



Report of the Oxford Bank Governance Programme

Leading banks in a changing world
Four new challenges for bank directors

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Foreword



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The financial crisis of 2008/09 was regarded by many as a crisis of corporate governance. At the very least, it revealed severe shortcomings in the mechanisms that are intended to provide the checks and balances needed to keep banking organisations honest, safe and resilient.

Those weaknesses on the part of banks resulted in government bailouts running into the hundreds of billions of dollars and an overall economic recession. This reinforces the fact that banks are systemic. The impact of their failure is felt by everyone; therefore the responsibilities of their leaders rise above the norm – something that has again been highlighted starkly with the failure of Silicon Valley Bank and the emergency sale of Credit Suisse almost 15 years later.

New regulatory frameworks developed after the 2008/09 crisis had a particular focus on risk-management and remuneration. But as we emerged from the COVID-19 pandemic only for Russia to invade

Ukraine and exacerbate a spiral of soaring energy prices and concomitant inflation while also confronting the hard deadline to cut carbon emissions, banks and their boards have a greater remit and more complex challenges than ever. What is their role in tackling the global problems of the environment, inequality, and other social issues? How do they work with a widening circle of stakeholders and within increasingly interconnected business ecosystems? And how will the financial sector itself respond to accelerating technological change?

These are some of the questions that we grappled with during the first Oxford Bank Governance Programme, delivered in person at Saïd Business School, University of Oxford, in July 2022. Over thirty bank directors, executives and advisors, from across the world and from organisations both large and small, came together for a week of deep reflection, debate, and discussion, guided by contributions from leading academics and high-profile expert speakers.

This report summarises four of the key themes that emerged from the classroom discussions, instead of re-citing the academic insights, to highlight some of the key topics of concern to bank directors. We anticipate exploring these and other themes and building on them during the programme.

Understanding and enacting purpose

'I just used to think about operating costs and the bottom-line profitability. I never really cared about what are the products, what are the services that you're putting out there that are actually going to make the institution have good profitability. Also, who are the customers that you should be serving?

On the corporate side, on the retail side, who are these customers. And finally also, what are their needs? These are what's driving revenues and finally bottom-line profitability.'

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Faculty members teaching on the programme argued that the chief advantage of the 'Friedman Doctrine' that has underpinned capitalism for the past 50 years is its simplicity. If the 'only social purpose of business ... is to make profits for its shareholders', then businesses have only one stakeholder to satisfy: the shareholders. And they have a single measure of success, which makes decision-making and incentive-setting very straightforward.

Unfortunately, the relentless focus on this single measure of success meant that corporations came to care about money above all else, to the detriment of their own people and of other stakeholders around them. This has underpinned a world of increasing inequality, in which the high pay of investment bankers and the success of the financial sector overall have contributed to a lack of trust in the sector.

Participants recognised that businesses and investors are increasingly moving away from the Friedman Doctrine to explore the broader focus of 'stakeholder capitalism' and the idea of Purpose. For bank boards, this is likely to mean shifting their mentality away from overseeing and promoting the sole pursuit of profitability, to thinking carefully about the real factors that should be driving that profitability.

They discussed a number of challenges, including:

Understanding stakeholders It is not just that there is a larger number of stakeholders to satisfy in a purpose driven business, but they each may have a different notion of the 'value' that they want to maximise. Whose value – or values – are most important?

Ensuring organisational alignment A clear purpose can still be associated with multiple priorities: participants mentioned, for example, affordability, accessibility, and supporting communities – along with an underlying realisation that the environment is critically important. The challenge of governance becomes a challenge of alignment – of the purpose, vision, mission, and culture of the bank.

Restoring trust An analysis of high-profile controversies associated with major banks suggested that lack of alignment was very often at the root of them – particularly a lack of alignment between the stated purpose and the culture.

Board membership and composition

'[my bank] puts the board in the centre. So we are responsible for setting the culture, so we have direct links with workers and employees. We are responsible to set the policies for suppliers and other third bodies. Independence of mind is critical, though. If you have a conflict, you cannot be a member of the board, because you will not be compliant [with requirements to be] a fit and proper supervisor of the team.'

Despite regulatory clarity about the role of the Board in general, there is surprisingly little consensus – or evidence from research – about the optimal composition of the Board, the combination of experience and personality that makes a good Board member, and how directors can be most effective.

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Programme participants, the majority of whom were already board members, enriched discussions that touched on these questions by sharing their own experiences. Key issues included:

Expertise It is widely assumed that bank directors, more than directors of any other sort of organisation, should have financial expertise – although a complete, in-depth understanding of all the highly technical products offered by banks is unfeasible. Participants agreed that a broad understanding of the banking sector and market was sufficient to fulfil their advisory role. This could be gained in a role related to banking – such as a lawyer specialising in financial services. The key is having enough knowledge to be able to ask the right questions.

Diversity Too many people with a background in the industry could be dangerous, however, as it could lead to 'groupthink'. In fact, given that some of the most important decisions in banking are about loans, it could be most useful to have directors with expertise in different market sectors as they would be better able to analyse the strength of the companies to which the bank is about to lend. A potential problem to watch out for is when individual directors become over-stretched when they are invited to share their expertise by joining a variety of boards.

Independence In all the countries represented by the programme participants there are policies that guard against conflicts of interest on the part of board directors. However, individual directors still have the challenge of remaining objective and of avoiding being unduly influenced by individuals or groups with special interests, either among the managers or the shareholders. They have to find a way to support their own 'independence of thought' and promote critical thinking by their colleagues.

Addressing Climate Change

‘Who’s got the power, who’s got the policy instruments? Unfortunately when I talk to people in Government, they say, oh it’s a private sector issue: they’re the ones responsible for most of the emissions. But the private sector have their own objectives. And yes, some people in the private sector will do the right thing because it’s the right thing to do but you need coordinating mechanisms and if the government doesn’t fill that space ...’

The systemic nature of banks puts them at the heart of discussions and strategies surrounding ESG (environment, social, governance) issues.

Participants in the programme were painfully aware of the complexity and interrelatedness of all three of these themes, and of how addressing them will require the collaboration and cooperation of all stakeholders within their own ecosystems, as well as more widely.

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The financial sector is seen as being able to drive the transition, because, at least in theory, it decides what gets funded, and what does not. Banks should be engaging with their clients in order to help them decarbonise. However, participants clearly felt that they were pushing against resistance from a number of different quarters, including government inertia and shareholders’ pressure for short-term profits.

They raised a number of concerns, including:

Greenwashing In a number of companies, talk about sustainability and a small number of ‘green’ projects mask a continuation of environmentally damaging practices. Or a focus on the benefits of a product (Tesla, for example, is environmentally highly rated as a product) distracts from the emissions generated during production.

Divestment The argument against divestment is that someone is always going to buy, and they may not be environmentally responsible: it is far better to keep hold of the shares and use them to influence the company to be more responsible. But that still means that there is investment in, for example, fossil fuel companies, even if a proportion of the owners are environmentally conscious. How can banks themselves avoid continuing along the path of least resistance?

Leadership Even where there is regulation, such as ESG disclosure requirements, the inward-looking nature of ‘materiality’ means that some environmental impacts are not considered. Participants were clear that they wanted more leadership and directives from government that would cut through the conflicting priorities and difficulties of focusing on the long rather than short term.

Navigating a changing technological landscape

'To give people pink bank cards and call that innovation in a world where we have so much data – it's just unacceptable'

Technology enables connectivity and the formation of digital ecosystems that collect better and more accurate data – allowing behavioural scientists, not just data scientists, into the market to understand us better. Combined with AI, better data means more information that can help companies innovate through refining products or creating new ones that meet changing customer needs.

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In the banking sector, fintech companies have started to launch a range of mobile-first, app-based 'bank' accounts along with do-it-yourself investment dashboards. Participants discussed how banks should respond to this new competition and how technology can help them to grow and innovate in the future.

Innovation Regulators around the world have realised that protecting data stifles innovation. There are other organisations who could do useful things with it in order to create services for the customer. Incumbent banks have historically tended to see innovation in terms of graphic design – brightly coloured bank cards or new incentives to open an account. But releasing APIs (application programming interface) to licensed third parties can create a range of new data-driven products to help consumers manage their money and access better deals.



Trust Because fintechs are driven by data, they can do better things and faster, but consumers do not (yet) trust them. Many people have opened accounts, but the average holding is very low: they use these accounts to play with, but keep most of their money in a 'real' bank account.

Future trends The trust placed in banks is to a very large extent because people believe their assets are safe with them. But if you ask the same people how much they trust the bank to look out for their best interests, the answer is much lower. Fintechs, on the other hand, are trusted in terms of 'benevolence', and they will learn and grow. The more they offer useful and customer-centric services, the more customers will be prepared to trust them with their assets.



Saïd Business School at the University of Oxford blends the best of new and old. We are a vibrant and innovative business school, but yet deeply embedded in an 800-year-old world-class university. We create programmes and ideas that have global impact. We educate people for successful business careers, and as a community seek to tackle world-scale problems. We deliver cutting-edge programmes and ground-breaking research that transform individuals, organisations, business practice, and society. We seek to be a world-class business school community, embedded in a world-class university, tackling world-scale problems.

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impact from within

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