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BOARD OF DIRECTORS AND PERFORMANCE IN ITALIAN BANKING GROUPS

Corporate governance represents a central issue for the modern banking industry. The importance of such matter depends surely on the complexity and diversity of the banking activity compared to the one of the non-financial industry and on the role banks play in the financial markets and in the economy. We mainly refer to the credit intermediation activity, to the particular budgetary structure and, more in general, to the sound and prudent management as a condition to defend all the stakeholders (shareholders, depositors, supervisory authorities, etc.). Corporate governance in banks should help assure an efficient resources allocation and the soundness of the financial system: these are some of the reasons academic studies focus on the banking corporate governance.

Nowadays the debate on the central importance of the corporate governance in banks has further raised, because of the financial crisis, that since 2007 the most part of the financial systems is experiencing. Weak corporate governance mechanisms have in fact concurred to accumulate too high and imprudent level of risk: as a consequence, many problems raised in terms of stability of the single institution and of the whole banking sector. Even if not for all the banks, and not always with the same intensity, some severe corporate governance failures and laps exist. It depends also on the connection between corporate governance on one hand and risk management and risk control on the other. Good corporate governance practices could indeed be considered as a complement to risk management and to the control processes, particularly in absence of quantitative approaches of risk measurement. In other words, corporate governance, capital adequacy and organizations represent the three pillars for the international financial system soundness.

During the financial turmoil “a sort of dominance” of the top management within the governance structure has occurred (the running of the compensation and incentive practices are an example of that). This has weakened the control capacity of the governance system. Besides, the existing corporate governance models have showed their partial or total inadequacy with regard to the financial innovation process, that has progressively modified the intermediation approaches during the last decades, moving from the “Originate to Hold” model to the “Originate to Distribute” one.

All this, and more, has highlighted the necessity of a corporate governance strengthening process by the competent authorities both at national and international level. The existing practices and guidelines have been in fact reviewed, or will be reviewed soon, to assure the focus on this priority in the context of the financial markets reform and crisis prevention program.

Lastly, it is important to consider corporate governance best practices also with reference to their capability to enhance banks’ reputation on the market and the trust the financial system puts on them. In other words, the way the corporate governance structure of banking organizations is defined, in compliance with the regulatory

framework, could be able to contribute to reach efficiency objectives and to increase performances.

The present paper aims to analyze the interaction between the corporate governance in the Italian banking groups and their performance during the period 2006–2010. In particular, it gives evidence of the influence board of directors' composition and structure are able to exercise on banks' profitability.

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