CORPORATE GOVERNANCE IN THE IRISH BANKING INDUSTRY: A STAKEHOLDER PERSPECTIVE

DECLAN REIDY

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DECLARATION

I declare that all material included in this dissertation is the end result of my own work and that due acknowledgement has been given in the references to all sources consulted in the completion of this research

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ABSTRACT

The aim of the research was to investigate whether non-shareholder constituencies in the banking industry in Ireland are protected by corporate governance mechanisms. The literature outlined key variables with respect to corporate governance and the banking industry. Areas such as the complexity of the industry; the principal stakeholders of the industry; the future focus of the industry; and corporate governance mechanisms and behaviours in the industry were explored in depth. A combination of sixty eight (68) quantitative questionnaires and two (2) qualitative semi-structured interviews was used to conduct the research. The enhanced protection of non-shareholder constituencies of the banking industry in Ireland through corporate governance mechanisms can be achieved through the successful implementation of an improved ethical code into current corporate governance structures.

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CHAPTER ONE
INTRODUCTION

1.1 Introduction

The research for this dissertation proposal has been chosen primarily for personal interest. In the process of encountering many new areas of study this year, the author developed a keen interest in the current economic climate in Ireland and globally. This is a relatively new phenomenon in Irish terms, given the unprecedented boom years of the Celtic Tiger, Kirby (2004). More recently, many institutions and indeed industries which prospered in these years have suffered an indignant fall from grace, Mendlesen (2010) and Preston (2010).

Failures in business occur almost every day in Ireland, Accountancy Ireland (2009), and resultantly corporate figureheads find themselves attempting to preserve their reputations, Preston (2010). Questions can be asked as to why so many organisations are doomed to fail, Accountancy Ireland (2007 and 2008 and 2009).

1.2 Background and Context

The warning signals about the manifestations of weak corporate controls and greed among those in positions to capitalise were all too evident at the turn of the century, Walker (2005). The shocking revelations surrounding the demise of Bearings bank in the mid-nineties, extending into the 20th Century with the collapse of Enron, followed by WorldCom and Tyco in the United States of America led to serious questions being asked of organisations. Citing the mismanagement and excesses of larger than life Chief Executive Officers among others, Lajili and Zeghal (2010) begged two very interesting questions: Firstly, to what extent does this seemingly isolated cavalier behaviour permeate through the corporate sector? And secondly given the collective economic plights of Greece, Spain, Portugal and our native Ireland, Milne and Oakley (2011), might this conduct of mismanagement and excess be customary worldwide?.

A further example of an ailing industry is that of American automobiles, with recent high profile bailouts, Saul Relative (2008a and 2008b). Thus, in focussing on the private sector, it must be asked, what rules do banks, the automobile industry and construction companies work to? On the larger scale, those who have thrived in the current climate are sparse but come to mind easily in the form of SAS, and Google amongst others. Those who have failed however, include some highly prominent names internationally and in Ireland. From Lehman Brothers internationally to McNamara Construction in Ireland the tales of greed and excess sound rather familiar to those of the turn of the century, Knights and O'Leary (2005) and Lajili and Zeghal (2010).

The financial minefield that is the Anglo-Irish Bank situation, Griffin (2010), lends itself to the theory that measures in place were simply not sufficient to prevent mismanagement at the top levels of management and board level, McCormick (2010).

Mendlesen (2010) highlights a significant link between the troubled times of many construction companies in the economic downturn and the mismanagement of Government. Notwithstanding any controversial elements to the argument, the entire crisis, could be said to have been mismanaged by Government from the beginning of the boom with little or no legislation enforced or worse still – even in place – to regulate the financial sector, Mendlesen (2010), Coupled with extenuating circumstances out of the control of most involved, such as the global recession, it is clear that Government, as well as the Banking sector, have brought the country to its knees, Thomas (2011).

In conducting relevant background reading, it has become clear that there exists a possibility that the variables which control this equation are rooted in the area of governance. From a corporate point of view, taking the economic recession into account, it seems possible that failings in governance structure and ethical leadership by top management potentially allowed for the escalation of any problems we may have faced in a global recession, Laufer (2006).

Questions being asked in the media today, even in light of the recent Government election in Ireland, appear to revolve around the notions of accountability and regulation as a safe guard for the economic future of the country of Ireland Baker (2004) and Economics Intelligence Unit (2009).This represents a significant shift on the demand curve for government with the notion of deregulation being the order of the day for so long.

The definitive framing of these thoughts in the subject area may yet be difficult to formulate but it appears to be of interest to many that it is attempted. Martonyi (2011) postulates that deregulation goes hand in hand with liberalisation, but in embracing liberalisation stringent measures of economic governance must also be embraced, measures which were neglected in the inception of the euro.

While regulation was a fundamental backbone of the former USSR, as their model of society began to finally collapse, it was collapsing in the face of unregulated capitalism. This wave of deregulation was championed by incumbent United States presidents of the late 1980s and 1990s; George Bush Snr and Bill Clinton, as the most positive road forward into the new millennium.

In essence, it defeated the Soviet model so *it worked.* Following the lead of the successful transitions of the USA and the UK from regulation to a more loosely controlled ideal, Ireland plunged head-first into deregulating its banking sector. Notable absentees from this nose-dive into high risk-reward territory were Germany and France. In these predominantly Protestant and modest valued countries, the underlying cultural attitudes towards regulation in cultural terms, was drastically different to the cavalier attitudes of the USA, UK and Ireland.

In the context of differing cultural attitudes and identities, a sharp contrast in the cultural norms and values of two euro-zone countries can be drawn. A historically Catholic and corruptible political structure in favour of lasses-faire regulation in banking, compared to another; with a more Protestant work ethic and conservative controlling culture surrounding it with a heavily regulated, less lucrative but less corruptible system for the banking sector.

This cultural difference was possibly a chief catalyst in the mismanagement of German Depfa Bank operations in Ireland and the subsequent continued demise of German based parent Hypo Real Estate, HRE, following an acquisition at the peak of the boom, Wilson (2009). With HRE now in German government control following liquidity issues at Depfa Bank given their exposure to downgraded bonds and securities, it is possible to float the suggestion that it is not feasible to let systematically relevant banks go under, with the potential fall of HRE dubbed *Europe's Lehman moment,* Wilson (2009).

The idea of basing this research paper around the idea of corporate failure stems from how topical and load-bearing a subject it has become in Ireland, Thomas (2011). Furthermore the exact nature of the paper derives from a strong feeling that issues surrounding corporate governance and ethical leadership are root causes in this senseless and continued implosion of the Irish Banking Crisis, Laufer (2006).

When the various stakeholder constituencies in banks are considered, it remains unclear whether all the various groups' interests are protected by corporate governance in Ireland. While there are other parameters which have taken effect under the conditions of the global economic climate, the author believes that should the global economy show steady growth and the road to full national economic recovery become more vivid then the country is left with the same problem.

The main motivating factors surrounding this research are; to explore the variables of successful corporate governance implementation and to explore the promotion of ethical leadership in the banking sector. It may be inferred that with this foundation, Ireland could become stronger in the near future.

1.3 Research Question

The research question posed is to consider whether non-shareholder constituencies of banks in Ireland are protected by existing corporate governance mechanisms.

1.4 Research Objectives

The objectives of this research are to:

- Assess the mechanisms of corporate control in banks in Ireland
- Critically evaluate the features of effective corporate governance policy-making and implementation in Ireland
- Consider the various stakeholder constituencies in banks and identify the benefits and costs associated
- Evaluate the perspectives of differing stakeholders with respect to values and governance policy in Ireland
- Investigate the factors which perpetuate the current system of governance of banks in Ireland

1.5 Outline of Chapters

Chapter Two explores, in two parts, the relevant literature, firstly, on corporate governance and its context in Ireland, and secondly, on the banking industry and its context in Ireland. Chapter Three outlines the methodology process undertaken for this research. This chapter encapsulates the research design and research methods. Chapter Four presents the findings of the research, and all relevant analysis. Chapter Five focuses on the discussion of the findings and draws conclusions from the research.

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CHAPTER TWO
LITERATURE REVIEW

2.1 Corporate Governance

2.1.1 Introduction

The area of research underpinning this dissertation is that of corporate governance and failure at corporate level. Highly topical given the current economic climate, it is likely, that much can be learned about the predicament that the global economy finds itself in from activities and measures, or possibly the lack thereof, promoted in the past decade. Corporate governance is examined as a general concept with the associated benefits and shortcomings explored.

2.1.2 Defining Corporate Governance

Turlea et al. (2010) postulates, that corporate governance, as an umbrella term, encompasses the governance of complex interactions generated among internal and external actors in the corporate environment. These interactions can potentially occur among; the board of directors; the organisation's shareholders; senior management; employees; or government. Macey and O'Hara (2003:92) further refine this definition of corporate governance to "a complex web or nexus of contractual relationships among various claimants to the cash-flows of the enterprise". This definition highlights the intricacies of such relationships, as well as bringing to light the idea that every form of corporate governance mechanism is at best, a *best-fit* iteration, with a high improbability of finding perfect fit to the satisfaction of all claimants. That is to say, that the welfare of any particular group of claimants to any organisation must almost certainly be either protected, or indeed compromised, by relative comparison to that of another particular group of claimants.

2.1.2.1 The Five Sides to Corporate Governance

Sison (2008) introduces the five sides of corporate governance to the equation. This pentagon of governance gives a unique perspective on the various claimants to any organisation.

In subdividing the various claimants in the corporate governance puzzle into the perspectives of; the boards of directors; the shareholders, the directors and management; direct stakeholders; indirect stakeholders; and finally economic and legal systems, a clearer picture of the opposing claimants forms. Referred to as the corporate governance "tripod", the side of the shareholders, directors and management could be viewed in some part as being of the most important for an organization, given that the purpose of a private limited company is to maximise shareholder value. As Macey and O'Hara (2003) point out, the entity of corporate governance exists to find and implement the best possible combination of operating procedures and rules to serve all five mentioned claimants.

For an organisation to prosper, the natural assumption would be for it to operate in an industry with defined thresholds of company law. It should potentially strive to act within the limitations of its economic environment. The organisation must also assemble a board of directors who must, without exception serve in the best interests of the organisation. This may not always be the case however, Walker (2005). These three sides of corporate governance are, in the long-run, non-negotiable, and organisations which prosper over significant periods of time could be deemed to be acutely aware of this, Lajili and Zeghal (2010).

The final sides of the corporate governance puzzle postulated by Sison (2008) are firstly; the direct, and secondly; the indirect, stakeholders of the organisation. Indirect stakeholders are defined as entities such as government, society and the environment, whilst direct stakeholders to the organisation include employees, customers and suppliers amongst others which naturally also include shareholders, boards of directors and senior management. According to Mullineaux (2006) and Macey and O'Hara (2003) there exists a strong possibility within this framework for the protection of one group of claimants by corporate governance policy-makers leaving another group of claimants compromised. Having defined corporate governance as a web of contractual relationships, it can be seen that, major issues in corporate governance arise through the incomplete nature of these figurative contracts, owing to differing views and perspectives over whom the primary claimants of any organisation should be, Macey and O'Hara (2003).

2.1.2.2 Views and Perspectives of Corporate Governance

There are many conflicting views and perspectives in the area of corporate governance, Huse (2007). Many of these views and perspectives are in fact trade-offs which must be viewed as paradoxical. Huse (2007), as cited by Turlea et al. (2010), highlights the differing parameters in the discussion of opposing views and perspectives with respect to corporate governance. According to Huse (2007), an organisation can have a narrow view or a broad view of corporate governance. This is widely accepted by Macey and O'Hara (2003); Mullineaux (2006); Murzanda (2006) and Turlea et al. (2010), as taking the view that an organisation can either; solely protect the interests of its shareholders or direct equity claimants, or in a somewhat opposing sense take the view that the protection of shareholders must be balanced with the notion that the focus of governance must be broader and expand to encapsulate the interests of the organisations stakeholders at large.

Furthermore, Huse (2007) categorises the paradoxical corporate governance perspectives firstly into opposing internal and external perspectives and secondly into opposing unitary and balancing board perspectives. While the first paradox deals with the trade-off between the internal perspective of value creation for an organisation versus the external perspective of value protection, the second distinguishes between a unitary or short term board perspective in contrast to a more a long-term balancing type board perspective. It is argued by Huse (2007) that the adopted perspectives of an organisation with respect to these trade-offs can lead to the effective polarisation of the organisation's approach to corporate governance.

The categorisation of Huse (2007) culminates in defining corporate governance from four perspectives. Firstly, a managerial perspective, defined as internal focussed and unitary in nature. Secondly, a shareholder supremacy perspective, defined as externally focussed but still unitary or short term in its outlook with boards acting solely as agents for shareholders. Thirdly, a stakeholder perspective, again defined as externally focussed but from a balanced, longer-term perspective with respect to the wider web of claimants to the organisation. Finally, an organisational perspective, naturally defined as internally focussed but with a balanced perspective with respect to value creation throughout the value chain.

2.1.2.3 Perspectives of Agency Theory versus Stakeholder Theory

Agency Theory

This theory propagates from the idea that a principal or owner in the business context hires an agent or manager/executive/CEO and charges the individual with acting in the best interests of the owner, not themselves, Miller and Sardais (2011). This has systemic relevance in everyday life given the decisions that must be made at CEO level with respect to strategy.

According to Macey and O'Hara (2003) there exist enormous hurdles when it comes to separation of control between managers and ownership. The alignment of owner or shareholder interests and those of management become paramount in the success of the organisation. Whilst Miller and Sardais (2011) point out that the agent can be corrupted by the primary stakeholder into neglecting the interests of the stakeholders at large, to the long-term disadvantage of the organisation, Macey and O'Hara (2003) also speculate that a primary agency issue can be the lack of power and information available to the principal to monitor or control the agent. The decision by management to align itself solely with its principal's interests and risk neglecting those of wider stakeholders is likely, given the market for managers and the likelihood of being replaced because of a lack of compliance.

Stakeholder Theory

In the business context, Friedman (1970) and Friedman and Savage (1952) argue that businesses should be about shareholders, while Freeman (1984 and 2003) postulates the effects on the stakeholders as a whole. This encapsulates the intended prevention of individuals or societal groups becoming disadvantaged through the net gain of society as a whole by virtue of ethical decision-making and practice. It can, however, be illegal in some cases for management not to act in the best interests of the owner, Miller and Sardais (2011).This is qualified under the assumption that shareholder interests and stakeholder interests are not aligned. In many cases, however, this alignment is possible and achieved. According to Freeman (1984 and 2003) and Donaldson and Preston (1995) stakeholder theory is highly influential in opposing the Friedman, or utilitarian, outlook on ethics and moral conscience.

2.1.3 Background and Context

The failures of giants of the global private sector as well as governments in certain cases can be attributed to many factors. Enron, Cirio, Parmalat, Tyco and WorldCom Lajili and Zeghal (2010), as well as insurance giants AIG and Marsh & McLennan, Donaldson (2007) are major accounting scandals cited as those which had their basis for failure rooted internally at corporate level and externally through auditing practices. Walker (2005) concurs with this arguing that the failure of the accounting profession, in professional and regulatory terms sets the foundation for these high profile failures. In the context of corporate governance, these failures highlight just how deep the impact of large failure can be to the stakeholder, not just the so called corporate governance *tripod*, Sison (2008).

2.1.3.1 The Role of Management

Lajili and Zeghal (2010) argue that high-profile failures of this nature are linked strongly to corporate governance procedures. Knights and O'Leary (2005) concur and also highlight ethical leadership as the key variable in the discussion. Robins (2006) emphasises the comparative importance of ethical and cultural dimensions ahead of technical and political dimensions in the formulation of governance procedure and code.

The idea that the mechanisms behind these failures were dealt with at the time and not relevant to the current crises in many sectors of business, including the banking sector, has long since been dispelled, Griffin (2010) and Hamill et al. (2010). The potential for the same mistakes to be independently repeated or continue unreported can be seen to have existed, Griffin (2010).

Furthermore, Yakhou and Dorweiler (2005) postulate the actionable trust is placed in corporations by its stakeholders that is governed by rules of ethics and good business practice and the consequences of their breaking. Donaldson (2007) alludes to potential *ethical blowbacks* in the implementation of governance procedures to mend this, where the broken rules of the implicit social contract between business and society spawn perpetual negative reactions resulting in similar breaks of social contract. Adding this paradox to the equation, what might be the tangible results of this once these rules are broken?

Walker (2005) questions who those worst affected may have been when the reputations and solvency of prominent firms in the USA collapsed at the beginning of the last decade, namely Arthur Anderson LLP, Enron, Parmalat, Tyco and WorldCom. These bankruptcies left the shareholders, employees, customers and pensioners high and dry. The question is also asked as to whether such failures were accounting failures or failures on behalf of corporate governance and ethical leadership.

The Sarbanes-Oxley Act 2002 was brought into legislation in the USA following high profile collapses to prevent repeat occurrences. This Act stipulated measures to protect investors and help assess institutional value and risk, Walker (2005), to help promote auditor independence, Lajili and Zeghal (2010) and to bring about sweeping changes to internal control mechanisms. High on the priority list was the formulation of the Public Company Accounting Oversight Board as the regulatory body.

This body was put in place to ensure auditor independence and empower auditing committees with the Sarbanes-Oxley Act 2002. Measures were enforced to remove certain responsibilities surrounding financial reporting from managers, thereby placing the oversight of these procedures on the auditor. The procedure gave the auditing committee greater scope to evaluate the internal controls of the company being audited, Walker (2005).

In the context of Agency Theory, Donaldson (2007) notes that many firms view the Sarbanes-Oxley Act 2002 as a hindrance costing more than it is worth to stakeholders. Subsequent *blowbacks,* Donaldson (2007), potentially harm the stakeholder with austerity measures by firms ranging as far as shifting their ownership structure from public to private, reducing transparency further still. Under Agency Theory, reflecting the agent-principal relationship between management and stakeholders, the interests of the agent and the principal may diverge; Enron being a notable case, Donaldson (2007).

2.1.3.2 The Role of Leadership

In this context, Thomsen (2005) proposes the need post Sarbanes-Oxley to study the validity of the values CEOs state on behalf of their corporations. In the interest of transparency, how deeply do these values run? Are they stable over time?

Robins (2006) believes the integration of a sound professional ethics code and greater focus on personal integrity in leadership can lead to positives in day to day business practice and long-term successes that have both the ability to be monitored, and fine-tuned where necessary. According to Knights and O'Leary (2005), this can strongly dilute the possibility of abuses of power or systemic issues of malpractice and mismanagement, leading to the devising of systems and processes less fallible to mismanagement and individual interpretation.

The necessity exists to qualify suggestions of the current economic crisis being solely an accounting failure, Walker (2005). Furthermore, Walker (2005) found that it was not only a failure on an accounting front, but a failure at corporate level where problems could have been systemic within key roles in these companies. What were the roles of the Chief Executive Officers (CEOs) and the Chief Financial Officers (CFOs)? What should their roles have been? What were the roles of the respective Boards of Directors? What should their roles have been? What were the roles of top management? What should their roles have been?

Walker (2005) and Lajili and Zeghal (2010), found these roles to have been too biased towards self-interest considering how common it was and still is to see the same individual acting as both CEO and Chairman of the board. O'Regan et al., (2005) hence put faith in the prominence of the role of non-executive director within corporations. As "custodians of governance", they believe the independent nature of the role can be a key piece of the puzzle in relation to best ethical practice and the perspective to potentially save stakeholders from naïve mismanagement, as well as management from themselves, O'Regan et al. (2005).

It follows that the appropriate level of implementation of this idea could well resolve a major issue highlighted by Lajili and Zeghal (2010); a lack of a discrete corporate governance strategy affording CEOs, CFOs, Boards of Directors and top management too small a margin for error in their own selfish assessments of institutional value and risk.

Robins (2006) concurs with these sentiments suggesting more action is needed than simply outlawing deceptive procedures of management. He suggests implementing improved rules for them to influence business ethics positively. Such rules include an overriding requirement for published accounts with a view to truth and fairness, whereby CEOs, CFOs and external auditors be prompted to attest to their business reputations and sign their names more transparently to their actions.

2.2 The Banking Industry

2.2.1 Introduction

There are a number of business characteristics which are unique to the banking industry. Few industries influence the lives of such a vast majority in an economy. Given the much documented recent global economic downturn, banks have tended to struggle to meet their capital requirements. This has led to wide-scale austerity for the many differing stakeholders involved. The basic characteristics of the industry must first be examined and then contextualised.

2.2.2 Prominence and Importance

In Ireland today, few topics fuel such heated debate as the banking industry. On a basic level, the banking function plays a significant role in a developed economy. In providing efficient payment systems, banks deliver a unique stability to an economy. Furthermore, in directly contributing to basic components of economic expenditure, such as government spending and firm investment through borrowing, it is obvious that banks finance economic growth and development in any developed economy.

Turlea et al. (2010) speculate that while many sectors in any economy, most notably transport and energy, have systemic relevance, a sound banking industry is the foundation of any highly developed and capital intensive economy. This view is backed up by Hartmann-Wendels (2010) who states that banks play such a central role, that a lack of balance in one bank can offset an entire economy.

Banks create liquidity in the economy in which they operate. Macey and O'Hara (2003) argue that in holding illiquid assets in the form of very long-term loans and in turn issuing liquid liabilities in the form of cash on demand, liquidity in the given economy will increase. Mullineux (2006) makes an interesting argument with respect to the central importance of banking in pointing out that private equity funding and venture capital firms tend to only target high growth firms, such as hi-tech software or pharmaceutical companies. This leaves only financial markets, in this case banks, to support small and medium sized enterprises, which cannot forecast such high growth figures, through loans.

2.2.3 Regulation

Regulation is a broad term used to imply control. The principle aim of financial regulation is to supervise the activities of financial institutions. In the context of banking, this supervision can be hugely challenging. Macey and O'Hara (2003) point out that the reasons for this include; the opaque nature of financial reporting tools; increased financial sophistication; and technological developments.

A further part of the supervision process of regulation concerns the area of risk. Turlea et al. (2010:284) note that "the efficient mobilization and allocation of funds by banks lowers the cost of capital to firms, boosts capital formation and stimulates productivity growth" in an economy. This efficient mobilisation and allocation of funds is subject to risk. In attempting to create liquidity, banks undertake risk when they make investments or allocate funds.

2.2.3.1 Moral Hazard

Macey and O'Hara (2003) believe that principal-agent theory plays a key role at this juncture. Banks' shareholders will inevitably have incentives to support investments with higher levels of risk, which naturally would incur higher returns through dividends or an increase in share price. They go on to surmise that CEOs, boards and senior management must balance this desire with their obligations with regard to capital requirements.

In this way regulators exercise restriction over potentially extravagant desires of shareholder groups, in order to safeguard against excessive risk, which could potentially permeate, resulting in severe cash-flow problems for the bank. The regulator allocates responsibility to senior management including the CEO and board, while not impinging on the rights of the shareholder. This is consistent with the doctrines of Basel Committee on Banking Supervision (2009 and 2010).

Walker (2009) highlights the means by which regulators operate in an industry such as banking, pointing out that the social cost can be much higher in the event of failure, than the downside risk for shareholders. This is extended further to management and reporting in the risk function, taking into account a bank's necessity to promptly identify and assess risks for adequate control.

2.2.4 Background and Context

2.2.4.1 Economic Change

In the UK and Ireland, the past 5 years has seen quite a drastic change of fortune for the respective economies of both countries. Examples of malpractice include; the bogus tax evasion initiatives of National Irish Bank (NIB), Knights and O'Leary (2005); the nationalisation of Northern Rock in the UK, and; the Anglo Irish Bank debacle in Ireland, Hamill et al. (2010). These cases are reminiscent of the cases highlighted in the United States at the turn of the last century. Now into a new decade, the way forward must be clarified.

2.2.4.2 Governance Culture in a Deregulated Ireland

Hamill et al. (2010) argue that Irish regulations on governance with the Companies Act 2003, did not tackle the issues surrounding corporate governance failings as thoroughly as the United States with the Sarbanes-Oxley Act 2002. It is stipulated that the legislation went further in the protection of investors through governance than measures taken to combat the same issues in the UK. From an Irish perspective, it could be questioned whether governance and ethics comparisons with the United States and the UK have validity? And should they, might the comparisons be drawn directly or indirectly?

On a national level, codes of ethics and governance are comparable. While McNutt and Batho (2005) argue that global codes of ethics are unattainable in practice, their suggestions for ethics codes on a national level are intriguing. Placing emphasis on the process of choice and decision, it is postulated that a code of ethics can only succeed if it achieves efficient choice and efficient decisions for which there are no better alternatives, improving for one and not harming another. This essentially models ethics and ethical leadership as a congruence of ethical goals.

Taking the argument of McNutt and Batho (2005), there is validity in the direct cultural comparison between Ireland, the UK and the United States in the context of ethical practice. The next logical step is to examine governance structures in banking along this ethical datum.

2.2.4.3 Governance Structures in Ireland

Young (2009) found that the design of governance structures and practices promotes an appropriate culture of integrity, ethics and corporate social responsibility as well as; provide leadership for the board distinct from management. Thomsen (2005) concludes that governance structure is ultimately derived from the nature of activity and innate corporate values and importantly, that certain values become more prominent as a result of the governance structure in place and not vice-versa.

Young (2009) states that governance should be designed to minimise the risk of abuse, loss and the potential exploitation of those dependent on the power of others. It follows that comparisons could be drawn across sectors and internationally given that any potential adoption of universal global standards for governance and ethical practice, Basel Committee on Banking Supervision (1988 and 2009 and 2010), should in turn influence the values firms emphasise in their business practice. Young (2009) asserts that corporate values tend to vary across companies and internationally, as the imposition of universal values is unrealistic due to possible uncharitable rejection of what is meaningful to local mores and values.

The Walker Report (2009), relating to the UK states that their combined code for corporate governance, which does not just apply to the banking sector, did not fail. The UK Corporate Governance Code (2010) stipulates the responsibilities of the chairperson, the non-executive directors, the allocation of time of directors and the need for more balanced boards in terms of internal experience and external independence. These recommendations are in stark contrast to Ireland, where it was determined, that poor corporate governance contributed significantly to the current financial crisis, Hamill et al. (2010). Knights and O'Leary (2005) highlight failures in ethical leadership in Allied Irish Bank (AIB) and National Irish Bank (NIB) through Deposit Interest Retention Tax irregularities and fictitious accounts as favours for rich associates alluding to contemporary concerns of material and symbolic success. What developed was an “add ethics and stir” mentality, Knights and O'Leary (2005).

2.2.4.4 The Role of Management

Kelly (2005) states, that there is an absence of current and reliable management in many companies who fail. While this is more of an accounting or financial argument, it must be taken on board that failure to regularly meet budget requirements, failure to have sufficient funds to meet creditors and regular transactions, outside overdraft facilities – leads to failure. But what leads to the above phenomena?

The answer appears to be a lack of internal control and a lack of risk management from the CEO and top management. According to Macey and O'Hara (2003) this is a lack of corporate governance. None of the above irregularities, ultimately sanctioned by the boards of these companies, could be deemed to be in the shareholders' best interests.

From a more general context, it is proposed that the increase in corporate failure in 2008, Accountancy Ireland (2008) and subsequent increases in 2009, Accountancy Ireland (2009), suggests that many of the companies who have failed had been struggling for a number of years. It is claimed that these facts can potentially be overlooked in analysis of apparent sudden accountability failures, Walker (2005).

Remenyi et al. (2004), assert that many were surprised when the North American E-Bubble burst in 2003, and that there was not a plan B. Relevant questions such as; what are the failings of the Irish Banking Sector highlighted by the burst property bubble?, and; who is responsible?, must be answered.

Of the companies that failed in Ireland in 2008 and 2009, it is potentially an interesting notion to correlate the filing of bankruptcy to CEO, Director or Manager Turnover in the preceding years. Lajili and Zeghal (2010) postulate that as a result of diversity in corporate governance structures globally; many CEOs, directors and managers have the ability to save themselves before being engrossed in crisis.

The simple message being, that corporate governance policy is not strong enough to stop managers and directors acting on inside information years in advance and leaving a seemingly healthy company with their credibility, perceived managerial talent and possibly their capital intact while leaving the stakeholders and shareholders out in the cold.

2.2.4.5 The Role of Ethical Leadership

Laufer (2006:246) concludes that ultimately the regulation of business must change. He notes that from both a compliance and governance viewpoint, the regulatory processes put in place to combat unethical behaviour in the corporate sector are frequently “creative and seductive illusions” of governance and ethical behaviour. Zadek (2008) follows that global collaborative governance measures can potentially allow for greater scope for corporate accountability, but is inherently susceptible to managerial influence of actors and actions. As such, it is difficult to regulate effectively given the dynamics of the competitive business environment.

As a result, the concept of ethical leadership again floats to the top. Mostovicz et al. (2009) propose that this is not solely a goal of corporate responsibility. It is argued that leadership is as much bottom-up, as diagonal, as top-down a phenomena. Dion (2008) puts an interesting twist on this view of leadership arguing that perceived discourses in ethical leadership from any direction, as well as corporate culture and decision making are in fact “moralised” by the leaders involved. According to Dion (2008:317), “The new moralized discourses do not distinguish between the organizational ethics (what is considered as ethical according to the organization), and morality as such.” Dahler-Larsen (1997) concurs with this view.

Kakabadse and Kakabadse (2007) argue that simple corporate responsibility practices do not work and that to help an organisation become ethical, complete changes of course are often necessary involving organisations and its leaders searching internally for core values. Dion (2008) argues that corporate systems and structures should support and reinforce organisational values affording managers and leaders decision-making skills, knowledge and competencies required to take decisions ethically on a daily basis.

The notion that such devastation *can* happen, with internal turnover, independence, outside directors and ownership structure as key functions of bankruptcy filing, Lajili and Zeghal (2010), nonetheless seems shocking given the recent government bailouts of Irish Banks. Without discussing the merits of such transactions, the governance policies for these new state agencies and ethics applied to leadership in the organisations become more prevalent due to the fact that the average Irish tax-payer is now a shareholder expecting not to be mismanaged.

2.3 Summary

The literature examined the principal areas of corporate governance. It explored the definition of and differing perspectives surrounding the various claimants to corporate governance in industry. Furthermore, the literature highlighted common trade-offs in the decision-making of governance policy-makers, such as the limitations of agency theory and stakeholder theory as perspectives in approaches towards governance policy.

Finally, the roles of the management structure and its impact in a range of industries across a range of nations including Ireland were discussed in order to better frame the idea of what governance or indeed a lack of governance results in. The role of ethics and leadership were also strongly considered as important elements.

The literature examined the principal areas of banking with respect to corporate governance in Ireland. The review incorporates explanations on the banking industries central importance to the economy, as well as providing insights into key functions of the industry such as regulation and risk management.

These arguments are then contextualised against the backdrop of the current economic climate, and the governance culture and structures in Ireland. Finally, the roles of the management function and ethical leadership are considered.

CHAPTER THREE
METHODOLOGY

3.1 Introduction

The literature review emphasises the importance of adequate corporate governance practice in the area of banking, especially in times of such unprecedented uncertainty.

In aspiring to meet the research objectives outlined prior to the literature review, the research; philosophy; approach; strategy; and methods of research, sample selection, data collection and data analysis are detailed below.

3.2 Research Question

The research question posed is to consider whether non-shareholder constituencies of banks in Ireland are protected by existing corporate governance mechanisms

3.3 Research Objectives

The objectives of this study are to:

- Assess the mechanisms of corporate control in banks in Ireland
- Critically evaluate the features of effective corporate governance policy-making and implementation in Ireland
- Consider the various stakeholder constituencies in banks and identify the benefits and costs associated
- Evaluate the perspectives of differing stakeholders with respect to values and governance policy in Ireland
- Investigate the factors which perpetuate the current system of governance of banks in Ireland

3.4 Methodology

Building on the relevant literature in the area of study, and subsequent research objectives of this dissertation, the methods intended to gather the data represent the next stage in the research process.

Research methodologies have many important variables. According to Saunders et al., (2007 and 2009), they can be broken down into five key stepping stones, or onion layers in order to better justify their importance and indeed relevance to the research questions. These layers represent various but differing research philosophies, research approaches, research strategies, research choices, research time horizons as well as the more obvious research techniques and procedures.

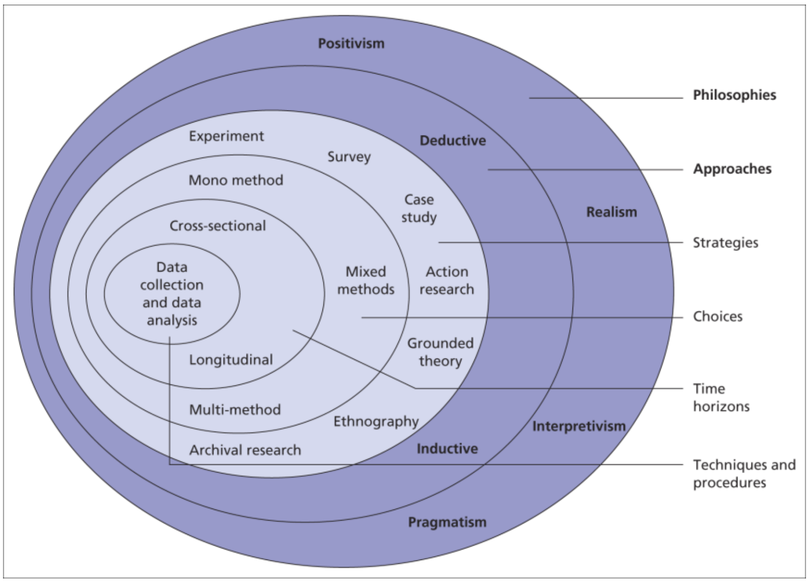

Figure 1 – Research Onion Model – Saunders et al. (2009)

The aims of using the research onion of Saunders et al., (2007 and 2009) is to deduce a valid, appropriate and effective research methodology to qualify the research objectives and thus provide the most accurate answer to the research question.

The first aspect in defining this research methodology has root in the social sciences; encapsulating the issues pertaining to the philosophical implications of relevant ontology, epistemology and axiology or in clearer terms; the nature of reality, the nature and scope of knowledge and the nature of value. In what ways will the research questions be viewed and interpreted?

3.4.1 Philosophy

The outer layer of the research onion aims to narrow the scope in terms of philosophy. Key philosophies in this discussion are those of; positivism, realism, interpretivism, objectivism, subjectivism, pragmatism, functionalist, interpretist, radical humanist and radical structuralist.

With the research objectives in mind, the ontological position adopted for this study is that a reality exists in the area of research, with this reality created by independent control. This reality is constructed through the conceptual dimensions of objectivism and subjectivism whilst they can only be broken down through the conceptual dimensions of radical change or the adopting a regulatory perspective. The epistemology of the research should also encapsulate the conceptual dimension of the regulatory perspective, in order to formulate hypotheses from data collected. The adopted axiology of the research will aid in the treatment of the hypotheses, placing value where the data places the value, and not on predetermined variables.

3.4.2 Approach

The approach taken in this research is a function of the research methodology chosen. The results of the research may be qualified within the defined parameters of or; with respect to the declared treatment of the hypotheses or research objectives. The conflicting approaches to the research at this stage are; the deductive approach and; the inductive approach, Saunders et al. (2007 and 2009).

In taking a deductive approach the deducing of hypotheses; the formulation of them operationally and in testing the hypotheses, there exists a danger that too narrow a scope, in axiological terms, would be taken. This narrow scope affords too great a potential to result in strong bias in the treatment of the hypotheses and the collated data. For this reason, an opposing approach must be employed.

Adopting the inductive approach, as recognised by Saunders et al. (2009) permits a wider scope to the research, more conducive to the research philosophy, and allows for reduced potential error for polarisation of the research data.

The use of qualitative data can allow for greater evolution over the time frame of the research in the form of alternative explanations regarding certain polarisation of data which this research may result in. In attempting to understand the ways in which the research area under investigation is constructed, there exists a greater allowance for the mapping of context within this scenario. With respect to the research objectives outlined above, adoption of the deductive approach runs too great a potential risk of fostering undesired polarisation in the research data, Flick (2002).

As such, the research approach adopted for this research dissertation is an inductive approach. This approach enables the heightened understanding and enhanced qualification of the variables which govern the resultant findings.

3.4.3 Strategy

The research strategy taken toward the dissertation is a direct function of the research approach. In this case, the approach to be carried forward is that of induction. While a deductive approach would have tended toward a quantitative or linear approach, with a model deduced and theories set out prior to the object of research, the inductive approach adopted will allow less scope for falsification in results attained. As the context becomes a valued variable in the explanation of the research area, quantitative analysis becomes useful in defining the initial parameters from which to fulfil the research objectives.

The process of grounded theory research; Glaser and Strauss (1967), Corbin and Strauss (1990) and Strauss (1987), is an inductive research strategy. This strategy allows for preference to be shown toward accumulated data rather than preference to any preconceived theoretical assumptions. In this model, these theoretical assumptions are not applied in a quantitative sense, but discovered, and only then formulated, Flick (2002). It highlights the relevance of certain variables to the research topic rather that their traditional representativeness. As alluded to in the research approach, it also increases the complexity of the research as it encapsulates context. Hoffmann-Riem (1980:343) states that “the theoretical structuring of the issue under study is postponed until the structuring of the issue under study by the persons being studied has emerged” This strategy of openness postpones the treatment of the hypotheses, not the research question itself.

It is a means of evenly suspending the researcher's attention, Flick (2002). For the purpose of developing the theories with regard to this research topic, and the circularity of the process – lending great scope for continuous evaluation, this will constitute this research strategy.

3.4.4 Method

Whilst the research method is the next step, Saunders et al. (2007 and 2009), the choice of the grounded theory model alone seems to come up short in terms of validity and reliability – or whether the potential results can be justified as accurate, valid and consistent over time. For this reason, a mixed method approach was chosen. Undertaking action research will allow the researcher scope to seek to synchronise collated data streams, by way of the continual evaluative nature of both action research and grounded theory. The research can then be analysed using thematic networks, Attride-Stirling (2001). The different modes of research allow a quantitative element into the research and seek to complement, rather than compete with the primary method. To clarify, the necessity for this combined or hybrid method is to avoid the potential contrast of independently conducting a multi-method approach. Given the research philosophy, approach and strategy, a quantitative-based questionnaire and a selection of qualitative-based semi-structured interviews were chosen as suitable methods to achieve the research objectives and in turn answer the research question.

3.4.4.1 Questionnaires

Saunders et al. (2007:355) asserts that a well-structured and thought out questionnaire "provides an efficient way of collecting responses from a large sample prior to quantitative analysis". The primary reason for this is principally due to the fact that each respondent is required to answer identical questions.

The aim of the questionnaire research is to determine predominantly quantitatively but with qualitative elements, the relative perspectives of the different major stakeholders of banks in Ireland on the banking industry in Ireland. This aim was congruent with the identification and consideration of the benefits and costs associated with various stakeholder constituencies in banks and the exploration and evaluation of the depth of public opinion and the perspectives of differing stakeholders with respect to values and governance policy in Ireland.

The questionnaire was designed with the interests of the stakeholders at the centre, with care taken to administer the questionnaire with “lucid explanation of the purpose” and make it short enough to not discourage participation, Saunders et al. (2007). Further to the questionnaire design, in seeking both quantitative data and mild qualitative responses from respondents, the questionnaire was formulated to avoid the pitfalls defined by Bell (1999:123), such as double questions, leading questions and presuming questions. Where possible, the respondents were given either a choice of responses using the Linkert scale; a choice of answers from which to select for a closed question or an option to include an answer of their own. A final constraint imposed upon respondents was, where applicable, to elaborate on their choices.

Bell (1999:127) suggests to first pilot the questionnaire in order to gauge reaction and clarify any ambiguity in questions posed. Sending the questionnaire to a sample set of six individuals highlighted a number of issues. Given the complicated nature of some of the important terminology in banking, issues surrounding the complexity of the wording in certain questions were amended to plain English or in some cases a combination of both.

Advantages:

The advantages of using questionnaire are thus; that it is an efficient method to quickly and efficiently harness widespread public opinions and judgements on the core issues under discussion in the research; and also that the larger sample set attainable through a questionnaire can be of greater statistical value, so long as it is combined, and congruent with a smaller sample set undertaking detailed interview relevant to the topic, Schmidt (1997:274).

Disadvantages:

There exist disadvantages that the designed questionnaire is overly standardised, leading to poor quality information from respondents; the sample set too small and the administering of a questionnaire online, that is designed to attract participants from a wider demographic than those who are regular and proficient internet users, is naturally disadvantageous and can lead to quality issues, Schmidt (1997:274).

3.4.4.2 Semi-Structured Interviews

Given the nature of the research objectives and the exploratory nature of the research a non-standardised semi-structured interview was the most logical choice of primary data collection, Saunders et al. (2007).

In attempting to give greater clarity to the practices undertaken in the banking system, it was decided to conduct semi structured qualitative interviews with individuals with either relevant experience of implementing and conducting governance practices in various organisations in the banking industry or expert knowledge of governance procedures and practices as well as expert knowledge of the corporate control function and knowledge of how and why banks operate in the way in which they do in the context in the wider economy. These criteria are congruent with the assessment of the mechanisms of corporate control in banks in Ireland; the critical evaluation of the features of effective corporate governance policy-making and implementation in Ireland and; the investigation of the factors which perpetuate the current system of governance of banks in Ireland.

Advantages:

In the semi-structured interview environment complex and open ended questions may be asked and the order varied depending on the exact circumstance allowing for more relevant and better quality data to be extracted. The groupthink pitfalls of focus groups are also not a factor in this environment, Saunders et al. (2007).

Disadvantages:

Disadvantages of the semi-structured interview include the potential for interviewee bias; potential for poor quality responses through lack of expertise; issues surrounding the ordering of questions and general competence of the interviewer, Bell (1999).

3.4.5 Sample Selection

In choosing a sample set of participants, Trochim (2006) surmises that a researcher must accurately select units from a population of interest in order to best allow their responses to be generalised back to reflect the population from which they are initially chosen. In light of the defined method in the research methodology adequate steps were taken to ensure this and mitigate any potential pitfalls in this area.

3.4.6 Data Collection

Given the window of opportunity for the completion of this research it seems logical to design the research methodology around a once off, cross sectional time horizon. The data was collected at one point in time and not on multiple occasions or longitudinally.

The questionnaire investigating stakeholder opinions and concerns surrounding the banking industry was administered online using Survey Monkey, see SurveyMonkey (2011), on Wednesday 10th August 2011. To mitigate the risk of non-response and collect an acceptable range of the various forms of stakeholders in banks as postulated by Bell (1999), three steps were taken to ensure quality sample selection. Firstly, directions to the questionnaire were directly emailed to 223 people encapsulating these criteria.

Secondly, an invitation to take the online questionnaire was posted to the Facebook social-networking site on Wednesday 10th August 2011, and made available to the vast matrix of connections that exists in the architecture of the site. Thirdly, a selected sample of predominantly non-internet using mature individuals communicated their responses to the researcher through questions posed from a hard-copy of the same questionnaire presented to them at local banks in the West Dublin area on Friday 12th August 2011.

The online questionnaire was active for 6 days, at the culmination of which sixty five (65) responses had been submitted. A further three (3) responses were collected manually. The respondents totalled sixty eight (68). The response rate to the questionnaire was 30.5%.

Two semi-structured qualitative interviews were conducted at the convenience of the given interviewees on Monday 14th August 2011. The details of the interviews are as follows;

Monday 14th August, Associate Professor in Finance, Trinity College Dublin, at Aras an Phiarsaigh, Trinity College Dublin, College Green, Dublin 2;

Monday 14th August, Partner, PwC, at PricewaterhouseCoopers, 1 Spencer Dock, North Wall Quay, Dublin 1.

3.4.7 Data Analysis

Based on the research; objectives; philosophy; approach and strategy; methods, and; time horizons, the semi-structured interview data and qualitative questionnaire responses were analysed using thematic analysis, Attride-Stirling (2001).

3.4.8 Quality

The quality of the research is underpinned by the quality controls put in place to achieve a satisfactory sampling and standard deviation in the questionnaire responses. With respect to the qualitative interviews every attempt was made by the researchers to ask open questions, encourage the interviewee to speak their mind allowing unique insights and to accurately gauge the interviewee’s responses.

3.4.9 Summary

The research design was built tentatively from the initial research onion of Saunders et al. (2007 and 2009). This section discussed the research; philosophy; approach; strategy; and method, as well as sample selection, data collection, data analysis and quality controls of the research. A primarily quantitative purpose designed questionnaire and three qualitative semi-structured interviews were chosen to ascertain the desired information and best fulfil the stated objectives of the research. Thematic analysis was employed to analyse the data from the semi-structured interview.

CHAPTER FOUR
RESEARCH FINDINGS

4.1 Introduction

The methodology chapter discussed the selection of the research method comprising of both a quantitative survey and qualitative based semi-structured interviews. The research methodology was designed to explore the research objectives and aid the answering of the research question.

4.2 Questionnaire Analysis

The invitation to complete the questionnaire (see Appendix A) was emailed to two hundred and twenty three (223) randomly selected people across the various stakeholder groups, as well as being made available through the Facebook social-networking website. The questionnaire was available online for one week, sixty five (65) responses were returned. To aid the predefined age-range pitfall of the questionnaire, the researcher sought face to face responses from mature non-internet using individuals. This response count was three (3). The total number of respondents was sixty eight (68) persons. The response rate was 30.5%.

4.2.1 Stakeholder Demographics

As can be seen in Figure 2, of those questioned, 37.7% were female, with 62.3% male. The 21 – 30 age range accounted for 51.9% of the female participants and 48.8% of the male. Furthermore, every demographic lower than the 65+ age bracket had a minimum of three responses out of the sixty eight respondents with 41.1% ranging in age from 31 – 64.

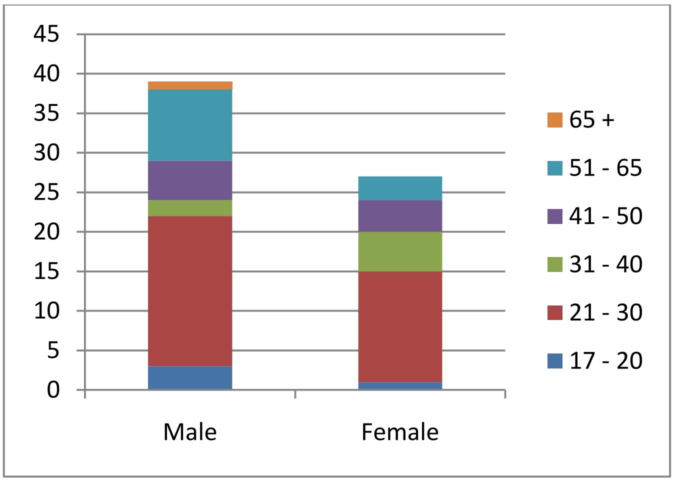

Figure 2 – Age Range and Gender

Further to the age range demographics, the respondents were grouped by their relative stakeholding in the bank. These are presented graphically in Figure 3. The various stakeholder groups do not include depositors as all sixty eight (68) respondents, 100%, classed themselves as depositors. A further thirteen (13) of these were also shareholders, 19.1%, while the employees group garnered 14 responses, 20.6% of the sixty eight (68) respondents. Forty three (43) respondents, or 63.2% of all respondents, consider themselves a customer of their banks beyond simple depositor services through loans and mortgages. Further to the principal stakeholder groups identified and postulated in the questionnaire, an additional group, the business customer, was also quoted by one respondent representing 1.5% of all respondents.

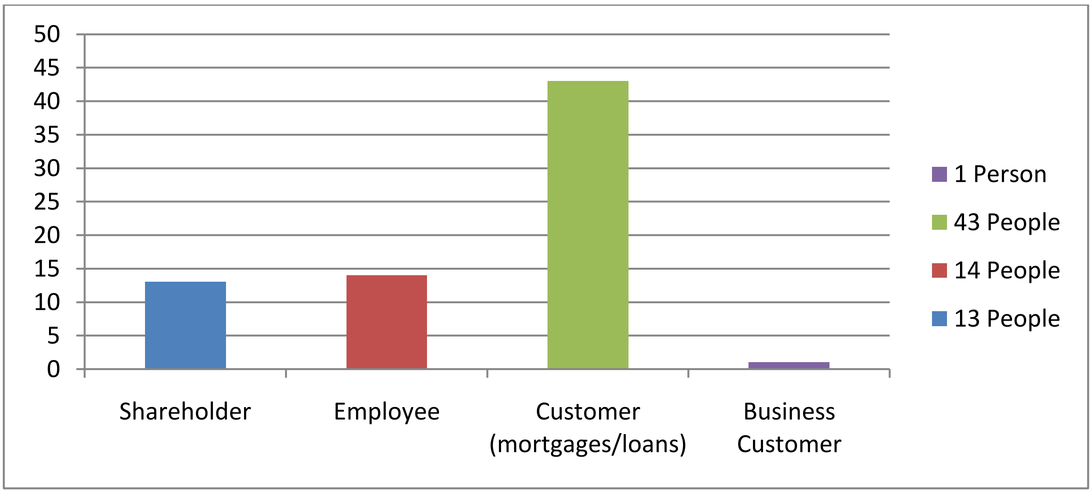

Figure 3 - Stakeholder Composition

4.2.2 Complexity Perspectives

Of the 68 respondents, 65% believed that the banking industry is no more complicated than any other industry. Recurring views of the respondents who indicated that banking was no more complicated than any other industry concluded; that all industries are subject to prudential regulatory filing, with banks essentially being no different; that banks provide products and services in the same way as any other industry, such as to attract customers who believe doing business with them will provide added value; that a bank must simply fund its activities, sell products and comply with a defined set of regulatory rules to make a profit; that banks must contend with shareholders demands, handle large flows of cash and assets and are impacted by the success of the global economy.

35% of the respondents believed that the banking industry was a more complex environment in which to operate. The principal reasons why it was viewed as more complex an industry included; that their central role in the economy makes them inherently more complicated; that the heaviest regulatory requirements fall on banks; that they are generally large organisations with different interests across a range of countries, more so than other industries; that they have a vast range of customers and stakeholders to service; and that their business environment is constantly changing due to uncertainty.

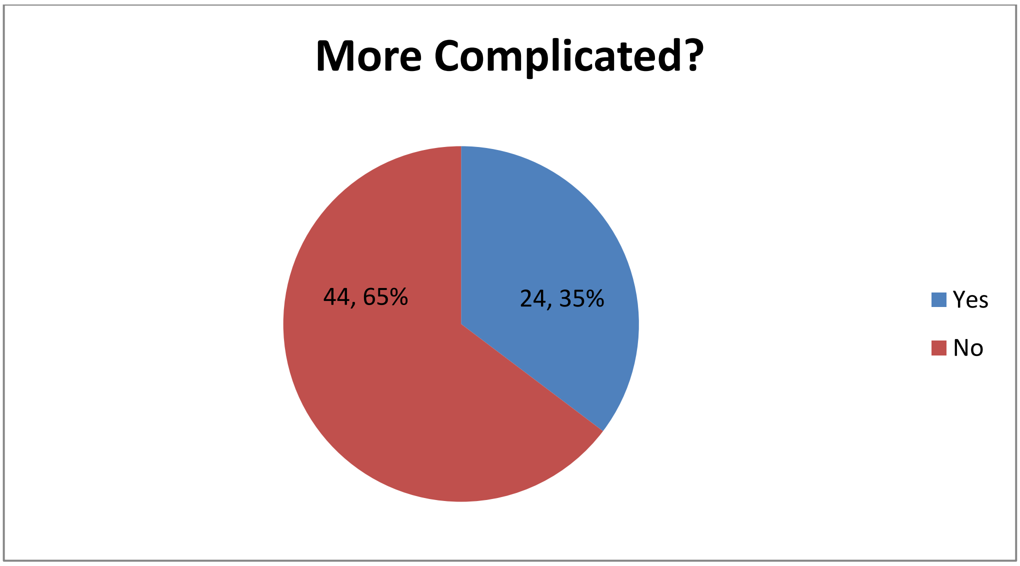

Figure 4 – Views on Relative Complexity

4.2.3 Relative Importance of Stakeholders

The tiered views of the 68 respondents unearthed potentially interesting truths surrounding wider public opinion of who should come first in the value chain. The results are graphically represented in Figure 5. In terms of what the respondents believed was the area which banks should consider as prominent in decision-making, thirty (30) respondents, (45%), believed that Ethical, Legal Best Practice and Transparency should be of primary importance. Among the various stakeholders, firstly with twenty five (25) first preferences, representing 38% of the ballot among participants was Customer Interests. Solvency and Shareholder Interests received only eight (8) selections as being of most importance, representing 12% of the sixty eight (68) respondents, while Governmental and Societal Interests and Employee Interests received only 2 preferences and 0 preferences respectively.

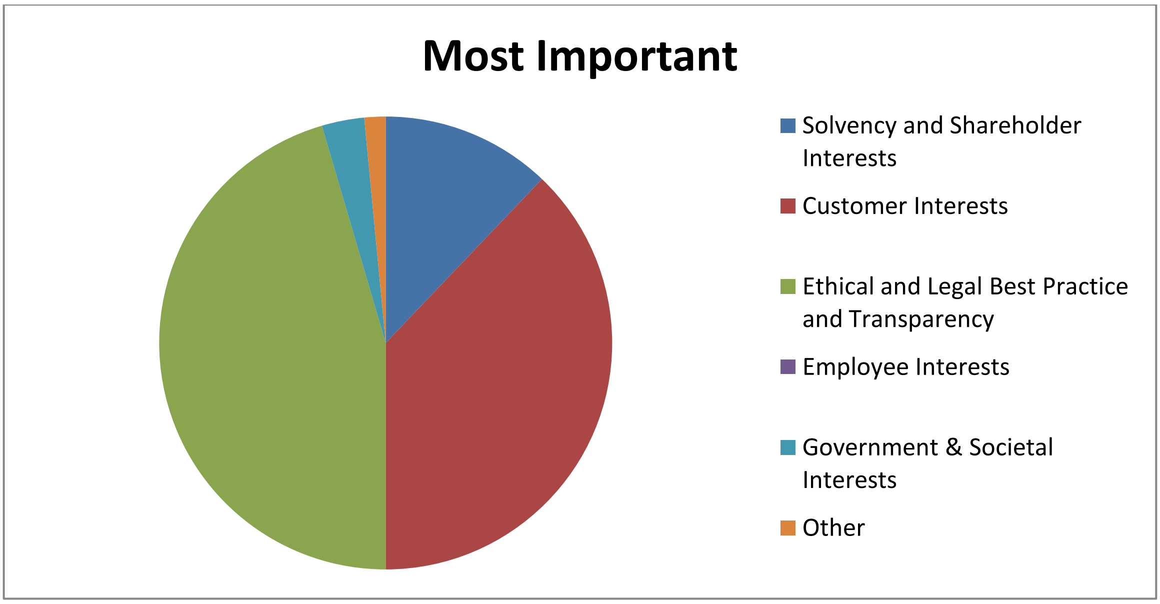

Figure 5 – Most Important Consideration for Banks

Conversely, Figure 6 graphically illustrates the opinions of respondents on what the least important constituency should be with respect to decision-making considerations of banks. Results indicate that Employee Interests, eighteen (18) responses correlating to 26.5% was considered the least important.

Government and Societal Interests received a smaller but similar share of 23.5%. Seventeen (17) respondents of the sample selection of sixty eight (68), 25% believed Solvency and Shareholder Interests should be the least important in banks decision-making. Customer Interests and Ethical, Legal Best Practice and Transparency received 16.2% and 4.4% of the first preference selection.

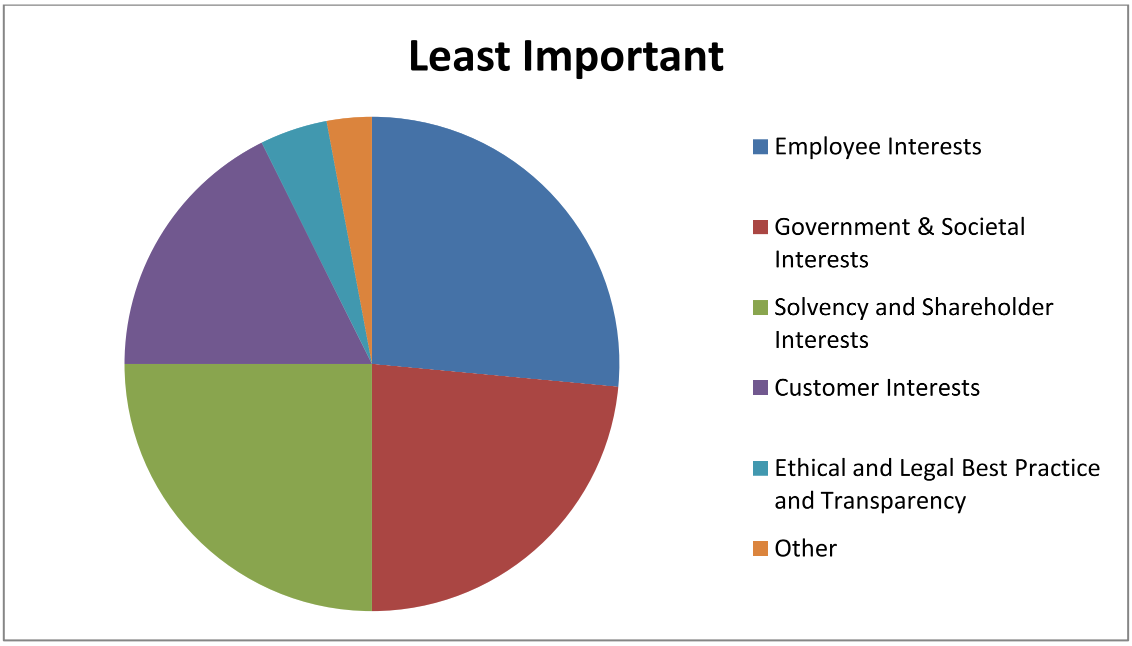

Figure 6 – Least Important Consideration for Banks

In order to get a clearer picture of the overall preference structure, Figure 7 illustrates the selections of most important, second most important, third most important and least important relative to each other. Consulting Figure 7, the information shows the diverse nature of perspectives with respect to opinion on Solvency and Shareholder Interests. With a minimum of 8 for most important, 11.8%, and a maximum of 17 for both third most important and least important, 25%, this represents a standard deviation of ~7.4, an incredibly low standard deviation terms of magnitude in the context of the modelling of the question. This can be compared with that of Ethical and Legal Best Practice at ~21.7, showing far greater polarisation of opinion, even though it only has a stake on the macro level from the legal and regulatory perspective, Sison (2008).

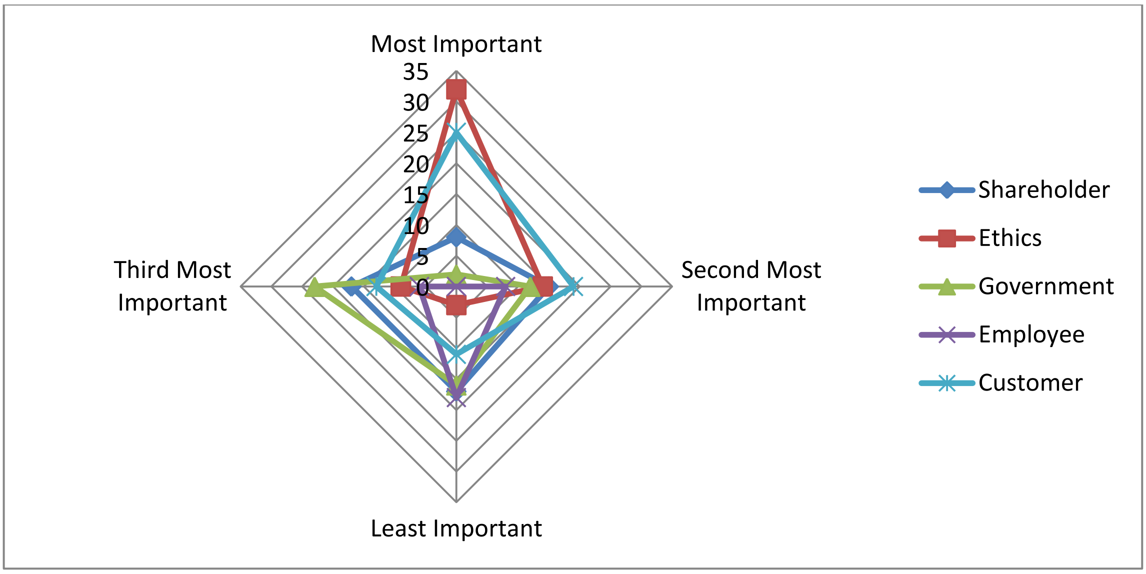

Figure 7 – Combined View of Relative Importance of Stakeholder Perspectives

4.2.4 Economic Approach and Perspectives

When asked as to what they believed the focus of Irish banks were in terms of having a short-term, medium-term or long-term perspective, the responses revealed a very even split. Twenty one (21) respondents, 30.9%, believed their bank was viewing the current economic crisis with a long term view. A further twenty two (22) respondents, 32.4%, believed that their bank was taking a medium-term perspective, while the remaining 25, 36.8%, of the respondents believed their bank took a short-term approach.

The principal reasons for selecting the long-term perspective included; actions such as lending are motivated by a belief in the long-term survival and success of the banking industry; strategies with regard to cost reduction and long-term capitalisation had been implemented, and; bailouts by definition should cover short-term liabilities and free the business up to adopt a longer-term perspective.

Those who selected the medium-term option indicated that banks are working on tasks and ideas that look at both short-term and long-term; that a pragmatic view has been taken and that banks are avoiding short-term gimmicks.

Finally, the principal reasons for choosing the short-term option included; short-term capital requirements must be met; appear merely desperate to survive in the short-term, and; no long-term thought was put into previous influxes of capital.

Notwithstanding the diversified opinions of respondents with respect to whether their bank has a long-term, medium-term or short-term view, when posed questions regarding what they would prefer to see, the sixty eight (68) respondents provided some interesting results, see Figure 8. In response to whether or not banks focussing on short-term profit would be good for them and good for the economy, a significant majority seemed to favour the longer-term approach to sound economic recovery. Of the sixty eight (68) respondents, thirty one (31), or 45.6%, disagreed with the idea of focussing solely of getting banks into immediate profit for the sake of it. Eleven (11), 16.2%, strongly disagreed. Comparing those who, strongly agree and agree, 23.5%, and those who disagree and strongly disagree, 61.8%, leaves a ratio of ~2.63:1 in favour of a longer term approach.

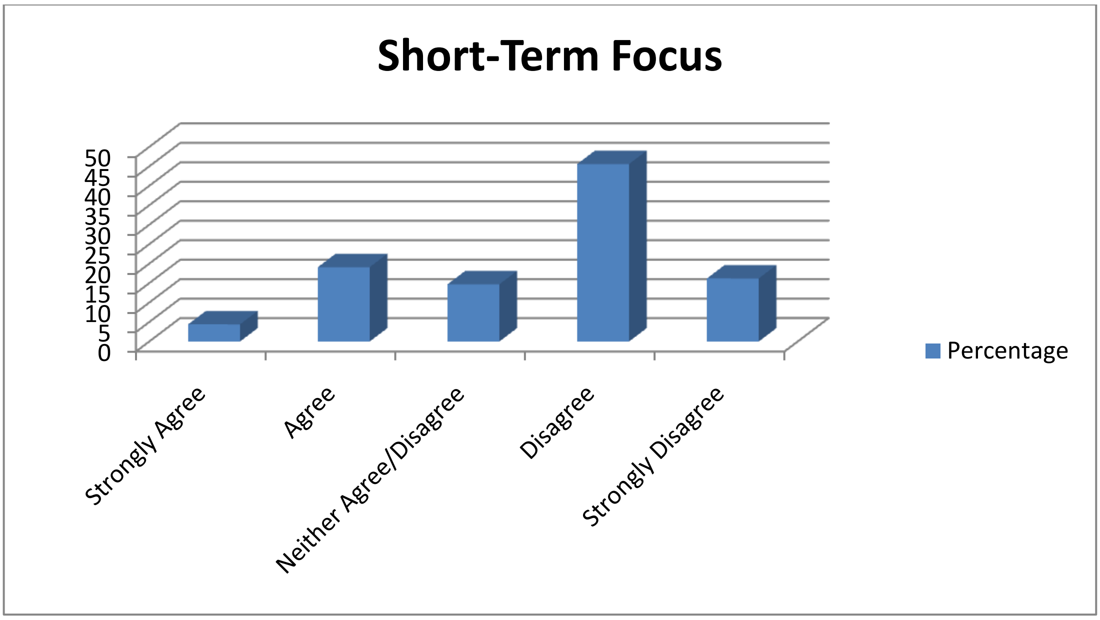

Figure 8 – Banks Should Focus on Short-term Profit

Finally, questioned as to whether banks should take the approach of primarily looking internally to solve their capital requirements dilemma over a longer-term, the response was also resounding but shifted to the opposite direction, see Figure 9. Between strongly agreeing and agreeing, 14.7% and 35.3% respectively, the combined level of agreement was 50%. Comparing this figure of 50%, with the combined level of disagreement, 22%, gives a ratio of ~2.3:1 in favour of the longer-term approach.

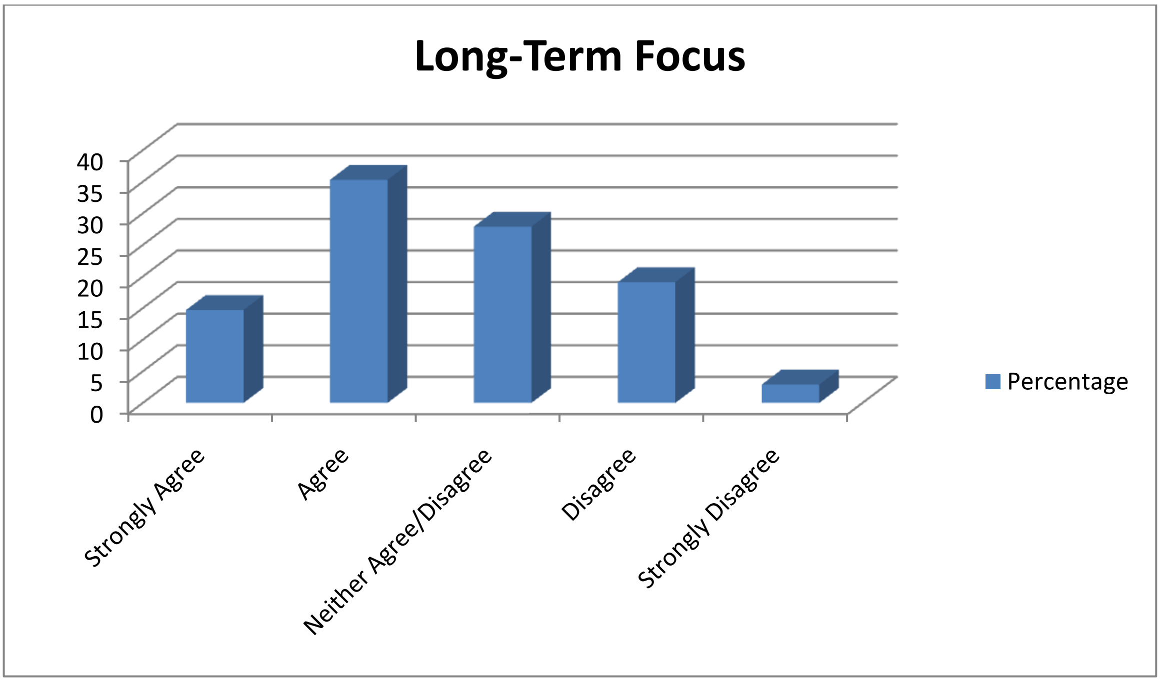

Figure 9 – Banks Should Look Internally to Save

4.2.5 Perspectives on Future Focus

All sixty eight (68) respondents gave their views on the way they feel boards of directors and senior management should primarily approach their policies with respect to governance for the future. Questioned on whether policy, moving forward, should primarily serve to accommodate a wider stakeholder perspective, see Figure 10, the respondents were highly varied in their choices.

In response to potentially approaching from the point of view of easing the burden on stakeholders, 29.4% of respondents opted to disagree. The second strongest response rate was agree, 27.9%. Given that the third largest quota opted to neither agree nor disagree was 20.6%, it seems clear that the sample audience highlights a reluctance of sorts, with 77.9% of respondents unclear as to their position. Comparing those who disagreed or strongly disagreed, 35.3%, with those who strongly agreed or agreed, 44.1%, it may be seen that the agreement to disagreement ratio is 1.25:1 in taking this approach. This indicates a high level of diversified opinion in the sample set.

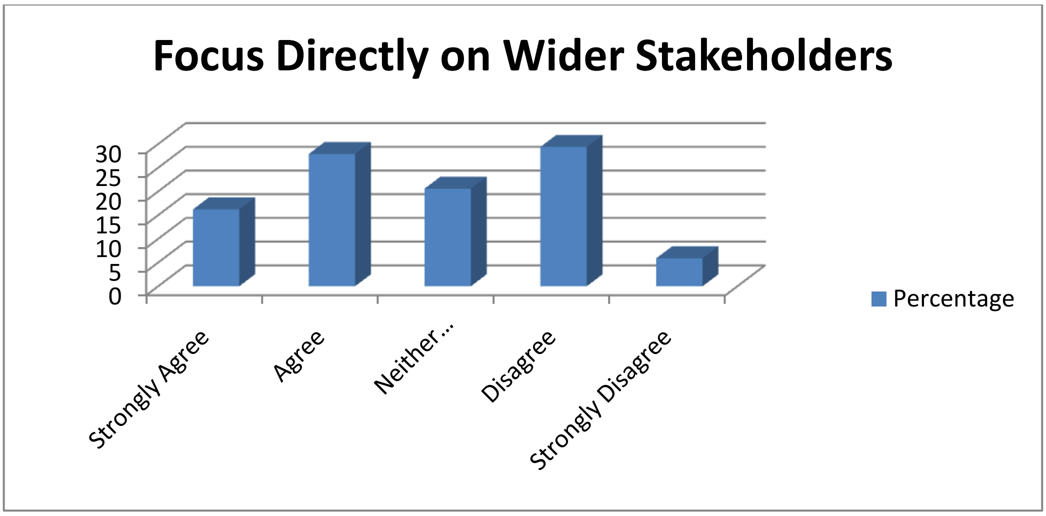

Figure 10 – A Wider Stakeholder Approach

In terms of the shareholder value creation approach, see Figure 11, it is clear where public opinion rests. The largest response implied a 39.7% disagreement with the idea of building a future playing field where the shareholder can seek greater protection from adverse risk and loss. The second largest response was that of neither agreeing nor disagreeing, with 26.5% of the sixty eight (68) respondents. Therefore, comparing those who disagreed or strongly disagreed, 48.5%, with those who strongly agreed or agreed, 25%, allows the conclusion to be drawn that a ratio of agreement to disagreement of 1:1.94 exists.

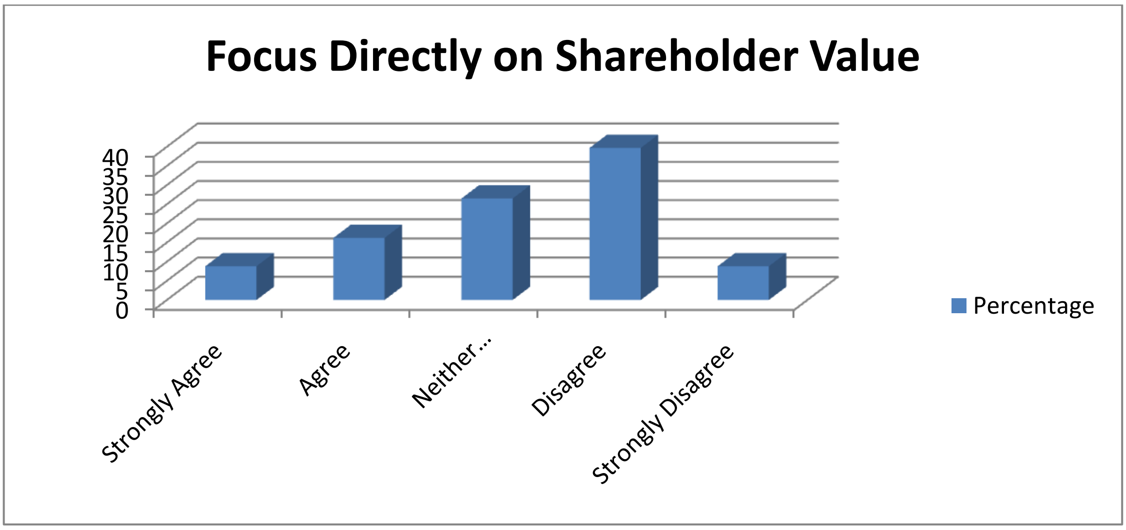

Figure 11 – A Shareholder Value Approach

The final question asked of respondents was that of an internal approach to solving long-term problems. An internal model would focus on value creation throughout the value chain. With 63.2% strongly agreeing, the respondents were heavily polarised in their interpretation of this approach, see Figure 12, with an overwhelming 92.6% in strong agreement or agreement with the hypothesis. The combined 3% rate of disagreement between disagree and strongly disagree gave rise to ~30.9:1 in terms of a ratio of agreement to disagreement.

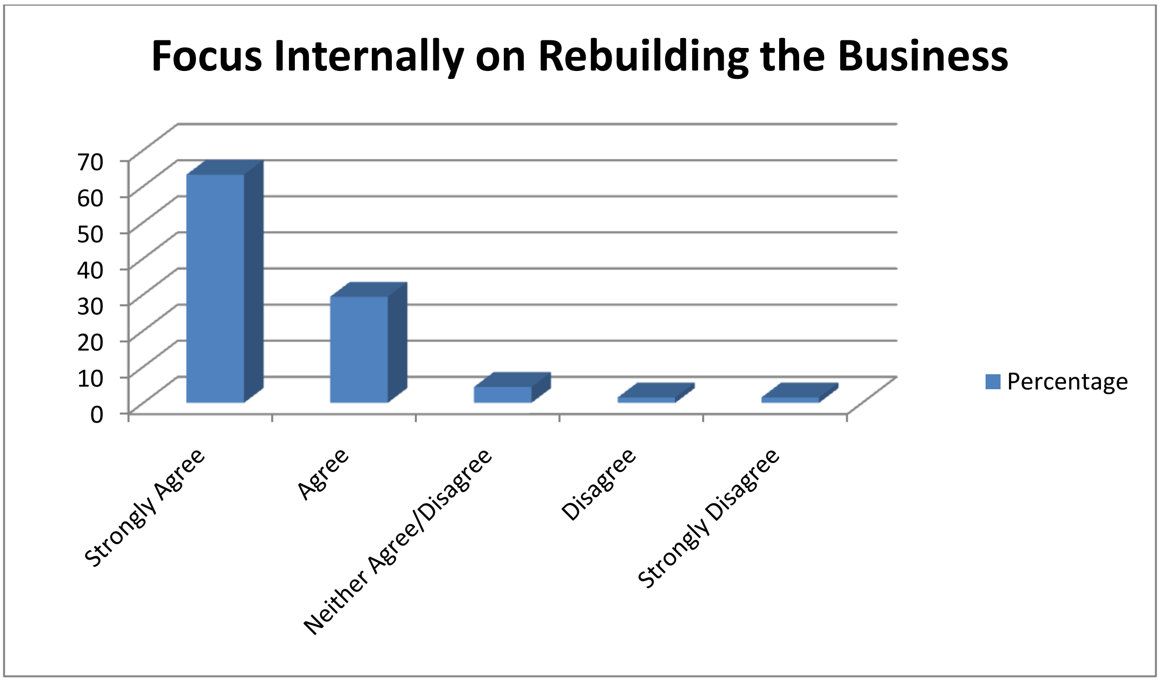

Figure 12 – An Organisational Approach

Of the three approaches to future policy, the internal rebuilding, with an agreement to disagreement ratio of 30.9:1, appears the most popular approach among the sample set compared with hugely unpopular ratio of 1:1.94 for the shareholder value creation model and a relatively well received wider stakeholder model with a ratio of 1.25:1.

4.3 Semi-Structured Interview Analysis

Two semi-structured interviews were conducted for the purpose of further exploration of governance and banking, the primary research areas under analysis, and; qualification of the predominant themes and viewpoints highlighted from the literature review, upon which the research objectives are based. The dominant themes and subject areas were grouped using thematic analysis, see Figure 13, and the findings analysed from the viewpoints of the interviewees. The interviews were conducted by the researcher in a face-to-face format and audio recorded with permission for the purpose of making transcripts.

Among the facets discussed within these thresholds were; the perceived complexity of the banking industry; the issue of transparency; the merits of current approach and the future focus of the industry; the concerns of the principal stakeholder groups of the industry, as well as; corporate control mechanisms; regulation; and industry specific perspectives on corporate governance practice.

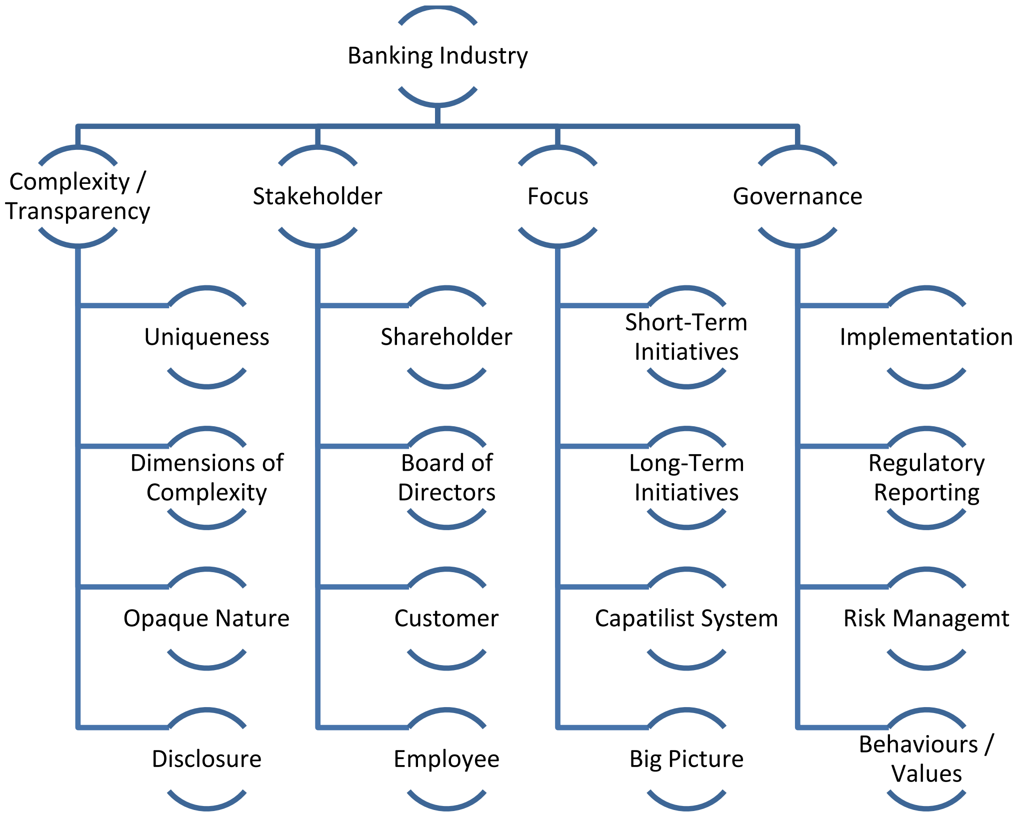

Figure 13 – Thematic Framework – Attride-Stirling (2001) – Adapted

4.3.1 Perspectives on Complexity & Transparency

4.3.1.1 Complexity

The first principal theme which arose during both interviews with industry experts was that of perceived complexity in the banking industry and the area of transparency.

Interviewee number one did not conform to the idea that the banking industry was more or less complicated than any other industry. The argument was clearly made that whilst banks believe they might be more complicated than another business due to their unique central nature to the economy in which they operate; this uniqueness does not in turn imply any added levels of complexity. This response was qualified further even when probed about normal market forces not applying to banks through the existence of deposit insurance schemes and the industry's ability to create liquidity. It was the opinion of Interviewee number one that there exists no evidence that the banking industry is more complex an environment through the existence of deposit insurance schemes.

Interviewee number two highlighted that while the ideas behind banking are simple, there exists complexities in banking, akin to other industries, whereby if the dimensions of complexity that exist are not fully understood, things can easily go wrong. In banking a lack of complex understanding of trade instruments; an approach to risk management that was not sophisticated enough; and a reliance on overly simplified models of reality which could not cope with intricate aspects of change, could potentially explain what went wrong in Ireland during the boom years.

Interviewee number two concluded that the banking industry should not be viewed as either more complicated or less complicated than any other, but instead as a trade-off of simple and immense complexities that are not fully understood.

4.3.1.2 Transparency

Interviewee number one surmised that it is appropriate for any organisation, in any industry, to be as opaque as they can be. The argument was put forward that while this was theoretically acceptable, the tax-payer, now as de facto shareholder should be entitled to greater oversight in the structure of bailed-out Irish banks. It was however suggested, that while regulation is an important part of the industrial landscape, it doesn't necessarily provide transparency, nor should greater transparency be desired. The interviewee concluded that the banking industry might potentially be more difficult to regulate than other industries.

Interviewee number two adopted a similarly holistic view on transparency. The argument was put forward that increased regulation and emphasis on transparency can lead to corporate reporting resulting in sheer volumes of paper containing nothing but opaque information and trends towards ever less informative disclosures. He proposed that greater transparency is required across the breadth of the business world today, but that it is difficult to fully define what is received in return. Furthermore, he concluded that transparency in one set of financial statements of one bank in isolation will not be particularly informative, relative to an entire banking industry that is tightly coupled with an entire building & development industry. Without proper risk management or loan collateral assessment, it is doomed to fail. In this context, it was clear that in his opinion, the necessity of quality risk management and governance supersede any requirement for greater transparency.

4.3.2 Perspectives on Principal Stakeholders

Interviewee number one concisely declared that the most important stakeholder group of any organisation is its shareholders. While the potential exists for an overriding social good to justify wider stakeholders as highly important to the organisation, a successful long-term approach across any industry must value the shareholder first. He highlighted that this does not mean the desperate pursuit of profit in the short-term to add shareholder value, but rather adopting a long-term shareholder value creation perspective.

While appreciating that if a business drives its customer away, it will not have long-term shareholders to satisfy, he proposed that any initiative to put the wider stakeholder or customer first could be justified as a tactic on behalf of directors and management to further increase the long-term wealth of the shareholder. With customer interests for instance being operationally important, but not strategically important, any consideration of potentially putting customer interests before those of the shareholder represents a fundamental misunderstanding of what long-term shareholder value means.

From a customer perspective, Interviewee number one hypothesised that banks cannot win in the loan market and concludes that banks should be to customers, what central banks are to the banks themselves, which is an institution to provide a loan which the debtor can afford to pay back. It was further argued that employees represent a stakeholder group of enormous importance to an organisation such as a bank.

Interviewee number two conversely stated that in business law, the fiduciary duty is to the entity itself and not any stakeholder group in particular. In this case the directors of the company are obliged to look after the best interests of the company and proscribed from fiscally favouring any single stakeholder constituency.

Again from a more holistic perspective, he questioned the duties of the director, pointing to the new consolidated draft Companies Bill to potentially be approved in 2013, which should better define the grey area between the traditional view of acting solely in the best interest of the entity and that involving exceptional circumstances such as insolvency where creditors would be afforded special treatment. Also questioned is the attempted maximisation of shareholder value through these traditional means of solely looking after the best interests of the company. While Corporate Social Responsibility, CSR, was attempted as an alternative approach, the legality of CSR is questionable under regular company law.

Interviewee number two argued further, that given the assumption that a company is formed under the traditional approach by a group of people with common interest with a view to making a profit, risk their capital in pursuit of return and therefore are entitled to an above average return on an above average risk on investment.

By contrast, a customer who merely pays the market rate for goods or services provided cannot lay claim to similar returns. While it is easy for the customer to think of the reasons why they could and should be treated better, Interviewee number two believed that the purpose of why a company was set up in the first instance qualifies the argument. He further clarified the key as being; to consider the overall atomic compound and not merely the individual atom.

Concluding, he emphasised that the dispassionate and objective appreciation of the rights and responsibilities of the various stakeholders in this way, can bring about heightened awareness of entitlement and culminate in wider stakeholders including customers avoiding knee-jerk reactions in their overall collective sense of entitlement.

4.3.3 Current Economic Approach & Future Focus

Interviewee number one was adamant that the bailed-out banks in Ireland have not yet realised that they are bankrupt. In order to perform they need to refocus on what their job is; which he defined as taking depositors money and reinvesting it through primary and secondary distribution. The current strategy was dubbed as fallacious, claiming that the country has inherited all the social costs it was likely to encounter in the global recession, without being put in a position to realise societal benefits in the long-term. He argued that the long-term interest of the economy would have been best served through burning through the capital structure at the time of the publicised bail-outs, and therefore the banks have a short-term perspective and next to no focus on the future, having crippled the economy.

Interviewee number one felt that the capitalist system of providing long-term loans to those using short-term deposits is in constant danger of failure. That a crisis of confidence is all it takes for inter-bank loans to dry up and lending to curtail rapidly. While the point is clearly made that it is human nature to attempt to survive and keep a job, this is defined as short-termism by Interviewee number two. He identified that many people have realised the short-term nature of excessive wages and incentive payments and the perils of fuelling an asset bubble, all driven by greed and realised the need to challenge ourselves to focus on seeing the big picture. With these justifications in mind, he alludes to the fact that cognitive understanding of risk management, hazard and uncertainty are in their infancy.

4.3.4 Perspectives on Corporate Governance

Interviewee number one shared his belief that banks in Ireland have a narrow perspective on corporate governance. In the long term, he believed that the wider reaching Franco-German style model of corporate governance policy would be most beneficial for society but that the potential pitfall of this approach would be that the stakeholders achieving net benefit might ultimately lose sight of the fact that it is primarily the owners or shareholders money involved. He argued that this broader focus to governance would paradoxically strengthen shareholder value over the long-term. He also believed that the stakeholder perspective model of corporate governance, Huse (2007), best fits the direction which governance in Ireland is taking.

With respect to risk, Interviewee number one hypothesised that risk is not a bad thing and that the most important distinction that must be made is the distinction between privatised risk being realised and privatised risk being socialised to cover the cost of realisation. He argues that while shareholders make a conscious choice to invest their capital in the hope of significant returns, the overriding need on an economic level to have a particular industry may well give the stakeholder no choice in the matter.

He surmised that recent legislation regarding operational risk guidelines has the potential to benefit all stakeholders in the long-term, but warns that risk appetite legislation , merely reduces long-term returns to banks. Continuing, it was also proposed in terms of regulation, that while regulators have always had the power to demand a bank to cease its activities, there existed reluctance to even consider enforcing this power, especially during the economic boom years. One reason postulated for this was that regulators didn’t understand the banks’ activities, and even if they did, they showed no cognition of the inherent dangers involved in such an approach.

Finally, the predominant feeling with respect to corporate governance was that Irish policy makers are very good at putting together pieces of legislation, but that these pieces of legislation, however novel or well-intended, ultimately mean nothing unless they first implemented, and then well enforced.

The conclusion of Interviewee number two with respect to corporate governance procedures favoured an exploratory approach. His initial principal thoughts on the subject surrounded the definition of the term. He postulated that directors need focus on direction and oversight, while management need to focus on operation and execution. This equated to; *doing the right thing, and doing the thing right*. The role of the director in the modern company is; to direct and oversee; to discharge duties and to see that these duties are carried out by management. Therefore, if direction and oversight are in line with strategic objectives and strategic objectives are in line with corporate objectives, then the overall ideal of governance should be simple and not the complex web of relationships postulated in literature.

He hypothesised that governance comes down to knowing right from wrong, that the right values lead to the right behaviours, which lead to the right actions, which is entirely consistent with doing the right thing. He proposed that governance practice should be about promoting good behaviours and avoiding so called cognitive cul de sacs which come about when motivated by narrow sets of imperatives. He concluded that with a decrease in regulation in the form of endlessly formulaic governance manuals, and a stronger focus on identifying and improving bad behaviours, a better balance can be found. A synopsis can be found in Figure 14.

Interviewee Number One	Interviewee Number Two
Not more complex than other industries. Unique to an economy but not more complex.	Not more complex than other industries. Dimensions of complexity misunderstood.
Transparency not an important issue. Regulation doesn't provide Transparency.	Corporate reporting becomes a volume of opaque disclosures. Uninformative in isolation.
Shareholder the most important. Long-term shareholder value provides social benefit.	Narrow shareholder perspective no longer acceptable. Rights and responsibilities important.
Short-term focus. Must realise bankruptcy and take a longer-term perspective.	Short-term focus to economic environment. Long-term elements also present.
Broader corporate governance focus needed. Long-term shareholder approach necessary.	Governance is knowing right from wrong. Values lead to behaviours and behaviours lead to actions.

Figure 14 - Interviewee Response Contrast

4.4 Summary

Both the questionnaire and the qualitative interviews highlighted that banks were viewed as no more complicated an industry than any other.

Both the questionnaire and the qualitative interviews highlighted that the opinion of the banks adopting a predominantly short-term focus, when a longer-term focus is being called for.

A vast majority of respondents felt that banks should take an internal perspective with respect to their future economic approach. A high number also believe they should focus on rebuilding their business.

Ethical and Legal Best Practice and Transparency was viewed by respondents as what should be most important in a banks considerations.

The interviewees concurred that transparency is not an important issue given the opaque nature of reporting systems.

Employee Interests were viewed by respondents as what should be of least in importance in banks' considerations for decision-making.

Shareholder Interests showed the lowest standard deviation of all available choices. This highlights a high diversity of opinion among wider stakeholders with respect to the legitimacy of entitlement to investment returns.

The interviewees concurred in questioning strongly the legitimacy of ranking customer interests ahead of those of the shareholder.

The interviewees believe that the approach to corporate governance taken in Ireland is that of the shareholder supremacy perspective, but with movement shifting towards the stakeholder perspective.

The interviewees indicated their desire to see a broader corporate governance system, encapsulating amended behaviours, fewer sets of pedantic rules and less informative volumes of disclosures.

CHAPTER FIVE
DISCUSSION AND CONCLUSIONS

5.1 Introduction

The previous chapter documented the findings from the quantitative online questionnaire, and from the two qualitative semi-structured interviews. This combination of research is discussed relative to the literature on the subject areas documented in Chapter Two.

The findings from the research relative to the banking industry indicate numerous commonalities of perspective in terms of economic approach and focus. Strong views were expressed across the research findings regarding the perceived short-term focus of the industry in Ireland. It is questioned frequently in the views of participants whether this approach is likely to produce net societal benefit.

The research also indicated a common train of thought that the banking industry in isolation should be viewed as no more complicated an industry than any other in particular. The idea that different industries have their own unique aspects, intricacies and complexities, but not to the extent that they can be defined as more or less complicated than another was unilateral. This view is substantiated in the peer reviewed literature on the subject, Macey and O’Hara (2003), Mullineaux (2006) and Murzanda (2006). In opposition, Turlea et al. (2010) and De Andres and Vallelado (2008), claim that the banking industry is more complex than other industries.

Furthermore, large diversity was found throughout the research in the context of the relative importance of various stakeholder groups to the industry. The research found that while it is acknowledged in many ways that the industry is about long-term profit and of central importance to the economy, there exists a common thread of perceived unimportance of the shareholder group and their interests to the banking industry. This view is not substantiated through either the relevant literature in Chapter Two, or the interviews carried out.

Finally, a collective opinion resides across both sets of research findings that ethics and transparency are important, but that the approach towards achieving both ethical behaviour and transparency is poorly defined in terms of corporate governance systems. The argument may be made for a broader approach to governance in this context.

5.2 Discussion

The principal areas of debate which therefore arose from the research findings were those of; the perceived complexity of the industry with regard to future focus and solutions to the current economic outlook of the country; the rights and responsibilities of the different principal stakeholder groups to the industry, and the range of interpretations of corporate governance in Ireland, including views on balancing risk, disclosure, groupthink and ethical behaviour.

5.2.1 Complexity

The findings from the interviews concurred with Macey and O'Hara (2003), Mullineaux (2006) and Murzanda (2006), noting that the banking industry is no more complicated than any other industry. It is highlighted that every industry has its intricacies and complexities. The research thus found that banks are not viewed as more complicated than other firms by wider stakeholders. Turlea et al. (2010) argue that in being creators of liquidity, normal market forces do not apply to banks. In turn, De Andres and Vallelado (2008) highlight the highly leveraged capital structures of banks and surmise that this severe debt to equity ratio, unparalleled in any other industry, makes the industry more complex.

De Andres and Vallelado (2008) postulate, that the lack of transparency in the banking industry, relative to other industries, is a direct function of the complex nature of the business. The research found the relevance of transparency in this case questionable, Mullineaux (2006) concurs. The research found that most stakeholders view a bank's activities on a simplified level. It is suggested that banks fund their activities in the same way any other industry attempts to fund its interests; through selling products and services and complying with regulatory requirements in order to subsequently make a profit.

While the research also found that banks are viewed as more complex organisations than organisations in other industries because of; their central role in the economy; their typical large size with stakeholder numbers and; their position as principal lenders to firms in an economy. Mullineaux (2006) and Turlea et al. (2010) concur with the arguments in relation to centrality and lending, noting that banks directly influence both the operations of other firms in the economies in which it does business, and the overall prosperity of nations. Consequently, Turlea et al. (2010) believe banks to be more complicated as a function of this. Mullineaux (2006) however, does not substantiate this argument with respect to complexity.

The research found that in not attempting to measure the complexity of the banking industry in isolation, but rather viewing the dimensions of complexity that exist within it, conclusions could be drawn surrounding the recent banking crisis. These conclusions are centred upon a potential lack of understanding of highly advanced trade instruments, as well as; the use of risk management approaches which are not sophisticated enough. Levine (2004) also proposes information asymmetries as being at their largest in the banking industry lending scope to poor risk management as well as; misunderstandings of the relative power of trade instruments, but these industry-specific complexities cannot justify an overriding opinion that the banking industry is more complex than any other.

5.2.2 Rights and Responsibilities of Stakeholder Groups

The research interviewees found the most important stakeholder group in any organisation to be the shareholder, as they own the organisation. This appears to follow the Anglo-American approach to corporate governance Macey and O'Hara (2003), which places the maximisation of shareholder value at its core. The research found that this approach, while narrow in perspective from a stakeholder point of view was in the process of being broadened in Ireland. Macey and O'Hara (2003), state; that the Anglo-American perspective on corporate governance is the pursuit of maximum shareholder value, even if this conflicts with the interests of other corporate constituencies. It is argued that these other constituencies must be ignored unless the legal obligation exists that forces them to take them into holistic consideration.

The research collated diverse data with respect to what the broadly ranging sample set of stakeholders valued as respective stakeholder constituencies. Ranking first in terms of preference for banks was the, Sison (2008) postulated, ethical and legal stake in the organisation; that if these are compromised like any other stake, the organisation would struggle to do business. The same sample set placed customer interests above those of the shareholders. This finding was dismissed entirely by the research interviewees, a view substantiated by Mullineaux (2006). It was argued that the placing of customer interests before those of the shareholder simply showed a fundamental misunderstanding of what long-term shareholder value means in any industry. While this does not necessarily mean the short-term pursuit of profit over all else, it does follow the argument of Friedman (1970) in distinguishing between the principal and the agent in the ownership structure of the business.

The research found that in law the fiduciary duty should be to the entity itself, and not the shareholder group or indeed any other group. That this was attempted with the adoption of a corporate social responsibility, C.S.R., literature by organisations does not show that the corporate view of wider stakeholder value had changed. In the argument of the research interviewees, this shows that the corporate governance perspectives of directors in Ireland were beginning to broaden from an Anglo-American perspective to a wider stakeholder encompassing Franco-German approach, Macey and O'Hara (2003), with a twist.

The potential twist is that while not directly focussing on shareholder value, activities undertaken under this Franco-German approach are paradoxically increasing long-term shareholder value. The research found this perspective more befitting of regular company law in terms of potential liability in favouring one stakeholder group over another, Miller and Sardais (2011). The research also categorised it as a tactic for long-term shareholder value. The result however, is prophesised to potentially yield net societal gain, Donaldson and Preston (1995).

The research found that the issue of rights and responsibilities of the stakeholders takes greater prominence. This concurs with findings of Huse (2007). It must be deemed relevant to the overall scope of the discussion that the shareholder makes any hypothetical investment, at a predetermined risk, with a view to realising a return that correlates to that risk.

The research found that in the context of the risk return argument, the shareholder must come before the customer, as the customer has not materially invested and assumed risk, but purchased a given good or service at the market rate. Friedman (1970) concurs with the research findings.

The research found that while the current corporate structure exists, it is difficult to envisage a situation where regulation will not be the only defence for the wider stakeholder in the banking industry given that regulation exists primarily to protect those depositors who do not opt into equity risk in search of a reward. This concurs with similar findings by Mullineaux (2006). Conversely, the research also found that when actionable trust is broken, Yakhou and Dorweiler (2005), subsequent ethical blowbacks, Donaldson (2007), are minimised if the customer understands better the difference between what is operationally important to banks, and what is strategically important.

The research found that while fixed claimants such as non-shareholder constituencies are protected against risk in Ireland through state insured deposits, strategically, the transfer of wealth to the shareholder is paramount. Macey and O'Hara (2003) argue that as wealth is transferred from the fixed claimant to the residual claimant, or shareholder, this only serves to increase risk appetite. Lajili and Zeghal (2010) concur with this argument. The research found that risk is only reduced in the long-term through the imperfect nature of management playing the role of agents in the principal agent dilemma. Donaldson (2007) concurs, stating that principal-agent interests tend to diverge over time.

Directors and management are fixed claimants to the enterprise and should theoretically favour less risk than the shareholder, Mullineaux (2006), but must also attempt to act as perfect agents, Huse (2007). The research found that the new Companies Bill being drawn up in Ireland should allow directors scope for latitude in their legal obligations to the entity and its owners. The new legislation will potentially include governance structures promoting a culture of integrity and leadership for the board distinct from management. This will directly affect their interpretations of their rights and responsibilities to the organisation, Young (2009)

In conclusion, the research found that it is of importance that stakeholders of banks in Ireland consider the overall compound structure of rights and responsibilities for various claimants in their evaluations, and not that which is beneficial to one stakeholder group in isolation, with the potential to generate net societal cost.

5.2.3 Interpretations of Corporate Governance

The research found the Franco-German approach towards governance as the direction in which Ireland is travelling. In this context, Macey and O'Hara (2003) found that the approach *of individual partnerships* is seen to take the long-term stakeholder into account.

Four definitions of corporate governance, covered by Huse (2007), describe corporate governance from; a managerial viewpoint; a shareholder viewpoint; a stakeholder viewpoint, and; an organisational viewpoint. Hamill et al. (2010) and Knights and O'Leary (2005) highlight the blemished reputation of the Irish banking industry as a whole. The research found clear polarisation in the feeling that the banking industry should take a longer term focus whilst at the same time looking internally to rebuild this tarnished reputation. This view is similar to that of the organisational perspective, Huse (2007). This model of corporate governance is unique to the others in that it adopts a balanced perspective focussing on long-term marginal gains rather than short-term profit, and promotes internal value creation.

This raises an interesting juxtaposition of perspectives with respect to the overall research undertaken. The research found that the banking industry in Ireland is moving strongly towards the more interactive, stakeholder definition of corporate governance of Huse (2007). The argument is put forward that in the current economic crisis, it is likely that pressure exists to look externally rather than internally, resulting in governance and ethical malpractice, Hamill et al. (2010), continuing unreported, Griffin (2010). While the research finds the industry is looking towards the longer term, any increased attempts in the cultivation of improved relationships between the wider cast of actors involved with respect to decision-making on policy must be viewed holistically. These attempts will be undertaken with the predominant intention of long-term shareholder value. In summary, any projected increased stakeholder value will be nothing more than incidental from a strategic viewpoint. Miller and Sardais (2011) harmonise with this principal-agent dilemma.

The research also found that Irelands approach to corporate governance is similar to that of the shareholder supremacy model of Huse (2007). The argument raised correlates back to the fact that directors and management act as agents for the owners of the entity. Naturally, this implies a large degree of externality in terms of strategic perspective, but it is defined by Huse (2007) as holding a unitary, short-term perspective. In this context, the research found that the fiduciary duty is designed to benefit the entity itself and not any particular stakeholder constituency. Macey and O'Hara (2003) state however, that a bank owes fiduciary duties both to its depositors and its shareholders. In summary, directors' actions as agents need not be restricted by a parameter such as principal influence.

The research found that corporate governance is not a web or nexus of corporate contracts and relationships, but simply; the practice of doing the right thing, and following it through correctly. In this context the argument evolves into that of an improvement in the behaviours of directors, and not simply increased regulation for regulations sake. The literature on the subject strongly substantiates these findings. Mullineaux (2006) substantiates this in advocating a system of corporate governance that is supported by a wider governance structure. Murzanda (2006) argues that if governance policy is improved in this way, the result will be well governed banks. Continuing, it is found that well governed banks, are more likely to allocate capital efficiently, and less likely to fail. Robins (2006) notes the importance of ethical and cultural dimensions to governance relative to those of a technical and political nature, while Thomsen (2005) highlights the benefits of ethical transparency as a core value of CEOs.

The research found that Irish policy-makers are efficient and decisive in formulating articles of legislation. The predominant point made however, is that these articles of legislation, however novel or well-intended, ultimately mean little unless they can first be wholly and successfully implemented, and subsequently well enforced.

In summary, the research found that with a decrease in regulation in the form of less endlessly formulaic governance manuals, and a stronger focus on identifying and improving bad behaviours, Young (2009), a better balanced corporate governance approach can be easily designed and more smoothly implemented in Ireland.

5.3 Conclusion

The research found that a substantial breadth of opinion exists with respect to the key issues in corporate governance. The research also found that Ethical and Legal best practice of the industry is of paramount importance to the stakeholder. Wider stakeholders are not considered fundamental in importance and are of systemic relevance to the banking industry in Ireland; and shareholder constituencies are of more direct importance in the strategic decision-making of the industry. The literature indicates that to balance this trade off in banking, the goals of both the wider stakeholder and the shareholder must seek alignment, Macey and O'Hara (2003).

The research also found that wider stakeholders believe that Irish banks should strive to attain an internal long-term focus in order to best meet the economic and ethical demands they will face in the coming years. The literature concurs with this finding through Kakabadse and Kakabadse (2007), who claim that any business must look internally to define its core values.

The research question posed whether non-shareholder constituencies of the banking industry in Ireland are protected by corporate governance mechanisms. Peer reviewed literature on corporate governance highlighted that every stakeholder group of banks in Ireland has been adversely affected through malpractice failures, Hamill et al. (2010); failures in ethical leadership, Knights and O'Leary (2005) and Robins (2006); failures in regulatory processes, Laufer (2006); a lack of independence on boards of directors, O'Regan et al. (2005); and selfish managerial assessment of institutional risk, Lajili and Zeghal (2010).

The research found that the wider stakeholder feels mistreated by the banking industry in the current economic climate and that the industry is no more complex than other industries. Literature surrounding these findings highlighted that the government and banking industry in Ireland have contributed strongly to recent economic downfall, Thomas (2011); that the social cost of excessive risk in banking is greater than downside risk for the shareholder, Walker (2009); and that the mismanagement of governance adversely affects all stakeholder groups, Mendelsen (2010).

Literature on the subject suggest that national codes of ethics can better protect the wider stakeholder; McNutt and Batho (2005); that governance structure derived from innate corporate values can promote ethical behaviour, Thomsen (2005); and that promoting a culture of integrity in governance structures minimises the risk to those absent power and understanding, Young (2009).

The research ultimately found that non-shareholder constituencies are protected, but not comprehensively protected by corporate governance mechanisms in the banking industry in Ireland. The introduction of a new code of ethics promoting transparency in values of directors and integrity in ethics and corporate responsibility would best serve the wider stakeholder in the banking industry in Ireland.

5.4 Limitations to the Research

The primary limitation to the research was the sample set upon which the research questionnaire was based. The total number of respondents to the survey, at sixty eight (68), with a response rate of 30.5%, was relatively low to draw accurate larger population conclusions from. While every effort was made to ensure diversification in the sample set with respect to age, gender, relative stake in the banking industry and socio-economic background, had the total number of respondents been of a larger magnitude, the validity and accuracy of the conclusions could only have been enhanced, Groves et al. (2009:2).

In relation to the semi-structured interviews, Flick (2002:80) warned of the dangers of being influenced by the “subjective definitions of the situation”. It is possible that this occurred during the interview process. Furthermore, the interview sample set of two (2), was low. Given time the constraints involved however, as well as the systemic relevance of the opinions of the particular two interviewees, this is a minor limitation.

5.5 Further Research

An area of further research which could be undertaken is the exploration of the potential to devise a new comprehensive ethical code for CEOs, directors and senior management in the banking industry. The research found this area to be lacking in definition and substance. Such a code would serve to protect all stakeholders and could be of immeasurable importance to the future of the banking industry in Ireland.

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APPENDIX

Appendix A

Online Questionnaire

1. Gender
    - ☐ Male
    - ☐ Female

2. Age
    - ☐ 17 – 22
    - ☐ 23 – 30
    - ☐ 31 – 40
    - ☐ 41 – 50
    - ☐ 51 – 60
    - ☐ 65 +

3. What is/are your relationship(s) to your bank?
    - ☐ Shareholder
    - ☐ Customer
    - ☐ Employee
    - ☐ Other Please Specify

4. Do view a bank as being more complicated than a firm in a different industry?
    - ☐ Yes
    - ☐ No

    Please Briefly Explain

5. Which of the following, in your opinion, should banks today consider as:

<u>Most</u> important in their decision-making:

- ☐ Solvency and Shareholder Interests
- ☐ Ethical and Legal Best Practice and Transparency
- ☐ Government and Societal Best Interests
- ☐ Employees Best Interests
- ☐ Customers Best Interests
- ☐ Other Please Specify

<u>Second most</u> important in their considerations:

- ☐ Solvency and Shareholder Best Interests
- ☐ Ethical and Legal Best Practice and Transparency
- ☐ Government and Societal Best Interests
- ☐ Employees Best Interests
- ☐ Customers Best Interests
- ☐ Other Please Specify

<u>Third most</u> important in their considerations:

- ☐ Solvency and Shareholder Best Interests
- ☐ Ethical and Legal Best Practice and Transparency
- ☐ Government and Societal Best Interests
- ☐ Employees Best Interests
- ☐ Customers Best Interests
- ☐ Other Please Specify

<u>Least</u> important in their decision-making considerations:

- ☐ Solvency and Shareholder Best Interests
- ☐ Ethical and Legal Best Practice and Transparency
- ☐ Government and Societal Best Interests
- ☐ Employees Best Interests
- ☐ Customers Best Interests
- ☐ Other Please Specify

6. Do you see your bank as taking a long-term or short term view with respect to the current economic crisis?
    - ☐ Long Term
    - ☐ Medium Term
    - ☐ Short Term

7. With the recent publicised struggles of Irish banks to generate cash-flow in a struggling economy:

    I believe that my bank should focus on making short-term profit, by any means, as that is good for both me and the economy

    - ☐ Strongly Agree
    - ☐ Agree
    - ☐ Neither Agree nor Disagree
    - ☐ Disagree
    - ☐ Strongly Disagree

    I believe that my bank should look internally to save and seek to make profit that way

    - ☐ Strongly Agree
    - ☐ Agree
    - ☐ Neither Agree nor Disagree
    - ☐ Disagree
    - ☐ Strongly Disagree

8. Given the recent “bail-outs” of Irish Banks, and consequent financial impositions placed on employees, customers and Irish taxpayers as stakeholders in these banks:

   Directors and Senior Management of banks should focus on easing the financial burden on its adversely affected stakeholders:

   - Strongly Agree
   - Agree
   - Neither Agree nor Disagree
   - Disagree
   - Strongly Disagree

   Directors and senior management of banks should focus on helping its adversely affected shareholders recoup their recent substantial losses:

   - Strongly Agree
   - Agree
   - Neither Agree nor Disagree
   - Disagree
   - Strongly Disagree

   Directors and Senior Management of banks should focus on the long term rebuilding and refinement of their businesses to gain reliability and stability:

   - Strongly Agree
   - Agree
   - Neither Agree nor Disagree
   - Disagree
   - Strongly Disagree