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THE REGULATORY FRAMEWORKS GOVERNING CORPORATE GOVERNANCE IN BANKING INSTITUTIONS ACROSS DIFFERENT COUNTRIES BY CONTINENTAL EUROPEAN MODEL

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Abstract. Corporate governance in banking institutions plays a pivotal role in ensuring stability, transparency, and accountability within the financial system. Across different countries, regulatory frameworks governing corporate governance vary significantly, reflecting diverse legal traditions, cultural norms, and institutional arrangements. In the Continental European model, characterized by a stakeholder-oriented approach, regulatory frameworks prioritize long-term sustainability, stakeholder representation, and collaborative decision-making. This study aims to explore the regulatory frameworks governing corporate governance in banking institutions within the Continental European context, examining key aspects such as board structures, legal frameworks, regulatory oversight, and cultural influences.

The purpose of this study is to provide insights into the regulatory frameworks governing corporate governance in banking institutions within the Continental European model. By examining regulatory structures, legal frameworks, and cultural influences, this study seeks to enhance understanding of governance practices and their implications for financial stability, accountability, and stakeholder engagement. The study aims to contribute to the broader discourse on corporate governance in banking, providing valuable insights for policymakers, regulators, industry practitioners, and researchers.

The Continental European model of corporate governance in banking institutions is characterized by a stakeholder-oriented approach, with emphasis on employee representation, long-term relationships, and a commitment to broader societal interests. This literature review explores the regulatory frameworks governing corporate governance in banking institutions within the Continental European context.

Stakeholder Representation: In Continental European countries such as Germany and France, regulatory frameworks prioritize stakeholder representation on corporate boards. Gorton and Schmid (2004) examine the impact of codetermination on firm performance in Germany, highlighting the role of employee representatives in governance decision-making processes. This emphasis on stakeholder representation reflects a commitment to balancing the interests of various stakeholders, including employees, customers, and the broader community.

Two-Tier Board Structure: The Continental European model often features a two-tier board structure, comprising a management board (executive) and a supervisory board (non-executive). This dual-board system is designed to separate management from oversight functions and promote checks and balances. Carletti (2009) discusses the interplay between competition and regulation in banking within the European context, highlighting the unique governance structures and regulatory landscape shaped by two-tier board systems.

Legal Frameworks and Regulatory Oversight: Regulatory frameworks governing corporate governance in Continental European countries are often enshrined in company law and supplemented by industry-specific regulations. These legal frameworks establish requirements for board composition, director duties, disclosure practices, and shareholder rights. The regulatory oversight of banking institutions is typically conducted by national regulatory authorities, with adherence to European Union directives and guidelines.

Long-Term Orientation and Stability: Unlike the short-term focus often associated with Anglo-American governance models, the Continental European model prioritizes long-term value creation and stability. This emphasis on sustainability and resilience is

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reflected in governance practices such as cross-shareholdings, strategic partnerships, and collaborative decision-making processes. Allen and Carletti (2008) explore the role of banks in reducing the costs of financial distress in Continental European countries, underscoring the importance of governance mechanisms in enhancing financial stability.

Cultural Influences and Institutional Context: Cultural factors play a significant role in shaping corporate governance practices within the Continental European model. Norms of trust, consensus-building, and social responsibility influence governance dynamics and regulatory approaches. These cultural influences interact with institutional contexts, such as legal traditions, labor relations, and historical legacies, to shape governance norms and expectations.

In conclusion, the regulatory frameworks governing corporate governance in banking institutions within the Continental European model prioritize stakeholder interests, long-term sustainability, and collaborative decision-making. Board structures, legal frameworks, regulatory oversight, and cultural influences interact to shape governance practices, emphasizing accountability, transparency, and financial stability. While challenges remain, including balancing stakeholder interests and navigating cultural norms, the Continental European model offers valuable insights for promoting effective governance in banking institutions. By understanding and adapting to regulatory frameworks within this model, policymakers, regulators, and industry practitioners can enhance governance practices and promote the resilience of banking systems.

Keywords: corporate governance; stakeholder; banking institutions; European Union.

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