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Onal, Mehmet Maksud ; Ashton, John

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Is the Journey More Important than the Destination? EU Accession and Corporate Governance and Performance of Banks

Mehmet Maksud Onal[1] and John K. Ashton[2].

1. Mardin Artuklu University,

Mardin, Turkey

2. Bangor University,

Bangor, Gwynedd. UK.

Abstract

This paper examines how accession to and subsequent membership of the European Union (EU) has influenced the dissemination of corporate governance characteristics and financial performance of the banking industry. Using a hand-collected, cross-national dataset from EU member and candidate states the analysis indicates the candidacy period is associated with the better financial performance of banks than the latter period of EU membership. EU membership also has a significant negative influence on the take up some corporate governance arrangements. We infer this result is consistent with instrumental rationality explanations of Europeanization. While the process of accession has brought benefits, these are not always reinforced by subsequent EU membership.

<u>Key Words:</u> Accession, Corporate Governance, Institutions.

Introduction

While it has been long assumed EU membership improves the political, economic, institutional, social and educational standards of member states, these benefits have been increasingly questioned (Rosamond, 2020). To contribute to this wider discourse we examine how a critical industry, banking, has been affected by this political process of joining or accession to the EU. Specifically, we examine how banks from candidate states, new member states and existing long-term EU member states have benefited from EU developments in corporate governance. We propose if states join the European Union for external incentive reasons, adherence to and benefits from regulatory developments would affect candidate states far more than EU members. Alternatively, if long term EU membership alters national institutions and how firms and states behave, we would expect to observe little difference between the performance of banks from candidate and member states.

We empirically examine these research questions using a hand-collected data set of 211 sample banks over the period 2000-15. This data is drawn from eleven EU member states, five candidate states and a control sample of banks from four long-standing EU member states. We report the accession process influences the corporate governance practices of banks in candidate states, greater than that seen in EU member states. Moreover, the financial performance of banks from candidate states is seen as superior to banks from member state banks. We observe more adherence to, and economic benefit arising from EU regulatory demands during the accession process relative to actual EU membership.

This study contributes to the literature examining EU accession (Schimmelfennig and Sedelmeier, 2004; Tamazian and Melikyan, 2010; Börzel and Risse, 2012; Economides and Ker-Lindsay, 2015; Schimmelfennig and Sedelmeier, 2020) and corporate governance in banking (e.g., Becht *et al*., 2011; Mehran *et al*., 2011; Aebi *et al*., 2012; Adams, 2012; Berger *et al*., 2016; De Haan and Vlahu, 2016; Manganaris *et al*., 2017; Arnaboldi *et al*., 2020). We contribute to the accession literature by examining the effects of accession on corporate governance in a single industry. This study does not focus on the influence of any specific policy action yet quantifies the influence of EU accession and membership on the scope of corporate governance arrangements. While politics has been seen to influence corporate governance arrangements (Roe, 2003), the effects of EU accession or other political processes on banking corporate governance has not to been examined to date.

The banking industry is a suitable subject for this examination due to the persistent policy focus placed on enhancing the corporate governance arrangements of banks. Over the past two decades, the European Commission and other policymakers have published multiple policy documents and directives to enhance bank corporate governance (Gros and Schoenmaker, 2014). EU policymakers have particularly focused on a strategy of strengthening firm boards, improving company-level disclosure and increasing monitoring of institutional investors (Dallas and Pitt-Watson, 2016). While the EU has actively promoted enhanced corporate governance arrangements since the early 2000s, how these changes are transmitted remains unclear. While these developments have influenced corporate governance practices in new member and candidate states, the net influence of the EU accession process on bank corporate governance is unclear. We report the EU accession process influences the diffusion of and compliance with new regulations. This is important as corporate governance is an essential element of financial regulation and supervision internationally (Dermine, 2013) with numerous studies reporting the performance of banks is significantly affected by corporate governance (Adams and Mehran, 2008; de Andres and Vallelado, 2008; Cornett *et al*., 2009; Hagendorff *et al*., 2010; Van Ness *et al*., 2010; Aebi *et* *al*., 2011; Erkens *et al*., 2012; De Haan and Vlahu, 2016; Fernandes, *et al*., 2018).

The study is structured as follows. After this introduction, we discuss the EU accession process, summarise key corporate governance developments, outline the theoretical background of the study and state the research questions. The data, sample, variables, and estimation methods and models are then introduced. The results are then reported and finally, conclusions are drawn.

Context and Theoretical Foundations

To join the EU candidate states must fulfil accession requirements to improve their economic, social, political and cultural standards. All applications for accession to the EU are subject to an opinion issued by the European Commission and a decision taken by the European Council. Before their approval, the candidate state must fulfil several conditions, abide by the accession or Copenhagen criteria (European Parliament, 1993) fulfil these requirements and improve economic, social, political and cultural standards. After EU accession, new member states of the EU have to act in accordance with the provisions of the EU law in force in the same manner as old member states.

As part of this process, both mandatory EU regulatory measures as well as EU soft law measures have been introduced to improve corporate governance. The Winter Group (The High-Level Group of Company Law Experts, 2001) and the EU Financial Services Action Plan (Commission of The European Communities, 1999) encouraged the convergence of national corporate governance codes for all firms and banks. Subsequently, the EU Action Plan on Modernising Company Law and Enhancing Corporate Governance (Communication from the Commission to the Council and the European Parliament Modernising, 2003), the

Green Paper on Financial Services Policy (Commission of the European Communities 2005), the Driving European Recovery Report (Commission of the European Communities, 2009) and the Green Paper on Corporate Governance in Financial Institutions and Remuneration Policies (European Commission, 2010) and have all emerged to enhance corporate governance arrangements for banks and firms. These progressive developments (McGee, 2006) have created an unprecedented situation where an external governance process transfers multiple regulations to candidate states (Schimmelfennig and Sedelmeier, 2004). In recent years, regulatory developments are diverse (Kubíček, 2016) including the Societas Europaea (Raaijmakers 2015), the non-financial disclosure Directive 2014/95/EU (Kinderman, 2020), revised national corporate governance codes and proposed enhancements to the gender diversity of boards (European Commission, 2012; Arnaboldi *et al.*, 2020).

To date the empirical evidence reports candidate states do not always engage with the accession process (Tamazian and Melikyan, 2010) and that states join the EU as much for political opportunism as a commitment to EU values (Economides and Ker-Lindsay, 2015). Candidate and new member states are also influenced by historical institutions (Andreff, 2006; Vliegenthart and Horn, 2007) and often socialist legacies (Dobak, 2006). These have affected new member and candidate states differently (Tamazian and Melikyan, 2010) and resulted in some states engaging more fully than others with the European ideal. This focus on external incentives may have adverse future consequences. These include backsliding on past agreements and ongoing dissatisfaction with EU agreements in certain states (Schimmelfennig and Sedelmeier, 2020). Compliance with all agreements maybe tempered by less developed financial markets, limited investor rights, poor law enforcement and weaker political institutions which exist in some states. Lobbying, domestic politics and transaction costs (Cernat, 2004) also limit convergence of corporate governance standards

(Chalmers, 2020).

Convergence could also be encouraged by states competing for inward investment, through establishing favourable policy regimes to reassure and attract foreign investors (Ferrero and Ackrill, 2016). Indeed corporate governance practices in many central European states have improved following their participation with the EU (McGee, 2006). Before 2007, this convergence was towards market-based approaches. After 2007, the direction of this confluence is disputed (Horn, 2012), moving towards a continental model (Arnaboldi and Casu, 2011) or other corporate governance models (Cernat, 2004). Subsequently, no single European corporate governance model has developed, with several stylised corporate governance models existing across the EU (Llewellyn, 2006; Schäfer, 2016).

The corporate governance of banks differs from corporate governance requirements for other firms (Mülbert, 2009; Becht, *et al*., 2011; De Haan and Vlahu, 2016). Through undertaking financial intermediation, banks face and create distinct risks, have a distinct capital structure (Berger *et al.,* 2016), possess opaque balance sheets (Manganaris *et al.*, 2017) and require specific regulation (Arnaboldi *et al.*, 2020). Corporate governance characteristics subsequently have implications for how banks manage financial risks (Chen and Lin, 2016), how banks are regulated (Barakat and Hussainey, 2013) where monitoring is undertaken jointly by bank supervisors, regulators and shareholders. For example levels of managerial ownership (Berger *et al.,* 2016), board independence and board size (Fernandes *et al.,* 2018) influence bank performance quite distinctly to other firms and vary with prevailing risk conditions (Fernandes, *et al*., 2017). Comprehensive literature reviews are provided by Mülbert, (2009), Becht, *et al*., (2011), De Haan and Vlahu (2016) and Fernandes *et al*., (2018).

Reflecting the distinctness of banks corporate governance, multiple national and intra-national bodies have made interventions and contributions to this field. Nationally, the UK Walker Report (2009) and the Central Bank of the Netherlands, (De Nederlandsche Bank, 2015) place corporate governance as central to prudential supervision. Following the Eurozone crisis, EU regulatory bodies questioned the existing corporate governance structure of financial institutions (European Commission, 2012), developing an action plan and new regulatory structure for financial institutions (Commission of the European Communities, 2009). This nascent system rests on three regulatory pillars: the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM) and the emergent European Deposit Insurance Scheme (EDIS). This covers all Eurozone countries and influences corporate governance practices across the EU banking industry.

To summarise, the EU accession process has altered the corporate governance practices of banks in EU new member or candidate states is undoubted. The utility of this transition remains less than clear. We propose the reasons why such states join the EU affects the influence of accession on corporate governance within candidate and member states. This might arise from external incentives including a desire to benefit from the considerable advantages associated with EU membership. Following such instrumental rationality, a state will adapt as much as is needed to fulfil the conditions required during candidacy. It is plausible states may limit such changes when compliance costs are high and membership benefits have already been achieved (Schimmelfennig and Sedelmeier, 2004). Similarly, if regulations from a distinct context are imposed, regulatory compliance is less likely (Börzel and Risse, 2012).

The EU can overcome these concerns through persuasion, whereby progress towards accession goals is rewarded and ıts benefits are withdrawn for a lack of compliance. Assuming instrumental rationality, if rewards are limited or threats implausible, compliance will be limited. Normative isomorphism (DiMaggio and Powell, 1983; Deephouse, 1996) may arise limiting the dissemination of European business practices within candidate states. For example, introducing new corporate governance codes (Fiss, 2008; Chizema and Kim, 2010) may lead to resistance and result in a cosmetic tick-box form of compliance (Solomon, 2013).

Alternatively, joining the EU may lead to fundamental economic and social change as collective EU values are embraced in a 'lesson learning' process. During the accession period, candidate states and their companies may experience radical institutional change fostering convergence with EU rules and resolving existing national policy challenges (Schimmelfennig and Sedelmeier, 2004). This assumes coercive isomorphism and mimetic isomorphism mechanisms affect political and legal institutions of EU including all EU law in force. These organisational changes are driven by multiple mechanisms including the constitution of capitalist market institutions, privatisation and foreign direct investment. For instance, foreign bank holding companies will encourage similar forms of management in their subsidiary banks (Claessens and Van Horen, 2014).

To summarise, the institutional theory provides insight as to how accession to the EU influences bank corporate governance. As corporate governance characteristics may develop differently in the candidate, new member and existing EU member states, we propose two hypothesises. If external incentives dominate, self-interested instrumental rationality is displayed and candidate and new member states adopt a cost-benefit approach to implementing regulations, we expect:

H_1: Differences in how banks from candidate and member states have adopted, adhered to, and benefited from corporate governance changes are present.

If non-mandatory EU measures or standards are adopted through ‘lesson learning’ and embracing EU ideals, compliance is expected to be more successful. Under these circumstances, we expect:

H_2: Corporate governance developments will benefit banks from candidate and member states equally.

Research methodology

To examine these research questions we consider differences between candidate and membership periods. This is undertaken for banks from existing, new member and candidate states. The relative performance and corporate governance arrangements of banks are assessed using multiple methods to determine if EU accession and membership influences the dissemination of corporate governance arrangements and bank performance. To illuminate how this evaluation is conducted, the dataset construction and sample selection are outlined, and then the descriptive and inferential methods of assessment are summarised.

The dataset covers 211 banks operating in EU member and candidate states from an estimated population of 2241 banks. The banks chosen include mainly larger banks which have provided data across the entire sample period of 2000-15. The period of analysis was selected to enable the examination of both EU candidacy and membership periods. Banks are considered from four long-established EU member states (France, Germany, Greece, and

Spain), recent new members of the EU who have been through an accession process and candidate states still within the accession process. The first group of new members consists of eight states[1] entering the EU in 2004, the second group includes two states enrolling in 2007 and lastly Croatia which joined in 2013. There are five candidate states still to join the EU (Albania, FYROM, Montenegro, Serbia, and Turkey).

Several economic and financial databases from the IMF, the World Bank, the Emerging Markets Monitor, the EBRD, FTSE, S&P, and SNL Financial were used to compile control variables. States were divided into three different groups according to their locations (Southern, Eastern, and Northern Europe and Turkey) and their income level (upper-middle and high income) using the World Bank classification. These variables are included to reflect the range of influences over bank performance and the dissemination of corporate governance characteristics beyond EU accession. Further information is provided in Table 1.

INSERT TABLE 1

The variable definitions are provided in Table 2. EU membership is represented by a binary variable equal to one for the EU membership period and 0 otherwise. To assess the effect of EU membership on corporate governance structure, board size, board independence, female directors and foreign directors were considered interchangeably as the dependent variables (Hermalin and Weisbach, 1988; Boone *et al*., 2007; Linck *et al*., 2008; Chen and Wu, 2014). At the EU level, these corporate governance characteristics have been the focus of both proposed legislation as in the case of diversity (European Commission, 2012) and expectation to comply in providing better functioning bank boards or explain why such developments

[1] We did not include banks from Malta and Cyprus for reasons of consistency in the sample construction. The member and candidate states are classified by the aforementioned databases as developing economies which share similar features by means of geographical, institutional and political backgrounds.

have not been provided (the European Parliament and the Council of the European Union, 2013). These characteristics have also been considered in a diversity of national and international guidance and regulation including both mandatory and non-binding measures.

INSERT TABLE 2

To consider financial performance, three common performance variables, Return on Asset (ROA), Return on Equity (ROE) and Net Interest Margin (NIM) were collected. Models using all these measures as a dependant variable were estimated with similar results for all measures recorded. For brevity we only report findings from Return on Assets; all results are available on request. To deal with extreme values all bank-level variables were winsorised at 1% and 5% levels. The selected performance and corporate governance variables have been used in comparable assessments (de Andres and Vallelado, 2008; Ferreira *et al*., 2010; Westman, 2011; Liang *et al.*, 2013).

Both descriptive and inferential statistics are used in the analysis. Differences in mean values for banks from distinct groups of states are reported using descriptive statistics. To determine the most appropriate method of testing, normality results, T-tests and Mann-Whitney U tests were undertaken. The relationship between EU membership, corporate governance and performance is examined using an unbalanced panel data regression model. To determine an appropriate estimation method pre-testing was undertaken. Hausman and Breusch-Pagan Lagrange Multiplier tests indicate the fixed effects model is appropriate. We control for fixed effects to eliminate the impact of time-invariant characteristics in assessing the net effect of the independent variable(s) on the dependent variable(s) (Wooldridge, 2002). The FE models were estimated by using bank fixed-effects estimators including country and year dummies with bank-clustered robust (White) standard errors. In the base model (1) *D* denotes dummy variables, *C* denotes control variables, u denotes the fixed-effect of bank i and ε denotes the remaining disturbance term.

$$y_{it} = \beta X_{it} + D_{it}\alpha + C_{it} + u_i + \varepsilon_{i,y} \qquad (1)$$

The additional analysis uses different dependent variables and sub-samples. First, to examine the influence of EU membership and corporate governance variables on bank performance, the financial performance indicator, ROA was used as a dependent variable. Second, the impact of EU accession and membership was analysed by dividing the sample into before and after EU accession periods. Lastly, to investigate the association between selected corporate governance and the EU dummy on bank performance, interaction terms were created by multiplying the EU dummy variable with the aforementioned variables and using these within the base model. Throughout other variables, selected corporate governance, bank-level and country-level variables were used as control variables in all regressions.

Results

Descriptive statistics and tests results are provided in Tables 3 and 4. In Table 3 panel A provides averages for the full sample and panel B reports differences between candidate and EU member state banks. Significant differences between all variables are recorded. Financial performance is higher in candidate states banks and levels of corporate governance characteristics are higher in member state banks, excepting the number of independent directors.

INSERT TABLE 3

In Table 4, we observe differences between candidacy and membership periods for banks from states which joined the EU in 2004 (panel A), 2007 (panel B) and 2013 (panel C). In panel A, the movement from candidacy status to EU membership is associated with an increase in the proportion of female directors and foreign directors and a decline in board independence, board size and financial performance. The results in panel B consider Bulgaria and Romania which joined the EU in 2007. Between the pre-accession (2000-2006) and post-accession (2007-2015) periods, the mean board size rose and board independence and the share of females on boards fell by an insignificant degree. The means of ROA, ROE and NIM representing financial performance significantly fell between these pre- and post-accession periods. Panel C reports findings for Croatian banks including an increase in the share of female directors on boards from 6% between 2000 and 2012 to 11% in the post-accession period. Overall we observe corporate governance arrangements are increasingly disseminated over time. To examine whether this change is influenced by EU membership or just the passage of time, we turn to inferential statistics.

INSERT TABLE 4

Results from the regression analysis are provided in Tables 5, 6 and 7. Analysis of using four corporate governance variables as dependent variables is presented in Table 5. The results in panel A include all banks which have transitioned through an accession process. Panel B considers all sample banks. The first, second, third and fourth columns present the regression results for board size, board independence, female directors and foreign directors, respectively. The findings from panel A indicate the relationship between EU membership with board size and independence is significantly negative i.e. board size and independence decreased during EU membership. Panel B provides results for all sample banks and indicates EU membership has no significant impact on board size, female directors and foreign directors. The relationship between EU membership and board independence is significantly negative. Therefore, when comparing banks from states experiencing accession with banks from all states, the major difference is the negative association with board size.

INSERT TABLES 5 & 6

In the supplementary assessments, we estimate the model using ROA as a dependent performance variable (Table 6). This model is estimated for all banks which have gone through the accession process (panel A), banks within EU member states only (panel B), banks from candidate states (panel C) and all banks (panel D). EU membership has a significantly negative influence on bank performance. When comparing estimates from these sub-samples, we are particularly interested in significant results for banks from states with differing membership attributes. For instance, candidate states singularly display a significant negative relationship between bank performance and board independence and foreign directors and a significantly positive relationship between bank performance and CEO duality. We can infer that banks from candidate states undergoing accession have lower performance when there is greater board independence and more foreign directors. These banks also benefit from CEO duality relative to other EU member state banks.

INSERT TABLES 7 & 8

The impact of corporate governance variables on performance before and after the EU membership is reported in Table 7. Critical to interpreting this analysis is the difference between estimates for different scenarios. If accession and membership influence corporate governance arrangements then different estimates would be expected between pre-membership and membership periods. This appears in most cases, albeit suggesting that corporate governance arrangements have a greater negative influence on financial performance for banks from states which have experienced the accession process.

The third supplementary analysis, reported in Table 8 examines the association between selected corporate governance variables and performance variables. To undertake this procedure, four interaction terms were created by multiplying EU dummy with board demographics including board size, board impendence, female directors and foreign directors. The interaction variables were included in regression estimations separately for banks from new EU member states and candidate states and all sample banks. The coefficients of the interactions between the EU dummy and corporate governance variables are statistically insignificant. This implies the impact of EU membership on a bank's performance is not dependent on the banks corporate governance characteristics.

Discussion and conclusion

It has long been assumed membership of the EU brings high standards in political, economic, institutional, social and educational areas. This study investigates how these benefits are transmitted by the EU accession process, through examining the banking industry of member and candidate states. This research employs an institutional perspective to consider how the EU accession process has influenced the dissemination of corporate governance characteristics in the banking industry. We report findings consistent with external incentives motivating accession. EU membership is associated with slower corporate governance development. While corporate governance developments have increasingly disseminated across the EU over time, EU membership is not a positive influence on this process. We also quantify the influence of EU membership with the relationship between financial performance and corporate governance characteristics. Both univariate and multivariate analyses report that candidate countries show better financial performance compared to banks from member states.

We acknowledge the EU reforms of corporate governance issues go back to the early 2000s and any political process has a lagged influence. Also, some corporate governance characteristics have developed more than others. For example, board independence and female representation on boards is enhanced far more for banks from candidate states, relative to banks from EU member states. Although the European Commission (2005) highlighted the importance of board independence, this corporate governance characteristic remains low in many member state banks, potentially as foreign bank owners prefer to appoint their executives to the board of subsidiary banks to enhance their control (Claessens and Van Horen, 2014).

While, policymakers dealing with corporate governance issues across the EU have actively promoted enhanced corporate governance practices, this research reports that EU membership has little influence on corporate governance practices in banks of member states. We argue banks from states committed to joining the EU through the accession process appear to have made far more progress, a finding consistent with regulatory change reported elsewhere (Schimmelfennig and Sedelmeier, 2020). We propose the journey towards accession is far more influential than actual membership of the EU.

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TABLE 1 Sample Size and Characteristics of the Candidate and Member States

	Region	Legal Origin	Number of Banks	Number of Sample Banks	Number of bank-year observations
Panel A. Control Group EU Members (Developed Countries)					
France	Western Europe	French	229	16	121
Germany	Western Europe	German	1572	16	159
Greece	Southern Europe	German	9	7	86
Spain	Western Europe	French	149	13	95
Panel B. EU Member since 2004 (All High Income Level Countries)					
Czech Republic	Eastern Europe	German	20	9	115
Estonia	Northern Europe	German	10	10	108
Hungary	Eastern Europe	German	16	9	110
Latvia	Northern Europe	German	17	10	112
Lithuania	Northern Europe	French	8	7	66
Poland	Eastern Europe	German	33	13	130
Slovak Republic	Eastern Europe	German	14	10	110
Slovenia	Southern Europe	German	19	9	97
Panel C. EU Member since 2007 (All Upper-Middle Income Level Countries)					
Bulgaria	Eastern Europe	German	17	9	120
Romania	Eastern Europe	French	14	6	61
Panel D. EU Member since 2013 (High Income Level Country)					
Croatia	Southern Europe	German	18	7	78
Panel E. Candidates (All Upper-Middle Income Level Countries)					
Albania	Southern Europe	French	10	6	47
FYROM	Southern Europe	French	13	8	70
Montenegro	Southern Europe	French	11	8	56
Serbia	Southern Europe	French	20	8	65
Turkey	Eastern Europe	French	42	30	309

Source: World Bank, United Nations and La Porta *et al*., (2008)

TABLE 2 Variable Definitions and National Board Type

Variables	Definitions			
Panel A: Variable Definitions				
European Union Indicator				
EU Membership	Dummy variable equals 1 for membership period and 0 otherwise			
Corporate Governance Variables (Hand-collected data)				
Board Size	The number of directors on the supervisory board (Natural logarithm of board size)			
Board Independence	Following Aebi *et al.,* (2012), a board member is independent if they don't have another relationship with the bank. We recorded the percentage of independent outside directors on the supervisory board.			
Gender Diversity (Female)	The percentage of female directors.			
Nationality Diversity	The percentage of foreign directors.			
Board Structure (Tier)	Dummy variable equals 1 if a dual board exists and 0 otherwise			
CEO/Chairman Duality	Dummy variable equals 1 if the CEO also holds the chairman role and 0 otherwise			
Foreign Ownership	Dummy variable equals 1 if 50% of bank shares were foreign-owned and 0 otherwise			
Performance Variables	***(Source: Bankscope, Authors' calculations)***			
Return on Assets (ROA)	Net income divided by average total assets			
Return on Equity (ROE)	Net income divided by average shareholders' equity			
Net Interest Margin (NIM)	Net interest revenue divided by total earning assets			
Bank-Level Variables	***(Source: Bankscope, Authors' calculations)***			
Asset Quality Ratio	Loan loss reserve divided by gross loans			
Capital Ratio	Equity divided by total assets			
Operation Ratio	Cost to income ratio			
Liquidity Ratio	Liquid assets divided by deposits and short-term funding			
Bank Size	Natural logarithm of total assets			
Country-Level Variables	***(Source: The World Bank, The IMF 2017, The Heritage Foundation and Kaufmann et al., 2010)***			
GDP Per capita Growth	The annual percentage growth rate of GDP per capita based on constant 2010 $US.			
World Governance Indicators (WGI)	The WGI is a research dataset summarizing the quality of governance based on several surveys' responses. The dimensions of the dataset include Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption. (2000-2015)			
Index of Economic Freedom (The Heritage Foundation)	Measures economic freedom based on 12 quantitative and qualitative indicators, grouped into four categories of economic freedom: Rule of Law, Government Size, Regulatory Efficiency, Open Markets. (2000-2015)			
Financial Crisis Dummy	Dummy variable equals 1 for periods affected by the global financial crisis and Eurozone crisis (2008-2012)			
Panel B: National Board Type				
Board Type (Source: EU Commission and EBRD)				
Dual Board				
Croatia	Slovak Republic	Latvia	Estonia	Poland
Czech Republic	Slovenia	Serbia	FYROM	Germany
Dual (Hybrid)				
Hungary		Albania		
Dual/Unitary (Optional)				
Bulgaria	*France*	Romania	Lithuania	
Unitary				
Montenegro	*Spain*	Turkey	*Greece*	

TABLE 3 Descriptive Statistics and Corporate Governance Characteristics of Banks in the Candidate and Member States

Panel A. Continuous variables	Total Observations	Mean	Median	Std. Dev.
A. Governance Variables				
Female director	1654	0.13	0.11	0.14
Board independence	1654	0.15	0.11	0.18
Foreign director	1654	0.52	0.57	0.35
Board Size	1654	7.54	7.00	2.63
B. Performance Variables				
ROA	1654	1.09	1.20	1.87
ROE	1654	9.07	11.30	20.01
NIM	1654	4.18	3.77	2.54
Panel B. Dummy variables		**Number of observations**	**Percentage**	
CEO Duality	1654	28	1.70%	
Tier 1	1654	1196	72.31%	
Foreign 1	1654	1139	68.86%	

Panel B	EU State Banks			Candidate State Banks			T-test	Mann-Whitney
Number Observations	**831 observations**			**823 observations**				
	Mean	**Median**	**Std. Dev.**	**Mean**	**Median**	**Std. Dev.**		
A. Governance Variables								
Female director	0.14	0.11	0.15	0.12	0.10	0.14	-2.843**	-2.710**
Board independence	0.14	0.00	0.19	0.17	0.18	0.14	1.956***	4.793***
Foreign director	0.55	0.60	0.33	0.48	0.52	0.36	-4.474***	-4.236***
Board Size	7.42	7.00	2.74	7.67	7.00	2.51	1.967**	2.490**
B. Performance Variables								
ROA	0.75	1.04	1.92	1.43	1.40	1.75	7.506***	7.680***
ROE	6.48	10.37	21.57	11.69	12.54	13.98	5.818***	4.218***
NIM	3.31	2.96	2.03	5.06	4.61	2.70	14.910***	20.520***

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels, respectively.

TABLE 4 Descriptive Statistics and Univariate Comparison of Corporate Governance Characteristics and Performance of New Member States

Panel A. Banks in the EU countries which became members in 2004								
Number Observations	**2000-2003**			**2004-2015**			**T-test**	**Mann-Whitney**
	157 observations			**691 observations**				
	Mean	**Median**	**Std. Dev.**	**Mean**	**Median**	**Std. Dev.**		
A. Governance Variables								
Female director	0.12	0.11	0.12	0.15	0.13	0.16	-2.362**	-1.808*
Board independence	0.19	0.20	0.18	0.16	0.08	0.21	1.548	2.683***
Foreign director	0.47	0.50	0.31	0.54	0.59	0.33	-2.319**	-2.517**
Board Size	8.00	8.00	3.05	7.57	7.00	2.79	1.727*	1.470
B. Performance Variables								
ROA	1.20	1.11	1.63	0.70	1.03	1.99	2.939***	1.428
ROE	13.10	13.15	15.31	6.00	10.69	22.91	3.703***	3.360***
NIM	3.64	3.55	1.14	3.07	2.77	2.08	3.331***	8.083***
Panel B. Banks in the EU countries which became members in 2007								
Number Observations	**2000-2006**			**2007-2015**			**T-test**	**Mann-Whitney**
	56 observations			**125 observations**				
	Mean	**Median**	**Std. Dev.**	**Mean**	**Median**	**Std. Dev.**		
A. Governance Variables								
Female director	0.12	0.00	0.21	0.09	0.09	0.09	1.363	-1.057
Board independence	0.09	0.00	1.18	0.08	0.00	0.13	0.373	0.400
Foreign director	0.61	0.75	0.35	0.62	0.69	0.33	-0.093	0.150
Board Size	6.23	5.00	3.01	6.52	7.00	2.38	-0.692	-0.950
B. Performance Variables								
ROA	2.21	2.01	1.03	1.15	1.25	1.28	5.405***	5.434***
ROE	18.85	18.01	12.54	10.31	9.46	11.49	5.122***	5.670***
NIM	6.68	6.18	2.28	4.65	4.53	1.16	7.905***	5.877***
Panel C. Banks in the EU countries which became members in 2013								
Number Observations	**2000-2012**			**2013-2015**			**T-test**	**Mann-Whitney**
	63 observations			**15 observations**				
	Mean	**Median**	**Std. Dev.**	**Mean**	**Median**	**Std. Dev.**		
A. Governance Variables								
Female director	0.06	0.00	0.10	0.11	0.13	0.09	-1.983*	-2.255**
Board independence	0.03	0.00	0.59	0.07	0.10	0.63	-2.186**	-2.298**
Foreign director	0.93	1.00	0.93	0.89	0.88	0.70	1.251	1.733
Board Size	7.25	7.00	2.58	8.73	9.00	1.87	-2.087**	-2.036**
B. Performance Variables								
ROA	1.25	1.30	0.47	-0.40	0.47	2.64	4.721**	4.343***
ROE	12.56	13.21	6.46	-3.24	2.74	19.01	5.464***	4.526***
NIM	3.55	3.54	0.64	3.20	3.13	0.68	1.910*	1.477

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels, respectively.

TABLE 5 The EU as a Determinant of Corporate Governance Structure

This table provides the results of the fixed effects panel data analysis. 1, 2, 3 and 4 indicate board size, board independence, female directors and foreign directors are the dependant variables respectively. The bank-clustered robust standard errors of the coefficients are in parentheses. Panel A comprises banks from the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia, Bulgaria, Romania, Croatia, Albania, FYROM, Montenegro, Serbia, and Turkey. Panel B comprises banks from Albania, FYROM, Montenegro, Serbia and Turkey, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia, Bulgaria, Romania, Croatia, France, Germany, Greece, and Spain. *, **, * indicate significance at the 10%, 5% and 1% levels, respectively.**

	NEW MEMBER AND CANDIDATE STATES BANKS (A)				ALL SAMPLE BANKS (B)			
Variables	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**
EU Membership	-0.094** (0.047)	-0.053*** (0.020)	0.013 (0.017)	0.046 (0.030)	-0.058 (0.044)	-0.062*** (0.014)	0.006 (0.016)	0.040 (0.027)
Board Size	-	-0.025 (0.017)	0.018 (0.024)	0.0377 (0.036)	-	-0.031* (0.016)	0.008 (0.023)	-0.025 (0.033)
Board Independence	-0.158 (0.103)	-	0.004 (0.070)	-0.470*** (0.083)	-0.165* (0.085)	-	0.015 (0.052)	-0.385*** (0.072)
Female Directors	0.082 (0.108)	0.003 (0.050)	-	-0.191* (0.103)	0.038 (0.100)	0.012 (0.044)	-	-0.173* (0.093)
Foreign Directors	0.114 (0.109)	-0.231*** (0.046)	-0.134* (0.072)	-	0.078 (0.100)	-0.222*** (0.044)	-0.120* (0.064)	-
CEO Duality	0.003 (0.038)	-0.041** (0.020)	-0.055 (0.040)	-0.069 (0.062)	-0.040 (0.033)	-0.050 (0.032)	-0.051** (0.020)	-0.056* (0.030)
Tier (Board Type)	-0.432*** (0.096)	0.056 (0.055)	-0.104*** (0.040)	0.126** (0.058)	-0.296** (0.131)	0.026 (0.055)	-0.090*** (0.032)	0.091* (0.048)
Bank Size	0.106*** (0.035)	0.018 (0.011)	-0.027** (0.013)	-0.007 (0.020)	0.117*** (0.030)	0.017 (0.011)	-0.024** (0.011)	-0.007 (0.016)
ROA	-0.012 (0.009)	-0.002 (0.003)	0.005* (0.003)	0.001 (0.003)	-0.011 (0.007)	-0.003 (0.002)	0.002 (0.001)	-0.001 (0.002)
Loan Loss Provision	-0.022 (0.017)	-0.007 (0.007)	-0.007 (0.007)	0.011 (0.011)	-0.018 (0.015)	-0.002 (0.006)	-0.008 (0.006)	0.013 (0.010)
Liquidity	0.015 (0.017)	-0.011* (0.006)	0.008 (0.010)	-0.001 (0.009)	0.012 (0.015)	-0.013 (0.006)	0.006 (0.008)	-0.006 (0.008)
Capital	0.100** (0.045)	0.007 (0.017)	-0.014 (0.018)	-0.033 (0.031)	0.087*** (0.032)	0.010 (0.012)	-0.005 (0.013)	-0.012 (0.023)
Operation	0.065 (0.045)	-0.011 (0.015)	-0.004 (0.022)	-0.028 (0.030)	0.046 (0.035)	-0.013 (0.015)	-0.004 (0.017)	-0.016 (0.024)
World Governance Indicators	-0.194* (0.112)	-0.135*** (0.048)	0.092 (0.069)	0.030 (0.073)	-0.134 (0.094)	-0.150*** (0.038)	0.058 (0.051)	0.023 (0.058)
Index of Economic Freedom	0.305 (0.200)	0.101 (0.086)	-0.115 (0.118)	0.255 (0.162)	0.309* (0.186)	0.087 (0.087)	-0.148 (0.110)	0.180 (0.150)
GDP Per capita Growth	-0.002 (0.002)	0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.003 (0.002)	0.001 (0.001)	-0.001 (0.001)	0.001 (0.001)
Financial Crisis Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Country FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Constant	-0.963 (0.860)	-0.242 (0.361)	1.073* (0.551)	-0.445 (0.827)	-0.968 (0.790)	-0.112 (0.354)	1.128** (0.496)	-0.267 (0.737)
R-sq within	0.11	0.21	0.09	0.26	0.08	0.18	0.09	0.22
between	0.13	0.07	0.03	0.12	0.23	0.04	0.01	0.14
overall	0.13	0.07	0.03	0.16	0.20	0.04	0.03	0.16
Number of Observations	1652	1652	1652	1652	2108	2108	2108	2108

TABLE 6 The impact of EU and Corporate Governance Characteristics on Bank Performance

This table provides the results of the fixed effects panel data analysis. Return on Asset (ROA) is the dependant variable. The bank-clustered robust standard errors of the coefficients are in parentheses. *, **, * indicate significance at the 10%, 5% and 1% levels, respectively.**

Variables	MEMBER AND CANDIDATE STATES (A)	MEMBER STATES (B)	CANDIDATE STATES (C)	ALL SAMPLE BANKS (D)
EU Membership	-0.384*** (0.148)	-0.345*** (0.127)	-	-0.531*** (0.156)
Board Size	-0.314 (0.199)	-0.294 (0.226)	-0.128 (0.191)	-0.304* (0.180)
Board Independence	-0.056 (0.474)	-0.090 (0.619)	-0.904** (0.410)	-0.273 (0.393)
CEO Duality	0.167 (0.243)	-0.030 (0.339)	0.602* (0.326)	-0.082 (0.196)
Female Directors	0.689** (0.305)	0.275 (0.368)	0.817*** (0.298)	0.564** (0.299)
Foreign Directors	0.132 (0.312)	0.210 (0.357)	-0.626** (0.263)	0.112 (0.295)
Tier (Board Type)	0.041 (0.258)	-0.030 (0.271)	0.227 (0.158)	-0.067 (0.221)
Bank Size	0.156 (0.126)	-0.301*** (0.095)	-0.194** (0.082)	0.064 (0.141)
Loan Loss Provision	-0.451*** (0.070)	-0.591*** (0.092)	-0.194** (0.082)	-0.516*** (0.078)
Liquidity	0.067 (0.070)	0.153** (0.076)	0.057 (0.067)	0.096 (0.063)
Capital	1.163*** (0.182)	0.441** (0.179)	0.840*** (0.185)	1.135*** (0.186)
Operation	-3.134*** (0.275)	-2.941*** (0.291)	-1.682*** (0.278)	-2.764*** (0.272)
World Governance Indicators	0.542 (0.469)	0.516 (0.513)	-0.520 (0.453)	0.411 (0.355)
Index of Economic Freedom	-0.294 (0.811)	-1.223 (0.855)	-2.831 (2.040)	-0.573 (0.835)
GDP Per capita Growth	0.085*** (0.016)	0.067*** (0.020)	0.059*** (0.016)	0.088*** (0.015)
Financial Crisis Dummy	YES	YES	YES	YES
Country FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Constant	11.206*** (3.588)	21.861*** (3.696)	15.001* (8.072)	11.749*** (3.469)
R-sq within	0.48	0.49	0.54	0.43
between	0.45	0.15	0.64	0.46
Overall	0.45	0.31	0.57	0.43
Number of Observations	1652	1106	546	2108

Table 7 The Impact of EU Accession Process and Membership and Corporate Governance Characteristics on Bank Performance

This table provides the results of the fixed effects panel data analysis. Return on Asset (ROA) is the dependant variable. Panel A presents the results for banks in the membership period and Panel B presents results for banks in the accession period. The bank-clustered robust standard errors of the coefficients are in parentheses. The sample was divided into two based on the state's membership year and candidacy. *, **, * indicate significance at the 10%, 5% and 1% levels, respectively.**

	NEW MEMBER AND CANDIDATE STATE BANKS		ALL SAMPLE BANKS	
Variables	MEMBERSHIP PERIOD (PANEL A)	PRE-MEMBERSHIP PERIOD (PANEL B)	MEMBERSHIP PERIOD (PANEL C)	PRE-MEMBERSHIP PERIOD (PANEL D)
Board Size	-0.632** (0.315)	-0.217 (0.274)	-0.544** (0.272)	-0.217 (0.274)
Board Independence	-0.686 (1.035)	-0.046 (0.428)	-0.746 (0.646)	-0.046 (0.428)
CEO Duality	0.556 (0.431)	0.728* (0.420)	0.446 (0.408)	0.728* (0.420)
Female Directors	-0.660 (0.490)	-0.049 (0.406)	-0.203 (0.435)	-0.049 (0.406)
Foreign Directors	0.533** (0.220)	0.436 (0.298)	-0.222 (0.243)	0.436 (0.298)
Tier (Board Type)	0.142 (0.206)	0.333 (0.332)	-0.138 (0.231)	0.333 (0.332)
Bank Size	0.433* (0.244)	0.101 (0.173)	0.259 (0.204)	0.101 (0.173)
Loan Loss Provision	-0.553*** (0.112)	-0.351*** (0.081)	-0.643*** (0.114)	-0.351*** (0.081)
Liquidity	0.145* (0.086)	0.118 (0.090)	0.147* (0.077)	0.118 (0.090)
Capital	1.477*** (0.336)	1.163*** (0.226)	1.340*** (0.274)	1.163*** (0.226)
Operation	-2.790*** (0.473)	-3.494*** (0.429)	-2.133*** (0.393)	-3.494*** (0.429)
World Governance Indicators	1.274* (0.657)	-0.837 (0.592)	1.134** (0.508)	-0.837 (0.592)
Index of Economic Freedom	-2.001 (1.842)	-3.113** (1.330)	-2.438 (1.806)	-3.113** (1.330)
GDP Per capita Growth	0.065*** (0.023)	0.082*** (0.022)	0.080*** (0.020)	0.082*** (0.022)
Financial Crisis Dummy	YES	YES	YES	YES
Country FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Constant	12.028 (9.451)	24.098*** (5.080)	13.131 (7.885)	24.098*** (5.080)
R-sq within	0.50	0.47	0.42	0.47
between	0.38	0.56	0.34	0.56
Overall	0.40	0.49	0.36	0.49
Number of Observations	830	822	1286	822

TABLE 8 EU Accession, EU Membership and Corporate Governance Characteristics effect on Bank Performance: Interaction Term Approach

	MEMBER AND CANDIDATE STATES BANKS				ALL SAMPLE BANKS			
Variables	**ROA (PANEL A)**				**ROA (PANEL A)**			
	1	**2**	**3**	**4**	**1**	**2**	**3**	**4**
EU Membership	-0.063 (0.516)	-0.417** (0.163)	-0.323** (0.148)	-0.551** (0.272)	-0.070 (0.482)	-0.528*** (0.163)	-0.450*** (0.147)	-0.760*** (0.291)
Board Size*EU	-0.225 (0.241)	-	-	-	-0.231 (0.227)	-	-	-
Board Independence* EU	-	0.249 (0.612)	-	-	-	-0.019 (0.523)	-	-
Female Directors*EU	-	-	-0.567 (0.538)	-	-	-	-0.732 (0.541)	-
Foreign Directors*EU	-	-	-	0.260 (0.310)	-	-	-	0.374 (0.326)
Board Size	-0.197 (0.214)	-0.311 (0.199)	-0.319 (0.200)	-0.309 (0.197)	-0.171 (0.199)	-0.304* (0.181	-0.311* (0.182)	-0.294 (0.179)
Board Independence	-0.081 (0.471)	-0.182 (0.405)	-0.055 (0.475)	-0.013 (0.476)	-0.291 (0.391)	-0.260 (0.376)	-0.274 (0.393)	-0.233 (0.391)
Female Directors	0.700** (0.301)	0.688** (0.306)	1.003** (0.438)	0.689** (0.306)	0.572** (0.296)	0.564* (0.298)	1.013** (0.447)	0.560* (0.300)
Foreign Directors	0.104 (0.308)	0.124 (0.308)	0.119 (0.316)	0.040 (0.310)	0.085 (0.292)	0.113 (0.291)	0.103 (0.299)	-0.045 (0.302)
CEO Duality	0.160 (0.244)	0.165 (0.244)	0.165 (0.243)	0.171 (0.242)	-0.093 (0.198)	-0.082 (0.196)	-0.092 (0.197)	-0.074 (0.194)
Tier (Board Type)	0.040 (0.264)	0.034 (0.262)	0.018 (0.273)	0.045 (0.254)	-0.057 (0.222)	-0.067 (0.221)	-0.100 (0.224)	-0.061 (0.214)
Bank Level Variables	YES	YES	YES	YES	YES	YES	YES	YES
Country Level Variables	YES	YES	YES	YES	YES	YES	YES	YES
Financial Crisis Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Country FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Constant	11.332*** (3.574)	10.935*** (3.563)	11.184*** (3.560)	11.408*** (3.555)	12.362*** (3.420)	12.268*** (3.473)	12.235*** (3.404)	12.384*** (3.404)
R-sq within	0.48	0.48	0.48	0.48	0.43	0.43	0.43	0.43
between	0.44	0.45	0.46	0.45	0.45	0.46	0.46	0.46
overall	0.44	0.45	0.45	0.45	0.42	0.43	0.43	0.46
Number of Observations	1652	1652	1652	1652	2108	2108	2108	2108