AN ASSESSMENT OF CORPORATE GOVERNANCE IN FINANCIAL INSTITUTIONS IN BARBADOS

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Abstract

The objective of this paper is to provide an assessment of corporate governance in selected financial institutions in Barbados. The instrument used for measuring corporate governance practice is derived from the Central Bank of Barbados (CBB) Corporate Governance Guidelines (2013) and the OECD Principles of Corporate Governance (OECD, 2004). A corporate governance index is developed to best fit the domestic financial system. The results indicate that the five financial institutions are highly compliant with the corporate governance guidelines. The corporate governance index ranges from 75 to 92 on a scale of 0 to 100 in ascending order of good corporate governance. Commercial banks obtained the highest corporate governance rankings. This result is not surprising since the banks operating in Barbados are affiliates of foreign-owned and domiciled financial institutions. They are therefore monitored by multiple local, regional and international regulatory agencies. This paper is the first such research effort for the Barbadian economy. The findings should be beneficial to many persons, including top management (CEO, Chairman, Board of Directors), shareholders and other stakeholders, regulators and future researchers.

Keywords: Barbados, Corporate Governance, Corporate Governance Index, Financial Institutions

1. INTRODUCTION

The failure of major companies such as Enron, WorldCom, Bear Stearns and AIG weakened investors' confidence and brought into sharp focus the importance of firms' internal controls and their governance structures. Within the Caribbean, corporate governance practices have attracted similar attention since the collapse of Stanford Financial Group, British American Insurance Company and Colonial Life Insurance Company Limited, all occurring since 2007 (Layne, 2012; Browne, 2011; Soverall, 2012; Sookram, 2016). Previously, the Jamaican financial meltdown of 1996 also raised awareness of poor corporate governance practices within the financial system (Kirkpatrick & Tenant, 2002; Persaud, 2006). The Caribbean literature also highlights poor risk management practices, weak regulatory frameworks and inadequate legislative provisions as major contributory factors to the failure of the institutions.

The negative impact and cost of financial failures on shareholders and innumerable stakeholders provide a strong case for promoting effective corporate governance in financial institutions in Barbados. Further, given the pivotal role of the financial sector in the savings mobilization process and the growth of economic activity, it is essential that financial institutions conduct their operations using sound corporate governance practices. Theoretically, compliance to corporate governance guidelines plays a major role in laying out the parameters within which decisions can be made regarding the management of resources in order to mitigate financial institution insolvency and promote stability throughout the financial sector (Levine, 1997). As a result, financial institutions should operate within a corporate governance framework which consists of mechanisms that ensure managers provide accountability and transparency to shareholders and other stakeholders for the use of resources entrusted to them.

The objective of this paper is to provide an assessment of corporate governance in selected financial institutions in Barbados. The instrument used for measuring corporate governance practice is derived from the Central Bank of Barbados Corporate Governance Guidelines (2013) and OECD Principles of Corporate Governance (OECD, 2004). A corporate governance index is developed to best fit the domestic financial system. There are 102 questions which are classified into six categories: board responsibilities, board structure, shareholder rights, corporate social responsibility, transparency and disclosure, and audit committee. This paper represents the first such research effort for the Barbadian economy. The findings should be beneficial to many persons, including top management (CEO, Chairman, Board of Directors), shareholders and other stakeholders, regulators and future researchers.

The remainder of the paper is organized as follows: Section 2 provides a review of the relevant literature; an overview of the Barbadian financial system is presented in Section 3; Section 4 focuses on the methodological and data issues whilst the results are presented and discussed in Section 5; concluding remarks are contained in the final section.

2. LITERATURE REVIEW

2.1. Corporate governance explained

Much of the research on corporate governance has traditionally revolved around agency theory. This theory was first introduced in the literature by Berle and Means (1932) and is derived from the principal-agent relationship where the shareholders or owners (principal) engage the manager (agent) to manage the firm in a manner that best promotes their interest. However, problems may arise in the relationship from the tendency of the shareholders to expend too little effort in monitoring the activities of management when shareholding is widely dispersed. With ineffective monitoring of the managers by the shareholders, they are free to act with discretion in pursuit of their own interest. Such opportunistic behavior leads to agency costs and sub-optimal performance of the firm. Thus, from the perspective of agency theory, corporate governance focuses on effective mechanisms to prevent agents from pursuing discretionary behavior, thereby reducing the level and impact of agency problems.

Agency theory emphasizes that corporate governance should be directed at safeguarding the interest of the shareholders. However, proponents of stakeholder theory contend that this view of corporate governance is too narrow since it does not consider other stakeholders that are essential to the survival and success of the firm. Freeman (1984) argued that in reality, managers of the firm have a fiduciary responsibility to groups who are affected by the decisions of the firm. Freeman et al. (2004) noted that the stakeholder groups include consubstantial stakeholders (shareholders, investors, employees, strategic partners), contractual stakeholders (suppliers, financial institutions, customers) and contextual shareholders (governmental bodies, trade unions and associations, political groups, communities, general public). The stakeholder theory therefore goes beyond the boundaries of agency theory to take into account the interests of all stakeholders of the firm. Thus, from the perspective of stakeholder theory, a firm's corporate governance needs to accommodate the expanded body of stakeholders for it to be deemed effective (Blair, 1995).

2.2. Benefits of effective corporate governance

The theoretical principles which form the basis of corporate governance contend that a firm which has effective corporate governance mechanisms in place is more likely to perform well since these mechanisms prevent disasters and losses; and promote the efficient use of resources, thereby enhancing firm performance (Low, 2002; Gompers et al., 2003; Classens, 2006; Love, 2010; Agrawal & Knoeber, 2012). A better governed firm may attract the best pool of resources for all aspects of its operations. It is widely accepted that effective corporate governance enhances the firm's public image. A good reputation improves the firm's financial performance and competitiveness because stakeholders prefer to work with firms which have sound reputations (Fombrun & Shanley, 1990; Black et al., 2000; Jensen, 2001; Wallace, 2003). All stakeholders buy into the vision and mission of the firm and seek to mutually work towards the achievement of the firm's goals.

Firms with effective corporate governance exhibit greater transparency and speedier resolution of conflicts of interest. Weekes-Marshall (2014) was of the view that higher levels of transparency and disclosure, which were lost in the global crisis, would aid in rebuilding the confidence of investors and other stakeholders of the firm, thereby improving the firm's performance. Love (2010) also remarked that corporate governance can improve the firm's performance through (1) reduction in the incidence of tunneling, asset stripping, related party transactions and other ways of diverting cash flows from equity holders; (2) investors becoming more willing to accept lower return on their investment, which translates into lower cost of capital for firms; and (3) increased availability of external financing, thereby allowing the firm to undertake more profitable investment opportunities. It has also been argued that effective corporate governance benefits developing countries by attracting domestic and foreign investment, restoring confidence in the market and promoting economic growth (Jordan, 2015).

2.3. Measuring corporate governance

A review of the vast literature on corporate governance indicates that there has been no consensus on how to measure corporate governance. Generally, two approaches have been adopted. The first approach focuses on examining single corporate governance attributes (see Shleifer & Vishny (1997) and Bhagat et al. (2008) for a survey of the literature). The specific attribute attracting most attention in the corporate governance literature is the board of directors (Hermalin & Weisbach, 1998, 2003). The second approach uses broad firm-specific corporate governance indices to account for the complex nature of corporate governance. This approach combines information about the different corporate governance attributes to construct a composite corporate governance index (see Bhagat et al. (2008) for a survey of the literature). Within this approach, the methodologies differ widely with differences in the selection of governance attributes, weighting utilized and the data-collection method. However, the methodology for measuring the level of corporate governance by constructing an index consisting of multiple corporate governance attributes has grown in popularity.

Some studies have utilized information from rating agencies to construct the corporate governance index. Typically, the agencies compile their corporate governance ratings based on questionnaires completed by their analysts. While the data obtained usually represent the current state of corporate governance in a firm, this method of deriving the measure of corporate governance relies on some subjective information and is contingent on the competence of the analysts. An example of this approach is the corporate governance index created by Gompers et al. (2003) for a sample of 1500 US companies, including most large public corporations (the Fortune 500 and Standard & Poors 500), over the 1990 to 1999 period. The authors utilized data from the Investor Responsibility Research Centre (IRRC), a non-profit research group serving institutional investors, to develop the G-Index based on 24 provisions, including tactics for delaying hostile takeovers, voting rights, director/officer protection, other takeover defenses, and state laws. The authors equally weighted the governance provisions tracked by IRRC in constructing the G-Index. Bebchuk et al. (2009) also constructed a corporate governance index based on the IRRC data. Their index, called the Entrenchment Index or E-Index, comprised six of the G-Index provisions to which equal weights were applied.

Klapper and Love (2004) used the Credit Lyonnais Securities Asia (CLSA) corporate governance rankings to construct an index for 374 firms in 14 emerging economies. The corporate governance index was based on 51 questions in the following groups: discipline, transparency, independence, accountability, responsibility, and fairness. The other category of the CLSA rankings, social awareness, was excluded due to its perceived lack of relevance in the study. In order to include firm-level accounting data, the authors merged the CLSA data with Worldscope data (June 2001 CD-Rom). Similar to Gompers et al. (2003), the authors applied equal weightings to the chosen features tracked by CLSA in determining the index. Brown and Caylor (2006, 2009), Morey et al. (2009) and Renders et al. (2010) also utilized information from agencies in the construction of their corporate governance indices.

Commercial rating agencies' data may be unreliable or unavailable in some circumstances, in which case researchers have opted to collect the information using questionnaires completed by the companies themselves. However, data collected via this method may not be a true representation of the actual state of corporate governance within the firms because of self-reporting bias. That is, the information provided by the participating firms may be more indicative of how the firms want to see themselves in the future rather than the current reality. Another limitation with collecting information directly from the firms through surveys is a low response rate, especially from those firms whose corporate governance policies are substandard (self-selection bias) (Garay & González, 2008). Love (2010) therefore proposed using a combination of data sources (data triangulation) to reduce bias associated with each method. Black et al. (2006) constructed a Korean corporate governance index based primarily on responses from companies to a survey on corporate governance practices conducted by the Korea Stock Exchange (KSE) in spring 2001. They collected additional data from multiple sources to supplement the information obtained from the KSE. The index was based on 38 attributes classified into 5 sub-indices: shareholder rights, board structure, board procedure, disclosure, and ownership parity which measured the level of control the largest shareholder exercises. The authors equally weighted the sub-indices due to lack of evidence to guide in determining appropriate weights in the given context.

To address the self-reporting and self-selection biases associated with collecting data using surveys of companies, many studies have utilized publicly available information on the companies. An early study utilizing public information was Leal and Carvalhal-da-Silva (2005) which presented a corporate governance index for 214 listed Brazilian firms over the period 1998 to 2002. The index was based on responses to 24 questions covering the following areas: disclosure, board composition and functioning, ethics and conflicts of interest, and shareholder rights. Equal weighting was applied to the items in the study. Similarly, Cheung et al. (2007) utilized publicly available information from numerous sources to construct an index to measure corporate governance for 168 firms listed on the Hong Kong Stock Exchange in 2002. The index was based on 86 questions classified into five categories. The authors used unequal weighting as follows: rights of shareholders (15%), equitable treatment of shareholders (20%), role of stakeholders (5%), disclosure and transparency (30%), and board responsibilities and composition (30%). Each company was assessed by two different raters to ensure consistency. Using a similar approach, Cheung et al. (2008) constructed a corporate governance index for 2004 Fortune 100 largest listed companies in China.

Garay and González (2008) used public information to construct a corporate governance index for 46 Venezuelan firms listed on the Caracas Stock Exchange in 2004. From the 24 questions utilized by Leal and Carvalhal-da-Silva (2005), the authors chose 17 questions that are more applicable to the Venezuelan context. However, the sub-indices (information disclosure, composition and performance of the board of directors, ethics and conflicts of interest, and shareholder rights) along with equal weighting of the provisions were retained. Ramlal (2010) undertook a study on firms in Trinidad and Tobago. She utilized public information to determine a composite index for firms listed on the Trinidad and Tobago Stock Exchange in 2008. The full index includes 135 questions classified into 5 sub-indexes. The weights were assigned as follows: 30% to board responsibility, 15% to board structure, 20% to shareholder rights, 20% to transparency and disclosure, and 15% to audit committee.

Kumar and Upadhyaya (2011) also used information from multiple public sources in constructing an index to measure corporate governance for commercial banks listed on the Nepal Stock Exchange. The index was based on 110 attributes divided into 5 sub-indices. The authors assigned the weights of 30% to board responsibility, 14.55% to board structure, 12.72% to shareholder rights, 30% to transparency and disclosure, and 12.72 to audit committee.

Despite the widespread use of corporate governance indices to measure the level and quality of corporate governance within firms, the methodology has attracted some criticism in the literature. First, Bhagat et al. (2008) argued that the existing indices fail to assess the diverse way in which corporate governance operates within firms. They claim that no one index has the ability to predict a firm's performance on all measures that might be important to investors. Second, indices utilize a fairly 'one size fits all' approach by measuring all aspects of governance as complements while some components may be substitutes for each other based on the type of firm and/or industry, thereby failing to account for the highly complex nature of the subject (Rediker & Seth, 1995; Misangyi & Acharya, 2014). Third, corporate governance indices have also been criticized based on their large and unselective nature. This has been described as the 'kitchen sink problem' where indices often consist of many variables and corporate governance items which may not necessarily have a theoretical justification for measuring the quality of corporate governance (Schnyder, 2012). Finally, Nerantzidis (2016) asserted that many studies which construct corporate governance indices have not taken into consideration the important criteria of validity and reliability.

Of the reviewed studies, Ramlal (2010) is the only work undertaken on the Caribbean while Kumar and Upadhyaya (2011) is the only study which dealt specifically with financial institutions. The sub-indices utilized in both studies were board responsibilities, board structure, shareholder rights, transparency and disclosure, and audit committee. This classification, along with the rights of stakeholders highlighted in the OECD Principles of Corporate Governance (2004), will be employed in the current study.

3. OVERVIEW OF THE BARBADIAN FINANCIAL SECTOR

By standard measurements, Barbados is a small, open economy with a population of just over 280,000 and a land mass of 166 sq. miles. Its financial sector plays a vital role in the economic performance of the country. The Barbadian financial sector comprises the central bank, commercial banks, merchant banks, trust companies, credit unions, financial asset management firms, financial brokerage firms and a stock exchange. These institutions operate mainly in money, credit, equity, bond, and foreign exchange markets; and are both of domestic and international ownership (Howard, 2013). The 2017 Central Bank of Barbados Financial Stability Report indicates that assets in the financial sector as at December 31, 2017 were estimated to be in the region of 25.5 billion Barbados dollars (BBD) or 271% of the gross domestic product. Commercial banks continue to dominate the financial system, accounting for 53% of total assets; followed by insurance companies with 15%; pension funds and credit unions, each with 9%; mutual funds with 8%; and finance and trust companies with 6%.

Commercial banking began in Barbados with the establishment of the Colonial Bank (later to become Barclays Bank) in 1837. Indigenous banking started in 1978 with the opening of the Barbados National Bank. Today however, the banking sector is dominated by foreign-owned banks with headquarters in Canada, and Trinidad and Tobago. Since 2002 a series of changes have taken place in the banking sector resulting in the merger and acquisition of some commercial banks. As at December 2018 the commercial banks licensed to operate in Barbados were the Bank of Nova Scotia, CIBC FirstCaribbean International Bank (a merger of Barclays Bank PLC and Canadian Imperial Bank of Commerce (CIBC)), First Citizens Bank (Barbados) Limited (formerly Bank of Butterfield), Republic Bank (Barbados) Limited (formerly the Barbados National Bank), and RBC Royal Bank (Barbados) Limited (a merger of Royal Bank of Trinidad and Tobago (RBTT) and Royal Bank of Canada).

Over the years, financial institutions in Barbados have invested heavily in technology. The automatic teller machine (ATM), telebanking, internet banking, mobile banking, debit and credit cards are among the advances within the financial sector. These advances have improved efficiency in the operations of the institutions by lowering the cost of transactions, increasing the speed of transactions and reducing the possibility of human error (Wood & Brewster, 2016).

The commercial banking sector weathered the global financial crisis and local recession relatively well, with capital adequacy ratios remaining well above international guidelines and the statutory requirement of 8%. Furthermore, the banks maintained a strong liquidity position in the post crisis period (Wood & Brewster, 2016). However, the main impact of the economic downturn was an increase in loan delinquency and weakened credit quality. The non-performing loans to total loans ratio increased from a low of 2.9% in 2007 to 12.9% in 2012 before declining to 10.8% at the end of 2015. The ratio continued its downward trajectory, reaching 7.9% at the end of 2017.

Another important development in the commercial banking sector during 2017 was in the area of lending. Credit activity expanded by 2% to $6 billion or 64% of gross domestic product, representing the first underlying growth in credit since 2012 (Central Bank of Barbados, 2017). This recovery in loans was driven by growth in credit to the distribution and personal sectors, and the real estate and other professional services category.

With regard to regulation of the financial sector, the main institutions are the Central Bank of Barbados (CBB), Financial Services Commission (FSC) and the Fair Trading Commission (FTC). The CBB, which was established by the Central Bank of Barbados Act in 1972, has responsibility for prudential regulation and monetary policy. Within its mandate for prudential regulation the CBB regulates the operations of commercial banks, finance companies, trust companies, merchant banks and mortgage finance companies on the basis of the Financial Institutions Act 1997. It also has responsibility for the regulation of international or offshore banks on the basis of the International Financial Services Act 2002 (Wood & Clement, 2015). The FSC was established by the Financial Services Commission Act of 2010 and is responsible for the regulation of the non-banking financial services sector. The FSC is an amalgamation of the Supervisor of Insurance which regulates the operations of insurance companies, the Department of Cooperatives which regulates credit unions, and the Securities Commission which is responsible for the Barbados Stock Exchange and its participants. The FTC was established in January 2001 through the Fair Trading Commission Act. In the area of financial regulation, the FTC's focus is on conduct-of-business (consumer protection) regulation and competition regulation.

The importance of corporate governance within the financial sector has been given some attention over the years. In 2003, the Central Bank of Barbados and the Barbados Institute of Banking and Finance held a conference on corporate governance for Caribbean practitioners and regulators with special focus on corporate governance in the financial system. Corporate governance guidelines were issued by the CBB in 2006. Also, the Deposit Insurance Scheme was introduced in 2007 and has grown over the years to represent coverage of approximately 90% of qualified accounts in the domestic banking sector in 2013. Further, regulatory institutions were restructured and legislation enacted or amended in an effort to construct a legal and regulatory framework that is appropriate and functional in today's complex and dynamic environment.

In light of the 2008 financial crisis and the failure of Colonial Life Insurance Company Limited with its devastating impact on investors and policyholders in Barbados (and elsewhere in the region), renewed prominence was given to corporate governance within financial institutions. The corporate governance guidelines issued by the CBB were revised in 2013, and in January 2014 the Corporate Governance Recommendations for Listed Companies issued by the Barbados Stock Exchange became enforceable. In addition, under the direct supervision of the CBB, in 2011 financial institutions commenced implementation of the Basel II accord. Pillar 1 which sought to develop and expand the standardized rules for minimum capital requirements set out in the 1988 Accord has been completed. Pillar 2 which relates to the supervisory review of an institution's capital adequacy and internal assessment process is ongoing and Pillar 3 which focuses on market discipline has not commenced. Further, the CBB is yet to start Basel III implementation.

4. METHODOLOGY AND DATA ISSUES

The paper provides an assessment of corporate governance practice in select financial institutions in Barbados. This is achieved through a qualitative case study review of corporate governance within five institutions. A corporate governance index is constructed to measure the level of compliance of the institutions to corporate governance standards derived from the Central Bank of Barbados Corporate Governance Guidelines (2013) and the OECD Principles of Corporate Governance (OECD, 2004). In the absence of a corporate governance rating agency for firms in Barbados, primary data on the adherence of selected firms with corporate governance standards were collected through a questionnaire survey of the institutions during the period June and July, 2015. This form of data-collection is fairly quick and inexpensive, and hence was preferred for the exercise given the time and financial resource constraints. Further, self-administered questionnaires can be completed at the convenience of the respondent and they boast of being devoid of interviewer influence (Bryman, 2012). However, we should note that the chosen data-collection method may result in a low response rate due to self-reporting bias. Additional information on firm characteristics was obtained through review of annual reports, company websites and other publicly available information on the firms.

The institutions included in the exercise are two commercial banks, one insurance company and two credit unions. The commercial banks are leaders in the industry, and are affiliates of foreign-owned and domiciled financial institutions. At the end of 2015 the group asset base of the banks, FCBK and RBKB, was US$10.7 billion and US$10.1 billion, respectively. The commercial banks have larger shareholders compared to the other institutions whose shareholding is more widely diffused. These banks offer similar financial services and products delivered through modern technology infrastructure. The insurance company, SAG, is a major player in the regional insurance industry and had amassed group assets of US$6.4 billion at the end of 2015. It offers a full range of insurance services, mutual funds and financing services to its clients. Unlike the other financial institutions, the credit unions are owned by their members and cater primarily to lower income clients. The asset base of the credit unions, BPWC and COBC, was US$545.3 million and US$194.2 million, respectively at the end of 2015. Similar to the other institutions, the credit unions are among the leaders in the sector.

The questionnaire was emailed in electronically answerable format to either the Chief Executive Officer or a suitable alternative within the institutions. This was followed by calls and emails to encourage completion of the questionnaire and resolve any concerns and queries. The structure of the questionnaire was informed by those utilized by Ramlal (2010) and Kumar and Upadhyaya (2011). However, another sub-index, stakeholder rights captured through corporate social responsibility, was added to the five sub-indices (board responsibilities, board structure, shareholder rights, transparency and disclosure, audit committee) used in the mentioned studies. The reference points for the 102 questions classified into the six sub-indices are the Central Bank of Barbados Corporate Governance Guidelines (2013) and the OECD Principles of Corporate Governance (OECD, 2004).

To facilitate ease of response, the questions were structured in a straightforward manner and are predominantly Yes/No questions. The sub-indices were equally weighted. This was done to avoid bias and in consideration of the general lack of information on the quality of corporate governance practice in firms operating in Barbados. Unweighted scores have the advantage of treating each sub-index with the same level of importance without making arbitrary or data-driven judgements and are widely utilized in the literature. Each Yes response, indicating alignment with the corporate governance guideline is given a score of 1 and 0 otherwise. Next, the average score of each sub-index is determined. The final score is calculated by summing the product of the average score and the weight of each sub-index and multiplying by 100. Higher scores indicate better corporate governance practices.

5. PRESENTATION AND ANALYSIS OF RESULTS

The corporate governance index and ranking of the financial institutions are presented in Table 1 and the scorecard to the questionnaire appears at the Appendix. The index ranges from 75 to 92 on a scale of 0 to 100 in ascending order of good corporate governance. The two commercial banks achieved corporate governance scores in excess of the average of 84, while the scores for the insurance company and one of the credit union, COBC, were below the average. The higher corporate governance rankings achieved by the commercial banks indicate that financial institutions monitored by the Central Bank of Barbados have better compliance with corporate governance guidelines. This situation is not surprising since the Central Bank of Barbados is the most experienced regulatory institution in the country. Also, since banks operating in Barbados are affiliates of large banking corporations with headquarters in Canada, and Trinidad and Tobago, they are subject to additional monitoring performed by the parent company, and other regional and international regulatory agencies.

The corporate governance rankings of the commercial banks also indicate that higher levels of corporate governance controls are found in institutions which have large shareholders. This result corroborates the earlier views of Shleifer and Vishny (1986) and Kaplan and Minton (1994).

Table 1. Corporate governance index

Financial Institution	*FI Type*	*CGI Score*	*Ranking*
RBKB	Commercial Bank	92	1
FCBK	Commercial Bank	89	2
BPWC	Credit Union	84	3
SAG	Insurance Company	80	4
COBC	Credit Union	75	5

Source: Authors' compilation using SPSS.

The descriptive statistics of the corporate governance sub-indices are provided in Table 2. The results indicate that the institutions do very well in the areas of Audit Committee and Corporate Social Responsibility, with average scores of 96 and 92, respectively. Specifically, the institutions have audit committees which are independent and play an active role in monitoring management, and scrutinizing investment and transaction decisions. The high score in the classification of Corporate Social Responsibility is indicative of the institutions' awareness of their responsibilities to all stakeholders. With regard to employees, all the companies offer relevant training programmes, and otherwise provide support to staff members seeking to upgrade their skills. Health and safety policies have also been established at the institutions. However, three of the institutions need to provide long-term incentives for their workers through the introduction of a share-ownership scheme. It was also found that the institutions generally practice environmentally-friendly initiatives, honor payment and other obligations to government departments and suppliers in a timely manner, and support efforts of organizations within the communities. Thus, it can be concluded that the stakeholder perspective of corporate governance, rather than the shareholder perspective, has more relevance in the context of financial institutions operating in Barbados.

Table 2. Corporate governance sub-indices

Financial Institution	*I*	*II*	*III*	*IV*	*V*	*VI*
RBKB	96	92	83	90	89	100
FCBK	96	75	83	100	82	100
BPWC	88	75	67	90	86	100
SAG	64	67	83	86	82	100
COBC	76	42	83	95	71	80
Mean	84	71	80	92	82	96
Minimum	64	42	67	86	71	80
Maximum	96	92	83	100	89	100

Notes: All the indices are ranged from 0 to 100. Sub-index I: Board responsibility; Sub-index II: Board structure; Sub-index III: Shareholder rights; Sub-index IV: Corporate social responsibility; Sub-index V: Transparency and disclosure; Sub-index VI: Audit committee.

Source: Authors' compilation using SPSS.

The institutions also scored well in the areas of Board Responsibility, and Transparency and Disclosure; the average scores are 84 and 82, respectively. For Board Responsibilities, all institutions reported in the affirmative to their board's involvement in key areas, including approving major activities (such as loans, liquidity, investments, underwriting, insurance), methods of internal controls, and compensation packages for senior management and other key personnel; ensuring compliance with statutory obligations; establishing and monitoring standards of conduct and ethical behavior; monitoring financial performance; and ensuring that material information is reported to the shareholders in a timely manner. Also, the board members sign a code of ethics, and meetings are pre-scheduled and communicated to each member at the beginning of the year except in emergency situations. However, four of the five institutions are lacking in the area of formal succession programmes for board members and senior management personnel. Since succession planning for strategic personnel is vital to the smooth functioning and growth of companies, it is recommended that all institutions establish appropriate succession plans.

In terms of Transparency and Disclosure, all companies maintain a record of attendance at board meetings and information on meetings is transmitted to members in a timely manner. Also, annual audits are conducted using well-established, qualified external auditors. The institutions utilize international industry accounting and audit standards. Companies also disclose important information (such as description and brief history of the business, structure of authorized capital, recent capital history, significant change in ownership) to the public and investors through many channels, including their annual reports, company websites and other printed media. However, only two of the institutions disclose information on the remuneration of directors and financial targets in their annual reports, while three institutions reveal the fees paid to external auditors, advisors and related parties. This situation indicates that improvement is required in the area of Transparency and Disclosure.

The institutions also performed well in the classification of Shareholder Rights; this sub-index has a mean score of 80. All companies treat the various classes of shareholders equally, use a one-share one-vote rule, and provide adequate notification of the annual general shareholders meetings which are conducted in accordance with legislation and applicable guidelines. Shareholders are encouraged to participate fully at the annual general meeting. The institutions also have a clearly disclosed dividend policy. Currently the companies do not allow voting by electronic means; one institution allows cumulative voting; and two institutions allow proxy voting. To increase the level of participation by shareholders, especially when key decisions are to be made, the institutions should address the deficiency that currently exists in the area of voting.

The lowest score was achieved in the area of Board Structure; this sub-index has a mean score of 71. Important sub-committees of the board have not been established at some of the institutions. Specifically, only two of the institutions have risk management and remuneration committees. Also, there is partial director attendance at scheduled board meetings and the major background of independent directors was predominantly in non-financial institutions. On the positive side, within all institutions functional audit committees exist, the roles of CEO and Chairman are separated, boards are of adequate size, and board meetings are held in accordance with the stipulations in the organization's By-laws and articles. Also, the board members are predominantly independent and nomination committees are in place at the majority of the institutions. Given the sub-index score, it is evident that improvement is required in the category of Board Structure.

6. CONCLUSION

This paper provided an assessment of corporate governance in financial institutions in Barbados. A corporate governance index was constructed using survey evidence obtained in June and July 2015. The results indicate that on average, the five financial institutions achieved a compliance level of 84%, with the corporate governance scores ranging from 75% to 92%. The commercial banks obtained the highest levels of compliance. The corporate governance scores indicate that the financial institutions are highly compliant with the corporate governance guidelines. With regard to the sub-indices, the financial institutions achieved the highest level of compliance in the areas of Audit Committee and Corporate Social Responsibility, followed by Board Responsibilities, Transparency and Disclosure, Shareholder Rights, and Board Structure.

Some interesting findings emerged from the analysis. First, financial institutions monitored by the Central Bank of Barbados have better compliance with corporate governance guidelines than those monitored by the Financial Services Commission. This suggests that regulatory pressure/requirements play an important role in ensuring better governance standards since the Central Bank of Barbados is the older and more experienced regulatory institution. Thus, capacity building is required at the Financial Services Commission to enhance its monitoring capability of the financial institutions' compliance with governance guidelines. Second, financial institutions which are affiliates of multinational financial corporations have better corporate governance standards. This suggests that these institutions benefit from the policies determined by their parent companies, and the requirements of other regional and international regulators. Third, regulators should be cognizant that the internal governance mechanisms at some financial institutions should be strengthened. Specifically, to enhance the effectiveness of the board of directors, risk management and remuneration committees should be established at all financial institutions, and the background and expertise of the independent directors should be more related to the financial industry. Also, there should be greater attendance by the independent directors at the scheduled board meetings. Further, improvement in the level of compliance with provisions in the category of Transparency and Disclosure is required at some financial institutions. This recommendation relates to disclosure in annual reports of financial information such as remuneration of directors, financial targets and fees paid to external auditors, advisors and related parties. Such revelations will help stakeholders make more informed decisions about the institutions.

Though the study produced some encouraging results, it can be extended in a few important ways. First, given the limited number and focus exclusively on financial institutions, future research can be based on a wider cross-section of Barbadian companies. Such a study will provide more comprehensive data to assess the true status of compliance of companies with corporate governance guidelines in Barbados. Second, it would be useful to undertake the assessment of corporate governance annually to track the movement in compliance levels of Barbadian companies on an on-going basis. Third, the research is based on a single country. Future work on corporate governance can be conducted on a Caribbean-wide basis or may consider a panel of Caribbean and other developing or developed economies. Fourth, future research can focus on the relationship between the level of compliance and important firm attributes such as assets, profitability, age, auditor type, shareholding structure, and board characteristics. Finally, another important area of investigation is the extent to which corporate governance impacts on performance and valuation of Barbadian companies.

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Appendix. Corporate governance scorecard

#		Questions	Max. Score	Section Weight	RBKB	SAG	COBC	BPWC	FCBK
1	*Board Responsibilities*		1	17%	0.96	0.64	0.76	0.88	0.96
	1	Has the Board stated its business objectives?			1	1	0	1	1
	2	Has the Board established the qualifications and competence of the CEO?			1	1	0	1	1
	3	Is the Board assessing senior managers?			1	0	0	1	1
	4	Does the Board approve major activities such as loans, liquidity, investment, insurance underwriting, etc?			1	1	1	1	1
	5	Does the Board ensure and approve that the compensation of the senior management members and key personnel is in keeping with the organization's culture?			1	1	1	1	1
	6	Does the Board ensure and approve that senior management has stated policies and procedures to ensure that their activities are in keeping with the approved business strategy?			1	1	0	1	1
	7	Does the Board approve the organization's methods of internal control and ensure that they are functioning properly?			1	1	1	1	1
	8	Does the Board ensure compliance with statutory obligations of financial institutions is fulfilled?			1	1	1	1	1
	9	Does the Board monitor the financial performance of the organization?			1	1	1	1	1
	10	Does the Board establish standards of conduct and ethical behavior for persons in the organization?			1	1	1	1	1
	11	Does the Board self-assess periodically?			1	0	1	0	1
	12	Does the Board report to shareholders on the financial condition of the organization?			1	1	1	1	1
	13	Does the Board consult shareholders when deciding on activities which will influence them?			1	1	1	0	1
	14	Does the Board report significant and material information to the shareholders?			1	1	1	1	1
	15	Does the Board submit compensation reports to shareholders for approval before such compensation packages are implemented?			1	1	0	1	0
	16	Does the Board have a formal program for new directors and persons identified as possible successors to senior management and for other critical functions within the organization?			0	0	0	0	1
	17	Do Board members sign a code of ethics?			1	1	1	1	1
	18	Does the organization have policies relating to:							
		Human Resource Development			1	0	1	1	1
		Credit			1	1	1	1	1
		Assets and Liability			1	0	1	1	1
		Profit Planning			1	0	1	1	1
		Investing			1	0	1	1	1
		Procurement			1	0	1	1	1
		Risk Management			1	0	1	1	1
	19	Are Board meetings pre-scheduled and communicated to each member at the beginning of the financial year except in cases of emergencies?			1	1	1	1	1
2	*Board Structure*		1	17%	0.92	0.67	0.42	0.75	0.75
	1	Are the CEO and Chairman duties separated?			1	1	1	1	1
	2	Is the Chairman "independent"?			1	1	0	1	1
	3	What is the size of the Board?			1	1	1	1	1
	4	How many directors are "independent"?			1	1	0	1	1
	5	Does the organization have a remuneration committee?			1	0	0	0	1
	6	Does the organization have a nomination committee?			1	0	1	1	1
	7	Does the organization have a risk management committee?			1	0	0	0	1
	8	Does the organization have an independent audit committee?			1	1	1	1	1
	9	Does the full Board meet in accordance with the stipulations in the organization's By-laws and articles?			1	1	1	1	1
	10	Did all the directors attend when the Board met?			1	0	0	1	0
	11	Do Board directors sit on more than two additional boards of other organizations?			1	1	0	1	0
	12	Is the major background of independent directors in financial institutions?			0	1	0	0	0
3	*Shareholder Rights*		1	17%	0.83	0.83	0.83	0.67	0.83
	1	Does the organization hold an annual general shareholders meeting on prescribed time duly?			1	1	1	1	1

#		Questions	Max. Score	Section Weight	RBKB	SAG	COBC	BPWC	FCBK
	2	Does the organization use the one share one vote rule?			1	1	1	1	1
	3	Does the organization inform shareholders about the Annual General Meeting ("AGM") at least 21 days prior to the meeting?			1	1	1	1	1
	4	Does the organization allow proxy voting?			1	1	0	0	1
	5	Does the organization allow cumulative voting?			0	0	1	0	0
	6	Does the organization allow voting by an electronic means (email, fax, text message voting)?			0	0	0	0	0
	7	Does the organization have a clearly disclosed dividend policy?			1	1	1	1	1
	8	Does the organization state why the dividend is set at a particular value?			1	1	1	0	1
	9	Is the AGM conducted according to legislation and applicable guidelines?			1	1	1	1	1
	10	Does the AGM commence and end within the scheduled time?			1	1	1	1	1
	11	Does the Board allow shareholders to raise queries relating to external audits and ancillaries in the AGM?			1	1	1	1	1
	12	Are all classes of shareholders treated equally?			1	1	1	1	1
4	*Corporate Social Responsibility*		1	17%	0.90	0.86	0.95	0.90	1.00
	1	Does the organization use energy saving devices?			1	1	1	0	1
	2	Does the organization use water saving plumbing fixtures?			0	1	1	0	1
	3	Does the organization have other go-green initiatives currently in place?			1	1	1	1	1
	4	Does the organization have a labor union?			1	0	1	1	1
	5	Does the organization have an employee share ownership plan?			0	0	0	1	1
	6	Does the organization always pay employees on or before the established pay date?			1	1	1	1	1
	7	Does the organization offer relevant training programs to employees?			1	1	1	1	1
	8	Does the organization support employees who want to study through tuition assistance, flexi-hours or study leave?			1	1	1	1	1
	9	Does the organization offer employees preferential rates to its products and services?			1	1	1	1	1
	10	Does the organization have a health and safety policy?			1	1	1	1	1
	11	Has the organization paid in full all charges due and payable by employers on behalf of employees e.g. National Insurance Scheme contributions?			1	1	1	1	1
	12	Has the organization paid in full all applicable taxes due and payable to governmental authorities?			1	1	1	1	1
	13	Has the organization paid all charges due and payable to regulatory bodies e.g. deposit insurance?			1	1	1	1	1
	14	Does the organization have valid insurance coverage for professional liability?			1	1	1	1	1
	15	Does the organization have valid insurance coverage for workmen's compensation/employers' liability?			1	1	1	1	1
	16	Did the organization incur penalties the last fiscal year for late or non-payment of taxes or charges due and payable to statutory or regulatory authorities?			1	1	1	1	1
	17	Did the organization incur penalties during the last fiscal year from statutory or regulatory authorities for other reasons?			1	0	1	1	1
	18	Did the organization have undisputed payments to supplier outstanding (not paid) aged in excess of 3 months?			1	1	1	1	1
	19	Does the organization have a policy or set of guidelines governing the selection of suppliers?			1	1	1	1	1
	20	Does the organization have language in supplier agreements which govern the transfer, use and storage of customer information and protect against fraud and other information security breaches?			1	1	1	1	1
	21	Does the organization support causes of varying types?			1	1	1	1	1
5	*Transparency and Disclosure*		1	17%	0.89	0.82	0.71	0.86	0.82
	1	Does the organization state the attendance of individual directors at Board meetings?			1	1	1	1	1
	2	Does the organization state the attendance of directors at their committee meetings?			1	1	1	1	1
	3	Are documents concerning the agenda, Board minutes and papers forwarded to directors prior to meetings and with enough time to allow perusal of such documents?			1	1	1	1	1
	4	Is the meeting attendance recorded?			1	1	1	1	1
	5	Does the Board keep a record of how persons attended the meeting (in person, via phone or other technology)?			1	1	1	1	1
	6	Are minutes taken at each Board meeting?			1	1	1	1	1
	7	Do the minutes record which Board member abstained from voting on a particular issue/s?			1	1	0	1	0
	8	Does the chairperson maintain control at all Board meeting?			1	1	0	1	1
	9	Does the chairperson do so without dominating the discussion?			1	1	0	1	1
	10	Does the chairperson stimulate debate by ensuring that each member contributes to the discussion?			1	1	0	1	1

#		***Questions***	***Max. Score***	***Section Weight***	***RBKB***	***SAG***	***COBC***	***BPWC***	***FCBK***
	11	Does the organization have a website?			1	1	1	1	1
	12	Is the annual report and audited financial statements for fiscal 2014 available for download from the organization's website?			1	1	1	1	1
	13	Does the website or annual reports contain information on the biography of directors?			1	1	1	1	1
	14	Does the organization publish its unaudited income statement and balance sheet quarterly?			1	1	1	0	1
	15	Does the organization disclose its Income Statement and Balance Sheet within 60 days after the end of Financial Year?			1	1	0	1	1
	16	Does the organization disclose the full name as well as the description of their business and a brief history of their operations?			1	1	1	1	1
	17	Does the organization disclose the structure of authorized and issued capital?			1	1	1	1	1
	18	Does the organization disclose the recent capital history?			1	1	1	1	1
	19	Does the organization disclose the history of dividend payments?			0	0	1	1	1
	20	Does the organization state any special conditions related to organization share transfer?			0	0	0	1	0
	21	Does the Income Statement and Balance Sheet of the organization disclose off balance sheet items in compliance with industry accounting standards?			1	1	1	1	1
	22	Does the organization disclose the financial target in the Annual report?			0	0	1	1	0
	23	Does the organization disclose related party transactions?			1	1	0	1	1
	24	Does the organization disclose directors' selling or buying shares in the organization?			1	1	0	0	0
	25	Does the organization disclose the remuneration of directors?			1	0	1	0	0
	26	Does the organization disclose fees paid to external auditors, advisors and related parties?			1	0	1	0	1
	27	Does the organization disclose significant changes in ownership?			1	1	1	1	1
	28	Does the organization use international industry accounting and audit standards?			1	1	1	1	1
6	*Audit Committee*		1	17%	1	1	0.8	1	1
	1	Does the organization have an independent audit committee?			1	1	1	1	1
	2	Is the organization's audit committee lead by a non-executive director with employee participation?			1	1	1	1	1
	3	Is the chairman of the audit committee independent?			1	1	1	1	1
	4	Has the audit committee been able to review the financial statements and issue a report to the Board before the statements are approved?			1	1	1	1	1
	5	Does the audit committee monitor management and staff compliance with policies, law, regulations and guidelines?			1	1	1	1	1
	6	Does the audit committee review investment and transactions that may adversely affect the institution?			1	1	1	1	1
	7	Does the audit committee supervise audits to ensure that both internal and external auditors are acting independently of management?			1	1	1	1	1
	8	Does the audit committee monitor the efforts of management to correct shortcomings identified by external and internal auditors?			1	1	1	1	1
	9	Does the audit committee pursue meetings with the full Board to discuss matters of concerns to this committee?			1	1	0	1	1
	10	Does the audit committee ensure that the risk management function is independent and comprehensive?			1	1	0	1	1
CGI Total Score			*1*	*100%*	*0.92*	*0.80*	*0.75*	*0.84*	*0.89*