



## The Compare and Enlightenment of Governance Model in Domestic and Overseas Commercial Bank

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### Abstract

Good corporation governance will facilitate commercial bank to make a scientific decision and operate in an intensivism way. Furthermore, the proper governance model will reduce the moral risk and the converse choice of the management. By comparing the typical governance models of different countries, we can find some principles and ways for our state-owned commercial bank to establish effective corporation governance model.

**Keywords:** Commercial bank, Corporation governance, Corporation personality

### 1. Introduction

Corporation governance is one of the most important concepts in the modern enterprise system. Corporation governance is the system arrangement, which can harmonize the relation among shareholders, directors and managers and assort with some related people (employee, clients, suppliers, creditors, the public and the government). It contains exterior governance model and interior governance model. With corporation governance, we can keep all the level in the enterprise in order and in controllable state, and in the end we will have the transparent and effective governance effect. In all, corporation governance is one of the most critical problems confronted with the enterprises.

### 2. The compare of the governance model in domestic and overseas commercial bank

Corporation governance of commercial bank is a system, which can guarantee steady operation and persistent development of the commercial bank. Board of the director and high-level managers make use of this system to deal with affairs in the bank or out of the bank, such as establishing development strategy, protecting the benefits of depositors, shareholders and stakeholders, and ensuring most of the operation activities in good order and most of the governance function in a safe and healthy way.

According to the conception of corporation governance of commercial bank, we will compare the governance models in some typical countries in order to achieve some experience for our reforms in the commercial bank system.

#### 2.1 Market type of the governance model in commercial bank

Market type of the governance model in commercial bank is fit for the enterprises, which include dispersive equities. This type of governance model can carry out the control and supervisal to the operation of the bank with some fluxion forms of creditor's rights, such as liquidation, and some fluxion forms of equity's rights, such as mergers and acquisitions. It gives priority to the exterior supervisal and is also called outsider system. Due to the dispersive creditor's rights and equity capital's rights, it is difficult for the singlehanded shareholder and creditor to control and supervise managers of the bank. So in virtue of the capital market, it can bring the control and supervisal into effect.

The precondition of market type of the governance model is that there is perfect law environment, developed capital market and effective manager market. This type of governance model is generally used by British and American banks, and the intensive and restricted mechanism to the directors, presidents and supervisors depends on exterior markets.

Market type of the governance model needs strict external conditions:

First of all, product market must be an effective competition market, which can guarantee the prompt reflection to the performance of the bank;

Second, capital market is mature and normative, and share price reflects the genuine performance of the bank's

operation;

Third, equity's rights are dispersive and the competition in the managerial control market is sufficient. There is no obstacle about the mergers among the banks in this system.

Fourth, the reputation system of the banker's market is perfect, and it can select the proper bankers and eliminate the improper ones with the change of the bank's operation performance.

### *2.2 Enterprise type of the governance model in commercial bank*

Enterprise type of the governance model in commercial bank gives priority to the enterprise while not the market. It means that the intendance, decision-making and implement all come from interior of the bank. Management board (know from board of the director in the British and American countries) in this type of governance model is made up of big shareholders who can supervise and obligate managers directly. Enterprise type of the governance model adapts to the comparatively concentrative equity structure and it mainly used by German and Japanese banks. Because some big corporation and financial institutions in these countries hold a high proportional stock and they are always depositors of the bank, it is likely to form insider control in the rank of managers. This kind of governance model is also called double-board system. Compared with market type of the governance model, there are some distinctive characteristics as below:

In the first place, the stock holders are relatively centralizative and shareholders will commit themselves to the long-term development of the bank;

In the next place, the supervise function of the securities business weakens paralleled with the market type of the governance model;

Again, because of the restrain of the equity transference, the operation of the bank will keep stable and continuous in the management.

Finally, this style of the governance model pays more attention to the collective goal of the bank, and cares more about the benefits and the losses of stakeholders in the course of purchasing.

### *2.3 State type of the governance model in commercial bank*

Nation's holding in a high proportion is the prominent character of state type of the governance model. Operators in this type of the bank are designed by the nation, and inspired with the administration promotion. The operation object is commonly serving for the country. At present, countries like China who is carrying through the reform of economic system adopt this kind of governance model.

State type of the governance model is composed of Shareholder convention, Supervisory board, Management board and the rank of the managers. Supervisory board does not participate the management, but is entitled to check the account of the bank. Supervisory board exerts an influence on the board of the director and the rank of the managers. The right of the board of the director is big, with responsibility for the establishment of the important decision-making. The general manager takes charge of the implement in detail.

State type of the governance model leads to a plight whether accorded autonomy in management to all levels of the bank's managers or bestowed sufficient authority of supervisal to the owner of the state. The former will bring out the effectiveness of the bank, but meanwhile will probably lead to insider control, even damage the interest of the nation. The latter has the administration color with supervisal control and will result in more interference to the state-owned banks.

There are some respective characters among these three governance models, so we summarize some of them in the tab.1 below.

## **3. The use for reference to our state-owned commercial bank**

Our state-owned commercial banks are state type of the governance model with state stock holding a very big proposition. The ownership of this governance structure is fairly concentrated. Corporation governance in our country depends mostly on interior power to control the managers of the bank, what's more, it doesn't take management board as the center and the effect of independent director isn't enough either.

Based on the analysis and compare with the governance model in domestic and overseas commercial banks above, combining the characteristic of the market and enterprise type of the governance model, we can put forward some suggestions for our state-owned commercial banks.

### *3.1 Speeding up the reform of the government, and making clear the demarcation line of the government function*

In the market economy, there is a clear distinction between social management function of the governance and the function of the owners. Management function of the country is to maintain the fair competition of the economic main body by drawing up the regulation and standardizing market order. As the owner of the economic main body, the ownership scope of the country should be limited in a certain area. In addition, the function of the country should also

be confined within the joint-stock economic main body, which means that the state and other investors should associate with each other as equals with the same commercial principals and be restricted by the law of the company in the internal economic main body, not allowed to surpass the Law.

*Insert Table 1 here*

For the sake of constructing modern corporation governance in the commercial bank successfully, we need to definite the respective functional position of our commercial bank in a further way. On the base of the detached function between the management of government community and the operation of the enterprise proprietor, as the contributive main body of the state-owned commercial bank, the state should fulfill the function of shareholders and get rights and interests complying with the Law. That's the key to guarantee the freedom of the decision-making and the separation of the government and the enterprise.

### *3.2 Strengthen the exterior intendance system of the market and the society to the operators of the bank*

In the light of actual situation, at the same time emphasizing the obligation to the owners, we are supposed to intensify the supervisal action to the market and the society.

There are some aspects about market supervisal:

- i Making innovation in the income system of the management, and cultivating the manager market.

On the one hand, inspiring the operators with short-term measures and long-term ones; On the other hand, making the manager at their posts feel competitive pressure from manger market and increasing the substituted cost.

- ii Establishing an open, fair and competition financial tools and financial service products.

Under the circumstances of the modern market economy, capital operation and debt operation completely lie in the capability and the quality to develop and extend the financial tools and financial products. Clients can make a choice by the operation level of the bank.

- iii Trying best to develop capital market.

The restricted mechanism to the capital embodies not only in the owners but in the depositors as well who will transfer their savings to the capital market.

The content about social supervisal contains that:

- i The independent audit supervisal.

There is a set of audit mechanism interior the banks, but it is controlled by some people in the course of the operation rather than by the system. So it's important to pinpoint the exterior independent audit mechanism, which can reflect the result in a comparatively objective and equitable sphere.

- ii Setting up a system that can throw daylight on information, and it can publicize the operation and financial situation of the bank for a period of time, intensifying the supervisal to the managers about their work by the community force.

### *3.3 Shaping corporation personality of the capital owner for our state-owned bank*

Corporation personality is a value mechanism, which is made up of all the people in the enterprise contracted and communicated each other. It is a moral mechanism, which united the development of the society, the growth of people's personality and the external environment and behavior.

As a unit form composing society structure, commercial bank is in a surrounding that has all kinds of interest correlation bodies. If we analyses the corporation personality of our commercial bank with some ethic and social psychology theory, it is helpful to form a unity about internal value mechanism and external behavior in the course of adapting to the environment. And it will have a surprising effect to resolve the plight in the state type of the governance model.

Besides, there are some other steps to be learned from other countries for our commercial bank, for example, we can increase the proportion of the independence directors.

## **4. Conclusion**

There is no good or bad criterion about the governance model in different countries, and it is helpful as long as this kind of governance model accords with the economic resources of that country and answers for the need to develop in a certain period. With the advancement of our modern enterprise system, our country is confronted with many choices about which governance model we should select. The comparative analysis of different corporation governance in some typical countries offer us some valuable experience, meantime, we must have a clear understanding that it doesn't come true until we lead a way agreed to the situation of our country. Therefore, we expect further research in order to find a develop route for our commercial bank, that's a method which can bring us system and efficiency in a harmonious and uniform way.

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Table 1. The compare of the three governance models in commercial bank

The type of the governance model Character	Market type of the governance model in commercial bank	Enterprise type of the governance model in commercial bank	State type of the governance model in commercial bank
Equity structure	Dispersive	Comparatively concentrated	State-owned
Basic governance model	Market governance	Shareholder governance	State governance
Function of the board of the director	very strong	Comparatively strong	Very weak
Degree of the announcement	high	Comparatively high	low
Relation between performance and income	Count for much	Comparatively much	Count for little