



# Corporate Governance and Ethics in the PNG Banking Industry: Challenges and Opportunities

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## Abstract

*Banking systems play a central role in the economic development of any nation. Poor corporate governance (CG) within banks has long been identified as one of the major reasons for financial crises. This study examines the corporate governance and ethical practices in the commercial banking sector of Papua New Guinea (PNG), with particular focus on customer perceptions in Port Moresby. Using a mixed-methods approach, primary data were collected from 89 customers through structured surveys and open-ended interviews. The analysis shows that while about 87 per cent of respondents consider CG important or very important, nearly 77 per cent have either nil or limited knowledge of CG concepts in banking. Around 84 per cent of respondents rate ethical standards at their banks as fair or good, and a similar proportion express satisfaction with banking services. The study identifies lack of comprehensive training, regulatory constraints, and insufficient enforcement as the top challenges. It recommends customer awareness programmes, stronger regulatory action by the Bank of Papua New Guinea (BPNG), and further bank-level research. The findings are analysed using Stakeholder Theory as the theoretical lens.*

**Keywords:** Corporate governance, banking ethics, PNG banking, stakeholder theory, financial stability

## Introduction

Banking is considered the backbone of any nation. The strength of an economy largely depends on the health of its banking system. Researchers and international bodies have consistently argued that a strong and sustainable economy is always supported by a prudent banking system (APRA, 2019; World Bank, 2022; IMF, 2023). When banks fail, the consequences go well beyond financial losses. Failure in banking systems has negative repercussions on the entire economy, often leading to unemployment, poverty, and social dislocation (Kouki et al., 2017; Laeven, 2020).

History provides clear evidence of this. The Asian Financial Crisis (AFC) of 1997 plunged several countries into deep recessions, bringing rising unemployment and widespread social disruption (Lane, 1999). Similarly, the Global Financial Crisis (GFC) of 2008 saw millions of people losing their jobs across the world (Reserve Bank of Australia, 2024). Between 2001 and 2024, the world economy witnessed an average of 24 bank failures per year, with a dramatic peak of 157 failures in 2010 alone, as shown in Figure 1.

**Global Bank Failures per Year (2001-2024)**

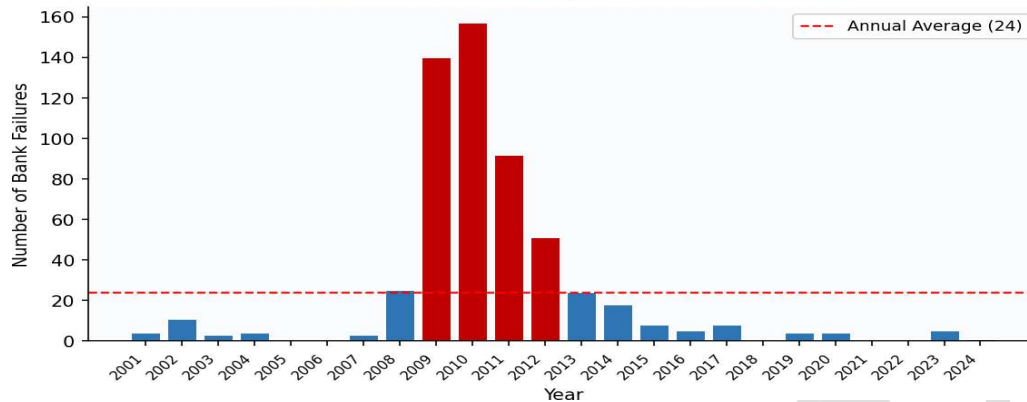


Figure 1: Global Bank Failures per Year, 2001–2024 (Source: FDIC, 2024)

One of the recurring causes behind these failures is poor corporate governance. The International Monetary Fund (1998) and Johnson et al. (2000) both pointed out that weak governance mechanisms in banks contributed significantly to financial instability. Marcinkowska (2012, p. 48) observed that weak and ineffective corporate governance mechanisms in banks are the main factors contributing to recent financial crises. As a result, there is now a growing call for stringent ethical standards and corporate governance within the banking industry (Adaga et al., 2024).

Corporate governance refers to a set of rules that governs the relationships between management, shareholders, and other stakeholders (Ching et al., 2006, as cited in Abdullah & Valentine, 2009). Within the banking industry, this governance structure is especially important, given the public nature of banking and its role in holding public deposits and supporting national economies.

Papua New Guinea (PNG) is no exception to these global concerns. As a developing nation with a growing banking sector, PNG faces its own set of governance challenges. This study investigates the corporate governance and ethical environment of commercial banks in PNG, particularly as experienced by customers in Port Moresby.

**Theoretical Framework**

Corporate governance is examined through multiple theoretical lenses. Abdullah and Valentine (2009) identified six fundamental corporate governance theories that help explain how organisations manage relationships with their principals and stakeholders.

Agency Theory focuses on the relationship between principals such as shareholders and agents such as company executives and managers. It recognises potential conflicts of interest between these two parties. Stewardship Theory takes a different view, arguing that managers act as stewards who protect and maximise shareholder wealth through firm performance. Stakeholder Theory broadens the perspective by considering any group or individual that can affect or is affected by the achievement of the organisation's objectives. Resource Dependency Theory examines the role of directors in securing essential resources for the organisation through external linkages. Transaction Cost Theory views the firm as an organisation where law, economics, and organisational behaviour intersect to minimise costs. Finally, Political Theory examines how voting support is developed among shareholders to influence governance decisions.

This study adopts the Stakeholder Theory as its primary theoretical lens. Customers are identified as important stakeholders in corporate governance (Ching et al., 2006, as cited in Abdullah & Valentine, 2009). Several prior studies have used stakeholder theory to understand governance through customer experience. Zeithaml et al. (1996) found that professionalism and transparency in staff interactions shape customer perceptions of overall organisational governance. Andreassen (2000) demonstrated that successful resolution of service issues reinforces perceptions of good governance and reliability. Related works by Ennew and Sekhon (2007) and Homburg and Furst (2005) further confirm the link between service quality and governance perceptions.

### **Objectives of the Study**

The objectives of this study are threefold. First, it attempts to assess the corporate governance and ethical practices of the PNG banking industry, particularly among commercial banks in Port Moresby. Second, it aims to identify key challenges and areas for improvement in governance practices. Third, it gathers recommendations from stakeholders for enhancing corporate governance standards across the banking sector in PNG.

### **Significance of the Study**

This study carries importance for multiple stakeholders. First, it reveals customer perceptions about governance and ethical issues in PNG banks, filling a gap in existing literature on CG from the customer perspective. Second, the findings are relevant to the Bank of Papua New Guinea (BPNG), the banking supervisory body, which can use this information to formulate suitable policies for customer awareness programmes. Third, commercial banks can use the study findings strategically to improve their trustworthiness and accountability.

More broadly, the study contributes to efforts aimed at preventing financial mismanagement and bank failures, addressing corruption and ethical lapses, building public trust and confidence, ensuring financial stability, and promoting fairness and responsible leadership in the banking industry.

### **Methodology**

#### **Research Design**

This study used a mixed-methods approach, combining both quantitative and qualitative techniques. The mixed design was chosen because it provides a more complete understanding of the research problem than either approach alone.

#### **Quantitative Methods**

Structured survey instruments were administered to bank customers to collect data on their perceptions of ethics and corporate governance practices. Data were analysed using percentage analysis to facilitate clear interpretation of results.

#### **Qualitative Methods**



To complement the quantitative findings, open-ended questions were included in the survey, and in-depth interviews were conducted with selected participants. Qualitative data were analysed thematically, allowing the identification of recurring patterns and context-specific dynamics.

### **Sample Size and Scope**

The study used both primary and secondary data. Primary data were obtained from survey responses and interviews, while secondary data were drawn from existing literature. Stratified random sampling was used, and responses were obtained from 89 customers of commercial banks in Port Moresby, PNG.

### **Limitations**

The scope of the study was constrained by time and cost limitations. A more comprehensive examination of individual banks across all of PNG would require additional resources and is proposed as a direction for future research.

### **Overview of the PNG Banking Sector**

The commercial banking landscape in PNG is relatively small but plays an important role in the country's economic development. As of the time of this study, the following commercial banks are operational:

- BSP Bank – the largest commercial bank in PNG and the Pacific region
- Kina Bank – a locally established bank with growing operations
- Westpac Bank – an Australian-owned bank with a long presence in PNG
- ANZ Bank – another Australian-based institution operating in PNG

Two additional banks have been recently licensed and are yet to commence full operations: Credit Corp and TISA Bank. Their entry is expected to increase competition and may also present new governance challenges for the regulatory body. The Bank of Papua New Guinea (BPNG) serves as the central bank and supervisory authority. Reforms initiated under the leadership of Sir Mekere Morauta in the early 2000s, along with subsequent regulatory activities of BPNG, are credited by many respondents in this study as having contributed to the present level of trust in the banking system.

### **Governance and Ethical Issues in PNG Banking**

The study identified several governance and ethical issues that are particularly relevant in the PNG banking context. These issues are primarily customer-related and include:

Customer Treatment and Service Quality – how banks interact with and serve their customers

Information Security and Customer Privacy – the protection of sensitive customer data

Discrimination in Lending – unequal access to credit based on non-financial factors

Transparency and Disclosures – the extent to which banks communicate clearly about fees, products, and conditions

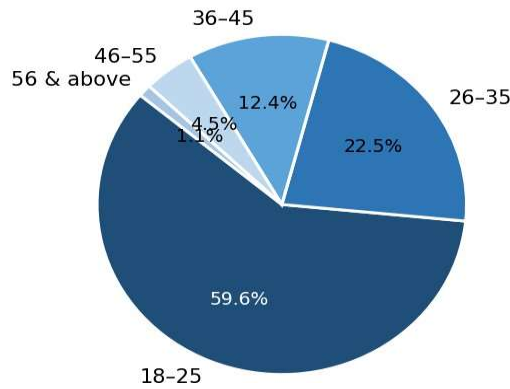
These issues are not unique to PNG. However, in the context of a developing economy where customer literacy about financial products and governance is limited, these concerns take on added significance.

### **Analysis and Results**

#### **Respondent Profile**

The survey drew responses from 89 customers of commercial banks in Port Moresby. The demographic profile is presented in Figures 2, 3, and 4 below.

**Age Distribution of Survey Respondents (%)**



**Gender Distribution (%)**

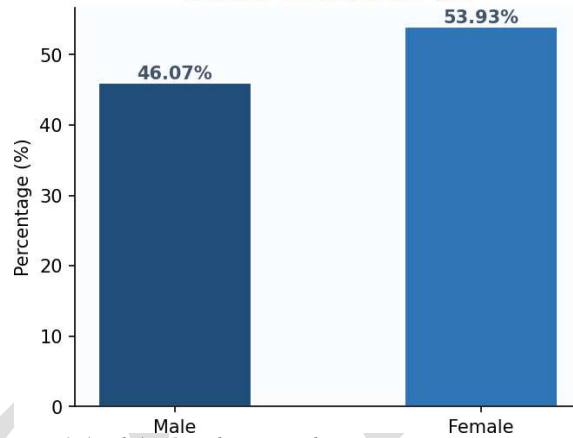


Figure 2 (left): Age Distribution | Figure 3 (right): Gender Distribution

**Highest Level of Education (%)**

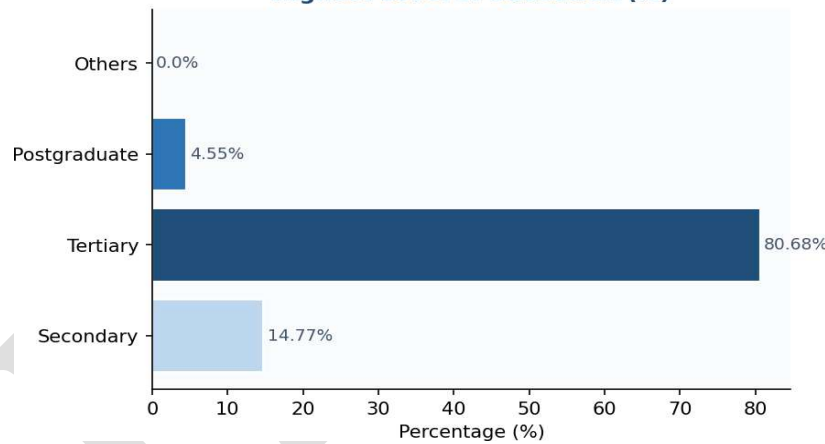


Figure 4: Highest Level of Education of Respondents (%)

The majority of respondents (59.55%) fall in the 18–25 age group, followed by the 26–35 group (22.47%). Female respondents (53.93%) outnumber male respondents (46.07%). In terms of education, 80.68% have tertiary-level qualifications and 4.55% hold postgraduate degrees. This relatively high educational profile suggests that the respondents are capable of forming informed opinions about governance practices. Regarding banking experience, 44.32% have been customers for more than six years, indicating a stable and experienced customer base.

**Perceptions of Corporate Governance**

Respondents were asked about the importance of corporate governance in the banking industry, their perception of ethical standards, and their experience of unethical behaviour. The findings are presented in Figures 5 and 6.

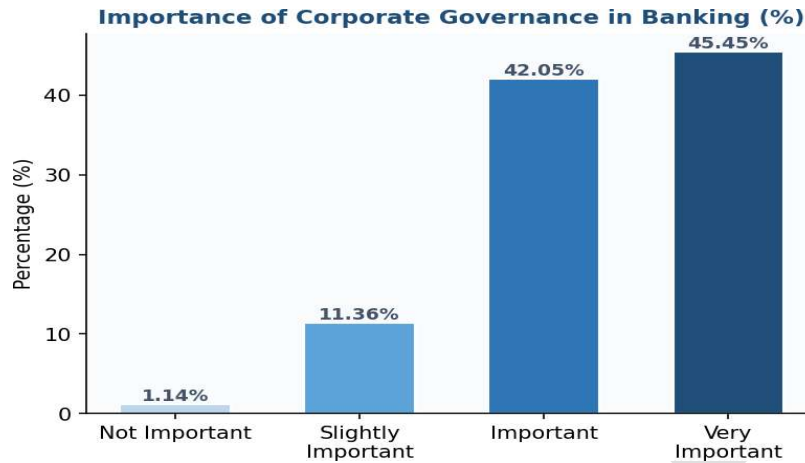


Figure 5: Perceived Importance of Corporate Governance in Banking (%)

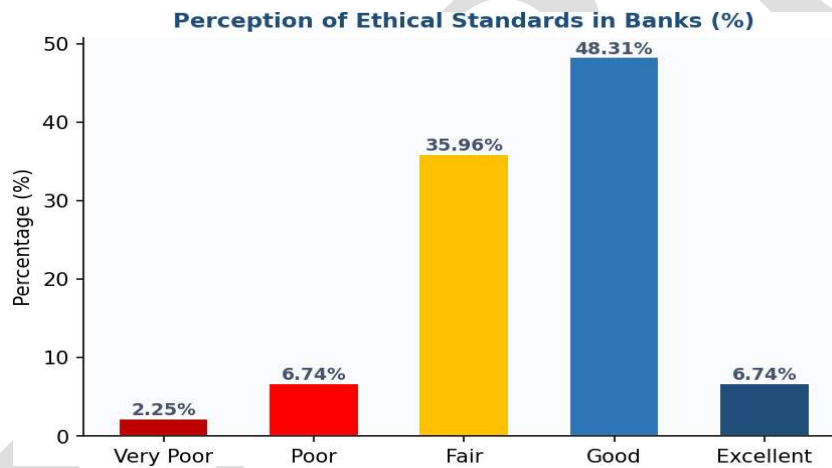


Figure 6: Perception of Ethical Standards in Banks (%)

A large majority of respondents (87%) consider corporate governance to be either important or very important in the banking industry. This shows a strong awareness of the relevance of governance, even if respondents lack detailed knowledge of the concept. When asked about the ethical standards of their banks, approximately 84% rated them as either fair or good. Only about 9% rated ethical standards as poor or very poor. This suggests that, overall, customers have a reasonably positive view of bank behaviour. On the question of unethical behaviour, around 41.57% of respondents reported experiencing some form of unethical behaviour at their bank. While the majority (58.43%) did not report such experiences, the proportion reporting unethical behaviour is not negligible and warrants attention from bank management and regulators.

**Service Satisfaction and Trust**

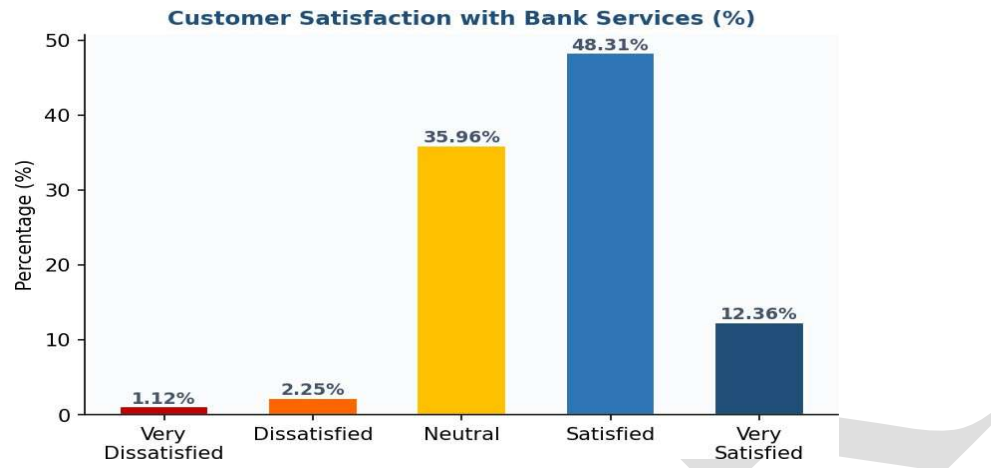


Figure 7: Customer Satisfaction with Bank Services (%)

Figure 7 shows that about 84% of respondents are either neutral or satisfied with the services they receive at their banks. Very few (3.37%) expressed dissatisfaction. About 87% of respondents also reported that they trust their banks either moderately or greatly. This high level of trust, despite the governance concerns identified, may be attributed to the institutional reforms carried out by Sir Mekere Morauta in the early 2000s and the ongoing regulatory oversight by the BPNG.

**Challenges in Corporate Governance**

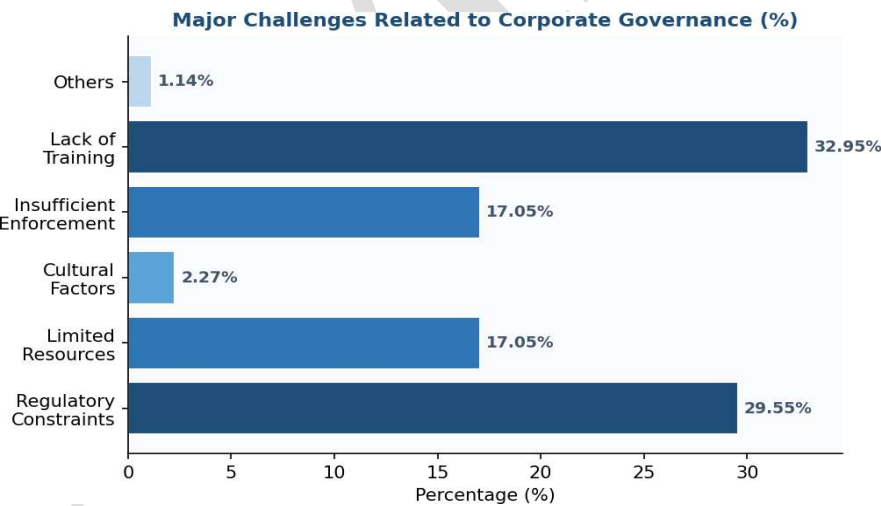


Figure 8: Major Challenges Related to Corporate Governance (%)

When respondents were asked to identify the major challenges related to corporate governance in PNG banks, lack of comprehensive training programmes emerged as the top concern at 32.95%, followed by regulatory constraints (29.55%), and limited resources and insufficient enforcement mechanisms (17.05% each). Cultural factors (2.27%) and other issues (1.14%) accounted for the remainder. These findings point to a structural gap in governance – the people responsible for implementing governance practices are themselves not sufficiently trained to do so.

**Summary of Key Findings**

Key Finding	Percentage	Interpretation
CG Awareness (nil/limited knowledge)	77%	Concerning – low public awareness
CG Rated Important/Very Important	87%	High perceived relevance
Ethical Standards Rated Fair/Good	84%	Moderate trust in banks
No Unethical Behaviour Experienced	58%	Majority positive experience
Trust Level Moderate/High	87%	Strong baseline confidence
Service Satisfaction (Neutral/Satisfied)	84%	Generally acceptable service
Lack of Training – Top CG Challenge	33%	Key area needing intervention

The overall picture that emerges from the data is encouraging in some respects and concerning in others. Customer trust and satisfaction levels are comparatively high. However, the low awareness of CG concepts among customers (77% with nil or limited knowledge) and the significant number who have experienced unethical behaviour (41.57%) point to areas that need immediate attention.

**Discussion**

The findings of this study reveal a complex picture of corporate governance in the PNG banking sector. On one hand, customers demonstrate considerable trust in their banks and rate service quality as acceptable. This is consistent with the broader literature on how past reforms and regulatory activity can build long-term customer confidence (Doney & Cannon, 1997). The reforms of the early 2000s and continued BPNG oversight appear to have had a lasting positive effect on customer perception.

On the other hand, the low level of CG awareness is a matter of concern. When nearly 77% of customers have nil or limited understanding of what corporate governance means in the context of their bank, they are in a weak position to demand accountability or report violations. This knowledge gap creates conditions in which governance lapses may go unnoticed or unreported.

The finding that about one-third of respondents identify lack of comprehensive training as a challenge aligns with international literature. Fernando et al. (2021), in their study on employee perceptions of CG in Sri Lanka, similarly found that training gaps were a key barrier to effective governance. In PNG, this challenge is compounded by limited resources and cultural factors that may create resistance to change.

The high percentage of customers (87%) who consider CG to be important, combined with the relatively low percentage who have detailed knowledge of it, points to a public that is receptive to information but has not yet received it. This is an opportunity for both the BPNG and commercial banks to invest in awareness and education.

Sivaruban (2023), in a study specific to PNG, found that corporate governance practices have a positive impact on the financial performance of listed companies. This supports the argument that stronger governance frameworks would benefit both individual banks and the broader economy.

**Current Challenges in the PNG Banking Sector**



Several challenges currently affect the quality of corporate governance in PNG banking. These challenges are described below.

**Weak Regulatory Framework:** Regulations governing banks are sometimes inconsistently enforced, and the regulatory environment is still evolving. This creates uncertainty and allows some governance lapses to go unchecked.

**Corruption and Fraud:** There are concerns about favouritism in lending, misappropriation of funds, and conflicts of interest. Weak internal controls and limited resources for fraud prevention make these problems harder to address.

**Lack of Transparency:** Customers and other stakeholders sometimes lack access to clear information about bank products, fees, and decision-making processes. This reduces accountability and weakens governance.

**Board Capacity:** Limited expertise on bank boards and the undue influence of certain shareholders can undermine effective governance. Boards that lack independence or technical skills are less able to hold management accountable.

**Cultural and Social Factors:** Traditional practices and resistance to change can create tensions between local norms and the requirements of modern corporate governance frameworks.

**Limited Training:** As identified by survey respondents, insufficient training for board members, management, and front-line staff is a major obstacle to the implementation of good governance practices.

**Digital and Cybersecurity Risks:** The rapid adoption of digital banking has introduced new governance challenges related to data security and cybersecurity risk management.

**Economic and Political Instability:** Broader economic conditions and political pressures can affect the independence of banking institutions and the consistency of regulatory enforcement.

### **Opportunities**

Despite these challenges, proper corporate governance practices offer significant opportunities for all stakeholders in the PNG banking sector.

For banks, strong governance leads to enhanced reputation and trust, long-term sustainability, better access to capital, and competitive advantage in the market. For customers, improved governance translates into better service quality, greater trust and security, and enhanced financial inclusion – especially for underserved populations.

For employees, a well-governed bank offers fair treatment, professional development opportunities, and greater empowerment in day-to-day decision-making. For investors and shareholders, good governance increases returns, enhances transparency, and attracts ethical investors who take a long-term view.

For the Bank of Papua New Guinea as regulator, stronger governance in commercial banks makes compliance monitoring easier, supports broader policy goals such as financial inclusion, and reduces systemic risk across the sector. For the community and the broader economy, the benefits include social responsibility, economic development and stability, reduced corruption, and greater foreign investment – all of which are important for PNG's long-term growth.

### **Suggestions and Recommendations**

Based on the analysis and findings, the following recommendations are offered.

First, there is a clear need for customer education. Even though the majority of respondents consider corporate governance important, most have limited knowledge of what it actually means in practice. The BPNG, as the



regulatory authority, is well placed to initiate and fund customer awareness programmes across the country.

Second, commercial banks should invest more seriously in training programmes for their boards, management teams, and frontline staff. As the survey findings show, the lack of comprehensive training is seen as the biggest obstacle to better governance. Without trained personnel, governance frameworks remain only on paper.

Third, regulatory enforcement needs to be strengthened. The existence of rules and frameworks is not sufficient on its own. Consistent, fair, and transparent enforcement is what gives those frameworks meaning.

Fourth, the scope of future research should be expanded. This study covered customers in Port Moresby and did not examine individual banks in depth. An in-depth study of each commercial bank in PNG would provide a clearer and more actionable picture of governance strengths and weaknesses. Such information could also be used by banks for strategic positioning and marketing purposes, capitalising on the goodwill and confidence that customers currently show.

### **Conclusion**

This study has examined corporate governance and ethics in the PNG banking industry from the perspective of bank customers in Port Moresby. Using a mixed-methods approach and a sample of 89 respondents, the study has shown that while customer trust and satisfaction levels are relatively high, awareness of corporate governance concepts remains low. The reforms of the early 2000s and ongoing BPNG regulatory oversight have contributed to a generally positive customer outlook. However, the challenges of inadequate training, weak enforcement, limited resources, and cultural barriers continue to hinder the full implementation of good governance practices.

The opportunities that come with improved governance – for banks, customers, employees, investors, regulators, and the economy as a whole – are substantial. PNG's banking sector stands at an important juncture. With the right mix of regulatory commitment, institutional investment in training, and public awareness, the sector has the potential to build on its current foundations and achieve higher standards of governance that will serve PNG's development goals in the years to come.

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