An analysis of the Practice and Standard of Corporate Governance in the UAE Banking Industry

دراسة تحليل ممارسات ومعيار حوكمة الشركات في القطاع المصرفي في الإمارات

By

Hassan Al Moosawi

2012

Dissertation submitted to the British University in Dubai in partial fulfilment of the requirements for the degree of Master of Science in Finance & Banking.

ACKNOWLEDGEMENT

Working on a dissertation is like going on an adventure with no clear idea where things will lead to. My dissertation journey wouldn’t have been complete without the guidance and active support of my dissertation supervisor, Dr. Elango**.** I take this opportunity to thank him for his guidance. His advice and comments were invaluable in completing this work.

The support of my family members, friends, classmates and the staff at British University in Dubai was a constant motivator, to get going and complete this research. A big thanks to all for your support.

Yours Sincerely,

Hassan Al Moosawi

ABSTRACT

The global economic crisis of 2008, partly triggered by the lack of stringent management oversight of large financial institutions has raised regulatory alarms around the world. To address the challenges arising out of this global crisis a number of proposals to improve bank corporate governance have been put forward by international organizations. Against this backdrop this study is set, to critically study and evaluate corporate governance in a UAE bank. As part of the study thorough literature review will be conducted to study the Corporate Governance policies and practices adopted by banks in general and furthermore best practices in Corporate Governance in the banking industry will be reviewed. The data for this study is collected from both primary and secondary sources. Primary data will be collected through a questionnaire survey. The questions included in the survey were designed based on the BASEL Corporate Governance Guidelines as well as the surveys conducted by OECD MENA. Secondary data is collected from various finance journals, online library resources, the internet, books and the internal documents of the bank. The findings of the survey will be tabulated and analysed. A detailed discussion will be presented along with a set of recommendations that if applied will further improve corporate governance in the UAE banking industry.

Keywords: UAE banks, Corporate Governance, BASEL, shareholders rights, disclosure and transparency, board of directors, risk management, best practices, economic crisis, banking failures

الخلاصة

الازمة الاقتصادية العالمية في عام 2008 التي كان سببها عدم وجود الرقابة الادارية الصارمة من المؤسسات المالية اثارت انتباه اجهزة الانذار التنظيمية في جميع انحاء العالم. لمعالجة التحديات الناجمة عن الازمة, قامت هذه الاجهزة التنظيمية بطرح مقترحات لتحسين الية ادارة المصارف. و على هذه الخلفية, تم وضع و تنسيق هذا البحث لتقييم فعالية الية النظام الاداري لبنوك الامارات. كما سيتم استعراض دراسة مستفيضة لتقييم حوكمة الشركات المعتمدة من قبل مصارف الدولة. تم جمع البيانات الاوليه لهذه الدراسة عن طريق استبيانات عدة استنادا الى معايير لجنة "بازل لحوكمة الشركات" و بنود المبادىء التوجيهية الصادرة من الحكومة لضبط ادارة المصارف.
و تم ايضا جمع بيانات عن طريق مصادر ثانوية اخرى اهمها ملحقات مالية, مواد مكتبية, كتب مصرفية و مصادر متنوعم من الانترنت. و اخيرا سيقدم البحث مناقشة تفصيلية مع مجموعة من التوصيات التي من شأنها تحسين ادارة الشركات في القطاع المصرفي.

كلمات البحث: بنوك الإمارات، حوكمة الشركات، بازل ، وحقوق المساهمين، والإفصاح والشفافية، ومجلس الادارة، وإدارة المخاطر، وأفضل الممارسات، والأزمة الاقتصادية، وإفلاس البنوك

CHAPTER 1 INTRODUCTION

BACKGROUND

The 2008 global financial crisis and the huge global impact it had, has raised regulatory alarms around the world (Jonesday, 2010). The huge public bailout of private banking/financial institutions at the taxpayer's expense has naturally generated anger and emotion. To address the challenges arising out of this global scenario a number of proposals to improve bank corporate governance have been put forward by international organizations and parties, such as the Walker Report (2009) in the United Kingdom, the OECD (2010), the European Union (2010) and the Basel Committee (2010), which have all proposed various guidelines to improve corporate governance in the banking sector and, specifically to tighten risk governance (Dermine, 2011). The focus of these reports and guidelines vary widely but all have a common objective to be never again caught unguarded. Therefore regulators across a range of industry sectors are proactively working to implement initiatives to enhance corporate governance practices through stringent standards. One key sector that has received greater attention from regulators is the banking sector as banks play a critical role in the global economy.

The global economic crisis of 2008 and the liquidity crunch have had a huge impact on the banks in the UAE. Banks lost money and smaller banks were forced to consider merging with bigger larger banks. This raises serious questions. Where the UAE banks ill prepared for such a contingency. Did they not have adequate risk management oversight for such an eventuality? Against this backdrop this research is set and aims to study the practice and standard of corporate governance in a UAE Bank.

1.1 RESEARCH PLAN & OBJECTIVES

The severe distress in the UAE banking industry over the last three years has highlighted the need for proactive risk management and corporate governance practices.

The aim of this research is to critically study and evaluate the practice and standard of corporate governance in a UAE Bank.

In order to achieve the aim of this study, the following research objectives are set:

- To explore the literature on corporate governance in the banking sector, especially BASEL principles on Corporate Governance;

- To study the current practice of corporate governance in the case study bank;

- To analyse and present a set of recommendations to further improve the corporate governance practice in the case study bank.

1.2 RATIONALE OF THE STUDY

Corporate Governance has gained significance because of the role it can play in safeguarding the interests of all stakeholders. When adopted it becomes a part and parcel of the institutional infrastructure and consists of laws, regulations, and enforcement mechanisms, which are geared to encourage and ensure sound economic performance. In the absence of clear rules and regulations governing the operations of organizations there is a scope of unethical practices.

Corporate governance has caught the attention of various Governmental institutions, regulatory authorities as well the industry as a byword for improving risk management and as well as for improving corporate performance.

This study is being undertaken as there is a growing debate about the need for improving corporate governance globally as well as locally. Realising the importance of corporate governance the Hawkamah Institute for corporate governance was setup in Dubai, as a nodal agency to create greater awareness and encourage application of corporate governance principles in UAE business community. Therefore this researcher felt that this subject will make a good study and will be of greater interest both for practitioners, policy makers as well as for academics working in this field. It is found that better Corporate Governance is positively linked with better organisational performance and market valuation of organisations adopting it. Good corporate governance can stimulate better organisational performance and can generate higher returns on investment and help improve the profitability of organisations, and acts as a driver of economic growth. Corporate governance mechanism ensures appropriate monitoring of executive decisions and makes them accountable for their actions. Through good corporate governance shareholder interests are protected and this in turn encourages both domestic and foreign investors to invest more as their interests are safeguared.

This research study aims to explore the corporate governance practice in a UAE bank and it addresses shareholders rights, disclosure and transparency, and also aims to analyse the role of board of directors. It is hoped that the findings of the study will throw greater light on the standard of Corporate Governance in UAE banks and will further stoke the fires of enquiry and debate on the same. This study will be useful for the banking industry as well as to future researchers in this domain. Based on the study, recommendations will be made, which if applied will benefit the banks in further improving their compliance with international best practices in corporate governance.

1.3 LIMITATIONS OF THE STUDY

The scope of this research study is the UAE banking and financial sector and specifically the corporate governance practices of a local bank are studied and as such the findings and conclusions of this study may not be represent the views of the whole UAE banking industry. This study is based on a limited sample of just 25 respondents and the views represented by them may not present a complete picture of the actual corporate governance practices at the case study bank. Another limitation is that due to time constraints a larger more inclusive study was not possible, that could have presented a clear picture of the corporate governance practice in the UAE banking sector.

1.4 DISSERTATION OUTLINE

To achieve the aim of this study and the research objectives the dissertation set this study consists of the following chapters:

Chapter 1 Introduction: Provides a general background of the problem being researched, its importance as a research subject. The aims and objectives of this study are presented, along with an outline of all the chapters.

Chapter 2 Literature Review: It critically reviews the existing literature and the relevant articles on corporate governance by commenting on their relevance, value, advantages and shortcomings.

Chapter 3 Research Methodology: Provides a detailed description of the data required for this study and the appropriate methods used to obtain the required data. Furthermore data sources and limitations of the study are discussed.

Chapter 4 Results: The primary data collected will be analysed and compared with the baseline set and appropriate conclusions will be drawn.

Chapter 5 Conclusion: It presents the conclusions drawn from the study.

Chapter 6 Bibliography:

CHAPTER 2.0 LITERATURE REVIEW

2.1 Introduction

The global economic crisis and the huge impact it had on the global economy has reinforced the need for better corporate governance. The vast amounts of public money spent to bail out banks and the huge losses incurred by shareholders have prompted a chorus of “Never Again”. Over the last three decades a number of major financial crises were observed all over the world. This indicates that banking crises is a recurring phenomenon, which can be controlled through better corporate governance. There is a need for reviewing the existing corporate governance rules and regulations and ensuring that all stakeholders strictly comply with the rules and regulations set (Dermine, 2011).

To address the challenges arising out of this global scenario a number of proposals to improve bank corporate governance have been put forward by international organizations, starting with the Walker Report (2009) in the United Kingdom, the OECD (2010), the European Union (2010) and the Basel Committee (2010), which all have proposed various guidelines to improve corporate governance in the banking sector and, specifically to tighten risk governance (Dermine, 2011).

2.2 CORPORATE GOVERNANCE

According to the OECD “Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and all other stakeholders” (OECD, 2004). It is a system based on which companies are directed and managed (Olayiwola, 2010). Corporate governance provides a framework using which organisations can set their corporate objectives and also set the approach to attain those objectives and furthermore it provides a mechanism to monitor performance to ensure the objectives set are achieved. This framework should also provide incentives for the board and the management to pursue objectives that are in the best interests of the company and its shareholders, and should facilitate effective monitoring.

Professors Schleifer and Vishny (1997) offer a more succinct definition: “Corporate governance deals with ways in which suppliers of finance to corporations assure themselves of getting a return on their investment”(Dermine, 2011). A similar definition is offered by Oman (2001) who observed that “corporate governance is a broader approach and involves methods by which suppliers of finance, control managers in order to ensure that their capital cannot be expropriated and that they earn a return on their investment”.

On the other hand Arun and Turner (2002) taking a narrow approach to corporate governance, argue that it is a mechanism through which shareholders are assured that managers will act in their interests.

There are two main perspectives in international Corporate governance. One group argues in favor of taking a shareholder based view and the other group argues in favor of a stakeholder-based approach (See Figure 1 below). The Walker Report (2009, p.23), takes a shareholder view and states that “The role of corporate governance is to protect and advance the interest of shareholders through setting the strategic direction of a company and appointing and monitoring capable management to achieve this”(Dermine, 2011). But it does not imply that other stakeholders are to be ignored. In contrast corporate governance proposals drawn up by the Basel Committee (2010) and the European Union (2010) favor the stakeholder view. Taking the stakeholder view the Basel Committee’s *Principles for Enhancing Corporate Governance* (2010) state that “In discharging these responsibilities, the board should take into account the legitimate interests of shareholders, depositors, and other relevant stakeholders.”

Corporate governance from a narrow view is concerned with the structures within a corporate enterprise and it encompasses roles and responsibilities, balance of power among shareholders, directors and executives (Ryan, 2010). On the other hand taking a broad perspective corporate governance is regarded as being the heart of both a market economy and a democratic society (Oyejide and Soyibo, 2001). At the heart of Corporate Governance are issues of institutional, legal and capacity building as well as the rule of law.

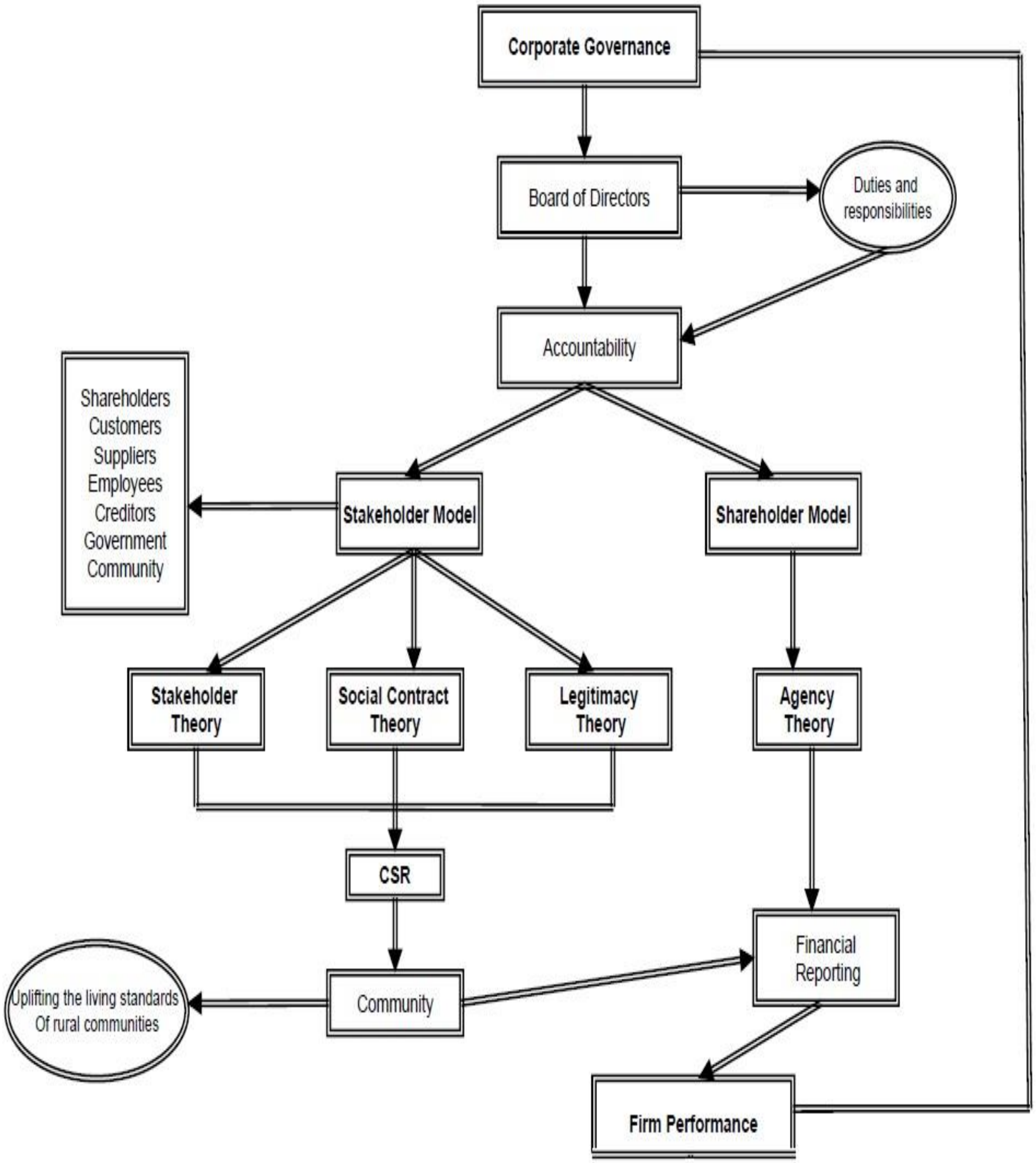


Figure 1: Shareholder Vs Stakeholder Model, Source: Razaee (2009).

In the case of banking, due to its unique contractual form, it is imperative that a broader view of corporate governance is taken, which addresses concerns of both the shareholders as well as the customers (Macey and O'Hara, 2001). Adding support for taking a broader view Arun and Turner (2002) argue that the banking is a special activity and it requires a broader view of corporate governance along with active central bank and the Government's intervention in order to restrain the behavior of management of the bank, through compliance requirements. They further argue that it necessary to regulate the activities of the banking sector to protect depositors as well as the overall financial system (Arun and Turner, 2002).

The recent financial crisis and the failure of the boards of major banks and financial institutions in the USA and Europe have highlighted the need for the practice of good corporate governance. Since banking and the financial sector plays a significant role in the economy, good corporate governance is of greater importance especially to retain the public confidence in the banking system as it mobilizes funds and allocates credit to the needy sectors and drives overall economic activity (Olayiwola, 2010).

2.2.1 Need for Corporate Governance

The issue of corporate governance arises in organisations whenever there is an agency problem or conflict of interest involving members of the organisation (Hart,1995). In the absence of an agency problem all individuals will do their jobs without any concern for the outcomes of the organisation. They can be paid for their efforts and no additional incentive is needed to motivate them. But in today's competitive global marketplace, organisations attract and hire highly skilled professionals who play a critical role in achieving the strategic goals of the organisation. Therefore organisations to attract and retain such talent offer a range of incentives, to motivate them to perform better and take the organisation forward.

Another reason for the need for corporate governance with its checks and balance is that contracts between the organisation and its members are incomplete. Too often the roles and obligations of all parties are not clear and they may have to take decisions in ambiguous situations. But in an optimal comprehensive contracting world the need for corporate governance will be less.

Yet another reason why corporate governance becomes important is the separation of ownership and control. In publicly held companies too often there are a large number of small owners. They hold control rights through voting but are scattered and are too small to play an effective role in controlling on a day-to-day basis. Due to this reason they delegate their power to a board of directors, which delegates day-to-day control to the management. The dispersed and small shareholders cannot monitor the management too on a daily basis and expect someone would do it anyway, and with this mindset no real control on management is exercised by anyone from among the real owners.

In the above scenario there is the real danger of the board of directors and the management pursuing their own goals to the detriment of the real owners. They may overpay themselves or may make investment decisions that may not be in the best interests of the owners. In view of the boards and management's personal agendas there is an obvious need for real checks and balances on managerial behavior.

The board of directors and management have been too often criticised for the wrong decisions they have made with regards to investments, executive pay and employee layoffs etc. The corporate board culture discourages conflict and hence makes the board ineffective in protecting the rights of the shareholders (Jensen,1993). In typical boards the members are not equity owners and the CEO and the board chairman are frequently the same person. The CEO determines the agenda and the information given to the board and the board members are often hired and can be fired by the CEO and this makes the board of directors ineffective as they enjoy their status due to the CEO and this results in a conflict of interest. Crystal (1991) argues that since board members are appointed by the CEO, they may be unwilling to take an adversarial stand to that of the CEO, especially concerning the CEOs compensation. Furthermore, CEO compensation contracts are decided by boards based on the recommendations of the compensation consultants hired by the CEO, and this again leads to a conflict of interest.

In the last three decades, the reform of corporate governance has attracted interest in Europe, Latin America, and Asia. As many as 11 major financial crises occurred around the world (See Table 1 below) in the last three decades. This has further intensified the discussion on corporate governance. The key objective of corporate governance reform is to protect the rights of outside investors, including both shareholders and creditors.

Date	Event
1982	Global Emerging Market LATAM Crisis
1982	US S&L Crisis
1987	Stock Market Crash
1991	Global Real Estate Crises
1992	Japan Bank Losses, Scandinavia
1997	Asia Financial Crisis
1998	Russia
2000	End of Tech & Telecom Bubble
2001	Turkey
2002	Argentina Default
2007	Subprime Crisis

Table 1: Major financial crises around the world, Source: Dermine (2011).

In several countries due to weak governance mechanisms expropriation of minority shareholders and creditors by major shareholders with controlling power is extensive, therefore regulations to protect investors is crucial. The risks faced by outside investors are real and it may be possible that small investors may never realise any returns on their investments because the controlling shareholders or managers expropriate them. Therefore corporate governance mechanisms through which outside investors protect themselves against expropriation by the insiders is critical for the development and growth of financial markets and to facilitate investments, reduce concentrated ownership, to improve the efficiency of investments , and to facilitate private restructuring of financial claims in a crisis (Porta et al, 2000).

2.3 CORPORATE GOVERNANCE IN BANKS

Banks play a critical role in any economy. Through providing finance to businesses, banks help develop the local economies where they operate. Furthermore they also provide basic financial services to the population at large. In difficult market conditions some banks are expected to make credit and liquidity available to support market and financial stability. Due to the critical role played by banks in national economies it is universally a regulated industry and protected by Government safety nets. Due to the overarching nature of the banking industry it is of crucial importance that banks have strong corporate governance (BCBS, 1999).

Public trust and confidence in the banking system is crucial for the smooth functioning of the financial system. This can be ensured by deploying effective governance practices. In contrast “poor corporate governance can result in banking failure, which can in turn pose significant public costs and consequences due to their potential impact on any applicable deposit insurance system and the possibility of broader macroeconomic implications, such as contagion risk and impact on payment systems”(BCBS, 2010). The outcome of poor corporate governance has been illustrated in the financial crisis that began in mid-2007 and the recent economic crisis in 2008. Poor corporate governance not only results in significant public costs but also reduces market confidence in the ability of a bank to properly manage its assets and liabilities, including deposits, which can result in a bank run or liquidity crisis. Banks have responsibility not only towards their shareholders, but also have a responsibility to their depositors and to other recognised stakeholders. The responsibility the banks have towards their shareholders, depositors and other relevant stakeholders is determined by the legal system in the countries they operate.

From a banking perspective, corporate governance is basically how the overall business activities of a bank are governed by its board and senior management. It involves the following:

Set Banking Strategy & Objectives: The board and the management set the strategic direction of the bank and its objectives. Set The Bank’s Risk Tolerance / Appetite: The quantum of risk to be taken by banks is their operational activities plays a very critical role. Too high risk appetite may put them into bankruptcy in difficult market conditions or too low risk appetite may result in under utilization of assets. Therefore an optimum risk appetite appropriate for the size and structure of the banks should be set by the board and the management.

Operate the bank’s business on a day-to-day basis: To achieve the strategic objectives of the banks, the management should devise day-to-day operational plans, which form the basis for staff in the bank to carry out their daily operations. This also includes protecting the interests of the depositors and other stakeholders and to meet shareholder obligations; and finally align business activities and approaches to safely operate the business with integrity and in compliance with applicable laws and regulations.

2.4 BASEL CORPORATE GOVERNANCE PRINCIPLES

The Basel Committee on Banking Supervision issued corporate governance principles in 2006, which were based on the principles of corporate governance issued by the by the Organisation for Economic Co-operation and Development (OECD) in 2004. The OECD principles of corporate governance are widely accepted and assist governments to set, evaluate and improve their corporate governance frameworks. Furthermore the OECD principles provide guidance for regulators as well as financial markets (OECD, 2004).

As a nodal agency for global banking the Bank of international settlement (BIS) banking committee’s guidelines serve as a reference point for all member banks as well as for its own corporate governance efforts. The purpose of the OECD corporate governance principles as well as the corporate governance guidelines issued by the Basel Committee on Banking Supervision is to assist in defining and setting the objectives and strategy of the bank, and also to define the means of attaining those objectives and to set performance monitoring mechanism.

Good corporate governance should offer appropriate incentives to the board and the management to set and achieve business objectives that are in the best interest of its shareholders along with effective monitoring. Effective governance with transparency provides confidence to all stakeholders and improves the confidence of markets (OECD, 2005).

2.4.1 Sound Corporate governance principles

Based on the supervisory experiences and after reviewing the corporate governance problems faced by banks the following guidelines were drawn. The propose of these corporate governance principles is to reinforce basic principles that can help minimise problems and to identify practices that can be used to implement the principles. Together these represent important elements of an effective corporate governance process.

2.4.1.1 BOARD PRACTICES

Principle 1

The board has overall responsibility for the bank, including setting the bank's objectives and strategy based on the long-term financial interests of the banks shareholders. It also should oversee implementation of the strategy and achievement of strategic objectives. Furthermore it defines the risk appetite and sets the risk strategy, internal controls and compliance, corporate governance and corporate values. All the decisions made by the board should be in the best interests of the shareholders, depositors and other relevant stakeholders. To improve governance the board should take the lead and establish corporate values, professional standards and acceptable risk behavior that promotes integrity for itself, senior management and other employees. Furthermore it should devise a mechanism to identify behavior that is risky or improper, such as financial misreporting, money laundering, fraud, bribery or corruption(BCBS, 2009).

The board should select and when necessary replace senior management and also have an appropriate succession plan. The Board should supervise and monitor the working of the senior management for better control.

Especially they need to oversee whether the decisions of the senior management are consistent with the business and risk management strategy approved by the board. Furthermore the board should periodically meet with the senior management and it should set performance standards for them in line with the corporate objectives, strategy and financial stability of the bank, and monitor the performance of the senior management against the performance standards set for them; and finally the board should design the bank's organisational structure in way that it facilitates effective communication, decision making and good governance. The board should regularly review whether the bank is in compliance with the set risk management and internal control policies especially with regards to internal audit and compliance, to determine areas for improvement, as well as to identify and address significant risks and issues.

Board Qualifications

Principle 2

The board should be manned by adequate number of qualified individuals, who are well trained and understand their role in corporate governance. The board should be widely representative so that wider perspective can be incorporated n its decisions. In appointing a board members, and especially members who are former executives of the company, potential conflict of interest issues need to be carefully reviewed by the board. The board should collectively have the experience and skills to exercise sound and objective judgment about the financial activities the bank intends to pursue in order to achieve its objectives.

Through induction or through ongoing education the board should have expertise in strategic planning and banking operations such lending, payment systems, corporate finance, international accounting standards, corporate governance and risk management, internal controls, banking rules and regulation, auditing and compliance(BCBS, 2009).

Board's own practices and structure

Principle 3

In improving governance the board should define appropriate governance practices and comply with them in their own work and should periodically review them for continuous improvement. It should define its rights and responsibilities as this sends a positive signal to all internal and external stakeholders about the kind of enterprise the bank aims to be.

The board should set appropriate frequency of meetings to review all matters of importance through critical discussion and carry out regular assessments of both the board as a whole and of individual board members. Assessment can be carried out by external facilitators for greater objectivity and appropriate action taken in case of serious lapse of objective behavior by a board member.

The chairman of the board provides leadership to the board and is responsible for its effective functioning. For ensure better checks and balances, the chairman of the board should be a non-executive, except where otherwise required by law. In case if the chairman of the board and chief executive officer (CEO) are the same person, it is important for the bank to have measures in place to minimise conflict of interests.

To assist them in better governance boards establish specialized committees to increase efficiency and allow in-depth discussion on important matters related to the bank. For each major aspect of the bank committees should be formed, manned by appropriate members for Audit, Risk, Compensation, Board Nominations & Human resources, Governance and Ethics/compliance (BCBS, 2009).

Group Structures

Principle 4

If the bank is part of a group, the responsibility for effective corporate governance lies with the board of the parent company. The board of the parent company should exercise adequate oversight over subsidiaries through setting and periodically reviewing corporate governance policies, while respecting the independent legal and governance responsibilities that might apply to regulated subsidiary boards. The board of the subsidiary should adhere the corporate governance principles of its parent company (BCBS, 2009).

2.4.1.2 SENIOR MANAGEMENT

Principle 5

The senior management, directed by the board, should ensure that the business strategy, risk tolerance/appetite and policies approved by the board are fully complied with in all the bank's activities.

The senior management of the bank is responsible and accountable for the day-to-day management of the bank. The senior management team should be competent and have the necessary experience in their area of responsibility. It contributes substantially to a bank's sound corporate governance through appropriate personal conduct and provides adequate oversight of the teams they manage and ensure compliance with set corporate governance and risk management policies and procedures (BCBS, 1998).

2.4.1.3 Risk management and internal controls

Principle 6

All banks should have an effective internal control system and a risk management department, which should be headed by a Chief Risk Officer or someone equivalent with sufficient resources, authority, independence and access to the board to carry out his duties.

The responsibilities of the risk management department are to identify, measure, monitor, control or mitigate, and report on risk exposures of the bank. This should include all types of risks facing the bank.

Risk management involves identifying key risks and assessing these risks and measuring the bank's exposures to them. Based on the risk exposure the corresponding capital needs are assessed. The risk officer should monitor and assess risk taking, risk mitigation and whether risk decisions are in within limits of risk tolerance/appetite set by the banks board (BCBS, 2009).

Besides proactive risk management effective internal controls should be designed to ensure process integrity, effectiveness and compliance with both legal and regulatory policies and procedures, as well as with Internal controls to ensure reasonable checks on managerial and employee discretion. The "four eyes principle" is an effective internal control which suggests that every key management decision should be made by more than one person.

Principle 7

Risk management should be done on an enterprise wide scale and the sophistication of the bank's risk management and internal control infrastructures should be regularly adapted to market changes and the bank's risk profile and its growth.

In managing risk both quantitative and qualitative elements should be included in risk analysis. The risk management should include wide range of scenarios and not just based on optimistic assumptions. The board as well as the senior management should review and approve the scenarios (BCBS, 2009).

Principle 8

To effectively manage risks robust communication throughout the organization is a must. Through better internal communication the bank's risk policies can be communicated to all and risk issues can be better identified and not just through internal audits. Through timely, accurate information the board and the senior management can make better decisions that mitigate risks. Risk reporting systems should be comprehensive, continuously evolving, and accurate, and should draw on a range of underlying assumptions (BCBS, 2009).

Principle 9

The work done by the internal and external auditors and internal control functions should be effectively used by the board. This is vital for improving corporate governance. The management can enhance the effectiveness of the internal audit function by promoting the independence of the internal auditor and by encouraging them to adhere to national and international professional standards.

The board and senior management are responsible for preparing and presenting accurate financial statements, prepared in adherence with applicable accounting standards. The non-executive board members should have access to internal, external auditors and internal compliance functions. This will enable them to better discharge their governance duties. Senior management should practice and promote strong internal controls and should not bypass them which will undermine their effectiveness (BCBS, 2009).

2.4.1.4 Compensation

To improve risk management, compensation systems play a key role. The FSB Principles and FSB standards issued by the FSB guide in the improving compensation systems that improve risk management. All banks are required to comply.

Principle 10

“The board should actively oversee the compensation system’s design and operation, and should monitor and review the compensation system to ensure that it operates as intended” (BCBS, 2009).

Independent and non-executive members of the board should be involved in the design and operation of the compensation system and the board should ensure that the compensation system functions as planned. For critical positions such as the Chief Risk Officer and others key positions the compensation should be linked to their achieving their objectives and not bottom line results.

Principle 11

“An employee’s compensation should be effectively aligned with prudent risk taking: compensation should be adjusted for all types of risk; compensation outcomes should be symmetric with risk outcomes; compensation payout schedules should be sensitive to the time horizon of risks; and the mix of cash, equity and other forms of compensation should be consistent with risk alignment” (BCBS, 2009).

2.4.1.5 Complex or opaque corporate structures

Principle 12

The board and senior management should have a sound knowledge of the legal and operational structure of the bank and the risks that arise out of its structure.

Principle 13

The board and the senior management should understand the various legal and operational structures, their purpose in all the jurisdictions the bank operates especially in jurisdictions where transparency is impeded or international banking standards are not met. This is very important as such special legal and operational structures pose unique risks. In such cases they should have mechanisms to mitigate the risks arising from such operations (BCBS, 2001).

2.4.1.6 Disclosure and transparency

Principle 14

"The governance of the bank should be adequately transparent to its shareholders, depositors, other relevant stakeholders and market participants" (BCBS, 2009). To improve governance all the stakeholders should have access to effectively monitor and ensure transparency and in case of insufficient transparency the board and senior management should be held accountable..

The information disclosed should be clear, accurate and timely, and should be presented in such a way that shareholders, depositors, other relevant stakeholders and market participants can understand it easily (BCBS, 2009).

2.5 SUMMARY

To address the challenges posed by recurring financial crises in the global banking sector various proposals to improve bank corporate governance have been put forward by international organizations, such as the OECD (2010) and the Basel Committee (2010). Various definitions of corporate governance are offered by different authors but the central theme in all the definitions is that Corporate Governance is a mechanism to safeguard the best interests of the shareholders. Corporate governance is especially important in the banking sector as the general public trusts a financial institution and deposits its savings, therefore it is very important for the banking sector to retain that trust through complying with good corporate governance practices that protect and safeguard the interests of all the stakeholders.

The need for corporate governance arises because of the agency problem. In most organizations the owners are not the managers and this creates a certain conflict of interests as each party tries to make decisions in its best interest. The owners want to maximize their returns and in-turn the senior management wants to make decisions in its favor with regards to executive compensation or make investment decisions that are not in the best interests of its owners.

In the context of the banking sector corporate governance involves setting the banking strategy & objectives and the Bank's Risk Tolerance / Appetite. Furthermore it involves managing the bank's day-to-day business and achieving the strategic objectives of the banks. Finally the main purpose of corporate governance function is to meet the obligations towards the shareholders and other stakeholders and to protect the interests of depositors; and align corporate activities and approaches to safely operate with integrity and in compliance with applicable laws and regulations.

Banks in general are governed by the corporate governance rules and regulations issued by the Basel Committee on Banking Supervision (BCBS, 2006). According to the Basel Committee on banking supervision the purpose of good corporate governance is to offer appropriate incentives to the board and the management to set and achieve business objectives that are in the best interest of its shareholders along with effective monitoring.

To guide banks in improving corporate governance the Basel Committee has issued a set of sound corporate governance principles. These principles are put forward as a proactive control mechanism to minimise any unexpected problems and to identify practices that can be used to implement the principles. Together these represent important elements of an effective corporate governance process.

The principles are related to the functioning of the board of directors and their roles and responsibilities and its formation to avoid any conflicts of interest. Besides the next set of principles are related to the functioning of the senior management followed by principles on risk management and internal controls. Furthermore as the debate on executive compensation has grown louder especially in the West, a set of principles on executive compensation are issued by the Basel committee, which link executive compensation to prudent risk taking and achievement of performance goals and finally a set of principles are issued to improve transparency and disclosure so that stakeholders can effectively monitor the functioning of the business.

CHAPTER 3 RESEARCH METHODOLOGY

3.1 INTRODUCTION

Research is an organised process of analysing and interpreting information to find answers to questions (Henrichsen et al, 1997). To be considered as research the process must be as far as possible be systematic, rigorous, controlled, reliable, valid, empirical and critical (Kumar 2005).

This research study is an effort to critically review the literature and study the practice and standard of corporate governance in a UAE Bank.
Corporate governance has gained greater prominence as a number of cases of conflict of interest and very high executive compensation are reported even though the said Organisations are making losses. Against this backdrop this research study is set to critically study and analyse the practice and standard of corporate governance in a UAE Bank.

This chapter discusses the literature on research design, methods, data sources and the research instruments used and their appropriateness for this study, and discusses the data collection procedures and data analysis and also presents the limitations of this study.

3.2 RESEARCH DESIGN

Social research needs a conceptual design or a structure within which research would be conducted (Dawson, 2002). Proper research design helps in the collection of appropriate and relevant information with limited usage of resources (time, effort and money), and can provide answers to the main research question. Research design therefore should specify the type of evidence needed to answer the research question. In other words, when designing research we need think what type of evidence is required to answer the research question convincingly (Gimblett, 2006).

In designing the research appropriate for a particular research problem, the following aspects need to be considered;

1. Research Objectives
2. Data Collection methods that will be adopted
3. Data Sources
4. Data Collection Instruments
5. Data Analysis - quantitative and qualitative

3.3 RESEARCH OBJECTIVES

The aim of this research is to critically study and evaluate the practice and standard of corporate governance in a UAE Bank.

In order to achieve the aim of this study, the following research objectives are set:

- To explore the literature on corporate governance in the banking sector, especially BASEL principles on Corporate Governance;

- To study the current practice of corporate governance in the case study bank;

- To analyse and present a set of recommendations to further improve the corporate governance practice in the case study bank.

3.4 RESEARCH METHODS

A review of literature on research approaches reveals that there are two main methods: quantitative and qualitative approaches. Descriptive qualitative research is a soft approach whereas quantitative research is an objective, hard data based approach which aims at generalisation (Reichardt and Cook, 1979).

The early use of qualitative research methods was seen in the social sciences, where researchers used it to study social and cultural phenomena. Qualitative methods include case study research, action research and ethnography and qualitative data sources include documents and texts, observation and fieldwork, interviews and questionnaires, and researcher’s impressions and reactions. On the other hand quantitative methods involve surveys, questionnaires, study of available data, statistical methods and data analysis (Martin, 2002).

Both the research methods are interdependent as the hard factual data gathered through quantitative research need descriptive discourse so that readers understand the research data. Mintzberg (1979) states “we uncover all kinds of relationships in our hard data, but it is only through the use of this soft qualitative data that we are able to explain them”.

For this research a combination of both quantitative and qualitative methods are used, as quantitative data gathered is tabulated and then interpreted qualitatively.

3.5 DATA COLLECTION

For this research both primary and secondary data sources are used.

3.5.1 Secondary Data

Secondary data is published data available from a number of sources, which can support and add value to the research being conducted. Secondary data sources include books, academic journals, websites, company internal policies and procedures, reports, which provide valuable data, which can serve as a good theoretical foundation for the research.

Secondary data can help in quickly locating the needed data to support the research being undertaken and is less expensive as compared to collecting first hand primary data. The drawback is that secondary data relevant to the research being conducted may not be available or may be available in limited quantities and may lack accuracy and may be obsolete as it may have been published in the past.

3.5.2 Primary Data

On the other hand primary data is gathered specifically for the purpose of the research being conducted. Primary data for this research was collected through a Questionnaire. The questionnaire was administered to the staff members of the case study bank to evaluate the level of compliance with internationally accepted standards. This questionnaire for the survey was designed based on the Basel Corporate Governance Guidelines with the express aim to study and analyse the level of compliance with the internationally accepted corporate governance principles.

3.5.2.1 Surveys – The Questionnaire

Questionnaire is a flexible and one of the most convenient data collection instrument and consists of a set of questions presented to a respondent. Questionnaires can be Closed–ended; Open-ended and a Combination of both. The respondents read and interpret the questions and write down the answers or tick the right responses.

The survey instruments chosen for collecting primary data for this study is the Questionnaire, which will administered to the staff working in the case study UAE bank.

The questionnaire for this research was designed after reviewing the questionnaires designed by other researchers working in this research domain.

Greater attention was taken to include pertinent questions for this research. Besides a combination of open ended and close ended questions the respondents also have the option to provide additional information they wish to provide. The data collected was then analysed and findings presented.

The questionnaire was administered to key staff members of the case study bank. The questionnaire was administered to 20 staff members of which 18 fully filled in questionnaires were collected back.

3.6 SUMMARY

This chapter reviewed the research methodology in detail. A brief discussion on research design and research approaches was presented, followed by data collection process. Furthermore the research instruments were discussed. The next chapter will discuss the findings of the proposed study.

CHAPTER 4.0 RESULTS

4.1 DATA ANALYSIS

As part of this research a survey was conducted to study the current practice of corporate governance in the case study bank and to what extent the bank is following the Basel II corporate governance guidelines. The questionnaire designed for this survey is based on the corporate governance surveys conducted by Olayiwola (2010), OECD-MENA, and Basel committee Corporate Governance Assessment. The questionnaire designed as part of the survey was sent to 30 participants in the case study bank. A total of 25 fully completed questionnaires were received. For the sake of convenience and for clarity the findings of the survey are grouped and presented. A summary of the findings is presented at the end of this chapter.

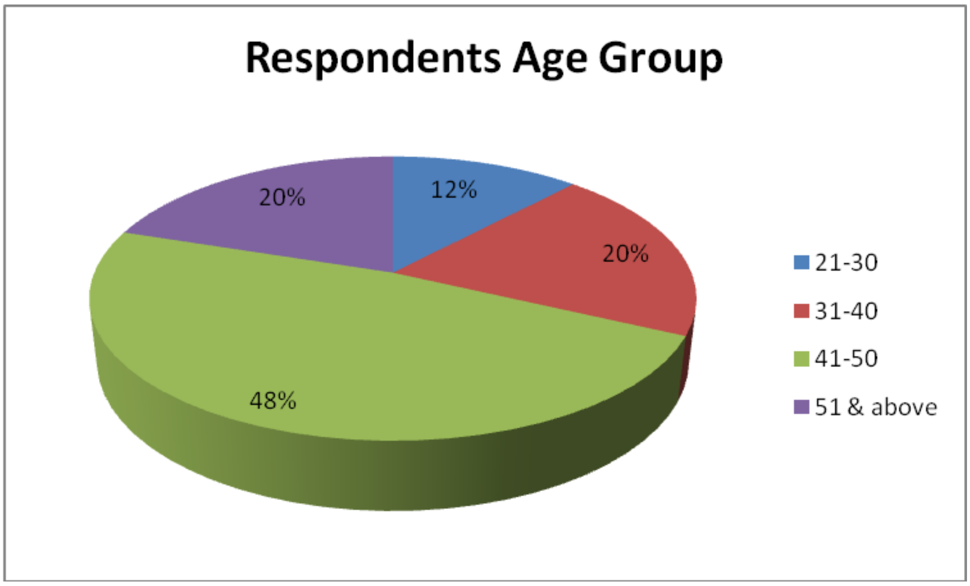
Section I

Age

The survey respondents were in four broad age groups. Of the 25 respondents 48% were in the 41-50 age group, which indicates that they have substantial banking experience. The frequencies and percentages are provided in Table 1 below.

Age	Frequency	Percent (Approx)	Mean (Avg)
21-30	03	12	
31-40	05	20	
41-50	12	48	
51 & above	05	20	
Total	**25**	**100**	**6.25**

Table 1 Respondents Age group

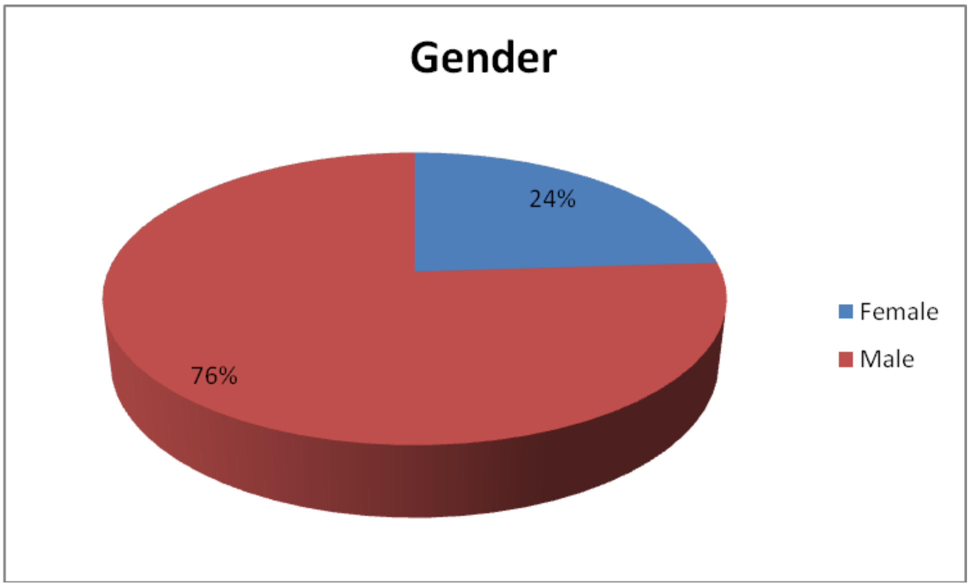


Gender

Among the 25 respondents, 65% were males and 35% were females The Gender frequencies and percentages are provided in Table 2 below.

Gender	Frequency	Percent	Mean Avg.
Female	06	22	
Male	19	78	
Total	**25**	**100**	**12.5**

Table 2 Gender

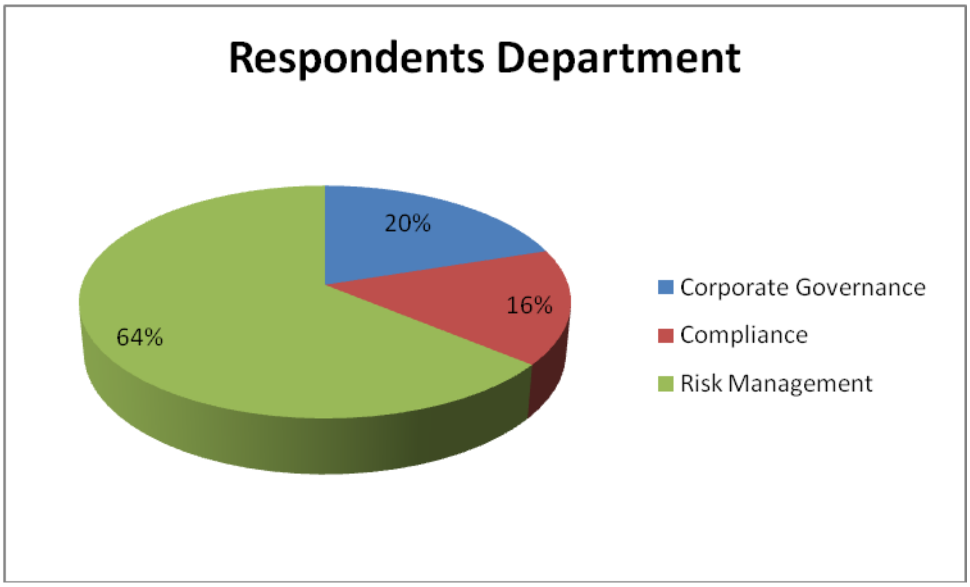


Respondents Department

Of the 25 respondents 12 i.e., 30% of the respondents were working in the risk management department and 35% of the respondents were from the compliance departments. The rest were from operations, credit and general administration departments. The department working in frequencies and percentages are shown in Table 3.

Department	Frequency	Percent	Mean Avg
Corporate Governance	05	20	
Compliance	04	16	
Risk Management	16	64	
Total	**25**	**100**	**8.33333**

Table 3 Respondents Department



FINDINGS CORPORATE GOVERNANCE COMPLIANCE

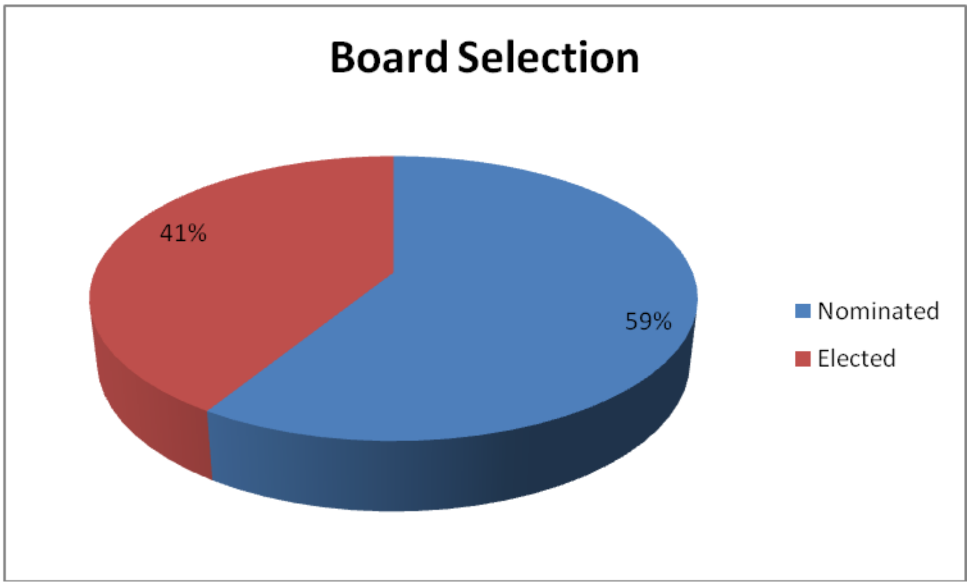
The key areas covered in the Basel II guidelines for Corporate Governance are related to Board of Directors (their election, duties, qualifications and conflict of interests); Shareholders (participation in general meetings and their voting rights, and equal treatment of all shareholders); Executive compensation (Compensation structure, stock options, severance pay and disclosure of compensation package); Special committees (Compensation, risk and internal audit committees and the independence of their members); Disclosure (Ownership, financial statements, risk exposures and governance policies). The questions included in this section were designed to assess the corporate governance compliance related to these key areas.

A. Board of Directors

Q1. Are the board members nominated or elected by shareholders?

Board Member Selection	Yes	No	Frequency	Percentage
Nominated	20	-	20	80
Elected	14	-	14	56
Total				

Table 4



It is observed that the board members are a mix of both nominated and elected individuals. Having a mix of both nominated and elected members reflects the involvement of the shareholders and inclusion of their views. It has a positive impact on governance.

A good mix of nominated and elected members also ensures that the voice of the shareholders is heard as the elected members act as representatives of the shareholders.

Q2. Does your board consist of executive and non-executive independent members?

Board Member	Yes	No	Frequency	Percentage
Executive	25	-	25	100
Non - Executive	25	-	25	100
Total				

Table 5

The board consists of executive and non-executive members and from a governance perspective this is a good sign and is in compliance with the guidelines of Basel II.

Having an ideal mix of executive and non-executive members ensures proper checks and balances on executive action. Non-executive members can actively debate executive decisions and which results in better decisions in the interests of the organisation.

Q3. How does your organization address conflict of interest? Does duality exist in your organisation? (i.e., the CEO and the Chairman of the board are the same Individual).

From the responses it is evident that duality does not exist in the case study bank. The chairman of the board and the CEO are different individuals. From a governance perspective it is better that the CEO and the Chairman of the Board are not the same. When the CEO and the Chairman of the board are the same person then checks and balances on executive decisions are limited and

Increases the chances of conflict of interest as the board may just rubber stamp the agenda of the Chairman/CEO. Such as scenario will increase risks and reduce effective corporate governance.

Q4. Does the board of directors of your company actively oversee the work of the executives?

It is observed and the responses too indicate that the boards of directors do not actively involve themselves in the functioning of the bank. The lack of active board involvement is of concern as without their active supervision implementation of key policies related to corporate governance, risk management and compliance etc., may not get due consideration from the management and staff.

Q5. Does the board ensure that an ethical culture pervades in the Bank?

It is observed and the responses too indicate that the bank has a well established code of conduct / ethical practice policies approved by the board. But as discussed above the lack of active involvement of the board in overseeing the implementation of its policies is a bottleneck that needs to be addressed.

Without a strong corporate governance / ethical culture the risks facing the bank will be high. To minimise the risks arising out of different people with different cultural backgrounds acting with different standards of ethics, it is important to have one uniform culture in the organisation with regards to ethics and governance practices.

B. SHAREHOLDER RIGHTS

Q6. Shareholders rights and their participation in governance

The responses to the questions in the table 5 below indicate that the bank ensures that all the shareholders are well informed about the upcoming general meetings and the agenda for the meeting sis sent to them in advance. One aspect that stands out is that shareholders have the right to vote but their voting rights are based on their size, which gives an unfair advantage to large shareholders to set and approve policies to the detriment of smaller ones. The majority shareholders may support policies and decisions that are in their best interests to the detriment of minority shareholders. Lastly approx.70% of the respondents feel that shareholders do not have the rights to influence corporate governance policies.

This anomaly needs to be rectified as minority shareholders rights should be protected and they should have a say in the governance of the organisation. This is especially so because most listed organisations have millions of small shareholders and giving them the rights to have a say in the running of the organisation is critical to their continued participation and helps in attracting continued investments from this group.

SHAREHOLDERS RIGHTS	Yes	No
Shareholders are notified in advance of the forthcoming General meetings	**25**	**-**
The meeting agenda is mailed to the shareholders in advance	**25**	**-**
Shareholders have the right to participate and vote in the general meeting	**25**	**-**
Shareholder Size does not matter in voting rights	**18**	**07**
Do board members and executives answer questions at the Annual General Meeting?	**13**	**12**
Are shareholders allowed to participate in decisions concerning fundamental corporate governance changes?	**08**	**17**

Table 6

C. EXECUTIVE COMPENSATION

Q7. Does executive compensation involve cash, and stock options and is it disclosed to shareholders?

The findings indicate that executive compensation does not involve stock options as is the usual practice in the region as most banks are either partly owned by the Government or are controlled by family businesses. The respondents believe that the amount of executive compensation is disclosed to shareholders whereas severance pay details are openly discussed. The findings also indicate that the compensation offered to executives is not voted by the shareholders.

EXECUTIVE COMPENSATION	Yes	No
Does executive compensation involve stock options	**-**	**25**
Is the amount of executive compensation, severance pay disclosed to shareholders	**20**	**-**
Is there a provision to allow shareholders to vote on compensation packages for executives?	**-**	**25**

Table 7

From a corporate governance perspective it would be ideal to link executive compensation of the case study banks performance. This will act as an incentive for the executives to work and take decisions which improve the performance of the bank. Since we are living in a globalised world the best practices of Western banks should be adopted in this region as well, which will help attract the right talent and also improve the performance of the banks in the region.

D. SPECIAL COMMITTEES

Q8. What committees your bank has to improve corporate governance?

Majority of the respondents have indicated, which is also confirmed by a review of the internal documents of the bank that there are various committees formed such as risk, audit and compensation to deliberate on matters related to risk management, audit and executive compensation. Executive compensation in the region is not structured as in banks in the West.

Committees exist to deliberate, to advise the board and to oversee the implementation of the policies and procedures approved by the board. Having a risk and audit committee gives these activities greater importance and improves risk management and internal controls as the Audit committee can review and report to the board about the effectiveness of internal controls and practices.

SPECIAL COMMITTEES	Yes	No
Does your bank have a compensation committee	20	-
Are there non executive independent directors in the compensation committee	14	-
Is there a Risk Committee in your bank	25	-
Is there an Audit Committee in your bank	25	-
Does the audit committee have independent directors	18	-

Table 8

E. DISCLOSURE

Q9. Is the mandatory information disclosed to stakeholders?

The data gathered indicates that the financial results are made and disclosed as per accepted accounting standards. This uniformity is essential for easier comprehension and understanding. As far as ownership structure disclosure is concerned respondents seem to have no idea about who the owners are. The risks facing the banks are not highlighted to the stakeholders except in fine print in the documents prepared for the general meeting.

DISCLOSURE & TRANSPARENCY	Yes	No
Is the ownership structure of the bank disclosed	12	-
Are the financial results of the company disclosed according to accepted accounting standards	25	-
Are the risks facing the banks disclosed to all stakeholders	05	20

Table 9

To comply with corporate governance principles and to improve governance it is important to have greater transparency and to disclose information. This will enable greater scrutiny of the work of the bank and minimise the risk of wrong doing by executives, which happens when things are done secretively.

4,2 STATISTICAL ANALYSIS

Various academic research studies on corporate governance have widely used descriptive statistics (Abdullah 2004; Lam & Lee 2008). Descriptive statistics measure the central tendency and dispersion. Mean is the most important measure of central tendency (Veal, 2005). The descriptive statistics used in this study consist of mean, maximum and minimum.

With the help of descriptive statistics it is possible to make general observations about the data collected. They report on the trends and patterns of data and provide the basis for comparisons between variables.

Descriptive Statistics

Variables	Minimum	Maximum	Mean
Age	0	1	6.25
Gender	0	1	12.5
Department	0	1	8.333
Separate leadership (%)	0	1	84
Board composition (%)	0	1	100
Board committees (%)	0	1	82

4.3 SUMMARY OF RESULTS ANALYSIS

Corporate governance is becoming critical to improve business performance and it also ensures appropriate checks and balances are in place. Through adequate internal controls, effective corporate governance reduces various types of risks and curtails corrupt practices by the management. This in turn secures shareholder rights.

From observation as well as from the study conducted it is clear that the case study bank has a well defined corporate governance framework but as far as compliance is concerned it still has some way to go. As was discussed above in the findings, the board of directors are not actively involved in supervising the implementation of the policies set by it, and as a result this may be impacting the banks efforts in fully complying with the corporate governance framework.

As corporate governance is an organisation wide holistic approach, creating an organisation wide culture that actively supports and encourages compliance with the corporate governance framework is critical. People are the drivers of businesses. Risk models and frameworks don't prevent poor decisions but people do. Therefore it is critical to develop a risk management culture in the organization and give risk management a seat at the high table. Another finding of the survey is the lack of a corporate governance culture in the case study organization. Since risks can arise due to negligence of any employee in the organization and the lack of employee awareness about corporate governance and compliance can hinder the identification of risks and can have negative consequences for the organization. For this to happen the board should actively supervise the implementation of the governance framework and create a organisation wide culture.

The shortcomings in compliance with the corporate governance guidelines are part of a larger trend globally as surveys by KPMG (2007) on risk management and Corporate Governance involving 500 global banking executives and the survey by Deloitte Touche (2011) of 131 major financial institutions also indicate that most banks have risk management and corporate governance programs in place, but there are shortcomings in their execution. The findings of these surveys indicate that 80% of the institutions have a well defined risk governance framework approved by their boards but the greatest challenge is their implementation.

Another important aspect in corporate governance is the independence of the board. The findings indicate that the board consists of a mix of executive and non-executive board members, which is a good sign of governance as it will ensure that executive decisions are better debated and questioned by the non-executive independent board members. The varied background of the board members ensures that a wider perspective is taken in decisions. In compliance with the corporate governance guidelines duality does not exist in the case study bank. Which is a good sign as having separate individuals as the CEO and Chairman is found to improve governance and improves the performance of the boards.

Corporate governance defines the relationship between the management and the shareholders and aims to protect the rights of the shareholders against executive actions. Therefore giving rights to the shareholders to vote on important governance issues and improving transparency and disclosing financial and executive compensation information is critical in improving governance and safeguarding the rights of the shareholders. Another critical aspect in corporate governance is executive compensation, which is too often linked to performance. This drives executives to take undue risks to increase performance and in turn their benefits. It would make sense to link compensation with performance along with achievement of risk management objectives so that executives in the pursuit of opportunities do not blindly take risks.

Finally in improving corporate governance, risk, audit, compliance etc., committees play a significant role in highlights the challenges and reporting the issues to the board for appropriate action. Too often the boards ignore the findings of these committees but it is prudent that the board gives due importance to the views of experts on these committees and follows their advise.

In conclusion the research findings and the literature review done indicates that there is a positive relationship between corporate governance and risk management. Through better corporate governance effective internal controls are implemented and a risk management culture is developed under the leadership of the board and this helps in identifying and mitigating risks.

CHAPTER 5.0 CONCLUSION

Corporate governance in banks has assumed greater importance due to the repeated occurrence of financial crises in the global banking sector. To address these challenges OECD (2010) and the Basel Committee (2010) have proposed corporate governance guidelines that aim to improve oversight of governance. Corporate governance is a mechanism to safeguard the best interests of the shareholders as well as the stakeholders and it is critical especially in the banking sector as people trust a financial institution and deposits their savings. Through improved corporate governance banks can strengthen their internal checks and balances and safeguard the interests of all the stakeholders.

Having an appropriate corporate governance framework is essential because in every organisation there is a conflict of interest at work, between the owners and the management. Each party wants to make decisions that are in its best interests and this creates a certain conflict of interests. By having a corporate governance framework this conflict of interest can be minimised as the work of the management will be regularly monitored by the board and the stakeholders. Corporate governance with its checks and balances also plays a critical role in improving business performance. Effective corporate governance with adequate internal controls, reduces various types of risks and curtails corrupt practices by the management and secures shareholder rights.

The banking sector in general is governed by the corporate governance rules and regulations issued by the Basel Committee on Banking Supervision. This committee has issued sound corporate governance principles for banks, with the express purpose of controlling and minimizing unexpected problems and to identify practices that can be used to implement the principles. These principles address key areas of corporate governance such as the functioning of the board of directors, the senior management and their roles and responsibilities and how to avoid any conflicts of interest. These principles also address risk management and internal controls.

Literature on corporate governance as well as the findings of the survey conducted indicates that banks have corporate governance frameworks in place but there are shortcomings in their implementation. This trend in corporate governance implementation is also noticed in global banks as revealed by KPMG (2007) survey on risk management and Corporate Governance involving 500 global banking executives and the survey by Deloitte Touche (2011) of 131 major financial institutions. Most banks have well defined governance frameworks but 80% of them face implementation challenges.

One of the major drawbacks is the lack of active involvement of the board in executive supervision. As the principle goes what gets measured gets done well. The lack of active supervision by the board on the work of the management results in management using its discretion to make critical decisions, which may or may not be in the best interests of the stakeholders.

It is important for the board to have members who can spare their valuable time and not be too busy with other commitments. Then they can give greater attention and time to better supervise the work of the management and also ensure that the policies set by the board are properly implemented. The board has a responsibility to improve corporate governance and this can only happen when an organisation wide culture is developed.

Since the board is responsible to the shareholders as well as to all the stakeholders, the independence of the board is critical. The board should have a balanced mix of executive and non-executive board members, as it will ensure that executive decisions are better debated and questioned by the non-executive independent board members. It is advisable to avoid duality and have separate chairman of the board and the CEO.

Organisations exist to serve the interest of the shareholders and its extended stakeholders. Shareholders as investors in the firm should have greater rights. They should have access the internal information and the right to vote to appoint the board and approve policies and executive compensation.

In improving corporate governance the board is assisted by a set of committees. The risk, audit, compliance etc., committees play a significant role in highlights the challenges and reporting the issues to the board for appropriate action. The board has to act on their recommendations as they have expertise in their area of work.

In conclusion the research findings and the literature review done indicates that there is a positive relationship between corporate governance and risk management. Through better corporate governance effective internal controls are implemented and a risk management culture is developed under the leadership of the board and this helps in identifying and mitigating risks.

RECOMMENDATIONS

In order to improve corporate governance compliance the following recommendations are being made that if applied will further strengthen corporate governance in Banks.

Banks should adopt prudent banking practices and should minimize risk taking through a long terms focus as against quick short-term gains which increase various risks.

Corporate Boards have a responsibility towards all the stakeholders and they should fulfill their responsibilities in a proactive manner and should take active interest in setting and implementing the governance frameworks and should create an enterprise wide culture to improve governance.

Corporate boards should have a healthy mix of executive and non-executive independent members, who can critically review and question the decisions of the executives. It is better to have more non-executive board members than executive members.

It is always advisable to avoid duality as it will minimize conflict of interests. Appropriate governance policies should be adopted to avoid duality in corporate boards.

Organizations are run for the sake of shareholders as such they should have an active say on the key issues facing the key issues facing the organization.

Adopting regulatory frameworks such as Basel II Corporate Governance guidelines is fine but a proactive approach should be adopted to improve governance.

Boards should set up committees for risk, audit, compensation and compliance and they should consider their advice in making decisions.

Appropriate disclose and transparency are essential for good governance. When information is in the open and is debated then it results in better governance.

CHAPTER 6 BIBLIOGRAPHY

Abdullah, S.N., (2004), 'Board Composition, CEO Duality and Performance among Malaysian Listed Companies, ' Corporate Governance, vol. 4, no. 4, pp. 47-61.

Basel Committee on Banking Supervision (2010): "*Principles for Enhancing Corporate Governance"*, Final, October, 1-34

Basel Committee on Banking Supervision (1999): *Enhancing Corporate Governance for Banking Organisations.*

Basel Committee on Banking Supervision (2001): *Working Paper on the RegulatoryTreatment of Operational Risk*, Bank of International Settlements.

Basel Committee on Banking Supervision (2001): *Conducting a Supervisory Self Assessment Practical Application*, Bank of International Settlements.

Basel Committee on Banking Supervision (2003): *Sound Practices for the Management and Supervision of Operational Risk*, Bank of International Settlements.

Basel Committee on Banking Supervision (2005): *Compliance and the Compliance*
Functions in the Bank, Bank of International Settlements.

Basel Committee on Banking Supervision (2006): *Core Principle for Effective Banking Supervision,* Bank of International Settlements.

Basel Committee on Banking Supervision (2010): *Principles for Enhancing Corporate Governance.*

Basel Committee on Banking Supervision (2011): *Principles for the sound management of operational risk.*

Brezeanu, P; Al Essawi, Subhi, M; Poanta, D., Badea, L. 2011. Does Corporate Governance Impact Risk Management System? *Theoretical & Applied Economics,* Vol. 18 Issue 4, p49-64,

Bodla, B. and Verma, R., 2008.Operational Risk Management Framework at Banks in India, *The Icfai University Press*, Working paper.

Carter, D.A., Simkins, B.J., and Simpson, G.W. (2003) Corporate Governance, Board Diversity, and Firm Value, *Financial Review*, February 1: 1-2.

Cernauskas, D & Tarantino, A. (2009a). Operational Risk Management with

Process Control and Business Process Modelling, *Journal of risk management*. pp1-22

Cernauskas, D & Tarantino, A. (2009b). *Risk management in finance – Six sigma & next generation techniques,* John Wiley & Sons, pp.327 pages

Cernauskas, D & Tarantino, A. (2009c). *Risk management in finance*, Wiley Publishing.

Cernauskas, D., Sury, M., Tarantino, G. 2010. Corporate Board Governance Reforms to improve risk management.

Committee of Sponsoring Organizations of the Tradeway Commission (COSO)(2004). Enterprise Risk Management - Integrated Framework, pp.1-7

Core, J.E., Holthausen, R.W., Larcker, D.F. (1999) Corporate governance, Chief executive officer compensation, and firm performance*, Journal of Financial Economics* 51, 371-406

Deloitte Touche Global Financial Services, 2011. Navigating in a changed world, Global risk management survey, seventh edition.

Dermine, J. (2011). Bank Corporate Governance: Beyond the Global Banking Crisis, *INSEAD Working Paper collection.*

Gimblett, B (2006). What is research design. Accessed on August 10, 2011 From http://www.nyu.edu/classes/bkg/methods/005847ch1.pdf.

Hassan, S., Aziz, A.,2008. Managing operational risks in a Bank: Applied research in Malaysia, *Asia-Pacific Management Accounting Journal*, Vol 3 Iss 1, pp.47-65

Jobst Andreas A (2007), "Consistent Quantitative Operational Risk Measurement and Regulation: Challenges of Model Specification, Data Collection and Loss Reporting", International Monetary Fund, November, WP/07/254, pp. 1-44.

KPMG (2007). *Risk Survey*. Business Advisory Services Research
Martin, J. 2002. *Organisational Culture: Mapping the Terrain*. Thousand Oaks, CA: Sage.

Lam, T.Y, & Lee, .SK., (2008), 'CEO Duality and Firm Performance: Evidence from Hong Kong', Corporate Governance, vol. 8, no. 3, pp. 299-316.

Mintzberg, H. 1979. An emerging strategy of "direct" research. *Administrative Science Quarterly* 24(4), pp. 528-589.

OECD (2010): “Corporate Governance and the Financial Crisis”, OECD Steering Group on Corporate Governance”, Paris, 1-34

OECD-MENA(2005). Advancing the corporate governance agenda in the Middle East and North Africa: A survey of legal and institutional frameworks.

Olayiwola,W.K.2010 Practice and Standard of Corporate Governance in the Nigerian Banking Industry, *International Journal of Economics and Finance* Vol. 2, No. 4; pp.178-189

Oyejide, T. A. & A. Soyibo (2001). “The Practice and Standard of Corporate Governance in Nigeria” *DPC Research Report*, pp.26-33

Reichardt, C. and Cook, T. 1979. Beyond qualitative versus quantitative methods. In: Cook , T. and Reinhardt, C. eds. *Qualitative and Quantitative Methods in Evaluation and Research*. California: Sage.

Rezaee, Z (2009), Corporate Governance and Ethics, John Wiley & Sons, Inc, USA.

Santomero, A.1984. “Modelling the Banking Firm: A Survey,” *Journal of Money, Credit and Banking .*

Santomero, A. 2007. Commercial Bank Risk Management: An Analysis of the Process. *The Wharton Financial Institutions Center*, *Working paper.*

The Economist Intelligence Unit (2009) ‘After the storm: A new era for risk management in the financial services industry’, summary available at: http://www.sas.com/resources/asset/erm-survey.pdf (accessed August, 2011).

Veal, A.J., (2005), Business Research Methods: A Managerial Approach, 2nd edn, Pearson Education Australia, NSW.