THEMATIC ANALYSIS OF THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS IN OECD, BCBS, AND IFSB PRINCIPLES

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Abstract

At the center of this ongoing debate is the board of directors' responsibilities, nevertheless, there are differences and similarities among the principles and guidelines of corporate governance worldwide when it comes to responsibilities of the board of directors. The interest in corporate governance and, specifically, the focus on bank governance have received increased attention from academics and policymakers after the global financial crisis of 2007–2009 (Pathan & Faff, 2013). Given the gap in the literature investigating these differences and similarities, this theoretical article aims to conduct a thematic analysis of the principles and guidelines of the Organisation for Economic Co-operation and Development (OECD), Basel Committee on Banking Supervision (BCBS), and Islamic Financial Services Board (IFSB), on board of directors' responsibilities. This article provides a reference thematic analysis for policymakers, regulators, and researchers in developing national corporate governance principles and guidelines. The article highlights the shares themes between the principles of OECD, BCBS, and IFSB, and concludes with recommendations for future research in the area of the board of directors' responsibilities.

Keywords: Regulation, Bank Regulation, Corporate Governance, Principles of Corporate Governance, Board of Directors, Responsibilities

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1. INTRODUCTION

Corporate governance issues have been the focus of research and intense investigation for the last three decades both in developed and developing countries. However, the interest in bank governance has received increased attention from academics and policymakers after the global financial crisis of 2007–2009 (Pathan & Faff, 2013).

The definition of corporate governance is still under debate in academia. Some researchers define corporate governance in terms of relationships among stakeholders, for example, Eiteman, Stonehill, and Moffett (2009) defined corporate governance as representing the relationship among stakeholders that is used to identify and control the firm's strategic direction and performance. In a different direction, Guo, Smallman, and Radford (2013) indicated that corporate governance is concerned with the relationship between shareholders (the principal) and management (the agent). As a result, this debate about the definition of corporate governance is reflected also in the board of directors' responsibilities. Therefore, the question of what are, or what should be the responsibilities of the board of directors is central in governance research (Boivie, Withers, Graffin, & Corley, 2021). There are few recent theoretical studies conducted in relation to the responsibilities of the board of directors (Aberg, Bankewitz, & Knockaert, 2019; Boivie et al., 2021; Klettner, 2021). This study closes the research gap in theoretical studies by providing a thematic analysis of the differences and similarities among the principles of corporate governance codes worldwide in relation to the responsibilities of the board of directors.

This article aims at analyzing the differences and similarities between the principles of the Organisation for Economic Co-operation and Development (OECD), the Basel Committee on Banking Supervision (BCBS), and the Islamic Financial Services Board (IFSB). Therefore, the research questions of this article are:

RQ1: What are the differences between the principles of OECD, BCBS, and IFSB in reference to the responsibility of the board of directors?

RQ2: What are the similarities between the principles of OECD, BCBS, and IFSB in reference to the responsibility of the board of directors?

RQ3: What are common themes among the principles of OECD, BCBS, and IFSB in reference to the responsibility of the board of directors?

The article highlights the differences and similarities and emphasizes the shared themes between the principles of OECD, BCBS, and IFSB in reference to the responsibility of the board of directors. The thematic analysis of the differences and similarities of the principles of OECD, BCBS, and IFSB, provides contributions to policymakers, regulators, and researchers for a deeper understanding of the issues of corporate governance, specifically the board of directors' responsibilities, which helps in developing comprehensive and updated national corporate governance principles based on the principles of OECD, BCBS, and IFSB.

The rest of the article is organized as follows. The second section is the literature review which discusses the theories of corporate governance and the responsibilities of the board of directors. The third section discusses the research methodology applied in this article. The fourth section presents a comparative thematic analysis of the OECD, BCBS, and IFSB principles, and finally, the fifth section concludes with remarks, limitations, and directions for future research.

2. LITERATURE REVIEW

The literature review section includes a brief discussion of the two major theories of corporate governance: the agency theory and the stakeholder theory. The literature review also includes a brief discussion of the board of directors' responsibilities and a brief description of the OECD, BCBS, and IFSB principles.

From a theoretical perspective, two major theories ration the board of directors' responsibilities. These theories are the agency theory and the stakeholder theory. The agency theory primarily addresses the conflicts of interest between corporate management and shareholders due to the separation between ownership and management (Jensen & Meckling, 1976; Fama & Jensen, 1983). The separation between ownership and management is known as the agency problem, which according to Agrawal and Knoeber (1996), "the agency problems arise within a firm whenever managers have incentives to pursue their own interests at shareholders expense" (p. 377). Therefore, the agency theory tries to solve the eternal conflict between the managers (agent) and the shareholders (principal) (Alabdullah, Yahya, & Ramayah, 2014). On the other hand, according to stakeholder theory, a corporation is part of a community and it is affecting and affected by many stakeholders other than the shareholders, therefore the managers of a corporation should take the interest of all stakeholders in all corporate decisions (Freeman, 1994; Donaldson & Preston, 1995; Elena, 2012). In light of the above-discussed theories, it is very important to look at the board of directors' responsibilities from an academic perspective and based on the principles of OECD, BCBS, and IFSB.

The board of directors (BOD) is the foundation stone of the governance system in corporations. As the cornerstone of the internal governance structure, the board of directors is accountable for the control and governance of the corporation including the formulation of corporate strategy (de Haan & Vlahu, 2016). Moreover, the board of directors is responsible for dealing with the divergence of interests between shareholders, managers, and stakeholders in the corporation (John, De Masi, & Paci, 2016). Remarkably, the international interest of the board of directors' responsibilities including banking regulations has received increased attention after the financial crisis in 2007 (Pathan & Faff, 2013). According to Boivie et al. (2021), there are three main functions of the board of directors: first, the monitoring function; second, the resource provisions function; third, the strategic function.

The OECD Principles were first introduced by the OECD in 1999, and then it was updated later in 2004. In September 2015, at the G20 Finance Ministers and Central Bank Governors meeting in Turkey, the most updated G20/OECD Principles of Corporate Governance were announced and endorsed by the G20 and OECD members. The OECD/G20 Principles of Corporate Governance issued in 2015 provided recommendations and guidance in six chapters. The OECD Principles are used as reference guidelines for many countries and organizations around the world including the World Bank, BCBS, and IFSB.

The BCBS, in 2010, issued principles for enhancing corporate governance to reflect on lessons learned from the global financial crises started in 2007. In July 2015, and based on the G20/OECD 2015 principles of corporate governance, the BCBS issued its updated guidelines of corporate governance for banks. The BCBS (2015) principles for banking governance included 13 principles.

In 2006, the IFSB issued guiding principles on corporate governance for Islamic banks (IFSB, 2006), these principles were based on OECD and BCBS principles of corporate governance. The IFSB issued 7 principles divided into 4 parts. The IFSB has encouraged the Islamic Institutions of Financial Services (IIFS) to adapt the best corporate governance practices issued by BCBS and the guidelines on corporate governance principles for banks and the organisations for OECD principles of corporate governance. In IFSB corporate governance principle No. 74 it is stated that "in order to avoid reinventing the wheel" in establishing corporate governance best practices for IIFS, the OECD principles and the BCBS guidelines are primary references that can provide valuable guidelines (IFSB, 2006, p. 17). Also, principle No. 75 in IFSB indicates that "the IFSB shares the governance philosophies' with OECD and BCBS (IFSB, 2006, p. 17).

3. RESEARCH METHODOLOGY

The research method used in this study is content analysis. The content analysis method can be defined as a research technique that allows for systematic and numeric analysis of a text in a customized way to the conducted research (Majoch, Hoepner, & Hebb, 2017). The content analysis method has been regularly used in research (Camargo, González, Guzmán, ter Horst, & Trujillo, 2018; Majoch et al., 2017; Torelli, Balluchi, & Furlotti, 2020). In this study manual content analysis is adapted (Camargo et al., 2018; Majoch et al., 2017; Torelli et al., 2020). One of the most important advantages of manual content analysis is that the authors can bring their knowledge and experience into the content analysis process (Majoch et al., 2017). Computerized content analysis, on the other hand, reduces the content and complicity of the text preventing a high level of insight into the material (Pennebaker & Lay, 2002; Bligh, Kohles, & Meindl, 2004a; Bligh, Kohles, & Meindl, 2004b).

Following Majoch et al.'s (2017) approach, the unit of analysis that is used in this study is mainly sentences, since this coding approach which is derived from complete units of text results in a higher level of conformity between human coders and computerized content analysis. Cross-checking was conducted by the authors at the end of the manual coding process, to ensure a high level of objectivity in the human coding (Majoch et al., 2017; Torelli et al., 2020).

4. RESULTS AND DISCUSSION

In the coming subsections, a presentation of the content analysis results and a brief discussion of the board of directors' responsibilities are given based on the OECD, BCBS, and IFSB principles.

4.1. Board of directors' responsibilities in OECD Principles of Corporate Governance

The G20/OECD Principles of Corporate Governance issued in 2015 provided guidance and recommendations in six chapters. The last chapter which is titled "The Responsibilities of the Board" is focused on the board of directors' responsibilities. Following is a brief thematic analysis of the board of directors' responsibilities as listed in G20/OECD Principles of Corporate Governance.

Four themes of the board of directors' responsibilities can be identified in the G20/OECD Principles of Corporate Governance. These themes can be listed based on frequency as follows: fiduciary duty responsibilities, strategic responsibilities, operational responsibilities, and administrative responsibilities.

Table 1. Thematic analysis of G20/OECD principles

Board responsibilities	*Frequency*	*Percentage*
Fiduciary duty	25	56.82%
Strategic	8	18.18%
Operational	7	15.91%
Administrative	4	9.09%
Total	44	100%

The fiduciary duty responsibility is the first major responsibility of the board of directors in G20/OECD principles as it is representing 56.82% of the overall content related to board responsibilities as it is shown in Table 1. Fiduciary duty responsibility is mainly mentioned in points A, B, and C of G20/OECD Principles of Corporate Governance. In point A, the focus is on acting in "good faith" with "due diligence" and in the "best interest of shareholders". In point B, it is mentioned that the board of directors should "treat all shareholders fairly". In point C, it is indicated that the board of directors should "apply high ethical standards" and consider the "interests of stakeholders".

The strategic responsibility is the second major responsibility of the board of directors in G20/OECD principles as it is consisting 18.18% of the overall content analysis related to board responsibilities as it is shown in Table 1. Strategic responsibilities are clearly mentioned in points D.1 and D.2 of G20/OECD Principles of Corporate Governance. In these points, it is indicated that the board of directors should "guide corporate strategy", "monitor corporate performance", and "oversee major capital expenditures".

The operational responsibility is the third major responsibility of the board of directors in G20/OECD Principles. It represents 15.91% of the overall content analysis related to board responsibilities as it is shown in Table 1. The operational responsibilities are indicated in point D.7 of G20/OECD Principles of Corporate Governance. In this point, it is indicated that the board of directors should "ensure the integrity" of the financial and accounting reporting of the corporation, as well as, the "systems of control" for managing corporate risk, and "compliance" with the related laws and regulations.

The administrative responsibility is the fourth and last major responsibility of the board of directors in G20/OECD principles as it makes up 9.09% of the overall content analysis related to

board responsibilities as it is shown in Table 1. The administrative responsibilities are clearly mentioned in points D.3, D.4, and D.5 of G20/OECD Principles of Corporate Governance. In these points, it is mentioned that the board of directors should "select, compensate, monitor" and if necessary "replace" key managers and "oversee succession planning", "align" board and executive remuneration with the interest of the shareholders and the corporation, "ensure" transparent and formal "board nomination and election" process.

4.2. Board of directors' responsibilities in BCBS Guidelines of Corporate Governance Principles for Banks

The BCBS (2015) principles for banking governance included 13 principles. For the purpose of this article, the focus will be on the first principle which is about the overall responsibilities of the board.

The 4 themes of the board of directors' responsibilities that can be identified in BCBS (2015), can be listed based on frequency as follows: strategic responsibilities, operational responsibilities, administrative responsibilities, and fiduciary duty responsibilities.

Table 2. Thematic analysis of BCBS principles

Board responsibilities	*Frequency*	*Percentage*
Strategic	29	45.31%
Operational	16	25.00%
Administrative	10	15.63%
Fiduciary duty	9	14.06%
Total	64	100%

Strategic responsibility is the first major responsibility of the board of directors in BCBS (2015) principles for banking governance as it is representing 45.31% of the overall content related to board responsibilities as it is shown in Table 2. Strategic responsibilities are stated in points 23, 24, 26, 28, 30, 33, 36, 42, 44, and 46 in the BCBS (2015) principles for banking governance. In these points, it is indicated that the board of directors should engage actively in the bank's affairs and be up to date with "material changes" in the business of the bank. In addition, "develop and approve" the bank's strategy and "monitor" its implementation. Moreover, "play a lead role" in the establishment of the bank's values and culture. Furthermore, "oversee implementation of the bank's governance framework" and make sure it remains suitable for the bank's strategy, size, complexity, and regulatory environment. Finally, "establish the bank's risk appetite" taking into consideration the bank's risk exposure and the bank's ability to manage risk.

The operational responsibility is the second major responsibility of the board of directors in BCBS (2015) principles for banking governance as it is consisting 25.00% of the overall content analysis related to board responsibilities as it is shown in Table 2. The operational responsibilities are mentioned in points 26, 29, 30, 33, 34, 35, 36, 37, 38, 40, 42, and 44 in the BCBS (2015) principles for banking governance. In these points, it is indicated that the board of directors should "approve and oversee" the implementation of the bank's capital adequacy policies, as well as "maintain a robust finance function" for financial and accounting data, "approve" the annual accounting and financial reports, and "require" an independent review of these reports.

The administrative responsibility is the third major responsibility of the board of directors in BCBS (2015) principles for banking governance; it represents 15.63% of the overall content analysis related to board responsibilities as it is shown in Table 2. The administrative responsibilities are indicated in points 26, 30, 31, 45, and 46 in the BCBS (2015) principles for banking governance. In these points, it is mentioned that the board of directors should "approve the selection" of the CEO, senior managers, and heads of the control functions, and oversee their performance. Additionally, the board of directors should "monitor and review" the compensation of the executives of the bank.

The fiduciary duty responsibility is the fourth and last major responsibility of the board of directors in BCBS (2015) principles for banking governance as it makes up 14.06% of the overall content analysis related to board responsibilities as it is shown in Table 2. Fiduciary duty responsibility is mainly mentioned in points 25 and 26 of BCBS (2015) principles for banking governance. In these points, the board should exercise "duty of care" and "duty of loyalty" to the bank and act in a "timely manner" and "the long-term interests of the bank".

4.3. Board of directors' responsibilities in the IFSB Guiding Principles on Corporate Governance for Islamic Banks

The IFSB issued 7 principles divided into four parts. For the purpose of this article, the focus will be on the first part titled "The General Governance Approach of IIFS" and the third part titled "Compliance with Shariah Rules and Principles". The four themes of the board of directors' responsibilities that are identified in the IFSB Guiding Principles on Corporate Governance for Islamic Banks, can be listed based on frequency as follows: operational responsibilities, fiduciary duty responsibilities, strategic responsibilities, and administrative responsibilities.

Table 3. Thematic analysis of IFSB principles

Board responsibilities	*Frequency*	*Percentage*
Operational	8	50.00%
Strategic	3	18.75%
Fiduciary duty	3	18.75%
Administrative	2	12.50%
Total	16	100%

The operational responsibility is the first major responsibility of the board of directors in the IFSB guiding principles as it is consisting 50.00% of the overall content analysis related to board responsibilities as it is shown in Table 3. The operational responsibilities are mentioned in principles 1.2 and 3.2 and also indicated in points 19, 20, 21, and 55 in IFSB (2006) Guiding Principles on Corporate Governance for Islamic Banks. In these points, it is indicated that the board of directors should "ensure that the reporting of their financial and non-financial information meets the requirements of internationally recognized

accounting standards" as well as "oversee on behalf of the stakeholders the integrity of the financial reporting controls and procedures implemented by management" in addition to "ensure that information on compliance with Islamic Shariah rules and principles by the IIFS is reported in a timely and adequate manner".

The strategic responsibility is the second major responsibility of the board of directors in the IFSB guiding principles as it is representing 18.75% of the overall content related to board responsibilities as it is shown in Table 3. Strategic responsibilities are stated in points 13, 17, and 19 in IFSB (2006) Guiding Principles on Corporate Governance for Islamic Banks. In these points, it is stated that the board of directors in Islamic banks shall establish "a comprehensive governance policy framework" which sets out the "strategic roles" and "functions" of each governance organ to balance the Islamic banks' "accountabilities to various stakeholders". In addition, the board of directors shall "set up a governance committee" at the board level to "coordinate and integrate" the "implementation" of the governance policy framework.

The fiduciary duty responsibility is the third major responsibility of the board of directors in IFSB guiding principles as it makes up 18.75% of the overall content analysis related to board responsibilities as it is shown in Table 3. Fiduciary duty responsibility is mainly mentioned in principle 1.1 and in points 13 and 47 of the IFSB (2006) Guiding Principles on Corporate Governance for Islamic Banks. In these points, it is stated that since Shariah compliance is fundamental in assuring the credibility and integrity of Islamic banks and it is one of the crucial responsibilities of the board of directors, it is stated that "the fiduciary responsibility of IIFS towards their customers includes a primary undertaking by the IIFS to comply with Islamic Shariah rules and principles at all times". Therefore, the boards of directors in Islamic banks shall "establish a mechanism" to obtain "rulings from Shariah scholars" as well as to "monitor Shariah compliance" in Islamic banks. Moreover, in line with this unique characteristic of the Islamic financial services industry, the guiding corporate governance principles call for a "balanced approach" by Islamic banks in creating value for their shareholders "while paying due attention" to the interests of their stakeholders.

The administrative responsibility is the fourth and last major responsibility of the board of directors in IFSB guiding principles. It represents 12.50% of the overall content analysis related to board responsibilities as it is shown in Table 3. The administrative responsibilities are indicated in point 14 in the IFSB (2006) Guiding Principles on Corporate Governance for Islamic Banks. In this point it is mentioned that the board of directors shall "oversee and monitor the implementation of the governance policy framework" and work together with "the management, the Audit Committee and the SSB", additionally, the board of directors shall receive "reports and recommendations" based on the exercise of the different Islamic banks' functions.

4.4. Comparative thematic analysis of the board of director's responsibilities in OECD, BCBS, and IFSB principles

Following the content analysis of the OECD, BCBS, and IFSB principles on the board of directors' responsibilities, here is a brief comparative thematic analysis of these principles based on the four themes of the board of directors' responsibilities. As it is shown in Table 4, the board of directors' responsibilities is listed according to the total frequency of the responsibilities in OECD, BCBS, and IFSB principles as follows: strategic responsibilities, fiduciary duty responsibilities, operational responsibilities, and administrative responsibilities.

Table 4. Thematic analysis of the board of directors' responsibilities

Board responsibilities	*Frequency*	*Percentage*
Strategic	40	32.26%
Fiduciary duty	37	29.84%
Operational	31	25.00%
Administrative	16	12.90%
Total	124	100%

The strategic responsibilities of the board of directors have the first highest frequency with a percentage of 32.26%, which indicates the major importance given to the strategic responsibilities of the board of directors in OECD, BCBS, and IFSB principles. This emphasis on the strategic responsibilities of the board of directors in OECD, BCBS, and IFSB principles refers to the strategic function of the board of directors (Charan, Carey, & Useem, 2014; Boivie et al., 2021), which is derived from the philosophy of the stakeholder theory where the board of directors is seen as wealth creators by coordinating between all stakeholders including shareholders in the corporation (Kaufman & Englander, 2005; Squires & Elnahla, 2020).

The fiduciary duty responsibilities of the board of directors have the second highest frequency with a percentage of 29.84%, which indicates the significance of the fiduciary duty responsibilities of the board of directors in OECD, BCBS, and IFSB principles. The highlighting of the fiduciary duty responsibilities of the board of directors in OECD, BCBS, and IFSB principles is related to the monitoring function of the board of directors (Boivie et al., 2021), which is derived from the viewpoint of the agency theory which asserts that the primary function of the board of directors is to monitor and control the management of the corporation (Shapiro, 2005), moreover, the board of directors is expected to side with the shareholders as they have a fiduciary responsibility towards them (Hillman, Nicholson, & Shropshire, 2008).

The operational and administrative responsibilities of the board of directors have the third and fourth frequencies with a percentage of 25.00% and 12.90%, which indicates the substance given to the operational and administrative responsibilities of the board of directors in OECD, BCBS, and IFSB principles. This stress on the operational and administrative responsibilities of the board of directors in OECD, BCBS, and IFSB principles refers to the service functions of the board of directors (Aberg et al, 2019; Squires & Elnahla, 2020), which is one of the roles of the board

of directors, to provide advice and counsel to the executive management (Daily, Dalton, & Cannella, 2003; Pugliese et al., 2009).

5. CONCLUSION

This article compares the OECD, BCBS, and IFSB principles of corporate governance on board of directors' responsibilities, and provides a reference of thematic analysis for policymakers, regulators, and researchers to develop the national corporate governance codes based on the principles of OECD, BCBS, and IFSB.

Based on the comparative thematic analysis of the principles of OECD, BCBS, and IFSB, the strategic responsibility and the fiduciary duty responsibility are the primary responsibilities of the board of directors; on the other hand, the operational responsibility and the administrative responsibility are secondary responsibilities of the board of directors. This shift of focus on the board of directors' responsibilities from the traditional function of monitoring (fiduciary duty), and service functions (operational and administrative) to the contemporary function (strategic), is part of global change in understanding the core responsibilities of the board of directors (Boivie et al., 2021; Squires & Elnahla, 2020; Aberg et al., 2019). In the new area of corporate governance practices, the board of directors views their primary role as helping the executive management "shape the strategic direction of the firm" (Boivie et al., 2021, p. 29).

In light of this brief discussion, it is very important for policymakers, regulators, and researchers to advance the national corporate governance codes to reflect the global evolutions in corporate governance practices focusing on the strategic responsibility of the board of directors.

As with every research, there are limitations. Using manual content analysis may not be as reliable as using automated content analysis (Majoch et al., 2017). Moreover, the principles of OECD, BCBS, and IFSB are based on general guidelines that do not reflect the different political, economic, social, and legal contexts of diverse countries. Therefore, the outcomes of this research have to be considered within these limitations.

Finally, to conclude, for future research in the area of corporate governance and the board of directors' responsibilities, conducting a content analysis of the national governance codes to determine the board of directors' responsibilities within these codes would be the first step to developing these national governance codes to be up-to-date with the global advancement of corporate governance practices.

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