

THE IMPACT OF CORPORATE GOVERNANCE ON INNOVATION AND PERFORMANCE: EVIDENCE IN THE BANK INDUSTRY

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Abstract

Innovation and research-intensive processes are increasingly key factors for banks aiming to gain a global competitive advantage. Consequently, a robust corporate governance mechanism that ensures robust research and development capabilities can significantly improve corporate performance and value creation. This study analyzes the relationships between corporate governance structure, innovation capacity, and bank performance by comparing the US and European banking sectors.

The scientific literature, especially the most recent, is attempting to explore the impact that governance structure can have on corporate performance through the development of technological innovation processes.

However, the results of these studies have not clarified the mediating role of innovation in the governance-performance relationship.

The aim of this study is to fill this research gap through a comprehensive empirical analysis of two large samples from the US and EU banking sectors. This provides a benchmark for comparing these two distinct sectors and seeks to understand whether it is possible to define specific guidelines for good corporate governance in banking institutions.

A significant portion of recent literature has highlighted that companies with better governance quality have shown better performance.

Past research has primarily explored the direct relationship between corporate governance and innovation, on the one hand, and the direct relationship between corporate governance and corporate performance, on the other, without clarifying the role of governance as a driver of innovation and performance improvement. Recent international research has often used environmental, social, and governance (ESG) variables as a proxy for measuring banking performance.

It is reasonable to assume that rapidly evolving corporate environments, fostered by effective corporate governance mechanisms, such as prudent leadership focused on developing innovative processes and oriented toward significant investments in research and development, can strengthen the positive impact on corporate performance.

It should be emphasized that, as part of ongoing technological progress, recent artificial intelligence tools have become increasingly integrated into the banking and financial sector.

Technological innovation in the banking and financial sector plays a role in improving financial performance. The term interaction between innovation and corporate governance emphasizes their positive impact on financial performance.

The role of information and communication technology development in transforming innovation into improved financial results for banks should be highlighted. However, it should be noted that the impacts of innovation investments on banking performance are not expressed in the short term; therefore, research must explore both the immediate and delayed impacts of innovation, offering valuable insights for strategic planning.

This study highlights the essential role of technological innovation in the banking and financial sector, underscoring the need to consider establishing good governance practices to maximize its benefits in improving financial performance.

In conclusion, banking research must explore the role of innovation in the relationship between governance and banking performance, seeking to identify governance levers capable of stimulating high-value-added innovation processes in terms of improving corporate value. The findings of these research areas can provide administrators and managers with principles, criteria, and best practices for guiding governance toward virtuous paths of improving corporate performance. The results can help understand whether innovation processes can be governed to ensure solid, long-term performance.

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