

# Research Handbook on International Banking and Governance

*Edited by*

James R. Barth

*Auburn University and Milken Institute, USA*

Chen Lin

*Chinese University of Hong Kong*

Clas Wihlborg

*Chapman University, USA*

**Edward Elgar**

Cheltenham, UK • Northampton, MA, USA

# Contents

|  |            |
|--|------------|
| <i>List of contributors</i>  | viii       |
| <i>Foreword 1 by Franklin Allen</i>  | xiii       |
| <i>Foreword 2 by Harald Benink</i>   | xiv        |
| <i>Foreword 3 by Gerard Caprio and Ross Levine</i>   | xvi        |
| Introduction and overview<br><i>James R. Barth, Chen Lin and Clas Wihlborg</i>   | 1          |
| <b>PART I OWNERSHIP, EFFICIENCY AND STABILITY</b>  |            |
| 1 Bank governance: concepts and measurements<br><i>Frank M. Song and Li Li</i>   | 17         |
| 2 Bank ownership and performance: a global perspective<br><i>Iftekhar Hasan and Liang Song</i>   | 42         |
| 3 Is there a conflict between competition and financial stability?<br><i>Barbara Casu, Claudia Girardone and Philip Molyneux</i>   | 72         |
| 4 What drives bank operating efficiency? The role of bank competition and credit information sharing<br><i>Chen Lin, Yue Ma and Frank M. Song</i>                                | 87         |
| 5 Corporate borrower nationality and global presence: cross-country evidence on the pricing of syndicated bank loans<br><i>Joel Houston, Jennifer Itzkowitz and Andy Naranjo</i> | 124        |
| 6 Lessons learned from recent financial crises<br><i>Benton E. Gup</i>   | 149        |
| <b>PART II COMPENSATION, PERFORMANCE AND RISK</b>  |            |
| 7 Bank ownership and risk taking: improving corporate governance in banking after the crisis<br><i>Kenneth R. Spong and Richard J. Sullivan</i>                                  | 163        |
| 8 Executive compensation and risk-taking in European banking<br><i>Rym Ayadi, Emrah Arbak and Willem Pieter De Groen</i>   | 179        |
| 9 CEO pay and risk-taking in banking: the roles of bonus plans and deferred compensation in curbing bank risk-taking<br><i>Jens Hagendorff and Francesco Valsancini</i>          | <b>200</b> |
| 10 Bank failures and CEO compensation<br><i>Walter Dolde and John D. Knopf</i>   | 210        |
| 11 Restricting risk-taking by financial intermediaries through executive compensation<br><i>Tom Berglund</i>   | 219        |

PART III MARKET DISCIPLINE: PREREQUISITES AND EFFECTIVENESS

|    |   |     |
|----|---|-----|
| 12 | The lost cause: the failure of the Financial Crisis Inquiry Commission<br><i>Peter J. Wallison</i>  | 227 |
| 13 | Market discipline for financial institutions and markets for information<br><i>Apanard P. Prabha, Clas Wihlborg and Thomas D. Willett</i> | 238 |
| 14 | Moral hazard, bank resolution and the protection of depositors<br><i>David G. Mayes</i>   | 270 |
| 15 | The governance of 'too big to fail' banks<br><i>Andy Mullineux</i>  | 285 |
| 16 | Incentives to improve the corporate governance of risk in financial institutions<br><i>Richard J. Herring</i>                             | 296 |

PART IV GOVERNANCE, REGULATION AND SUPERVISION

|    |   |     |
|----|---|-----|
| 17 | The boundary problems in financial regulation<br><i>Charles A.E. Goodhart and Rosa M. Lastra</i>              | 321 |
| 18 | Financial architecture, prudential regulation and organizational structure<br><i>Ingo Walter</i>              | 332 |
| 19 | Corporate governance and prudential regulation of banks: is there any connection?<br><i>Lawrence J. White</i> | 344 |
| 20 | The policy conundrum of financial market complexity<br><i>Hilton L. Root</i>                                  | 360 |
| 21 | The future of financial regulation: reflections from an emerging market perspective<br><i>Rakesh Mohan</i>    | 378 |

PART V GOVERNANCE, STRATEGY AND SOCIAL RESPONSIBILITY

|    |   |     |
|----|---|-----|
| 22 | Financial innovations, marketability and stability in banking<br><i>Arnoud W.A. Boot and Matej Marinc</i>   | 395 |
| 23 | Bank acquisitions and strategy since the GLB Act<br><i>J. Kimball Dietrich</i>  | 412 |
| 24 | Social, environmental, ethical and trust (SEET) issues in banking: an overview<br><i>Andreas G.F. Hoepner and John O.S. Wilson</i>                          | 427 |
| 25 | Corporate social responsibility, financial performance and selection bias: evidence from Taiwan's TWSE-listed banks<br><i>Chung-Hua Shen and Yuan Chang</i> | 458 |

PART VI GOVERNANCE IN NON-BANK FINANCIAL  
INSTITUTIONS

- 26 Management turnover, regulatory oversight and performance: evidence  
from community banks 487  
*Ajay A. Pava*
- 27 Redeemability as governance: a study of closed-end and open-end funds  
under common management 510  
*Peter MacKay*
- 28 The role of venture capitalists in the acquisition of private companies 535  
*Paul A. Gompers and Yuhai Xuan*
- 29 Governance and microfinance institutions 565  
*Rients Galema, Robert Lensink and Roy Mersland*

PART VII REGIONAL AND COUNTRY STUDIES

- 30 Bank governance: the case of New Zealand 581  
*Don Brash*
- 31 Corporate governance in European banking 588  
*Francesca Arnaboldi and Barbara Casu*
- 32 Debt forgiveness during Japan's lost decade 610  
*Satoshi Koibuchi*
- 33 Corporate governance of banks in Korea 646  
*Heungsik Choe and Byungyoon Lee*
- 34 Banking regulatory governance in China: a legal perspective 660  
*Yufeng Gong and Zhongfei Zhou*
- 35 Corporate governance and bank performance in Thailand 680  
*Tientip Subhanij and Wanvimol Sawanggoenyuang*
- 36 Governance issues in Indian microfinance 696  
*Shubhashis Gangopadhyay and S.K. Shanthy*
- Index* 707