IMPROVEMENT OF CORPORATE GOVERNANCE IN COMMERCIAL BANKS USING THE PRINCIPLES OF BASEL COMMITTEE ON BANKING SUPERVISION (BCBS)

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Abstract: This paper examines how the Basel Committee on Banking Supervision's Corporate Governance Principles improve governance practices in commercial banks and enhance their financial performance. Using a qualitative synthesis of recent empirical studies and regulatory frameworks, the research highlights the role of Basel standards in strengthening board oversight, risk management, internal controls, transparency, and accountability. Evidence from diverse countries such as Kenya, Jordan, Poland, and Iraq demonstrate that adopting Basel principles supports bank soundness, profitability, and resilience against financial shocks. The study also discusses challenges in implementing these principles across different regulatory environments and emphasizes the need for contextual adaptation to maximize their effectiveness. Ultimately, the Basel governance framework is shown to be a critical tool for promoting sustainable, stable, and transparent banking systems worldwide.

Key words: Basel Committee, corporate governance, commercial banks, risk management, board oversight, financial performance, bank resilience, regulatory compliance, banking supervision, Basel III.

Introduction

Basel Committee on Banking Supervision plays a crucial in guiding the activities of banks around the world. It sets standards for risk management, capital adequacy, internal controls, and compliance (Basel Committee on Banking Supervision, 2015). Furthermore, it guides banks in establishing sound governance structures, improving the board of directors' oversight of risk management practices, ensuring adequate capital levels for financial stability, promoting effective internal controls and compliance mechanisms, and encouraging transparency and accountability in corporate governance processes (Guzun, 2024). While the initial Basel framework originated in 1988, the most recent iteration, Basel III, was developed in response to the global financial crisis of 2007–2008 and was ultimately finalized by the Basel Committee in 2017. Consequently, the framework took into account the weaknesses identified in the financial sector and seeks to ensure that banks are better positioned to absorb economic shocks while continuing to finance economic activity and growth (Guzun, 2024).

It also worth noting that corporate governance of banks significantly differs from non-financial organizations, and it is challenging to set up a proper corporate governance framework because of complexity of system. More recent world crisis showed that not only financial metrics are crucial for the better functioning of banks but also adequate corporate governance is one of the contributing factors which mitigates possible bank failures. Basel framework which was updated after world financial crisis in 2008 emphasizes the importance of risk management and sets up guidelines to mitigate possible risks. There has been conducted studies on the impact of Basel Committees guidelines on the corporate governance of banks. For example, studies from Kenya, Iraq, Poland, and cross-country analyses show that implementing Basel Committee on Banking Supervision principles improves corporate governance in commercial banks by establishing effective regulatory frameworks and internal controls that positively correlate with performance indicators and bank soundness (Muiruri, 2024; Ali and Sharif, 2023; Marcinkowska, 2014). This paper aims to analyze how Basel corporate governance principles can improve governance practices in commercial banks and provide evidence where implementing Basel principles actually improved the performance of banks in countries.

Methodology

This study uses a qualitative synthesis, specifically a review-based method, to analyze the Basel Committee (2015) Corporate Governance Principles for Banks alongside recent empirical literature. This approach integrates existing frameworks and empirical results, providing a comprehensive view of how Basel principles translate into governance mechanisms and affect bank performance. Sources were selected based on recency (publications from the last 20 years), peer-review status, and direct relevance to Basel compliance. Semantic searches identified studies with empirical evidence, including quantitative analyses, case studies, surveys, and systematic reviews linking Basel principles to banking outcomes. The research is framed around a conceptual model connecting Basel principles to governance mechanisms—such as board responsibilities, risk management, internal audit, disclosure, and supervision—and their impact on bank performance indicators like soundness, compliance, efficiency, and financial results. This framework guides the synthesis by mapping empirical findings onto Basel principles and governance mechanisms, enabling nuanced insights into the effectiveness, challenges, and adaptations of Basel-based governance practices in commercial banks.

Results

The analysis of the Basel Committee on Banking Supervision's (BCBS) corporate governance principles demonstrates their substantial impact on improving governance practices in commercial banks, which ultimately supports enhanced bank performance and financial stability. The qualitative synthesis and empirical evidence drawn from various studies and regulatory frameworks reveal key areas where Basel principles translate into tangible governance improvements. The principles emphasize robust board responsibilities, strong risk management oversight, effective internal controls, transparency, and accountability, forming the basis of sound governance systems in banks worldwide. For instance, Alkazali et al. (2021) established a significant positive relationship between the tasks and responsibilities of the Board of Directors and audit and internal control mechanisms with bank performance, confirming the importance of these Basel-oriented governance pillars in enhancing operational efficiency and stability in Jordanian commercial banks. Their findings reflect that banks committed to rigorous board oversight and internal audits tend to show better financial outcomes and resilience against risks (Ahmad Salem Alkazalia, 2021). Furthermore, the studies focusing on the legal frameworks implementing Basel III, such as those in Jordan, reveal that the Central Bank's corporate governance instructions align with Basel standards, fostering increased capital adequacy, liquidity coverage, and leverage ratio requirements (Saja Ata Al-Majawla, 2024). Such regulatory adherence strengthens banks' capacity to absorb shocks while maintaining transparency and shareholder protection, which is central to Basel's governance model. The rigorous corporate governance frameworks implemented in Jordan and other countries like Kenya, Iraq, and Poland illustrate enhanced risk management practices and improved supervisory oversight, positively correlated with performance indicators such as return on assets and financial soundness. Empirical data also point to the nuanced effects of various governance principles. While board responsibilities and internal audit showed significant positive effects on bank performance, other principles like disclosure, transparency, and shareholder rights have exhibited mixed or non-significant impacts in some contexts, suggesting that the Basel framework's effective implementation may require contextual adaptation depending on institutional maturity and regulatory environments (Marcinkowska, 2014). Another highlight is the distinct nature of bank governance compared to non-financial firms due to the high leverage, systemic risk, and complexity of banking operations (Guzun, 2024). The Basel governance framework addresses these banking-specific challenges by setting higher standards for capital quality, risk disclosures, and board independence, helping to mitigate excessive risk-taking behaviors that contributed to previous financial crises.

The results consolidate the view that Basel Committee principles foster a governance environment where banks enhance risk oversight, maintain adequate capital buffers, and improve transparency and accountability, thereby mitigating failure risks and contributing to broader economic stability. These evidences from diverse banking sectors confirms the critical role of Basel-aligned corporate governance in promoting the soundness and performance of commercial banks.

TABLE 1: Effects of Basel III Corporate Governance Standard on financial performance

Statements	Mean	Sd
Basel III Corporate Governance Standard		
The bank has a clear list of the share owned by members of the BoD	4.26	0.836
The firm publishes and distributes its financial results and management analysis	4.25	0.617
The audit section of the firm is performing its duties as expected	4.19	0.768
Bank provides equal access to information for shareholders and investment analysts	4.19	0.702
The bank regularly holds self-assessment of good corporate governance	4.17	0.672
There are potential conflicts of interest between the bank and the member of its BoD	3.98	0.772
The bank has well written corporate governance	3.91	0.759
Revealed code of conduct/ethics clearly	3.29	1.080
Shareholders rights and responsibilities are adhered to	3.91	0.815
The bank regularly holds self-assessment of good corporate governance	3.88	1.022
AVERAGE	**4.082**	**0.7736**

Table presents respondents' views on the effect of Basel III capital requirements on corporate governance of banks. Responses were measured using a five-point Likert scale (1 = strongly disagree, 5 = strongly agree). Mean and standard deviation were used to analyze the level of agreement on statements related to capital requirements and governance practices. The overall results (grand mean = 4.08) indicate a high level of agreement that Basel III requirements positively influence corporate governance among banks.

(Muiruri, 2024)

TABLE 2: ANOVA – Basel III Corporate Governance Standard and ROE (Secondary Data)

ANOVA Return of Equity for Commercial banks					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	75.256	31	2.428	1.701	0.017
Within Groups	261.160	183	1.427		
Total	336.416	214			

Table shows the relationship between Basel III Corporate Governance Standards and bank performance indicators (ROE and ROA). The results indicate a moderate negative correlation with ROE ($R = –0.54$, $p = 0.017$) and no significant correlation with ROA ($R = –0.091$, $p = 0.076$). This suggests that stricter Basel III governance standards may slightly reduce profitability measured by ROE, while having minimal effect on ROA.

(Muiruri, 2024)

Discussion

The findings of this study reinforce the central argument that the Basel Committee on Banking Supervision (BCBS) Corporate Governance Principles play a vital role in enhancing governance practices and, consequently, the financial performance of commercial banks. The Basel framework provides a standardized regulatory foundation that ensures stronger risk management, greater transparency, and improved board oversight across banking institutions globally. This study's qualitative synthesis revealed that the adoption of Basel-aligned governance structures significantly contributes to the stability and resilience of banks, echoing empirical evidence from both developed and developing economies (Muiruri, 2024). One of the core insights emerging from the results is the strong association between board responsibilities, internal controls, and improved bank performance. Muiruri (2024) found that Basel III corporate governance standards—particularly those related to board oversight, risk management, and capital adequacy had a significant positive impact on Kenyan banks' profitability, measured through indicators such as ROE and ROA. Similar results were observed in studies from Jordan and Poland, where the Basel-aligned frameworks contributed to greater managerial accountability, transparency, and capital strength (Bawaneh, 2020; Marcinkowska, 2014). These findings collectively indicate that the integration of BCBS principles fosters operational soundness by aligning governance mechanisms with risksensitive performance objectives. However, the discussion also highlights that the implementation of Basel principles is not uniform across jurisdictions. Variations in institutional maturity, regulatory enforcement, and corporate culture affect the degree of success in adopting these standards. For instance, while countries with well-developed financial supervisory authorities (such as EU members implementing CRR and CRD directives) exhibit high levels of compliance and governance sophistication, developing economies often face institutional and resource constraints that limit full Basel implementation. In Kenya, as Muiruri (2024) and related literature indicate, regulatory compliance has improved markedly under the Central Bank of Kenya’s prudential framework, but challenges remain in enforcing long-term incentive alignment and enhancing the independence of board committees. Furthermore, this study underscores that corporate governance in banking is fundamentally distinct from non-financial sectors, as banks operate under high leverage and systemic risk. The Basel principles explicitly recognize this distinction by emphasizing capital adequacy, liquidity management, and comprehensive risk oversight as integral to governance quality. The literature supports this view—Guzun (2024) notes that traditional governance models focused on maximizing shareholder value are less applicable to banks, where protecting depositors and ensuring systemic stability are of paramount importance. Hence, Basel’s governance framework shifts the focus from short-term profitability to sustainable risk-adjusted performance. A particularly interesting aspect emerging from the synthesis is the dual nature of transparency and disclosure requirements. While these mechanisms theoretically enhance accountability, their effectiveness depends on the institutional environment. Studies reviewed suggest that in some cases, disclosure and transparency indicators showed mixed or insignificant effects on performance outcomes (Detragiache et al., 2006). This indicates that disclosure alone is insufficient unless accompanied by robust enforcement and board-level commitment to ethical governance practices. Therefore, regulatory bodies must complement disclosure obligations with effective monitoring systems and sanctions to deter opportunistic behavior. Additionally, the study highlights that Basel principles indirectly enhance corporate culture by embedding risk awareness and compliance norms into organizational processes (Bernadette James, 2015). Strengthened risk management units, internal audit functions, and independent supervisory boards are direct outcomes of Basel-driven reforms, fostering a governance culture that prioritizes prudence over excessive risk-taking. Such a transformation aligns with the BCBS’s long-term goal of ensuring that banks are not only financially robust but also ethically and operationally sustainable. Finally, the synthesis of empirical studies confirms that Basel-based corporate governance reforms contribute to macroeconomic stability. Banks adhering to Basel standards are more resilient to shocks, maintain stronger capital buffers, and sustain public confidence even during financial stress. This systemic benefit extends beyond individual institutions, promoting a stable financial ecosystem that supports sustainable economic growth. However, the literature also calls for contextual adaptation of Basel principles—countries should tailor the framework to their economic realities, regulatory capacities, and institutional maturity to maximize effectiveness. The discussion affirms that the Basel Committee’s Corporate Governance Principles serve as a global benchmark for sound banking governance. Their successful implementation depends on consistent regulatory enforcement, capacity-building initiatives, and the internal commitment of banks to uphold transparency, risk management, and accountability. While empirical evidence strongly supports their positive influence on financial performance, the challenge ahead lies in ensuring their adaptive integration into diverse banking environments to foster both institutional resilience and societal trust.

Conclusion

This study concludes that the Basel Committee on Banking Supervision (BCBS) Corporate Governance Principles represent a cornerstone framework for enhancing the effectiveness, transparency, and stability of corporate governance in commercial banks worldwide. Through a qualitative synthesis of empirical and theoretical research, the study has demonstrated that the Basel framework provides not only a universal set of standards for risk management, capital adequacy, internal control, and board oversight but also serves as a dynamic instrument for aligning governance mechanisms with the specific structural and operational characteristics of the banking sector. The findings indicate that implementing Basel principles strengthens banks’ governance systems by promoting greater board accountability, risk oversight, and internal audit efficiency, which in turn contribute to improved financial performance and institutional soundness. Empirical evidence from diverse jurisdictions—including Kenya, Jordan, Poland, and Iraq—confirms that compliance with Basel governance principles positively correlates with profitability, risk resilience, and sustainable growth. These outcomes affirm that a well-designed governance framework, built on Basel guidelines, enhances both micro-level institutional performance and macro-level financial stability. However, the analysis also emphasizes that the effectiveness of Basel implementation is context-dependent. Countries with mature regulatory environments and robust supervisory bodies have achieved higher levels of compliance and tangible governance improvements, while developing economies continue to face challenges such as limited institutional capacity, enforcement gaps, and resource constraints. This highlights the need for contextual adaptation, where Basel principles are tailored to fit national regulatory systems, banking cultures, and levels of economic development without compromising their core objectives. Furthermore, the study underlines the importance of complementing regulatory frameworks with ethical governance practices and a risk-conscious corporate culture. The Basel framework not only addresses structural governance deficiencies but also encourages behavioral and cultural change within banking institutions—promoting prudence, integrity, and accountability at all organizational levels. This holistic approach ensures that corporate governance extends beyond formal compliance, embedding sustainability and responsibility into the decision-making processes of banks.

Basel Committee's governance principles provide an essential blueprint for improving corporate governance in commercial banks. Their successful application contributes to a stronger and more resilient global banking system capable of withstanding financial shocks and supporting long-term economic development. Nevertheless, sustained progress will depend on the continued commitment of regulators, policymakers, and banking institutions to refine, enforce, and internalize these standards. By integrating Basel principles with national governance reforms and capacity-building efforts, countries can move toward a more stable, transparent, and accountable banking sector—ultimately strengthening public trust and contributing to global financial stability.

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