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CORPORATE GOVERNANCE AND THE EMERGENCE OF THE SINGLE EURO PAYMENTS AREA (SEPA) – A STAKEHOLDER THEORY APPROACH

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Abstract

As a natural consequence of the creation of the euro, the European Commission, the Eurosystem and the Banking Industry in Europe decided to build one single payments area (SEPA - Single Euro Payments Area) in 1999 (publication of Eurosystem objectives).

This study intends to add to the literature on Stakeholder Theory and its application to the European Banking Industry, deploying an analysis on the impact of the creation and progress of the Single Euro Payments Area (SEPA), before and during the recent global economic and financial crises.

SEPA involves more than 508 million consumers, 25 million companies, as well as 9,000 banks, public corporations, clearing houses and software suppliers, yielding more than 73,000 million transactions per year (European Payments Council, 2013). SEPA currently consists of the 28 European Union (EU) Member States plus Iceland, Norway, Liechtenstein, Switzerland and Monaco. SEPA features the largest project ever carried out in the payments area and encompasses a wide range of active stakeholders in the governance process. That is why SEPA provides a fertile and momentous ground for analysis through the lens of stakeholder theory.

This dissertation is rooted in the social sciences and uses a case study approach as its main method of analysis. Expert interviews and document analysis are used as data-gathering techniques. The first point is that the governance under the creation of the SEPA project can be best explained by the Stakeholder Theory, since SEPA governance is the direct result of the stakeholders call for more extensive involvement. Secondly, Stakeholder Theory is the only theory capable of explaining the driving forces hailing from the diversity of stakeholders involved in the project. Thirdly, the creation of various SEPA governance bodies is rooted in a community vision of a single payments area, and the embedded socio-political dimension is thus unavoidable.

Unlike extant studies that do not go beyond the analysis of a corporation, the main contribution of this thesis is to analyse one on-going, major, supranational and topical project, through the lens of stakeholder theory, paving the way for a follow-up of forthcoming SEPA achievements and the development of the theoretical underpinnings.

JEL Classification: G21, G34, M14, O16

Keywords: Banks, Stakeholder Theory, Governance

Resumo

Como consequência natural da criação da moeda única, a Comissão Europeia, o Eurosistema e o Sector Bancário na Europa, decidiram construir um espaço único de pagamentos, em euros (SEPA - *Single Euro Payments Area*), em 1999 (publicação dos objectivos do Eurosistema).

Este estudo visa contribuir para o conhecimento sobre a Teoria dos *Stakeholders* e a sua aplicação à Indústria Bancária Europeia, ao analisar o impacto da criação e desenvolvimento da Área Única de Pagamentos em Euros (SEPA), antes e durante as crises económicas e financeiras globais recentes.

A SEPA envolve mais de 508 milhões de consumidores, 25 milhões de empresas, bem como 9.000 bancos, empresas públicas, câmaras de compensação e fornecedores de *software*, gerando mais de 73 mil milhões de transações por ano (*European Payments Council*, 2013). A SEPA é constituída actualmente por 28 Estados-Membros da União Europeia (UE) e ainda Islândia, Noruega, Liechtenstein, Suíça e Mónaco. A SEPA representa o maior projecto já realizado em termos de pagamentos e abrange uma ampla gama de *stakeholders* activamente interessados no processo de *governance*. É por isso que a SEPA constitui um terreno de análise tão fértil e importante, com base na Teoria dos *Stakeholders*.

A presente dissertação radica nas ciências sociais e usa uma abordagem de estudo de caso, como seu principal método de análise. Entrevistas com especialistas e análise de documentos são técnicas que foram utilizadas para recolha de dados. Em primeiro lugar, importa referir que a *governance*, no âmbito da criação do projecto SEPA, é suportada pela Teoria dos *Stakeholders*, dado que a *governance* da SEPA é o resultado direto da intervenção dos próprios *stakeholders* no sentido de uma participação activa do projecto. Em segundo lugar, a Teoria dos *Stakeholders* é a

única teoria capaz de explicar todos os factores e forças em jogo, que resultam da diversidade de *stakeholders*, envolvidos no projecto. Em terceiro lugar, a criação de vários órgãos de *governance* da SEPA, assenta numa visão comunitária da conceção de uma área única de pagamentos e outrossim na dimensão sociopolítica que lhe está adstrita e que é, portanto, um factor incontornável.

Ao contrário dos estudos já realizados, fundamentados na Teoria dos *Stakeholders*, que tanto quanto conhecemos não vão para além da análise de uma empresa, o principal contributo desta tese é analisar um relevante e estimulante projecto supranacional, em curso e de grande actualidade e impacto, através da perspetiva da Teoria dos *Stakeholders*, dando o mote quer para outros estudos de acompanhamento dos próximos sucessos da SEPA, quer para o desenvolvimento dos fundamentos teóricos.

JEL Classification: G21, G34, M14, O16

Palavras-Chave: Bancos, Teoria dos *Stakeholders*, *Governance*

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List of Abbreviations and Acronyms

ACH – Automated Clearing House

ACP – African, Caribbean and Pacific Group of States

ATM – Automated Teller Machine

ASPSP – Account Servicing PSP

BEUC – European Consumers' Organisation

(*Bureau Européen des Unions de Consommateurs*)

BIC – Bank Identifier Code

BIS – Bank for International Settlements

CAGR – Compound Annual Growth Rate

CDO – Collateralized Debt Obligations

CDS – Credit Default Swaps

CEO – Chief Executive Officer

CGD – Caixa Geral de Depósitos, S.A.

CISP – Interbank Payment Systems Committee (Portuguese acronym)

CSG – Cards Stakeholders Group

CSM – Clearing and Settlement Mechanisms

CSR – Corporate Social Responsibility

DGCOMP – Directorate General for Competition

DGMARKT – Internal Market and Services Directorate General

e2e STP – end-to-end Straight Through Processing

EACHA – European Automated Clearing House Association

EACB – European Association of Co-operative Banks

EACT – European-Associations of Corporate Treasurers

EAPB – European Association of Public Banks

EBA – Euro Banking Association

EBF – European Banking Federation

EBIC – European Banking Industry Committee

EBITDA – Earnings Before Interest, Taxes, and Depreciation

EC – European Commission

ECB – European Central Bank

ECOFIN – EU Council of Ministers of Economic Affairs and Finance

ECON – Committee on Economic and Monetary Affairs

ECSA – European Credit Sector Associations

ECSC – European Coal and Steel Community

EEA – European Economic Area

EEC – European Economic Community

EFBS – European Federation of Building Societies

EFSF – European Financial Stability Facility

EFSM – European Financial Stabilisation Mechanism

EMF – European Mortgage Federation

EMS – European Monetary System

EMU – Economic and Monetary Union

EMV – Europay, MasterCard and Visa

EP – European Parliament

EPC – European Payments Council

EPCA – European Payments Consulting Association

ERM – Exchange-Rate Mechanism

ERPB – European Retail Payments Board

ESBG – European Savings Bank Group

ESCB – European System of Central Banks

eSEPA – Innovative products and services using modern information and communication technologies within the context of Innovation

ESM – European Stability Mechanism

EU – European Union

EURATOM – European Atomic Energy Community

GFC – Global Financial Crisis

GTI – Interbank Working Groups (Portuguese acronym)

GTPT – Working Group on Transnational Payments (Portuguese acronym)

IBAN – International Bank Account Number

IMF - International Monetary Fund

IT – Information Technology

MIF – Multilateral Interchange Fee

NAFTA – North American Free Trade Agreement

NASO – National Adherence Support Organisation

NCB – National Central Banks

NGO – Non-Governmental Organizations

OCC – Office of the Comptroller of the Currency

OECD – Organisation for Economic Co-operation and Development

OMC – Open Method of Coordination

P&L – Profit and Loss Statement

PaRR – Policy and Regulatory Report

PEACH – pan-European Automated Clearing House

PIS – Payment Initiation Services

POS – Point of Sale

PSD – Payment Services Directive

PSD2 – a revised Payment Services Directive

PSP – Payment Service Provider

ROA – Return on Total Assets

ROE – Return on Equity

RPE – Regulation on Cross-border Payments in Euro

SCT – SEPA Credit Transfer

SDD – SEPA Direct Debit

SEPA - Single Euro Payments Area

SIBS – Interbank Services Company (Portuguese acronym)

SIFI – Systemically Important Financial Institutions

SME – Small and Medium-Sized Enterprise

SRI – Stanford Research Institute

SSP – Single Shared Platform

STEP2 – a pan-European Automated Clearing House for bulk payments in euro

T2S – Target to Securities

TARGET – Trans-European Automated Real-time Gross Settlement Express Transfer

TARGET2 – replaced TARGET in 2007

TFEU – Treaty on the Functioning of the European Union

TPP – Third Party Providers/Third Party Payment Service Provider

UK – United Kingdom

US – United States of America (USA), commonly referred to as the United States

USD – United States Dollar

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1. Introduction

1.1 Relevance for Strategic Management

This introductory chapter begins with a brief explanation of the subject for this dissertation, and its relevance for Strategic Management. It continues by defining the purpose and by presenting an outline for the remainder of the dissertation.

The Corporate Governance is often considered one of the dominant paradigm in Strategic Management, since it represents the relationship among stakeholders that is used to determine and monitor the strategy, business model and performance of organizations.

The emergence of both a multitude of government regulations and a plethora of corporate criticism and media attacks, and most importantly, substantial competition from Far Eastern and European firms begs for solutions to the dilemma the modern manager is faced with.

This special topic is dedicated to continuing the rich tradition of research in this area, with the hope that the models and theories offered will propel Corporate Governance research to the next level, enhancing our understanding of those governance structures and mechanisms that best serve organizational functioning in payments, in Europe.

In fact, the subject of Corporate Governance is of enormous practical importance. Even in advanced market economies, there is a great deal of disagreement on how good or bad the existing Governance mechanisms are.

The Corporate Governance can be seen as a framework: those who the organisation serves, how the purposes and priorities should be decided, how an organisation should function and how power is distributed among Stakeholders.

This study intends to add to the literature on Stakeholder Theory and its application in the European Banking Industry, deploying an analysis of the impact of the creation of a Single Euro Payments Area (SEPA) before and during the recent global economic and financial crises.

SEPA encompasses various Stakeholders which are dynamic and should be factored into the model of analysis, and also encapsulates a topical and instantaneous issue. So the case study approach presents itself as the most fitted to analyse how the Corporate Governance framework can impinge upon the development of a Single Payments Area in a changing environment.

SEPA involves more than 508 million consumers, 25 million companies, as well as 9,000 banks, public corporations, clearing houses and software suppliers, yielding more than 73.000 million transactions per year (European Payments Council, 2013). SEPA currently consists of the 28 European Union (EU) Member States plus Iceland, Norway, Liechtenstein, Switzerland and Monaco. SEPA features the largest project ever carried out in the payments area.

To my knowledge this is the first time a study encompasses such a diversified and relevant taxonomy of Stakeholders. This study also applies Stakeholder Theory to an organization that is not a firm, unlike previous studies. In fact extant studies have focussed on corporations and this study intends to fill the gap analysing a supranational organization.

1.2 Purpose and Method

As I describe farther in the theory section, there are different views of Corporate Governance. This brings us to the core issue of this dissertation. The SEPA project will have a major impact on all Stakeholders, creating opportunities as well as challenges. SEPA will bring more competition by making the Euro Area an integrated market in which providers can offer their services to the entire Euro Area market. The increased choice of service providers, coupled with economies of scale, will ensure that customers are offered a wider range of competitive payment solutions. On the other hand SEPA requires investments from various stakeholders and a change of processes both technological and contractual.

In this context I would like to analyse the emergence of SEPA and the underlying principles of Governance. SEPA is a major project that requires clear and transparent Governance arrangements involving all Stakeholders (for instance payment service providers, end-users and public authorities). Transparency, cooperation and integration (amongst legitimate Stakeholders) are at the crux of SEPA implementation success, in order to serve it in the best way.

In relation to the existing literature, this research intends to shed new light by adding a novel perspective on the Governance architecture changes, operated in the payment transactions sector pertaining to Retail Payments under the SEPA project.

As a consequence, the present dissertation also intends to analyse broadly the Banking Governance Model through the lens of Stakeholder Theory, thus contributing to academic literature along with suggesting relevant results, namely to practitioners and supranational authorities and consumers in general.

This thesis also intends to contribute to the Banking Regulation Governance model, by analysing a specific and timely issue in the Euro Area. This dissertation will review the European Payments Council's (EPC - supports and promotes the creation of the SEPA) Governance arrangements briefly, since it plays a pivotal role in the Governance mechanisms. Governance is defined here as the institutional structure and the formal and informal relationships that govern the EPC's activities and decision making.

Since its inception, in 2002, EPC has witnessed important changes in its membership (from 65 to 74 members), governance structure and roles. The governance of the EPC itself has also evolved in part to cope with these shifts. Key governance tools include namely the creation of groups, *fora* and committees.

Specific research questions will be explained in the introduction, before the theory section, to identify the phenomenon to be studied.

In this dissertation, the main purposes of the SEPA project are traced and analysed. The causes of origin are analysed, alongside the relation to Corporate Governance, and the interaction with the payments context. I use a Case Study Method complemented with expert interviews and document analysis.

1.3 Outline of the Dissertation

This dissertation is organized as follows. The Introduction is laid down in Chapter 1. In this Chapter, I include the purpose of this thesis and the specific research questions (Section 1.4).

Chapter 2 comprises the literature review. In particular, I present the theoretical contributions and previous research on Corporate Governance, Shareholder and Stakeholder

Theories. Furthermore, this chapter outlines the theoretical foundations of Corporate Governance. Section 2.1 presents the recent financial crisis. The European Union governance is exposed in Section 2.2.

Next Chapter covers the methodology, where I justify and explain my choice of techniques, procedures and strategies employed in this research.

Chapter 4 includes the object of this thesis – Single Euro Payments Area. After an overview of the banking industry where the investigation occurred, I introduce payments market and present the milestones of SEPA, starting from SEPA Launch. The analysis of the case (overview of SEPA Governance) is laid down in Section 4.3. Section 4.6 refers to SEPA Regulation and Section 4.7 to the Key Stakeholders. This chapter also comprises data analysis and findings.

Chapter 5 briefly describes the avenues for future research, alongside the main conclusions of the present research.

Finally, Chapter 6 lists the bibliography and references.

1.4 Specific Research Questions

This thesis aims to contribute to the study of the governance mechanisms of a specific European project (the Single Euro Payments Area – SEPA) in what relates to the various stakeholders (banks, customers, regulators, companies, depositors, creditors, employees, suppliers, shareholders, managers, auditors, regulators) building on the stakeholder theory, since it provides a more ample framework to encompass the multitude and heterogeneity of the constituents in presence.

The thesis is structured to address three specific research questions:

I. How can the Stakeholder Theory explain the governance under the creation of the SEPA project?
II. Why is the SEPA Corporate Governance structure better explained by the stakeholder approach?
III. How can Stakeholder Theory be extended by encapsulating self-regulation as an additional, self-made mechanism for the Governance in European Payments?

The timeliness of this thesis stems from the fact that on one hand enough time has elapsed since the inception of SEPA, and that on the other hand there are still scheduled achievements which can benefit from this structured analysis.

1.5 Limitations

Limitations are conditions that restrict the scope of a study, cannot be controlled by the researcher, and may affect the outcome of the study.

These reservations, qualifications or weaknesses arise because in the SEPA Project all variables cannot be controlled and because of the dimension of this project and the diversity of payment systems among these countries the optimum number of samples cannot be taken due to time/budgetary constraints.

Because of the lack of models from economic theory, the lack of historical data on SEPA payments, and the lack of robustness in the results from an 'objective' approach, I decided to rely in this study on a broadly undisputed objective measure – the SEPA stakeholders.

The perspective here is on what the SEPA constituents' role is, rather than what it should be. After this study I hope that any European citizen could clearly understand the role and nature of the EPC in affecting its ability to contract with its other stakeholders. The causal relationship between social responsibility and financial returns in the payments industry remains unclear.

1.6 Delimitations

The delimitations of a study are the restrictions and/or boundaries the researcher imposes prior to the study's inception. Delimitations allow the researcher to ensure that the scope of the study is manageable. Delimitations may inhibit the generalizability of the results. The delimitations of this study are outlined below:

1. This study will only include SEPA Payments – SEPA Credit Transfer (SCT), SEPA Direct Debit (SDD) and Cards.

2. The governance under the SEPA creation is analysed assuming that the legal system or social norms in EU ensure that banking industry is stakeholder oriented.

1.7 Researcher Bias

By the very nature of interpretive research, the researcher has an effect on the research effort. Therefore, it is imperative that the researcher identifies and documents her experiences regarding the Single Euro Payments Area.

I have spent four years working for the Single Euro Payments Area Committee at Caixa Geral de Depósitos, S.A. (CGD).

During that time, I have had the opportunity to be Deputy Manager, working directly with the General Manager at CGD with responsibilities in the area of payments, who also represents CGD and Portugal in the Plenary and the Coordination Committee of the European Payments Council (Brussels) where is the Cash Working Group Chair, and further, belongs to CISP (Commission Interbank Payment Systems - an advisory body of the Bank of Portugal) having a seat on the Executive Committee and chairs the Working Group on Transnational Payments (GTPT) as well chairs the Portuguese Single Euro Payments Area Group.

I integrated, on behalf of CGD, the Interbank Task Force of the Bank of Portugal on the SEPA Direct Debit Multilateral Interchange Fee (MIF) and I coordinated a Working Group at CGD that collected the data subsequently provided to Bank of Portugal, participating in the preparation of its studies, namely 'Retail Payment Instruments in Portugal – Costs and Benefits' (2007) and 'The social costs of retail payments instruments in Portugal' (2013).

Those studies examines costs borne in 2005 and 2009, respectively, by all stakeholders – banks and infrastructures/processors, merchants, non-financial corporations and Bank of Portugal itself – when providing retail payment instruments in Portugal (cash, cheques, debit and credit cards, direct debits and credit transfers).

1.8 Significance of the Study

Schemes, rules, standards, processes, products and services need to be adapted in order to realise the Single Euro Payments Area.

Stakeholder theory has been used extensively as it offers a way to address the changing demands in a dynamic business environment. This study aims to use stakeholder theory to analyse corporate governance behaviour by implementing SEPA Project.

This study was conducted to better inform SEPA Stakeholders in the hope that everyone will benefit from this European Project.

The intent was also to encourage a dialogue between all stakeholders.

2. Theory and Previous Literature

The Corporate Governance framework studied in this dissertation took place comparing two approaches, The Shareholders and The Stakeholders. Therefore, this chapter describes those approaches applied by managers, economists, lawyers, sociologists, political scientists alongside the relevant theories in this area of knowledge. By inevitability, it is impossible to provide a full account of such a vast literature. A natural limitation has been to describe the literature which features as most relevant for understanding the empirical materials.

2.1 The Recent Financial Crisis

The recent financial crisis has brought about major concerns pertaining to the governance and control of financial institutions. According to Erkens, Hung and Matos (2012) an unprecedentedly large number of financial institutions collapsed or were bailed out by governments during the global financial crisis of 2007-2008. Namely Bear Stearns, Citigroup, Lehman Brothers, Merrill Lynch (in the United States - US), HBOS and RBS (in the United Kingdom - UK), and Dexia, Fortis, Hypo Real Estate and UBS (in continental Europe) were bailed out at the early stages of the financial crisis to avoid contamination to financial systems around the world. The failure of these institutions induced the freeze of global credit markets and required government interventions worldwide.

While the macroeconomic factors (e.g., loose monetary policies) that are at the root of the financial crisis affected all firms (Taylor, 2009), some firms were affected significantly more than others, especially in those sectors more dependent of credit markets and mass consumption. Recent studies argue that firms' risk management and financing policies were responsible for the degree to which firms were impacted by the financial crisis (e.g., Brunnermeier, 2009). Kashyap et al. (2008) posit that firms' risk management and financing policies are ultimately the result of cost-benefit trade-offs made by corporate boards and shareholders, which places corporate governance at the core of firm performance, and even more so during the crisis period.

There is a strand of literature focussing on the impact of corporate governance on performance, namely during the crisis and referring to the shareholders' stance on financial institutions. For example, Kashyap et al. (2008) contend that banks with more independent boards and greater institutional ownership experienced worse stock returns during the crisis. A potential explanation for this finding is that independent directors and institutional shareholders encouraged managers to increase shareholder returns through increased risk-taking prior to the crisis. Shareholders may find it optimal to increase risk because they do not internalize the social costs of financial institutions' failures and institutional arrangements such as deposit insurance may weaken debt holder discipline. In addition, because of their firm-specific human capital and private benefits of control, managers tend to seek a lower level of risk than shareholders (Atkinson, Waterhouse and Wells, 1997; La Porta et al., 1998; Beck et al., 2003; Barth et al., 2006; Laeven and Levine, 2009; Berger, Imbierowicz and Rauch, 2012). Consistent with this view, DeYoung et al. (2012) when analysing executive compensation and business policy choices at US commercial banks find that in the years leading up to the financial crisis (2000-2006), banks changed CEO (Chief Executive Officer) compensation packages to encourage executives to exploit new growth opportunities created both by deregulation and the explosion of debt securitization.

Beltratti and Stulz (2010) also examined how bank characteristics, governance indices, bank regulation, and macroeconomic factors relate to bank performance during the crisis. Their evidence is inconsistent with the argument that poor governance of banks made the crisis worse, but it is supportive of theories that emphasize the fragility of banks financed with short-run capital market funding. Strikingly, differences in banking regulations across countries are generally uncorrelated with the performance of banks during the crisis, except that banks in countries with more restrictions on banking activities performed better, and are uncorrelated with observable risk measures of banks before the crisis. The better-performing banks had less leverage and lower returns in 2006 than their worst-performing peers.

In a similar vein, there is a wide variety of literature on corporate governance (e.g., Bushman and Smith, 2001; Hermalin and Weisbach, 2003) arguing that corporate governance had an important impact on firm performance during the crisis through influencing firms' risk-taking and financing policies. Hermalin and Weisbach (2003) point out that the absence of a significant relation between board composition (such as board independence) and firm performance is a notable finding in the literature. They suggest that the absence of this relation is consistent with board independence not being important on a day-to-day basis and contend that board independence should only matter for certain board decisions, 'particularly those that occur infrequently or only in a crisis situation' (Hermalin and Weisbach, 2003). This approach is consistent with Chang (2011) who claims that the financial crisis of 2007-2010 was the most severe financial downturn since the Great Depression. The recent crisis resulted in the failure of key businesses, declines in financial wealth estimated in trillions of United States Dollars (USD), contraction in economic activities (Baily and Elliott, 2009), and the onset of a severe global economic recession in 2008. Numerous large financial institutions required a bailout from national governments, since their failure would have caused insurmountable contagion effects around the world. Both regulatory and market based solutions were deployed to circumvent the crisis' effects (Manasse and Roubini, 2009).

The global housing bubble collapsed after peaking in the US in 2006. Home prices in the US dropped more than 30% according to S&P/Case-Shiller US National Home Price Index (http://eu.spindices.com/indices/real-estate/sp-case-shiller-us-national-home-price-index). Securities with risk exposure to the housing market plummeted, causing great damage to financial institutions across the globe. Stock markets all over the world suffered large downturns in 2008 and early 2009 as a result of solvency issues of major financial institutions and of the disappearance of liquidity in the credit markets. Growth slowed worldwide under tightened credit markets and declines in world trade (International Monetary Fund - IMF 2009, World Economic Outlook: Crisis and Recovery). Governments, central banks and international organizations implemented various plans including fiscal expansion, monetary expansion and institutional bailouts to an unprecedented degree.

Concomitantly the onset of the recent financial crisis has also brought about some consensus on the changes that are needed in the global financial sector. As Lipsky (2010) posited, some of the needed reforms include the strengthening of risk management in many financial firms, the re-evaluation of compensation schemes, the bolstering of capital standards, reform regulation and improved supervision and the removal of impaired assets from financial institutions' balance sheets. The reform will have to be weighed against preserving efficiency and restoring growth, both of which call for renewed credit flows. Reform of this nature would be politically difficult, as various interest groups would try to influence the direction and the outcome of the reform.

These findings and major concerns on the 'manager's dilemma' have contributed significantly to turn the holistic approach of stakeholders' stance, on organizations, during the financial crisis, into a topical issue.

2.1.1 The Crisis in Eurozone and EU

The recent world financial crisis has hindered the situation in the Eurozone. The EU was formally established on November 1, 1993, and is the latest development in a series of cooperative European organizations. Headquartered in Brussels, Luxembourg, and Strasbourg, it currently has 28 member countries. Its major goals are to promote cooperation among member states in areas such as economic policy, trade, social issues, foreign policy, security and judicial matters, as well as to implement the EMU (Economic and Monetary Union), which established a single currency for the Eurozone.

The Eurozone countries, Portugal, Ireland, Italy, Greece, and Spain are at the centre of the on-going 2010 European sovereign debt crisis. After they joined the Eurozone, the bull-market 'convergence trades' pushed bond yields in these countries toward the level of German 'bunds'. In line with De Grauwe's (2011) view the crisis was allowed to unfold because of hesitation on the part of and ambiguities created by both the Eurozone governments and the European Central Bank (ECB). The Eurozone governments failed to give a clear signal indicating their readiness to support Greece. The failure to do so mainly resulted from disagreements among member state governments concerning the appropriate response to the Greek crisis. The ECB, in turn, created ambiguities about the eligibility of Greek government debt to act as collateral in liquidity provision. As is well known, the ECB relies on ratings produced by American rating agencies to determine the eligibility of government bonds as collateral. Prior to the financial crisis, the minimal rating needed to be eligible was A- (or equivalent). In order to support the banking system during the banking crisis, the ECB temporarily lowered this to BBB+. At the end of 2009, however, the ECB announced that it would return to the pre-crisis minimal rating from the start of 2011 on. Since the Greek sovereign debt had been lowered to BBB+, this created a big problem for financial institutions holding Greek government bonds, which now face the prospect that their holdings of Greek government bonds may become extremely illiquid. No wonder so many market participants dumped Greek government bonds, precipitating the crisis. Similar uncertainties about the future ratings of other Eurozone government bonds hang as a Damocles sword over the government bond markets in the Eurozone.

Discussing this situation in the EU arena is even more critical, since the EU is even more deeply integrated than a common market (Chang, 2011), which makes it a compelling avenue for academic research. He contends that EU is an economic and political partnership between 28 democratic European countries. Its purposes are to promote peace, prosperity and freedom for its 508 million citizens. It not only allows frontier-free travel and trade among member countries, but also acts jointly on crime and terror. Furthermore, a group of 17 member countries (representing about 65 percent of the total EU population) currently uses the euro as their official currency. This group has achieved a monetary union, providing some people the expectation that the use of the euro could be spread to the whole EU in the future.

There is even anecdotal evidence that the EU, however, is not a political union. Its member states still maintain their own foreign relations and foreign policies and provide for their own defence, though the Union encourages cooperation in these areas. The EU drafted a European Constitution which, though ratified by a majority of EU countries, was overcome by the French and Dutch voters in 2005. The EU may perhaps be best understood as neither an international organization nor a confederation, but rather a *sui generis* entity, the only example of its kind, which is even more enticing for academic research and features a unique case study opportunity.

Over time, many European leaders began to think that the EU required a renewal and renovation. In 2004, after a series of negotiations, the European heads of state signed the Treaty and Final Act in Rome in order to establish the first European Constitution. It however, required ratification by all member states. The draft Constitution stipulated the powers and responsibilities of the EU, the member states and the regional authorities.

It simplified the EU Treaties and made the EU's decision-making system more transparent so as to improve the accountability of the EU organizations to EU citizens. More importantly, the constitution explicitly identified and protected individual freedom, democracy, equality, human rights, the rule of law and the rights of minorities.

2.2 Governance framework of the European Union

There are three main institutions in the EU. The European Commission is a politically independent body that upholds the collective European interest. The Council of European Union (European Council) represents the interests of the member states and the European Parliament represents its citizens. The three institutions constitute an 'institutional triangle.'

Other EU Institutions include the ECB, based in Frankfurt, which is responsible for managing the Eurozone's monetary policy and ensuring the stability of the euro. National central banks such as Germany's Bundesbank act now as local branches of the ECB. The ECB formally began its operations on January 1, 1999. The European System of Central Banks (ESCB) consists of the ECB and Eurozone-national central banks.

In economic, trade and monetary terms, the EU has become a major world power. With a single voice in international affairs, it has now got greater influence on global issues such as trade negotiations.

EU stakeholders are not only the member states and their inhabitants (a pool of 508 million consumers) but also comprise firms from almost all sectors of the economy, as well as other supranational and entities. Their pivotal role in the world order is an explored area of research in what concerns the stakeholders' stance to conduct business in the payment transactions sector of the financial industry.

The idea of a single European currency first surfaced in 1970 in the Werner Report that proposed a convergence among the economies and currencies of the six European Economic Community (EEC) countries. In 1979, the European Monetary System (EMS) was set up to reduce variations in the exchange rates among the currencies of member states. Though floating against the US dollar, the then six EMS members' currencies were confined to moving closely together as a group. The system, called the Exchange-Rate Mechanism (ERM), however, experienced a series of crises caused by certain weak currencies that were attacked by speculators.

A significant step toward monetary integration in the EU was taken in the Maastricht Treaty (1993). It contained the agreement on the EMU and advanced the goal of a European currency zone. To achieve the goal, member states needed to have a high degree of sustainable economic convergence.

The euro is currently the official currency used by 333 million Europeans in 17 member states.

2.2.1 European Union Governance

Pollack (2005) views the EU as an emerging system of multi-level governance in which national governments are losing influence in favour of supranational and subnational actors, raising important normative questions about the future of democracy within the EU.

In recent years, a growing number of scholars have theorized the delegation of powers to supranational organizations, and the subsequent autonomy and agenda-setting powers of those organizations, in terms of rational choice, principal-agent theories.

According to Pollack (2008) these studies generally address three specific sets of questions. First, they ask why and under what conditions a group of (member-state) principals might delegate powers to (supranational) agents, such as the Commission, the European Parliament, or the Court of Justice. With regard to this first question, principal agent accounts of delegation hypothesize that member-state principals, as rational actors, delegate powers to supranational organizations primarily to lower the transaction costs of policymaking, in particular by allowing member governments to commit themselves credibly to international agreements and to benefit from the policy-relevant expertise provided by supranational actors. Utilizing a variety of quantitative and qualitative methods, the empirical work of these scholars has collectively demonstrated that EU member governments do indeed delegate powers to the Commission and other agents largely to reduce the transaction costs of policymaking, in particular through the monitoring of member-state compliance, the filling-in of 'incomplete contracts,' and the speedy and efficient adoption of implementing regulations (e.g., Pollack, 1997, 2003; Franchino, 2007; Tallberg, 2007).

More than five decades into its history, the EU remains a compelling experiment in a new type of organisation and governance beyond the nation-state as well as the object of intense scholarly interest from a variety of theoretical perspectives.

Over the course of the past decade, however, empirical and scholarly developments have fundamentally changed the shape of EU studies and their potential contribution to our understanding of EU Governance.

Today, it is unlikely that the EU governance model as we know it will be the same in the near future. Therefore, it is highly probable that the role of the EU institutions and Member States will change within a short period of time.

However, students of comparative politics have moved in increasing numbers to study the EU, not as an instance of regional integration or regional cooperation, but as a political system featuring both a horizontal and a vertical separation of powers, analytically more similar to the US political system than to other international organizations. Such work has raised and begun to answer fundamentally new questions about legislative, executive, and judicial behaviour in the EU, seeking to approximate the model of 'normal science' among mainstream comparativists. These contrasting images of the EU as an international organization or a political system comparable to other domestic systems have, however, been rejected by a governance school, which views the EU as neither an international organization nor a domestic political system, but rather a new and unique experiment in governance beyond the nation-state. Drawing in parts from both comparative politics and international relations, this approach portrays an EU in which nation-state governments are losing ground to both subnational and supranational actors, raising important questions about the governance capacity and democratic legitimacy of the EU and exploring recent experiments in new governance such as the EU's Open Method of Coordination (OMC).

All the scenarios and decisions indicate that a fundamental change to the economic governance system is on the agenda: new steps towards reform could imply a stricter separation of governance structures between the old EU with the Commission and Parliament, and a new economic intergovernmental governance model for the Euro Area.

Research on governance and the European Union is a veritable growth industry (in the academia, see for example the INSEAD new Certificate in Corporate Governance, as a leading international qualification for board members).

The onset of the 2008 crisis has begged for policy consensus namely in what regards monetary and fiscal mechanisms. Hassel and Schelkle (2012) argue that the policy consensus persists because it is politically attractive. Following Hall (1989), who suggested that 'the political power of economic ideas' requires, at a minimum, their economic, administrative and political viability, economists identify the attractiveness of policy consensus as directly following from its theoretical flaws. In terms of monetary policy, we have witnessed the agencification of monetary policy - i.e. the creation of independent central banks - freeing fiscal authorities from dealing with issues of macro-stabilisation for which they typically get more blame than praise.

Similarly, robust re-regulation of financial markets is likely to emerge as a response to political demand by 'capitalists against markets' (Swenson, 2002). One cannot take this demand for granted. But Swenson (2002) argues that there is a prospect for the formation of politically cross-cutting coalitions that aim at defending the real economy against financial havoc by protecting the financial system from itself.

The political demand for the policy consensus was therefore strong and continues to be so even after the financial crisis. And this consensus is even more important on the back of market fragmentation as revealed by differentiated preferences of governments to cope with the crises (Intereconomics - Review of European Economic Policy, 2010, 2013; Schelke, 2011). The turmoil in peripheral countries' bond markets since late 2009 requiring the suspension of constitutive principles of economic governance is a paradigmatic example and features an unavoidable hurdle for European political integration.

2.2.2 A Monetary Union

The Eurozone, officially called the euro area, is an EMU of 17 EU member states that have adopted the euro (€) as their common currency and was created in 2002. The Eurozone currently consists of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

In line with De Grauwe (2011), the debt crisis has forced European leaders to set up new institutions capable of dealing with the crisis. One of the most spectacular responses has been the creation of the European Financial Stability Facility (EFSF) in May 2010 to be transformed into a permanent European rescue fund, the European Stability Mechanism (ESM) from 2013 on. Surely these were important steps that were necessary to maintain the stability of the Eurozone.

A monetary union is more than a single currency and one central bank. Countries that join a monetary union lose more than an instrument of economic policy (interest rate or exchange rate). When entering the monetary union, they lose their capacity to issue debt in a currency over which they have full control. As a result, a loss of confidence of investors can in a self-fulfilling way of driving the country into default. This is not so for countries capable of issuing debt in their own currency. In these countries the central bank can always provide the liquidity to the sovereign to avoid default. This may lead to future inflation, but it shields the sovereign from a default forced by the market.

Thus, member-countries of a monetary union become more vulnerable. Changing market sentiments can lead to 'sudden stops' in the funding of the government debt, setting in motion a devilish interaction between liquidity and solvency crises. There is an important further implication of this increased vulnerability. This is that member-countries of a monetary union lose much of their capacity to apply counter-cyclical budgetary policies.

When, during a recession, the budget deficits increase, this risk creates a loss of confidence of investors in the capacity of the sovereign to service the debt. This has the effect of raising the interest rate, making the recession worse, and leading to even higher budget deficits. As a result, countries in a monetary union can be forced into a bad equilibrium, characterized by deflation, high interest rates, high budget deficits and a banking crisis.

These systemic features of a monetary union have not sufficiently been taken into account in the new design of the economic governance of the Eurozone. Too much of this new design has been influenced by the notion (based on moral hazard thinking) that when a country experiences budget deficits and increasing debts, it should be punished by high interest rates and tough austerity programs. De Grauwe (2011) has argued that this approach is usually not helpful in restoring budgetary balance.

In addition, a number of features of the design of financial assistance in the Eurozone as embodied in the ESM will have the effect of making countries even more sensitive to shifting market sentiments. In particular, the 'collective action clauses' that will be imposed on the future issue of government debt in the Eurozone, will increase the nervousness of financial markets. With each recession government bondholders, fearing haircuts, will run for cover, thereby making a default crisis more likely. All this is likely to increase the risk that countries in the Eurozone lose their capacity to let the automatic stabilizers in the budget play their necessary role of stabilizing the economy. Countries lost more than one instrument of economic policy, they lost their capacity to issue debt in a currency over which they have full control.

This separation of decisions – debt issuance on the one hand and monetary control on the other – creates a critical vulnerability; a loss of market confidence can unleash a self-fulfilling spiral that drives the country into default (Kopf, 2011).

A monetary union creates collective problems. When one government faces a debt crisis this is likely to lead to major financial repercussions in other member countries. This is so because a monetary union leads to intense financial integration. Whether one likes it or not, member countries are forced to help each other out. Surely, it is important to provide the right incentives for governments so as to avoid profligacy that could lead to a debt crisis.

Discipline by the threat of punishment is part of such an incentive scheme. De Grauwe (2011) elucidated, however, that too much importance has been given to punishment and not enough to assistance in the new design of financial assistance in the Eurozone.

This excessive emphasis on punishment is also responsible for a refusal to introduce new institutions that will protect member countries from the vagaries of financial markets that can trap countries into a debt crisis and a bad equilibrium. One such an institution is the collective issue of government bonds. De Grauwe (2011) argued that such a common bond issue makes it possible to have a collective defence system against the caprices of euphoria and fears that regularly reach financial markets.

So, a monetary union can only function if there is a collective mechanism of mutual support and control. Such a collective mechanism exists in a political union. In the absence of a political union, the member countries of the Eurozone are condemned to fill in the necessary pieces of such a collective mechanism. The debt crisis has made it possible to fill in a few of these pieces. What has been achieved, however, is still far from sufficient to guarantee the survival of the Eurozone.

2.2.2.1 Eurozone Governance

The survival of the Eurozone requires robust economic governance and a workable European growth agenda. Since the crisis threatens the survival of the Eurozone, change is deemed necessary. This change is mostly needed on the Eurozone governance.

The most difficult problem the EU must overcome is the gap between desirability and feasibility and the current crisis calls for ambitious reforms in the Eurozone governance and the EU as a whole. The depth and persistence of the current crisis is the evidence of how the EU and the Eurozone need a big step forward. The EU institutional architecture needs changes in order not to be subordinated to national vetoes when crucial modifications are at stake.

2.3 A review of Corporate Governance Theories

Corporate Governance is an encompassing construct which has evolved through the years. Several academics and theorists deployed different definitions in their works.

The word 'governance' derives from the Latin *gubernare*, meaning 'to steer' (Oxford Dictionary), which implies that corporate governance involves the function of direction rather than control. Therefore, corporate governance is a function of governing a corporation when applied to the business environment.

Though the construct corporate governance, in a broader perspective, may be defined as a set of systems, processes and principles which ensure that a company is governed in the best interest of all stakeholders, the concept has different perspectives in different countries. For example, in Anglo-Saxon countries such as the United States and United Kingdom, corporate governance is focused on the interests of shareholders. In other countries such as Japan, Germany and France, corporate governance focuses on the wider perspective of stakeholders, including employees and customers as well as shareholders.

The underlying problems of corporate governance as recognized by a long tradition of scholars stretching back from present day via Berle and Means (1932) and Marshall (1920) to Adam Smith (1776) lies with the separation of beneficial ownership and executive decision-making in the joint-stock company. All analysts agree that such a separation allows – if it does not actually encourage – the firm's behaviour to diverge from the profit-maximizing, cost-minimizing ideal.

Before Harold Wilson's (1976) book 'The Governance of Britain' the word 'governance' was not in popular usage. Unfortunately, its subsequent rapid adoption has not been accompanied by consistent usage. Different writers vary widely in where they draw the boundaries of the subject. There is some doubt about what ‘corporate governance’ means.

Tricker (1984) defines it as ‘the process by which companies are run’. The Committee on Financial Aspects of Corporate Governance (Cadbury) said that, ‘corporate governance is the system by which companies are directed and controlled’.

Three empirical papers in the mid-1980s set the tone and the agenda for much of the research into ownership structure that ensued over the following fifteen years. Demsetz and Lehn (1985) address the question of the types of public corporations that are likely to have high levels of managerial stock ownership. In a nutshell, Demsetz and Lehn (1985) examine the relationship between ownership concentration and accounting performance. They find evidence that ownership structure is endogenous and they find no relationship between profitability and ownership concentration.

Grossman and Hart (1986) argue that shareholders with a large stake in the company show more willingness to play an active role in corporate decisions because they partially internalize the benefits from their monitoring effort.

In contrast, a subsequent paper, Morck, Shleifer, and Vishny (1988) report quite different findings. Morck, Shleifer, and Vishny (1988) argue that increasing managerial ownership from zero will initially increase firm value by aligning the interests of managers and outside shareholders. They also argue that, at higher levels of managerial ownership, managers become entrenched. Therefore, increasing managerial ownership can have a negative impact on firm value in some range.

Holderness and Sheehan (1988) address the question of whether major corporate decisions are different when a corporation has a large-percentage shareholder. Morck, Shleifer, and Vishny (1988) address the question of the impact on firm value of different levels of managerial stock ownership.

With increasing global competition, corporate governance is at the crux of enhancing ethical, honest and transparent ways to pursue corporate goals and survival in global market competition. Good governance is an essential element for achieving a clean, efficient, accountable and responsible working environment. Socio-political changes in the last two decades have indicated the necessity to promote good governance. For example, Asian countries have engaged in financial liberalization and capital market development in the last few decades and became examples for other developing countries to emulate. However, the 1997/1998 financial crisis exposed their weaknesses to enforce effective corporate governance practices (for example, poor transparency and disclosure, a weak regulatory framework, under-developed market infrastructures, cronyism, nepotism and the moral hazard of politicians making economic decisions) during the good economic period.

In Malaysia, the issue of corporate governance has received a committed focus from the government, particularly after the financial crisis in 1997 and other corporate failures in developed countries. The enforcement of the Malaysian Code on Corporate Governance in 2001 is the testimony to such commitment.

Possibly since the mid-1980s, corporate governance has attracted a great deal of attention. Early impetus was provided by Anglo-American codes of good corporate governance. Stimulated by institutional investors, other countries in the developed as well as in the emerging markets established an adapted version of these codes for their own companies. Supra-national authorities like the OECD and the World Bank did not remain passive and developed their own set of standard principles and recommendations. This type of self-regulation was chosen above a set of legal standards (Van den Berghe, 2001).

The economic debate concerning corporate governance is often posed in terms of a potential dilemma between strong direction and accountability, there being a tension in the paradox that assets are most efficiently valued when information to shareholders is maximized, whilst operational efficiency suggests that shareholders delegate surveillance and decision-making to managers. For example, the German-Japanese model of governance being based on a pattern of institutional relations, unlike the market-based Anglo-American model, it diminishes such tensions by relying much less on the market assessment, and by including a wide range of stakeholders in the governance process (António, N., 2001).

The author (António, N., 2001) brings up the notion that the absence of any real consensus on the definition of 'corporate governance' in the rapidly growing literature on the subject is symptomatic of the whole debate on governance reform. It is a debate in which the participants have entirely different analyses of the problem and therefore offer markedly different solutions. Fundamental disagreements cover key questions: for example, does the effectiveness of a firm's governance arrangements have implications which go beyond those for its shareholders and, if so, does this justify public policy intervention? Should any such intervention be concerned with distributional issues as well as those of efficiency? What is the nature of the shareholder's ownership claim? And what, if any, restrictions should be placed upon the shareholder's contractual freedom, as a resource owner, to maximize his financial reward from such resources?

The concept of corporate governance incorporates the issue of accountability, ethics and social responsibility to society and stakeholders, and it concerns the structures and procedures associated with the direction in which an organization plans to proceed (Shamsher, 2002).

Good corporate governance should allow management to act in the best interest of the corporation, and contribute to business prosperity through transparency and accountability. From the firm's perspective, the relevance of corporate governance seems to increase shareholders' wealth through better stock selections (McKinsey, 2002).

Effective corporate governance will mitigate corruption in business dealings. Poor corporate governance becomes the premise to breed corrupt practices in business and political circles. Good corporate governance facilitates early identification and elimination of such practices, thereby providing a more conducive cost effective environment for foreign and domestic investments.

In developed countries, which are the focus of this thesis, the discussion of corporate governance is usually in the context of the rule of law designed to facilitate economic growth. Governance is seen from the perspective of laws that recognize shareholders as the legitimate owners of the corporation and require: (i) the equitable treatment of minority and foreign shareholders; (ii) enforcement mechanisms through which these shareholder rights can be protected; (iii) securities, corporate and bankruptcy laws to prevent bribery that enable corporations to transform; (iv) anti-corruption laws to prevent bribery and protections against fraud on investors; sophisticated courts and regulators; (v) an experienced accounting and auditing sector, and significant corporate disclosure requirements. Developed countries are also more likely to have well-developed private sector institutions, such as organizations of institutional investors, and professional associations of directors, corporate secretaries and managers, as well as rating agencies, security analysts and a sophisticated financial press to facilitate good practices. Millstein Report (1998) suggests that government's support in corporate governance is essential in the following areas to instil investor confidence and attract foreign investment: (i) ensuring the protection of shareholder rights, including the rights of minority and foreign shareholders, and ensuring the enforceability of contracts with resource providers (fairness); (ii) requiring timely disclosure of adequate, clear and comparable information concerning corporate financial performance, corporate governance and corporate ownership (transparency); (iii) clarifying governance roles and responsibilities, and supporting voluntary efforts to ensure the alignment of managerial and shareholder interests, as monitored by boards of directors (accountability); and (iv) ensuring corporate compliance with the other laws and regulations that reflect the respective society's values (responsibility). Corporate governance can help improve economic efficiency by helping to focus on value-enhancing activities and therefore governance helps allocate resources more efficiently and engage in activities that improve the ex-post bargaining in their favour. As Shleifer and Vishny (1989) argue a manager will be inclined to focus on activities that he is best at managing because his marginal contribution is greater, and this consequently increases his share of ex-post rents, or his bargaining power for residual control rights.

Another way that governance may effect overall economic efficiency is through the level and distribution of risk. Assuming that the engaged parties have different risk aversions, corporate governance can then act to efficiently allocate risk to those who are least risk-averse (Fama and Jensen, 1983), which improves the total surplus for the parties involved.

Previous research uses the size of the board, the size of various board committees, the number of meetings, the fraction of independent (busy, old, female) directors, the financial expertise of the board, the adoption of poison pill, the existence of unequal voting rights across common shareholders, the presence of a supermajority provision for takeovers, director compensation, board interlocks, staggered boards, director ownership, blockholder ownership, activist ownership, CEO-chairman duality, and many other constructs to describe various dimensions of corporate governance (e.g., Byrd and Hickman, 1992; Brickley, Coles, and Terry, 1994; Yermack, 1996; Core, Holthausen, and Larcker, 1999; Klein, 2002; Adams and Ferreira, 2009; Adams, Hermalin and Weisbach, 2010; Bebchuk, Grinstein, and Peyer, 2010).

Other works span from specific and concise definitions to broader uses of corporate governance, namely:

- Shleifer and Vishny (1997) argued that corporate governance is the way in which suppliers of finance to corporation ensure themselves of getting a return on their investments.
- In a similar vein, Ruin (2001) defines corporate governance as a group of people getting together as one united body with task and responsibility to direct, control and rule with authority. On a collective effort, this body is empowered to regulate, determine, restrain, curb and exercise the authority given to it. Corporate governance describes the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled.
- In addition, Thomas (2002) described corporate governance in the ways and means by which the government of a company (the directors) is responsible to its electorate (the shareholders).

- Otherwise, Low (2003) defined corporate governance as dealing with mechanisms by which stakeholders of a corporate exercise control over corporate insiders and management in such a way that their interests are protected.
- Corporate governance encompasses a country's private and public institutions, both formal and informal, which together govern the relationship between the people who manage corporations (corporate insiders) and all others (outsiders) who invest resources in corporations in the country (Oman et al., 2003).
- In a recent strand of literature Melvin and Hirt (2005) broaden the scope to the concept of corporate governance as referring to corporate decision-making and control, particularly the structure of the board and its working procedures. It is also sometimes used very widely, embracing a company's relations with a wide range of stakeholders or very narrowly referring to a company's compliance with the provisions of best practice codes.
- Corporate governance can be defined as the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation (Wheelen and Hunger, 2006). It also includes the relationship among the many players involved (the stakeholders) and the goals for which the corporation is governed. The principal players are the shareholders, management and the board of directors. Other stakeholders include employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large.

- Corporate governance can also be stated as the set of rules and procedures that ensure that managers do indeed employ the principles of value based management (Brigham and Ehrhardt, 2008).

Corporate Governance structure in the UK has traditionally been based on the shareholder model which propounds shareholder primacy in the entire functioning of a corporate structure. Shareholder wealth maximization has been the primary objective in the working of all corporations in the United Kingdom. In contrast to this theory the stakeholder model advocates equal participation of the major constituents (or stakeholders) as mentioned by Freeman (1984) in his seminal book, *Strategic Management: A Stakeholder Approach*. Under the stakeholder theory the primary constituents of the firm are its shareholders, investors, employees, customers, suppliers, the governments and communities. In the next sections I elaborate on the underpinnings and review the shareholder and the stakeholder theory.

In terms of Corporate Governance, it was not before the early 1990s that major changes in the Corporate Governance structure started taking place. In fact, financial scandals and collapses of major Corporate Houses like Maxwell, BCCI and Polly Peck, begged for immediate reforms in the regulation of the corporate structure. To fill this regulatory gap various committees, have emerged, with a set of principles of good corporate governance, starting from Cadbury (1992) eventually leading to drafting of the Combined Code 2003 (and more recently 2006, 2008, 2010), which focused their research primarily upon the auditing structure, role of non-executive directors and institutional investors. Cadbury's (1992) remit was expanded to corporate governance generally. Hence the final report combined financial, auditing and corporate governance matters.

As mentioned in this section, we can achieve that there is no universal definition for Corporate Governance. It signifies establishing a system whereby directors are entrusted with responsibilities and duties in relation to the direction of a company's affairs (Sheikh and Chatterjee, 1995). It is primarily concerned with ways of aligning the interests of the investors (the principals or outsiders) and the managers (the agents or insiders) into line and ensuring that firms are run for the benefit of investors (Shareholder Theory). It is based on a system of collective board responsibility and accountability. There is no doubt that Corporate Governance focuses towards regulation of directors' duties for the maximum welfare of the shareholders. However, the argument of imposing wider accountability to corporations has gained importance in the last decade. It has been argued (Freeman, 1984; Clarkson, 1995; Post et al., 2002) that since corporations possess a separate legal personality absolutely distinct from the management and the owners, corporations owe certain obligations towards wider constituencies which grant certain moral obligations to the corporation to take account of other 'stakeholders'.

Corporate Governance is also linked to social ties. Lee and Persson (2010) wrote that opinion about the consequences of social ties for governance is divided. This is reflected by the tension between the crony capitalism view of social networks as promoting expropriation and corruption and the social capital view of social networks as promoting trust and cooperation. More broadly, social ties have been shown to promote cooperation and trade in various settings, including regional governments (Putnam, 1993), bank lending (Petersen and Rajan, 1994; Uzzi, 1999), and job search (Granovetter, 1974; Bian, 1997). Skeptics counter that social ties may constrain a person's economic activity to her immediate network, thereby impairing adaptation and growth (Olson, 1982; Portes and Landolt, 1996). In support of this view, some studies show that social ties can lead to favouritism in bank lending (La Porta et al., 2003; Charumilind et al., 2006), discrimination and nepotism (Becker, 1971; Fershtman et al., 2005), and corruption (Callahan, 2005; Harris, 2007).

The basic theory is that social ties are, in the abstract, a neutral governance instrument; they act solely as *incentive bridges*, i.e., connections that transmit incentives among agents. Whether an organization benefits from such a transmission of incentives among its members depends on the specific context. In other words, social ties can either improve or undermine governance. This duality gives birth to two distinct *modes of governance*, which differ in whether they encourage or discourage social ties within an organization. On the one hand, good governance can involve giving some member(s) of an organization the authority (and incentive) to discipline other members - as is commonly postulated in theories of governance - in which case social ties undermine governance.

On the other hand, Lee and Persson (2010) show that good governance can also result from cultivating loyalty within an organization, in which case social ties improve governance. Rather than optimizing monetary incentives given social incentives, governance design may involve jointly optimizing monetary and social incentives. Indeed, many organizations carefully design the social context among their members, for example, by selecting members based on social fit or by actively shaping corporate culture. According to Lee and Persson theory (2010), increasing the salience of social recognition - e.g., through symbolic rewards - and promoting social ties - e.g., through team-building activities - are complementary measures toward promoting a loyalty regime within an organization. Together, these measures foster a culture in which organizational norms, or objectives, are transparent and trickle down the hierarchy via social ties. As a result, members at different levels cooperate in the organization's interest on the basis of trust, rather than on the basis of authority or monetary incentives. This is reminiscent of a well-known quote by the organizational psychologist Rensis Liker (founder and the first director of the University of Michigan's Institute for Social Research).

There is an economic literature on the role of social incentives in the design of contracts and organizations (e.g., Bénabou and Tirole, 2006; Ellingsen and Johannesson, 2008; Fehr et al., 2008; Karlan et al., 2009). The social function of an organization shows that optimal monetary incentives interact with social incentives.

Sacconi (2012) explains how the social contract of the firm can be understood as the source of emerging social norms in the domain of organizational governance which satisfies the definition of ethics.

Social norms are in fact nowadays deemed no less important for corporate and organizational governance in general than legal norms. In fact, these two types of norms are complementary (Stout, 2011). Since the adoption of certain contracts or statutes at the corporate level is to some extent voluntary, social norms may be seen as drivers of the voluntary adoption of one or another legal model (e.g., shareholder vs. stakeholder oriented). Moreover, even if a legal system makes some legal constraints and principles in corporate governance mandatory, it largely depends on social norms whether the legal constraints will be actually followed and whether adherence will spread at societal level. Certain legal institutions of organization governance, such as fiduciary duties, may or may not be established in a given context according to how social norms of trust are shaped at societal level. For example, if bridging social capital and trustworthiness in a given society were very low, assigning the fiduciary duties of autonomous trustees an important role in organizational governance could be pointless (Macey, 2008). When the subject of organizational ethics is studied with reference to today's real world, what is encountered is the ever growing phenomenon of corporate social responsibility (CSR) and its generalization to the social responsibility of productive organizations in general. Firms, business organizations but also cooperatives and non-profits, are increasingly considered to be subject to commitments, such as discharging socially responsible practices and programs to the benefit of the organization's stakeholders. Management and reporting standard are redefined as being centred on all the stakeholders' interests and not merely on those of the shareholders. Such practices, programs, management and reporting standards are seen as ethical and as involving reasonability of who are in a position of authority toward the organization's stakeholders.

In a nutshell, in the corporate domain, the relationship is between the board of a trust and its beneficiaries or between the board of directors of a joint-stock company and its shareholders, and then more generally between management and owners. However a more holistic view is required. One view that can encompass the various constituents of the company and the sectors of the society linked to its activity. The stakeholder theory provides this holistic view encompassing the firm and its relations to the constituents, including social and environmental systems.

The term stakeholders denotes individuals or groups with a major stake in the running of the firm and who are able materially to influence it (Freeman, 1984; Freeman and Gilbert, 1988; Clarkson, 1995; Donaldson and Preston, 1995; Freeman and McVea, 2001; Freeman et al., 2010). However, from an economist's point of view, most relevant to defining stakeholders is the following distinction between two categories: stakeholders in the strict sense and stakeholders in the broad sense.

Stakeholders in the strict sense are those who have an interest at stake because they have made specific investments in the firm, such as in the form of human capital, financial capital, social capital or trust, physical or environmental capital, or for the development of dedicated technologies. Such investments may substantially increase the total value generated by the firm and are made specifically in relation to that firm so that their value is idiosyncratically related to the completion of the transactions carried out by or in relation to that firm. These stakeholders are reciprocally dependent on the firm because they influence its value but at the same time depend largely upon it for satisfaction of their well-being prospects (lock-in effect). By contrast, stakeholders in the broad sense are those individuals or groups whose interest is involved because they undergo the 'external effects', positive or negative, of the transactions performed by the firm, even if they do not directly participate in the transaction, so that they do not contribute to or directly receive value from the firm.

If business organizations are seen as orders that must first be self-sustainable and self-regulated – for example through soft laws or self-regulation – before being enacted by mandatory law and becoming part of the (state-enforced) legal system, fairness should be the first requirement of a good design.

The term stakeholders, in terms of company law, encompass creditors, employees, suppliers, customers and the society at large. It is often said that the corporation is a nexus of contracts between various constituencies of the firm who may have an interest in it and it is the contract which determines the rights and obligations of the various stakeholders (Worthington, 2001). Thus, it may also be said that Corporate Governance is concerned also with the 'social contract' that the company may possess with the wider constituencies which morally obliges the former to take account of the interests of other 'stakeholders'. The definition issued by the Organization for Economic Co-operation and Development expresses it this way: 'Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders' (Preamble to the 'OECD Principles of Corporate Governance', 2004). As stated, the main function of corporate governance is to regulate the functioning of the board of directors of a company by providing mechanisms for regulating the latter's duties so that they do not abuse their powers. There are various methods of regulating the duties of the directors in the UK which are employed using the following control mechanisms:

- By Legislation: The 2006 Companies Act has codified the fiduciary duties of directors and for the first time given statutory recognition to the interests of stakeholders. The fiduciary duties developed over a considerable period of time are still based and interpreted on common law principles. The statute also subjects the directors to civil liability for breaches of their fiduciary duties (Companies Act 2006 - is an Act of the Parliament of the United Kingdom which forms the primary source of UK company law).
- Self-Regulatory Codes: The City Code on Takeover and Mergers and rules governing the Substantial Acquisition of Shares (SARS) was the first self-regulatory code of its kind. However, following the implementation of the European Commission (EC) Takeover directive and the decision made by the Takeover Panel to end the SARS, the era of self-regulation in relation to takeovers and mergers came to an end, and provisions relating to it were incorporated in Part 28 of Companies Act 2006 (Birds, 2007). However, a new journey of self-regulatory codes starting from Cadbury to the Combined Code of 2003, came to be formulated from time to time, the aim of which was to allow companies to create and establish their own governance policies in the light of main and supporting principles set out in the code.

- Shareholders to act as monitors for the directors' activities and bring necessary action against them under the statutory rights granted in the 2006 Act.
- Protection granted to creditors by virtue of statutory provisions under the Companies Legislation of 2006 and also under the Insolvency Act 1986.
- Disclosure requirements to be complied with, such as publication of accounts and reports.

The construct of 'good governance' has become prominent in economic development discourse since the late 1980s. The World Bank and the Development Assistant Committee of the Organization for Economic Co-operation and Development have been leading advocates of propagating sound fiscal management and administrative efficiency as a precondition to sustainable growth and development (World Bank, 1997). The concept gained popularity among donor countries and institutions and was soon used in a broader political understanding. The benchmark of 'good governance' was expanded to include legitimacy derived from a democratic mandate of those in power, the rule of law, free market competition and a greater involvement of non-governmental organizations (NGO). NGO would not just participate in designing and implementing development strategies closer to the needs of the people and mobilizing endogenous economic and social resources, but also activate civil society and boost grass roots democracy (Weiss, 2000). The notion of 'good governance' was also embraced by the EU and considered a crucial ingredient of EU–ACP (African, Caribbean and Pacific Group of States) co-operation relations (Smith, 2003; Beck and Conzelmann, 2004).

The 'good governance' discourse in the context of development, however, was formerly quite detached from critical reflections on the state of EU institutions. The notion of 'good governance' in the EU context first became prominent through the release of the Commission's

White Paper on 'European Governance' (Commission, 2001) in which it lists several principles underpinning 'good governance', such as openness, participation and effectiveness.

These themes continue to inform the discussion on governance, in particular in the fields of political and economic science, two of the lead disciplines in the governance debate.

2.3.1 Shareholder Theory

The recent history of the stakeholder debate has highlighted the perceived rivalry between the shareholder model and the stakeholder model. Although this thesis focuses on Stakeholder Theory, in the next section the Shareholder Theory will be presented, in order to better understand the conflicting views.

The shareholder value views shareholders as the owners of the firm, and thus focuses on profit maximization as the objective of the firm. The popular view has always been that the shareholders are the owners of the company. This is reflected in the Cadbury report on the Financial Aspects of Corporate Governance. The appropriate way to put it would be that the shareholders are not the owners of the company but of the capital. Any surplus that may be generated on the capital belongs to the shareholders as profit maximization of the firm is the main argument in line with the shareholder theory. According to Berle (1931), 'all powers granted to a corporation or to the management of a corporation, or to any group within the corporation (…) at all times exercisable only for the ratable benefit of all the shareholders as their interest appears.' Accordingly advocates of the theory are of the view that by creating maximum value for the shareholders who are the owners of the firm, value is created for all other stakeholders simultaneously.

In line with Goyer (2002) the Anglo-Saxon model of corporate governance is characterized by a diffused ownership structure, mutual and pension funds as key shareholders, high market transparency, active securities markets, and the importance of the market of corporate control as a disciplining mechanism. The continental European model of corporate governance has been associated with a concentrated ownership structure, banks and non-financial firms as important shareholders, low market transparency, underdeveloped securities markets, and the absence of hostile takeovers.

In the Anglo American countries and primarily in the United Kingdom the directors have fiduciary duties, developed through common law over a considerable period of time, to conduct the affairs in the interests of its members. This is due to the reason that the shareholders are residual owners, in the sense that that they exercise control subject to rights of other stakeholders (Parkinson, 1995). The residual element is the main reason for allocating rights to the shareholders. It thereby becomes necessary to compensate them for the unspecified nature of the return provided by equity investment and the indefinite duration of their investment in the company. The argument follows that being the ultimate risk-bearers who face practical difficulties in contracting for uncertain future events; they are protected by the fiduciary duties of directors. The shareholders are assumed to have a claim on the returns which the company makes after all other fixed claims have been met and it is in this sense that the company is conceived as being managed primarily to serve their interests (Gamble and Kelly, 2001).

Ownership structures are a central distinguishing feature of financial systems (Mayer, 1992; Moerland, 1995). Particular attention has been paid in the corporate governance literature to ownership concentration as a key to more effective corporate governance and shareholder value maximization. The presence of large shareholders may curb managerial discretion, reduce agency costs and enhance performance (Stiglitz, 1985; Shleifer and Vishny, 1986). The existing empirical evidence on the impact of ownership structures on corporate performance refers almost exclusively to Anglo-Saxon firms and is rather mixed.

Lehmann and Jürgen Weigand (2000) investigate empirically how ownership concentration, the location of control rights, board representation of owners, and stock market exposure affect firm profitability (return on total assets). Ownership concentration is low in the Anglo-Saxon countries which rely heavily on stock markets to channel the flow of capital, control its efficient use, and assure outside investors of maximizing the return on their investments (Allen and Gale, 2000). Their preferred measure of corporate performance is the return on total assets (ROA), however also report summary statistics for the return on equity (ROE) but ROE comparisons across firms may be distorted by the leverage effect and differences in the user cost of capital. For both ROA and ROE the numerator is gross profits, calculated as turnover minus expenses for personnel and materials (is equivalent to earnings before interest, taxes, and depreciation - EBITDA).

The Anglo-Saxon financial system has been criticized for short-termism, neglect of interests other than shareholders', and inefficiency in delivering effective corporate governance (Porter, 1992; Jensen, 1993; Roe, 1994; Bhide, 1994; Pound, 1995). By contrast, concentrated ownership is a salient feature of the German system.

The debate on the managed versus the governed corporation, or the insider versus the outsider model of the corporate governance, has generated conflicting hypotheses concerning the link between ownership, control, and firm performance. The model of the governed corporation suggests that the tightly-held, insider-controlled firm outperforms the managed, diffusely-held firm. As there are costs of having large shareholders, ownership concentration or increased monitoring through the owners may be beneficial only up to a certain extent. At a given level of wealth commitment, the willingness of owners to control may also be dependent on who they are.

The opening of markets and increased international competition may have altered the profitability ownership concentration relation since the late 1980s.

Another argument in support of the shareholder theory is that states that are highly influenced by individualism and laissez-faire principles which emphasize individual property rights and minimal government interference respectively. Private ownership rights and profit maximization in these states are considered as the foundations of a free market and a competitive and economically efficient system. The objective of corporations in such states is to make profits while social and welfare functions are to be left to the state and charitable organizations.

Following the nexus of contracts theory, the agency theory also supports the shareholder value which propagates that the managers of the company are classified as the 'agents' and the shareholder as the 'principal'. This was supported by Jensen and Meckling (1976) who added to Alchian and Demsetz (1972) nexus of contracts analysis by arguing that the relationship between the shareholders and management was that of agent and principal. The shareholder, who is the owner or principal of the capital, delegates day-to-day decision making in the company to the directors, who are the shareholder's agents.

Freeman, Wicks and Parmar (2004) refer that Sundaram and Inkpen (2004) exhibit their commitment to such a narrow interpretation of the shareholder ideology in their paper 'The Corporate Objective Revisited.' They begin, 'Governing the corporation requires purposeful activity. All purposeful activity, in turn, requires goals.' They conclude that the goal of 'maximizing shareholder value' is the only appropriate goal for managers in the modern corporation.

More subtly, according to McCloskey (1998), the 'maximizing shareholder value' view is put forward as a 'scientific' theory that is modelled and verified appropriately by ideologists called 'economists.' Unfortunately, in an attempt to be accepted by their 'scientific brethren', several management theorists have adopted the fashion of accepting the economic view of business activity as the most useful one available and have fallen into the trap of the separation thesis. 'Maximizing shareholder value' is not a value-neutral theory and contains vast ideological content. At its worst, it involves using the prima facie rights claims of one group, shareholders, to excuse violating the rights of others.

Shareholder rights are far from absolute, regardless of how much economists talk about the corporation as being the private property of the shareholders. The rights of shareholders are prima facie at best, and cannot be used to justify limiting the freedom of others without their consent.

In 'Corporate governance and the stakeholders' theory – a brief introduction of the German-Japanese model' (António N., 2001) is mentioned that in the late 19th century, huge modern corporations emerged in the United States and the public corporation became the dominant business structure. Adolf Berle and Gardiner Means (1932) voiced concern over the power of management in these big corporations with widely dispersed ownership; 'to Adam Smith, private enterprise meant individual or few partners actively engaged in and relying in large part on their own labour or their immediate direction. Today we have tens and hundreds of thousands of owners, of workers and consumers combined in single enterprises' (Berle and

Means, 1932). With the separation of ownership and control in a modern dispersed-ownership corporation, shareholders may incur agency costs as managers find it easy to pursue their own interests rather than those of the shareholders.

2.3.2 Stakeholder Theory

In the 29 years since the publication of Freeman's Book 'Strategic Management: A Stakeholder Approach' in 1984, Stakeholder Theory has had a profound impact on our perception of the relation between the corporation and its social environment. Although originally intended as a textbook in Strategic Management (Freeman, 2004), Freeman's publication has been widely recognized in fields like Business and Society, Corporate Social Responsibility, and Business Ethics (Freeman and McVea, 2001; Jones et al., 2002; Freeman, 2004; Walsh, 2005; Agle et al., 2008; Laplume et al., 2008).

Consistent with Hansen, Bode and Moosmayer (2004) the stakeholder literature has become voluminous, Tony Blair and other politicians proclaim the goal of a stakeholder economy, and organisations as diverse as the World Bank and The Green 9 (nine of the largest European environmental organisations/networks) are pushing towards (more or less) balanced multi-stakeholder involvements. Freeman (1984) popularised the idea that companies have a responsibility to their stakeholders and that values are a fundamental part of daily business. Meanwhile, the structural problems of morally unsatisfying market results are well known. Power agglomeration, the increasing complexity of doing business in a risk society (Beck, 1992), external effects, and accelerating dynamics highlight the importance of a moral and strategic discussion of the relationship between business and society. At the same time, the public increasingly expects from companies a contribution to solving economic, social and environmental conflicts in society.

As pointed out by Freeman (2004), the stakeholder approach was first received contrary to his expectations in the US in the field of business ethics and then in the field of strategic management.

A Stakeholder is any group or individual who can affect, or is affected by, the achievement of an organization's purpose (Rhenman, 1968; Freeman, 1984; Clarkson, 1995). Freeman proposes a stakeholder map, which describes the wide range of stakeholder groups associated with companies, such as shareholders, employees, consumers, competitors, unions and suppliers. This map represents a wide and diverse range of interests (Freeman, 1984; Harrison and St John, 1994; Clarkson, 1995), given that each stakeholder group has its own unique set of expectations, needs and values (King and Cleland, 1979). This diversity of interests creates a potential problem, as failure to address this range of interests may be detrimental to the achievement of an organization's purpose and performance (Rhenman, 1968; Freeman, 1984; Harrison and St John, 1994; Clarkson, 1995), as defined by the organization's executives in its mission and objectives. From an ethical point of view it is also argued that companies have responsibilities and obligations to their stakeholder groups (Hill and Jones, 1992; Clarkson, 1995). Again, failure to meet these responsibilities and obligations may be detrimental to corporate purpose and performance, irrespective of the ethical issue. However, attempting to address the interests of all groups may not be possible, because of scarcity of current resources (Barney, 1991; Grant, 1991; Mahoney and Pandian, 1992; Amit and Schoemaker, 1993) and difficult decisions about their allocation among stakeholders, and because of acquisition of additional resources. It is also theorized that associations between stakeholder management and performance will be influenced by the market environment (Kohli and Jaworski, 1990; Clarkson, 1995; Jones, 1995), adding to die complexity of decision making.

There are two broad normative models that speculate about how companies should attempt to address the diverse interests of their stakeholder groups. The basis of the first, developed by Miller and Lewis (1991), is that the company should plan a balance between its own set of values and needs, and those of each stakeholder group (see also Kotter, 1990). The company should plan to optimize the satisfaction of each set of values and needs, and a balance will be achieved when none of the sets dominates those of the other groups. If an imbalance arises, resources should be reallocated among the groups in order to restore and maintain a balance. This model is consistent with a general assumption in the strategic management literature, which is that companies should, in order to be successful, address the interests of all stakeholder groups (Freeman, 1984; Chakravarthy, 1986; Evan and Freeman, 1993; Clarkson, 1995).

Kotter (1990), Donaldson and Preston (1995) and Freeman and Phillips (2002) have argued that it is critical for companies to address these diverse stakeholder interests, while Chakravarthy (1986) claims that the continued co-operation of all groups is a necessary condition of 'excellence'.

In accordance with Greenley and Foxall (1997) the second model is proposed by Mintzberg (1983), who theorizes that a balance between internal and external stakeholder groups will result from the different sources of power that they can exercise over the company (see also Pfeffer, 1981). Companies will not seek to optimize the satisfaction of stakeholder groups, but will prioritize their attention to groups, based on their respective power. Donaldson and Preston (1995) further argue that all stakeholders may not have legitimate claims on the company. Consequently, companies need to make decisions about prioritizing the sets of interests to address (Campbell and Yeung, 1991).

Referring to Hansen, Bode and Moosmayer (2004) there is a tension between the way the phenomena of stakeholder approaches are analysed and the status of the approach itself. On the one hand, Freeman emphasises the importance of specific cultural values, historically developed patterns of business interactions and negotiation practices for the concrete realisation of stakeholder relationships and their moral specifications. Yet, his stakeholder approach, developed in an American context, based on American business cases, and fostered by American pragmatism, claims universal applicability. To exemplify the ambiguity and tension in Freeman's approach, the adoption of the stakeholder approach in the context of German markets and German-language academic literature is different from other countries is patent in the fact that in Germany legal requirement of considering more interests than just the shareowners tends to result in a stronger stakeholder-orientation *per se* than in Anglo-Saxon countries (Blair, 1995). Employee representatives are mandatory in the German supervisory board. Taking up stakeholder thinking explicitly in strategic management is less important since stakeholder involvement is considered a given for practice and research. Because law requires regulation, the evaluation of dialogues and self-regulation between business and stakeholders is less emphasised as a management task in business operations. For a long time, this was also the case for stakeholders such as unions, consumer organisations and environmental groups in Germany.

Wicks and Freeman (1998) hypothesis is that the stakeholder approach can be advanced most productively by cross-fertilisation when contextual differences in certain countries are acknowledged on the phenomena and theory level. In this way, understanding experiences of existing stakeholder relationships in different contexts can further enrich a stakeholder approach acknowledging different stakeholder groups, different power relations between companies and stakeholders, and different regulative frames. Openness to different versions of stakeholder approaches can also, in the end, serve even better his pragmatist criterion for the stakeholder idea: fulfilling 'human aspirations and the desire to live better lives in community with others'.

The notion of stakeholding in business is not collectivist, nor is it soft in the non-competitive sense. Rather it is based on a sophisticated view of a company as a social vehicle whose speed and steering are dependent upon careful reading of the road signs and the behaviour of other users. Meanwhile, the route is best determined by involving all passengers with knowledge to contribute to the map reading.

This view, as mentioned by António, N. (2001) is presented in numerous ways: sometimes as an instrumental or predictive one, and often as a normative theory (Jones, 1995). However, the central proposition at the heart of the stakeholder approach is that the purpose – the objective function – of the firm should be defined more widely than the maximization of shareholder welfare alone.

Stakeholder theory begins with the assumption that values are necessarily and explicitly a part of doing business, and rejects the separation thesis (Freeman, 1994).

It might be argued that the socio-cultural, political, and economic context that ultimately needs and rewards a stakeholder strategy has only fully developed since the 1990s.

Its core notion is that of a managerial approach that goes beyond a neoclassical share-holder-orientation and recognizes the strategic relevance of stakeholders in an increasingly complex world (e.g., Freeman, 1994; Jones et al., 2002; Walsh, 2005; critically Jensen, 2002; Sundaram and Inkpen, 2004). The inclusion of the latter, understood as 'any group or individual who is affected by or can affect the achievement of an organization's objectives' (Freeman, 1984; Mitchell et al., 1997), has prepared the ground for a new under-standing of the firm's social embeddedness. The work of Freeman and his colleagues has sparked enthusiastic calls for an integrative theory of the firm with Stakeholder Theory as a 'central paradigm for the business and society field' (Donaldson and Preston, 1995; Jones, 1995; Wood and Jones, 1995; Harrison and Freeman, 1999). Likewise, it has been considered as the foothold in the 'Normative Revolution' in the understanding of markets and corporations (Donaldson, 2002, 2008 and 2011). Phillips, Freeman and Wicks (2003) emphasize the critical perspective as a special feature of Stakeholder Theory in comparison to other approaches to (strategic) management that lack this kind of explicit normative claim:

'Stakeholder theory is distinct because it addresses morals and values explicitly as a central feature of managing organizations. (…) The ends of cooperative activity and the means of achieving these ends are critically examined in stakeholder theory in a way that they are not in many theories of strategic management.'

However, with the term 'stakeholder' becoming ubiquitous in organization and management literature (e.g., Phillips, 2003; Phillips, Freeman and Wicks, 2003; Laplume, Sonpar and Litz, 2008), sceptical voices have lamented the state of the stakeholder approach as a theoretical concept. In their recent review of the Stakeholder Theory literature Laplume, Sonpar, and Litz (2008) point towards the growing critique which considers the approach to be under theorized (e.g., Stoney and Winstanley, 2001; Sundaram and Inkpen, 2004), too broad (e.g., Treviño and Weaver, 1999; Phillips et al., 2003) as well as lacking in integration (e.g., Donaldson and Preston, 1995; Donaldson, 1999; Gioia, 1999; Margolis and Walsh, 2003). Stoney and Winstanley (2001) summarize: 'Because of the myriad of interpretations, generalizations and definitions, the term stakeholding has become content free and can mean almost anything the author desires'.

Consequently, the confused and often shallow nature of the stakeholder debate has made it possible for academics, managers and politicians to embrace the term without having to explain the concept in theoretical or practical terms.' (Stoney and Winstanley, 2001).

At the root of this pluralism of perspectives lie theoretical challenges, which are inherent to the field: (i) the normative foundation of Stakeholder Theory, (ii) the appropriate role of the firm in society, (iii) the problem of stakeholder identification, stakeholder legitimacy and (iv) the evaluation of their claims, as well as the relevance of ethics, philosophy, and the multitude of background theories, pose significant hurdles in the undertaking labelled 'Stakeholder Theory' (e.g., Driver and Thompson, 2002; Jones et al., 2002; Post et al., 2002; Phillips, 2003; Phillips et al., 2003). These issues have to be resolved otherwise a critical examination of the 'ends of cooperative activities and the means of achieving these ends' (Phillips et al., 2003) is not possible. In addition, the underlying concept of 'theory' is unclear. While one finds research in Stakeholder Theory that has been developed in the tradition of the social sciences and their dominant positivist or natural science model of research, there are also works that have been heavily influenced by the philosophic thinking of the humanities and post-positivist methods (Wicks and Freeman, 1998). These paradigmatic differences imply various meanings of the concept of 'theory' and lead to incommensurable views on how the study of stakeholders and their relations to the firm should be conducted. Facing this pluralism of theories Freeman (1999) even prefers to speak of 'narrations' instead of theories. Further complications result from the fact that, despite the explicit mentioning of 'society', the business and society field in general (and Stakeholder Theory is not an exception) has reflected only rarely on the underlying competing concepts of 'society' discussed in political philosophy and social theory such as liberal, libertarian, communitarian, republican, and deliberative perspectives on democratic society (e.g., Moon et al., 2005). As a result the link between the individual, the firm, and society remains highly contested (e.g., Scherer and Palazzo, 2007; Elms et al., 2011).

This pluralistic state of Stakeholder Theory itself has triggered heterogeneous meta-positions, ranging from a favouring of convergence (e.g., Donaldson 1999; Jones and Wicks 1999), to the support of a moderate eclecticism (e.g., Freeman 1994; Freeman 1999; Treviño and Weaver 1999), to authors who claim that an integration of the various positions is not possible (Gioia 1999). Yet the lack of meta-analytic endeavours since Donaldson and Preston's (1995) review of the academic stakeholder literature threatens to obstruct the capabilities of the respective stakeholder approaches to contribute to the fundamental questions of the field. Therefore there are so many perspectives.

The Stakeholder View framework by Post et al. (2002) was developed by analysing cases of three international companies (Shell, Motorola, Cummins) that demonstrated that stakeholder interactions contribute to firms' value creation.

In this perspective, the Stakeholder View is an integration of the stakeholder management in the business model and therefore an integration between strategic management and stakeholder management. It combines the two traditional views (Resource-based View and Industry Structure View) and additionally enlarges them with a social political perspective, as the existing approaches focus on a specific and limited set of stakeholders, without taking into consideration all stakeholders with a possible influence on the company. The Stakeholder View embraces the Resource-based View (e.g., Penrose, 1959; Barney, 1991; Mahoney and Pandian, 1992; Grant, 1996; Teece, Pisano and Shuen, 1997) because all of the firm's resources are represented in some way by various stakeholders, and it is the firm's relationships with them that make resources available and productively functional (Coff and Rousseau, 2000; Leana and Rousseau, 2000). Similarly, as reflected in the Industry Structure View (e.g., Porter, 1991, 1996, 1998) stakeholders within the industry structure – e.g., customers, suppliers, regulators – will be more or less collaborative, supportive and reliable in their dealings with the firm depending on the kinds of relationships the firm has developed with them. Beyond the integration of Resource-based View and Industry Structure View, the Stakeholder View also focuses on the firm's relationships with its constituents in the social and political arena.

Although Resource-based View could be used as an approach to study payment system industry, the large number of constituents and the type of organizational structure advice the deployment of the Stakeholders view.

Phillips (2011) suggests that the pluralism and heterogeneity of perspectives within Stakeholder Theory can be analysed once the different research interests (Habermas, 1971) and paradigmatic assumptions (Burrell and Morgan, 1979) of the various perspectives are fully understood. There are also some relativistic fallacies of many of the anti-positivist perspectives (Wicks and Freeman, 1998) that emphasize the culture and history-bound roots of any scientific or philosophical endeavour and endorse pluralism as having a value of its own.

This stream of stakeholder research has grown out of the contrast between the traditional view that it is the fiduciary duty of management to protect the interests of the shareholder and the stakeholder view that management should make decisions for the benefit of all stakeholders. Williamson (1981) used a transaction cost framework to show that shareholders deserved special consideration over other stakeholders because of 'asset specificity.' Williamson (1981) argued that a shareholder's stake was uniquely tied to the success of the firm and would have no residual value should the firm fail, unlike, for example, the labour of a worker. Freeman and Evan (1990) have argued, to the contrary, that Williamson's approach (1981) to corporate governance can indeed be used to explain all stakeholders' relationships. Many other stakeholders have stakes that are, to a degree, firm specific.

Furthermore, shareholders have a more liquid market (the stock market) for exit than most other stakeholders. Thus, asset specificity alone does not grant a prime responsibility towards stockholders at the expense of all others.

Goodpaster (1991) outlined an apparent paradox that accompanies the stakeholder approach. Management appears to have a contractual duty to manage the firm in the interests of the stockholders and at the same time management seems to have a moral duty to take other stakeholders into account. This stakeholder paradox has been attacked by Boatright (1994) and Marens and Wicks (1999) and defended by Goodpaster and Halloran (1994). Others have explored the legal standing of the fiduciary duty of management towards stockholders, Blair (1995), Orts (1997). Many of these debates are on-going, with some advocating fundamental changes to corporate governance and with others rejecting the relevance of the whole debate to a stakeholder approach.

There have also been a number of attempts to expand stakeholder theory into what Jones (1995) has referred to as a 'central paradigm' that links together theories such as agency theory, transactions costs and contracts theory into a coherent whole (Clarkson, 1995; Jones, 1995). From this perspective stakeholder theory can be used as a counterpoint to traditional shareholder-based theory. While it is generally accepted that stakeholder theory could constitute good management practice, its main value for these theorists is to expose the traditional model as being morally untenable or at least too accommodating to immoral behaviour. This literature has historically consisted of fractured collection of viewpoints that share an opposition to the dominant neoclassical positive approach to business. Because of its accommodating framework the stakeholder concept provided an opportunity to develop an overarching theory that could link together such concepts as agency theory, transactions costs, human relationships, ethics and even the environment.

More recently Jones and Wicks (1999) have explicitly tried to pull together diverging research streams in their paper ‘Convergent Stakeholder Theory.’

Harrison and St John (1996) provide a very useful summation of approaches and strategies for managing the various stakeholders. They have been the leaders in developing an integrated approach with many of the conceptual frameworks of mainstream strategy theory. In their words ‘(stakeholder management) combines perspectives from other traditional models such as industrial organization economics, resource-based view, cognitive theory, and the institutional view of the firm.’

They distinguish between stakeholder analysis and stakeholder management. Stakeholder management is built on a partnering mentality that involves communicating, negotiating, contracting, managing relationships and motivating. These different aspects of stakeholder management are held together by the enterprise strategy which defines what the firm stands for. Ethics are a part of these processes, first, because unethical behaviour can have high costs and second, because codes of ethics provide the consistency and trust required for profitable cooperation.

Schwartz and Carrol (2003) as described by Rego et al. (2006) propose a model with three domains, legal, ethical and economic. The ideal overlap occurs when the company reconciles the three domains, namely the maximization of profit, in compliance with the law and their ethical responsibilities.

Friedman (1970) is regarded as one of the leading protagonists of the classical view, shareholder-oriented approach, whereby managers have principal responsibility to maximize shareholders return or owners of the company return, and is therefore a critical of social responsibility movement.

Harrison and St John (1996) are able to combine traditional and stakeholder approaches because they use the stakeholder approach as an overarching framework within which traditional approaches can operate as strategic tools. For example, they divide the environment into the operating environment and the broader environment. Within the operating environment the 'resource based view of the firm' can operate as a useful framework to study the relationships of internal stakeholders such as management and employees. Equally Porter's five-force model (Porter, 1998) can be used to shed light on the relationships of many external stakeholders such as competitors and suppliers.

However, strategic management does not stop at this analytical/descriptive phase. Prioritizing stakeholders is more than a complex task of assessing the strength of their stake on the basis of economic or political power. 'Priority is also a matter of strategic choice'. And moreover, prioritizing stakeholders is considered a function of the organization's strategic choice. The values and the enterprise strategy of a firm may dictate priorities for particular partnerships and discourage others. Thus, a stakeholder approach. Allows management to infuse traditional strategic analysis with the values and direction that are unique to that organization.

Stakeholders must not only be understood in the present, they must also be managed over the long run. Harrison and St John (1996) distinguish between two basic postures for managing stakeholders: buffering and bridging. Buffering is the traditional approach for most external stakeholder groups and it is aimed at containing the effects of stakeholders on the firm. It includes activities such as market research, public relations, and planning. Buffering raises the barriers between the firm and its external stakeholders.

In contrast bridging involves forming strategic partnership. This approach requires recognizing common goals and lowering the barriers around the organization. Partnering is proactive and builds on interdependence. It is about creating and enlarging common goals rather than just adapting to stakeholder initiatives. They propose a framework for determining the importance of developing partnering tactics and when it is appropriate to rely on more traditional methods. With this framework as a guide they have been able to identify a wide range of partnering tactics that can be used by management to manage their critical stakeholders and develop critical strategies.

The impact of a stakeholder approach on management practice is difficult to establish. Consistent with Freeman and McVea (2001) much of contemporary debate and commentary is trapped in the rhetoric of a 'stakeholder versus shareholder' debate. Once strategic management is divided into this false dichotomy, stakeholder theory can be mischaracterized as anti-capitalist, anti-profit and anti-business efficiency. For this reason the words 'stakeholder management' have mostly been relegated to descriptions of a small number of radical businesses that are run very differently from mainstream corporations, for example Body Shop and Ben and Jerry's.

In ‘Built to Last’ Jim Collins and Jerry Porras (1994) put the ‘shareholder versus stockholder’ debate in a new light. They attempted to explain the sustained success of firms across many industries by contrasting them with less successful peers. They proposed that a necessary condition of long-term financial success *is a strong set of core values* that permeates the organization. ‘Core values are like an ether that permeates an organization… you can think of it as analogous to the philosophy of life that an individual might have. Core values are analogous to a biological organism’s genetic code’. The authors confirmed this hypothesis with a rigorous financial analysis of successful and unsuccessful firms over the last century.

Not only does ‘Built to Last’ provide strong support for the importance of an enterprise strategy as proposed in a stakeholder approach, many of the core values identified in the research confirm the importance of basing strategy on collaborative stakeholder relationships. For example 3M’s core values include ‘a respect for individual initiative and personal growth’; Merck’s core values include ‘profits, but profit from work that benefits humanity’; Hewlett-Packard’s core values include ‘respect and opportunity for HP people’ and ‘affordable quality for HP customers’ and ‘profit and growth as a means to make all else possible’; Marriott’s core values include ‘people are (...) treat them well, expect a lot, and the rest will follow’; and Walt Disney’s core values include ‘to bring happiness to millions, and to celebrate, nurture and promulgate wholesome American values.’

‘Built to Last’ tells a story of the widespread use of a stakeholder approach by dozens of successful firms that include many elite multinationals. More importantly they found that the stakeholder approach in practice predates the formal articulation of stakeholder theory in academia. Thus, Collins and Porras (1994) provide both empirical support for the success of a stakeholder approach and they confirm that the academic theory grew out of management practice rather than vice versa.

In The Stakeholder Strategy Svendsen (1998) investigates firms who are building collaborative stakeholder relationship as part of their business strategy.

From Wal-Mart, Marks and Spencer, Saturn, BankBoston and British Telecom to BC Hydro, Motoman Inc., Stillwater Technologies, and Van City Credit Union the author demonstrates how managements across the world are continuing to develop and implement their strategies by developing collaborative relationships with the stakeholders in their firms. Svendsen (1998) concludes that in an increasingly volatile world 'the ability to balance the interests of all stakeholders will be a defining characteristic of successful companies in the next decade. This is not to say that companies will be able to satisfy everyone's interests all the time. However, companies that have a strong set of values and that can communicate their business goals clearly will maintain stakeholders support when the results are not in their favour'.

Wheeler and Sillanpaa (The Stakeholder Corporation, 1997) trace the use of a stakeholder approach from Robert Owen, William Morris, Thomas Watson of IBM to The Body Shop. Their research illustrates the history, the rationale and the practical implementation of stakeholder ideas. They develop, and illustrate the use of, positively reinforcing cycles of inclusion that help build stronger and more cooperative stakeholder relationships. They also emphasize the need to redescribe the world of business in ways beyond, but not necessarily in contradiction to, the profit maximization view. As Anita Roddick (Founder and Co-Chair, The Body Shop International) points out in the Foreword to the book 'Some of our best companies still retreat into 'shareholder value' justification for excellent community outreach programs when they should simply celebrate and say 'this is what business should be about''.

During the Stakeholder Theory Conference Speaks To Growing Influence of Big Ideas in October 2012, Robert Phillips, a 1997 Darden Ph.D. graduate who is now an associate professor of management at the University of Richmond, said while stakeholder theory has been embraced most by the business ethics field, it has also come to influence thinking in areas from finance, accounting and marketing to health care, education, public administration, environmental policy and law.

So this year's conference included academics from a range of disciplines, including law, economics, marketing, organizational behaviour and organizational theory, and from several countries, including Germany, Switzerland and the United Kingdom.

Stakeholder theory's impact continues to grow, Phillips (2012) said. Just as the term ‘stakeholder’ has become common parlance, the language of stakeholders is now far more prominent in business mission statements, annual reports and press releases than it was two decades ago, assumed Phillips (2012). The language used by business leaders reflects and influences their thinking and decision-making.

In part because of Freeman's work, companies now realize that engaging with all stakeholders is crucial to long-term sustainability in the marketplace, said Wicks (1996), Professor of Business Administration and director of the Olsson Center for Applied Ethics at Darden School of Business.

Despite its popularity, the stakeholder theory is also criticized and has certain limitations, as said by Varela, J. and António, N. (2012) quoting Argenti (1997). For example, how is it possible to identify and sort the various stakeholders, treating them fairly? How to reach a consensus on the relative importance of each group of stakeholders, who have different objectives, and even contradictory? What are fair expectations of different stakeholders?

More than limitations may even be attributed damaging effects to a stakeholders management strategy, taking into account that can cover opportunistic behaviour of managers, disguised in the form of stakeholders defenders (Cennamo et al., 2012).

As posited by António, N. (2001), if it is true that, in the last decade, the Anglo-American model of short-term management has rapidly spread and expressions like ‘core business’, ‘stock options’ and ‘economic value-added’ have become the new buzzwords, it is also true that Europe remains glued to its history (the state still plays an important role in the economy, even in the financial system). Business think-tanks across Europe as well as political leaders are debating the merits of the ‘citizens’ company’ these days.

Adopting Alves, A.’s (2005) view I can contend that in a global economy, in which financial resources are scarce and tend to be directed to more transparent markets where the stakeholders' interests are better defended, companies (including banks) that comply with best practice of corporate governance, are promoting a decisive factor in their level of competitiveness, as well as contributing to the construction of a more competitive market.

Regulation can also be understood as an external control mechanism, since places enterprises towards a set of constraints on the way it is organized and it is managed (Weston et al., 2004).

According to Freeman (1994) several studies have raised important conceptual questions about the idea of ‘stakeholder management’ or ‘stakeholder theory’. Kenneth Goodpaster (1991) has sounded a significant challenge by diagnosing a ‘stakeholder paradox’ at the heart of stakeholder theory. James Kuhn and Donald Shriver (1991) have attacked the very idea that stakeholder relationships are to be managed at all, proposing instead a 'constituency view' that sees the corporation and its stakeholders as a voluntary community. Martin Meznar, James Chrisman and Archie Carroll (1991) have straddled this controversy by explicitly connecting stakeholder management to business strategy and adopting a utilitarian ethic for its defence. And, John Boatright (1994) has argued that while the special nature of stockholder claims can't be justified – there is no argument for the special nature of stakeholder claims.

In line with Atkinson, Waterhouse and Wells (1997) the modern organization is a complex web of contracts, both explicit and implicit, that specifies relationships between the company and its stakeholders.

Traditional strategy frameworks were neither helping managers develop new strategic directions nor were they helping them understand how to create new opportunities in the midst of so much change. As Freeman observed '(O)ur current theories are inconsistent with both the quantity and kinds of change that are occurring in the business environment of the 1980's…A new conceptual framework is needed' (Freeman, 1984). A stakeholder approach was a response to this challenge. An obvious play on the word 'stockholder', the approach sought to broaden the concept of strategic management beyond its traditional economic roots, by defining stakeholders as 'any group or individual who is affected by or can affect the achievement of an organization's objectives'. The purpose of stakeholder management was to devise methods to manage the myriad groups and relationships that resulted in a strategic fashion. While the stakeholder framework had roots in a number of academic fields, its heart lay in the clinical studies of management practitioners that were carried out over ten years through the Busch

Center, the Wharton Applied Research Center, and the Managerial and Behavioural Science Center, all at The Wharton School, University of Pennsylvania by a host of researchers.

While the 1980's provided an environment that demonstrated the power of a stakeholder approach, the idea was not entirely new. The use of the construct stakeholder grew out of the pioneering work at Stanford Research Institute (now SRI International) in the 1960's. SRI's work, in turn, was heavily influenced by concepts that were developed in the planning department of Lockheed and these ideas were further developed through the work of Igor Ansoff (1965), Robert F. Stewart and Otis J. Benepe who worked at Lockheed Aircraft and Stanford Research Institute in the 1960s. From the start the stakeholder approach grew out of management practice. SRI argued that managers needed to understand the concerns of shareholders, employees, customers, suppliers, lenders and society, in order to develop objectives that stakeholders would support. This support was necessary for long term success. Therefore, management should actively explore its relationships with all stakeholders in order to develop business strategies.

For the most part these developments had a relatively small impact on the management theories of the time. However, fragments of the stakeholder concept survived and developed within four distinct management research streams over the next twenty years. Indeed, it was by pulling together these related stakeholder concepts from the corporate planning, systems theory, corporate social responsibility and organizational theory that the stakeholder approach crystallized as a framework for strategic management in the 1980's. What follows is a brief summary of these building blocks of stakeholder theory.

2.3.2.1 The Stakeholder View in the Banking Industry

The misalignment of insiders (managers) and outsiders' (stockholders) interests have been considered responsible for governance failures in the public opinion. However, these agency relationships in banks differ from those in non-financial firms, mainly because of the increased number of stakeholders featured in banks, as compared to the same number in non-financial firms. Corporate governance is partly designed both to ensure that the long-term interests of shareholders and corporate strategies are met by the executives (managers) and to be deployed as a discipline tool for management to minimize residual losses to stockholders. Agency theory assumes that market forces will operate to provide disciplining effects on management to pursue optimal risk-adjusted strategies on behalf of their principals. However, because regulators have a significant role to play in managing the governance of banks, unlike non-financial firms the disciplinary power of the market is in this case limited. Bank regulators exert preponderant control over many aspects of managerial behaviour and decision-making. There are restrictions to limit market entry and takeovers, minimal capital requirements and solvency buffers, alongside requirements on business scope and models (Ciancanelli and Gonzalez, 2000).

In Japan and in Germany, the industrial banking system has a central role and often acts through employers' associations. The governments of both also have a central role through their various ministries in facilitating industrialization and knowledge creation. In this sense, the industrial relations systems of Japan and Germany, based on employee participation, lead towards the concept of the 'mutual gains enterprise' in which all share the rewards for success. Japanese believe that social relations between economic actors do not impede market functioning but rather promote it (António, N., 2001).

According to Varela, J. and António, N. (2012) the concerns of businesses, especially the larger ones, about the ethics of their behaviour are now apparently widespread, as evidenced, for example, in the communication adopted or in self-regulation initiatives adhered by these companies. Varela, J. and António, N. (2012) contend that ethics is more and more in the eye of firms, especially the larger ones. They posit that self-regulation and the more holistic view of governance are some of the signs underpinning such contention. They also mentioned that stakeholder theory, which proposes added value for all stakeholders, and not just for shareholders, has paved the way for firms to rethink their strategies and fulfil their social responsibilities.

The profusion of voluntary and self-regulation initiatives suggest the commitment, resources and energy which are now being deployed by companies and their managers and directors to cater to business ethics and corporate social responsibility more closely, in several sectors such as banking industry.

Although the impact of corporate governance on the recent financial crisis is ambiguous both theoretically and empirically (e.g., Bratton and Wachter, 2010; Beltratti and Stulz, 2012), the uncertainty perspective indicates at least one potential channel influencing banks' propensity to hoard or to lend cash differently from what would be optimal for the society. So, corporate governance in the banking industry still remains a topical issue, with a huge impact on society and consequently in all the stakeholders and therefore attracts permanently the interest of both academics and practitioners.

The European Economic Governance can be stylized in three pillars. These pillars can provide a more precise definition of the opportunities and threats of regional players. For this the Jamet concept (Jean-Francois Jamet, 2011, European Economic Government: the question is not when but how) was deployed. Jamet (2011) believes that European Economic Governance consisted up until the time of the recent crisis of a compromise among (i) the pooling of a limited number of competences, (ii) regulatory power through joint, negotiated rules and (iii) an invitation to coordinate policies that are still decided on national basis. Table 1 displays these three distinct pillars of Economic Governance in the EU and summarizes their main features.

Table 1– Three Pillars of EU Economic Governance

Limited number of centralised European competences	Regulatory power through joint, negotiated rules in areas of shared competences	Invitation to cordinate policies that are still decided upon nationally
Independent supranational authorities The European Central Bank as regards monetary policy The Court of Justice in terms monitoring EU law implementation The European Commission monitoring internal market rules	**Community Method law making** Technical regulations or directives (i.e. consumer safety, healthcare, environment legislation, payments…) negotiated over several years Control by Commission and European Court of Justice	**Open Method of Coordination** Coordination of national policies via non-binding rules and targets proposed by the Commission and adopted by the European Council Lisbon Strategy Competitiveness and Employment European Commission with a soft monitoring role
Competences directly implied by the single market **Redistributive policies that have reached critical mass**	**Rules for the Euro Zone**	**Harmonisation of Planning Exercises**

Table 2 displays a compilation of related concepts spanning from the general definition of EU Governance to EU Economic Governance.

Table 2 - Concepts and Definitions of Economic Governance, Government and Policies

Concept	Definition	Example
European Governance	"Rules, processes and behaviour that affect the way in which powers are exercised at the European level." European Commission 2001	**Open Method of coordination, Community Method**
European Multilevel Governance	"... coordinated action by the European Union, the Member States and local and regional authorities, based on partnership and aimed at drawing up and implementing EU policies." CoR, 2009	**Process and involvement of stakeholders in Europe 2020**
European Economic Governance	European economic governance consisting of a compromise between (i) the pooling of a limited number of competences, (ii) regulatory power through joint, negotiated rules and (iii) an invitation to coordinate policies that are still decided upon nationally. (Jamet 2011)	**New: European Semester**
European Economic Government	An authority with the ability to respond to economic cycles and to avoid budgetary mistakes that is able to take decisions to embrace the entire Euro zone. (Jamet 2011)	**ECB, EC, Council**
European Economic Policy	Content of Programmes, strategies and legislation	**Competition Policy, Europe 2020,Cohesion**

In order to grasp the idiosyncrasy of the governance tools deployed in the European banking industry, one has to comprehend the mechanisms already in place alongside their implementation timeline, namely the various regulations.

According to Nedelchev (2008) the Regulation determines the internal corporate governance: interactions between the shareholders and the managers. Concerning the external corporate governance (auditors and regulators) the Regulation refers to the national legislation. In the case of the European companies, the main principle of corporate governance (increasing the shareholder's value) translates into the leading role of the managers. A European company is established upon the initiative of the managers. The interest of a company is aligned with the interests of the Community: increasing competition. The Regulation is applicable to European companies involved in cross-border operations. The benefits increase in the case of homogenous groups of companies. Similarly to the introduction of the euro, the joint stock companies and the national laws provide an adaptation period to the Regulation. Not later than 5 years after the adoption of the Regulation, the Commission will present to the Council and the European Parliament a report about its enforcement and if necessary provide proposals for eventual amendments. The Regulation's enforcement is a long wave for adjusting the structure and harmonizing the company law. Taking into consideration the advantages of the European company, it should be underlined the lack or the reference to the national legislation in key aspects of the corporate governance. For instance, the Regulation does not differentiate between a Chairman and a Chief Executive Officer; fixed ratio internal/external directors; application of accounting standards; reference to internationally recognized principles and practices of corporate governance. In conclusion, the idea of the Regulation to establish a European supranational company which is regulated by the common legislation of the Community remains to a large extent unaccomplished, because of the too numerous references to the national legislation of the domestic country where the company is headquartered.

Nedelchev (2004) studies the corporate governance in the banking system through the lens of the stakeholder theory, which is fit to deal with a large number of constituents, both principals and agents. The corporate governance in the banking system factors three main concerns: (i) increased information asymmetry because of the role of banks as financial intermediaries; (ii) new three-tier structure beyond the principal-agent model because of the Central Bank's regulation; and (iii) changes in the corporate governance in bank system because of regulation by the State.

Corporate governance in the banking system is characterised by agents with particular and diversified statuses and a multitude of principals. The importance of financial institutions for the national economy underpins the emergence of a multitude of constituents, in large numbers and complexity than in the non-financial firms. In other words, a multitude of agents is added to a multitude of principals.

Corporate governance vies the protection of shareholders' rights and the decrease the information asymmetries. As a result, the interactions among constituents are shaped by norms and regulations and the constituents' actions will decrease uncertainty at the cost of fewer degrees of freedom, as compared to a 'free-wheeling' organization without those formal constraints.

Taking a holistic view, one cannot discard the link between corporate governance mechanisms in the banking system and the environment. In fact, the environment preconditions the implementation of corporate governance in banking and the political environment provides the legal framework for corporate governance in banks to act. On the other hand, the economic environment conditions the leading principles of the corporate governance in the banking system. As a result of the mass privatisation toward a market economy, there is an overlapping e.g., between the interests of the society and what is beneficial for the minority shareholders. As a result, the social environment fosters the acceptance of corporate governance mechanisms also in the banking system. But such a relationship needs to be gauged.

According to Nedelchev (2004) the analysis of the social environment is based on the established expectations and the collective irrational results of individual rational behaviour. This environment is the most inertial one and the most difficult to be evaluated. It is anecdotally evident that the advance technological environment decreases the information asymmetry in corporate governance actions in the banking system. Technology shapes the relations among the constituents in the banking system. So, not surprisingly, the analysis of the technological environment is the most recently introduced factor and evolves more rapidly than the analysis of the other environments because of the requirements of the international standards.

The banks (more specifically commercial banks, investment banks and central banks) influence the corporate governance in the external environment, the latter being represented by corporates and individuals. In corporate terms, the influence on the external environment spans from the traditional commercial banks' activity – granting credit – to taking possession of the clients' assets in case of default. In case of default, the bank acquires a share of the assets. This acquisition empowers the bank to participate in the Supervisory Board of the company. This action can end up with restructuring the company and implementing the corporate governance system. In a similar vein, in the case of investment banks the influence on the corporate governance of the external environment is exerted through emitting and selling corporate bonds, proxy voting and enterprise mergers, so to ensure solvability and improve P&L (Profit and Loss Statement). Last but not least, the Central bank influences the corporate governance in the external environment through supervision and licensing of commercial and investment banks. It is a monitor of the monitoring: it monitors the banks which in turn monitor the companies.

The role of the international economic organizations for the corporate governance in banking systems consists of providing a competitive environment (which benefits the international investors and consumers) and protecting the rights of investors and consumers. In the area of the corporate governance in banking systems the international economic organizations vie internationally recognised principles and rules by constraining the behaviour of the leading players and providing opportunities for new and more adapted behaviour to come forward, for the benefit of constituents. External factors determine the shift from regulation through deregulation to self-regulation.

The banking supervision privileges a stable economy, protection of the rights of shareholders, creditors and stakeholders. Effective banking supervision exists when there is corporate governance in the banking system. In other words, the corporate governance in the banking system is an effective guarantee for a stable economy and protection of stakeholders.

The quantitative analysis of the corporate governance in the banking system, according to Nedelchev (2004), considers the low level of shareholder protection and the high level of information asymmetry as weaknesses. Nedelchev (2004) also posited that the strengths of the corporate governance include the positive image created by internationally recognised auditors. The qualitative analysis of the corporate governance proves that the strengths stem from the modern legislation for listed companies.

In line with Gulamhussen, Pinheiro and Pozzolo (2010) the recent financial crisis has clearly shown that market forces, especially in the financial sector, are not always capable of driving the economic system to the first best equilibrium. The call for stricter regulation of financial activities has been strong, with particular attention being paid to the role of the so-called systemically important financial institutions (SIFI).

In a similar vein, Begg, Belke, Dullien, Schwarzer and Vilpišauskas (2011) refer the need for a thorough debate about reforming economic governance structures in the European Union was seen by the European Commission, the ECB, and national governments as essential for the future of the integration process.

From the banking perspective some considerations have to be put forward to unveil the driving forces and constraints that govern the industry.

According to Adams and Mehran (2003) the governance of banking firms may be different from that of unregulated, nonfinancial firms for several reasons. For one, the number of parties with a stake in an institution's activity complicates the governance of financial institutions. In addition to investors, depositors and regulators have a direct interest in bank performance. On a more aggregate level, regulators are concerned with the effect governance has on the performance of financial institutions because the health of the overall economy depends upon their performance.

As a result, the board of directors of a banking firm is placed in a crucial role in its governance structure. Although the boards of bank holding companies are assigned the same legal responsibilities as other boards, regulators have placed additional expectations on bank, as opposed to bank holding companies, boards that delineate their responsibilities even further. These usually take the form of laws, regulations, or guidance, and they generally reflect interest in safe and sound financial institutions.

These and other differences in the operation of financial and nonfinancial institutions have led many to view regulatory oversight of the industry as a substitute for corporate governance, or at least to view governance as less critical to the conduct and operation of banking firms. Others argue that effective supervision could lead to board oversight becoming a more critical element of banking firm governance - that is, these could be complementary forces. Either way, the presence of regulation should affect the design of internal governance mechanisms.

One major area likely to be affected by regulation is the structure of executive compensation. Stock-based compensation motivates top management to undertake more value enhancing decisions (e.g., Core, Guay and Larcker, 2003), but regulators would also want to consider how stock options affect risk-taking. Thus, although in nonfinancial firms stock options may be appropriate instruments to provide incentives for managers to create value, as well as to protect the creditors of distressed companies, the options may conflict with policy objectives that seek to protect the non-shareholding stakeholders, such as depositors and taxpayers in financial firms. As regulatory reform has broadened the range of activities available to financial firms, it has become increasingly important for policymakers and regulators to understand the relationship between governance structure and the incentive for risk taking.

Second, competition in the managerial labour market and the product market may also affect governance, as Fama (1980), Jensen (1993), and Hart (1983) suggest. The banking industry is, arguably, competitive in both markets. Also, interstate banking deregulation most likely has resulted in more competition. Thus, the similarity in the production technology of banking firms as well as industry competition can impact the governance of banking firms.

The presence of regulation and the high leverage of banking firms may also affect the ability of external governance mechanisms to resolve the governance problems of these firms. For example, the absence of an active market for corporate control in the banking industry prevents better performing firms from taking over the poorly performing ones and removing their boards.

It should be noted that certain regulations at the bank level, as opposed to the holding company level, could constrain board structure with regard to size and composition. For example, the board of a national bank (regulated and supervised by the OCC - Office of the Comptroller of the Currency) must consist of at least five, but no more than twenty-five, members (the comptroller can exempt the national bank from the twenty-five-member limit). Each state member bank, supervised by the Federal Reserve, is required to be managed by a board. Board size is also regulated separately. For example, New York State banks are required to have a board of no less than seven directors and no more than thirty (with capital stock, surplus, and divided profits in excess of $50 million). Different states may also have requirements on board composition at the bank level; for example, New York State's regulation requires two-thirds of the directors of each state bank to be outsiders.

Since such regulatory restrictions generally apply only to board structure at the bank level and not the holding company level, which is the focus of this study, the regulatory environment alone does not explain bank holding companies board size and composition. However, regulation may have an indirect effect on the structure of bank holding companies boards to the extent that it is influenced by the structure of the boards of the bank holding companies' s lead bank and other subsidiary banks (e.g., Adams and Mehran, 2002).

Jensen and Meckling (1976) argue that board structure, ownership structure, and compensation structure are determined by one another as well as by a range of variables, such as risk, real and financial assets, cash flow, firm size, and regulation. They suggest that these variables also influence a firm's conduct and performance. Although other studies have examined these potentially complex governance relationships in unregulated industries, few have examined them in the context of a regulated environment.

Adams and Mehran (2003) find that bank holding companies boards are larger than those of manufacturing firms, although they have been declining in size over time. Bank holding companies boards also have slightly more outside directors. These differences are very likely the outcome of bank holding companies size and organizational structure, the regulatory framework, and constraints on the ability of bank holding companies to engage in hostile acquisitions. Thus, normative statements about either board size or board composition that do not take into account banking industry differences are potentially misleading. For example, Adams and Mehran (2002) show that in contrast to findings for nonfinancial firms, larger bank holding companies boards on average are not value-decreasing, and that board composition is unrelated to bank holding companies performance. The fact that board composition is not positively correlated with performance seems surprising, since bank supervisors share examination results with the boards of directors (and may visit the boards of banks that perform poorly and are low in capital). However, this lack of correlation is consistent with the theory that as a result of regulatory requirements, directors do not emphasize value maximization over the safety and soundness of the institution. Therefore, to understand how bank holding companies governance relates to performance, it is important to also understand what bank holding companies expect from their outside directors, what the regulatory mandates are, and how outside directors balance these different expectations. The authors also find that bank holding companies boards have more committees and meet slightly more frequently than manufacturing firm boards.

It is difficult to speculate on the costs and benefits to bank holding companies of having more committees. However, one can argue that regulations on the number of meetings may influence the bank's choice of directors; thus, regulations can potentially affect the quality of directors willing to serve on these boards. In addition, bank holding companies boards are found to rely less on long-term incentive-based compensation, such as stock options, in their CEO compensation packages; CEO ownership, in terms of percentage and market value, is also found to be smaller in bank holding companies. Since observed compensation packages and ownership are the outcome of a contracting process that takes into account industry structure as well as regulation, as stated by the authors we should not expect CEO compensation structures to become similar to those of manufacturing firms in the near future.

Finally, fewer institutions hold shares of our sample bank holding companies relative to manufacturing firms, and institutions hold a smaller percentage of a bank holding companies' equity. The question is whether institutions that do hold bank holding companies stock are active in the governance of bank holding companies. The authors mentioned that are unable to answer this question now since there have been very few documented cases of institutions taking a reactive or proactive role in the governance of banking firms. It is possible that institutional investors prefer to resolve banking firms' governance issues privately (Carleton, Nelson and Weisbach, 1998), so as to avoid public announcements, which may also be destabilizing. Or, institutions may expect regulators to resolve the governance problems of bank holding companies. This remains an important area for future research.

The systematic differences found between the governance of banking and manufacturing firms highlight the point that governance structures are in fact industry-specific. They suggest that these differences are due to the differences in the investment opportunities of bank holding companies and manufacturing firms as well as to the presence of regulation. Their findings imply that governance reforms, in order to be effective, could take industry differences into account. More generally, their results raise the bigger question of whether the governance structure of banking firms is optimal, in the sense that it maximizes shareholder value subject to the constraints imposed on these firms. To answer this question, future research will have to examine the effect of governance structures in banking on measures of firm performance. One step in this direction has already been taken by Adams and Mehran (2002), whose findings suggest at a minimum that differences between the board structures of banking firms and manufacturing firms may not be a cause for concern.

Possibly no other set of firms has been as closely examined in the past few years as banks and financial institutions. Since the beginning of the financial crisis in 2008, countless papers and policies have been proposed, discussed, and enacted on nearly every aspect of banking and finance. The bulk of this attention almost certainly springs from the crisis, which became a powerful reminder of the importance of the financial system. The financial crisis transformed into a grim reality the academic assertion that a healthy economy cannot exist without a well-functioning financial system.

The Government Accountability Office was recently commissioned to generate a price estimate of the financial crisis, but the true cost will remain unknown for years - families uprooted, young adults unable to join the workforce, business owners faced with bankruptcy when credit lines disappeared overnight (Johnson, 2011).

Banking, it would seem, is too important to leave entirely to bankers.

Yet in the face of all this inquiry, financial institutions remain frustratingly inscrutable. Despite nearly a century of concerted research and periodic financial crises, the connections between the governance of banks, their individual performance, and the long-run stability of the financial system are not well understood. Many questions about the causes of the crisis remain unanswered. The potential suspects are legion: The Financial Crisis Inquiry Commission's report alone names excessive borrowing, low mortgage standards, high leverage, securitization, a reliance on short-term funding, off-balance-sheet entities, special-purpose vehicles, over-the-counter derivatives, a lack of transparency, credit default swaps (CDS), and collateralized debt obligations (CDO) as causes or major contributors to the financial crisis (Angelides et al., 2011).

The motivation behind research into the governance of financial institutions is that financial crises are not random events, but are set in motion by the decisions of individuals and institutions operating within a given framework of laws, regulations, and tax codes. For each financial instrument that becomes a 'weapon of mass financial destruction' or creates an economy-wide bubble, there is an underlying failure of incentives among the executives of financial institutions, their owners and creditors, and regulators. Corporate governance has the potential to identify problem spots where incentives are mismatched in a way that could lead to undesired firm behaviour or even system-wide instability.

Regulators can take two approaches when attempting to increase market discipline and disclosure. First, they can mandate the production of information outside of markets through increased regulatory disclosure. Second, they can directly motivate potential producers of information by changing their incentives.

A related strand of literature examines the incentives regulators face when choosing both when and how to intervene in markets. Just as principal-agent problems exist between the owners and managers of firms, there may also be a disconnect between the interests of society and those of regulators as the designated protector of public interest (Levine, 2011).

Mehran and Mollineaux (2012) set the questions of regulatory incentives and ability aside and focus instead on internal governance through boards of directors and external governance through market forces.

Although the opacity and interconnectedness of many financial institutions pose similar corporate governance problems, banks face further distortions as a result of deposit insurance, regulation, and the existence of 'too big to fail.' As heavily regulated institutions that are already evaluated for safety and soundness, they may also be the entities where small changes in the focus of regulation can yield large returns in the efficiency and stability of the financial system as a whole.

Many new instruments and reforms have been proposed in the aftermath of the recent financial crisis. The first is the requirement for higher equity capital. In addition, new capital-conservation buffers have been suggested that would set automatic responses in order to preserve capital as it is depleted. Once the firm hits a particular level in the buffer, dividends are automatically suspended and rerouted to a reserve where they are used to replenish capital. These buffers are useful in an uncertain world, where no regulator or institution can ever hope to identify all potential shocks before they appear (Acharya, Mehran, and Thakor, 2010).

A potential drawback exists, however, in that while many of these promising mechanisms increase the safety and soundness of financial institutions through higher capital and SIFI surcharges, among many other requirements, one can argue that these instruments may have negative effects on market discipline. Further research is needed to examine the dynamics between buffers for idiosyncratic shocks and the changes in a firm’s incentives to take on increased risk, systemic or otherwise.

In terms of the EU governance mechanisms, on 24/25 March 2011 the European Council adopted a number of restructuring measures, the most prominent among them the ESM. Furthermore, the institutional architecture of EMU is reinforced, as temporary financial firewalls such as the EFSF and the European Financial Stabilisation Mechanism (EFSM) have been replaced by a permanent ESM.

Other important steps toward EU economic governance reform are the revision of the 'Stability and Growth Pact', the 'Euro Plus Pact for more Competitiveness', the new macroeconomic surveillance procedure, the 'European Semester' (is an EU-level policy co-ordination tool contributing towards the broader EU aims of strengthening economic governance and greater policy co-ordination. It provides a more integrated surveillance framework for the implementation of fiscal policies under the Stability and Growth Pact as well as the implementation of structural reforms through national reform programmes), and the renewed 'Europe 2020' strategy.

The studies of Europeanization tend to agree that even when the impact of such 'hard' legislative instruments of EU governance as regulations and directives is evaluated, there is little evidence of the complete convergence of national practices. Therefore, it should not come as a surprise that 'soft' coordination methods do not produce the strongest alignment of member states' policies and their convergence toward uniform EU targets. The key issue is how the European Union can better contribute through such governance instruments by helping member states to advance their structural reforms by solving the national political and economic dilemmas and by streamlining the overall EU governance processes to have more focus, clearer priorities, and better coordination between different institutional layers, time frames, and policy fields. This situation and the stance adopted by the EU provide good evidence that governance matters in the context of how the EU has found solutions to tackle the financial crisis, how it is reinforcing its economic and monetary union and how this is paving the way towards a strong political union.

In another text published 'EU Financial Regulatory Reform: A Status Report', Verón (2010) contends EU regulatory responses are slower than US ones and provides evidence for such heterogeneity: 'swifter financial crisis management and resolution in the US; structural differences in legislative processes; the European Union's front-loading of institutional reform, most notably the creation of European Supervisory Authorities; and the timetable of renewal of the European Commission in 2009-10.' He spells out the consequences of the current EU financial reforms and highlights some major challenges: ensuring a smooth start of recently created EU authorities; defining a credible policy for sustainable cross-border management; and establishing a consistent EU model of financial regulation. The EU has nevertheless initiated or completed significant regulatory initiatives in terms of banking, market structures, private equity and hedge funds, rating agencies and accounting. Notwithstanding more homogeneity in the Euro area as compared to the US, major further challenges loom for the EU.

Coming back to the EU, while the European Commission plays a key role in the legislative process, financial regulation and supervision remains the remit of national authorities, which only since the early 2000s started to regularly meet in EU-level committees (with a small central secretariat but no ability to impose decisions on their members). This situation was perhaps workable in the broadly deregulatory era that preceded the crisis, but became increasingly seen as untenable when the crisis made Europe, like the US, embark on a drive towards reregulation of its financial system, which if carried out in an uncoordinated manner at national level would quickly have collided with the commitment to a single financial market preserved in the EU treaty.

On a broader level, the EU faces the challenge of strengthening its capacity to produce high-quality rules for an increasingly complex financial system. This is partly, but not only, a question of adequate resources. In the two decades before the financial crisis, the EU was able to rely on a momentum towards global convergence that was largely driven by the private sector in an environment of deregulation and provided a powerful external engine for intra-EU harmonisation. But the context has been radically transformed during the crisis. The shift towards reregulation on both sides of the Atlantic and the increasing multipolarity of global finance, with the rise of emerging economies as major centres of financial activity, made the prospect of global convergence of financial rules more elusive. In this new environment, the EU will have to devote more effort to define its own model of financial regulation, which on many aspects cannot refer to a global standard that does not, or no longer, exists. The creation of the European Supervisory Authorities, if successful, can contribute to the emergence of a distinctively European regulatory philosophy that would be more than just a compromise among member states' positions. But this can probably only be a gradual and relatively slow process.

Governance failures are often tied to underlying market failures. Information and disclosure play an important role in mitigating both fundamental market failures and their manifestations as governance failures. Regulators can choose one of two approaches when attempting to increase market discipline and information disclosure. First, they can mandate the production of information outside of markets through increased regulatory disclosure. Second, they can directly motivate potential producers of information by changing their incentives. If the lack of transparency in the banking industry is a symptom rather than the primary cause of bad governance, then policies that motivate rather than mandate information production may therefore be more successful in governing financial institutions. Disclosure by regulators is also likely to affect information production.

Regulators and market participants can influence the information content of securities prices and promote market discipline. Their activities may be complements or substitutes at different times, and ultimately their improved functioning will improve markets and prices. To answer these questions, future research will need to examine the interactions between disclosure, information, and the governance of financial institutions.

2.3.2.1.1 Stakeholders' Diversity

Since it encapsulates the resource-based view and the market-based view of the firm, alongside adding a social and political level, it is only natural that the diversity of stakeholders is a distinctive feature of the stakeholder theory. Unlike extant theories, this organizational management view emphasizes the influence of stakeholders such as businesses, citizens, employees, groups and associations and various levels of government, e.g., provincial, municipal or local authorities.

Some events mostly overseas, put organizational management under the public eye. Namely, since 2001, there is evidence that the interest in corporate governance practices has increased (Shleifer and Vishny, 1997). This is mostly due to the high profile collapses of such large name companies as Enron and MCI WorldCom. In fact, in 2002, the US government passed the Sarbanes-Oxley Act that was intended to restore the public's confidence in corporate governance once more (Velentzas and Broni, 2010). Effective or heroic corporate governance relies on certain laws to be passed, as well as a certain commitment from the marketplace constituents and also a healthy corporate board culture, in the extent it ensures that policies and processes remain constant and stable (Shleifer and Vishny, 1997).

Stakeholder theory argues that the company must be seen throughout numerous interactions with its stakeholders. It encompasses the different ways in which stakeholders are categorised and how they are distinguished from each other. The importance of stakeholder identification for the success of organizations has been extensively documented and proven (Freeman, 1984; Clarkson, 1995; Donaldson and Preston, 1995; Mitchell et al., 1997; Post et al., 2002; Phillips, 2003; Phillips et al., 2003; Friedman and Miles, 2002, 2006).

It is generally accepted that any definition of a stakeholder must take into account the stakeholder – organisation relationship. The best definition is provided by Freeman, who in 1984 defined a stakeholder as: 'Any group or individual who can affect or (be) affected by the achievement of an organisation's objectives'. This definition reveals the important bi-directionality understanding of stakeholders' relationship. Stakeholders affect the firm and are also affected by the firms' actions (Frooman, 1999). Organisations therefore have an obligation to look after the well-being of its stakeholders (Berman et al., 1999). Of course, some stakeholders will be in both camps – as influencers and as influenced parties.

Grimble and Wellard (1997) complete the definition by differentiating between active stakeholders, as those that actually interact with the system once it is operational, and passive stakeholders, as those that affect the system but do not directly interact with it even once it is operational.

In terms of stakeholders, it is possible to list numerous examples, but the ones that usually come to mind are shareholders, managers and managerial bodies, employees, trade unions, customers, suppliers, and communities.

However, larger and more complex organisations can have many more stakeholders than these few. The first important aspect of stakeholder theory is, therefore, is open-mindedness to recognise that stakeholders exist and that the complexity and range of stakeholders relevant to an organisation will depend on that organisation's size and activities. The reason why stakeholders are important in both business ethics and in strategic analysis is because of the notion of stakeholder 'claims'. The concept of stakeholder claims is that each stakeholder has something that they want from the organization or make certain demands from the organization to which they are affiliated. This is where understanding stakeholding can become more complicated.

Essentially, stakeholders 'require something' from an organisation. Some want stakeholders to influence what the organisation does (those stakeholders who want to affect) and others are, or potentially could be, concerned with the way they are affected by the organisation and may want to increase, decrease, or change the way the activities of the organisation affect them. One of the problems with identifying stakeholder claims, however, is that some stakeholders may not even know that they have a claim against an organisation, or may know they have a claim but are unaware of what is the nature of that claim. This brings us to the issue of direct and indirect stakeholder claims.

Direct stakeholder claims are made by those with their own 'voice'. These claims are usually unambiguous, and are often expressed directly between the stakeholder and the organisation. Stakeholders making direct claims will typically include trade unions, shareholders, employees, customers, suppliers and, in some instances, local communities.

Indirect claims are made by those stakeholders unable to make the claim directly because they are, for some reason, inarticulate or 'voiceless'. Although this means they are unable to express their claim direct to the organisation, it is important to realise that this does not invalidate their claim. Typical reasons for this lack of expression include first the stakeholder being (apparently) powerless (e.g., an individual customer of a very large organisation). Power is the stakeholder's ability to influence objectives (how much they can), while interest is the stakeholder's willingness (how much they care).

Influence = Power x Interest

A second reason for a lack of expression, is the stakeholder not existing yet (e.g., future generations), having no voice (e.g., the natural environment), or being remote from the organisation (e.g., producer groups in distant countries). This raises the problem of interpretation. The claim of an indirect stakeholder must be interpreted by someone else in order to be expressed, and it is this interpretation that makes indirect representation problematic.

For Parent and Deephouse (2007) a central question in stakeholder management is the identification and prioritization of stakeholders (Carroll, 1996; Clarkson, 1995; Donaldson and Preston, 1995; Freeman, 1984). Over the last years, the framework developed by Mitchell et al. (1997) has become quite popular. Their framework categorized stakeholders in terms of power, legitimacy, and urgency and proposed that the more of these attributes a stakeholder has, the more salient the stakeholder is, defined in terms of managerial attention.

Stakeholder research refutes the notion that the goal of any corporation is to maximize shareholder wealth. In its many forms, it states that the best way for an organization to not only survive, but thrive, is to look at all parts of the organization and its surroundings. The challenging part is determining which parts of the organization are the most important.

On the other hand, the first step for any organization is to define stakeholders. Mitchell, Agle and Wood (1997) provide a table of definitions from different sources of who is defined as a stakeholder (see Table 3), which intends to contribute to solve this issue.

Table 3 - Stake Chronology

Who Is a Stakeholder? A Chronology

Source	Stake
Stanford memo, 1963	"those groups without whose support the organization would cease to exist" (cited in Freeman & Reed, 1983, and Freeman, 1984)
Rhenman, 1964	"are depending on the firm in order to achieve their personal goals and on whom the firm is depending for its existence" (cited in Näsi, 1995)
Ahlstedt & Jahnukainen, 1971	"driven by their own interests and goals are participants in a firm, and thus depending on it and whom for its sake the firm is depending" (cited in Näsi, 1995)
Freeman & Reed, 1983: 91	Wide: "can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives" Narrow: "on which the organization is dependent for its continued survival"
Freeman, 1984: 46	"can affect or is affected by the achievement of the organization's objectives"
Freeman & Gilbert, 1987: 397	"can affect or is affected by a business"
Cornell & Shapiro, 1987: 5	"claimants" who have "contracts"
Evan & Freeman, 1988: 75-76	"have a stake in or claim on the firm"
Evan & Freeman, 1988: 79	"benefit from or are harmed by, and whose rights are violated or respected by, corporate actions"
Bowie, 1988: 112, n. 2	"without whose support the organization would cease to exist"
Alkhafaji, 1989: 36	"groups to whom the corporation is responsible"
Carroll, 1989: 57	"asserts to have one or more of these kinds of stakes"-"ranging from an interest to a right (legal or moral) to ownership or legal title to the company's assets or property"
Freeman & Evan, 1990	contract holders
Thompson et al., 1991: 209	in "relationship with an organization"
Savage et al., 1991: 61	"have an interest in the actions of an organization and…the ability to influence it"
Hill & Jones, 1992: 133	"constituents who have a legitimate claim on the firm…established through the existence of an exchange relationship" who supply "the firm with critical resources (contributions) and in exchange each expects its interests to be satisfied (by inducements)"
Brenner, 1993: 205	"having some legitimate, non-trivial relationship with an organization (such as) exchange transactions, action impacts, and moral responsabilities"
Carroll, 1993: 60	"asserts to have one or more of the kinds of stakes in business"-may be affected or affect…
Freeman, 1994: 415	participants in "the human process of joint value creation"
Wicks et al., 1994: 483	"interact with and give meaning and definition to the corporation"
Langtry, 1994: 433	the firm is significantly responsible for their well-being, or they hold a moral or legal claim on the firm
Starik, 1994: 90	"can and are making their actual stakes known"-"are or might be influenced by, or are or potentially are influencers of, some organization"
Clarkson, 1994: 5	"bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in a firm" or "are placed at risk as a result of a firm's activities"
Clarkson, 1995: 106	"have, or claim, ownership, rights, or interests in a corporation and its activities"
Näsi, 1995: 19	"interact with the firm and thus make its operation possible"
Brenner, 1995: 76, n. 1	"are or which could impact or be impacted by the firm/organization"
Donaldson & Preston, 1995: 85	"persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity"

Source: Ronald K. Mitchell, Bradley R. Agle and Donna J. Wood. Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts, The Academy of Management Review, Vol. 22, No. 4 (Oct., 1997), pp. 853-886

In line with Markison (2010), managing what an organization defines as its stakeholders is the next step. How to interact with which stakeholder group is what drives the majority of stakeholder theory research. Both highly positive, and highly negative, theories about stakeholder management exist and are implemented in major organizations. It is impossible and impractical to satisfy even the needs of legitimate stakeholders identified by the corporation all at once. Differing theories exist on how to manage stakeholder relationships.

The study of what constitutes a stakeholder must also be augmented by organizational theory. Part of the goal of organizational theory research is to examine the structure of an organization to see how an organization can and should interact with stakeholders, based on the firm's interpretation who they define as a stakeholder.

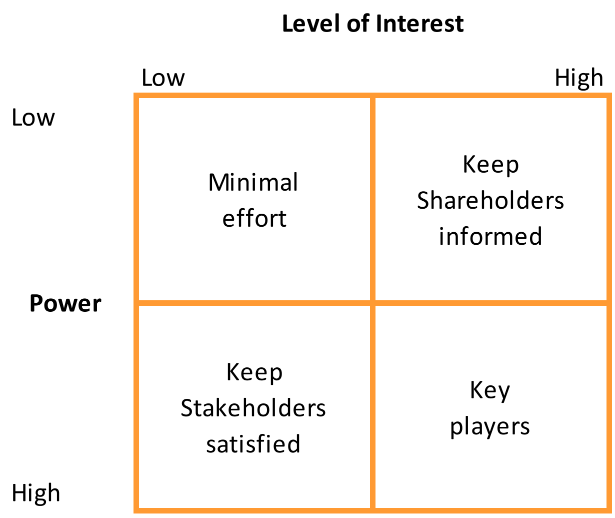
Stakeholder recognition and an organizational framework which allows a firm to interact with stakeholder groups according to its internal goals and objectives are vital to the success of any firm.

A successful organization should be able to systematically identify its stakeholders and manage its relationships with them throughout time by changing its organizational structure and aligning its relationships with its strategic plan. A failing organization is mired in the past with an unchanging organizational structure, and an unwillingness to meet the needs of a changing marketplace.

Normally, the various stakeholders have different interests and expectations in an organisation. All stakeholders' objectives cannot be met, just a part of it, therefore the Mendelow framework may be applied to adjust the power and the interests of the different stakeholders. Power means the ability of people to change or to interact actions. The level of interests describes the willingness that people have in supporting or offending the strategy. The influence can be measured by power x interests (Johnson and Scholes, 2002).

In strategic analysis, the Mendelow framework (see Figure 1) is often used to attempt to understand the influence that each stakeholder has over an organisation's objectives and/or strategy.

Figure 1 – The Mendelow Framework



The gimmick is to establish which stakeholders have the most influence by estimating each stakeholder's individual power over – and interest in – the organisation's affairs. The stakeholders with the highest combination of power and interest are likely to be those with the most actual influence over objectives.

However, this approach raises some additional issues. Although it is a useful basic framework for understanding which stakeholders are likely to be the most influential, it is very hard to find ways of effectively measuring each stakeholder's power and interest. The 'map' generated by the analysis of power and interest (on which stakeholders are plotted accordingly) is not static; changing events can mean that stakeholders can move around the map with consequent changes to the list of the most influential stakeholders in an organisation.

The organisation’s strategy for relating to each stakeholder is determined by the part of the map the stakeholder is in. Those with neither interest nor power (top left) can, according to the framework, be largely ignored, although this does not take into account any moral or ethical considerations. It is simply the stance to take if strategic positioning is the most important objective. Those at the bottom right are the high-interest and high-power stakeholders, and are, by that very fact, the stakeholders with the highest influence.

The question here is how many competing stakeholders reside in that quadrant of the map. If there is only one (e.g., management) then there is unlikely to be any conflict in a given decision-making situation. If there are several and they disagree on the way forward, there are likely to be difficulties in decision making and ambiguity over strategic direction.

Stakeholders with high interest (i.e. they care a lot) but low power can increase their overall influence by forming coalitions with other stakeholders in order to exert a greater pressure and thereby make themselves more powerful. By moving downwards on the map, because their power has increased by the formation of a coalition, their overall influence is increased. The management strategy for dealing with these stakeholders is to ‘keep informed’.

Finally, those in the bottom left of the map are those with high power but low interest.

All these stakeholders need to do to become influential is to re-awaken their interest. This will move them across to the right and into the high influence sector, and so the management strategy for these stakeholders is to ‘keep satisfied’.

2.3.2.2 Different Categories of Stakeholders

The Freeman definition is something of a 'catch all' and many writers in the field have found it helpful to develop other ways of distinguishing one type of stakeholder in an organisation from another.

2.3.2.2.1 Internal and External Stakeholders

Perhaps the easiest and most straightforward distinction is between stakeholders inside the organisation and those outside, as suggested by Johnson and Scholes (2002).

Internal stakeholders will typically include employees and management, whereas external stakeholders will include customers, competitors, suppliers, and so on. Some stakeholders will be more difficult to categorise, such as trade unions that may have elements of both internal and external membership.

The diagram below shows common internal (orange) and external (blue) stakeholders.

Figure 2 - Internal and External Stakeholders

2.3.2.2.2 Narrow and Wide Stakeholders

Narrow stakeholders are those that are the most affected by the organisation's policies and will usually include shareholders, management, employees, suppliers, and customers who are dependent upon the organisation's output. Wider stakeholders are those less affected and may typically include government, less-dependent customers, the wider community (as opposed to the local community) and other peripheral groups. The Evan and Freeman (1983) model may lead some to conclude that an organisation has a higher degree of responsibility and accountability to its narrower stakeholders.

2.3.2.2.3 Primary and Secondary Stakeholders

According to Clarkson (1995): 'A primary stakeholder group is one without whose continuing participation the corporation cannot survive as a going concern'. Hence, whereas Evan and Freeman (1983) view stakeholders as being (or not being) influenced by an organisation, Clarkson (1995) sees the important distinction as being between those that do influence an organisation and those that do not. Secondary stakeholders are those that the organisation does not directly depend upon for its immediate survival.

The definitions of stakeholders and primary and secondary stakeholders that are proposed by Clarkson (1995) and by Weiss (2003) are straightforward. Freeman's (1984) seminal work provided a solid and lasting foundation for many continuing efforts to define and to build stakeholder models, frameworks, and theories.

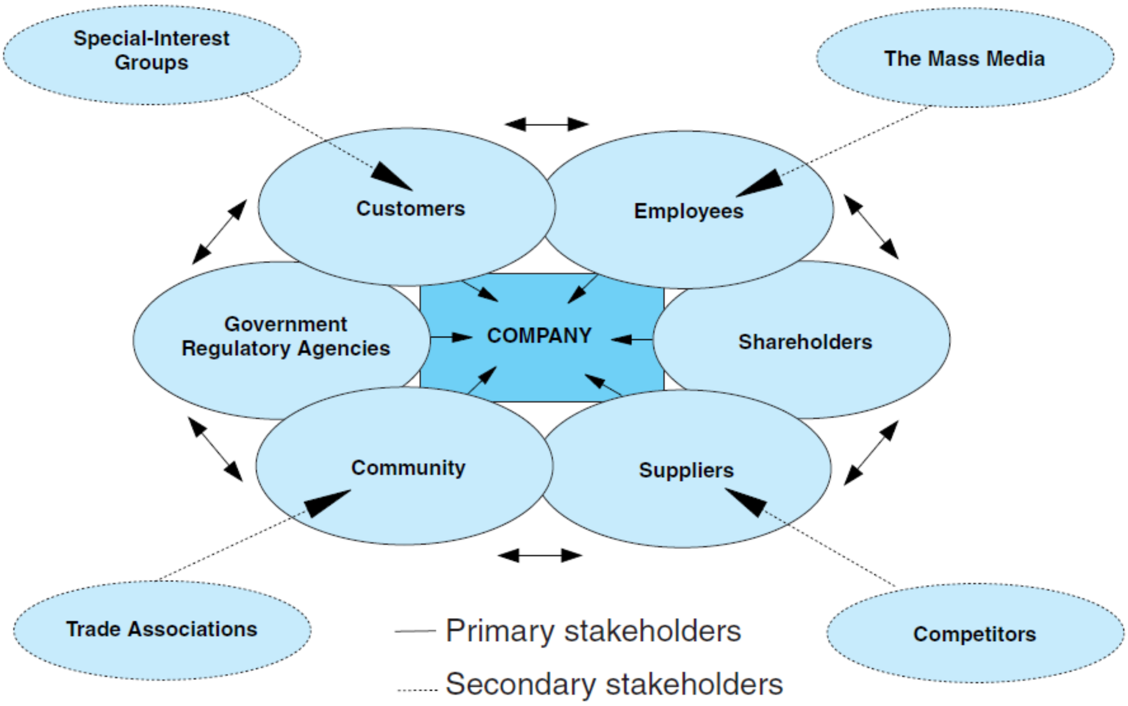
Primary stakeholders groups typically are comprised of shareholders and investors, employees, customers, and suppliers, together with what is defined as the public stakeholder group: the governments and communities that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and other obligations may be due. There is a high level of interdependence between the corporation and its primary stakeholder groups.

If any primary stakeholder group, such as customers or suppliers, becomes dissatisfied and withdraws from the corporate system, in whole or in part, the corporation will be seriously damaged or unable to continue as a going concern. From this perspective, the corporation itself can be defined as a system of primary stakeholder groups, a complex set of relationships between and among interest groups with different rights, objectives, expectations, and responsibilities. Failure to retain the participation of a primary stakeholder group will result in the failure of that corporate system.

Secondary stakeholder groups are defined as those who influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival. The media and a wide range of special interest groups are considered as secondary stakeholders under this definition. They have the capacity to mobilize public opinion in favour of, or in opposition to, a corporation's performance, as demonstrated in the cases of the recall of Tylenol by Johnson & Johnson (favourable) and the Exxon Valdez oil spill (unfavourable).

The corporation is not dependent for its survival on secondary stakeholder groups. Such groups, however, can cause significant damage to a corporation. Secondary stakeholder groups may be opposed to the policies or programs that a corporation has adopted to fulfil its responsibilities to, or to satisfy the needs and expectations of, its primary stakeholder groups.

Figure 3 - Primary and Secondary Stakeholders



SOURCE: Adapted from Isabelle Maignan, O. C. Ferrell, and Linda Ferrell, "A Stakeholder Model for Implementing Social Responsibility in Marketing," *European Journal of Marketing* 39 (2005): 956–977.

From the data in the field studies of corporate performance, an inventory of issues was developed. These issues have been identified as typical stakeholder issues rather than as typical social issues. The reason for this distinction is that all these issues are of concern to one or more stakeholder groups, although these issues are not necessarily of concern to society as a whole. The positions being advanced here are:

1. A particular society (municipal, state, or national) determines, usually over an extended period of time, what is a social issue, and, when it is considered necessary, the relevant polity enacts legislation and regulation.

2. When there is no such legislation or regulation, an issue may be a stakeholder issue, but it is not necessarily a social issue. So, a test of whether an issue has become a social issue is the presence or absence of legislation or regulation.

Table 4 - Typical Corporate and Stakeholder Issues as assumed by Clarkson (1995)

1	**Company**
1.1	Company history
1.2	Industry background
1.3	Organization structure
1.4	Economic performance
1.5	Competitive environment
1.6	Mission or purpose
1.7	Corporate codes
1.8	Stakeholder and social issues management systems
2	**Employees**
2.1	General policy
2.2	Benefits
2.3	Compensation and rewards
2.4	Training and development
2.5	Career planning
2.6	Employee assistance program
2.7	Health promotion
2.8	Absenteeism and turnover
2.9	Leaves of absence
2.10	Relationships with unions
2.11	Dismissal and appeal
2.12	Termination, layoff, and redundancy
2.13	Retirement and termination counselling
2.14	Employment equity and discrimination
2.15	Women in management and on the board
2.16	Day care and family accommodation
2.17	Employee communication
2.18	Occupational health and safety
2.19	Part-time, temporary, or contract employees
2.20	Other employee or human resource issues
3	**Shareholders**
3.1	General policy
3.2	Shareholder communications and complaints
3.3	Shareholder advocacy
3.4	Shareholder rights
3.5	Other shareholder issues
4	**Customers**
4.1	General policy
4.2	Customer communications
4.3	Product safety
4.4	Customer complaints
4.5	Special customer services
4.6	Other customer issues
5	**Suppliers**
5.1	General policy
5.2	Relative power
5.3	Other supplier issues
6	**Public Stakeholders**
6.1	Public health, safety, and protection
6.2	Conservation of energy and materials
6.3	Environmental assessment of capital projects
6.4	Other environmental issues
6.5	Public policy involvement
6.6	Community relations
6.7	Social investment and donations

Twenty different issues are shown in this table under the stakeholder heading of employees. Several, but by no means all, of these issues have been of sufficient concern to society as a whole, in the United States and Canada, that legislation and regulations have been enacted. Occupational health and safety and employment equity and discrimination are such social issues. It is interesting to note in this context that some opposition to the North American Free Trade Agreement (NAFTA) appears to have occurred because these are not social issues in Mexico. No legislation has yet been enacted concerning the majority of the employee issues, such as employee assistance programs and career planning. But each can be identified as a stakeholder issue, when the level of analysis is the corporation itself.

2.3.2.2.4 Active and Passive Stakeholders

Mahoney (1994) classified stakeholders into those who are active and those who are passive. Active stakeholders are those who seek to participate in the organisation’s activities. These stakeholders may or may not be a part of the organisation’s formal structure. Management and employees obviously fall into this active category, but so may some parties from outside an organisation, such as regulators (in the case of, say, UK privatised utilities) and environmental pressure groups. Passive stakeholders, in contrast, are those who do not normally seek to participate in an organisation’s policy making. This is not to say that passive stakeholders are any less interested or less powerful, but they do not seek to take an active part in the organisation’s strategy. Passive stakeholders will normally include most shareholders, government, and local communities.

2.3.2.2.5 Voluntary and Involuntary Stakeholders

This distinction by Post et al. (2002) describes those stakeholders who engage with the organisation voluntarily and those who become stakeholders involuntarily. Voluntary stakeholders will include, for example, employees with transferable skills (who could work elsewhere), most customers, suppliers, and shareholders. Some stakeholders, however, do not choose to be stakeholders but are so nevertheless. Involuntary stakeholders include those affected by the activities of large organisations, local communities and 'neighbours', the natural environment, future generations, and most competitors.

2.3.2.2.6 Legitimate and Illegitimate Stakeholders

This is one of the more difficult categorisations to make, as a stakeholder's legitimacy depends on your viewpoint (one person's 'terrorist', for example, is another's 'freedom fighter'). While those with an active economic relationship with an organisation will almost always be considered legitimate, others that make claims without such a link, or that have no mandate to make a claim, will be considered illegitimate by some.

This means that there is no possible case for taking their views into account when making decisions. While terrorists will usually be considered illegitimate, there is more debate on the legitimacy of the claims of lobby groups, campaigning organisations, and non-governmental/charitable organisations.

2.3.2.2.7 Recognised and Unrecognised (by the Organisation) Stakeholders

The categorisation by recognition follows on from the debate over legitimacy. If an organisation considers a stakeholder's claim to be illegitimate, it is likely that its claim will not be recognised. This means the stakeholder's claim will not be taken into account when the organisation makes decisions.

2.3.2.2.8 Known About and Unknown Stakeholders

Finally, some stakeholders are known about by the organisation in question and others are not. This means, of course, that it is very difficult to recognise whether the claims of unknown stakeholders (e.g., nameless sea creatures, undiscovered species, communities in close proximity to overseas suppliers and so forth) are considered legitimate or not. Some say that it is a moral duty for organisations to seek out all possible stakeholders before a decision is taken and this can sometimes result in the adoption of minimum impact policies. For example, even though the exact identity of a nameless sea creature is not known, it might still be logical to assume that low emissions can normally be better for such creatures than high emissions.

As the previous sections illustrate there are several Stakeholders Models and I will refer to them in a nutshell. Clarkson (1995) and Donaldson and Preston (1995) picked up the Wilson (1974) hierarchy (reactive, defensive, accommodative and proactive) and argued that it applies to multiple stakeholder groups. According to Martin R. (2004), Wilson (1974) appears to be most responsible for coining the term stakeholder management.

Donaldson and Preston (1995) suggest there are four types of or elements to stakeholder theory: descriptive, instrumental, normative and managerial.

Rowley (1997) picks up on the stakeholder theme and discusses networks of stakeholders and they implications.

Stakeholder's models have echoes of other classes of models. Dowling (2004) maps stakeholders in four groups in a descriptive typology: normative groups, customer groups, functional groups and diffuse groups. While Waddock (2001, 2002, 2004) takes a quasi-hierarchical approach to stakeholder theory by arguing that there are three ways stakeholder relationships can evolve in a normative range from bad to good: reactively, proactively and interactively.

On the positive side, the theories link with the human aspiration to be a valued member of a community or communities. Stakeholder theory identifies the natural communities of a corporation and its executives and points out that those communities are very important.

The stakeholder models are relatively strong on particularly in that they explicitly recognize that different contexts have differing stakeholder compositions. However, the models are not evolutionary and are not particularly easy to communicate. Unfortunately, while elegant, stakeholder models do not yet provide much utility for senior executives in empowering their decisions. While they may agree entirely with the goal of helping stakeholders, they receive little practical help from the theory as to how to make those choices.

In defining 'Stakeholder Theory' Clarkson (1995) contends: '‘The firm’ is a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm's activities. The purpose of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services'. This view is supported by Blair (1995) who proposes:

‘... the goal of directors and management should be maximizing total wealth creation by the firm. The key to achieving this is to enhance the voice of and provide ownership-like incentives to those participants in the firm who contribute or control critical, specialized inputs (firm specific human capital) and to align the interests of these critical stakeholders with the interests of outside, passive shareholders'.

Consistent with Blair's view (1995) to provide 'voice' and 'ownership-like incentives' to 'critical stakeholders', Porter (1992) recommended to US policy makers that they should 'encourage long-term employee ownership' and 'encourage board representation by significant customers, suppliers, financial advisers, employees, and community representatives'. Porter (1992) also recommended that corporations 'seek long-term owners and give them a direct voice in governance' (i.e. relationship investors) and to 'nominate significant owners, customers, suppliers, employees, and community representatives to the board of directors'.

All these recommendations would help establish the sort of business alliances, trade related networks and strategic associations which Hollingsworth and Lindberg (1985) noted had not evolved as much in the US as they had in continental Europe and Japan. In other words, Porter (1992) is suggesting that competitiveness can be improved by using all four institutional modes for governing transactions rather than just markets and hierarchy. This supports the need to expand the theory of the firm as suggested by Turnbull (1994).

However, the recommendations of Porter (1992) to have various stakeholder constituencies appoint representatives to a unitary board would be counter-productive for the reasons identified by Williamson (1985), Guthrie and Turnbull (1995) and Turnbull (1994). Williamson (1985) states: 'Membership of the board, if it occurs at all, should be restricted to informational participation'. Such information participation is achieved in Japan through a Keiretsu Council and in continental Europe through works council and supervisory boards.

These provide the model for establishing 'stakeholder councils' as described by Guthrie and Turnbull (1995) and Turnbull (1994, 1997).

Hill and Jones (1992) have built on the work of Jensen and Meckling (1976) to recognise both the implicit and explicit contractual relationships in a firm to develop 'Stakeholder–Agency Theory'. The interdependence between a firm and its strategic stakeholders is recognised by the American Law Institute (1992) which states: 'The modern corporation by its nature creates interdependences with a variety of groups with whom the corporation has a legitimate concern, such as employee, customers, suppliers, and members of the communities in which the corporation operates'.

Both stakeholder voice and ownership, as suggested by Porter (1992) and Blair (1995), could be provided by 're-inventing' the concept of a firm as proposed by Turnbull (1975, 1994, 1997, 2002). The proposal is based on tax incentives providing higher short term profits to investors in exchange for them gradually relinquishing their property rights in favour of strategic stakeholders. Control of the firm is likewise shared between investors and stakeholders through multiple boards to remove conflicts of interest and so agency costs in a manner similar to that found in continental Europe and especially around the town of Mondragón in Spain.

In accordance with Clarkson (1995) models and frameworks are helpful for clarifying theories and abstract concepts or constructs. But to be useful in practice, a model or framework must be applicable to the conditions that it is attempting to describe, analyse or predict. Empirical testing of a model is important to establish its validity.

Compliant with Clarkson (1995) stakeholders are persons or groups that have, or claim, ownership, rights or interests in a corporation and its activities, past, present or future. Such claimed rights or interests are the result of transactions with, or actions taken by, the corporation, and may be legal or moral, individual or collective. Stakeholders with similar interests, claims, or rights can be classified as belonging to the same group: employees, shareholders, customers, and so on.

In 2001, Barrett wrote that notable in this definition is Clarkson's view that stakeholder interests in a firm may be based on moral grounds as well as legal ones. Whether or not a particular stakeholder has legal rights, the firm may have obligations to them based on natural justice. It may also be good business practice to maintain good relationships with stakeholders. This issue is discussed later.

In his seminal paper, Clarkson (1995) distinguishes between stakeholder issues and social issues. While an organisation may have responsibilities to its stakeholders, wider social issues, in Clarkson's eyes, are more properly the business of government. Social issues can generally be recognised by the fact that government chooses to regulate for them.

Building on this idea, Clarkson (1995) argues that it is more meaningful to discuss corporate responsiveness to stakeholders rather than corporate social responsibility *per se*.

Barrett (2001) summarises, from an instrumental stakeholder perspective, an organisation, whether it is for-profit or non-profit, public or private, can be seen as a network of individuals and groups who choose to cooperate for mutual benefit. The role of governance in organisations is to ensure that the maximum possible value is generated by an organisation for the benefit of all stakeholders.

3. Methodology

This dissertation is rooted in the social sciences and uses a case study approach as its main method of analysis. To better understand the choice of the case study approach I will present some stylized facts of the methodology in the following paragraphs.

The case study approach – referring to case study research whose objective is to conduct research – has been accepted since the 1980's (Yin, 1981, 1984, 1989; Strauss, 1987). No standard definition of a case study exists (Benbasat et al., 1987) but, for example, Eisenhardt (1989) describes the case study approach as '-- a research strategy which focuses on understanding the dynamics present within single settings'. Yin (1984) defines case study as an empirical inquiry that 'investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used' (see also Yin, 2003).

'The consideration of case studies is presently the best way to understand the reality of corporate governance around the world' according to Tricker in 'International Corporate Governance: A Case Study Approach', edited by Christine A. Mallin (2006).

Many well-known case study researchers such as Robert K. Yin (2003, 2009), Helen Simons (2009) and Robert E. Stake (1994, 2010) have written about case study research and suggested techniques for organizing and conducting the research successfully.

Choosing a case study approach moves us one step closer to the study of a phenomenon as an integrated whole. Although it is no so, nevertheless questions have to be specifically addressed, such as what is it about the system that makes it an integrated whole? How does one describe the whole without pulling it apart? What are the characteristics and/or properties that make this a system as opposed to something else? Complexity theory provides some clues as to how to answer these questions and, if used in planning, executing, and interpreting in case studies, can serve as a guide to understanding the system of interest as an integrated whole.

Historically, case studies have been viewed as most useful when little is known about a phenomenon, often as a first step in developing knowledge, and as least useful when much is already known about a phenomenon and theory testing is a research goal (Yin, 1994). The view that the case study strategy can contribute appropriately at any level of knowledge development is consistent with many advocates of case study, such as Eisenhardt (1989) and Yin (1994); that is, the case study strategy could be the appropriate approach for exploratory, descriptive, or explanatory purposes. The literature contains examples of case study being used for each of these levels of knowledge development. For example, case study has been used to describe processes (Lawrence and Hardy, 1999), generate theory (Brown and Eisenhardt, 1997; Gioia and Thomas, 1996), and test theory (Johnson, Leach and Liu, 1999; Sambamurthy and Zmud, 1999). Thus, a key to knowing when to use case study as opposed to another approach does not lie solely in how much research has already been done and how much is known for explaining a phenomenon. Rather, a key to knowing when to use case study lies in the nature of the research purposes.

According to Barkley (2006) case studies focus on the exploratory and descriptive phases of the research, however, Yin (2003) notes, that case study methods may be involved in all three roles (exploratory/descriptive, evaluation, and hypothesis testing). Barkley (2006) contends 'exploratory and descriptive case studies examine the development and characteristics of phenomena often with the goal of developing hypotheses of cause – effect relationships. Finally, the use of case study research for hypothesis testing involves tests for causal relationships by comparing generalizations from case studies' findings with the underlying theory'.

Stake (1994) describes two types of case study – the intrinsic case study and the instrumental case study. An intrinsic case study is: '...not undertaken primarily because the case represents other cases or because it illustrates a particular trait or problem, but because in all its particularity and ordinariness, [the] case itself is of interest...The purpose is not to come to understand some abstract concept or generic phenomena...The researcher temporarily subordinates other curiosities so that the case may reveal its story.

In support of this categorisation into intrinsic and instrumental case study Darke, Shanks and Broadbent (1998) describe case research as designed to provide descriptions of phenomena, to develop theory or to test theory: 'Case study research has often been associated with description and with theory development, where it is used to provide evidence for hypothesis generation and for exploration of areas where existing knowledge is limited'.

Alvesson (1996) argues it is important that researchers primarily use theories 'with which they are intellectually familiar and for which they feel an emotional preference'. Alvesson (1996) argues there are difficulties in using multiple theories: 'In my view, a qualified understanding [of a social situation] … calls for concentration and a good deal of work on the theory or theories in use; it is also necessary that the theory or theories be entrenched in the interpreter's person and his or her political-ethical position. There are thus normally limits to the theories – which ones and how many – that a researcher can successfully command, at least in the context of interpretive and discursive studies which call for a deeper feeling for the theoretical framework employed than is required in rational-analytic approaches. Alvesson

(1996) suggests a ‘deep’ knowledge of the theory in use is more preferable than a shallower use of multiple theories.

Flyvbjerg (2006), in his defence of case study research, concludes that ‘good social science research is problem driven and not methodology driven’.

Case study is a research methodology that focuses on understanding the dynamics present in a management situation (Eisenhardt, 1989). There are many definitions of case research and these definitions encompass a wide range of definitional components. These are displayed in the next table to highlight the range of definitions associated with case study research.

Table 5 - Compilation of some authors about case studies

Author/ Definition	Hakim 1994	King et al. 1994	McKinney 1966	Patton 1990	Saunders 1981	Smith 1988	Stake 1995	Yin 1989
Holistic	**X**	**X**		**X**				
Absence of control						**X**		
Rare phenomena						**X**		
Sources of ideas						**X**		
Sources of hypothesis						**X**		
Situation of theory development						**X**		**X**
Future systematic research						**X**		**X**
Boundaries between phenomena and context are not clearly defined						**X**		**X**
Contemporary focus within a real life context				**X**		**X**		**X**
How and why questions						**X**		**X**
Little control over events						**X**		**X**
Dependent on inductive reasoning					**X**			
Use of multiplicity of data				**X**	**X**			**X**
Are specific					**X**			
Cannot be standardised					**X**			
Are descriptive, qualitative, exploratory and explanatory		**X**			**X**	**X**		**X**
Have a heuristic value					**X**			
Empirical enquiry								**X**
Multiple sources of evidence are used								**X**

Author/ Definition	Hakim 1994	King et al. 1994	McKinney 1966	Patton 1990	Saunders 1981	Smith 1988	Stake 1995	Yin 1989
Embedded case studies were sub units of analysis								**X**
Unit chosen was temporally and spatially bound			**X**					
Intensive examination of specific factors				**X**				
Particular historical development			**X**					
Unique configuration of being			**X**				**X**	
Bounded system							**X**	

Source: author's compilation of the work of Hakim (1994); King et al.(1994); McKinney (1966); Patton (1990); Sanders (1981); Smith (1988); Stake (1995); Yin (1989).

Beer (1988) argued that qualitative research is well suited to asking the broader questions of science, unlike 'normal science, which attempts to answer little questions precisely. Instead we should do broader ... studies which answer more questions less precisely'. Qualitative research based on a well-defined methodology can provide the means to scientifically answer these broader questions that provide for new insight.

According to Barañano (2004) the case study is a research method used in the context of the social sciences which assume a rigorous presentation of empirical data, based on a combination of quantitative and qualitative evidence. In Management, given the complexity of situations and therefore the growing need for qualitative information that explains the quantitative information in a complete form is, with increasing frequency, conducting to case studies approach.

The following are suggestions for carrying out case study research in a methodologically sound way.

Identification of Prior Theory: Prior theory in the area of research interest should be identified through a literature review. The outcome of the review should be an initial statement of the research problem and issues that might be further refined through pilot case studies (Nair and Riege, 1995; Robson, 1993). This approach recognises the importance of prior theory to the research design (Lincoln and Guba, 1985; Miles and Huberman, 1994; Neuman, 1994; Perry and Coote, 1994; Yin, 1994).

Single case study research is applicable when the case is critical or unique or where the researcher is able to access a previously remote phenomenon, critical for testing a well formulated theory, an exploratory study or pilot study or shown to be representative of a large population (McKinney, 1966; Smith, 1988; Yin, 1989).

The research stages/steps for conducting a case study, delineated by Scapens (1990), Ryan et al. (2002) and Yin (2003), will be followed in the investigation: i) Developing a research design; ii) Preparing to collect data and evidence; iii) Collecting evidence; iv) Assessing evidence; v) Identifying and explaining patterns; vi) Theory development; vii) Report writing. The steps will be followed not sequentially but interactively.

In accordance with Baxter and Jack (2008) this qualitative case study is an approach to research that facilitates exploration of a phenomenon within its context using a variety of data sources. This ensures that the issue is not explored through one lens, but rather a variety of lenses which allows for multiple facets of the phenomenon to be revealed and understood. There are two key approaches that guide case study methodology; one proposed by Robert Stake (1995) and the second by Robert Yin (2003, 2006). Both seek to ensure that the topic of interest is well explored, and that the essence of the phenomenon is revealed, but the methods that they each employ are quite different and are worthy of discussion.

Consistent with Markison (2010) who wrote that the purpose of this single case study is to refine and refocus the theory to make it more relevant to large corporations, also the purpose of this thesis is to refine and refocus the theory to make it more relevant to institutions that are not corporations.

Markison (2010) persist that single case theory is ideal to test stakeholder management theory. Yin describes the use of a critical case 'To confirm, challenge, or extend the theory, there may exist a single case, meeting all of the conditions for testing the theory. The single case can then be used to determine whether a theory's propositions are correct or whether some alternative set of explanations might be more relevant.'

The current research on stakeholder theory is inadequate, according to Markison (2010). The existing theories are either inapplicable to a real world firm, or will lead to failure if and when they are applied. A full understanding of why these theories cannot work is necessary to demonstrate that there is room in the field of stakeholder management for a practical approach. Moreover, these theories lack relevance if they cannot be applied to a firm or to an institution (added in this thesis). Stakeholder theory is the ideal theory to be tested using a critical case methodology.

A descriptive theory covers the scope and depth of the object (case) being described. Yin (2003) keep on saying that if you were to describe an individual, an organization, or some other possible subject of a case study, where should your description start, and where should it end? What should your description include, and what might it exclude? The criteria used to answer these questions would represent your 'theory' of what needs to be described. This theory should be openly stated ahead of time, should be subject to review and debate, and will later serve as the design for a descriptive case study. A thoughtful theory will help to produce a sound descriptive case study.

Yin (2003, 2012) in his book 'Applications of Case Study Research' state that qualitative data cannot readily be converted to numerical values. Such data can be represented by categorical data, by perceptual and attitudinal dimensions (e.g., colour perception), and by real-life events. Qualitative research also can be hard-nosed, data-driven, outcome-oriented, and truly scientific.

Case study research generally answers one or more questions which begin with 'how' or 'why'. If research questions focus mainly in 'how' or 'why', as said by Yin (2009), the case study is the best method to use. The case study doesn't require control of behavioural events but focuses on contemporary events.

The literature review, definition of the purpose of the case study, and early determination of the potential audience for the final report guide how the study will be designed, conducted, and publicly reported.

Case studies are complex because they generally involve multiple sources of data, may include multiple cases within a study, and produce large amounts of data for analysis. Researchers from many disciplines use the case study method to build upon theory, to produce new theory, to dispute or challenge theory, to explain a situation, to provide a basis to apply solutions to situations, to explore, or to describe an object or phenomenon. The advantages of the case study method are its applicability to real-life, contemporary, human situations and its public accessibility through written reports. Case study results relate directly to the common readers everyday experience and facilitate an understanding of complex real-life situations (Soy, 1996).

3.1 Research Design and Procedures

The methodological approach taken in this study was broadly qualitative, although some elements of quantitative research were employed where appropriate. The study corresponds to Stake's (1995) definition of an instrumental case study, ‘Where the focus of the research is upon providing an insight into an issue’ — in this case the motivations of SEPA constituents during this project implementation.

3.2 Expert Interviews

The reasons for factoring interviews into the research design were threefold: Firstly, they contributed to clarify questions concerning the theoretical underpinnings. In fact theory identifies stakeholder and groups them according to several dimensions/categories, like internal vs. external, narrow vs. wider, primary vs. secondary, active vs. passive and voluntary vs. involuntary. Interviews help identify the experts’ view on this taxonomy. Secondly, interviews are a source of diversified and sometimes mixed views of specialists directly involved in the concerned field of analysis. On the other hand, specialists provide both a realistic and an updated view on subjects. And thirdly, interviews enabled the testing of new views confronting the interviewees’ expert knowledge with specific questions such as ‘In SEPA do you consider authorities as stakeholders?’. Additionally, experts are generally of research interests above all because they are in a position to actually put their own interpretations into practice.

The extant literature also valorises expert interviews positively, in terms of methodology. According to Wroblewski and Leitner (2009) and Yin (2009) this methodology ensures some checking to avoid biases or incongruent responses by triangulating the interview data with other data sources, so to confirm and clarify the responses.

In a similar vein, the upside interviews is according to Bogner, Littig and Menz (2009) the fact that expert interviews offer researchers an effective means of quickly obtaining results. Bogner and Menz (2002) contribute to shaping the debate by differentiating between various forms of expert interview. In their opinion, the systematizing expert interview targeted at the systematic retrieval of information.

Expert interviews allow exploring existing conceptualizations in a new field (Bogner and Menz, 2002). In particular, expert interviews aim at making concepts and their structural relationships transparent, and allow analyse these (Meuser and Nagel, 2002).

Harrison (2001) posits that experts are ‘elites’ that have access to high levels of information and according to Meuser and Nagel (2002) are people who are responsible for the development, implementation or control of solutions/strategies/policies, who have privileged access to information about groups of persons or decision processes domain, field or industry due to long time experience and has status, power to act and decision making opportunities based on these skills and knowledge.

The research design focussed on semi-structured interviews, meaning they were based by on an interview guide (Appendix 1) to help the researcher make sure that all important topics and issues were covered. I asked the interviewees to fill in an exemplar of the guide.

The guide included directive questions, in particular when the purpose was to confirm questions and/or answers previously identified or to clear up doubts or inconsistencies previously detected, such as the different categories of Stakeholders. The purpose and methods of the investigation were also presented at the beginning of each interview, as well as the reference of confidentiality of the information provided by the interviewee.

Globally, 7 interviews were conducted. The idea was to interview experts enabling to confirm the principal Stakeholders in the SEPA project and whether they can be categorized as the literature review mentioned before.

The interviewees were:

• Dra. Leonor Machado (EPC)

• Prof. Doutor Carlos Pinheiro (CGD)

• Dr. Francisco Santos (CaixaBI)

• Eng. Gilberto Pack (SIBS)

• Dr. Hugo Mira (BoP)

• Dr. José Vicente (Millennium bcp)

• Dr. Rui Pimentel (NASO-PT)

The interviewees hail from different institutions and have diversified expertise, which caters for the required heterogeneity. They have accompanied the evolution of SEPA, since its inception and have holistic views on the field of analysis.

The demographic information of the respondents is summarized below:

Table 6 - Experts data

Variable	Categories	Counts
Gender	Male	6
	Female	1
Age	30-39	1
	40-49	4
	50-59	2
Education High School	Bachelor's degree	5
	Master's degree	1
	Ph.D.	1
Employment	Full Time	7
SEPA Experience	less than 12	4
	12 and above	3

4. Case Study - SEPA

4.1 Market/Sector Review

On 20th of November 2007 The European Commission has set out a package of initiatives to modernise the European single market and to bring more benefits to Europeans, building on past successes. The single market has already helped create competitive companies, reduced prices, more choice for consumers and a Europe attractive for investors. The Commission's measures are based on extensive consultation. They will ensure that the single market does even more to take advantage of globalisation, empower consumers, open up for small businesses, stimulate innovation and help maintain high social and environmental standards. Among the most important policy actions set out in the single market package adopted by the Commission today are initiatives to: help consumers to exercise their contractual rights and get redress across borders; provide better information for consumers and small businesses; respond to weaknesses in sectors where the single market should deliver more; propose a Small Business Act; and introduce a ‘researcher passport’; clarify how EU rules apply to services and social services of general interest; and promote the quality of social services across the EU.

A Financial Services Antitrust Bulletin October – December 2007, from Clifford Chance LLP (a global law firm), mentioned that European competition authorities continue to focus on retail financial services into 2008. This statement was based on the deliberations from The European Commission last November.

Building on the Commission’s strategy for retail financial services outlined in the Green Paper on Retail Financial Services and taking into account the issues identified in the wealth of contributions received, the Commission services have identified several areas where work should be undertaken in order to improve the competitiveness and efficiency of European retail financial services markets.

Retail financial services are understood as services such as current accounts, payments, personal loans, mortgages, savings, pensions, investments and insurance products, when they are provided to individual customers, including retail investors. They are essential for the everyday lives of EU citizens by facilitating their full participation in the economy, enabling them to plan for the long term and protecting them in unforeseen circumstances. They involve major financial commitments.

The Green Paper on Retail Financial Services in the Single Market builds on the strategy set out in the White Paper, taking into account the results of the Commission's sector inquiry into retail banking and the interim report on business insurance, and presents a blueprint for the integration of Europe's retail banking markets.

The European Commission stated the recent events that occurred in the US have underscored the importance of the mortgage credit sector for consumers and the economy as a whole. A White Paper has been published to unveil several proposals to ensure greater product diversity and an adequate level of consumer protection in this field. In addition, work will continue on reviewing the credit intermediaries market with a view to assessing whether regulatory intervention is required.

The White Paper on Financial Services 2005-2010 underlined the untapped potential of European markets and outlined the best ways to effectively deliver the benefits of integration to industry and consumers alike. The White Paper identified the completion of the retail financial services market as one of its key priorities.

On bank accounts, the EU banking industry has been invited to develop, before mid-2008, via self-regulation, a set of common rules to the benefit of all customers (individuals and corporates alike). Such arrangements, which in a first phase should only be applicable on a domestic basis, should facilitate the operation of switching by, for example, ensuring within a certain deadline that direct debit and standing orders are redirected to the new bank, that proper information is given to the customer, that there is adequate cooperation between both banks involved. These rules will be designed on the basis of benchmarks determined by the Commission in the light of best existing practices. Banks will also be invited to abolish existing discriminations, either based on nationality or residence, which abusively prevent individuals from opening accounts on a cross-border basis. Should the banking industry fail to set up adequate arrangements, initiating legislation would need to be considered.

In the field of payments, efforts will continue towards the development of the Single Euro Payments Area. An efficient payments market, where payments can be made quickly, cheaply, easily and reliably, is a key component of a competitive economy. Currently, national payment markets are fragmented with widely differing prices and performance levels. Each Member State has its own rules on payments and the annual cost of making payments between these fragmented systems is high. Efforts will in particular focus on ensuring a smooth and timely migration to SEPA products, on enhancing competition in the cards market and on developing high-value services such as e-invoicing.

To support this idea of an efficient payments market in relation to payment services in the EU, on 13th of November 2007, The European Commission formally adopted The Directive on Payment Services. The PSD provides the legal foundation for the creation of an EU-wide single market for payments. The PSD aims at establishing a modern and comprehensive set of rules applicable to all payment services in the European Union. The target is to make cross-border payments as easy, efficient and secure as 'national' payments within a Member State. The PSD also seeks to improve competition by opening up payment markets to new entrants, thus fostering greater efficiency and cost-reduction. At the same time the Directive provides the necessary legal platform for the Single Euro Payments Area.

Understanding the future of retail banking in Europe starts with understanding the economic environment and changing customer behaviour. And the conditions today are indeed difficult. The latest Eurostat forecast expects a continued slowdown in economic growth in 2013, compared to 2012, across Europe. Specifically, in twelve of the EU 28 countries, including Germany and France, will see lower GDP growth. Unemployment is projected to rise to a new high of 11.2 percent in 2013, while real disposable income is expected to decline in 10 countries, according to the Economist Intelligence Unit (EIU). Preliminary forecasts for 2014 are brighter but still bear a high level of uncertainty. It is only natural that the difficult economic forecasts are impacting consumer attitudes and preferences for financial products.

Despite the aforementioned, retail payments remain one of the most crisis-resistant products. Regardless of economic conditions, when rent, utilities, and household purchases are due, they must be paid. The difficult economy has impacted the pattern of payments, however, with larger payments today often broken down into smaller pieces. While value per transaction is dropping slightly, the overall number of transactions is rising. This increase could generate an important revenue growth area for European retail banks, and some researchers expect this revenue pool to double till 2020.

For retail banks, the primary value of payments comes from being a ‘frequency generator’. Channelling a larger number of payments through one bank can increase client loyalty and offer opportunity for cross-selling. Chances for strengthening client loyalty emerge in offering online banking-enabled payments and in the use of mobile and contactless solutions. Additional opportunities for revenue are feasible in alternative payments, where margins are higher than in the traditional branch-based payments.

The payments and transaction-banking businesses represent an increasingly critical element of the banking industry and the global financial-services landscape. Their importance as key drivers of stable revenue streams and as the linchpin of customer relationships – and therefore long-term customer loyalty – will only gain momentum throughout the rest of the decade. Institutions that are active in these businesses need to take stock of their capabilities and performance, sharpen their strategies, and improve their execution skills.

According to The Boston Consulting Group and Swift (2013), in 2012, these transaction-banking businesses generated USD 301 billion in transaction-specific revenues (including monthly and annual card fees) as well USD 223 billion in account-related revenues (including account maintenance fees and spread revenues). The total represented roughly one-quarter of overall global-banking revenues. Banks handled USD 377 trillion in non-cash transactions in 2012, more than five times the amount of global GDP.

And business keeps growing steadily. By 2022, payments and transaction-banking revenues will reach an estimated USD 1.1 trillion, yielding a compound annual growth rate (CAGR) of 8 percent, which is very significant.

Table 7 - Worldwide Payments, 2012

WORLDWIDE PAYMENTS, 2012

	North America	Latin America	Asia-Pacific (mature)	Asia-Pacific (emerging)	Western Europe	Eastern Europe	Middle East and North Africa	Rest of world	Total
Volume (millions)	133,964	35,086	46,932	34,666	77,713	24,916	4,713	6,368	364,358
Value ($millions)	101,622,897	29,703,800	52,448,202	55,322,327	98,634,051	27,022,625	5,561,226	6,586,989	376,902,118
Total revenues ($millions)	158,932	41,388	65,025	92,336	107,925	41,572	8,101	9,166	524,444

Source: BCG Global Payments Model, 2013.
Note: Data are for noncash payments. Total revenues include transaction and account revenues. Any minor discrepancies in totals are due to rounding.

Table 7 also helps explaining the sizeable volumes across several jurisdictions, encompassing both the developed economies and the emerging markets. This global phenomenon begs for an integrated and holistic view such as the one adopted throughout this thesis and that from my standpoint adds to the literature on Stakeholder Theory.

Table 8 - Worldwide Payments, 2022

WORLDWIDE PAYMENTS, 2022

	North America	Latin America	Asia-Pacific (mature)	Asia-Pacific (emerging)	Western Europe	Eastern Europe	Middle East and North Africa	Rest of world	Total
Volume (millions)	253,453	78,794	64,656	108,609	103,591	54,747	40,773	17,836	722,459
Value ($millions)	152,209,305	68,708,080	70,715,767	167,594,928	140,693,003	66,009,368	28,558,305	17,579,833	712,068,589
Total revenues ($millions)	283,847	107,048	85,711	336,564	156,551	96,694	45,189	28,138	1,139,742

Source: BCG Global Payments Model, 2013.
Note: Data are for noncash payments. Total revenues include transaction and account revenues. Any minor discrepancies in totals are due to rounding.

Table 8 provides the forecasts in a 10 year timetable encapsulating the trends emerging in the payments industry as it is known nowadays and estimated in 2012.

Amidst the boost in transaction volumes and consequent revenues, some uncertainties are likely to emerge in the forthcoming years – already witnessed in 2013 and probable to occur in 2014 and 2015 -, in what pertains to retail banking profitability. This topic, banking profitability, is also a global phenomenon, although more visible in developed markets with mature banking industries and highly bancarization levels.

In fact, banks in developed markets have been and still are under pressure to run profitable operations. The historic low levels of Euribor in the Eurozone and often benchmark rates in commonly regions of the globe have impacted very negatively in bank's net interest margins, since the witnessed decline in impairments and provisions can no longer compensate the erosion of the net interest margin, proxied by the difference between what banks pay for customer deposits and the accrued benefits from their loan portfolio.

As a consequence, commissions levied on payments have become more and more important so to contribute positively to non-interest income. However, supervisors and regulators, both national and supranational are increasingly stricter in setting rules to protect consumers and defining ceilings and exemptions for bank commissions. These stylized facts considered, it appears relevant to point out the countervailing forces in the payments industry, on one hand. The fact that the payments industry is likely to witness a boost as the emerging markets evolve and the developed world recovers from the recent crises, brings about, on the other hand, a scenario where several factors are in flux, providing a rich field of analysis and a fertile ground to test the Stakeholders Theory.

Of course that, it goes without saying that such changing landscape requires an on-going attention both from practitioners and academics. This thesis intends to shed light on SEPA as a whole and is aware of the dynamics of the processes and the evolution of the interested parts, in a word, the stakeholders.

Until a steady state is attained, or at least the pace of changes decreases, it is important to deploy a holistic view, encapsulating the governance mechanisms in the analysis of how stakeholders react, interact and anticipate the required frameworks to cope with such changeling schemes, featured by the payment systems sector and the requirement for banks to adapt to a new economic paradigm.

The following section tackles precisely the governance topics, a must in modern banking and an unavoidable issue for any corporation, even more so under the SEPA framework.

4.2 Corporate Governance in the Banking Industry

In the European Union, the corporate governance in the banking industry, and precisely in the payment systems sector, is a unique setting and moreover this issue has not been studied or analysed by experts in the field. This dissertation intends to fill this gap in the literature.

Payment systems were rather diverse in nature and not necessarily suited to the needs of a single currency area, where an infrastructure is needed to enable the quick and smooth flow of payments and securities at low cost in the whole area. Against this background, the financial infrastructure in the EU has undergone rapid changes, both in the run-up to and following the introduction of the euro.

The globalisation of banking markets has raised important issues regarding corporate governance regulation for banking institutions and their stakeholders.

Bank governance has been the topic of much recent academic work (see Table 9 for an overview of extant studies) and policy discussion (Senior Supervisors Group, 2008, 2009; Walker Report, 2009; Committee of European Banking Supervisors, 2010). Because of their contemporaneous nature, there has been little connection between the academic approach and policy analysis.

Table 9 - Governance and Measures of Risk and Performance

THE RELATIONSHIP BETWEEN GOVERNANCE AND MEASURES OF RISK AND PERFORMANCE

			RISK MEASURES			PERFORMANCE MEASURES		
	Authors	Period	Measure	Period	Sign	Measure	Period	Sign
BOARD								
% Independent Directors	Erkens, Hung, and Matos (2009)[a]	Dec '06	Writedowns	Q1 '07 -Q3 '08	Positive	Stock returns	Q1 07 -Q3 08	Negative
	Pathan (2009) **	'97-'04	Std. Dev. Stock returns	'97-'04	Negative			
		'97-'04	Systematic (Beta)	'97-'04	Negative			
		'97-'04	Idiosyncratic (residuals)	'97-'04	Negative			
	Faleye and Krishnan (2010)	'94-'06	Non-investment grade rating by S&P of borrowers (new loans)	'94-'06	Negative			
	Minton, Taillard, and Williamson (2010)	'01-'08	Std. Dev. Stock returns	'01-'08	Negative			
		'06	Receive TARP funds		Positive			
	Adams (2009)	'07	Receive TARP funds		Positive			
Board Size	Pathan (2009) **	'97-'04	Std. Dev. Stock returns	'97-'04	Negative			
		'97-'04	Systematic (Beta)	'97-'04	Negative			
		'97-'04	Idiosyncratic (residuals)	'97-'04	Negative			
	Faleye and Krishnan (2010)	'94-'06	Non-investment grade rating by S&P of borrowers (new loans)	'94-'06	Positive			
	Minton, Taillard, and Williamson (2010)	'01-'08	Std. Dev. Stock returns	'01-'08	Negative			
		'06	Received TARP funds		Positive			
	Adams (2009)	'07	Received TARP funds		Positive			
Experience	Minton, Taillard, and Williamson (2010)	'01-'08	Std. Dev. Stock returns	'01-'08	Positive			
		'06	Received TARP funds		Positive			
	Fernandes and Fich (2009)	'06				Stock returns	'07-'08	Positive
CEO also chair	Faleye and Krishnan (2010)	'94-'06	Non-investment grade rating by S&P of borrowers (new loans)	'94-'06	Positive			
RISK COMMITTEE								
Risk Management Index	Ellul and Yerramilli (2010) **	'00-'08	Mean Implied Volatility of Put Options	'00-'08	Negative	Sharpe Ratio	'00-'08	Positive
		'00-'08	Marginal Expected Shortfall	'00-'08	Negative			
		'00-'08	Std. Deviation Stock Returns	'00-'08	Negative			
CRO Pay/ CEO Pay	Ellul and Yerramilli (2010) **	'06	Mean Implied Volatility of Put Options	'07-'08	Negative			
		'06	Marginal Expected Shortfall	'07-'08	Negative			
		'06	Std. Deviation Stock Returns	'07-'08	Negative			
CRO Pay/ Top 5 Executives' Pay	Keys, Mukherjee, Seru, and Vig (2009) **	'01-'06	Loan Delinquency	'01-'06	Negative			
Quality of Oversight	Ellul and Yerramilli (2010) **	'00-'07	Mean Implied Volatility of Put Options	'01-'08	Negative			
		'00-'07	Std. Deviation Stock Returns	'01-'08	Negative			
EXECUTIVE COMPENSATION								
Residual Pay(taking out firm size)	Cheng, Hong, and Scheinkman (2010)	'92-'94, '98-'00	Beta	'95-'00, '01-'08	Positive	Excess returns	'95-'00	Positive
		'92-'94, '98-'00	Volatility of stock	'95-'00, '01-'08	Positive	Excess returns	'01-'08	Negative
		'92-'94, '98-'00	Correlation of stock returns with ABX	'95-'00, '01-'08	Positive			
Vega	Chesney, Stromberg, and Wagner (2010)	'02-'06	Writedowns	Q3 '07 - Q4 '08	Positive			
	Suntheim (2010)**[a]	'00 - '06	Std. Deviation Stock Returns	'00 - '06	Positive	Stock returns	Q3 '07-Q4 '08	Negative
		'00 - '06	Beta	'00 - '06	Positive			
	DeYoung, Peng, and Yen (2009)**	'94-'06	Beta	'94-'06	Positive			
		'94-'06	CAPM Residual	'94-'06	Positive			
		'94-'06	Private MBS holdings	'94-'06	Positive			
	Ellul and Yerramilli (2010) **	'00-'07	Std. Deviation Stock Returns	'01-'08	Positive			
	Mehran and Rosenberg (2008)**	'93-'01	Std. Deviation Stock Returns	'94-'02	Positive			
		'93-'01	Residual Volatility	'94-'02	Positive			
Delta	Chesney, Stromberg, and Wagner (2010)	'02-'06	Writedowns	Q3 '07 - Q4 '08	Positive			
	Suntheim (2010)**[a]	'00 - '06	CAPM residual (idiosyncratic risk)	'00 - '06	Negative			
		'00 - '06	Beta	'00 - '06	Negative			
	DeYoung, Peng, and Yen (2009)**	'94-'06	Beta	'94-'06	Positive			
	Mehran and Rosenberg (2008)**	'93-'01	Systematic volatility	'94-'02	Positive			
	Fahlenbrach and Stulz (2010)	'06				Stock Returns	Q3 '07-Q4 '08	Negative
		'06				ROE	Q3 '07-Q4 '08	Negative
		'06				ROA	Q3 '07-Q4 '08	Negative
% comp in deferred stock and options	Balachandran, Kogut, and Harnal (2010)**	'95-'07	Predicted default probablity	'96-'08	Positive			
INSTITUTIONAL OWNERSHIP	Erkens, Hung, and Matos (2009)[a]	Dec '06	Writedowns	Q1 07 -Q3 08	Positive			
	Ellul and Yerramilli (2010) **	'00-'07	Mean Implied Volatility of Put Options	'01-'08	Positive			
		'00-'07	Std. Deviation Stock Returns	'01-'08	Positive			
	Cheng, Hong, and Scheinkman (2010)	'92-'94, '98-'00	Risk Score	'95-'00, '01-'08	Positive	Excess returns	'95-'00	Positive
						Excess returns	'01-'08	Negative
	Laeven and Levine (2009)[a]**	'01	z-score	(I) '01, (II) '02-'04	Negative			
			Equity volatility	'01	Positive			
			Earnings volatility	'01	Positive			

[a] indicates that authors use an international sample. Erkens, Hung, and Matos (2009) have a 42% U.S. sample, while Suntheim (2010) has a 31% U.S. sample
** indicates authors used econometric techniques other than lags to correct for endogeneity issue
Note that only coefficients that were significant are reported here. Lack of significance is also informative, but was not included for presentational purposes.

Despite the relevant role of financial regulation in influencing the development of corporate governance principles, this topic has received little attention in the literature. To date, most research on corporate governance has addressed issues that affect companies and firms mostly in the non-financial sector. Corporate governance regulation in the financial sector has traditionally been regarded as a specialist area that has fashioned its standards and rules to achieve the overriding objectives of financial regulation - safety and soundness of the financial system, and consumer and investor protection. In the case of banking regulation, the traditional principal-agent model (agency) used to analyse the relationship between shareholders and directors and managers has given way to broader policy concerns. These concerns are poised to maintain financial stability and ensure that banks are operated in a way that promotes broader economic growth as well as enhancing shareholder value, as opposed to agency problems which correspond to the misalignment of motivations between shareholders (outsiders) and managers (insiders) as defined in the seminal paper, by Jensen and Meckling (1976).

Recent research suggests that corporate governance reforms in the non-financial sector may not be appropriate for banks and other financial sector firms (Adams and Mehran, 2003). This is based on the view that no single corporate governance structure is appropriate for all industry sectors, and that the application of governance models to particular industry sectors should take account of the institutional dynamics of the specific industry. Corporate governance in the banking and financial sector differs from that in the non-financial sectors, namely because of the broader risk that banks and financial firms pose to the economy (Eatwell and Taylor, 2000). As a result, the regulator plays a more active role in establishing standards and rules to make management practices in banks more accountable and efficient. Unlike other firms in the non-financial sector, a mismanaged bank may lead to a bank run or collapse, which can cause the bank to fail on its various counterparty obligations to other financial institutions and in providing liquidity to other sectors of the economy. The role of the board of directors therefore becomes crucial in balancing the interests of shareholders and other stakeholders (e.g., creditors and depositors). Consequently, bank regulators place additional responsibilities on bank boards that often result in detailed regulations regarding their decision-making practices and strategic aims. These additional regulatory responsibilities for management have led some experts to observe that banking regulation is a substitute for corporate governance (Adams and Mehran, 2003). According to this view, the regulator represents the public interest, including stakeholders, and can act more efficiently than most stakeholder groups in ensuring that the bank adheres to its regulatory and legal responsibilities.

By contrast, other scholars argue that private remedies should be strengthened to enforce corporate governance standards at banks (Macey and O'Hara, 2003). Many propose improving banks' accountability and efficiency of operations by increasing the legal duties that bank directors and senior management owe to depositors and other creditors. This would involve expanding the scope of fiduciary duties beyond shareholders to include depositors and creditors. Under this approach, depositors and other creditors could sue the board of directors for breach of fiduciary duties and the standard of care, in addition to whatever contractual claims they may have. This would increase banks managers' and directors' incentive of bank managers and directors to pay more regard to solvency risk and would thereby protect the broader economy from excessive risk-taking.

The traditional approach of corporate governance in the financial sector often involved the regulator or bank supervisor relying on statutory authority to devise governance standards promoting the interests of shareholders, depositors and other stakeholders. In the United Kingdom, banking regulation has traditionally involved government regulators adopting standards and rules that were applied externally to regulated financial institutions (Hall, 1999). Regulatory powers were derived, in part, from the informal customary practices of the Bank of England and other bodies that exercised discretionary authority in their oversight of the UK banking industry. In the United States, banking regulation has generally been shared between federal and state banking regulators. The primary objective of US regulators was to maintain the safety and soundness of the banking system. There were no specific criteria that defined what safety and soundness meant. Regulators exercised broad discretionary authority to manage banks and to intervene in their operations if the regulator believed that they posed a threat to banking stability or to the US deposit insurance fund. As US banking markets have become more integrated within the US as well as international in scope, US federal banking regulators increased their supervisory powers and developed more prescriptive and legalistic approaches of prudential regulation (though some authors use the term prudential corporate governance like P. Davies, 2012) to ensure that US banks were well managed and governed.

There have been substantive developments in the area of prudential regulation initially focused on enhanced capital requirements and liquidity requirements. However, the timelines for introduction of these changes is extremely drawn out, reflecting a view that more rapid change could not be easily accommodated by banking sectors recovering from the Global Financial Crisis (GFC).

As Dale (1994), Hall (1999), Alexander (2002, 2004), Grote and Marauhn (2004), Ferran (2006) and Barth, Caprio and Levine (2001, 2013) posit, nowadays, the major concerns of bank regulation in UK and the US involve, *inter alia*, capital requirements, authorisation restrictions, ownership limitations, and restrictions on connected lending. These broader regulatory standards and rules compose the present core elements of corporate governance for banking and credit institutions. This new setting is due namely to deregulation and liberalisation of the financial markets. In fact, as deregulation and liberalisation have led to the emergence of global financial markets, banks expanded their international operations and moved into multiple lines of financial business to cope with increasing competition. They developed complex risk management strategies that have allowed them to price financial products and hedge their risk exposures so to improve expected profits, but which may generate more risk and increase liquidity problems in certain circumstances (Brunnermeier et al., 2009). The limited liability structure of most banks and financial firms, combined with the premium placed on shareholder profits, provides incentives for bank officers to undertake increasingly riskier behaviour to achieve higher profits without a corresponding concern for the downside losses of more risk-taking. Regulators and supervisors find it increasingly difficult to monitor the complicated internal operating systems of banks and financial firms. This has made the external model of regulation less effective as a supervisory technique in addressing the increasing problems that the excessive risk-taking of financial firms poses to the broader economy.

Increasingly, international standards of banking regulation are requiring domestic regulators to rely less on a strict application of external standards and more on internal monitoring strategies that involve the regulator working closely with banks and adjusting standards to suit the particular risk profile of individual banks.

Definitely, financial regulation is necessary because of the multiplier effect that banking activities have on the rest of the economy. The large number of stakeholders (such as employees, customers, suppliers), whose economic well-being depends on the health of the banking industry, depend on appropriate regulatory practices and supervision. Indeed, in a healthy banking system, the supervisors and regulators themselves are stakeholders acting on behalf of society at large.

4.3 The Payments Sector in the European Union

Many different stakeholders have been involved in the creation of the European Union. The European Union and its Member States have been engaged in a process of market integration over a long period. An initial key objective of economic integration has been the removal or elimination of barriers between Member States' markets.

The idea of establishing an economic and monetary union in Europe dates back to more than half a century ago. It was a vision of the political leaders who, in 1952, founded the European Coal and Steel Community (ECSC), which consisted of six countries – Belgium, Germany, France, Italy, Luxembourg and the Netherlands. Further steps were taken towards European integration in the 1950s and thereafter. The same six countries established the EEC and the European Atomic Energy Community (EURATOM) in 1958. This network of relationships strengthened and deepened over the years, becoming the European Communities and then, with the adoption of the Maastricht Treaty in 1993, the EU. The number of member countries increased too. Denmark, Ireland and the United Kingdom joined in 1973, followed by Greece eight years later. Portugal and Spain became members in 1986; Austria, Finland and Sweden joined in 1995. This expansion continued on 1 May 2004, when the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia acceded to the European Union. Bulgaria and Romania are the penults members, on 1 January 2007 and Croatia is the latest member, having joined on 1 July 2013.

Following the establishment of the European Economic Community in 1958 the movement towards a more integrated European financial market has been marked by several events. The most visible were the launch of the euro in 1999 and the cash changeover in the euro area countries in 2002. Less visible, but also of great importance, were the establishment of the large-value central bank payment system TARGET (Trans-European Automated Real-time Gross Settlement Express Transfer – RTGS System) on 1 January 1999 and that of its successor, TARGET2, in 2007. TARGET2 is the backbone of the financial system in euro and is the implementation tool for the Eurosystem's single monetary policy. The SEPA project represents the next major step towards closer European integration. SEPA will allow customers to make non-cash euro payments to any beneficiary located anywhere in the euro area using a single bank account and a single set of payment instruments. All retail payments in euro will thereby become domestic, and there will no longer be any differentiation between national and cross-border payments within the euro area.

A payment system consists of a set of instruments, banking procedures and, typically, interbank funds transfer systems that ensure the circulation of money almost entirely in a non-physical form.

Jean-Claude Trichet, in 2009, at the time, President of the European Central Bank, mentioned since the introduction of the euro banknotes and coins in 2002, consumers have been able to make cash payments throughout the euro area from a single purse using a single currency. This having been achieved, the time has now come to allow consumers to make cashless payments throughout the euro area from a single account under the same basic conditions, regardless of their location. For the Eurosystem, such a SEPA will become reality when all euro payments in the euro area are treated as domestic payments, and when the current differentiation between national and cross-border payments disappears. This requires not only the alignment of national practices for the banking industry, but also changes in customers' habits in all euro area countries.

These changes are needed to move towards a more integrated payments market, which will bring substantial economic benefits. SEPA will not only introduce more comparable services, but will also foster competition and drive innovation. Institutions that are able to embrace new technological developments and offer customers additional services will benefit from this new integrated market. In a competitive and integrated economy, a forward-looking view is required so that retail payments have a level of safety and efficiency that is comparable with the best national systems today.

4.3.1 Single Euro Payments Area – SEPA- Project

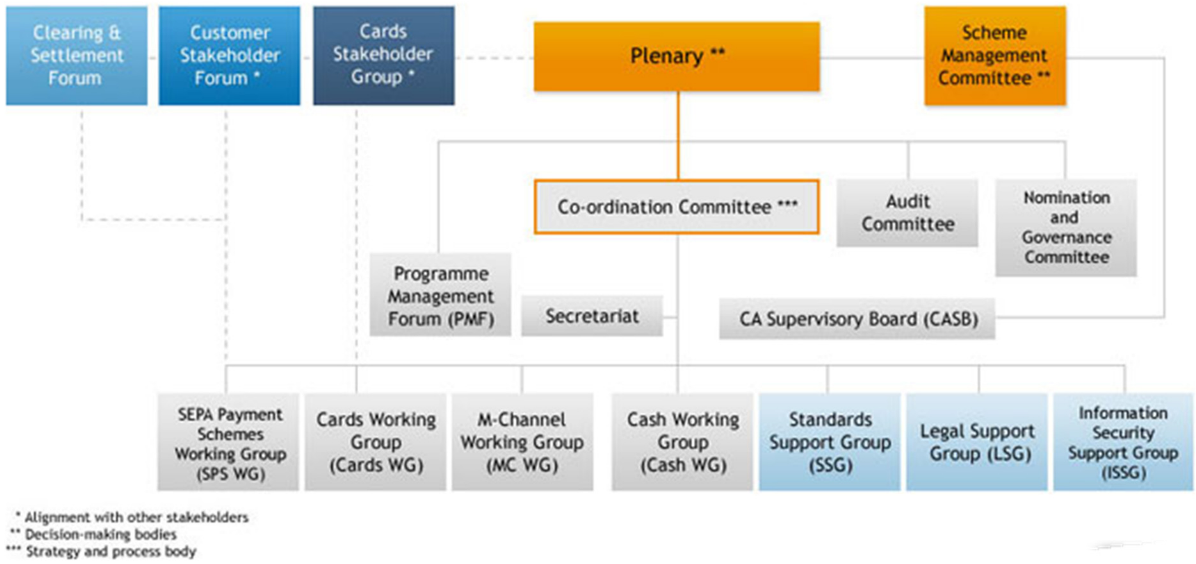
It is important that the SEPA project is viewed not as just a 'one-shot operation', but rather as a continually evolving project that fosters European integration, seeking to improve all aspects of the euro area retail payments market on an on-going basis. SEPA will also make a notable contribution to the so-called Lisbon Agenda (March 2000), which aims at fostering competitiveness and ensuring the continuous development of the European economy. The SEPA project is fully part of the setting up of a single market for Europe, and requires the full support of all stakeholders, particularly the entire banking community. Trichet ends declaring that the Eurosystem strongly supports the SEPA project.

SEPA embodies several opportunities and simultaneously poses various challenges. First, the SEPA project represents the next major step towards closer European integration. The aim of SEPA is to advance European integration with a competitive and innovative euro area retail payments market that can bring with it higher service levels, more efficient products and cheaper alternatives for making payments. SEPA consists of the single currency, a single set of euro payment instruments – credit transfers, direct debits and card payments, efficient processing infrastructures for euro payments, common technical standards, common business practices, a harmonised legal basis, and on-going development of new customer-oriented services.

Second, SEPA requires interaction between a large number of constituencies. First is the European banking industry, which is responsible for restructuring the payment systems of the euro area. This restructuring will, in the short term, generate considerable costs; however, in the medium to long term, the European banking industry will benefit from cost savings regarding euro area payments, and also from potential new revenue streams. To coordinate its efforts, the industry has set up a self-regulatory body to manage the SEPA project. This body, known as the EPC, consists of 74 members representing banks, banking communities and payment institutions, including the three European credit sector associations and the Euro Banking Association (EBA). Members from the EU, Iceland, Liechtenstein, Norway and Switzerland are represented in the EPC, whose work aims at all euro payments in these countries. More than 360 professionals from 33 countries are directly engaged in the EPC's work programme, representing organisations of all sizes and sectors of the European banking industry. The ECB acts as an observer in all EPC working and support groups and in the EPC Plenary (the Plenary is the decision-making body of the EPC, see Figure 4). The EPC is a not-for-profit organisation and does not supply technology, goods or services.

Figure 4 illustrates the various layers of the EPC governance structure and the interested parties organized in fora and groups, having a seat in committees. The objective of gathering an enlarged participation in the aforementioned structure is also visible in Figure 4.

Figure 4 – EPC Governance Structure



Third, SEPA requires a decisive contribution the European clearing and settlement industry, whose aim is to ensure that any beneficiary in the euro area can be reached using SEPA instruments. Various infrastructure providers, such as the card processors, the European Automated Clearing House Association (EACHA) and the EBA, are actively participating in this work. EACHA has developed a set of procedures to secure interoperability between infrastructures (automated clearing houses – ACH), while the EBA has developed STEP2 (a payment service for individual commercial payments in euro), the first pan-European automated clearing house, or PEACH, for clearing cross-border as well as domestic retail payments in euro.

Fourth, SEPA requires the active involvement of the Euro area companies (corporates, merchants, small and medium sized enterprises) in the development of standards to reduce the extent of manual intervention in the handling of payments, ranging from the presentation of invoices to reconciliation services. Their focus is on the creation of automated processes (end-to-end straight through processing – e2e STP), which will reduce the costs of making and receiving payments. Corporate treasurers are organised in the European-Associations of Corporate Treasurers (EACT).

Finally, the Public administrations and consumers will be the users of the new SEPA payment instruments. Governments and public administrations make substantial payments both on a national level and cross-border, which are related to pensions, social security and other benefits or taxation-related issues. A firm commitment is therefore required from the public administrations. In October 2006 the EU Council of Ministers of Economic Affairs and Finance (the ECOFIN Council) expressed its strong support for the creation of SEPA.

But there (are) also some challenges to cater to. First, public authorities are involved in the SEPA project, specifically the Eurosystem (the ECB and the NCB of the euro area) which has underlined its expectations vis-à-vis the project in several publications, and is closely monitoring progress and developments in relation to SEPA; the European Commission that has developed a strategy designed to remove barriers in the internal market and to simplify its rules, for example by proposing the Payment Services Directive (PSD) and as the project evolves, the national authorities which are expected to become increasingly involved in the preparations for the roll-out of the SEPA payment schemes. So, mastering the relationships between these bodies is a critical issue.

Second, the euro area economy was unable to exploit fully all the benefits of Monetary Union. Customers face difficulties when making euro retail payments to other euro area countries, as these payments often turn out to be more time-consuming. As long as this is the case, the euro cannot be viewed as a fully implemented single currency. This begs for SEPA where with a unique account customers can use credit transfers, direct debits and cards and there will no longer be any differentiation between national and cross-border payments within the euro area.

Third, despite the introduction of the euro in 1999 and the development of TARGET, the common large-value payment system for euro, low-value electronic payments (i.e. retail payments) continue to be processed differently throughout the euro area. Overall, the number and variety of payment instruments, standards and processing infrastructures for retail payments has not really changed since the introduction of the euro. In such an environment, companies with a substantial number of cross-border payments therefore have to maintain bank accounts in many of the countries in which they do business, in order to allow them to manage their payment business.

This fragmentation not only affects cross-border payments but also national euro payments, as it prevents innovation and competition on the euro area level. Stakeholders may also be subject to different rules and requirements depending on their country of origin. The creation of a common framework will create the opportunity for innovative payment solutions to be offered irrespective of national borders.

The goal of SEPA is thus to create an integrated, competitive and innovative retail payments market for all non-cash euro payments which, in time, will be conducted entirely electronically. As such, SEPA will benefit all customers.

In the move towards SEPA, the main focus of the banking industry has been on the development of SEPA payment instruments. To facilitate the implementation of these payment instruments, three main fields had to be addressed. First, the industry developed new payment schemes for credit transfers and direct debits, and formulated a framework for card payments.

Second, it investigated additional optional services which could improve the handling of payments. Third, it identified principles for the underlying processing infrastructures, and addressed standardisation issues. The new payment instruments offered by the banking industry to its customers will be based on a new set of rules, practices and standards for euro payments.

The EPC has designed rulebooks for two new payment schemes, and one framework in which banks can develop SEPA payment products: SEPA credit transfers, SEPA direct debits and SEPA card payments.

4.4 The magnitude of Payments Systems

Garcia-Swartz, Hahn and Layne-Farrar (2006) wrote that over the course of history, there have been many different forms of payment systems, including barter, gold, and paper currency. In the mid-twentieth century, charge cards debuted. Ever since then, pundits have been predicting the demise of cash and the emergence of a cashless society. Today, we still pay with cash and checks, but certain payment cards are growing at a much faster rate than paper instruments.

As new payment systems have been introduced, researchers have critically examined their costs from both a private and social perspective. Scholars have studied why individuals and firms use or accept various payment instruments. Some have also considered whether economic welfare would be improved if certain payment instruments displaced others, such as if electronic instruments displaced paper-based instruments. A deeper understanding of the economics of payment instruments could have important implications for policy.

In 2003, Kemppainen mentioned that the smooth operation of payment systems is often taken for granted both in the academic literature on financial integration and in practical policy considerations.

However, recent developments in the European integration process have clearly indicated the critical role of payment systems as part of the financial integration process. In this context, the smooth and efficient functioning of payment systems, especially at the cross-border level, has been emphasised. When analysing the payment system efficiency issues, the interaction between the competition-cooperation nexus and regulation has been put forward. While competition among payment service providers has commonly been seen as an important contributor to efficiency, the need for cooperation in building infrastructures as well as in defining and implementing standards has also been raised due to the specific characteristics of the payment industry. In this context, also the appropriate role of regulation, or more generally, the need for government intervention to maximise social welfare, has been debated. In essence, the focal point in the debate has been the trade-off between competition and cooperation, and the potential impact of regulatory intervention.

Much of the discussion in the European Union has been provoked by the pricing and costs of cross-border retail payments. Dissatisfied with the development efforts by the banking sector, the European Parliament and the Council adopted Regulation (EC) Nº. 2560/2001 on Cross-border Payments in Euro (RPE) in December 2001. The RPE obliges banks to reduce charges for cross-border payments of up to EUR 12.500 (EUR 50.000 as of January 2006) to the level of those of corresponding domestic payments. The RPE applies to card payments and ATM (Automated Teller Machine) withdrawals as from 1 July 2002 and to cross-border credit transfers as from 1 July 2003. This policy intervention was strongly criticised by the banking sector that argued for a market-driven solution.

At the national levels, competition issues have been raised by authorities, especially in the card payments area, where the role of interchange fees has recently been surveyed by regulatory authorities (e.g., in Australia, EU and USA).

Moreover, general competition issues in financial markets were studied e.g., in Australia and in the United States already in the late 1990s. In Australia, the Financial System Inquiry, the Wallis Report (1997) released in April 1997, proposed a regulatory structure to ensure a competitive, efficient and flexible financial system consistent with financial stability, integrity and fairness.

In addition, many national central banks have dealt with competition issues as part of their payment system oversight duties. The Bank for International Settlements (BIS) has published three reports on retail payment issues (BIS 1999, 2000 and 2003), where the role of central banks in facilitating competition and efficiency has also been discussed.

Along with the public interest, the interest in the payment systems issues has also increased since the 1990s both in academic circles and in central banks. In the area of large-value payment systems, the focus has mainly been on the risk and efficiency issues in net and gross settlement systems. Recently these issues have also been analysed empirically by using a simulation model. Academic research in the area of retail payment systems has been rather scarce in general, but intense in some special areas, e.g., in the pricing of card payments. Less attention has been paid to the general assessment of regulation and public policy intervention in retail payment systems given 'the network nature' of the business.

On 24 October 2013, ECB has published its second report on the progress made by payment providers and users towards meeting the requirements of the Single Euro Payments Area by the 1 February 2014 deadline for migration.

The report analyses the state of play in euro area countries in creating a single market for SCT and SDD by the 1 February 2014 deadline, in euro across Europe, and warns that SDD adoption is too slow and last minute migration presents operational risks.

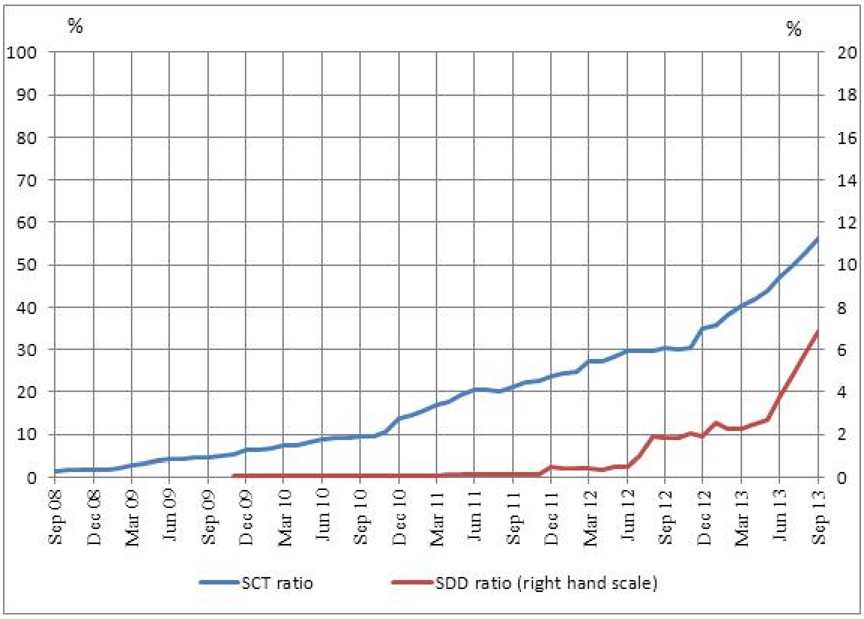
The report also stresses the risks arising from stakeholders, particularly small and medium-sized enterprises, leaving migration to the last quarter of 2013 or later. It warns that payments failing to comply with SEPA will not be allowed to be processed. The report also provides guidance on managing the transition process.

With only 50 days left to go, the changeover process is now entering a critical phase. The information compiled by the ECB and the euro area national central banks show that many key stakeholders have decided to migrate only in the last quarter of 2013, or even later. This approach generates operational risks and limits the ability to tackle any issues or unexpected developments that might arise during the changeover period.

Benoît Cœuré (2013), member of the Executive Board of the ECB, pointing out that this is also the position of the European Union Council and the European Commission. ECB since the first migration report, they have been emphasising the fact that both payments providers and users are responsible for being sufficiently prepared.

A few countries in the euro area have already completed the process, while many others are progressing at a swift pace.

Table 10 - SEPA Credit Transfers and Direct Debits as a share of all transactions in euro area



The report outlines some of the risks posed by a 'big bang' late migration. These risks include capacity issues and bottlenecks on the side of the providers and software vendors at the end of the year, and a lack of time for end users to adapt to the payment service providers' new standards as well as to test their own systems sufficiently.

A successful migration will require considerable effort, so it is important to further strengthen communication and cooperation among key stakeholders and competent authorities at the national level.

One-third of the world's roughly 280 billion annual non-cash payments occur in Europe - and this number is growing. In the 27 countries of the European Union, the number of non-cash transactions increased from 70 billion in 2005 to 91 billion in 2011, a CAGR of 4.5 percent. Going forward, non-cash payments could grow at 8 percent per year through the end of the decade, to exceed 175 billion transactions by 2020 (data from the European Central Bank and Retail Banking Research).

4.5 SEPA launch

SEPA is the new Single Euro Payments Area that enables people to make cashless payments throughout the euro area as quickly, safely and easily as they make national payments. In SEPA, all euro payments are considered domestic and are made with one set of payment instruments. SEPA is thus a natural progression to the introduction of the euro and another major step in realising the full potential of the single market for Europe.

The history of the SEPA project reaches back to 1990 with the publication of a European Commission report 'Making Payments in the Internal Market' which outlined a community vision of a single payments area.

The document stated that 'the full benefits of the single market will only be achieved if it is possible for business and individuals to transfer money as rapidly, reliably and cheaply from one part of the community to another as is now the case with(in) most member states.'

In 1998, the European Commission found that the EU was still a long way from fully exploiting the benefits of the internal market for financial services and renewed its call for the integration of the European payments sector; i.e. the European Commission reinforced efforts to create SEPA.

The Single Euro Payments Area has 33 European country members to date (the 28 members of the European Economic Area, together with Iceland, Liechtenstein, Norway, Monaco and Switzerland), enabling more than 458 million citizens to execute SEPA payments. The SEPA initiative is supported by the Payment Services Directive, which provides the legal foundation for creating a single market for payments across the European Union, establishing a modern and comprehensive set of rules applicable to all payment services in the EU. New entities, formally known as Payment Institutions, are starting to operate in the market. What has been missing until now has been clear end-dates for migration to the SCT and SDD schemes. However, a draft EU Regulation to bring the necessary level of certainty on dates was published by the EU in December 2010. Definitive end-dates should help ensure that the benefits of SEPA can be achieved and that the high costs of running both legacy and SEPA products can be eliminated, thus achieving a single market and improving efficiency and competition in the process.

As the political driver of SEPA, the European Commission and, in particular, the Directorate-General Internal Market and Services, monitors the progress of SEPA migration in EU Member States and publishes annual Progress Reports on the State of SEPA Migration.

In close cooperation with the European Central Bank, the European Commission issued the Communication 'Completing SEPA: a Roadmap for 2009 – 2012'. This Roadmap identifies the actions to be completed by all stakeholders (EU and national authorities, industry and users) with regard to the following priorities: (1) foster migration; (2) increase awareness and promote SEPA products; (3) design a sound legal environment and ensure compliance; (4) promote innovation; (5) achieve standardisation and interoperability; and (6) clarify and improve SEPA project governance.

In addition, the European Commission chairs the 'EU Forum of National SEPA Coordination Committees'. The European Commission together with the European Central Bank established the 'SEPA Council'.

There is a new role of the European Commission with regard to the evolution of SEPA payment schemes.

On 26th of June 2003, The European Central Bank published a Press Release - Towards a single euro payments area - progress report.

This report revealed that since 1 July 2002 EU banks have been obliged by a Regulation of the European Parliament and the EU Council to charge the same fees for cross-border and national card payments in euro [Regulation (EC) Nº. 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro]. As of 1 July 2003, the same principle of equal charges for national and cross-border payments will apply to credit transfers. For cross-border transfers, this may imply lower charges. To benefit, a credit transfer must meet certain criteria: the amount must be not higher than €12.500,00 and the order must carry the beneficiary's International Bank Account Number (IBAN) and the Bank Identifier Code (BIC) of the receiving bank. For payment orders that do not meet these conditions, banks may charge additional fees.

For bank customers, the Regulation is a step closer to a Single Euro Payments Area. However, they can only reap the benefits if they use the IBAN and the BIC. The move to these well-established international standards has to be made by all participants and stakeholders in the payments cycle (private and corporate bank customers, payment system operators and the banks themselves).

While, from a customer perspective, a SEPA is in reach, the banking sector still has considerable work to do to build the infrastructure necessary to supply Regulation-compliant services cost-efficiently. Banks are now developing and implementing their vision for a modern payment infrastructure that will respond to the needs of euro area customers and at the same time benefit from technological innovation.

With its White Paper ‘Euroland: Our Single Payment Area!’ (May 2002), the European banking sector has formulated its strategy to create a SEPA within which there is no difference between the levels of service for national and cross-border retail payments by 2010.

The governance structure for their central decision-making body, the European Payments Council, was in place. First results of the work are already visible: the banks have agreed on a preferred infrastructure for the processing of cross-border retail payments in euro and have adopted conventions for basic cross-border credit transfer services. In several areas, however, the milestones along the road to a SEPA still require more precise specification. The implementation of standards for cross-border payments lags behind banks’ own commitments. The Eurosystem will closely monitor banks’ progress towards a SEPA. It plans to measure progress on the basis of specific indicators, on which it urges the banks to continuously report.

The Eurosystem supports the industry’s work towards a SEPA with its policies. Its role at present is one of a catalyst for change, an active observer of the banking sector’s work. Should the banking industry be unable to make sufficient progress towards a SEPA, however, the Eurosystem may step up its involvement, using its regulatory tools more actively.

In Durbuy, on 6 September 2004, Ms. Gertrude Tumpel-Gugerell, a Member of the Executive Board of the ECB, gave a speech delivered at the Strategy off-site meeting of the Co-ordination Committee of the European Payments Council and stressed again that the ECB prefers a market-first approach.

She said ‘I realise that, to achieve SEPA, it’s best for the EPC to be in the driver’s seat. You, as bankers, know best what standards and business practices would lead to efficiency. However, even if the market does know best, it cannot be taken for granted that, for example, pan-European standards will be implemented by all euro area banks, especially if individual banks prevent the euro area from benefiting from necessary investments purely out of self-interest. Therefore, the ECB will also continue to watch closely where self-regulation will work, and where it has its limitations.

I can assure you that we take our responsibility of promoting the efficiency of payment systems seriously. For citizens and corporations, this means ensuring access to efficient pan-European payment instruments for all their payment needs. It also means taking advantage of the full potential of economies of scale and scope through a competitive pan-European infrastructure to achieve SEPA for the infrastructure. Full SEPA completion could be achieved in two steps. The ECB, at that time, expects SEPA for citizens in 2008 and SEPA for industry in 2010. This would be an important element in the integration of financial markets and contribute to ensuring the success of the Lisbon Agenda by 2010. Therefore, the ECB would like the EPC to confirm its commitment to the SEPA White Paper in a letter of intent specifying what will be achieved by 2008 and 2010, and to state how it intends to arrive at these targets. The ECB would attach particular importance to such a letter of intent if it were to be co-signed by the CEOs of all the euro area banks that wish to support the EPC actively as a sign of their commitment to SEPA'.

In its third progress report on the SEPA, which was published on 2nd of December 2004, 'Towards a Single Euro Payments Area – (3rd) Progress report', the Governing Council of the ECB assesses recent developments in the efforts to transform the still largely fragmented national retail payment systems into a single euro payment area. The objective of a SEPA is to enable European citizens to make payments throughout the whole area from a single bank account, using a single set of payment instruments, as easily and safely as in the national context today. For the customer, it should not make any difference where or with which bank in the euro area the account is held. The Eurosystem's vision for the SEPA, hence, is that all euro area payments should become domestic. They should be as safe and efficient as payments made through the best-performing national payment systems today. Establishing a pan-European infrastructure for the SEPA would increase overall efficiency due to economies of scale.

Consequently, in the White Paper of May 2002, 42 European banks and the European credit sector associations clearly expressed a similar vision. The Eurosystem welcomed the forming of a European Payments Council by the banks in June 2002, aiming to fully achieve the SEPA by 2010. This would include the development of a complete set of pan-European instruments, to be available by end-2007. In this regard, the Eurosystem recommends that these instruments be made available as an option for national payments to individuals and enterprises as early as 2008, without having to change the national infrastructure at that stage. In this way, the SEPA for the citizen would already be achieved. A full migration for banks and their customers to pan-European solutions would be achieved by end-2010.

It is clearly the EPC's responsibility to specify the SEPA objectives and the national banking communities' responsibility to define and implement the national migration plan. The Eurosystem strongly supports the EPC's goal to develop and implement pan-European payment instruments, starting with credit transfers, direct debits and debit cards.

In addition, the Eurosystem, as of this date, invites the national banking communities in the euro area to:

- present convincing arrangements for the implementation of EPC decisions at the domestic level (no later than six months after their adoption at EPC level);

- present to the EPC, during 2005, a national migration plan for the gradual transition to the SEPA by end-2010.

The euro area national central banks stand ready to contribute to the local implementation of the SEPA objectives. The EPC should monitor each national banking community's contribution to the SEPA. The Governing Council intends to monitor progress regularly.

Gertrude Tumpel-Gugerell, a Member of the Executive Board of the European Central Bank, on 3rd of October 2005, in Durbuy, at the off-site strategy meeting of the Coordination Committee of the European Payments Council, thanked for been invited for the second time to present the ECB's views on the Single Euro Payments Area (SEPA).

She asked 'Why is SEPA so important?' and answer that six years after the introduction of the euro, the payment landscape in the euro area is still a patchwork of national systems, reciprocally segmented by their specific traditions and evolved national structures. While citizens pay for goods and services using the same euro coins and banknotes throughout the euro area, their bank accounts are still part of national banking systems in which direct debits or large-sum credit transfers across national borders are either impossible or prohibitively expensive. For a currency union and a single market, this is an unacceptable state of fragmentation.

She commented 'Some of you have told me that you recognise that there political will exists among European policy-makers to reap the potential benefits of a single financial market and achieve measurable gains for customers, corporations and households.

Is it political will alone which drives the process – because it can be enforced by regulation – or is there anything in it for the banks themselves?'.

She said that she strongly believes that SEPA offers an important economic opportunity for the European banking sector which should not be missed. Of course, the costs of providing European instruments in addition to existing national solutions are non-negligible for banks in the short term. Yet there are other potential costs involved that are far more relevant. These are the costs associated with 'half-hearted' solutions, which fulfil the European requirements, without planning for further changes to the systems. Running systems in parallel would be like having two currencies in use. During the changeover period, pressure from merchants and banks helped to speed up the process because, otherwise, the logistical cost would have been too high. Consumers embraced the new currency as they did not want to have to keep two purses.

In her speech she concludes 'I should like to stress again that the preparations for SEPA are key prerequisites for further financial integration, which is important for increasing the competitiveness of the banking sector. Banks in the euro area stand in direct competition with banks that are operating globally. Insulated national systems cannot be sustained for ever. Even if they are currently run efficiently, in the medium term they will be undermined by international competition. The creation of standards that allow for financial integration and consolidation in Europe will strengthen the European banking sector in order to face global competition. Europe must take the full advantage of new technologies.

The EPC is well on the way to having defined a set of standards for basic SEPA services to be delivered in 2008. This is a first and necessary step that the ECB fully supports. This now has to be made concrete through national migration plans at the beginning of 2006. However, alone, this will not be sufficient to face up to global competition. Europe must set the benchmark higher by also aiming to take full advantage of new technologies. In my view, this is part and parcel of the SEPA project, even if it might take some more time to achieve. Fortunately, in Europe we already have some regions which are working with cutting-edge technology. Our challenge is to find a way for early movers and advanced banking communities to start to deliver future-oriented solutions in the short term in the certainty that the rest of the euro area will follow at least by 2010. European banks must keep up the momentum of SEPA.

To spell it out: the SEPA train should run full steam ahead. The ECB, the Eurosystem as well as the European Commission can contribute by ensuring that the tracks are clear. European banks are still in the driving seat. Yet, if the train was too slow, the economic benefits of the project would not materialise, customers would turn away and, ultimately, the process would be run by someone else as global competitors rather than European banks would then bring about consolidation and restructuring in Europe's banking sector. Therefore: do not lose steam!'

In its fourth progress report on the SEPA, which is published on 17th of February 2006, Towards a Single Euro Payments Area – Objectives and Deadlines, the Governing Council of the ECB defines the final SEPA objectives.

The report, which has been discussed with the European Commission, calls for the development of future-oriented, easy, user-friendly and cost-efficient payment solutions to answer the needs of the various customer segments. The banking industry needs to develop the corresponding business models at the euro area level, while migration plans will mainly be defined at the national level, with the assistance of national central banks. The Governing Council supports the 2008 and 2010 deadlines already agreed and underlines the need for good project management and an effective communication strategy.

Part of the progress report is dedicated to the SEPA payment instruments, i.e. credit transfers, direct debits and card payments. It presents the Governing Council's expectations, the corresponding time frames and an assessment of the work already done by the European banking industry. It also identifies areas where this work needs to be enhanced in order to consider the expectations of all stakeholders – corporations, small and medium-sized enterprises, citizens and public authorities. In the field of payment infrastructures, interoperability is expected by the end of 2010, even if the market-driven consolidation process is not completed by then. Finally, particular emphasis is placed on the need to accelerate standardisation work.

Further consultations with the representatives of the various SEPA stakeholders will be organised as a follow-up to this report.

A joint statement from the European Commission and the European Central Bank was held on 4th of May 2006. The European Commission (Commission) and the ECB share a common vision for the Single Euro Payments Area and the process leading to its realisation. Both institutions are co-operating closely in this process and encourage the European banking industry and the other relevant stakeholders to create the technical conditions for the realisation of the Single Euro Payment Area by the end of 2010.

The Commission and the ECB see SEPA as an integrated market for payment services which is subject to effective competition and where there is no distinction between cross-border and national payments within the euro area. This calls for the removal of all technical, legal and commercial barriers between the current national payment markets.

The introduction of the euro as the single currency of the euro area will only be completed when SEPA has become a reality, i.e. when consumers, businesses and governments are able to make cashless payments throughout the euro area from a single payment account anywhere in the euro area using a single set of payment instruments as easily, efficiently and safely as they can make payments today in the domestic context.

By creating open and common standards that overcome technical and commercial barriers and by fostering effective competition, improved payment service levels will benefit the end-users of these services, namely consumers, business and governments, with transparent prices and cost efficient services. SEPA will allow the payments industry to become more efficient, thereby providing significant savings and benefits to the wider European economy and facilitating the attainment of its full potential.

The SEPA process calls for the continuous improvement of payment services, by offering pan-European products that are as easy, efficient and safe as they are today at the national level. It requires to anticipate how modern payment systems will look at the end of the decade and a continuous improvement of service levels. SEPA must be forward-looking, both embracing and enabling the realisation of new technological opportunities. In addition to the core SEPA products that are currently being developed, new opportunities, such as e-invoicing, can provide major benefits.

Standardisation of payment services and processing is critical. It is therefore essential that users, in particular corporations, and other relevant stakeholders are involved in the standard setting process.

Significant progress towards SEPA has already been achieved by the EPC towards the establishment of the schemes, frameworks and the necessary standards underlying SEPA. The Commission and the ECB take the opportunity to stress their support for the objectives set by the EPC for January 2008:

- that EU citizens, enterprises and public administrations should have the possibility to use the SEPA credit transfer and the SEPA direct debit payment instruments defined by the EPC;
- that the technical barriers to cross-border acceptance at the point of sale (POS) and cash withdrawals for card payments in euro should be removed. In addition, appropriate technical and contractual provisions and standards should be defined to ensure interoperability;
- that the necessary conditions for infrastructures to become SEPA-scheme compliant are in place. As a minimum, this calls for open and common standards that are available to all EU processing services and infrastructure providers for euro payments, so as to prepare for interoperability and effective competition.

In addition, the Commission and the ECB stress that it is important that all relevant stakeholders, in particular the public sector, contribute to achieving SEPA. By showing political support and by becoming early adopters of the SEPA products the public sector can play a vital role for the success of the SEPA.

The Commission and the ECB also support the schemes and frameworks, as agreed upon by the EPC on 8 March 2006, as the basis for SEPA products to be introduced in 2008. The Commission and the ECB attach great importance to the work of the EPC to further enhance the schemes and frameworks in the future in order to keep meeting user requirements and to ensure that service levels improve continuously. In this perspective, the Commission and the ECB welcome as a start the dialogue between the EPC and end-users as well as their commitment to involve all stakeholders more openly in the future. They also welcome the commitment to work together on cross-industry standards necessary to make the SEPA attractive to all stakeholders.

The delivery of SEPA instruments is only the first step, since the introduction of the instruments as a mere cross-border payment solution would not result in a genuinely integrated market at the level of the Euro area. In particular, a critical mass of national credit transfers, direct debits and card payments should have migrated to SEPA payment instruments by the end of 2010. Further steps will be necessary in order to ensure widespread adoption of new and efficient SEPA instruments. The service level of SEPA instruments will have to be at least as good as existing national instruments, but preferably better. This will allow for a market-driven migration to the SEPA instruments.

The Commission and the ECB support to the greatest possible extent continued self-regulation by the industry, but given the importance and the size of the social and economic benefits of SEPA, the Commission expressly reserves the right to introduce or propose necessary legislation to achieve it.

The European Central Bank's view on SEPA, on 13th of February 2007, defined the SEPA benefits. The ECB, at that time, has initiated a SEPA impact study. The aim of the impact study is to carefully analyse the possible economic implications that SEPA may have for the various stakeholders, and mainly the banks.

At that time (2007), only an estimation or, at best, limited information is available to measure the economic opportunities and challenges of SEPA. The ECB tries to enrich and complete its understanding about the potential economic consequences of SEPA for different scenarios and stages of the SEPA project.

Furthermore, it envisages providing a clear picture of the expected economic impact for major SEPA stakeholders, and in particular for banks. The preliminary conclusions from the impact study were:

- the overall impact on costs and revenues for the banking industry is broadly moderate and less substantial than is often assumed;
- the financial impact of SEPA varies according to different scenarios and stages of the SEPA project;
- in the short run, the co-existence of SEPA schemes in parallel with the national schemes is expected to lead to initial investment costs and a relatively neutral impact on the revenue side for the banking industry;
- in the longer term, when national schemes are replaced by SEPA schemes, the costs for banks are expected to decrease because of potential economies of scale and scope and innovations (such as electronic invoicing). The revenue side will however also be (negatively) affected as competition will increase;
- moreover, it seems that the impact on costs and revenues will be determined by the approach chosen by the banks. Banks that take a forward-looking view and opt for additional services which will automate the payment process will create new business opportunities;

- the changes which are required in the initial phase of setting up SEPA are substantial, and benefits can be reaped especially by those institutions that embrace new technological developments and provide innovative services.

The ECB SEPA impact study shows that a short dual period is needed to reduce costs of SEPA migration.

On 24th of April 2007, a joint statement by the European Central Bank and the European Commission welcomed the European Parliament's adoption of the Payment Services Directive.

As mentioned before, the European Parliament adopted the proposal for the Payment Services Directive for which the ECOFIN Council had already agreed a general approach at its meeting on 27th of March 2007. The text of the PSD will now be forwarded to the EU Council for final adoption. The Member States should then transpose the Directive as early as possible, and by 1 November 2009 at the latest, into national law.

The aim of the PSD is to ensure that payments within the EU – in particular credit transfer, direct debit and card payments – become as easy, efficient, and secure as domestic payments within a Member State, by providing the legal foundation to make the SEPA possible. The PSD will reinforce the rights and protection of all the users of payment services (consumers, retailers, large and small companies and public authorities).

The ECB and the European Commission share a common vision for the SEPA and constantly monitor and support the process leading to its realisation.

The ECB and the European Commission regard the adoption of the PSD by the European Parliament as a decisive step towards the realisation of the SEPA. The Directive will greatly facilitate the operational implementation of SEPA instruments by the banking industry, as well as their adoption by end-users, by harmonising the applicable legal framework. This will provide the foundation for a single 'domestic' euro payments market. The Directive also underpinned consumer protection and enhanced competition and innovation by establishing an appropriate prudential framework for new entrants to the retail payments market. This should encourage technological progress and the realisation of new product opportunities, such as e-invoicing, which can provide major benefits to the wider economy.

So far, significant progress has been achieved by the European Payments Council and the European banking industry at large towards the realisation of the SEPA. With the proposal for the PSD adopted by the European Parliament, the ECB and the European Commission urge the banking industry and all other stakeholders to maintain momentum and intensify preparation for the launch of the SEPA by 1 January 2008, and for its subsequent successful and timely implementation. The ECB and the European Commission will continue to support these efforts.

On 15th of May 2007, at European Payments Consulting Association - EPCA Payments Conference, Ms. Gertrude Tumpel-Gugerell, a Member of the Executive Board of the ECB, said 'the SEPA will make it easier to use electronic euro payments. It may also trigger the development of related electronic services for enhanced business processes. In 2012, the SEPA will offer a much higher degree of market transparency and significantly less entry barriers for national markets or single market segments.

Before the start of the SEPA project, national payments markets in Europe experienced differing intensities of competition and followed different paths of payment innovation. My expectation is that the general appetite in society for innovative payment solutions will increase along with evolving technological possibilities and the increasing transparency of products available for the SEPA market. The SEPA, therefore, has the strong potential to create a favourable climate for innovative retail payment solutions to flourish.

The SEPA and the PSD together are meant to foster competition and lead to greater innovation and more transparency in both pricing and choice of the services available to customers'.

On 4th of October 2007, Mr. Jean-Michel Godeffroy, Chairman of the Target2 Securities (T2S) Board at the European Central Bank, in Boston, declared that 'SEPA is not only a major re-organisation of the retail payment industry in Europe. SEPA is a political project linked to the introduction of the euro as the single currency of 318 million European citizens. SEPA is also linked to the so-called Lisbon Agenda (March 2000), the aim of which is to modernise Europe and make it more competitive in a global context'.

He expressed that he can easily understand those who wish to rest a little bit, those who claim that we should not run two races at the same time: the Europeanisation of the payment industry, and the introduction of new payment methods triggered by the Internet, the chip card and the mobile phone. In his opinion we have no choice: we have to run these two races at the same time. If Europe is to remain competitive in this world with many new actors, it has to conduct SEPA and e-SEPA together.

To mark the official launch of the SEPA, Mr Charlie McCreevy (Internal Market and Services Commissioner, European Commission), Ms Gertrude Tumpel-Gugerell (Member of the Executive Board, European Central Bank) and Mr Gerard Hartsink (Chairman, European Payments Council) organised a high-level SEPA launch event, as the key promoters of SEPA, entitled ‘SEPA GOES LIVE’, with distinguished guests from the EU payments market. The event was held at the Charlemagne Building, in Brussels, on 28th of January 2008, starting at 6.00 p.m.

On 28 January 2008 an important milestone in the SEPA migration process was reached, with the official launch of the first SEPA payment instrument for credit transfers. More than 4,400 banks across Europe joined - 24 of which operate in the Portuguese market -, accounting for over 85% coverage.

The SEPA logo is a registered trademark of the European Payments Council (Figure 5). In line with the December 2007 Plenary decision, a SEPA Logo has been adopted to give SEPA related literature a strong, coherent and recognisable appearance.

Figure 5 – SEPA Logo

4.6 The SEPA Regulation

In February 2012, the European legislator adopted the Regulation (EU) Nº. 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) Nº. 924/2009 - the SEPA Regulation. Article 6 (1) and (2) of the SEPA Regulation mandates that credit transfers and direct debits shall be carried out in accordance with the relevant requirements set out in Article 5 and in the Annex to the Regulation by 1 February 2014, subject to certain limited exemptions mentioned in the Regulation. In non-euro countries, the deadline will be 31 October 2016.

Effectively, this means that as of these dates, existing national euro credit transfer and direct debit schemes will be replaced by SCT and SDD. The SCT and SDD Schemes were developed – at the request of the EU authorities – by the EPC in close dialogue with the entire payment user community. The SEPA Regulation also empowers the European Commission to determine and amend technical requirements applicable to the SCT and SDD Schemes.

The majority of market participants recognise the value of setting a deadline for migration to harmonised SEPA payment schemes through European Union Regulation. The EPC shares the view that an end date for phasing out legacy euro payment schemes for credit transfers and direct debits ensures planning security for all market participants.

The SEPA Regulation also sets the conditions to fully realise the benefits inherent in the harmonisation of the euro payments market. A study already carried out on behalf of the European Commission in 2007, found that the replacement of existing national euro credit transfer and direct debit schemes by harmonised SEPA payment schemes held a market potential of up to 123 billion euros in benefits cumulative over six years to the advantage of payment service users. As confirmed by the findings of this study, these benefits for bank customers are however contingent upon swift migration to a single set of SEPA payment instruments by both the demand and the supply sides.

The EPC has frequently pointed out that full migration to SEPA is subject to the appropriate legal and regulatory environment which must be established by the EU legislator. The substantial efforts of the banking industry to develop harmonised SEPA payment schemes, as requested by the EU authorities, did not - and, in light of EU antitrust law, could not - entail a responsibility of the industry to impose the replacement of existing national schemes by the new SEPA instruments. The fact that the mere existence of harmonised SEPA payment schemes did not trigger mass migration on the customer side did not come as a surprise. It must be highlighted as often as necessary that the SEPA process would never have occurred spontaneously; bank customers never asked for it. The integration of the euro payments market requires the political will and mandate to achieve it. By comparison: the EU monetary union did not materialise either by simply throwing euro notes and coins at people in the hopes they would enthusiastically abandon national currencies in the event. European integration is not a grassroots movement. The SEPA process confirms this rule. The SEPA Regulation is the fourth major regulatory intervention within a decade designed to achieve a harmonised euro payments market (SEPA Legal and Regulatory Framework) as envisioned by the EU authorities. With adoption of the SEPA Regulation, the EU lawmaker forcefully reiterates that SEPA is a policy-maker driven EU integration initiative.

This legislative act also redefines the process governing the evolution of the SCT and SDD Schemes. To date, the EPC develops the SEPA payment schemes and frameworks, based on global technical standards developed by international standardisation bodies, in close dialogue with the customer community. Going forward, the SCT and SDD Schemes will need to be amended as mandated by the European Commission.

The SCT and SDD Schemes have to comply with the technical requirements detailed in Article 5 and in the Annex to the SEPA Regulation. The SEPA Regulation empowers the European Commission to amend the technical requirements set out in the Annex to the Regulation through delegated acts.

'Delegated acts' are a new addition to the EU decision making landscape. They were introduced by the Lisbon Treaty, which entered into force in December 2009 and more specifically, by Article 290 of the Treaty on the Functioning of the European Union (TFEU).

Whereas European legislation is adopted by the EU legislators: the Council of Ministers (made up of representatives of the 28 EU Member States) and the European Parliament (made up of 754 directly elected members), Article 290 TFEU allows the Council and European Parliament to delegate the power to adopt non-legislative acts to the European Commission (the executive body).

When adopting these acts, the European Commission has committed to consulting experts appointed by EU governments in its preparatory work. It is uncertain to what extent the European Commission will consult SEPA stakeholders not appointed by EU governments. The European Commission has reiterated that it has a lot of autonomy in relation to adopting delegated acts and 'experts will have a consultative rather than an institutional role in the decision-making procedure'.

In light of this new regulatory reality, the EPC has no choice but to recognise that the expertise of payment experts employed by the banking industry may come second to the requirements defined by the EU legislator and the European Commission as regards the debate on the evolution of the SEPA payment schemes. The banking industry also calls again on the European authorities to refrain from stating that SEPA would be a 'self-regulatory project run by the banking sector'. As demonstrated above, this claim was erroneous in the past and is untenable today.

The European Commission represents the general interest of the EU and is the driving force in proposing legislation (to the European Parliament and the Council representing EU Member States), administering and implementing EU policies, enforcing EU law (jointly with the Court of Justice) and negotiating in the international arena.

4.7 The Major and Key SEPA Stakeholders

As mentioned by Aaltonen K. and Kujala J. (2010) global projects affect and are affected by multiple stakeholders with differing interests and demands. Recently, there has been increased pressure for global projects to be more environmentally and socially responsible. A project creates a dynamic context for stakeholder management and stakeholder behaviour because the project moves through different phases during its lifecycle. Ultimately, a better understanding of secondary stakeholders' influence behaviour during the project lifecycle enables the use of more effective project stakeholder management approaches.

In an EPC publication 'Who Does What in SEPA', updated edition in March 2012, it provides an overview of the main actors involved in the SEPA process at a European level and describes their specific responsibilities. As highlighted in the previous section, it should be noted that Recital (5) of the 'Regulation establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) Nº. 924/2009' - the SEPA Regulation, adopted by the European legislator in February 2012, states that the European Commission should 'review the governance arrangements of the whole SEPA project before the end of 2012 and where necessary make a proposal. This review should examine, inter alia, the composition of the European Payments Council, the interaction between the EPC and an overarching governance structure, such as the SEPA Council, and the role of this overarching structure.' This publication will be updated to reflect the outcome of this review process.

Commonly, the principal SEPA Stakeholders mentioned are consumers, merchants, companies, payment service providers and infrastructures.

Globally, SEPA requires interaction between all of the following constituencies - the payments industry, the European clearing and settlement industry, the Euro area companies, consumers and a considerable number of public authorities.

In the payments industry, the main stakeholder is the EPC, established in 2002, following the introduction of the euro notes and coins, as the coordination and decision-making body of the European banking industry on issues related to payments. It is a non-profit organisation and a self-regulatory payments body, which was entrusted to realise SEPA. The purpose of the EPC is to support and promote SEPA. The EU authorities called on the banking industry to develop harmonised schemes for electronic euro payments. The EPC develops payment schemes and frameworks which help to realise the integrated euro payments market. In particular, the EPC defines common positions for the cooperative space of payment services.

As elucidated in the following sections, the EPC consists of 74 members representing banks, banking communities and payment institutions. More than 360 professionals from 33 countries are directly engaged in the work programme of the EPC, representing all sizes and sectors of the banking industry within Europe. The ECB acts as an observer in all EPC working and support Groups and in the EPC Plenary (the Plenary is the decision-making body of the EPC).

The EPC is responsible, among other things, for the development and maintenance of SEPA payment schemes as defined in the SCT and SDD Rulebooks. The rulebooks contain sets of rules and standards for the execution of SEPA payment transactions that have to be followed by adhering payment service providers. These rulebooks can be regarded as instruction manuals which provide a common understanding on how to move funds from account A to account B within SEPA. The schemes are based on technical standards defined by standards bodies such as the International Organization for Standardization. The SEPA Schemes developed by the EPC have open access criteria in line with Article 28 of the Payment Services Directive.

The particular SEPA payment products and services – based on a particular payment scheme – offered to the customer, are developed by individual payment service providers or groups thereof operating in a competitive environment. The development of payment products based on the SEPA payment schemes, including all product-related features, is outside the scope of the EPC. The SEPA Schemes maintained by the EPC in close dialogue with the entire payment community provide the flexibility and options which enable payment service providers to add features and services of their choice to the actual payment product.

The EPC is not a supplier of technology or any goods or services. The SCT and SDD Schemes have evolved, in close dialogue with the customer community over time to reflect changes in market needs. The annual EPC scheme change management process provides all stakeholders with the opportunity to introduce suggestions for changes to the schemes. Proposed amendments are subject to a three month public consultation. Change requests that find broad acceptance from the entire user community are then taken forward, while requests that lack support are not. The SCT and SDD Rulebook release schedule established by the EPC foresees the publication of updated rulebook versions once annually in November. These updated versions take effect in November of the following year. This ensures that banks and other service providers have one full year to address the rulebook updates before they become binding for all scheme participants.

The EPC created the Cards Stakeholders Group (CSG), which brings together representatives of all relevant sectors, including schemes, processors, vendors and retailers, as well as payment service providers. The aim is to reach a consensus on the SEPA cards standardisation programme in order to realise the vision of a SEPA for cards and to agree on timelines for their application. The CSG supports the EPC in the maintenance and enhancement of the SEPA Cards Standardisation Volume – Book of Requirements.

The European clearing and settlement industry provides the infrastructure needed for processing payment transactions between SEPA scheme participants. To ensure the smooth processing of SEPA payments and reachability of all participants, the EPC established principles for the SEPA scheme-compliance of clearing and settlement mechanisms (CSM) - PE-ACH/CSM Framework. The EACHA membership consists of 25 European automated clearing houses and developed a technical interoperability framework for infrastructures. The STEP2 service by EBA Clearing provides reach using a different approach.

The Euro area companies, meaning corporates, merchants, small and medium-sized enterprises and public administrations, are important users of the SEPA services, since they generate a large share of the daily payment volumes in euro. After the SEPA migration end date in February 2014, all incoming and outgoing credit transfer and direct debit payment messages in euro will follow the same format.

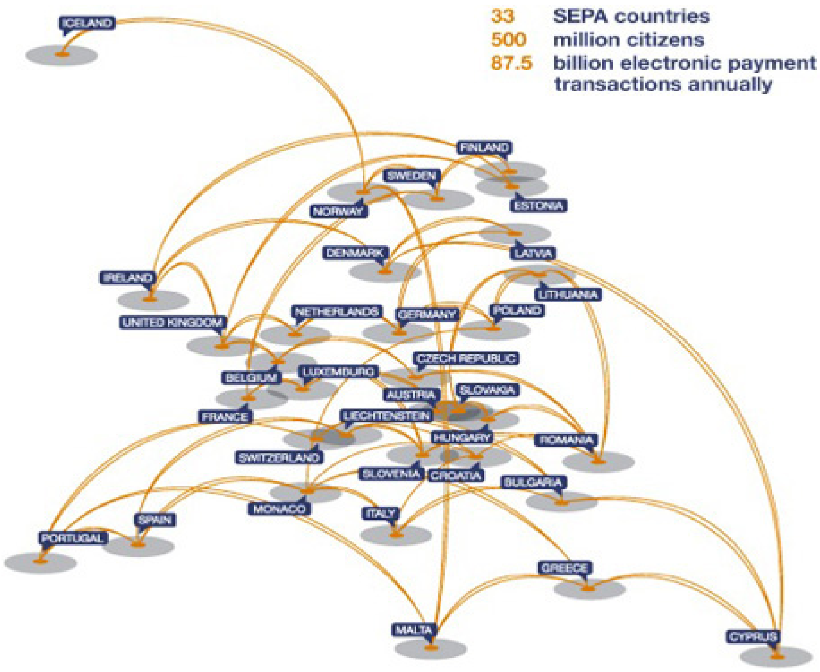
The consumers are important users of SEPA payment instruments because their individual decisions on which payment instrument to pick for a given transaction generate the overall demand for the alternative instruments. With SEPA, consumers can rely on one bank account and one payment card to make euro payments across all EU countries – with these payments being made as quickly and as safely and at no higher cost than at national level for corresponding payments. Each end user party to a payment, for instance the consumer paying a bill and the biller receiving the payment, is charged individually and separately for this payment service in a transparent manner. The basis and level of charges applied to end users are entirely a matter for individual payment service providers.

A number of public authorities have been engaged in the SEPA project from the outset, as both regulators and users. The Eurosystem, comprising the ECB and the euro area national central banks, has supported the SEPA project both at European and national levels. It defines and monitors the SEPA objectives, for example the progress being made in terms of migration to the new payment instruments. The Eurosystem fosters the use of SEPA payment instruments and encourages the industry to further develop its SEPA offerings, making them more and more attractive for users. With this in mind, it facilitates a European dialogue between banks, other payment service providers and end users of payment services.

The European Commission supports SEPA as an important element of a single and competitive market. The European Commission, the European Parliament and the Council have provided the necessary legal basis for the European payments market and defined end dates for the migration to SEPA credit transfers and SEPA direct debits. The national ministries of finance support SEPA through the ECOFIN Council and are in most countries strongly involved in facilitating SEPA preparations and migration at the national level. Every minister in the Council is authorised to enter into agreements on behalf of their government. The Council decides on legislative proposals.

The European Parliament is the only directly-elected body of the EU. The 766 members of the European Parliament are elected once every five years by voters across the 28 Member States of the EU, on behalf of just over its 500 million citizens (504.456.000) – Figure 6.

Figure 6 - SEPA Countries, Citizens and Electronic Payment Transactions



SEPA links a large number of participants, hailing from diverse jurisdictions at the country level, and commits citizens from all over the world, independently of participating as individuals or organized groups. The large volume of transactions translates the significance of the industry.

In many policy areas, decisions on new European laws are made jointly by the European Parliament and the Council representing EU Member States. The European Parliament also has joint power with the Council over the annual budget of the EU. The European Parliament organises its work through a system of specialised committees. The committees draw up, amend and adopt legislative proposals and own-initiative reports. They also consider European Commission and ECOFIN proposals and, where necessary, draw up reports to be presented to the plenary assembly of the European Parliament. The SEPA Regulation was considered by the Committee on Economic and Monetary Affairs (ECON) of the European Parliament. The European Parliament called on the European Commission in March 2009 and again in March

2010 ‘to set a clear, appropriate and binding end-date (...) for migrating to SEPA instruments, after which all payments in euro must be made using the SEPA standards’.

The ECB is the central bank for Europe’s single currency, the euro. The Eurosystem comprises the ECB and the national central banks of those countries that have adopted the euro. The ECB’s main task is to maintain the euro’s purchasing power and thus price stability in the euro area. The euro area currently consists of the 17 EU countries that have introduced the euro since 1999. The European Central Bank’s view on SEPA, on 13th of February 2007, was that the aim of SEPA was to complete the introduction of the euro as the single currency and to support European integration.

In its role as a catalyst for the integration of the euro payments market, the ECB has long argued that the monetary union remains incomplete until Europe converts to common electronic euro money across all forms of payment. The ECB actively monitors the progress of SEPA in close dialogue with the political authorities, the banking industry and payment services users. The ECB also publishes regular SEPA Progress Reports. The ECB SEPA indicators track the rate of SEPA market uptake. The ECB, together with the European Commission, chairs the SEPA Council.

The SEPA Council, which brings together representatives of both the demand and supply sides of the payments market, including the EPC, was established by the European Commission and the ECB in June 2010. Its aim is to promote the realisation of an integrated euro retail payments market by ensuring proper stakeholder involvement at a high level and by fostering consensus on the next steps towards the full realisation of SEPA. The SEPA Council does not replace any existing groups or structures at national or European level (however, the EPC does).

The specific objectives of the SEPA Council are:

- to promote the realisation of the SEPA vision and provide a strategic direction for EU retail payments in euro;
- to monitor and support the SEPA migration process;
- to ensure accountability and transparency of the SEPA process through the involvement of all actors concerned.

The SEPA Council may provide guidance and / or statements, where possible on a consensual basis. Members are expected to speak on behalf of the sectors they represent. The SEPA Council has no powers to impose binding measures.

The EU Forum of National SEPA Coordination Committees (EU Forum), established in October 2008, provides an opportunity for national SEPA Coordination Committees to familiarise themselves with the activities of their European counterparts, debate issues of common interest with the EU institutions and exchange information and good practices about SEPA migration. The forum is chaired by the European Commission and it is intended to hold meetings twice a year.

In Portugal, the preparatory works for migration to SEPA have been mainly carried out within the scope of both the CISP, which is an advisory body assisting Bank of Portugal in matters related to the payment systems, and the Interbank Working Groups (Portuguese acronym: GTI), which operates under the aegis of the Bank. Bank of Portugal, banks and the Interbank Services Company (Portuguese acronym: SIBS) have developed joint action, with a view to implementing the necessary adjustments to national retail payment systems, so that these become SEPA-compliant.

Within the CISP structure, the GTI on Cross-border Payments takes over the role of centralising issues related to the migration of the national banking community to SEPA. This group integrates the representatives of this community at the different levels of action of the EPC, in order to coordinate ongoing work, conductive to the effective implementation of SEPA in Portugal.

In order to facilitate the adherence of banks and other institutions to SEPA, as defined by the EPC, each country shall have one or more NASO – National Adherence Support Organisation, ensuring a role as intermediary between the EPC and adherents to SEPA, namely payment instruments for credit transfer and direct debits. In the Portuguese case, Bank of Portugal and the Portuguese Banking Association have agreed on the establishment of NASO-PT, whose operation shall be ensured by Bank of Portugal and bank representatives, at the level of the Interbank Working Group/Cross-border Payments.

Information campaigns have been sponsored, intended for other relevant entities involved in the SEPA project – e.g., companies, retailers and consumers – namely in sessions at Bank of Portugal in November 2007, addressed at various Public Administration entities, sectorial confederations (manufacturing, trade and services, tourism and agriculture) and also consumer representatives.

4.7.1 The Impact of SEPA on Stakeholders

In SEPA, all euro payments will be treated as domestic payments, and the current differentiation between national and cross-border payments will disappear. The national practices of the payments industry need to be changed, which also means changes for companies, merchants, consumers, public administrations, payment service providers and infrastructures.

Two SEPA instruments were already introduced in 2008 and 2009. Since then, the handling of dual processes for national instruments and SEPA instruments has been expensive for the payments industry, and also for its customers. As long as the lengthy and costly migration process towards the new SEPA instruments has not been completed, the benefits of SEPA cannot be reaped in full. A clear timeline for completing the transition phase was needed – and it was set in March 2012 with the publication of Regulation Nº. 260/2012. As a result, the official migration end-date is 1 February 2014 for the euro area.

The first benefits to come from SEPA will be the new SEPA instruments. Secondly, SEPA will create a European playing field, which will bring significant economies of scale, mainly in processing. But markets need to be opened up to foster competition. A third benefit is that SEPA will allow for the introduction of payment innovations that respond to the needs of European customers. And finally, the SEPA will provide benefits for banks, especially to those banks that quickly seize the opportunities that SEPA offers.

One of the most potent impacts on consumers is the benefit from having a single payment account. A growing number of people in Europe live outside their home country, or make regular payments to beneficiaries located abroad. Before SEPA, this implied having an account in each country or having to face the difficulties that a cross-border transaction entailed. In the case of direct debits, it was not even possible to use this instrument across countries.

Because of SEPA, consumers will no longer need one account at home and another abroad. In addition, electronic payments in euro to any destination in the Single Euro Payments

Area will finally be as easy as national payments are today. This holds true of both credit transfers and direct debits. Some examples of this benefit could be, paying rent for children studying abroad; paying for a holiday home; and paying for services provided by European companies (such as telephone services, insurance and utilities).

Another benefit is a single payment card. In SEPA, payment cards will be widely accepted for all euro payments. This will also reduce the need to carry cash, for instance when travelling. New standards are helping to increase customer safety and security.

An additional advantage from SEPA is the faster and simpler payments. The Payment Services Directive obliges payment service providers to process payments within certain time +limits (one business day for electronic payment orders, two business days for paper-based payment orders). A long-term goal of SEPA is to foster the establishment of a paperless payments area with e2e STP for all payments. Payments can then be combined with innovative services that make the process of paying even simpler and more convenient. These services already exist in some countries, but they do not necessarily work across borders. SEPA is expected to make this possible. In short, with SEPA, consumers can manage their euro payments in faster and simpler ways, across Europe.

The impact on merchants can be summarized as the benefits from the harmonization, more choice of acquirers, lower cost, easier remote business and card fraud prevention.

Payment cards are a very popular way of paying retailers. They are increasingly replacing cheques and cash. To accept card payments in a shop, merchants need to have an agreement with an acquiring entity. The acquirer processes card payments on behalf of the merchant: it handles the information on the payment and the cardholder, and forwards it to the cardholder's payment service provider, usually via a clearing infrastructure. SEPA will bring harmonisation, and thus increase competition among the providers of card payment services. This should mean wider choice, lower costs and better service.

With SEPA, acquirers will be able to process all SEPA-compliant card payments – also across national borders. Therefore, merchants will be able to choose any acquirer in SEPA. This will increase competition among acquirers and bring down costs.

POS will become increasingly standardised with SEPA. As a result, their production and certification costs will diminish and competition among providers will increase. All this should bring fees down for merchants. In addition, merchants will be able to accept a wider range of cards from a single terminal. The increased competition among card schemes should also drive down the cost for merchants.

Merchants with a remote customer base often do business via e-commerce, mail or telephone orders. These channels are used for offers and orders, but also for submitting invoices, and sometimes even for directly initiating payments. Merchants benefit from the harmonised cards market, but can also use SEPA credit transfers and SEPA direct debits as payment options. This may be particularly beneficial for them if a variety of eSEPA services also evolves, tailored to their specific distribution channels.

Improvements in the security of cards and the underlying payment infrastructure are crucial to reduce fraud at automated teller machines and point-of-sale terminals. The most important enhancement in past years was the wider adoption of Europay, MasterCard and Visa (EMV), a chip-based standard. This offers stronger security features than conventional magnetic stripes, both for the physical card (since, unlike the stripes, the chip cannot be duplicated easily) and for the technological infrastructure behind the transaction. The adoption of these safety features is recommended by the Eurosystem and forms part of SEPA migration. For card payments on internet transactions, other improvements are needed to reduce fraud. Online merchants play a pivotal role in this field.

For companies, the switch to common standards for bank account numbers and, particularly, the financial services messaging standard International Standards Organisation (ISO) 20022 XML has a substantial impact on accounting and software systems. Companies will have to make the necessary adjustments in good time in order to be able to use and benefit from the SEPA payment instruments.

The benefits for companies are saving time and costs and electronic services. Companies that receive or send payments in various European countries often use special and complex software to process and execute their payments. This type of payment software is typically very costly to develop or purchase. By creating common technical standards for SEPA, software developers are able to provide much more efficient and less costly payment solutions to companies. Hence, even smaller companies are able to make use of commoditised and cheaper off-the-shelf software solutions to execute their payments throughout Europe.

Using the SEPA payment instruments, companies will be able to effect all euro-denominated payments centrally, from a single account. After 1 February 2014, the handling of payments in euro will be easier, as all incoming and outgoing payments will take the same format. This will enable companies to consolidate their payments and liquidity management in one location. The Payment Services Directive obliges payment service providers to process payments within certain time limits (one business day for electronic payment orders). For Europe-wide business, SEPA will save money and time.

The impact on payment service providers could be detailed as increased market efficiency, cost-efficient processing and specific effects of Regulation Nº. 260/2012 on payment service providers.

In SEPA, banks and other payment service providers have had to harmonise the way euro retail payments are initiated and processed. This has entailed substantial costs, but benefits will materialise in the medium to long term.

Harmonisation throughout SEPA means that payment service providers will be able to offer their services more easily to customers, regardless of their location. In addition, payment service providers will be able to expand their business and meet their customers' needs by offering innovative services, such as e-payments and m-payments as well as e-invoicing, in addition to core SEPA products.

The full implementation of SEPA will align the conditions under which payments are made. The results will be a single set of rules; an equal and open access to the European market; reachability; transparency and interoperability. This will encourage competition and enable payment service providers to negotiate better conditions with their own service providers.

Financial intermediaries must impose equal charges on comparable cross-border and domestic payments in euro within the EU (see Regulation Nº. 924/2009). This principle of equal charges has been reinforced by Regulation Nº. 260/2012, which has eliminated the €50,000 ceiling previously set for the requirement of equal charges. Cross-border payments are traditionally more expensive and complex to process. SEPA will overcome this imbalance by making cross-border payments in euro as simple, efficient and inexpensive as national payments.

The Regulation covers credit transfers and direct debits where both payment service providers (or the sole payment service provider, if that of the payer is identical to that of the payee) are located in the EU. The regulation covers all credit transfer and direct debit transactions where an end-user is involved. It also lists transactions that are excluded from its scope, such as payment transactions carried out by payment service providers for their own account, card transactions and payment transactions made via mobile phone or any other means of telecommunication or digital or Information Technology (IT) device.

The regulation introduces several technical requirements and compulsory data elements to be considered by payment service providers when carrying out SEPA credit transfers and direct debits in the domain of both interbank and bank-customer transactions. For example, payment service providers must use the message format ISO 20022 XML and moreover provide the data elements specified in the annex to the regulation, and the remittance data field must provide for 140 characters.

In order to encourage the successful take-up of SEPA-wide credit transfer and direct debit services, a reachability obligation has been established across the EU. Payment service providers should ensure that all payee payment accounts that are reachable for national credit transfers and all payer accounts that are reachable for national direct debits are also reachable via an EU-wide credit transfer or direct debit scheme.

Regulation Nº. 260/2012 has acknowledged the need to take measures in order to strengthen customer confidence in the new instruments, especially for direct debits. Such measures should allow payers to instruct their payment service providers to limit direct debit collection to a certain amount, or a certain periodicity, and to define specific positive or negative lists of payees. In addition, when the collection of direct debit is based on a framework agreement with no refund right between the payer and his/her payment service provider, the payer's payment service provider will verify each direct debit transaction to check whether the amount of the submitted direct debit transaction is equal to the amount and periodicity agreed in the mandate before debiting the payer's payment account.

The payer under a direct debit in euro should give his/her consent both to the payee and to the payer's payment service provider (directly or indirectly via the payee). Mandates for recurring direct debits in legacy schemes will remain valid after 1 February 2014 and will be considered as representing the payer's consent to his/her payment service provider to execute direct debits.

Regulation Nº. 260/2012 limits the possibility to apply per-transaction MIF to direct debits in euro. MIF are fees charged between payment service providers in some Member States when passing on individual direct debits. Such MIF will be phased out by February 2017 for national payments, and have already been phased out for cross-border payments since November 2012. However, MIF for transactions which are rejected, refused, returned or reversed because they cannot be properly executed and result in exception processing (so-called 'R-transactions') will continue to be allowed, provided that they comply with certain conditions specified in the Regulation.

Charges levied by a payment service provider on a customer in respect of cross-border payments in euro will be the same as the charges levied by that payment service provider for corresponding national payments of the same value and in the same currency. With the adoption of the end-date regulation, the ceiling of €50,000 for the application of equal charges, as laid down in Regulation Nº. 924/2009 on cross-border payments in the Community, was abolished.

The impact on infrastructures could be briefed as wider scope and consolidation, separation of scheme management and processing infrastructure and interoperability.

The effects of SEPA have been very visible at the infrastructure level, i.e. among entities that offer interbank funds transfer systems. Most retail payment infrastructures that were processing credit transfers in euro have been processing SEPA credit transfers since their launch in January 2008. Several infrastructures have moved from being purely domestic operators to pan-European service providers.

With SEPA, the management of the schemes will be separated from the processing infrastructure. This will enable infrastructure providers to offer their services to all payment service providers in SEPA. For instance, card processors will be able to serve different card schemes and acquirers throughout SEPA. This will increase business opportunities and competition for infrastructure providers.

Technical interoperability is a key element. Without interoperability, it would not be possible to create an integrated market for electronic payments systems in euro, which is the basic aim of SEPA. It is essential that the processing of credit transfers and direct debits is not hindered by business rules or technical obstacles such as compulsory adherence to more than one system for settling cross-border payments.

Regulation Nº. 260/2012 requires the retail payment system operator or the participants in a retail payment system within the EU to ensure that their payment system is technically interoperable with other retail payment systems there.

4.8 The SEPA Roadmap

In September 2009, the Commission of the European Communities published a communication – 'Completing SEPA: a Roadmap for 2009-2012'. This SEPA roadmap provided a framework for action to achieve full implementation and responded to the Commission Communication for the Spring European Council of 4 March 2009 where the Commission announced it would 'come forward by mid-2009 with proposals to ensure that the full benefits of a Single Euro Payments Area are realised'.

The SEPA Roadmap details the work that still has to be accomplished in order to successfully reap the full benefits of the Single Euro Payments Area. The SEPA project is fully in line with the Europe 2020 strategy which aims at a smarter economy where prosperity results from innovation and from more efficient use of available resources.

The Commission and the European Central Bank share the same vision for SEPA and this Roadmap reflects close cooperation between the ECB and the Commission regarding its further development. This Roadmap identifies the actions to be completed by all stakeholders (EU and national authorities, industry and users) over the next three years, following six priorities, foster migration, increase awareness and promote SEPA products, design a sound legal environment and ensure compliance, promote innovation, achieve standardisation and interoperability and clarify and improve SEPA project governance.

In 2009, SEPA governance was organised at two levels. At EU level, EPC governance is structured around two functions: the development and evolution of payment schemes and the administration of and compliance to the schemes.

The Commission supports the SEPA process, by closely monitoring SEPA implementation and by discussing developments with Member States and stakeholders. It also raises the political profile of SEPA at European level. The ECB plays a similar role, acting as a catalyst to support the delivery of SEPA. The ECB has observer status in the EPC Plenary and working groups, and coordinates the work of the Eurosystem. It runs various fora, such as the SEPA High-Level Meeting, to debate and promote SEPA.

At national level, SEPA Coordination Committees, in which national central banks are strongly involved, have been set up in all euro area Member States (and almost all outside) to coordinate and monitor SEPA implementation. The role, composition, duties, and working methods of these Committees differ widely, but all have the common objective of nurturing SEPA migration at national level. Given that national payment habits and traditions vary widely, SEPA must be delivered in a national context. Therefore the role of national SEPA Coordination Committees is particularly important.

The governance of SEPA was historically in the hands of the European Payments Council, a body established by the European banking industry to promote the realisation of SEPA and the development of pan-European payment instruments. To broaden stakeholder participation, the Commission and ECB in 2010 established the SEPA Council, an informal stakeholder body with high-level representatives from the demand side (corporates, Small and Medium-Sized Enterprise - SME, consumers, retailers, public administrations) and supply side (payment service providers) for the provision of strategic advice and guidance in a non-binding manner. Under these arrangements, the EPC participates as a member of the SEPA Council and maintains its role as the management body for already existing retail payment schemes. Hence, there is currently a clear separation between the strategic level of governance (SEPA Council) and the technical level (EPC). The terms of reference of the SEPA Council foresaw a review of its functioning by the Commission and the ECB by the end of 2012.

However, the European Commission considers that there is a need for an over-arching SEPA governance model at EU level, which fosters integration of the euro retail payments market in a way that meets the needs of end users.

End-users criticise an on-going imbalance between the demand and supply side of the payments market due to the lack of a clear mandate of the SEPA Council, gaps in the composition of the SEPA Council (e.g., non-bank payment service providers and e-commerce retailers) and missing involvement in the consultation and decision making process of the EPC, including the technical development of payment schemes which is currently the sole responsibility of the EPC. Stakeholders also ask for better dispute resolution processes and more efficient information exchange and coordination processes between different stakeholder categories. Therefore, in September 2012, the Commission presented an initiative that aimed to address the lack of a clearly defined mandate for the SEPA Council, the informal status of the SEPA Council and the incomplete composition of the SEPA Council.

The current self-regulatory approach has proven to be insufficient and is subject to substantial criticism by stakeholder groups on the supply and demand side of the market. Consequently the Commission has published a roadmap for improving the governance of the SEPA. In particular, the initiative aims to address the mandate and the composition of the SEPA Council, which was established by the Commission and ECB in 2010 to broaden stakeholder participation in promoting the realisation of SEPA together with the European Payments Council. This is one of the responses to the consultation through the Green Paper on card, internet and mobile payments as well as on-going consultations with the Payments Committee and the Payment Systems Market Expert Group.

The Roadmap recommends to establishment of a 'soft law' through a Commission Communication including a Commission Decision, which formally specifies the composition, role and tasks of the SEPA Council, leaving the overall steering of the retail payments integration for the Commission. Other considered policy options were doing nothing, which was deemed to be insufficient, using a legislative instrument and assigning the responsibility for SEPA governance to the ECB. SEPA related legislation was regarded as disproportionate at this stage, while assigning the lead to the ECB was considered to fail to address the retail and payment user dimension of the problem. The Commission believes that this initiative does not require an Impact Assessment.

4.8.1 SEPA Governance

SEPA is a major project that requires a clear and transparent governance structure involving all stakeholders: payment service providers, end users, and public authorities.

The European Union is set to revise the Single Euro Payments Area governance arrangements by replacing the informal SEPA Council with the European Retail Payments Board (ERPB) and by adjusting the role of the European Payments Council, according to draft European Commission documents seen by Policy and Regulatory Report (PaRR).

In the new, more formal, governing body, each relevant stakeholder group from both demand and supply sides of the market would have at least one representative. The EC and the European Central Bank would nominate the chairs of the board.

Central banks of EU members states could participate in the ERPB as observers. Industry associations will be able to suggest their nominees, who, as well as the observers, would have to be appointed by the chair for a period of three years. The composition of the board would be reviewed every two years, however, and more observers could be admitted, according to the draft document.

The proposal also foresees the possibility of an additional 'multi-stakeholder group' that could be established as the board's sub-committee 'for a limited period of time for specific clearly defined tasks of strictly executive nature and entailing technical work only'.

The ERPB would make its decisions on a consensus basis. Its objective centers on ensuring a level playing field for all market players in the retail payments business in Europe. The mandate ranges from identifying obstacles to credit transfers, direct debits, card, internet and mobile payments to putting together strategies to address any such hurdles to foster innovation and competition in European retail payments market.

The board will be accountable to the EC, the European Parliament (EP) and the Council as well as the European Economic and Social Committee. The draft directive requires the board to report evaluation report on its efficiency and functioning. In the draft staff working paper, the EC suggests that the ERPB would provide an annual report on its activities to the EC, ECB, EP and the ECOFIN Council 'to enhance its transparency and accountability'.

Meeting participants at the 23 September 2013 SEPA Council meeting welcomed the ECB's commitment to establish and chair the ERPB as successor of the SEPA Council and the European Commission's commitment to actively participate in it. The objective of the ERPB would be to contribute to and to facilitate the creation of an integrated, competitive, innovative and level-playing field market for euro retail payments in the EU. The meeting participants took positive note of the ambition that the ERPB should achieve a wider membership, strengthened mandate and a more output-driven approach. The foreseen interaction of the ERPB with the national retail payment committees was welcomed. It was also acknowledged that the application of the competition rules at EU and national level and the rights and competence of the ECB, the EU National Central Banks, the European Commission and the European co-legislators shall not be affected by this new body.

4.9 Data Analysis and Findings

In this section I would like to stress the essential points that emerge after the analysis of the data collected from the experts' interviews.

Globally, 7 interviews were conducted. The objective was to interview experts who would enable to identify the main Stakeholders in the SEPA project and whether the proposed taxonomy – internal, external, narrow, wider, primary, secondary, active, passive, voluntary and involuntary - could be applied to make sense.

Only after the interviews could be ascertain whether results would be consistent with the theoretical underpinnings, or whether they would be controversial. In other words the objective was to test the theory.

The first inference from these interviews is the need to group the various stakeholders which were listed in the interviews guide.

To group the stakeholders, according to the interviewees, two approaches can be considered. The first can be based on the interests of the stakeholders and the other can be based on their weight on the decision process.

In relation to their weight on the decision process some experts do not consider the authorities (regulators) as stakeholders, because for them, stakeholders are partners which you can consult and with whom you can debate. So, we will consider the groups in line with the stakeholders' interests.

So, the results suggest that:

1. The 24 Automated Clearing House and the Clearing and Settlement Mechanisms are members of European Automated Clearing House Association and those pertain to Infrastructures. SIBS is the Portuguese ACH.
2. Banks, Credit Institutions and Payment Institutions, in this context, can be considered as Payment Service Providers.
3. For some experts the National Central Banks can be considered National Authorities and European System of Central Banks are included in Eurosystem.
4. When referring to European Commission most experts segmented in
    i. DGCOMP that is primarily responsible for enforces EU competition rules, and
    ii. DGMARKT whose main role posited to coordinate the Commission's policy on the European Single Market and to seek the removal of unjustified obstacles to trade, in particular in the field of services and financial markets.

5. Some experts consider that the list presented should have more stakeholders associations: instead of European Association of Co-operative Banks (EACB) the list should have the 3 European Credit Sector Associations (ECSA), namely European Banking Federation (EBF), European Savings Bank Group (ESBG) and EACB.
6. Other stakeholders associations that have been suggested were BEUC (The European Consumers' Organisation), Eurocommerce (since is the voice for 6 million retail, wholesale, and other trading companies), The European Trade Union Confederation (to promote the interests of working people at the European level and to represent them in the European Union institutions), The European Banking Industry Committee (EBIC) - established by the main European Banking Industry Federations, such as, EBF, ESBG, EACB, European Mortgage Federation (EMF), European Federation of Building Societies (EFBS), European Association of Public Banks (EAPB), Eurofinas (European Federation of Finance House Associations) and Leaseurope (European Federation of Leasing Company Associations).

In a nutshell, the 5 principal key stakeholders identified on these interviews are Banks, EBA, ECB, Infrastructures and National Central Banks. In the experts' point of view, the Banking Industry (including ECB) and the Infrastructures (including SIBS, in the Portuguese case) are the drivers of SEPA implementation.

The following 3 key stakeholders that have been the most referred were the European Commission, European Payments Council and European Retail Payments Board.

The reasons, pointed out by the experts, for having chosen these stakeholders, as the key ones, are:

- in the case of EBA, because EBA Clearing is the operator of STEP2, it can have influence on the decision making processes;
- in the case of ECB, it was considered that it may have influence on the decision making processes;
- the European Commission, was chosen, since it is considered a European legislative body and a SEPA main driver;
- the circumstances of EPC was the coordination and decision-making body on issues relating to payments;
- the motive for singling out ERPB was the need for governance of euro retail payments in Europe;
- the intention in elected Infrastructures was the fact that they have to be compliant with payment systems rules and are asked to adopt interoperability rules. Therefore, infrastructures play an important role in achieving the objectives of SEPA.

The interviewees, as stated before, when mentioned European Commission select DGCOMP and DGMARKT and they recognize that EC supports SEPA as an important element of a single and competitive market. The EC was also mentioned because with the European Parliament and the Council, it has provided the necessary legal basis for the European payments market and defined end dates for the migration to SEPA credit transfers and SEPA direct debits. The impact of SEPA however, transcends monetary policy and payment services, since the European Commission expects the legal and technical SEPA harmonisation exercise to streamline business processes by replacing paper-based procedures with standardised electronic solutions such as e-invoicing, on-line e-payments, e-mandates and mobile payments.

The relevance of the EPC, for these experts, is sustained for the fact that EPC supports and promotes the creation of the SEPA. As requested by the EU authorities, the EPC developed, in close dialogue with the customer community, the SCT and SDD. The EPC develops payment schemes and frameworks which help to complete the integrated euro payments market. In particular, the EPC defines common positions for the cooperative space of payment services.

In their opinion, EPC also represents the European banking industry which is the main player of SEPA project. The banks have the ability to engage with other stakeholders, are the interested part which made the investment expenditure and are the payment schemes 'owners', through the EPC. The schemes encompass sets of rules and technical standards for the execution of SEPA payment transactions.

Another of the conclusions that can be deduced from these interviews is the fact that, in SEPA implementation, the consumers are very protected by law. In Portugal, the consumers do not have an active voice, they are considered very passive.

The experts declared that the relevance in the SEPA project for the corporate sector is not the same for SME or large companies, and as such do not consider SME as key stakeholders. It also happens the same for the merchants, where the large ones, like the petrol companies have more power than a simple retailer.

In Central Banks and regarding the European System of Central Banks, it cannot be considered that all banks have the same intervention. Thus, the experts point out beyond ECB, Banque de France, Deutsche Bundesbank and Banca d'Italia, the three providing central banks, which jointly provide the single technical infrastructure, the Single Shared Platform (SSP) of TARGET2 which operate it on behalf of the Eurosystem.

In these interviews, it was also mentioned that the public administration represents more than 40% of the payments. So they should be, as an agent, the engine of the SEPA migration.

At the governance level, at the beginning of SEPA project, ECB consulted more the banks, particularly at the high-level meetings. Since 2005, SEPA high-level meetings have been organised by the ECB. The goal is to foster the informal exchange of ideas and views on SEPA between high-level representatives of the financial industry and board members of Eurosystem central banks.

For some experts the power of the banks in SEPA project has been declining and they refer, for example, the e-payments.

Despite that according to the Red Book statistics, the use of traditional payment instruments – i.e. credit transfers, direct debits, credit cards and debit cards – is still dominant in retail payments, over the past decade, a number of innovative developments in retail payments have emerged.

In September 2011, the Commission opened an antitrust investigation into the standardisation process for payments over the internet ('e-payments') undertaken by the European Payments Council.

These also happened because banks congregated around the SEPA Council, an advisory body with little decision-making capacity, which has never been able to replace the action of the EPC.

In this sense, there was a need to define the future of governance in SEPA, and this paved the way to the emergence of the ERPB, the new high-level entity which replaces the SEPA Council. For that reason, ERPB has a very similar composition to the SEPA Council, although has a more executive component, that allows the European Commission (namely DGCOMP) to reduce the influence which the banks held. This is the maximum authority in the SEPA and will be the pivot of all stakeholders.

In the opinion of some interviewees, to resolve technical issues, the banks were not adequately involved in driving this process and this bagged for the European Commission to legislate through the PSD.

The very broad and ambitious scope of the PSD makes it the most significant piece of EU Financial Services legislation in relation to the payments market, ever seen. In addition to providing the legal foundations for the SEPA initiative, the Directive introduces a new licensing regime to encourage non-banks to enter the payments market. PSD sets

i. common standards for terms and conditions with a focus on high levels of transparency;
ii. establishes maximum execution times for payments in euro and other EU/EEA (European Economic Area) currencies;
iii. looks to encourage the adoption of more efficient payment types and
iv. introduces, for some Member States, a shift in liability between providers and customers, in the interests of consumer protection.

The strong development of e-commerce, the increasingly widespread use of smartphones as well as new consumer behaviour with regards to payment services have led the European Commission to adopt, on 24 July 2013, a new legislative package on payment services in Europe. This package includes a revision of the payment services directive (PSD) (2007/64/EC), initially foreseen for 2012, as well as a proposal for a regulation on interchange fees for card-based payment transactions.

The interest of the key stakeholders, according to the interviewees is focused on:

- to defend the (banking) industry point of view, since harmonizing payment infrastructures would enable banks to offer better customer value, reduce cost and avoid multiple investments – EBA and EPC;
- to ensure the smooth operation of payment systems and instruments in euro – ECB;
- to create a single market for euro payments; SEPA eliminates or helps eliminate barriers to competition and as such, will be aligned with the objectives of DGCOM – EC;
- to contribute and facilitate the further development of an integrated, innovative and competitive market for euro retail payments in the EU - ERPB;
- to process SEPA payment and increase market share; regulation on scheme interoperability and reachability will contribute to consolidate CSM services; CSM service providers may take a stance in the shaping volume market by creating regional value propositions – Infrastructures.

The next table shows the impact on 4 categories of key stakeholders – retail customers, corporate customers (including SME), banks and ACH.

Table 11 – High Level Impact on some Key Stakeholders

Key Stakeholders	Business Impact	Technical Impact	Impact on Fees/Cost	Impact on Domestic Services	Impact on Cross Border Services
Retail Customers	Low	Low	Lower	Improve (for inefficient countries)	Major Improvement
Corporate / SMEs Customers	Medium	Medium	Lower	Improve (for inefficient countries)	Major Improvement
Banks	High	High	The fees will get lower but the cost may increase	Neutral	Major Improvement
ACHs	High	High	Not yet clear	Neutral	Will definitely improve

Other conclusions suggested by results of the interviews are:

- since in July 2013, the European Commission issued the proposal for a Directive of the European Parliament and of the Council [of the European Union] on payment services in the internal market and amending Directives 2002/65/EC, 2013/36/EU and 2009/110/EC and repealing Directive 2007/64/EC, commonly referenced as the revised Payment Services Directive (PSD2), currently European banks must comply with new and updated regulation (such as new consultations and PSD2);
- with the proposed PSD2, the Commission is introducing the notion of 'third party payment service provider (TPP)' in the European legislative framework. TPPs are described in PSD2 as payment service provider (PSP) pursuing business activities, i.e. services which are based on access to payment accounts provided by a PSP who is not the 'account servicing' PSP (AS PSP), in the form

of so-called payment initiation services and/or account information services. The focus of the PSD2 proposal is mainly on payment initiation services. So, TPP can be consider as voluntary stakeholders and most other stakeholders are involuntary, because they were 'pushed' to SEPA;

- the most active stakeholders are EU and national authorities and the most passive are consumers;
- it can be assumed that banks moved from involuntary to voluntary stakeholders because they have taken an active stance to engage in the process;
- between internal and external stakeholders, EC and EPC are the ones which have achieved more consensuses in order to be considered internal stakeholders. The others in a general way were considered external stakeholders, not in geographical space, but in scope, in terms of involvement;
- concerning to narrow and wider stakeholders, the interviews expressed that they only can apply this categorization if they consider the least affected or the less involved. So, they select corporates (the huge ones) as the narrow stakeholders and national central banks as the wider stakeholders;
- about primary and secondary stakeholders, the answers go towards the direction of choosing national and European authorities, banks and ACH as primary and associations as secondary stakeholders.

Naturally, these results pertain to a cross-sectional analysis in the sense that the interviewees provide their views on a specific moment. Notwithstanding, their expertise and know-how yields a holistic perception on SEPA and encompasses the recent evolution and stance of SEPA stakeholders, thus enriching the findings and consequent analysis.

Finally, the interviews add to the literature on Stakeholder Theory and its application to a supranational project, as they enable both, to test the taxonomy of stakeholders in different dimensions, and to express the inherent variability in the perception of the experts. The latter provides a rich experiment, difficult to obtain in other empirical setups.

5. Conclusions and Implications

5.1 Conclusions

The classical approaches to strategy are the market-based view (e.g., Porter, 1980, 1985, 1991, 1996) and resource-based view (Prahalad and Hamel, 1990). The stakeholder view of strategy encapsulates both the resource-based view as well as the market-based view, alongside adding a socio-political level, which makes all the difference. In a similar vein, in today's globally competitive and highly regulated environment, managing risk effectively while satisfying an array of divergent stakeholders is a key goal of banks and financial institutions, as a pre-emptive move to avoid crises.

On Friday 17th May 2013, the European Commission held a meeting with stakeholders on reforming the structure of the EU banking sector. The purpose was to gather input from a range of stakeholders on the key issues relating to the choices of banking activity separation, and to discuss the recently published consultation document on banking structural reform. Attendees included representatives of the financial, public, private, and corporate sectors, as well as consumer association representatives, think-tanks, and unions, among others.

Ultimately, the point of financial reform is to develop a financial system which better performs key economic functions such as: ex ante information generation and capital allocation; monitoring and corporate governance; facilitation of trading, diversification and management of risk; mobilization and production of savings; ease of exchange of goods and services. Implicit in achieving those outcomes is the objective of avoidance of financial crises.

However, measuring how well regulatory change contributes to financial sector performance towards those key economic functions is problematic. The simplest form of assessment is by way of scoring an economy's progress against a 'checklist' of the components of the 'good/best practice' standards and codes. At a somewhat tougher level, there is assessment by informed observers as to whether the 'quality' of the financial system, measured in terms of some key indicators (e.g., governance standards) has improved. A final level of analysis involves empirical research to assess whether the core functions of the financial system are being performed more efficiently as a result of regulatory changes. As a general assessment, there is much more attention paid to the simpler forms of assessment (which, not being 'evidence-based', are problematic) than to the more detailed (and more complicated) approaches which are needed to properly assess policy development.

The central irony of the governance failures in the current crisis is that many took place in some of the most sophisticated banks operating in some of the most developed governance environments in the world' (Ard and Berg, 2010).

From the stakeholders' standpoint, a broad spectrum of stakeholders has a direct impact on core business. In today's increasingly interconnected world, banks that foster a deep level of connection with their stakeholders are more successful in shaping that impact to their greatest advantage. Improving stakeholder engagement increases productivity, profit and sustainability.

Indeed, organisations should not pay attention to their stakeholders merely because it is profitable. They should not pursue purely economic objectives if they want to guarantee their legitimacy in society and be granted the 'licence to operate' that recognises the responsibilities of all parties involved in the running of organisations (Vinten, 2000; Weiss, 2003). Besides, the fact that managers cannot always precisely map the stakeholders does not prevent the impact of the organisation's activity on these stakeholders. Also it does not allow the organisation to deny the (moral) legitimacy which, by itself, justifies the calling for a redefinition of the organisational purpose.

Although the stakeholder theory features the natural framework to analyse the aforementioned issues, some of the major (normative) stakeholder theorists have grounded their studies on the Kantian argument that 'the goodness of an act is the intention which motivated it' (L'Etang, 1995; Pesqueux and Biefnot, 2002). The instrumental stakeholder theory lacks the critical moral aspect that gives the stakeholder concept an intrinsic value by itself. For that reason, some authors have called for the creation of a 'convergent' stakeholder theory, defined as a 'theory that is simultaneously morally sound in its behavioural prescriptions and instrumentally viable in its economic outcomes' (Jones and Wicks, 1999; Jones et al., 2002). Being both normative and instrumental, the convergent theory has a strong and explicit moral basis, and for using the means-end process, it nonetheless accepts the only means of that aim is to achieve a morally acceptable end (Pesqueux and Biefnot, 2002). Although contested by some authors (e.g., Freeman), the convergent theory endeavours to fill in the noticeable gap between instrumental and normative approaches (Pesqueux and Biefnot, 2002). Nevertheless, the variety of underlying theories that have contributed to the building of the stakeholder theory may suggest that it is by nature 'a hybrid with unclear parenthood' (Scholl, 2001).

Post, Preston and Sachs (2002) have recently conceptualised the New Stakeholder View. They propose a comprehensive, analytical, stakeholder-based framework that encompasses within three concentric circles: the resource-base, industry-structure and socio-political aspects of a corporation's environment. With supporting evidence from a thorough examination of three companies, Post, Preston and Sachs (2002) posit that the firm-stakeholders relationships 'are the essential assets that managers must manage and they are the ultimate sources of organisational wealth'. Therefore it is critical to institutionalise and maintain fruitful and open dialogue with key (if not all) stakeholders to secure long-term sustainable growth.

Post, Preston and Sachs (2002) demonstrate the importance of the few core concepts that are emerging in the field, such as greater transparency, independence in non-executive directors, and the need for more effective governance. In fact, one cannot dismiss that in Europe the response to the corporate scandals has been more restrained and has relied more on self-regulation, corporate governance codes and the 'comply or explain' principle. Codes play a bigger role in Europe than in the rest of the world and their adoption has increased substantially after the publication of the first set of OECD Principles (1999) and again after the collapse of Enron. European corporate governance practice has also been affected to some extent by the extra-territorial reach of US reforms and corporate efforts to harmonize standards with the United States, in particular for payments services.

Having laid down the theoretical underpinnings and the related concepts at the root of stakeholder theory, this brings us to the main subject of the present thesis: the Single European Payments Area. The SEPA project was launched to harmonise the payments market and create common procedures and standards for payments across Europe, casting a holistic view on the socio-political dimension of this endeavour. The technical aspects underlying the SEPA project boil down to a homogenous system with no distinction between cross-border and domestic electronic retail payments within and between different EU countries. It encompasses countries both within the euro, which must comply by 1 February 2014, and outside of the euro such as the UK, which have until 2016, but in reality will aim for the earlier migration deadline. The concept emerged well over a decade ago, when the banking industry established the European Payments Council, which to date has played a vital role in defining and developing business rules and standards for retail payments. The pre-SEPA and the SEPA main characteristics are schematically included in the following table for a better understanding of this section.

Table 12 – PRE-SEPA vs. SEPA

PRE-SEPA	SEPA
National / local solutions	Common solutions with additional optional services
Different payment instruments and standards, customer experiences, consumer laws	Common core payment instruments and standards, consistent customer experience, application of harmonised consumer protection laws
Cross-border complexity and risk	Reduced complexity and improved efficiency: all SEPA payments are domestic payments

Source: EPC- Making SEPA a reality: The definitive guide

SEPA is a combination of self-regulation by the financial services industry and supporting legislative measures. Given the substantial benefits of SEPA, there is a clear public interest in having effective governance arrangements. The uncertain economic environment also calls for a greater political steer to ensure that SEPA is delivered on time, in a fully accountable way providing users with a better service.

In the first phase of the SEPA project, to improve stakeholder involvement in the governance of SEPA at the EU level, the ad-hoc governing body - the SEPA Council - was established in the spring of 2010 for an initial period of three years. The Council consists of high-level representatives from the payment market's demand side, including small and large companies, retailers, consumers and public administrations, as well as from the supply side - banks and payment institutions. National central banks of EU member states are also represented on the Council.

In June 2013, the European Union revised the Single Euro Payments Area governance arrangements by replacing the informal SEPA Council with the Euro Retail Payments Board and by adjusting the role of the European Payments Council, claims Policy and Regulatory Report intelligence. In the new, more formal, governing body (ERPB), each relevant stakeholder group from both demand and supply sides of the market would have at least one representative. The EC and the ECB would nominate the chairs of the board.

The ERPB would make its decisions on a consensual basis. Its objective centres on ensuring a level playing field for all market players in the retail payments business in Europe. The mandate ranges from identifying obstacles to SEPA-compliant credit transfers, direct debits, card, internet and mobile m-payments, through to putting together strategies to overcome any such hurdles in order to foster innovation and competition in the European retail payments market.

While admitting that the EPC is a private body that decides autonomously on its set-up and priorities in the field of retail payments, the EC suggests that it should also consider broadening its membership to ensure a better representation of the overall payment industry.

The EPC, which has been at loggerheads with regulators and politicians in the past, is expected to remain responsible for the maintenance and management of its existing common SCT and SDD schemes.

On 24 July 2013, the Commission adopted a legislative package in the field of the EU payments framework. This package which proposes PSD2 and a Regulation on MIF will help the payments framework to better serve the needs of an effective European payments market, fully contributing to a payments environment which nurtures competition, innovation and security to the benefits of all stakeholders and consumers in particular. Modernisation of the legislative framework for retail payments was also defined as one of the key actions of the

Commission Single Market Act II and is inter alia a response to the Commission's Green Paper 'Towards an integrated European market for card, internet and mobile payments' of 2012.

Because of changes in the industry, such as new means of payment via the internet/PayPal and mobile devices, there are more stakeholders in addition to traditional banks and it was felt their voice was perhaps not being heard strongly enough. Telecommunications operators and end-users have been increasingly vocal that their views should also be reflected in shaping SEPA.

Many stakeholders have opted for late migration in the fourth quarter of 2013, or even later, in spite of the risks inherent in such a strategy and the earlier warnings given and recommendations made by the Eurosystem.

One of the deductions of this thesis is that by improving corporate governance, we can enhance the efficiency of banking regulation and that it was what happened in SEPA implementation through the EPC. At the present moment, improving corporate governance through the ERPB, will improve the SEPA project, because this governing body will act over the Stakeholder Theory. And most importantly SEPA provides a unique field of analysis of Stakeholder Theory.

For SEPA to be a success it is indispensable to ensure that all stakeholders involved in the 'SEPA changeover' are properly informed. Major users, such as corporates and public administrations, but also consumers, need to be aware of the opportunities, benefits and challenges of the SEPA project. Certain categories of users such as public administrations and companies may need more targeted information so as to better understand and evaluate the impact of SEPA on their internal processes.

Secure, efficient, competitive and innovative electronic payments are crucial if consumers, merchants and companies are to enjoy the full benefits of the Single Market, and increasingly so as the world moves beyond bricks-and-mortar trade towards e-commerce. Many European consumers and payment users have become used to travelling outside of their country of origin and to buying goods and services abroad. More importantly still, today the internet enables consumers to make purchases abroad without even having to leave their home. In both cases, electronic payments that work smoothly across borders are of the utmost importance.

Despite the significant progress achieved in the development of a regulation framework for the payments market, card payments and new means of payments, such as internet and mobile payments, remain fragmented along national borders, making it often difficult for consumers to use these payment methods at pan-European level (with the possible exception of credit cards). Recent developments in these markets have also highlighted certain gaps and inconsistencies in the current payments regulation framework.

A study conducted for the European Commission suggests that full migration to SEPA for credit transfers, direct debits and payment cards could yield direct and indirect benefits of more than EUR 360 billion over a six-year period. Payment cards, followed by credit transfers and direct debits, are the most popular non-cash payment instruments in the EU. Together, these three methods of payment account for over 90% of all cashless transactions.

The PSD was adopted in December 2007 on the basis of a Commission proposal from December 2005. It constitutes the first, comprehensive legislation on payments in the EU and a good basis for the development of EU-wide payments. This legal framework generally proved valid and robust. However, an unprecedented development of the payments market, in particular the rapid emergence of e- and m-payments, gave rise to important challenges from a regulatory perspective. Many innovative payment products or services do not fall, entirely or in large parts, under the current scope of the PSD. This leads to legal uncertainty (no supervision, no regulation), potential security risks in the payment chain and to a lack of consumer protection. This is, for example, the case for online-banking based payment initiation services (PIS) provided by third party providers (TPP). Furthermore, the current scope definition of the PSD and in particular the existing 'negative scope', which exempts certain payment-related activities from the general rules, proved in a few cases too ambiguous and too general, in particular taking into account market developments. As a result, the justification for some exemptions (like in the context of mobile payments and within so-called limited networks) has changed. Some of the exempted and therefore unregulated service providers are now competing with the regulated players, enjoying unjustified competitive advantages (e.g., in terms of initial capital, own funds required, safeguarding of funds or liabilities and responsibilities vs. consumer) which results in an un-level playing field and creates consumer protection gaps.

The case for a selective revision of the PSD some six years after its adoption and only four years after it has been transposed is strong and supported by the results of external studies, opinions of Member State authorities and stakeholders. The need for urgent action has been also highlighted by the European Parliament resolution of 20 November 2012. Four main issues requiring the regulatory intervention are: addressing the issue of legal vacuum for TPP, limiting risks of circumvention of the PSD in reviewing its negative scope, changing these Member State options that lead to regulatory arbitrage (including surcharging) and ensuring appropriate governance arrangements for SEPA.

By its nature an integrated payments market, based on networks that reach beyond national borders, requires a Union-wide approach as the applicable principles, rules, processes and standards have to be consistent across all Member States in order to achieve legal certainty and a level playing field for all market participants. The alternative to a Union-wide approach would be a system of multilateral or bilateral agreements, the complexity and costs of which would be prohibitive as compared to legislation at European level.

Member States, in many cases, have refrained from acting at national level, pending the adoption of possible measures at the level of the Union. A possible intervention at EU level therefore complies with the subsidiarity principle.

The SEPA Council, renamed as 'the European Retail Payments Council', would see its composition, accountability and mandate clearly defined in EU law. The SEPA Council as a formal legalized body would de jure gain the legitimacy and credibility that stakeholders are calling for. In the public consultation on the Green Paper on payments market participants consistently asked for a more active involvement of public authorities. This option for market fragmentation with weak governance arrangements consists in a formal body based on legal act of the co-legislators and would allow both addressing the market's call for a co-operative model and contributing to clarifying the role of the Commission and the European Central Bank as co-chairmen. The Euro Retail Payments Board would have greater accountability vis-à-vis the EU regulators. This option would contribute to defining the clear steering that all stakeholders are looking for on the direction that the European retail payments market should follow to ensure that tomorrow the EU has effective, efficient, innovative and cheap means of payments available across all Member States. Failing this, the emergence of such a market could take many more years to the detriment of payment's end-users and society at large.

After this portrayal, I will present the answers to the research questions (I–III) specified in Section 1.5.

I - The governance under the creation of the SEPA project can be explained with the Stakeholder Theory because the EU is poised to revise the Single Euro Payments Area governance arrangements by replacing the informal SEPA Council with a Euro Retail Payments Board and by adjusting the role of the bank-backed European Payments Council. And this revolution in SEPA governance is the direct result of the stakeholders call for more extensive involvement.

It was the EC that suggested creating the ERPB, a new, more formal, governing body, where each relevant stakeholder group from both demand and supply sides of the market would have at least one representative. The EC and the ECB would nominate the chairs of the board and the composition of the board would be reviewed every two years, however, and more observers could be admitted.

The ERPB would make its decisions on a consensus basis. The ERPB objective focuses on ensuring a level playing field for all market players in the retail payments business in Europe and those decisions are according to the Stakeholder Theory, where all stakeholders matter.

II- Even SEPA is not a corporate (what gives this thesis relevance). Nevertheless it is a project and the SEPA governance is better explained by Stakeholder Theory for the reason that without this theory we cannot consider the diversity of stakeholders referred in the above sections.

Another justification is related to what can be observed during the last 11 years, since the EPC inception, in the evolution of SEPA governance, in particular regarding the role of EPC to SEPA Council and finally to the ERPB.

III – The creation of ERPB will overthrow the self-regulation as an additional, self-made mechanism for the governance in European payments that has been the main driver since 1990 with the publication of a European Commission report 'Making Payments in the Internal Market' which outlined a community vision of a single payments area.

For this adjustment, while admitting that the European Payments Council is a private body that decides autonomously on its set-up and priorities in the field of retail payments, the EC draft working document suggests that it should also consider broadening its membership to ensure a better representation of the overall payment industry.

Those decisions also support that Public Authorities are the Main Stakeholders in SEPA Project since the most important decision came from the ECB that will establish and chair with EC, the ERPB as successor of the SEPA Council to contribute to and to facilitate the creation of an integrated, competitive, innovative and level playing field market for euro retail payments. The ambition is for the ERPB to achieve a wider membership, strengthened mandate and a more output-driven approach.

The report on 24 October 2013 from ECB analyses the state of play in euro area countries in creating a single market for SCT and SDD by the 1 February 2014 deadline, in the euro across Europe, and warns that SDD adoption is too slow and last minute migration presents operational risks.

The report also stresses the risks arising from stakeholders, particularly small and medium-sized enterprises, leaving migration to the last quarter of 2013 or later. It warns that payments failing to comply with SEPA will not be allowed to be processed. With those migration risks, the EC and the ECB take apart the banking industry and destroy its self-regulation, changing the governance that European payments have had till now.

To conclude the answer for question III, it is now possible to affirm that Stakeholder Theory cannot be extended by encapsulating self-regulation as an additional, self-made mechanism for the Governance in European Payments, because a self-regulatory project run by the banking sector was erroneous in the past and is untenable today.

Summing up what is alleged above, in Europe the response to the corporate scandals has been more restrained and has relied more on self-regulation, corporate governance codes and the 'comply or explain' principle.

Nowadays, as contend by Varela, J. and António, N. (2012), ethics is more and more in the eye of firms, especially the larger ones. They posit that self-regulation and the more holistic view of governance are some of the signs underpinning such contention. They also mentioned that stakeholder theory, which proposes added value for all stakeholders, and not just for shareholders, has paved the way for firms to rethink their strategies and fulfil their social responsibilities.

SEPA seems to have been built with the underlying concern of social responsibilities, as on bank accounts, the EU banking industry has been invited to develop, before mid-2008, via self-regulation, a set of common rules to the benefit of all customers (individuals and corporates alike). These rules will be designed on the basis of benchmarks determined by the Commission in the light of best existing practices.

SEPA is a combination of self-regulation by the financial services industry and supporting legislative measures. Given the substantial benefits of SEPA, there is a clear public interest to have effective governance arrangements. The uncertain economic environment also calls for a greater political steer to ensure that SEPA is delivered on time, in a fully accountable way providing users with a better service.

The Commission and the ECB support to the greatest possible extent continued self-regulation by the industry, but given the importance and the size of the social and economic benefits of SEPA, the Commission expressly reserves the right to introduce or propose necessary legislation to achieve it.

To coordinate its efforts, the industry has set up a self-regulatory body to manage the SEPA project. This body, known as the EPC, since its inception in 2002, has witnessed important changes in its membership, governance structure and roles. The governance of the EPC itself has also evolved in part to cope with these shifts. Key governance tools include namely the creation of groups, *fora* and committees.

The majority of market participants recognise the value of setting a deadline for migration to harmonised SEPA payment schemes through European Union Regulation. The EPC shares the view that an end date for phasing out legacy euro payment schemes for credit transfers and direct debits ensures planning security for all market participants.

The EPC has frequently pointed out that full migration to SEPA is subject to the appropriate legal and regulatory environment which must be established by the EU legislator.

The substantial efforts of the banking industry to develop harmonised SEPA payment schemes, as requested by the EU authorities, did not - and, in light of EU antitrust law, could not - entail a responsibility of the industry to impose the replacement of existing national schemes by the new SEPA instruments. The fact that the mere existence of harmonised SEPA payment schemes did not trigger mass migration on the customer side did not come as a surprise. It must be highlighted as often as necessary that the SEPA process would never have occurred spontaneously; bank customers never asked for it. The integration of the euro payments market requires the political will and mandate to achieve it.

The banking industry also calls again on the European authorities to refrain from stating that SEPA would be a 'self-regulatory project run by the banking sector'. As demonstrated above, this claim was erroneous in the past and is untenable today.

To broaden stakeholder participation, the Commission and ECB in 2010 established the SEPA Council, an informal stakeholder body with high-level representatives from the demand side (corporates, SME, consumers, retailers, public administrations) and supply side (payment service providers) for the provision of strategic advice and guidance in a non-binding manner. Under these arrangements, the EPC participates as a member of the SEPA Council and maintains its role as the management body for already existing retail payment schemes. Hence, there is currently a clear separation between the strategic level of governance (SEPA Council) and the technical level (EPC).

However, the European Commission considers that there is a need for an over-arching SEPA governance model at EU level, which fosters integration of the euro retail payments market in a way that meets the needs of end users.

End-users criticise an on-going imbalance between the demand and supply side of the payments market due to the lack of a clear mandate of the SEPA Council, gaps in the composition of the SEPA Council (e.g., non-bank payment service providers and e-commerce retailers) and missing involvement in the consultation and decision making process of the EPC, including the technical development of payment schemes which is currently the sole responsibility of the EPC. Stakeholders also ask for better dispute resolution processes and more efficient information exchange and coordination processes between different stakeholder categories. Therefore, in September 2012, the Commission presents an initiative that aims to address the lack of a clearly defined mandate for the SEPA Council, the informal status of the SEPA Council and the incomplete composition of the SEPA Council.

The current self-regulatory approach has proven to be insufficient and is subject to substantial criticism by stakeholder groups on the supply and demand side of the market. Consequently the Commission has published a roadmap for improving the governance of the SEPA.

The Roadmap recommends the establishment of a 'soft law' through a Commission Communication including a Commission Decision, which formally specifies the composition, role and tasks of the SEPA Council, leaving the overall steering of the retail payments integration for the Commission.

The SEPA Council was a joint initiative of the European Central Bank and the European Commission. It was an informal group composed of representatives from retailers, corporates, SME and public administrations as well as banks, and has met 6 times since it formed in June 2010. The SEPA Council had its final meeting in September 2013 and is being replaced by the

Euro Retail Payments Board, a formal body set up by the European Commission, which first meets in December 2013.

The main contribution of this thesis is to analyse rather than a corporate, one on-going major, supranational project, through the lens of stakeholder theory. At the beginning of this analysis the governance of this project was based on a self-regulatory body, the EPC (run by the banking sector), then by imposition of other stakeholders governance was transferred to SEPA Council and recently the European Union is set to revise the Single Euro Payments Area governance arrangements by replacing the informal SEPA Council with the European Retail Payments Board and by adjusting the role of the European Payments Council. This illustrates how topical this issue is.

The euro area, like any currency area, requires an infrastructure which enables the safe and efficient flow of payments and financial instruments at low cost throughout the whole zone.

From the expert interviews can be inferred that the corporate governance, specifically the stakeholder theory, considering its scope, can also be applied to a non-organization.

All-encompassing the interviewees not only defined the principal key stakeholders and grouped them, according to their interests, and also used some existing taxonomies (such as primary versus secondary stakeholders, according to Clarkson, 1995). The interviews single out as the principal key stakeholders banks, EBA, ECB, infrastructures and national central banks, since they are the drivers of SEPA implementation.

The interviewees reinforce the importance of same stakeholders like the ones which

- defend the (banking) industry point of view;

- ensure the smooth operation of payment systems and instruments in euro;
- eliminates or helps to eliminate barriers to competition and as such, will be aligned with the objectives of European Commission and contribute to and facilitate the further development of an integrated, innovative and competitive market for euro retail payments in the EU.

5.2 An Agenda for Future Research

5.2.1 Theoretical Approach

According to some scholars the critical issues facing a stakeholder approach to strategic management today are two main theoretical issues that stand out from the rest. As I explain in the following sections, future research should face this issue brought about by complementary and sometimes conflicting views of the stakeholder theory and try to come out with a more unifying view encapsulating business theories. Whether stakeholder theory would prove more robust is a question to be answered in the aforementioned future theoretical research.

First of all, theorists must deal with what Freeman (1994) and Marens and Wicks (1999) have called 'The Separation Thesis'. The Separation Thesis states that we cannot usefully analyse the world of business as if it is separate from the world of ethics or politics. Our personal values are embedded in all our actions, therefore unless our theories take this into account, they will do a poor job of explaining our world. The separation thesis was formulated because of the widespread adoption of a stakeholder approach within business ethics and because of the continued neglect of a stakeholder approach in the area of strategic management. This distortion has resulted in stakeholder theory being seen as an ethical theory rather than a business theory.

This categorization serves to isolate ethical issues from the mainstream business theories and to isolate a stakeholder approach from mainstream business strategy.

Second, Wicks and Freeman (1998) have called for a pragmatist perspective to the study of management. A stakeholder approach grew out of a practical study of management problems. A pragmatic approach to strategic management would focus academic research on the detailed study of concrete business situations. Over time general theories might emerge, but not through abstract theory development.

Those who have called for a pragmatic approach to stakeholder theory have been seeking to combine a post-modern anti-foundationalist approach to theorizing with a Rortian desire to reform and redescribe the human enterprise (Wicks and Freeman, 1998). The post-modernist seeks to abandon the quest for Truth that began in the Enlightenment.

These theorists argue that there is no truth about the world of business to be found. There are no irrefutable foundations for business theory or economics. The frameworks and laws that we use to describe business are simply ideas that have achieved a broad level of agreement among informed practitioners. To search for higher levels of abstraction, which would provide a foundation for these laws as Truth, is a distraction to the progress of business strategy. To the contrary, the priority for the business theorist should be to study the world of business and develop new ways to describe value creation and trade. New descriptions of bad or harmful business practices will inspire people to challenge existing practices, norms and attitudes. New ways of describing excellent ways of creating value will provide hope and stimulate change and innovation.

This approach to business research would challenge the idea that there is a separate world where 'business is business' and where the fundamental principles, self-interest, unfettered competition and the maximizing of shareholder wealth, have already been discovered. This approach would encourage researchers to challenge the language and metaphors of existing theories of business and economics. It would challenge the accepted laws and truths about business and abandon the search for an overarching 'true' paradigm of business. Rather, researchers should expect a multitude of theories and frameworks that describe different approaches and different aspects of business. There will still be good and bad theories of business strategy, but the value of the theory will depend on its ability to help managers make sense of their world, rather on the basis of theoretical elegance.

On one hand, the pragmatism would mean for a stakeholder approach the end of separate streams of business ethics and business strategy research. On the other hand, it would mean an end to the search for normative or foundational roots for stakeholder theory. Third, it would mean abandoning the search for absolute object definitions of such things as stakeholder legitimacy. These issues would depend on the question at hand and on the circumstances under consideration. A stakeholder approach might consist of a collection of interacting, reinforcing and contradicting theories of business strategy. Each theory would be based on concrete studies of real business case studies.

The work of Kochan and Rubenstein (2000) is, in many ways, at the vanguard of this approach. As outlined above there are theoretical, epistemological and research challenges for a stakeholder approach to strategic management. The authors believe that these challenges should be met by turning our faces towards practitioners and the development of a set of narratives that illustrate the myriad ways of creating value for stakeholders.

Further research is needed to understand the potential feedback loops (positive and negative) of regulation that mandates increased information, as well as regulation that motivates market actors to produce more information.

5.2.2 The Application to SEPA

In terms of SEPA, future research should continue to monitor the evolution of this transnational endeavour, coping with the diversity hailing from different jurisdictions and national frameworks put together and being challenged, adapted and created on a systematic basis.

The contribution of Janczuk-Gorywoda (2012) illustrates the evolution of the Single Euro Payments Area as a form of European hybrid governance. The hybridity of SEPA is conceived in terms of interaction between traditional hard law, soft law and privately produced rules. The public and private systems of rules – public in the form of European directives and regulations and private in the form of multilateral agreements among payment service providers – coexist and mutually shape the structure of the European payments system. These two systems of rules have formally been produced in independent rule-making processes and by discrete rule-makers – public and private respectively. However, public actors have exercised a considerable amount of influence over the private rules. They have done so through informal, yet systematized interactions with private actors and through a series of soft laws. And vice versa, private rule-makers and privately-produced rules have substantially affected the content of public rules. The question to be asked is whether this public-private hybrid governance structure is good governance.

The impact of SEPA however, transcends monetary policy and payment services. The European Commission expects the legal and technical SEPA harmonisation exercise to streamline business processes by replacing paper-based procedures with standardised electronic solutions such as e-invoicing, for example. These objectives are also set out in the European Commission Communication 'A Digital Agenda for Europe', May 2010. 'The Digital Agenda for Europe' defines the key enabling role that the use of Information and Communication Technologies will have to play if Europe wants to succeed in its ambitions for 2020. 'The Digital Agenda for Europe' is one of seven flagship initiatives of the European Commission's 'Europe 2020 Strategy'. Therefore, some research is required to analyse the impact of SEPA beyond payments, including the impact on the future of cash.

The establishment of the SEPA Project is still in process till 1 February 2017, when there will be no multilateral interchange fees per national direct debit transaction and a report to be issued by the European Commission to the European Parliament and Council on the application of the Regulation, if appropriate with proposal.

Accordingly we can only analyse the success of this project, meaning the harmonisation of the provision of payment services within all countries of Europe, after 2017. Not until 2017 can we examine if the SEPA migration is complete.

To conclude this section, since the causal relationship between social responsibility and financial returns, in the payments industry, remains unclear, this topic could also be a new avenue for future research.

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Appendix 1 – Interview Guide

Stakeholder Consultation

<u>Introduction</u>

Throughout this research various definitions of the term 'stakeholder' were encountered, including the following variants.

R. Edward Freeman, in the now classic text Strategic Management: A Stakeholder Approach (1984) defined a stakeholder as 'any group or individual who can affect or is affected by the achievement of the organization's objectives'.

According to Nutt and Backoff (1992) stakeholders are all parties who will be affected by or will affect [the organization's] strategy.

Bryson (1995) defined stakeholders as any person group or organization that can place a claim on the organization's attention, resources, or output, or is affected by that output.

To Eden and Ackermann (1998) stakeholders are people or small groups with the power to respond to, negotiate with, and change the strategic future of the organization.

As stated by Johnson and Scholes (2002) stakeholders are those individuals or groups who depend on the organization to fulfil their own goals and on whom, in turn, the organization depends.

Paul Nutt (2002) finds that half of the decisions 'failed' - that is they were not implemented, only partially implemented or otherwise produced poor results – in large part because decision makers failed to attend to interests and information held by key stakeholders.

Stakeholder matrices compare and contrast the information available about different stakeholders. Putting the information in a matrix or table easily allows comparisons to be made and the identification of areas where information is lacking. In this respect, the matrices are more structured and systematic than the use of diagrams.

In this thesis the steps used to make a stakeholder identification matrix are:

Step One - List potential stakeholders

Step Two - Differentiate and group stakeholders

Step Three - Interviews with specialists or experts and/or interviews with actual stakeholders about who are the key stakeholders and why.

<u>Questions</u>

1 - In the next matrix (next page) please sign those who are, in your opinion, the key stakeholders. There are no right or wrong answers. If, in your view, any stakeholders are missing, please specify them and explain why they should be included.

2 - After identifying the stakeholders, it is important to consider the possible interests that these groups or individuals may have in the SEPA project. In order to assess the interests of different stakeholders, please include:

- What are the stakeholder's expectations of the project?
- What benefits are likely to result from the project for the stakeholders?

Please note that Stakeholder interests may vary. Some stakeholders interests may be best served by carrying the effort forward, others by stopping or weakening it. Even among stakeholders from the same group, there may be conflicting concerns.

Please answer in the next matrix.

Stakeholders	**Key Stakeholder**	**Why (or why not?)**	**Interests**
Automated Clearing House			
Banks			
Clearing and Settlement Mechanisms			
Companies			
Consumers			
Credit Institutions			
ECOFIN			
Euro Banking Association			
European Association of Co-operative Banks			
European Automated Clearing House			
European Central Bank			
European Commission			
European Credit Sector Associations			
European Parliament			
European Payments Council			
European Retail Payments Board			
European System of Central Banks			
European Union			
European-Associations of Corporate			
Eurosystem			
Infrastructure Providers			
Infrastructures			
Merchants			
National Adherence Support Organisation			
National Authorities			
National Central Banks			
Payment Service Providers			
Public Administration Entities			
SEPA Council			
SIBS			

3 – In this question some definitions about the different categories of Stakeholders will be presented and you will be asked to complete the next matrixes (next pages), indicating the category or categories for each stakeholder.

The definition of Internal and External Stakeholders is the distinction between stakeholders inside the organisation and those outside, as suggested by Johnson and Scholes (2002).

Narrow Stakeholders are those that are the most affected by the organisation's policies and Wider Stakeholders are those less affected.

A Primary Stakeholder is one without whose continuing participation the corporation cannot survive as a going concern.

Secondary Stakeholder are defined as those who influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival.

Active Stakeholders are those who seek to participate in the organisation's activities. These stakeholders may or may not be a part of the organisation's formal structure. Passive Stakeholders, in contrast, are those who do not normally seek to participate in an organisation's policy making. This is not to say that passive stakeholders are any less interested or less powerful, but they do not seek to take an active part in the organisation's strategy.

This distinction between Voluntary and Involuntary Stakeholders describes those stakeholders who engage with the organisation voluntarily and those who become stakeholders involuntarily.

Stakeholders	**Internal**	**External**	**Narrow**	**Wider**	**Primary**	**Secondary**
Automated Clearing House						
Banks						
Clearing and Settlement Mechanisms						
Companies						
Consumers						
Credit Institutions						
ECOFIN						
Euro Banking Association						
European Association of Co-operative Banks						
European Automated Clearing House Association						
European Central Bank						
European Commission						
European Credit Sector Associations						
European Parliament						
European Payments Council						
European Retail Payments Board						
European System of Central Banks						
European Union						
European-Associations of Corporate Treasurers						
Eurosystem						
Infrastructure Providers						
Infrastructures						
Merchants						
National Adherence Support Organisation						
National Authorities						
National Central Banks						
Payment Service Providers						
Public Administration Entities						
SEPA Council						
SIBS						

Stakeholders	**Active**	**Passive**	**Voluntary**	**Involuntary**
Automated Clearing House				
Banks				
Clearing and Settlement Mechanisms				
Companies				
Consumers				
Credit Institutions				
ECOFIN				
Euro Banking Association				
European Association of Co-operative Banks				
European Automated Clearing House Association				
European Central Bank				
European Commission				
European Credit Sector Associations				
European Parliament				
European Payments Council				
European Retail Payments Board				
European System of Central Banks				
European Union				
European-Associations of Corporate Treasurers				
Eurosystem				
Infrastructure Providers				
Infrastructures				
Merchants				
National Adherence Support Organisation				
National Authorities				
National Central Banks				
Payment Service Providers				
Public Administration Entities				
SEPA Council				
SIBS				