Introduction and overview

Christine A. Mallin

Scandals and collapses have continued to occur around the world and each time this has led to a tightening of corporate governance rules, regulations and guidelines. The global financial crisis led to more and more focus on corporate governance and financial institutions. There has been much coverage in the media about various corporate governance-related issues in banks and other financial institutions, for example bankers' bonuses, board composition including board diversity, and other corporate governance issues. The business community is also keenly aware of the importance of corporate governance and the likely outcomes of corporate governance failings especially in financial institutions.

Whilst there are now a number of books on corporate governance, there is a gap in the market for a dedicated book on corporate governance in financial institutions. This volume seeks to fill that lacuna. Its purpose is to highlight aspects of corporate governance in various financial institutions in a range of countries around the world. These countries have different ownership structures and different legal systems, both of which impact on corporate governance development. The volume has four parts, which focus on either an individual financial institution or a group of financial institutions in different regions, and focus attention on some of the most topical areas of corporate governance in financial institutions such as ownership structure including the influence of powerful individuals, powerful groups and state influence, as well as board structure and executive directors' remuneration.

CORPORATE GOVERNANCE IN EUROPE

Part I focuses on corporate governance in various European countries. Within Europe, some countries have a unitary board system, others a dual board system. Ownership structures vary from institutional shareholders (including pension funds, insurance companies and mutual funds) playing a dominant role as in the United Kingdom (UK) to family ownership and family groups playing a more important role as in Italy.

Alessandro Zattoni and Francesca Cuomo provide a fascinating exploration and discussion of Mediobanca in Chapter 1. They highlight how

Mediobanca has been the dominant player in the national investment banking industry in Italy for many years, given its links with the three largest Italian commercial banks, and that it has played a key role in the development of the national economic system by both favouring the stability of control and supporting the growth of large national private industrial groups. They also point out that the history of Mediobanca is intertwined with the personality and the vision of Enrico Cuccia, the President of Mediobanca for more than 35 years.

Chris Mallin (Chapter 2) discusses the UK's Co-operative Bank and its corporate governance failings which could so easily have led to the demise of the whole Co-operative Group. She details how the board structure and composition resulted in an ineffective board lacking in competences and unable to oversee the banks' activities appropriately.

The final chapter in this part, Chapter 3 by Stefan Prigge, provides an interesting and detailed analysis of remuneration-based incentives in Germany's Deutsche Bank. He analyses performance-based incentives for members of the management board (executive directors) and of the supervisory board (non-executive directors) at Deutsche Bank from 2007 – that is, before the outbreak of the financial crisis in 2008 – to 2014. His chapter therefore spans pre and post the global financial crisis triggered by the Lehman Brothers collapse in 2008.

CORPORATE GOVERNANCE IN THE USA AND SOUTH AMERICA

In Part II, Martin Conyon and Lerong He (Chapter 4) investigate chief executive officer (CEO) compensation in United States (US) financial institutions by comparing the level and structure of CEO pay in financial institutions to industrial firms in the Standard & Poor's (S&P) 1500 index in 2013. They find that total CEO compensation is lower in financial institutions compared to non-financial firms, and that CEO salaries are lower in finance companies, but CEO bonuses are not significantly different.

The second chapter in this part is Chapter 5 by Rafael Schiozer and Paulo Terra, who provide an overview of corporate governance in Brazilian banks. They describe the recent history of Brazil's financial system, with an emphasis on the macroeconomic reforms of the mid-1990s which had major implications for the functioning of the banking system. They summarize the most important bank and capital market regulations and describe the ownership structure of Brazilian banks, as well as board composition, and their implications for corporate governance.

CORPORATE GOVERNANCE IN THE ASIA PACIFIC

Japan, China and Australia are the three countries covered in Part III of the book. Christina Ahmadjian (Chapter 6) provides an overview of the main bank system in Japan and discusses how banks once originally fitted into the framework of the Japanese corporate governance system, and how banks were controlled by the government. She then describes how the banks changed with the banking crisis and bank mergers, and details three interesting cases of Japanese banks and how they evolved over time, highlighting corporate governance changes.

In Chapter 7, On Kit Tam, Hsin-Yu Liang and Kuo-Jen Chang examine the role of China's city commercial banks (CCB), discussing their progress made over time in gaining market share and in reducing bad loans. They highlight how, despite the progress made, nonetheless the CCB are hampered in the effectiveness of their corporate governance structures by the impact of state ownership.

In the last chapter in this part, Chapter 8, Gail Pearson provides an intriguing account of malpractice in a financial planning arm of one of Australia's oldest banks, the Commonwealth Bank of Australia. She details how events unfolded and highlights that the scandal raises questions about the way in which large financial institutions ensure compliance with the law and how financial advice is provided, and that it also points to shortcomings in interactions between the corporate regulator and large financial institutions.

CORPORATE GOVERNANCE: ADDITIONAL DIMENSIONS

Part IV covers three countries and areas of interest: Russia, Nigeria and Islamic financial institutions. In Chapter 9, Inessa Love and Botir Okhunjanov evaluate the main determinants of corporate governance in Russian banks and the relationship with bank ownership. Using a governance index, they find that the number of shareholders is positively related to the governance index and that banks with more concentrated ownership have lower rankings on corporate governance.

Chris Ogbechie (Chapter 10) discusses corporate governance in the Nigerian banking sector in the context of Nigeria's corporate governance codes. He also explores the enhancement and strengthening of the whistleblowing mechanism vis-à-vis good corporate governance, as detailed in the whistleblowing guidelines of the Central Bank of Nigeria (CBN) Code 2014.

Hisham Farag investigates the main corporate governance characteristics of Islamic financial institutions (IFIs) in Chapter 11. There has been significant growth in the Islamic finance industry in the last decade, and against this backdrop he highlights the main regulatory bodies governing IFIs in addition to the governance mechanisms in IFIs and the principles of Shari'ah governance. He also analyses the main findings of academic research on the fundamental differences between conventional financial institutions and IFIs, and the main challenges facing the development of the Islamic finance industry.

CONCLUSIONS

This volume contains chapters on important aspects of corporate governance in financial institutions from many different regions around the world. The chapters vary in their coverage, some focusing in detail on one area of corporate governance such as executive remuneration, some covering a number of aspects of corporate governance, whilst others take a broad approach, discussing corporate governance as a whole and the regulatory framework within which it operates. Nonetheless common themes emerge across many of the chapters including the influence of the ownership structure, whether that is dispersed ownership, state ownership, family ownership or blockholders; the necessity for integrity at board level and within a firm for it to be ethical in its dealings with its shareholders and wider stakeholder groups including customers and employees; and the importance of effective regulatory mechanisms to facilitate a robust system of corporate governance and to hold wrongdoers to account.

I would like to thank the authors for writing these chapters. The authors have made a unique contribution to our understanding of corporate governance in financial institutions in a range of countries, reflecting their different knowledge and expertise. Their chapters will enable a deeper comprehension of the role that corporate governance can play to strengthen financial institutions and to help foster confidence in them in different countries around the world.