

CORPORATE GOVERNANCE OF THE LARGEST EUROPEAN BANKS

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Abstract

The objective of this paper is to analyze the current governance structure and its characteristics (composition and diversity of the boards in terms of type of committees, gender or nationality, independence, tenure and age of board members) on eleven largest European banks based on information which is available on the latest corporate governance or annual reports. Content analysis and comparative analysis were used as research methods, with a qualitative approach applied through manual coding of input data collected from public reports or official websites. Our results show how some of the largest European banks respond to the higher corporate governance requirements and expectations.

Keywords

Corporate governance, European banks, Board structure, independence, Board committees, stock market listing, gender diversity.

JEL Classification

G21, G34, L22, O16

Introduction

Over the time, banks are growing in complexity and keep on learning how to deal with it, meaning that increases in board size add value to credit institutions and this may be explained by the situation in which boards are relatively large because they include directors who fulfill specific functions in dealing with organizational complexity. However, larger boards do not necessarily increase value through dealing with complexity, but they may increase value when they include a larger number of directors who also sit on subsidiary boards and that is because they facilitate cooperation and also communication among the various banks within the holding. (Adams and Mehran, 2012).

Due to more government regulations, boards have become more independent and diligent, hence more willing to monitor. This supervision raises the likelihood of CEO dismissal and indirectly raises it if it leads companies to hire CEOs about whom not many things are known. Since these work harder, they might demand an increase in compensations as a consequence

of more independent boards (Adams et al., 2010). A research performed on 21 banks for the period from 2009 to 2017 revealed that gender diversity can promote bank efficiency up to a maximum of two female directors on a board of directors composed by nine members (Adeabah, et al., 2018). Moreover, firms which have more diversity on their boards perform better from the financial point of view (Horak and Cui, 2017). Since the banks have a greater complexity in their operations and internal controls and are also highly regulated, having a greater need for advisory services, large boards are considered beneficial to banks (Coles et al., 2008).

Earlier studies show that board independence enhances its monitoring role and also adds value to the organizations in their fiduciary responsibilities (Jensen and Meckling, 1976) and greater independence on the board leads to a high performing credit institution (Nyamongo and Temesgen, 2013). However, not all results are convergent. For example, Tanna et al. (2011) found that there is no value relevance assigned to the board independence that can influence the bank's efficiency.

The objective of this paper is to analyze the main aspects related to the boards structure and related committees, together with characteristics of board members such as nationality, independence, age and gender, in order to assess the convergence of the governance practices adopted within the largest European banks from different countries to which different cultures are assigned. We focused on a relatively small number of credit institutions over the most recent period of time to ensure that the analyzed information is up to date, in line with current developments.

The results highlight the differences between the largest banks in Europe, including differences in the way they disclose information even if they are from the same geographic region. As such, this study may serve as a baseline against which any new proposed governance change can be made or any additional information may be added to the public reports or any change in the manner of disclosing can also be done in the near future by the credit institutions.

Study on the structure, composition and diversity of the board of directors of the largest European banks

1. Research methodology

Our research aims at identifying the structure, composition and diversity of the board of directors, including independence and tenure of its members, as of now, all of these being a result of stricter oversight practices imposed by regulators. We focus on comparing how some of the largest banks from Europe respond to the higher corporate governance requirements and expectations, taking into account also the geographical region of each credit institution.

First, we selected 44 credit institutions that are components of Stoxx Europe 600 Banks ESG-X Index, including also specific information, such as country of domicile or sector from Thomson Reuters Eikon. *Secondly*, we determined a weight of the assets of each credit institution in total assets, selecting the first 11 European banks as of December 2018, because they represent 63% of the total number in terms of assets and they also cover 7 countries out of 14, considering them representative for our study. In terms of the number, the largest 11 European banks represent 25%. *Finally*, our selection comprises the following banks, in order of the size of total assets (EUR 14,940 billion as of December 2018): HSBC Holdings PLC, BNP Paribas SA, Credit Agricole SA, Banco Santander SA, Deutsche Bank AG, Societe Generale SA, Barclays PLC, Lloyds Banking Group PLC, ING Group NV, UBS Group, UniCredit SpA. Out of these, three banks are from United Kingdom and another three from France, the others being located in Spain, Italy, Switzerland, Germany and Netherlands.

In regards to the research methodology, we used content analysis and comparative analysis as methods, with a qualitative approach through a coding process applied manually to the sources. Our analysis is based on data collected from public disclosures, including corporate

governance reports and registration documents or annual reports either at 31 December 2018 or 31 December 2019, depending on the availability of information and publication date for each bank, us being focused on collecting the most up to date data. If no sufficient information was disclosed in the reports, additional details were looked for on the banks’ official website, these being the most updated ones, even as of February 2020.

2. Results and discussion

2.1. Board size

Based on our analysis, if we eliminate the outliers meaning the banks with the highest number of Board of Directors (“BoD”) members, Credit Agricole SA, respectively the lowest number of BoD members, ING, the average board size based on the most updated data available as of February 2020, is 14.3 members. The board size for each analyzed bank can be observed in (Fig. no.1). In France not all banks follow the same approach, meaning that out of three banks selected, board size for two of them is near to the average, BNP Paribas SA and Societe Generale SA, while one includes the highest number of BoD members. Our analysis shows that, in average, the board size is able to encourage an active dialogue among the members.

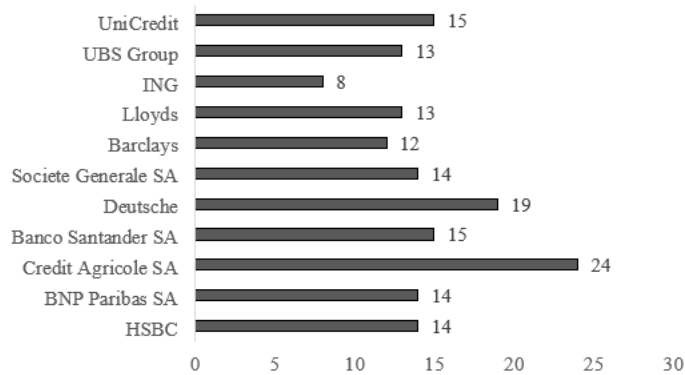


Fig. no. 1 Board size
Source: authors analysis

2.2. Board and chairman tenures and their disclosure

Based on the data available, we have split the board tenure in three intervals, as observed on (Fig.no.2) and that is because for some banks information was disclosed in different manner, meaning that for a few BoD members the date of first appointment or the expiry date for the mandates was not disclosed at all in any public report. However, different intervals were presented in the reports, but not at individual level. Therefore, we combined the data and then split it in three significant intervals by taking into account the board size.

In cases in which the board tenure was not directly presented, we have computed it as the difference between expiry date and first appointment date. Where the expiry date was not disclosed at all, we have considered it as being 2019 and then computed the board tenure.

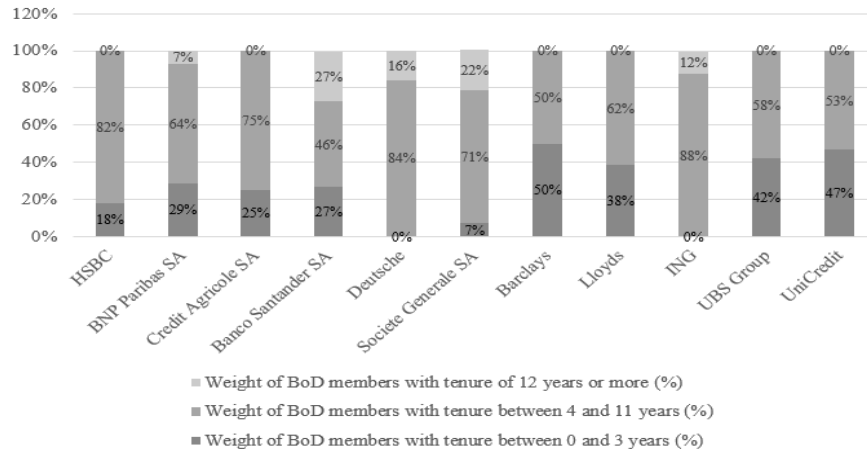


Fig. no. 2 Split of BoD tenure on 3 intervals

Source: authors analysis

The results presented in (Fig. no.3) show a maximum of BoD tenure of 32 years, the highest, in case of Banco Santander SA, this being comparable with the chairman tenure which is 31 years, the longest one. The minimum BoD tenure is met in case of UniCredit, of only 0.8 years with an average of 3.3 years, while the chairman’s tenure is 3 years.

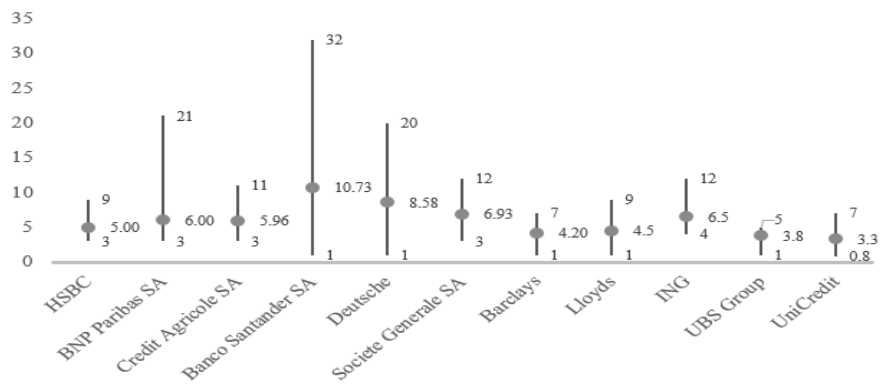


Fig. no. 3 Minimum, maximum and average Board tenure

Source: authors analysis

2.3. The effect of the Group’s location on the nationality of the board members

HSBC and Barclays, located in United Kingdom, were not included in our analysis because no information in regards to nationality of BoD members was disclosed. From United Kingdom, in our sample, we also analysed Lloyds and observed that 76% of the total BoD members are British. In regards to France which represents the Group’s location for BNP Paribas SA, Credit Agricole SA and Societe Generale SA, we have observed that a significant percentage, over 50% of the total BoD members, is represented by French, more exactly 64%, 96% and respectively 58%. For the remaining five banks, our analysis shows the following: Spanish BoD members represent 67% in total members in Banco Santander SA whose Group is located in Spain; German members represent 57% in case of Deutsche located in Germany; Dutch members represent 48% in case of ING located in Netherlands, Swiss members represent 30% in total BoD members in case of UBS Group and Italians represent 65% in

case of UniCredit located in Italy. In case of UBS Group, we have observed the lowest percentage for the local nationality, only 30%, still representative within the Board size but also supporting this credit institution as being the one with eight different nationalities within the Board, this being the highest number compared to all the other credit institutions.

2.4. Level of independence within the board

In terms of independence, we observed the Banks included different classification of the BoD members, not all of them following the same split between independent and non-independent directors. In case of significant number of banks, the weight of independent directors in total BoD members is representative for most of them, meaning is more than 50%, for UBS Group reaching a 100% percentage, followed by UniCredit, ING, Barclays with percentages of 93%, 88%, respectively 83%. Opposite to this, in case of Credit Agricole SA, independent directors represent only 25% in total BoD size, but this is in line with the local policies applied as mentioned in the annual report, if the two directors elected by employees are excluded. Also, in Deutsche, the weight of independent directors is 37%, while the most significant part is the one represented by directors elected by employees, this class being 53% in total. Detailed results are shown in (Fig. no. 4).

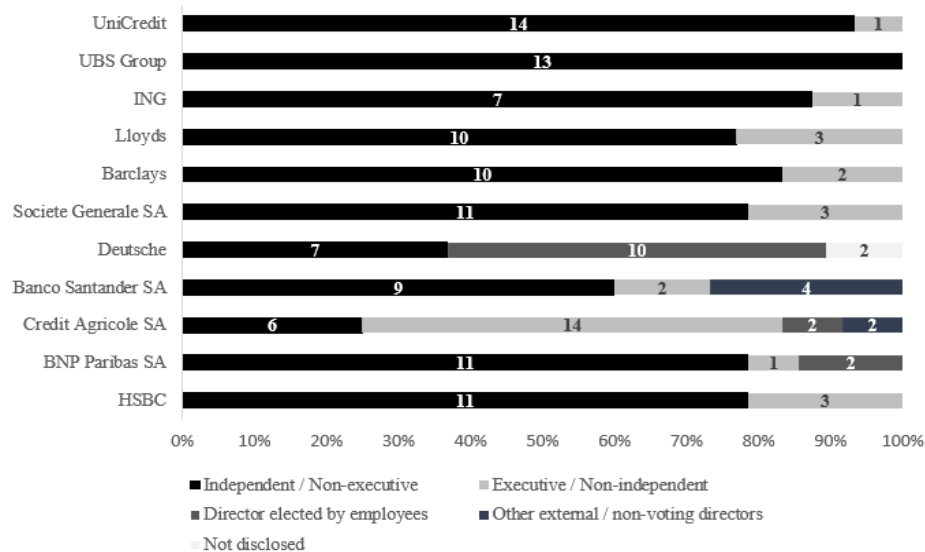


Fig. no. 4 Independence of the BoD

Source: authors analysis

2.5. Balanced board by age

We have analyzed the minimum, maximum and also average age of BoD members, as at 31 December 2019, computing it in cases where the information was collected from 2018 reports. In cases where the age or date of birth was not disclosed in the reports published by the banks, we have searched the information on public CVs available on the internet. We have considered average age as being the computed weighted average age taking into account also the board size. In case of UBS Group, the information in regard to the age was disclosed in a percentage of 92%, while for the remaining one member, the information could not be found. In case of UniCredit, the chairman of BoD died during 2019. The results presented in (Fig.no. 5) highlight the fact that in Spain and Italy, the BoD members reach the maximum age, while in Germany, the minimum age is 35 years.

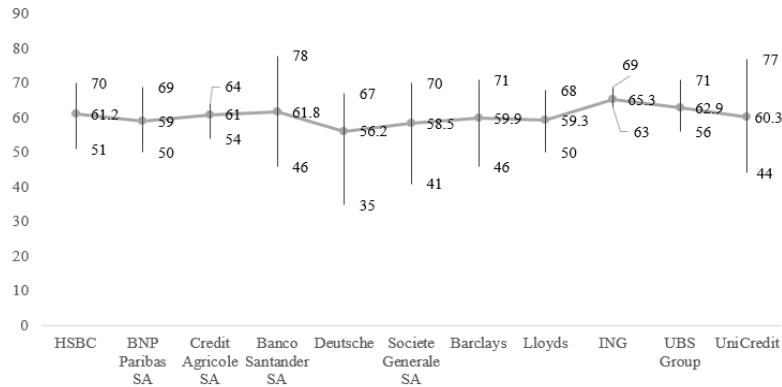


Fig. no. 5 Age analysis of BoD members in 2019

Source: authors analysis

2.6. Gender diversity of the board

In terms of gender distribution within BoD members, we observed that in French banks women represent more than 40%, followed by Spain and Italy with 40%, as it can be observed in (Fig.no.6). At the opposite pole, the lowest percentage represented by women is in UK and Netherlands with 25%. The Spanish credit institution, Banco Santander SA, is the only bank with a BoD chaired by a woman.

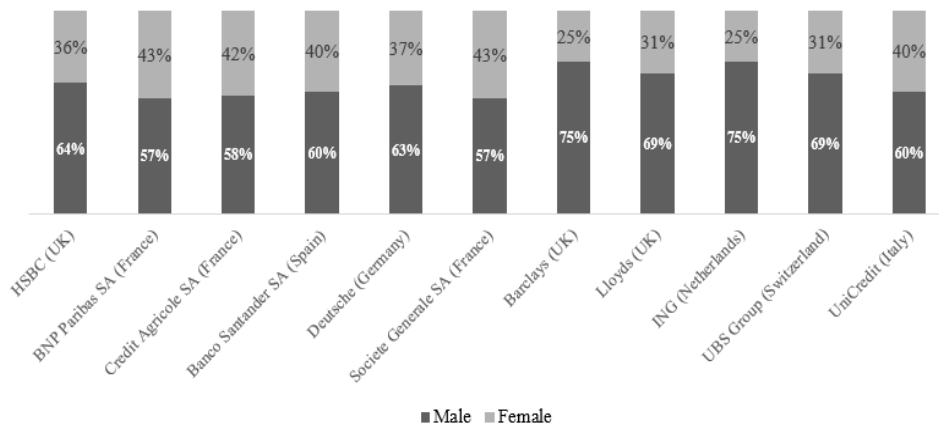


Fig. no. 6 Gender diversity within BoD

Source: authors analysis

2.7. Board committees and their membership overlap

The highest number of committees is in case of Deutsche Bank, this being correlated with the total board size of 19 members. Germany is followed by Spain with seven committees, while Credit Agricole SA has a number of six committees which is seen by us as being low if we compare with the total board size of 24 members, but is the only bank with all board committees chaired by women. Results show homogeneity for remaining credit institutions, these having either four or five committees. Simultaneous, in case of seven banks, the chairman is not only part of BoD, but also member of one to four Committees. An analysis of the simultaneous membership of the BoD members, excluding the chairman, of all Board committees was performed and the results are shown in (Table no. 1).

Table no. 1 BoD members allocation in other committees

Bank	Country of domicile	Weight of BoD members who simultaneous occupy more than one position in any of the Board committees (%)	Weight of BoD members who do not occupy any position in any of the Board committees (%)	Weight of Committees chaired by women in total Board committees (%)
HSBC	UK	71%	21%	20%
BNP Paribas SA	France	36%	7%	25%
Credit Agricole SA	France	42%	29%	100%
Banco Santander SA	Spain	73%	7%	43%
Deutsche	Germany	68%	0%	33%
Societe Generale SA	France	50%	21%	50%
Barclays	UK	42%	17%	0%
Lloyds	UK	69%	23%	20%
ING	Netherlands	63%	0%	0%
UBS Group	Switzerland	77%	8%	20%
UniCredit	Italy	33%	20%	0%

Source: authors analysis

The structure of each BoD is analysed by taking into account what committees compose it, so we considered classifying all committees with the same responsibility into one sole category. The difference is in case of “Other Committee”, where the committees do not have the same roles and accountabilities and they are not recurrent. The results are shown in (Fig.no. 7).

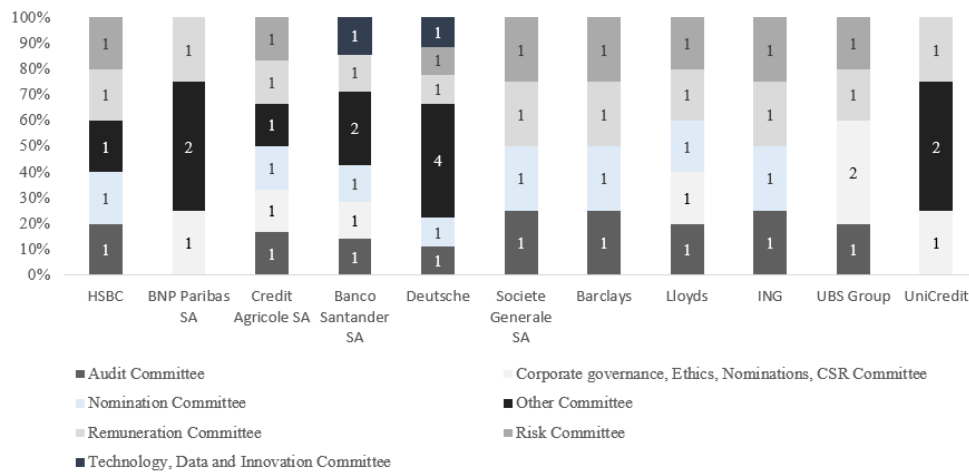


Fig. no. 7 Recurrent committees within the Board

Source: authors analysis

Conclusions

The objective of this paper was to analyze the governance structure and its characteristics on European banks based on information which is available on the latest corporate governance or annual reports.

Our results show a convergence trend in terms of board size and board tenure across Europe, the average size being 14.3 members and the most common interval representing the board

tenure being the one between 4 and 11 years. Also, we found that the Group's location directly impacts the most representative nationality within the Board, these two being congruent.

Independent members are, in most of the cases, representative for BoD, except for banks in which is explicitly mentioned that even if there is a low number of independent directors, local requirements are still met or banks in which the corporate governance model include directors elected by employees. Average age is different from a bank to another, the minimum level being reached by Germany, while for banks from Spain and Italy maximum ages are reached, as expected.

Additionally, by computing the correlation coefficient between the board size and the weight of BoD members who simultaneous occupy more than one position in any of the Board committees, we obtained a value of 0.48, explaining a direct strong relationship between these. Nowadays, a lot of attention is assigned to everything that is related to digitalization and innovation, globally. This happens also in case of credit institutions, as our results show that special technology, data and innovation committees in charge with digitalization were established. Also, innovation is linked to entrepreneurial attitude, the last one being highlighted also by the presence of entrepreneurs within BoD members and their professional skills. There is much scope for further research in this area. Thus, the current study could be extended by resorting to a larger sample and by conducting a multiple financial exercise analysis. The effect of COVID-19 over the performance and governance of credit institutions could be assessed.

Acknowledgement

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