to such issues. Purposeful non-probability sampling was used, and all interviews were recorded and later analyzed. Upon

completion of the interviews, thematic analysis was conducted to identify and categorize the main factors associated with governance deficiencies in the Iranian banking system.

Stage Two – Quantitative Analysis:

In this stage, Structural Equation Modeling (SEM) and Interpretive Structural Modeling (ISM) techniques were utilized to analyze the relationships among the factors identified in the qualitative stage. The qualitative data extracted through thematic analysis were converted into relational matrices. These matrices illustrated the interconnections among the various factors, enabling more precise simulation and analysis of the relationships between variables. Experts and specialists in the banking field participated in defining the types and intensities of relationships among these factors, and the structural model and interrelationships were accordingly simulated and extracted.

The statistical population of this research comprises banking managers, domain experts, and university faculty members who possess deep knowledge and practical experience in areas related to the research problem and its theoretical foundations. These groups were selected due to their insights and experiences with governance challenges in Iran's banking system, which can provide valuable information on influential factors in this domain. The managers and experts include individuals with a master's degree or higher in fields such as management, information technology, financial engineering, and economics, and who are active in managerial roles within banks and key financial institutions. Additionally, faculty members were selected from individuals with academic expertise in banking, economics, and financial management.

For sampling, a combination of two non-random sampling methods was used: judgmental sampling and snowball sampling. In judgmental sampling, the researchers purposefully selected knowledgeable and experienced experts based on their discretion. These included managers, specialists, and faculty members with extensive academic and practical experience in the banking and finance sectors, which allowed researchers to collect more accurate and comprehensive data on governance problems in the Iranian banking system. In snowball sampling, after each interview, participants were asked to introduce others with relevant expertise and experience. This process continued until theoretical saturation was reached—meaning no new concepts or data emerged from subsequent interviews and the relationships among themes were fully clarified. This method enabled the researchers to gather comprehensive and rich data for thematic analysis and relationship modeling.

Ultimately, 15 interviews were conducted in this study, and the demographic characteristics of the experts are presented in Table 1:

Table 1. Demographic Characteristics of Experts

Demographic Characteristics	Frequency	Percentage
Gender		
Male	15	100%
Female	–	–
Age		
Under 35 years	–	–
35–45 years	13	86.66%
45 years and above	2	13.34%
Education		
Master's Degree	4	26.66%
Doctorate	11	73.34%
Work Experience		
Under 10 years	–	–
10–20 years	13	86.66%

Over 20 years	2	13.34%
Total	15	100%

In this study, two methods were used for analysis: thematic analysis and interpretive structural modeling (ISM). The six stages of thematic analysis are briefly as follows: familiarization with data; generation of initial codes; searching for themes; reviewing themes; defining and naming themes; and report production. The steps of ISM include: identifying indicators related to the issue; forming the structural self-interaction matrix; creating the initial reachability matrix; generating the final reachability matrix; determining the hierarchical levels of indicators; drawing the interpretive structural model; and analyzing the driving and dependence powers.

The data collection tools in this study included: library research to review theoretical foundations, semi-structured interviews for gathering the opinions of the statistical population for thematic analysis, and a questionnaire for designing the ISM-based structural model.

To ensure scientific rigor in qualitative research, four criteria must be considered: credibility, dependability, confirmability, and transferability (Creswell, 2007). In this study, to enhance credibility, interviews continued until theoretical saturation was achieved. Moreover, the content validity ratio was estimated at 0.75, indicating a high level of expert consensus. To assess reliability or dependability, Cohen's Kappa coefficient was used. Given the Kappa coefficient of 0.72 was significant at a level less than 0.05, agreement between the researcher and the second coder was confirmed. For confirmability, all interviews were recorded to allow for review and re-examination. Additionally, all discussions with interviewees were documented in separate notes. To increase transferability, efforts were made to conduct and analyze the study in a way that its findings could be applicable to similar contexts.

3. Findings and Results

Based on the expert interviews conducted in this study, the interviews were analyzed through line-by-line, phrase-by-phrase, and overall conceptual content analysis. This process involved conceptualization, categorization, and classification based on similarities, meanings, and commonalities among the open codes. As a result, 107 base codes and concepts were identified, which were organized into 13 organizing themes and subsequently grouped into 6 overarching categories. Table 2 presents the stepwise process of coding.

Table 2. Overarching Themes, Organizing Themes, and Basic Themes Extracted from Qualitative Analysis

Overarching Theme	Organizing Theme	Basic Theme
Governance Competence	Structural Factors	Dominance of inefficient governmental procedures in economic and banking systems
		External interference in appointments of senior managers and board members
		Lack of integrated corporate governance among banks and other institutions
		Senior management policymaking
	Managerial Factors	Board size
		Board composition
		Board selection criteria
		Technical competence of board members
		Strategic and cognitive alignment among managers
		Ongoing and goal-oriented board interaction
		Avoidance of favoritism and political patronage
		Recruitment of technically qualified staff
		Emphasis on skills in recruitment processes
		Minimum education requirement in recruitment

Financial and Communication Capability	Financial Systems	Resource mobilization and allocation
		Provision of liquidity services
		Untimely monetary injections
		Risk management
		Cash flow management
		Advancement of financial system organization
		Provision of monetary and financial services
		Clarification of banking resource allocation
		Lack of integration in banks' financial systems
	Communication Skills	Enhancing customer relationships
		Learning modern communication methods
		Enhancing online negotiation skills
Intellectual Property in the Virtual World	Corporate Ownership Structures	Ownership changes
		Institutional shareholders
		Government ownership
		Free-floating shares
		Stakeholder management in banks
		Minority and majority shareholders
		Non-governmental bank ownership
		Public and private stock offerings
	Mastery of Virtual Domain	Familiarity with modern apps and software
		Awareness of customer issues in virtual platforms
		Knowledge of digital problem-solving techniques
Legal and Regulatory Structures	Legal Frameworks	Compliance management
		Legal conformity of operations
		Legal ambiguities and contradictions
		Customer unfamiliarity with legal issues
		Implementation of anti-money laundering laws
		Harmonization of banking regulations
		Comprehensive legislation for strategic governance
		Neglect of resolutions by the Bank Coordination Council
	Supervisory Factors	Systemic corruption
		Outdated supervisory systems
		Reporting mechanisms
		Use of internal and external auditors
		Emphasis on internal audits
		Utilization of in-house inspectors
		Clarification of supervisory laws
		Monthly and annual audit regulations
		Mandating managerial compliance
		Requirement of periodic reporting
		Use of visible and covert regulatory agencies
		Audit committees
		Minority shareholder supervision
		Reporting to all shareholders
		Public access to financial and non-financial information
		Internal auditing
		Shareholder supervision
		Selected committee from majority shareholders
		Independent auditing
		Appointment of regulators by parliament
		Oversight by international institutions

		Appointment of specialized regulatory agencies by government
Core Organizational Values	Accountability & Responsibility	Board accountability to stakeholders
		Government accountability to society
		Accountability of board, central bank, and government
		Definition of accountability lines by the board
		Customer-centric organizational culture
		Managerial accountability to customers
		Interaction platforms for senior banking managers
		Central bank responsiveness to societal needs
		Comprehensive awareness of services
		Service analysis provided to customers
		Defining effective supervisory levers
		Timely customer service responses
		Standardization of employee responsibilities
	Meritocracy	Deepening professional relationships within banks
		Detailed explanation of services to staff
		Enhancing negotiation and psychology skills
		Competency-based selection tests
	Leadership	Goal and strategy setting
		Compensation
		Cultural development
		Ethical values
		Human capital appreciation
		Leadership mechanisms
		Development of collaborative organizational values
		Clarification of employee guidance systems
		Promotion of cooperative culture
Information Disclosure	Transparency	Board remuneration policies
		Disclosure of board information
		Related-party transactions
		Quality of financial reporting
		Interaction with specific entities
		Creation of a transparent transaction environment
		Transparency in manager remuneration components
		Disclosure of transactional contract nature
		Definition of interbank interaction protocols
		Timely updates of managerial information
	Information Comprehensiveness	Complete understanding of customer needs
		Full knowledge of banking services
		Mastery of internal organizational processes

The Interpretive Structural Modeling (ISM) method incorporates expert opinions based on various managerial techniques such as brainstorming, the nominal group technique, and others to develop contextual relationships among variables. Accordingly, in this study, ISM was employed to identify contextual relationships among selected codes, with input gathered from 15 experts. A “leads to” relationship was chosen to analyze the selected codes, meaning that one variable leads to another. Based on this principle, contextual relationships between variables were constructed. The factors related to deficiencies and governance problems in Iran’s banking system were identified through coding and are listed in Table 3.

Table 3. List of Selected Codes for Deficiencies and Governance Problems in Iran's Banking System

Component	Code
Information Disclosure	C1
Financial and Communication Capability	C2
Governance Competence	C3
Intellectual Property in the Virtual World	C4
Core Organizational Values	C5
Legal and Regulatory Structures	C6

The SSIM contains essential information about model components, their interrelationships, and the structure of the model diagram. The dimensions of this matrix equal the number of model components, with components listed in the first row and column. Pairwise relationships among components are denoted using the following symbols:

V: Component *i* leads to component *j*

A: Component *j* leads to component *i*

X: Bidirectional relationship (both *i* to *j* and *j* to *i*)

O: No relationship exists between the two components

The ISM logic follows a non-parametric methodology based on mode frequencies. The final symbol entered into the matrix corresponds to the opinion most frequently endorsed by the experts. Table 4 presents the Structural Self-Interaction Matrix (SSIM) based on expert opinion.

Table 4. Structural Self-Interaction Matrix (SSIM) for Deficiencies and Governance Problems in Iran's Banking System

SSIM	C1	C2	C3	C4	C5	C6
C1 – Information Disclosure	–	A	X	X	A	A
C2 – Financial & Communication Capability	V	–	V	V	X	V
C3 – Governance Competence	X	A	–	V	X	A
C4 – Intellectual Property in the Virtual World	X	A	A	–	V	A
C5 – Core Organizational Values	A	X	X	A	–	A
C6 – Legal & Regulatory Structures	A	A	V	V	V	–

By converting SSIM symbols into binary values (0 and 1) according to the following rules, the initial reachability matrix is obtained:

1. If (i, j) in SSIM is V, then (i, j) = 1 and (j, i) = 0
2. If (i, j) is A, then (i, j) = 0 and (j, i) = 1
3. If (i, j) is X, then both (i, j) and (j, i) = 1
4. If (i, j) is O, then both (i, j) and (j, i) = 0

Table 5. Initial Reachability Matrix

	C1	C2	C3	C4	C5	C6
C1 – Information Disclosure	1	0	1	1	0	0
C2 – Financial & Communication Capability	1	1	1	1	1	1
C3 – Governance Competence	1	0	1	1	1	0
C4 – Intellectual Property in the Virtual World	1	0	0	1	1	0
C5 – Core Organizational Values	1	1	1	0	1	0
C6 – Legal & Regulatory Structures	1	0	1	1	1	1

After forming the initial reachability matrix, internal consistency must be ensured. For example, if variable 1 leads to variable 2 and variable 2 leads to variable 3, then variable 1 must also lead to variable 3. If this condition is not met in the initial matrix, the matrix must be adjusted by adding any missing links. This transitive closure was performed using Boolean algebra as per Azar et al. (2010), by raising the matrix to the power of (1 + K) while applying Boolean rules (e.g., 1+1=1; 1×1=1).

Table 6. Final Reachability Matrix with Driving Power and Dependence

Component	C1	C2	C3	C4	C5	C6	Driving Power
C1 – Information Disclosure	1	0	1	1	1*	0	3
C2 – Financial & Communication Capability	1	1	1	1	1	1	6
C3 – Governance Competence	1	0	1	1	1	0	4
C4 – Intellectual Property in the Virtual World	1	0	0	1	1	0	3
C5 – Core Organizational Values	1	1	1	0	1	0	4
C6 – Legal & Regulatory Structures	1	0	1	1	1	1	5
Dependence	6	2	5	5	6	2	-

Each component in the model possesses two distinct sets: the antecedent set (Vi)A and the consequent set (Vi)S. These sets play a fundamental role in constructing the reachability matrix and designing the ISM model. The antecedent set of each component includes those elements that lead to the given component. To determine it, the corresponding column in the reachability matrix is examined, where the number of "1"s indicates the number of directed links incoming to that component. Conversely, the consequent set includes elements that originate from the given component. This is determined by inspecting the corresponding row, with the number of "1"s representing outgoing links.

Once both antecedent and consequent sets are determined for each component, their intersection is calculated. A component is positioned at a certain level if its consequent set is equal to the intersection of its antecedent and consequent sets. After identifying such components, they are removed from the table, and the process is repeated iteratively until all levels of the model are identified (Agarwal et al., 2007). Based on this logic, the model components were prioritized and stratified as shown in Table 7.

Table 7. Input and Output Sets for Level Identification

Variable	Component	Input (Dependence)	Output (Driving)	Intersection	Level
C01	Information Disclosure	1-2-3-4-5-6	1-3-4-5	1-3-4-5	First
C02	Financial & Communication Capability	2-5	1-2-3-4-5-6	2-5	Fifth
C03	Governance Competence	1-2-3-5-6	1-3-4-5	1-3-5	Third
C04	Intellectual Property in Virtual World	1-2-3-4-6	1-4-5	1-4	Second
C05	Core Organizational Values	1-2-3-4-5-6	1-2-3-5	1-2-3-5	First
C06	Legal & Regulatory Structures	2-6	1-3-4-5-6	6	Fourth

Based on Table 7 and the procedures detailed in the methodology section, the interpretive structural model was constructed and is depicted in Figure 1.

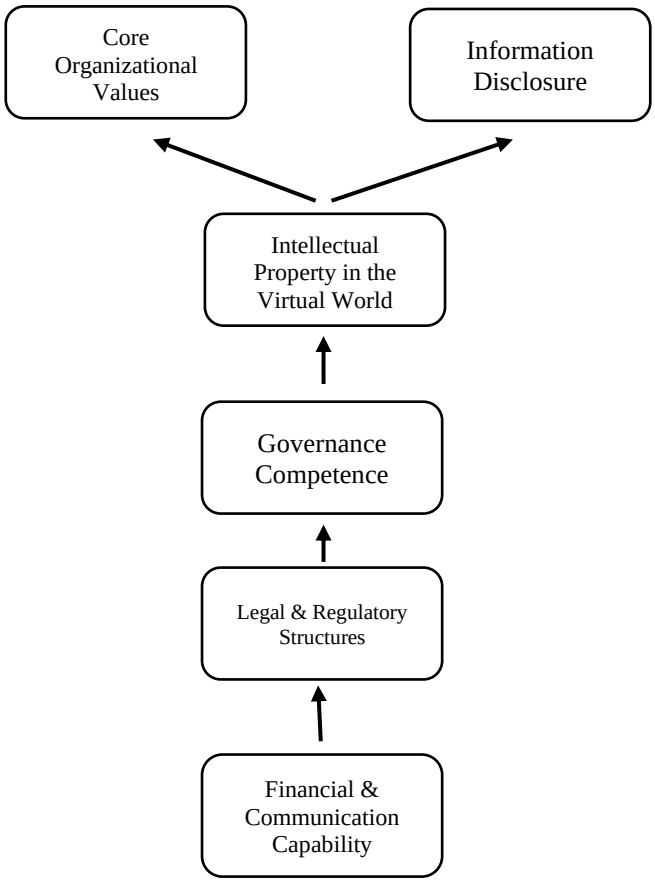

Figure 1. **Interpretive Structural Model of Dimensions of Governance Deficiencies and Problems in Iran's Banking System**

As shown in Figure 1, the dimensions of governance deficiencies and problems in Iran's banking system are categorized into five levels. The ISM model reveals the interrelationships and influences among dimensions across these levels.

At the first level, two fundamental and key dimensions play a critical role. The first is information disclosure, which is vital for ensuring transparency and building trust in the banking system. It directly affects the credibility and performance of financial institutions and contributes significantly to reducing governance issues. The second is core organizational values, including banks' ethical and cultural principles. These values deeply influence decision-making and management processes and can effectively prevent organizational deficiencies and problems.

At the second level, intellectual property in the virtual world is situated. In the digital era, the protection of intellectual and intangible assets is especially important for banks and financial institutions. With the advancement of technology and the rise of digital operations, managing intellectual property in virtual environments can play a key role in preventing legal and economic problems in the banking system.

The third level includes governance competence, which serves as a foundational and operational factor. Managerial and technical competencies in banking are crucial for improving decision-making and managing existing deficiencies. This dimension greatly contributes to reducing governance issues and enhancing the overall performance of the banking system.

On the fourth level, legal and regulatory structures are placed, which are essential for supervising banking activities and preventing misconduct. If these structures are ineffective or outdated, they can themselves become

sources of governance problems. This is particularly relevant in Iran's banking system, where serious reforms are required.

Finally, the fifth level includes financial and communication capability. The financial strength of banks and their effective communication with stakeholders, especially during crises, are critical for resource mobilization and fostering strong institutional relationships. Although this dimension may be less critical from an infrastructural standpoint, it plays a highly influential role in practice, particularly under complex economic and social conditions.

In the next stage, the driving and dependence power matrix was presented. The goal of this analysis is to evaluate the influence and dependence strength of variables.

- Cluster 1 includes criteria with low driving and low dependence power, often isolated from the system due to weak linkages.
- Cluster 2 consists of dependent variables that have low driving but high dependence power.
- Cluster 3 features linkage variables, which have both high driving and dependence power. These are non-static and system-sensitive, meaning any change in them can affect the entire system.
- Cluster 4 includes independent variables that possess high driving power but low dependence, making them foundational to system design.

Table 8. Total Reachability, Dependence, and Driving Power of Dimensions

Component	Information Disclosure	Financial & Communication Capability	Governance Competence	Intellectual Property in Virtual World	Core Organizational Values	Legal & Regulatory Structures
Driving Power	3	6	4	3	4	5
Dependence	6	2	5	5	6	2

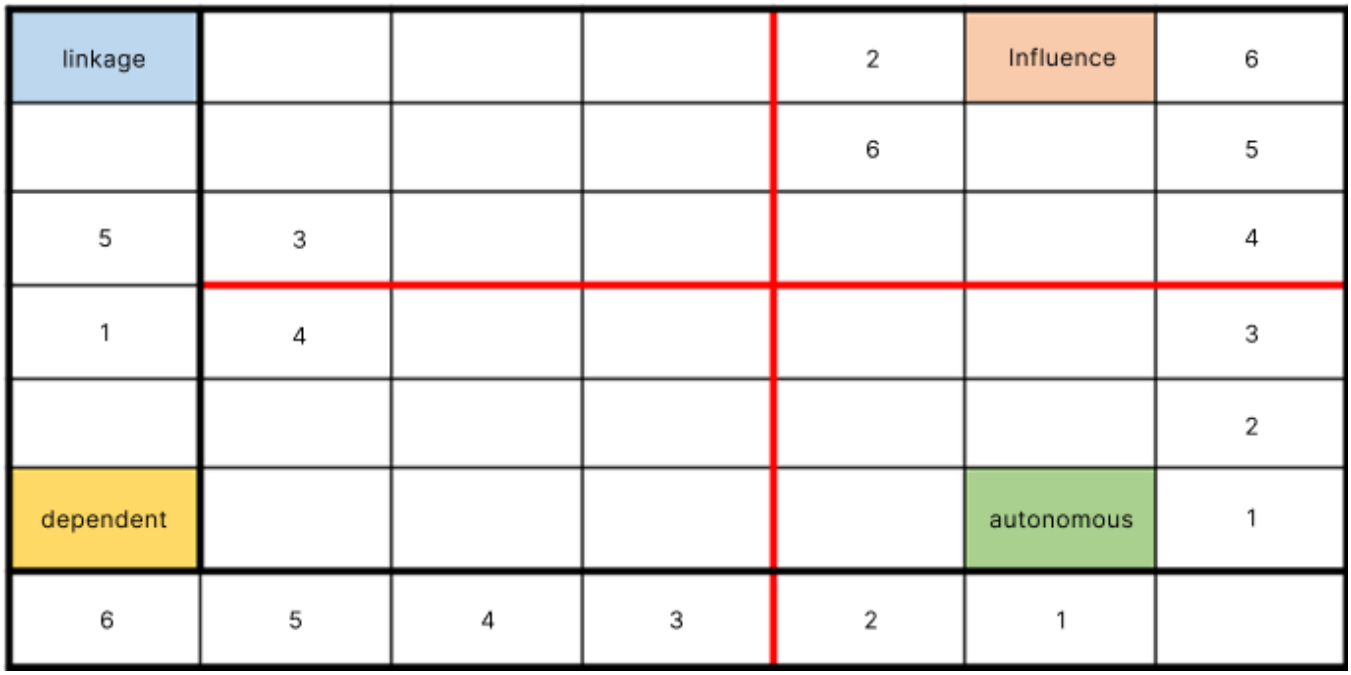

Figure 2. Final MICMAC Matrix of Driving and Dependence Power

According to the results, the final MICMAC analysis shows that:

- Financial and communication capability (C2) and legal and regulatory structures (C6) are independent variables with high driving power.

- Governance competence (C3) and core organizational values (C5) are linkage variables, with both high driving and dependence power.
- Information disclosure (C1) and intellectual property in the virtual world (C4) are dependent variables, with low driving and high dependence power.

4. Discussion and Conclusion

The results of this study reveal multiple deficiencies and challenges in corporate governance within Iran's banking system, primarily stemming from managerial weaknesses, inadequate oversight, and ineffective legislation. These issues directly affect bank performance and ultimately have adverse impacts on national economic growth and stability. Evidence suggests that key causes of these deficiencies include lack of information transparency, weak supervisory processes, corruption, and mismanagement. Furthermore, the absence of comprehensive and precise corporate governance legislation exacerbates these problems.

One of the principal issues identified in this research is the lack of transparency and oversight over bank performance. This has led to widespread financial corruption and misuse within the banking sector. These findings are consistent with prior studies [6] who emphasized the critical role of transparency in preventing corruption. In particular, Nikghalb et al. (2022) also demonstrated that proper disclosure of information can enhance the quality of financial reporting and reduce corruption in banks [10].

The results of the current study further indicate that weak managerial processes and failure to adhere to corporate governance principles are additional primary causes of deficiencies in Iran's banking system. This aligns with previous research, including the work of Sheikhi et al. (2022), who emphasized the importance of corporate governance in enhancing bank performance [11].

Another significant issue highlighted in this study is the financial crises and economic pressures resulting from international sanctions. These factors have weakened the financial capacity of banks and increased systemic risk within the banking system. A further serious problem addressed in this research is the lack of clear and appropriate regulations for implementing corporate governance principles in banks. This issue has been emphasized in previous studies as well, particularly in Maleki (2019), who highlighted how ineffective legislation impedes corporate governance improvement and concluded that Iran's banking legal structure needs substantial reform [12].

The results also show significant weaknesses in coordination between supervisory bodies such as the Central Bank and individual banks. This lack of coordination results in supervisory and managerial difficulties at the systemic level. These findings are aligned with studies such as Taghinataj et al. (2018), which emphasize the importance of effective supervision in reducing banking system problems [13].

To improve the status of corporate governance in Iran's banking system, it is essential for banks and financial institutions to seriously enhance information transparency and improve the quality of financial reporting. Doing so can not only help prevent corruption and financial abuse but also increase public trust in the banking system. Moreover, managerial and supervisory structures within banks and institutions associated with the banking system must be reformed. Strengthening managerial competencies and developing supervisory systems, particularly through the implementation of effective corporate governance, can contribute significantly to institutional performance.

In addition, the implementation of comprehensive and transparent corporate governance regulations for banks is necessary. These regulations should include principles such as accountability, transparency, and protection of

stakeholder rights, enabling banks to perform their duties more effectively. Finally, one crucial aspect of improvement lies in achieving stronger coordination between regulatory bodies like the Central Bank and individual banks. Such coordination can help reduce supervisory and operational issues within the country's banking system.

Authors' Contributions

Authors equally contributed to this article.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

Acknowledgments

Authors thank all participants who participate in this study.

Conflict of Interest

The authors report no conflict of interest.

Funding/Financial Support

According to the authors, this article has no financial support.

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