

The Causes of Governance Inefficiency in the Financial Institutions: An Interdisciplinary Approach to the Theory of Corporate Governance

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Abstract : The Basel Committee on Banking Supervision and the OECD found problems with the mechanisms of corporate governance as one of the major causes of destabilization of the financial system and the subprime crisis in the years 2007-2010. In response to these allegations, there were formulated a number of recommendations aimed at improving the quality of supervisory standards in financial institutions. They relate mainly to risk management, remuneration policy, the competence of managers and board members and transparency issues. Nevertheless, a review of the empirical research conducted by the author does not allow for an unambiguous confirmation of the positive impact of the postulated standards on the stability of banking entities. There is, therefore, a presumption of the existence of hidden variables determining the effectiveness of the governance mechanisms. According to the author, this involves concepts arising from behavioral economics and economic anthropology, which allow for an explanation of the effectiveness of corporate governance institutions on the basis of the socio-cultural profile of its members. The proposed corporate governance culture theory indicates that the attributes of the members of the organization and organizational culture can determine the different effectiveness level of the governance processes in similar formal corporate governance structures. The aim of the presentation is, firstly, to draw attention to the vast discrepancies existing within the results of research on the effectiveness of the standards of corporate governance in the banking sector. Secondly, the author proposes an explanation of these differences on the basis of governance theory breaking with common paradigms. The corporate governance culture theory is focused on the identity of the individual and the scope of autonomy offered within his or her institution. The coexistence of these two conditions - the adequate behavioral profile and enough freedom to decide - is a prerequisite for the efficient functioning of the institutions of corporate governance, which can contribute to rehabilitating and strengthening the stability of the financial sector.

Keywords : autonomy, corporate governance, efficiency, governance culture

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