



The integration of sustainability in corporate governance systems: an innovative framework applied to the European systematically important banks

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Abstract

The growing interest in corporate social responsibility (CSR) issues is the result of a cultural path that sees banks react to market changes and become protagonists of an increasingly sustainable future. Based on these considerations, this paper intends to investigate the level of integration of sustainability issues in banks' corporate governance systems. We carry out an exploratory analysis on all European systematically important banks during the period 2015–2019. By adopting the content analysis approach, we develop a novel governance score based on a research model made up of 40 items. We name the score: “Bank's governance ESG (Environmental Social Governance) integrated index”. The main results of our study reveal not only growing awareness of banks to integrate sustainability in their corporate governance, but also a strong heterogeneity in their corporate behaviours and large rooms for improvement. Indeed, we find that just over half of the surveyed banks pay really attention to the integration of sustainability issues in their business and governance processes. This contribution is especially driven by the banks' boards of directors, whose size and composition contribute positively to overall sustainable performance. To the best of the authors' knowledge, this is the first empirical study that investigates the level of integration of ESG factors in the banking sector, developing a quantitative score ranging from 0 to 100%. This study differs from previous studies in that it develops an “Bank's governance ESG integrated index”, which considers the areas of corporate governance that have the greatest impact on the implementation of sustainable practices in banks. Our research is limited to investigating the level of integration of ESG factors for listed banks over a 5-year period. In fact, our time horizon is represented by the four-year period 2015–2019. This research has practical implications. First, investors more attentive on sustainability issues could identify and select the banks that best implement ESG criteria in their corporate governance systems. Second, our research model could be adopted by banks as a “diagnostic tool” to carry out a self-assessment process and identify possible room for improvement.

Keywords Corporate governance · ESG · Content analysis · Banking sector · European global systemically important institutions · Sustainability

This paper represents the results of a joint research project carried out by the four authors. However, the various sections of the paper are divided as follows: section “Results and discussion” G. Dicuonzo; section “Research model” F. Donofrio; sections “Introduction” and “Literature review and research questions” A.P. Iannuzzi; section “Conclusions, implications, and future research lines” V. Dell'Atti.

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Introduction

In the banking sector, Corporate Social Responsibility (CSR) covers many activities such as lending, asset management, payment systems and risk management (Dahlsrud 2008). Since these factors can influence society and the surrounding environment, banks should fully integrate CSR into their business strategies and consider it as a strategic tool capable of improving relations with stakeholders, with consequent positive impacts in terms of consent, trust, and performance (Fahad and Rahman 2020; Shakil et al. 2019). To achieve this goal, that is to ensure the inclusion of social and environmental considerations in the decision-making processes, a key role can be played by banking corporate governance.

Indeed, the High-Level Expert Group on Sustainable Finance HLEG, in its final report of 2018, stated that composition of the governing and control bodies is key to aligning companies more closely with long-term and sustainability prospects. Moreover, business success depends on executive and non-executive directors who understand sustainability drivers and translate risks and opportunities into their business models (Harjoto and Wang 2020). For these reasons, financial sector supervisors should consider whether members of banks' governing bodies are able to anticipate long-term risks and sustainability challenges and whether they take sustainability considerations into account in their decision-making processes. Additionally, to strengthen corporate sensitivity to ESG issues, regulator encourages banks to establish a CSR committee to ensure greater stakeholder attention and greater caution of the company's ethical values as well as, more generally, improving the company's reputation (Fahad and Rahman 2020; García-Sánchez et al. 2018). Finally, as the EBA states in the Guidelines for creating and monitoring loans, "*institutions should incorporate ESG factors and associated risks in their credit risk appetite and risk management policies, credit risk policies and procedures, adopting a holistic approach*" (European Banking Authority 2020).

A new regulatory and organisational framework is therefore being defined, where sustainability will increasingly be at the centre of the comparison between intermediaries, managers and investors. Moreover, as several studies prove a positive relationship between sustainability and economic or financial performance (Sharma et al. 2020), banks should increase the integration of ESG practices in their corporate governance systems (Shakil et al. 2019). Although pursuing an ESG strategy within a company comes with some costs, companies expect this cost to be offset by positive effects on performance, revenue stability, and lower investor returns

(Miralles-Quirós et al. 2019). The most important of these effects is improvement of the bank's reputation, determining the key to attracting and retaining customers, increasing employee retention and producing better financial results (Branco and Rodrigues 2006). Especially for the banking sector, CSR practices can become a significant reputational factor that can add value over time (Brío and Oviedo 2018).

Despite these considerations, few banks choose to integrate sustainability criteria into governance systems, a discrepancy that this paper intends to address by filling a gap in the literature. Indeed, recently, there has been growing discussion on "sustainable governance", that is, on the integration of ESG issues in governance systems (European Commission 2020), but how can this process take place? What are the paths to follow? What is the state of the art of this process in the banking system that must first demonstrate that they have effective sustainable governance systems?

This paper intends to answer these research questions by first proposing a useful framework to understand and verify how to integrate the ESG criteria in banking governance, and subsequently by applying this model to all Global and Other Systemically Important Institutions (G-SIIS and O-SIIS) selected by the European Banking Authority. The proposed framework, in line with the literature and regulatory suggestions, appears innovative both for its articulation in different areas of investigation and for the extent of the issues examined. If this model of analysis represents the major contribution of this paper, our study also has the merit of shedding light on a new research topic related to the integration of ESG issues in banking governance on which future research should yield further valuable insights.

The main results of this study reveal a strong heterogeneity in the banks' behaviour: currently, only some banks seem to really pay attention to the integration of sustainability issues into their business and governance processes. However, there is also growing evidence that banks are becoming aware of the need to include sustainability issues in their corporate governance systems. This trend is especially driven by the banks' boards of directors, whose size and composition contribute positively to overall sustainable performance. The focus on sustainable practices is also fuelled by the adoption of a well-developed ERM process and the development of remuneration policies based on non-financial metrics.

This paper is structured as follows: "[Literature review and research questions](#)" section presents the literature review; "[Research design](#)" section describes the research design; "[Results and discussion](#)" section shows the results of analysis; and finally, "[Conclusions, implications, and future research lines](#)" section discusses the conclusions.



Literature review and research questions

Starting from Eugene Fama's study (1985), a rich strand of literature has studied the importance of corporate governance in banks (Acharya et al. 2012; Chijoke-Mgbame et al. 2019; Ferrarini 2015; Laeven 2013). Much of the existing literature has focused on the special attributes of banks that make good corporate governance fundamental, differentiating bank governance from that of non-financial corporations (Becht et al. 2011; Hopt 2012). Conflicts of interest, the opacity of banking activities and regulation are the main characteristics that make banking governance different from that of non-financial corporations. Concerning conflicts of interest, it is known that banks are susceptible to a higher level of moral hazard than non-financial firms due to the presence of safety nets (Macey and O'Hara 2003). These special attributes imply that agency costs are likely to be more pronounced in such financial institutions than in other companies (Laeven 2013). If bank failure, the limited liability of shareholders allows them to leave the company and transfer the risk to creditors. The transfer of risk to creditors by managers, who act on behalf of shareholders, has governance implications in terms of debt agency costs, effective monitoring, and efficiency of managerial incentives (John and Senbet 1998). If top banking management is closely aligned with equity holdings, they will have strong incentives to undertake high-risk investments (John and Qian 2003). Therefore, managerial incentives that align the interests of shareholders with the interests of managers could increase the conflict between shareholders and debtholders, especially in highly leveraged institutions.

Another attribute of banks that makes corporate governance systems important is the opacity and complexity of their activities (Becht et al. 2011; Chijoke-Mgbame et al. 2019; Laeven 2013). First, information asymmetry in the banking environment makes it harder for widespread shareholders to control managers and for debtors to control banks from shifting risk from shareholders to debt holders. Second, opacity makes it more difficult to design effective incentive contracts. Opaque bank managers can often implement incentive policies, and more generally remuneration policies, that are not aligned with the bank's long-term success (Levine 2003).

Finally, concerning regulation, banks are subject to many stringent rules and disclosure requirements that make them more transparent than non-financial corporations (Nannicini et al. 2018; Hopt 2012; John et al. 2010). These obligations have become more stringent as a result of the subprime financial crisis that caused huge losses to many companies around the world, especially in the financial sector. It is widely believed that this crisis highlighted important inefficiencies in corporate governance structures that result in

a lack of safeguards against excessive risk-taking by financial companies (Aebi et al. 2012; Beltratti and Stulz 2012; Ullah et al. 2020). In this context of uncertainty, legislators intervened in many respects, limiting the investment options for banks, imposing stringent capital requirements, and prescribing banking governance characteristics, which in turn influence managerial incentives and risk choices. Indeed, the recent provisions implemented by the EC range from the composition of the administrative and control bodies to the characteristics of professionalism and integrity of the representatives (fit and proper) to the structure and metrics to be used for the managerial remunerations (Brogi 2019).

Given the importance of the banks' corporate governance, during that time, several studies examined the impacts of governance mechanisms on bank performance and risk-taking (Beltratti and Stulz 2012; Pathan 2009; Süsi and Jaakson 2020). Throughout the world, good corporate governance is recognized as a fundamental principle that underpins the performance of banks and is increasingly attracting the interest of academics, economists, and politicians (Aslam and Haron 2020; Miralles-Quirós et al. 2019; Shakil et al. 2019). A successful corporate governance structure can improve public accountability, create economic value, minimize risk exposure, and increase operational efficiency (Basel Committee on Banking Supervision 2010). Good corporate governance requires that a board of directors fulfil its statutory duty to supervise the management of their company, protect the interests of shareholders, and ensure compliance with regulatory requirements. Good governance practices can benefit bondholders as well as shareholders, who are important stakeholders in a firm's assets. Also, good governance mechanisms can reduce the risk of business insolvency by mitigating agency costs, monitoring management performance, and reducing the information asymmetry between banks and their capital providers (Bhojraj and Sengupta 2003; Gardenal and Cavezzali 2016).

Also, several scholars have recently highlighted the positive effects of a virtuous corporate governance system on the non-financial performance of banks that refers to three complementary areas: environment, governance, and social (ESG). Indeed, many studies have investigated the link between the sustainability performance of banks (expressed by an ESG score or other CSR measure) and their corporate financial performance, showing, in most cases, a highly significant, positive, and solid relationship, which is maintained in all countries and sectors (Sharma et al. 2020; Cosma et al. 2020; Kyaw et al. 2017; Setó-Pamies 2015).

In line with these studies, an interesting strand of research has recently emerged, aimed at investigating the need for banks to integrate sustainability practices into their corporate governance systems (Süsi and Jaakson 2020). The reasons are multiple and connected to the current global social and economic context. Certainly, the implications in



terms of risks and opportunities for banks are bringing ESG dimensions to the banking business. Sustainability has for years now been one of the most important issues globally for large companies, including financial institutions, and has received even greater attention since the elaboration and implementation of the 17 Sustainable Development Goals (SDGs) by the United Nations in September 2015. This initiative was followed by the EC's action plan aimed to develop more sustainable economic growth, ensure the stability of the financial system, and promote greater transparency with a long-term vision in the economy.

Following regulatory enforcement, the banking governance system has greatly improved in recent years. However, the question arises: how can this virtuous process be continued? What are the current main drivers to make banking corporate governance even more efficient and in line with the expectations of supervisory authorities? In light of the considerations already made, few banks have begun to incorporate sustainability practices in their corporate governance. This paper intends to address this discrepancy by filling a prominent gap in the literature. Indeed, there is more and more talk of “sustainable governance”, of integration of ESG issues in the governance systems (European Commission 2020), but how can this process take place? What are the paths to follow? What is the state of the art of this process in the system of banks that must first demonstrate that they have effective governance systems? This work tries to answer these timely research questions.

Research design

Sample and data collection

The analysis focuses on the universe of Global and Other Systemically Important Institutions (G-SIIS and O-SIIS) selected by the European Banking Authority (EBA). These financial intermediaries are chosen first for their size. The largest banks, for both systemic and reputational reasons, are the first firms called to promote sustainability strategies and then to integrate sustainability issues into their corporate governance systems. Secondly, another motivation is related to the homogeneity and uniformity of the business model that generally characterizes the G-SIIS and O-SIIS. Specifically, the original sample of 238 banks (36 G-SIIS and 202 O-SIIS) was gradually reduced. Only the holding companies were considered because generally the subsidiary banks follow the same CRS strategies as their holdings. Moreover, as Eikon-Thomson Reuters represents one of the sources of our information, the banks that are not included in this database have been excluded. The final sample is made up of 85 listed banks belonging to several European geographical

areas, while the investigation was carried out over the period 2015–2019 for a total of 20,898 observations. The analysis starts in 2015 because the issue of the integration of the sustainability into banks' governance systems begins to receive greater importance just from this year when some relevant global initiatives on sustainability are adopted (Paris Agreement on climate change and SDGs).

To answer the research questions, we developed a quantitative score, called “Bank's governance ESG integrated index”, consisting of 40 items based on the literature review, operational practices, and regulatory statements. The score aims to ascertain the level of integration of sustainability issues by the surveyed banks and to summarize the performance level of each institution to identify the most virtuous behaviours. To elaborate on this score, the content analysis approach is adopted (Sharma et al. 2020; Beattie and Thomson 2007; Dahlsrud 2008). Therefore, all the bank's official documents on governance and sustainability policies were considered (corporate governance report, sustainability report, annual report, etc.). Also, we also used the Refinitiv database to verify the banks' compliance to some items of the model.

Research model

According to the literature (Gompers et al. 2001; La Porta et al. 1998) and the current regulation framework, an innovative model of analysis divided into seven sub-areas of investigation was developed.

The first section concerns the board of directors and consists of nine indicators. It is recalled that the members of the board play a key supervisory role, including environmental and social issues, as well as the promotion of ethical values in the corporate culture (García-Sánchez et al. 2018). In this regard, some studies have also found that the effectiveness of the monitoring and supervision functions exercised by the board in the context of CSR is the strongest when the parameters of independence and composition are aligned with the best practices perceived on the market (Peasnell et al. 2005; Zubeltzu-Jaka et al. 2018). Indeed, independent directors can more effectively implement CSR guidelines because they are less sensitive to internal influences and can focus solely on stakeholder expectations than executives (Harjoto and Jo 2011). In this vein, the model primarily investigates the number of other business affiliations for the board member (item 1). Research indicates that firms with interlocked directors' benefit from their directors' social networks experience positive returns when engaging in CSR activities at a fast pace (Shahab and Ye 2018; Al-Dah 2019). The second item analyses the integration of sustainability objectives in the corporate strategic plans while (item 2), for a broader assessment of the level of integration of sustainability



policies in banks' governance, the model of analysis verifies if banks design a dedicated figure on sustainability, such as the CSR Manager (item 3). The figure of the CSR manager, indeed, reconciles the economic objectives of the company with the impact of the same on the community, the environment and all stakeholders, bringing the culture of sustainability in the company and overseeing the social responsibility of the company (Argento et al. 2019). Moreover, as several studies find that the inclusion of women on boards is beneficial for banks as it helps mitigate risks and encourages prudent financial decisions (Bravo 2018; Khatib et al. 2020), the model of analysis also delves into some relevant gender diversity issues, including the percentage of women on the board (items 4, 5, 6, 7). Similarly, the model also considers the percentage of the independent board members (item 8) because these directors generally focus more on the company's reputation and CSR performance (Harjoto and Wang 2020). Finally, the last item of the first sub-area of analysis refers to the promotion of the highest level of general business ethics (item 9) (García-Sánchez et al. 2018).

The second section of the model of analysis refers to policies, certifications, and awards and consists of nine items. In more detail, item 10 analyses if the bank adopts the ISO 14000 or EMS certification, while items 11 and 12 verify, respectively, if the bank subscribes to the Equator Principles (EP) and adopts a code of conduct. Many companies choose to adopt environmental management systems (EMS) to address sustainability issues. Specifically, some companies choose to be certified to recognized international standards, such as ISO 14001, which is an international, voluntary certification scheme for an environmental management system administered by the International Organization for Standardization (ISO) (Takahashi and Nakamura 2010). In addition, the adoption of EP leads to more learning among project financial institutions about environmental and social issues; moreover, having more expertise in these areas will allow banks to better advise clients and control risks (Scholtens and Dam 2007). In the same vein, items 13 to 18 aim to attest if some important policies concerning, respectively, the corruption, the conflicts of interests, the experience of the board members, the gender diversity and the responsibilities of each director are implemented in the bank. Indeed, the adoption of such policies in each bank fosters adequate monitoring of CSR activities and improved social performance including codes of ethics governing bribery, corruption and policies with stakeholders, employees, customers, suppliers, community, human rights and so on (Moharana 2013; Wu and Shen 2013). Finally, the last item of the second section refers to the award for ethical or environmental activities/performance eventually obtained by the bank.

The third area of investigation concerns the establishment of a CSR or Sustainability Committee that assists the board of directors in supervising and evaluating the company's responsibility practices by also ensuring that potentially dangerous risks to the company's reputation are accurately assessed (items 20 and 21) (García-Sánchez et al. 2018).

The fourth area of investigation explores all those risks, which we believe relate to social responsibility issues. In particular, the main ethical risks facing the company are observed, such as reputational risk (item 22; BCBS 2009), misconduct risk (item 23; FSB 2018), sustainability risk (item 25; EC 2020), and crisis management systems (item 26; WBCSD 2017). In addition, banks' focus on new emerging risks, such as climate change risk, is examined (item 24). Indeed, climate risk management is considered an essential tool for the implementation of the Paris Agreement, in which it prioritises investor awareness of the risks and opportunities associated with climate change (TCFD 2019).

The model is then sought to examine reporting practices to understand if and how the selected banks communicate their CSR activities externally. This fifth area of analysis refers to the elaboration by banks of the following important documents: the integrated annual report (item 27) and the report on environmental sustainability or climate change (item 28). Further focus is on the integration of financial and extra-financial factors in the "Management discussion and analysis section (MD&A)" in the banks' annual report (item 29) and the adoption of the Global Reporting Initiative (GRI) guidelines (item 30; Grushina 2016; Moravcikova et al. 2015).

The sixth area of investigation, entitled "Compliance", consists of a single item and refers to the presence or absence of an external auditor of the CSR/H&S/Sustainability report, while the last items of our model of analysis focus on the banks' remuneration practices. Indeed, in line with long-term business strategies and sustainability objectives, banks need to adopt remuneration systems that take into account all risks, consistent with the levels of capital and liquidity required to deal with the activities undertaken and, in any case, avoid distorted incentives that could lead to regulatory breaches or excessive risk-taking for the bank and the system as a whole (Assonime 2019). In line with these considerations, the model aims to verify: (a) if the bank adopts an extra-financial performance-oriented compensation policy (item 32); (b) if the bank utilizes some non-financial performance remuneration targets (item 33), their number and main features (item 34, 35 and 36); (c) if the bank gives attention to the optimal balancing between financial and non-financial performance criteria (item 37) and to the inclusion, on their remuneration packages, of the claw-back or malus-clauses aimed at the recovery of the



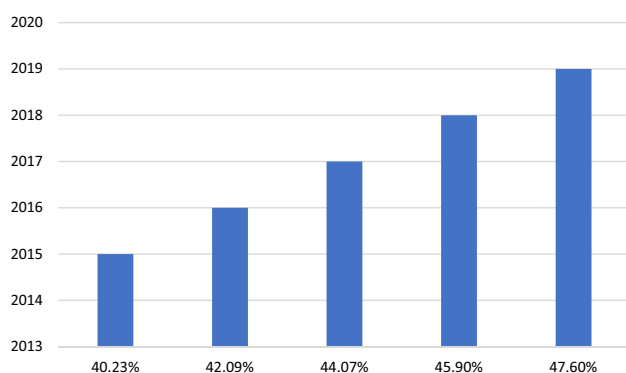


Fig. 1 The “Bank’s governance ESG integrated index” (average values; years 2015–2019). *Source:* Authors’ elaboration

variable compensation in the presence of unethical behaviour by managers (item 38). Finally, some considerations on the good governance of remuneration practices are also included (items 39 and 40).

With regard to the valuation method, it always varies between zero (non-compliance or absence of the related information) and one (bank compliance with items) (Gompers et al. 2001; La Porta et al. 1998). Only for some items was a different evaluation approach adopted. These items provide for the assignment of a percentage value. We have acted in this way: preliminary, the average score of the item was calculated for each year analysed. Then, if the value of the single bank score was higher than the average of the period, it was valued equal to 1, otherwise 0. Specifically, this choice has been used for items 1, 5, 6, 8, 39, and 40, while to evaluate the 34th item, a graded assessment was considered (if < 3 equal to 0; if > 3 equal to 1). Finally, to consider the different number of items on each sub-area, the final score was undergone to a normalization process.

Then, we calculated the cumulative percentage score using the following formulation:

$$\text{Bank's governance ESG integrated index} = \frac{\text{No. of items respected by bank}}{\text{Total items of the model}}$$

Results and discussion

The trend of the full index

Figure 1 shows the average final value of the “Bank’s governance ESG integrated index” for all banks analysed. We can posit two considerations. First, in the last year of analysis, only about half of the banks surveyed appear in line with an adequate integration of ESG issues in their governance systems. Therefore, there would still be considerable room for improvement for the second half of the banks. Secondly, we can also note that the overall average score is increasing. Indeed, it increased from 40.23% in 2015 to 47.60% in 2019. This demonstrates the gradual adaptation to new regulatory obligations and the increasing awareness by the banks of the importance of integrating sustainability issues into their corporate governance systems. Clearly, it is hoped that this trend will continue for an increasingly strong improvement in the level of integration of ESG factors in banking systems.

The descriptive statistics of the full index and the sub-scores

Table 1 shows the descriptive statistics of all scores elaborated in our analysis. The average value of the full score is around 47% in the period from 2015 to 2019, with a score ranging between 4.8% (minimum value) and 87.6% (maximum value), indicating that, on average, the banks surveyed have good, but not excellent, sustainability practices. These results also indicate that there is a high degree of differentiation between the approaches adopted by banks. In some sub-areas, the banks see better performance, including the “Board of Directors”, “Policies, Certifications and Awards”, and “Remuneration Practices” categories, where the respective average score is always more than 50%. Other sections, instead, show wide room for improvement. These are primarily the “Board Committees” whose average score, equal

Table 1 Descriptive statistics. *Source:* Authors’ elaboration

	Obs	Mean	SD	Minimum	Maximum
Bank’s governance ESG integrated index	425	0.469	0.181	0.048	0.876
Board	425	0.517	0.162	0.111	1
Sust. policy. award and certifications	425	0.523	0.237	0	1
Board committees	425	0.225	0.28	0	1
Risk management	425	0.448	0.261	0	1
Sustainability disclosure	425	0.495	0.345	0	1
Compliance	425	0.482	0.5	0	1
Remuneration practices	425	0.509	0.228	0	1



to 22.5%, is the lowest of all the average values. The sections related to compliance, risk management, and sustainability reporting all have average scores below 50%.

In sum, the results of the descriptive analysis show that many banks positively encouraged the integration of ESG factors in their board of directors, as well as with regards to the policy and certifications adopted. Furthermore, banks positively stimulated the disclosure of sustainable issues that ultimately lead to better economic and financial performance, as well as better sustainable performance.

Finally, Table 2 discloses the trends of each score. As can be seen, the largest increase occurs in the sections related to risk management (+32% from 2015 to 2019), board committee (+29% from 2015 to 2019) and sustainability policies, awards and certifications (+20% in the same period).

The spreading of each item of the model of analysis

Table 3 shows the percentage of banks compliant with each item investigated.

Examining the first area of investigation (“Board of Directors”), on average between 2015 and 2019, the integration of sustainability objectives into strategic plans appears to be the most popular choice carried out by the banks’ directors (item 2). This is followed by the promotion of the highest level of general business ethics (item 9), which has grown by 9.6% in the years considered. This evidence demonstrates that some time ago, the banks’ boards paid attention to making strategic decisions focused on ethical choices, which have far-reaching consequences and influence the decisions of corporate stakeholders. Similarly, gender diversity practices are also characterized by a satisfactory spread. In fact, item 4, “Targets or objectives to be achieved on diversity and equal opportunity”, shows a positive trend in the analysed period, going from 49% in 2015 to 73% in 2019. In contrast, a weaker trend characterizes female inclusion in the board of directors (item 5), whose average percentage increases very slightly from 2015 to 2019 (from 49 to 54%). Conversely, the role played by women on the board (items 6 and 7) does not show an improvement over time, remaining constant

for the years analysed. Moreover, the analysis also showed that only 12% of the banks examined have a female CFO or CEO (Deutsche Bank, SEB, Swedbank, BNG, Volksbank, Hellenic Bank, Kommulbanken, Municipality Finance, PPF FH and Sydbank). Considering the importance of the banks examined throughout the financial system, we believe that this behaviour needs major improvements.

Finally, the independence of directors also contributes to improving the sustainable performance of banks. Our results show an increasing trend of this phenomenon. In fact, item 8 (Percentage of independent board members) rose from 67 to 74% in the years considered.

As for the second area of investigation, only a few banks examined acquired environmental certification (ISO 14000, item 10) over time, while the adoption of the self-regulatory ethical codes based on the principles of responsibility is more widespread (75% in 2019, item 12). Moreover, there is an increase in the attention of banks towards the adoption of specific policies to encourage sustainability behaviours, especially regarding the fight against corruption (value of 74% in 2019 against 53% in 2015) and of board gender diversity (value of 66% in 2019 against 46% in 2015).

Further criticalities emerge from the analysis of subsequent items, including the establishment of the social/environmental committee, a practice so far adopted by limited banks (about 5% in 2019; item 21). Conversely, the CSR or sustainability committee seems to be more widely adopted (around 40% in the survey period; item 20).

With regards to the “Risk Management” section, our results show a positive tendency of banks to align the sustainability and corporate risk management (ERM) frameworks. In fact, during the period under review, banks increased their attention towards the management of both reputational risk (item 22) and climate-related risk or the risks generally linked to sustainability (respectively, +54% and +42%). However, a critical element concerns the management of misconduct risk (item 23): indeed, only 20% of the banks considered (during 2019) adopting policies to manage such new risk (FSB 2018).

A higher adhesion rate characterizes “Conclusions, implications, and future research lines” section of the model of

Table 2 The mean value of the sub-scores from 2015 to 2019 (percentage values and total variation). *Source:* Authors’ elaboration

Area of investigation	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	Δ%
Board of directors	46.54	47.32	49.15	50.85	52.29	+12.36
Sustainability policies. awards and certifications	46.59	48.71	52.59	55.53	56.00	+20.45
Environmental and sustainability committees	20.00	22.35	21.18	22.35	25.88	+29.41
Risk management	40.00	41.88	43.29	45.65	52.47	+31.76
Sustainability disclosure	37.35	40.00	44.12	45.88	45.00	+20.47
Compliance	43.53	45.88	49.41	51.76	50.59	+16.22
Remuneration practices	47.58	48.50	48.76	49.28	50.98	+7.14



Table 3 The spreading of each item of the model of analysis (percentage values; years 2015–2019). *Source:* Authors' elaboration

Area of analysis	Items	Score	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	Δ%	
Board of directors	1	Average number of other corporate affiliations for the board member	0 if < than average 1 if > than average	23.53	23.53	24.71	24.71	24.71	5.00
	2	Integration of sustainability objectives in the corporate structure/strategic plan	0 No 1 Yes	87.06	91.76	94.12	94.12	95.29	9.46
	3	CSR manager	0 No 1 Yes	3.53	3.53	3.53	4.71	7.06	100.00
	4	Targets or objectives to be achieved on diversity and equal opportunity	0 No 1 Yes	49.41	50.59	60.00	64.71	72.94	47.62
	5	Percentage of female on the board	0 if < than average 1 if > than average	49.41	48.24	48.24	52.94	54.12	9.52
	6	Percentage of female executive members	0 if < than average 1 if > than average	41.18	41.18	43.53	47.06	47.06	14.29
	7	CEO or CFO women	0 No 1 Yes	11.76	11.76	11.76	11.76	11.76	0.00
	8	Percentage of independent board members	0 if < than average 1 if > than average	67.06	67.06	70.59	74.12	74.12	10.53
	9	Promotion and of the highest level of general business ethics	0 No 1 Yes	85.88	89.41	90.59	91.76	94.12	9.59
Policy, international certifications and awards	10	ISO 14000 or EMS certification	0 No 1 Yes	21.18	20.00	21.18	23.53	23.53	11.11
	11	Signatory of the Equator Principles	0 No 1 Yes	17.65	18.82	18.82	21.18	21.18	20.00
	12	Code of conduct	0 No 1 Yes	58.82	61.18	68.24	71.76	75.29	28.00
	13	Policy Bribery and Corruption	0 No 1 Yes	52.94	55.29	67.06	74.12	74.12	40.00
	14	Policy on conflicts of interest	0 No 1 Yes	65.88	69.41	74.12	74.12	75.29	14.29
	15	Policy regarding the adequate experience on the board	0 No 1 Yes	64.71	67.06	70.59	74.12	74.12	14.55
	16	Policy to promote board gender diversity	0 No 1 Yes	45.88	51.76	64.71	67.06	65.88	43.59
	17	Policy Board Independence	0 No 1 Yes	48.24	50.59	49.41	51.76	52.94	9.76
	18	Policy on roles and responsibilities of the board	0 No 1 Yes	57.65	57.65	57.65	58.82	68.24	18.37
	19	Award for ethical or environmental activities/performance	0 No 1 Yes	32.94	35.29	36.47	42.35	42.35	28.57
Board committees	20	CSR or Sustainability committee	0 No 1 Yes	37.65	41.18	38.82	40.00	40.00	6.25
	21	Social/Environmental committee	0 No 1 Yes	2.35	3.53	3.53	4.71	4.71	100.00



Table 3 (continued)

Area of analysis	Items	Score	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	Δ%	
Risk management	22	Reputational risk management	0 No 1 Yes	78.82	82.35	83.53	85.88	88.24	11.94
	23	Misconduct risk management	0 No 1 Yes	10.59	11.76	12.94	14.12	20.00	88.89
	24	Climate change risk management	0 No 1 Yes	30.59	32.94	35.29	38.82	54.12	76.92
	25	Sustainability risk management	0 No 1 Yes	29.41	30.59	30.59	34.12	43.53	48.00
	26	Crisis Management Systems	0 No 1 Yes	50.59	51.76	54.12	55.29	55.29	9.30
Sustainability reporting	27	Integrated annual report	0 No 1 Yes	62.35	62.35	62.35	62.35	62.35	0.00
	28	Environmental sustainability/climate change report	0 No 1 Yes	32.94	37.65	43.53	47.06	49.41	50.00
	29	Integration of financial and extra-financial factors in management discussion and analysis (MD&A) section in the annual report	0 No 1 Yes	11.76	14.12	14.12	12.94	14.12	20.00
	30	Adoption GRI guidelines	0 No 1 Yes	42.35	45.88	57.65	62.35	62.35	47.22
Compliance and internal audit	31	External auditor of the CSR/H&S/Sustainability report	0 No 1 Yes	43.53	45.88	50.59	52.94	52.94	21.62
Remuneration practices	32	Extra-financial performance-oriented compensation policy	0 No 1 Yes	56.47	57.65	58.82	61.18	61.18	8.33
	33	Adoption of non-financial performance remuneration targets	0 No 1 Yes	82.35	82.35	83.53	83.53	85.88	4.29
	34	Number of non-financial performance remuneration targets used	if < 3 = 0 if > 3 = 1	42.35	42.35	42.35	42.35	44.71	5.56
	35	Customization of non-financial targets for each executive	0 No 1 Yes	18.82	21.18	22.35	22.35	29.41	56.25
	36	Quantification of each non-financial targets	0 No 1 Yes	12.94	12.94	12.94	12.94	15.29	18.18
	37	Balance between non-financial and financial performance criteria	0 No 1 Yes	42.35	42.35	42.35	42.35	45.88	8.33
	38	Adoption of claw-back or malus clauses	0 No 1 Yes	32.94	32.94	32.94	32.94	37.65	14.29
	39	Percentage of independent board members on the compensation committee	0 if < than average 1 if > than average	69.41	70.59	70.59	72.94	72.94	5.08
	40	All compensation committee members are non-executives	0 if < than average 1 if > than average	70.59	74.12	72.94	72.94	72.94	3.33



analysis devoted to sustainability reporting. Indeed, on average, 62% of banks decided to draw up an Integrated Annual Report, 42% a specific report on environmental sustainability, and just over half of banks examined adopted the GRI guidelines. Still, the percentage related to the integration of extra-financial information in the MD&A section of the annual report remains poor (item 29; 14% on average).

The last area of analysis concerns the remuneration policies implemented by the banks. In this domain, the more interesting and increasing trends concern the adoption of an off-financial performance-oriented compensation policy, the number of banks utilizing the non-financial performance remuneration targets, and the percentage of independent or non-executive directors sitting on the remuneration committee. In these cases, indeed, the items involve the most banks surveyed. Less widespread, however, is the choice to quantify the non-financial performance criteria (item 35) by discriminating them based on the role covered by each director (item 36) and, finally, the adoption of the claw-back or malus clauses (item 38).

In sum, the adoption of remuneration policies also based on non-financial metrics can help banks and companies achieve sustainability objectives. Also, careful consideration of remuneration policies can allow investors to identify deserving companies in the long-term interests of shareholders and the company.

The more compliant banks and their geographical localization

Table 4 shows, for all the banks examined, the respective rating values. A first important aspect regards the extreme inhomogeneity of the scores, which start from a minimum value of 10% up to a maximum value of 82.5% (min 7.50% and max 77.5% in 2015).

During the survey period, Italian, Swiss, UK, Spanish, French, Norwegian and Swedish banks with an average score between 60 and 73% were particularly attentive to sustainability issues in their corporate governance systems. Banks in Greece, the Netherlands, Ireland, Finland, Portugal, Germany, Austria, Belgium, Hungary, Slovenia, Cyprus, Poland, the Principality of Liechtenstein, and Lithuania have an average score of between 44 and 58%. Finally, the Danish, Maltese, Icelandic, Latvian, Estonian and Croatian banks, with an average final score between 10 and 38%, are positioned in the final part of the ranking (see Fig. 2).

Conclusions, implications, and future research lines

The bank's corporate governance plays a key role in ensuring the inclusion of social and environmental considerations in the decision-making process (EC 2020). The growing

interest of banks in ESG practices is fuelled by innumerable regulatory interventions aimed at making sustainability the centre of comparison between intermediaries, managers, and investors (EC 2018, 2020). Since several studies prove a positive relationship between sustainable performance and economic and financial performance, banks may show a growing interest in ESG practices (Miralles-Quirós et al. 2019; Shakil et al. 2019; Sroufe and Gopalakrishna-Remani 2018). In addition, CSR promotes numerous competitive advantages, including an improvement in the bank's reputation (Branco and Rodrigues 2006; Brío and Oviedo 2018; Porter and Kramer 2008).

In line with these considerations, this paper aimed to explore the level of integration of sustainability strategies and considerations in banks' corporate governance systems. To achieve this goal, an exploratory analysis of a sample of 85 European Systematically Important Banks for the 2015–2019 years is carried out. First, we developed, based on the existing literature (Gompers et al. 2001; La Porta et al. 1998; Birindelli et al. 2018) and regulatory framework (EC 2018, 2020), a research model made up of 40 items finalized to calculate a novel governance score that we called "Bank's governance ESG integrated index". The main results reveal a strong heterogeneity in the banks' behaviours: indeed, just over half of the examined banks seem to really pay attention to the integration of sustainability issues in their business and governance processes. In any way, the analysis also revealed an increase in average scores, which is proof of the gradual awareness of the banks on the importance of using and spreading sustainability issues in their corporate governance system. Moreover, these results reveal that there is great pressure from financial stakeholders to adapt banks' management systems and incorporate ESG factors into their corporate governance systems. Corporate governance is an important CSR dimension that ensures responsibility, compliance, and transparency. Specifically, the size and above all the composition of the board of directors contributes positively to the overall integration of sustainability in banks' decision-making processes, followed by the adoption of an adequate Enterprise Risk Management process and the development of remuneration policies mainly based on the use of non-financial performance metrics.

In short, banks seem to have understood the importance of focusing on ESG issues to better compete on the market in the medium and long terms. This is in line with the long-term prospects envisaged by the EC's action plan. In fact, the three fundamental pillars on which the European regulatory framework on sustainability is based are (i) the creation of a classification mechanism, the so-called Taxonomy, of economic activities that have a positive contribution to the environment and which allows qualifying so-called sustainable investments; (ii) the introduction of the obligation to disclose ESG activities for all operators in the financial



Table 4 The “Bank’s governance ESG integrated index” of all banks surveyed (percentage values; years 2015–2019). *Source:* Authors’ elaboration

No	Country	Banks	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)
1	UK	LLOYDS	77.50	77.50	77.50	77.50	82.50
2	Spain	BARCLAYS PLC	77.50	75.00	75.00	82.50	82.50
3	UK	STANDARD CHARTERED*	70.00	75.00	72.50	72.50	82.50
4	Netherlands	ABN AMRO	50.00	80.00	77.50	80.00	80.00
5	Belgium	BBVA.MC	67.50	67.50	72.50	75.00	80.00
6	Spain	BANCO SANTANDER AS	70.00	72.50	70.00	72.50	80.00
7	UK	HSBC*	72.50	70.00	70.00	77.50	80.00
8	Italy	INTESA SANPAOLO	67.50	67.50	70.00	75.00	80.00
9	Italy	UNICREDIT*	62.50	65.00	65.00	72.50	75.00
10	Austria	ERSTE GROUP	57.50	57.50	57.50	70.00	75.00
11	Sweden	NORDEA	50.00	52.50	57.50	60.00	75.00
12	France	SOCIETE GENERALE*	65.00	65.00	72.50	72.50	72.50
13	Spain	BANCO DE SABADELL	55.00	60.00	65.00	62.50	72.50
14	Sweden	SEB (Skandinaviska Enskilda Banken AB)	62.50	62.50	62.50	62.50	72.50
15	Belgium	KBC	50.00	45.00	57.50	57.50	72.50
16	Spain	LA CAIXA (Caixabank SA)	50.00	47.50	50.00	55.00	72.50
17	Switzerland	CREDIT SUISSE INTERNATIONAL	67.50	70.00	70.00	67.50	67.50
18	Germany	DEUTSCHE BANK*	60.00	62.50	62.50	62.50	67.50
19	France	CREDIT AGRICOLE*	60.00	60.00	62.50	62.50	65.00
20	UK	RBS (Royal bank of Scotland Group PLC)	62.50	62.50	62.50	62.50	65.00
21	France	BNP PARIBAS*	45.00	60.00	60.00	65.00	65.00
22	Norway	DNB	60.00	60.00	60.00	62.50	65.00
23	Greece	PIRAEUS BANK S.A	60.00	62.50	62.50	62.50	62.50
24	Sweden	SWEDBANK	55.00	55.00	57.50	55.00	60.00
25	Portugal	BANCO COMERCIAL PORTUGUÊS	52.50	55.00	55.00	60.00	60.00
26	Poland	BANK OF IRELAND	40.00	45.00	55.00	60.00	60.00
27	UK	BANK POLSKA KASA OPIEKI (PEKAO)	52.50	52.50	55.00	60.00	60.00
28	Greece	EUROBANK	50.00	52.50	52.50	60.00	60.00
29	France	BPCE	52.50	52.50	50.00	55.00	60.00
30	Netherlands	RABOBANK	45.00	47.50	50.00	50.00	60.00
31	Netherlands	BELFIUS BANQUE SA/NV	47.50	47.50	57.50	57.50	57.50
32	Germany	COMMERZBANK	57.50	57.50	57.50	57.50	57.50
33	Norway	KOMMUNALBANKEN AS	47.50	52.50	55.00	57.50	57.50
34	Ireland	ALLIED IRISH BANK GROUP PLC	40.00	47.50	52.50	55.00	57.50
35	Cyprus	BANK NEDERLANDSE GEMEENTEN (BNG)	47.50	50.00	50.00	57.50	57.50
36	Denmark	DANSKE BANK	47.50	52.50	50.00	57.50	57.50
37	Sweden	HANDELSBANKEN (Svenska Handelsbanken AB)	42.50	45.00	47.50	47.50	57.50
38	Netherlands	DE VOLKSBANK N.V. (“VOLKSBANK”)	52.50	55.00	55.00	55.00	55.00
39	Germany	ING	52.50	52.50	55.00	55.00	55.00
40	Slovenia	ABANKA	32.50	32.50	47.50	47.50	55.00
41	Italy	GRUPPO BANCO BPM	37.50	37.50	42.50	55.00	55.00
42	UK	NOMURA EUROPE HOLDINGS PLC	52.50	52.50	52.50	52.50	52.50
43	Ireland	BANK OF CYPRUS	32.50	32.50	47.50	52.50	52.50
44	Germany	DZ BANK (deutsche zentral)	45.00	45.00	47.50	47.50	52.50
83	Greece	ALPHA BANK	50.00	50.00	52.50	52.50	52.50
45	Liechtenstein	VP BANK AG	45.00	45.00	50.00	50.00	50.00
46	UK	GOLDMAN SACHS GROUP UK LIMITED	47.50	45.00	47.50	50.00	50.00
47	Sweden	HANDELSBANKEN	45.00	45.00	45.00	50.00	50.00
58	Greece	NATIONAL BANK OF GREECE S.A	47.50	50.00	50.00	50.00	50.00



Table 4 (continued)

No	Country	Banks	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)
48	Slovenia	NKBM	42.50	42.50	47.50	47.50	47.50
49	Cyprus	HELLENIC BANK PUBLIC COMPANY LTD	42.50	45.00	45.00	45.00	45.00
50	Lithuania	AB ŠIAULIŲ BANKAS	40.00	40.00	45.00	42.50	45.00
51	Hungary	OTP BANK NYRT	45.00	45.00	45.00	45.00	45.00
52	Portugal	BANCO BPI	35.00	35.00	42.50	45.00	45.00
53	Finland	MUNICIPALITY FINANCE PLC	35.00	37.50	42.50	45.00	45.00
54	Belgium	AXA BANK BELGIUM	37.50	40.00	40.00	45.00	45.00
55	Portugal	NOVO BANCO	40.00	45.00	45.00	42.50	42.50
56	Germany	DEKABANK	37.50	40.00	42.50	42.50	42.50
57	Denmark	JYSKE BANK A/S	30.00	40.00	42.50	42.50	42.50
59	Slovenia	NLB	32.50	35.00	42.50	42.50	42.50
60	Germany	LBBW	37.50	37.50	37.50	37.50	42.50
61	Liechtenstein	LGT GROUP FOUNDATION	42.50	42.50	42.50	42.50	42.50
62	Austria	RAIFFEISENLANDESBANK OBERÖSTERREICH AKTIENGESELLSCHAFT	40.00	40.00	40.00	40.00	40.00
63	Poland	ALIOR BANK SA	40.00	37.50	37.50	37.50	40.00
64	Denmark	NYKREDIT	30.00	27.50	35.00	35.00	40.00
65	Belgium	INVESTERINGSMAATSCHAPPIJ ARGENTA	40.00	40.00	40.00	40.00	40.00
66	Ireland	ULSTER BANK IRELAND DESIGNATED ACTIVITY COMPANY (UBI DAC)	37.50	37.50	37.50	37.50	37.50
67	Germany	LANDWIRTSCHAFTLICHE RENTENBANK	35.00	37.50	37.50	35.00	35.00
68	Bulgaria	FIRST INVESTMENT BANK AD	35.00	35.00	35.00	35.00	35.00
69	Malta	MEDIRECT GROUP LTD	32.50	32.50	32.50	35.00	35.00
80	Iceland	ARION BANKI HF	30.00	32.50	32.50	35.00	35.00
71	Denmark	SYDBANK	25.00	30.00	30.00	32.50	32.50
72	Iceland	LANDSBANKINN HF	27.50	27.50	27.50	32.50	32.50
77	Poland	PKO BP S.A	27.50	27.50	27.50	32.50	32.50
73	Austria	ADDIKO BANK D.D	20.00	20.00	27.50	30.00	30.00
74	Belgium	OP-GROUP	20.00	20.00	27.50	30.00	30.00
75	Iceland	ÍSLANDSBANKI HF	22.50	22.50	25.00	30.00	30.00
76	Cyprus	RCB BANK LTD	17.50	25.00	27.50	27.50	27.50
85	Latvia	AKCIJU SABIEDRĪBA "RIETUMU BANKA"	15.00	15.00	22.50	25.00	25.00
78	Netherlands	PPF FH B.V	22.50	22.50	22.50	22.50	22.50
70	Estonia	AS LHV PANK	12.50	12.50	15.00	15.00	20.00
79	Latvia	AKCIJU SABIEDRĪBA "CITADELE BANKA"	17.50	17.50	20.00	20.00	20.00
81	Bulgaria	CENTRAL COOPERATIVE BANK AD	12.50	12.50	12.50	12.50	12.50
82	Croatia	HRVATSKA POŠTANSKA BANKA D.D., ZAGREB	7.50	10.00	10.00	12.50	12.50
84	Denmark	DLR KREDIT A/S	7.50	7.50	7.50	10.00	10.00

sector, from institutional investors to private banks; (iii) the integration of ESG factors both in the investment process and in the governance logic.

The proposed research model has important implications for both professionals and scholars, as it could assume two different but complementary functions. Firstly, it could be used by investors to identify banks best implementing ESG criteria in their corporate governance systems, while also detecting those that appear to be lagging in this integration process. In this sense, the proposed score could be used by

investors and professionals as a tool to make their investment decisions more consciously. Secondly, the research model also assumes an important internal functionality because it could be utilized by banks as a diagnostic tool to carry out a self-assessment process and therefore to better target future lines of action.

Finally, regarding the main limitations of our study, we are aware that the data verify the ESG factor integration in corporate governance systems only for the listed banks and only over a 5-year period. In fact, our time horizon is represented by the four-year period 2015–2019. Therefore, it is



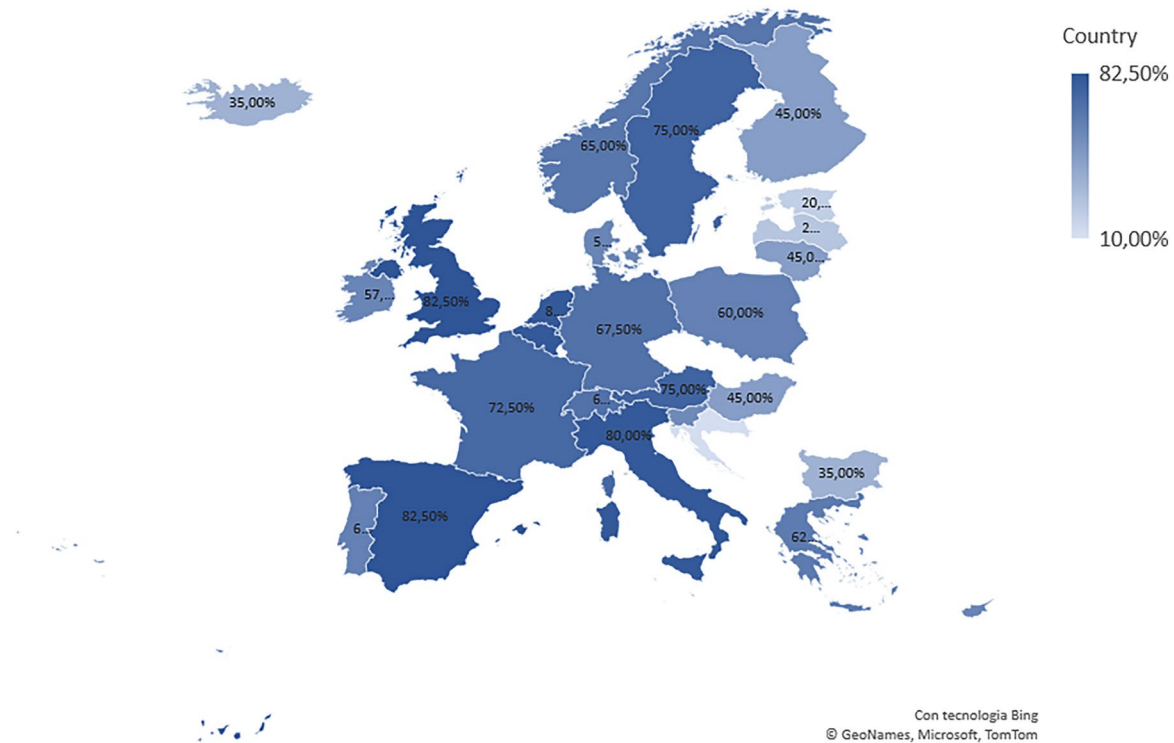


Fig. 2 The “bank’s integrated ESG governance index”: geographic distribution (year 2019). *Source:* Authors’ elaboration

necessary to consider that our investigation is complex and could need further research. Despite this, we believe that our results legitimize the efforts of managers of these companies to further integrate ESG factors into their corporate governance systems. However, these findings also reveal the need to continue work in the pursuit of creating shared value for shareholders and society in the banking sector.

Our study opens many lines for future research. More specifically, the proposed index could be used to perform several econometric studies to verify whether a greater integration of the ESG criteria into the banks’ governance system could have a positive impact on their economic performance, risk profile, corporate reputation and/or cost of capital. In this way, we could further investigate the aspects that should be considered by banking intermediaries for the creation of shared value and therefore contribute to sustainable development. Likewise, it could be interesting to verify the financial or non-financial determinants of the index proposed in this paper.

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