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 Cu­mo 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.