



**CORPORATE GOVERNANCE UNDER THE PERSPECTIVE OF ISOMORPHISM:  
A BMFBOVESPA BANKING INDUSTRY APPROACH**

**A GOVERNANÇA CORPORATIVA SOB A ÓTICA DO ISOMORFISMO: UMA  
ANÁLISE DO SETOR BANCÁRIO DA BM&FBOVESPA**

**GOBIERNO CORPORATIVO BAJO LA PERSPECTIVA DE ISOMORFISMO: UN  
ANÁLISIS DEL SECTOR BANCARIO BM&FBOVESPA**

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**ABSTRACT**

The study aims to analyze the disclosure of corporate governance practices by the boards of the companies listed in the banking sector of BM&FBovespa, according to the recommendations of the Code of IBGC. Additionally, it was investigated the isomorphic posture in relation to companies that also have shares traded in the New York Stock Exchange. This research was conducted in the study of all 28 financial institutions listed in BM&FBovespa. This research is descriptive, which adopts the documental analysis and uses the technique of content analysis for data treatment. As for the approach or the nature of the study, the research makes use of qualitative and quantitative methods. It was analyzed 41 corporate governance practices recommended by IBGC. It was established a level of disclosure practices adopted for each company, using the following criteria: were assigned the value 1 (one) for each disclosed practice and assigned 0 (zero) for each practice which was not disclosed or not adopted by the company. The study collected 1148 observations of firms through the recommendations of IBGC. To analyze the results, the corporate governance

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practices were analyzed in general and segment listing. It was found that the companies have, mostly, low level of disclosure. These companies still have a long way to go to increase transparency and strengthen the capital market to interested users. The isomorphic posture has not been confirmed in this study by the companies of banking sector.

**Keywords:** Corporate Governance. Board of directors. Banks. Institutional theory. Isomorphism.

## RESUMO

O estudo tem o objetivo de analisar a divulgação das práticas de governança corporativa dos conselhos de administração das companhias do setor bancário da BM&FBovespa, segundo as recomendações preconizadas pelo Código do IBGC. Adicionalmente, investigou-se a postura isomórfica em relação às empresas que possuem ações negociadas também na bolsa de Nova Iorque. A pesquisa delinea-se no estudo de todas as 28 instituições financeiras listadas na BM&FBovespa. Trata-se de pesquisa descritiva, que adota o procedimento documental e utiliza a técnica de Análise de Conteúdo para tratamento dos dados. Quanto à abordagem ou natureza do estudo, a pesquisa utiliza-se de métodos qualitativos e quantitativos. Foram analisadas 41 práticas de governança corporativa recomendadas pelo IBGC. Estabeleceu-se um nível de divulgação das práticas adotadas para cada empresa, utilizando-se o seguinte critério: foram atribuídos os valores 1 (um) para cada prática divulgada e 0 (zero) para cada prática não divulgada ou não adotada pela empresa. O estudo coletou 1148 observações das empresas a partir das recomendações do IBGC. Para a análise dos resultados, as práticas de governança corporativa foram analisadas de acordo com o nível de divulgação de práticas e por segmento de listagem. Verificou-se que as empresas apresentaram, em sua maioria(15), baixo nível de evidenciação. Essas empresas ainda tem um longo caminho a trilhar para aumentar a transparência e fortalecer o mercado de capitais aos usuários interessados. Quanto à postura isomórfica, não foi comprovado nesse estudo que existe essa postura por parte das empresas do setor bancário.

**Palavras-chave:** Governança Corporativa. Conselho de Administração. Bancos. Teoria Institucional. Isomorfismo.

## RESUMEN

El estudio tiene como objetivo analizar la divulgación de prácticas de gobierno corporativo de las juntas de las empresas del sector bancario de la BM & F Bovespa, de acuerdo con las recomendaciones del Código IBGC. Además, se determinó la posición isomorfo a empresas cuyas acciones también se negocian en la Bolsa de Nueva York. La investigación se describe en el estudio de los 28 entidades financieras que cotizan en el mercado BM & F Bovespa. Se trata de un estudio descriptivo, que adopta el procedimiento documental y utiliza la técnica de análisis de contenido para procesar los datos. Como acercarse o naturaleza del estudio, la investigación hace uso de los métodos cualitativos y cuantitativos. Se analizaron 41 prácticas de gobierno corporativo recomendadas por IBGC. Se estableció un nivel de prácticas de divulgación de cada empresa, utilizando los siguientes criterios: los valores 1 (uno) para cada práctica difundida y 0 (cero) para cada práctica no revelado o no adoptada por la empresa fueron asignados. El estudio recopiló 1.148 observaciones de las empresas de las recomendaciones del IBGC. Para analizar los resultados, se han analizado las prácticas de gobierno corporativo en general y el segmento de la oferta. Se encontró que las empresas incluidas, en su mayoría de bajo nivel de divulgación. Estas empresas todavía tienen un largo camino por recorrer para aumentar la transparencia y fortalecer el mercado de capitales a los usuarios interesados. En cuanto a la postura isomorfo, no fue demostrado en este estudio que existe esta actitud por parte de las empresas del sector bancario.

**Palabras clave:** Gobierno Corporativo. Consejo de Administración. Bancos. Teoría Institucional. El isomorfismo.

## 1. INTRODUCTION

Nowadays, the current globalization of markets has encouraged corporate governance practices and motivated quality and responsibility in organizations, basic requirements for their success considering an increasingly competitive market (MONTE *et al.*, 2010). These are requirements to provide more transparent and reliable information in order to attend international standards. In this sense, seeking to attract investors, it became more advantageous to adopt high standards of corporate governance practices. This measure strengthens the stock market, making it safer for the shareholders and the entities involved in the process.

The Organization for Economic Cooperation and Development (OECD, 2004) defines Corporate Governance as a set of relationships among a company's managers, its board of directors, shareholders and other stakeholders. Corporate governance seeks to define the company's goals, how to achieve them and the best alternatives for monitoring it (OECD, 2004).

According to the Brazilian Institute of Corporate Governance (IBGC, 2009, p 19), Corporate Governance can be defined as "the system by which organizations are directed, monitored and encouraged, involving relationships among owners, board of directors, management and control agencies". Therefore, the Corporate governance focuses on accountability, transparency and justice, seeking a more balanced and secure capital market.

For Jensen and Meckling (1976), the professional managers often are able to make decisions in their own benefit at the cost of the interests of owners, thus incurring in agency costs and conflicts of interest. In the context of corporate governance, conflict of interest is one of the main themes discussed in the academic and organizational field. The central point of this discussion is the board which is a strategic body of the organization, and, among its duties, highlights the role of ensuring the safety and development of the company's assets and prevent conflicts of interest among shareholders, managers and other stakeholders (LODI, 2000; IBGC, 2009).

Thus, given the importance of the board as an agent of the corporate governance system, there are numerous recommendations of appropriate corporate governance practices to be adopted by them. The problem of freedom of the members of the boards, for example, is covered by the major codes of best corporate governance practices. According to IBGC (2009, p. 36) "the counselor should seek maximum possible independence from shareholder equity group or party which has nominated him for the position". Therefore, the board of directors is relevant in the relationship among company and shareholders. Hence, the company should, for example, adopt measures to protect the interests of all shareholders and not just the main ones.

Several studies about corporate governance report characteristics and practices of the board in several countries, for example, Ukraine (ZHEKA, 2006), Germany (DROBETZ; SCHILLHOFER; ZIMMERMAN, 2004), Russia (BLACK; LOVE; Rachinsky, 2006), Korea (CHOI; PARK; YOO, 2007), Egypt (Samaha *et al.*, 2012) and China (LIU; UCHIDA; YANG, 2012). In Brazil, we highlight the studies of Lodi (2000), Hallqvist (2000), Martins (2008),

Black, Carvalho and Gorga (2009), Guerra (2009), Oliveira et al (2011) and Nascimento et al (2013).

In recent years, it has been widespread the importance of good corporate governance practices, and the commitment of market agents and authorities to encourage companies to adopt them (CARVALHO, 2002). In this context, the corporate governance practices of the companies listed on the BM&FBovespa may be different, given the different listing segments adopted in this market. Special listing segments of the BM&FBovespa are: Novo Mercado, Level 1, Level 2 and Bovespa Mais. The adherence to these levels is related to the degree of commitment of companies and is signed by an agreement between the company and the BM&FBovespa. According to BM&FBovespa (2012), the Novo Mercado segment has the highest level of corporate governance among other listing segments. It is a differentiated listing segment in which companies voluntarily commit to adopt additional corporate governance practices in relation to what is required by Brazilian regulation.

In the Bovespa Mais the companies also have commitments to transparency, however have the option to enter the stock market gradually, seeking visibility into investments. In addition, companies that are classified in Level 1 are committed to deliver constant improvements in providing information to market and promote dispersion of shareholder control. Moreover, companies listed on Level 2 are committed to meet the requirements for Level 1 and additionally adopt a set of broader governance practices, prioritizing and expanding the rights of minority shareholders (ALMEIDA; SCALZER; COSTA, 2008).

To Nardi and Nakao (2008) the requirements of the Bovespa were created and based on four base pillars of corporate governance which seek: greater transparency in financial statements, fair treatment given to investors, regulatory compliance and satisfactory accountability. These practices create a safer environment to shareholders, members and other related parties, due to the reduction in information asymmetry that theoretically occurs when you have more concern about the quality of published information and with the treatment to shareholders.

Currently, there are 40 Brazilian companies with shares traded on the New York Stock Exchange - NYSE Euronext - representing the largest Latin American bloc in the stock market in the United States.

To enable companies to be listed on NYSE they need, for example, to be in full convergence with international accounting standards and to adopt high standards of transparency through mechanisms such as corporate governance.

Seeking reputation, companies interact with the external environment by currently adapting to the changes on it. Thus, companies attempts to adjust to social, legal and structural requirements already accepted and evaluated for its efficiency as much for its suitability. So, they get in line with other organizational structures, generating homogenization of forms and procedures of the companies within its segment.

In this context arises the following research question: What is the level of disclosure of corporate governance practices recommended by the Code of Best Practices of Corporate Governance IBGC (2009) by banking industry firms listed on the BM&FBovespa? This paper is developed in order to answer the research question by aiming to investigate whether the corporate governance practices of boards of directors disclosed by banking companies follow the recommendations established by the Code of Best Practices of Corporate Governance IBGC (2009).

Additionally aims to: (1) analyze the corporate governance practices of the Board in accordance with the listing segments of the BM&FBovespa; (2) evaluate the level of disclosure of corporate governance practices of the board; and (3) analyze whether there is an isomorphic stance on disclosure of corporate governance practices of the board of directors of financial institutions between companies which have both shares traded on the BM&FBOVESPA and on the New York Stock Exchange (NYSE) and those that have shares traded only on the BM&FBovespa.

The study is justified because it seeks to present to the market (investors) and academia (researchers), the scenario of corporate governance practices adopted and disclosed by the boards of these companies. Firstly, the choice of financial institutions is justified because of its importance in the economy. Secondly, because of the particularities that these institutions have in adopting differentiated corporate governance practices in relation to non-financial institutions. It is worth noting that financial institutions are regulated by agencies of the National Financial System, as the Central Bank of Brazil (BCB) and the National Monetary Council (CMN).

The study was divided into five topics, including this introduction. Following, we present the literature review, contextualizing themes as corporate governance, board of directors and isomorphism. In third topic, we present the methodology, and in the fourth topic the results are shown. At last, we present the conclusion.

## **2 HYPOTHESIS DEVELOPMENT**

### **2.1. CORPORATE GOVERNANCE AND BOARD OF DIRECTORS**

In accordance with IBGC (2012), corporate governance is the system that ensures the partners and owners strategic control of the company and the effective monitoring of the executive board. Furthermore, according with IBGC (2012), the relationship between ownership and management occurs through the board of directors, the independent auditors and the fiscal board. This monitoring, related to good corporate governance practices, contributes to create value for the company and shareholders, standing out as one of the main benefits of adopting good governance practices. Thus, corporate governance ensures the return on investment, reduces the inefficiency of resource allocation and encourages investors to increase their shares in the company (MOURA; MACEDO; HEIN, 2011).

The theme of corporate governance has been widely discussed in academic field. Several studies have addressed the influence of this theme on the cost of capital, in generating value and in the impact to shareholders. The study by La Porta et al (1998), for example, demonstrated that the adoption of best corporate governance practices, such as greater protection to investors and minority shareholders, are associated with an increase on the valuation of assets, and to better development of the capital market. The study of Gompers, Ishii and Metrick (2003) showed that granting more rights to shareholders is related to a higher value for the company. Several studies associate transparency with reduced cost of capital (BOTOSAN; PLUMLLE, 2001; CHEN, CHEN, WEI, 2003), as well as identify a positive correlation with firm performance (VERRECCHIA, 2001; KAPPLER; LOVE, 2002).

By analyzing the Brazilian events of the 1990s, Carvalho (2000) inferred that the low protection of minority shareholders explained the lack of initial public offering (IPO - Initial Public Offering) and the drop in the BM&FBovespa negotiations by the end of that decade. Carvalho (2002) noted best corporate governance practices from different listing segments established by BM&FBovespa. Carvalho and Pennachi (2009) studied the deciding factors

that led companies to move to higher levels of governance of BM&FBovespa. The authors concluded that this migration influences the increase in value and the greater liquidity of shares.

Silveira *et al.* (2008) studied the evolution of the level of governance of Brazilian companies between 1998 and 2004 by a large number of indexes based on limited public access information. The study reported that the governance index showed improvement during this period but it was still below adequate.

In recent years, more specific studies on the board in this context of corporate governance were also performed. Oliveira *et al.* (2011) investigated 15 companies in the Brazilian banking sector which were listed on Level 1 and Level 2 segment of the BM&FBovespa and found that most banks follow the new direction of IBGC relative to the size of the board; practices in relation to the independence of the board are above the standards required by the BM&FBovespa; banks are strict regarding the audit and supervision in the governance process; and mostly, the positions of CEO and chairman are held by different people. It was also found that the practices of the remuneration of the members of the board are still beginning, thus, banks are limited to report only what is required by law.

Surveys such as that conducted by Samaha *et al.* (2012) with 100 Egyptian companies have shown low levels of corporate governance by the boards. In summary, the most common practices of corporate governance were required by the current law or by the listing segment. The study of Dessai and Bhanumurthy (2011) with 30 Indian companies of the Sensex index, covering composition of the board, audit committee and the committee of complaints from shareholders, found good corporate governance practices in general.

It is important to note that corporate governance is also related to the value and performance of the firm. Silveira, Barros and Fama (2004) analyzed the relationship among firm value, size of the board and separation of the Chairman and the Chief Executive Officer (CEO). The study revealed a positive correlation between the separation of the positions of chairman, CEO and firm value, measured by Tobin's *q*. The study by Silveira and Barros (2008) found that larger firms which issue ADRs and which have better performance, have on average better level of governance. In addition the adherence to differentiated levels of Bovespa segments may not influence the level of governance of companies. Liu, Yang and Uchida (2012) using data of 970 Chinese listed companies, found evidence that strong corporate governance plays an important role in mitigating expropriation of minority shareholders and companies with state ownership have a higher business value over a period of crisis.

It is worth noting the study of Ferreira, Kirchmaier and Metzger (2010), who found that the degree of independence and the number of members of the board of directors of banks in different countries tend to obey rules and laws; however they adapt when possible to a specific situation. The authors comment that there are several regulations regarding board independence, but not with regard to experience of the members and that this factor as well as the size of the board has influence on the performance of companies. Study of Punsuvo, Kayo and Barros (2007) also found that the size of the board also seems to influence company's performance. According to Coffee (2001), in countries with concentrated stock ownership, such as Brazil, there is no external control of the management of the companies. Thus, executives are pressured by the share price on the market and the consequent risk of hostile acquisition of control, which occurs in countries with more developed markets. When there are controlling shareholders who holds a majority of the voting power and less liquid

secondary markets, mechanisms for internal control of management, such as the board of directors may be an alternative to protect minority shareholders' interests (BRATTON; MCCAHERY, 1999).

In Brazil, the duties of the board are defined by Article 142 of Law No. 6,404 / 1976, which covers, for example, control functions, supervising the management of directors, the examination of books and papers of the company, contracts and any other acts connected with the administration of the company. Thus, enforcement of acts of directors is gaining importance, and with it, the discussion about the need for greater independence of directors.

According to Monaco (2000), the high prevalence of outside directors indicates strong potential for independence of the board in relation to the executive. The majority number of independent directors on the board helps to reduce the conflict of interests between executives and shareholders. Likewise, a council composed mostly of insiders may indicate a lesser degree of control since the counselors have been supervising their own responsibilities.

In Brazil, nowadays, there is still a high number of companies with concentrated stock ownership. Recent evidence suggests that Brazilian public companies, in 2009, still had concentrated capital in the hands of the controller, especially the Novo Mercado ones (BEUREN; MOURA, 2011). It is natural to assume that also occurs an overlap of functions of the chairman and of the chief executive. The accumulation of these positions by the same person is discouraged by major corporate governance codes (CALPERS, 2010; Association Francaise des Entreprises privées - AFEP, 1999; IBGC, 2009). This is because it causes excessive concentration of power, with negative consequences for the company. Previous studies have reported that the overlay of these functions were quite high on Brazilian listed companies until 2002 (VENTURA, 2000; SILVEIRA, 2002). Coombes and Wong (2004) suggested that segregation of duties is essential to ensure the independence of the board, given that the assignments of the two main functions of the company are different and potentially conflicting.

In the opinion of Fama and Jensen (1983), the organization's success depends substantially on the integration of the board with the executive board. For this reason, Lorange (2005) suggests that management decisions, competence of the CEO and control, and the ability of the board should be harmonious and complementary to strengthen the partnership and making board members and executives feel part of the same team. However, it is part of the mission of the chairman to evaluate the performance of management, and, in case of negative results, replace it. This supports the need to separate the functions of CEO and chairman of the board, in order to facilitate the monitoring and discipline (MELLONE JR; SAITO, 2004).

Several studies have revealed that better corporate governance practices are related to firm value, such as Silveira, Barros and Fama (2004), Bebchuk and Cohen (2005); and Bebchuk, Cohen and Ferrell (2009). Thus, it is worth to investigate whether companies adopt isomorphic postures with respect to corporate governance practices to attract more investors and maximize its value. Therefore, we present the institutional theory to contextualize the isomorphism.

## 2.2 INSTITUTIONAL THEORY

Institutional theory arises from the idea that the myths, beliefs and social reality of organizations will shape it in a process called "institutionalization process", emphasizing that organizations are subject to the pressures of the social environment. For Machado-da-Silva,

Fonseca and Fernandes (1999), the vision of institutional theory has two key dimensions: the technical and institutional. The technical dimension is characterized by the exchange of goods and services, while the institutional dimension leads to adhesion of standards of performance required to achieve organizational legitimacy.

To achieve legitimacy, organizations tend to reproduce certain standards and procedures followed and validated by other organizations, which creates uniformity of rules, norms, institutionalized myths and beliefs. For many researchers in addition to achieving a survival probability, there are other advantages of homogenization, for example, the stability, the reputation and legitimacy.

### 2.2.1. ISOMORPHISM

DiMaggio and Powell (2005) argues that the best concept that can capture the process of homogenization is isomorphism. Hawley (1968) states that isomorphism is a process that forces one unit to resemble a population of other units that are part of the same environmental condition. What makes companies assume an isomorphic stance is the fact that they seek self-defense in relation to the problems they cannot solve with ideas created by themselves (MACHADO-DA-SILVA; FONSECA; FERNANDES, 1999).

Fonseca (2003) and other authors who study institutional theory identifies that there are two types of isomorphism: competitive and institutional. The institutional isomorphism emphasizes that organizations not only seek markets (customers and resources), but also political power and legitimacy. Competitive isomorphism stems from market pressures, competitiveness and relations among members of an organizational space.

DiMaggio and Powell (2005) point three mechanisms through which institutional isomorphic change occurs: a) coercive isomorphism; b) mimetic isomorphism; and c) normative isomorphism.

In coercive isomorphism, a more legitimate organization puts pressure on other dependent to it. The mimetic isomorphism occurs when an organization, for several reasons, adopts the procedures and practices that have been developed and tested in other organizations pertaining to your specific environment due to some sort of uncertainty and form of protection. Derived primarily from professionalization, the isomorphism regulatory mechanism mainly refers to common forms of interpretation and action regarding the problems that highlight the organizational life. Past study by Rossetto and Rossetto (2005) assumes that in isomorphism firms respond similarly to other companies that are adapted to the environment.

As an illustration of mimetic isomorphism, there is the study of Dias Filho and Moura (2009), in which the authors showed that smaller banks tend to copy models and disclosure practices already adopted by major banks. The results confirmed the hypothesis that, when organizations are faced with significant uncertainties and threats to their survival, they tend to copy structures and models that have been adopted by other organizations and that are perceived as efficient. This behavior is therefore completely in accordance with the Institutional Theory (BRIDGES JR et al, 2011).

In the organizational field level, DiMaggio and Powell (1983) raise six hypotheses about the process of isomorphism. The first assumption is that the greater the dependency field organization with respect to one or few vital resources, the greater the degree of isomorphism. The second hypothesis states that the greater the interaction between organizations of a field with government agencies, the greater the isomorphism in this field.

The third hypothesis is that the less organizational models are legitimized as alternatives in a field, the faster the process of isomorphism. The fourth hypothesis states that as less technologies are dominated or more goals in an organizational field are ambiguous, the greater the rate of isomorphic change. The fifth hypothesis elaborated by the authors is that the greater professionalization in an organizational field, the greater the isomorphism. Finally, the last hypothesis is that if the organization field is more structured, it will be more isomorphic.

### 3 METHODOLOGY

Considering the objectives listed in this study, it is a descriptive research, which, according to Martins (2002, p 28) promotes the description of the "characteristics of a given population or phenomenon, as well as establishing relationships between variables and facts". Thus, this study reports the corporate governance practices of boards of directors disclosed by companies.

It is a documentary research, and it uses information obtained from public sources and other reports provided by companies in the electronic portal of BM&FBovespa and their own institutional portals. We analysed information from standardized financial statements, reports of corporate governance, bylaws of the board, reference form, bylaws committees and from the company's bylaw. It is emphasized that the information refers to the reports for the year 2011.

The survey covers 28 financial institutions listed on the BM&FBovespa on April 21, 2012. The study investigates the corporate governance practices of the board disclosed by banking listed companies, according to the recommendations of the IBGC (2009) code. The recommendations of the code to IBGC boards are clustered into themes that represent the main aspects related to tasks and activities of the board. We highlight the following topics: roles and responsibilities, composition and qualifications, term of office, segregation of duties (the chairman and CEO of the company), remuneration of directors, bylaws of the board and advisory board and board committee's administration. The recommendations of IBGC for each of these themes are presented in Table 1 and discussed in section 4, where the results are analyzed.

**Board 1: Categories of Analysis**

Item	Themes (Board) suggested by IBGC (2009)
<b>1</b>	<b>Role</b>
	1.1 It defines the strategic guidelines
	1.2 It manages conflicts of interest
	1.3 It defines the structure of capital
	1.4 It determines the risk profile and internal control policies of the company
	1.5 It determines the strategy of mergers and / or acquisitions
	1.6 It chooses and evaluates the performance of the independent auditors
	1.7 It sets the succession process of directors and executive
	1.8 It sets the policy for managing people in the organization
	1.9 It supports and guides the implementation of corporate governance practices
	1:10 It evaluates annually the CEO formally
	1:11 It follows the evaluation of the executive board
	1:12 It accountables to shareholders, including an opinion on the management report and the financial statements

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	1:13 It is responsible for the company's code of conduct
<b>2</b>	<b>Composition and Qualification</b>
	2.1 Number of members (at least 5 and at most 11)
	2.2 It is composed mostly of independent directors
	2.3 No alternate counselor
	2.4 It seeks the diversity of experiences in the Board
	2.5 Committee members have experience on other boards
	2.6 Its members act or acted as senior executives
<b>3</b>	<b>Term of office of members</b>
	3.1. The bylaws / statute defines criteria for the renovation of the organ
	3.2 The term of office is less than or equal to two years
	3.3 The statute states a maximum time of continuous service in the organ
	3.4 The statute states the maximum number of absences at board meetings
<b>4</b>	<b>Segregation of duties of chairman and chief executive officer of the company</b>
	4.1 The roles of chairman and chief executive officer (CEO) of the company are held by different people
	4.2 The Chief Executive Officer (CEO) is not a member of the board
<b>5</b>	<b>Remuneration of members</b>
	5.1 Members should be adequately remunerated, considering the market, the qualifications, the generated value for the organization and the risks of the activity
	5.2 The remuneration policy and the remuneration of the members shall be approved at a meeting
	5.3 Does the company disclose, broad and full, the form of compensation and benefits granted to directors and officers (salary, bonuses, incentive bonuses, shares, etc.) ?
	5.4 Are disclosed the consulting contracts between the company and companies controlled by board members ?
	5.5 It should be disclosed at least the lowest and the highest amount paid to board members, as well as the necessary justifications for differences in case of any.
<b>6</b>	<b>Advisory Council and committees of the board</b>
	6.1 The company has advisory board
	6.2 The board has committees composed solely of counsellors (audit committee, compensation committee, human resources committee, governance committee and others)
	6.3 The committees have internal regulations specifying their powers and modus operandi
	6.4 The committees are coordinated by independent counsellors
	6.5 The company's executives are not part of committees
	6.6 The company has an audit committee
	6.7 The company has a human resources committee / remuneration
	6.8 The company has corporate governance committee
	6.9 The company has a sustainability committee
	6:10 The company has the finance committee
	6:11 The company has other committees

Source: Adapted from IBGC (2009)

Regarding the location of the information of this study, it was found that information related to category 1, 2 and 3 were predominantly evident in the bylaws of the company and in the internal regulations of the board; category 2 in the electronic portal of the companies

and the reference form; category 4 in the electronic portal of the companies; categories 5 and 6 in the reference form and reports of corporate governance as well as in the bylaws committee.

This study makes use of qualitative and quantitative methods of research. A qualitative approach uses interpretive techniques, with the goal of identifying and describing phenomena for obtaining relevant elements to describe or explain such phenomena (RICHARDSON *et al.*, 2008). The quantitative approach makes use of descriptive statistics to describe the study variables (COLLIS; HUSSEY, 2006).

We employed content analysis for identifying and analyzing the corporate governance practices of the board disclosed by firms. A content analysis included the pre-analysis phase, material exploration, treatment results, inference and interpretation, as recommended by Bardin (2009). Theóphilo and Martins (2007) stand out as one of the main uses of this methodology to audit the contents of communications and comparison with standards, or certain goals. This study compares the recommendations of IBGC (default) with the practices adopted and disclosed by the companies.

Studies such as Botosan (1997) and Forker (1992) indicate that there is a correlation between the level of disclosure and governance characteristics, indicating that firms with better governance structure exhibit higher level of disclosure. We highlight that we considered as corporate governance practice of the board that disclosed by the company in institutional documents.

Thus, for the analysis of practices recommended by IBGC, we established a level of disclosure for each company using the following criteria: the value 1 (one) was marked for each practice (subcategory) if the company adopted and disclosed this information, otherwise 0 (zero). As we shown in board 1, 41 items (subcategories) related to six categories of the study were defined, and therefore the score of each company vary from 0 to 41. Thus, the search resulted in a table containing 1148 observations regarding the corporate governance practices of the board of directors. In order to ensure a higher reliability of data, we followed the same methodology as Samaha *et al* (2012). Thus, the data sources have been completely analyzed twice, in cases where there were differences between the first and the second analysis; we provided a third analysis in order to not impair any company.

We analysed corporate governance practices in general and by listing segment. Furthermore, we analyzed whether banks that hold shares on the New York Stock Exchange and BM&FBovespa are subject to benchmarking by other banking companies that hold shares only in BM&FBovespa. In other words, we investigate if they seek to adopt an isomorphic posture. Companies with shares traded on the New York Stock Exchange are: Banco Bradesco SA, Banco Santander SA and Itau Holdings SA. Thus, they are expected to have higher level of corporate governance due of the greater enforcement of NYSE regarding information transparency and corporate governance practices. Thus, it is expected that they are target of benchmarking.

In order to assess the level of disclosure of corporate governance practices of the Board, we employed a quartiles approach. For example, a company which achieved a level of disclosure of 0-25% is considered "very low"; 25% - 50% is considered "low"; 50% - 75% is considered "medium"; and 75% - 100% is considered "high".

#### 4 DISCUSSION OF CONTRIBUTIONS

As shown in Board 1, six categories related to corporate governance practices of the board were analyzed according to the recommendations of IBGC (2009). These categories were broken down into subcategories, totalizing 41 subcategories examined.

We present in table 1 the arithmetic average of the scores obtained for each category of study.

**Table 1: Degree of disclosure by each category**

Category	Level of disclosure (%)
1	53.30%
2	54.76%
3	46.43%
4	50.00%
5	84.29%
6	23.05%

Source: The authors

It is noteworthy that categories 1 (Assignments), 2 (Composition and Qualification), 4 (Segregation of duties of chairman and CEO) and 5 (Remuneration of members) presented levels of disclosure of at least 50%. The other categories achieved averages less than 50%, especially category 6 (Advisory Council and committees of the board), which reached only 23.05% of the total level.

Regarding the first category, some subcategories were disclosed by all companies regardless of the listing segment, such as: 1.1 It defines strategic guidelines, 1.3- It sets the capital structure, 1.7 – It defines the succession process of directors and executive, 1.11-monitors for approval assessment of the executive board, 1.12- It is responsible for the company's code of conduct.

Other subcategories were not disclosed by any company such as: 1.9 - Supports and guides the implementation of corporate governance practices, 1.10- Evaluates annually the CEO in a formal way. The result for the subcategory 1.10 differs from the study of Black, Carvalho and Gorga (2009) who analyzed the corporate governance practices in 88 Brazilian companies, identifying that a third of them (28) evaluates the CEO.

Regarding the composition of the board, the IBGC (2009) recommends a majority of independent members. This characteristic was identified in only one company, and this result is similar to Black, Carvalho and Gorga (2009) who also identified very low disclosure of this practice.

About term of office of directors, IBGC recommends that this term should be limited to two years; hopefully most companies (79%) showed this aspect. We also highlight the following aspects: only one company showed that there is election of alternate counsellors and in only one company most of the board members are independent. In addition, no company provides the maximum length of continuous service of the board represented by subcategory 3.3. Moreover, with respect to category 4, 79% of companies segregate the functions of CEO and chairman of the board. This proportion was also found by Black,

Carvalho and Gorga (2009); and greater than that identified by Ventura (2000) who found that only 59% of the companies separate these roles.

From category 5, all companies disclosed the remuneration of its members due to instruction from the Securities Commission (CVM) n. 480 that establishes the mandatory disclosure of such information in the reference form of 2010. In addition, it is noteworthy that only 9 companies disclosed the consulting contracts between the company and companies controlled by board members. With respect to category 6, we highlight that only two companies submitted advisory board, only three companies have corporate governance committee and only two have the sustainability committee. No company showed the items 6.2 and 6.4. The audit committee is present in most companies, approximately 82% of them showed this information. This result is higher than that found by Guerra (2009) who found that 30.77% of Brazilian companies in various industries have a committee whose name includes the word "audit". Interestingly, this committee has greater presence in banking industry.

We show in table 2 the arithmetic average of the scores obtained for special listing segments of the BM&FBovespa.

**Table 2: Average of categories by listing segment**

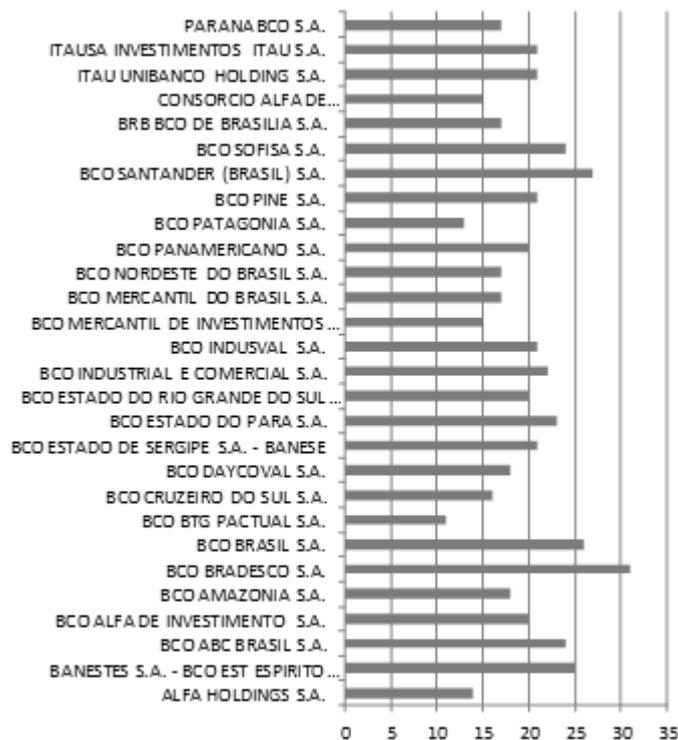
Listing Segment	Average (0-41)
Mercado Tradicional	17.75
N1	20.67
N2	23.40
Novo Mercado	26.00
<b>GENERAL</b>	19.82

Source: The authors

The Novo Mercado listing segment presented the highest average. Moreover, only the average of Mercado Tradicional segment was below the overall average (19.82). This evidence is supported because this is the segment which has the lowest level of requirements regarding the corporate governance practices. It is noteworthy that the Novo Mercado is represented by only one company, and the average refers only to the level of disclosure of the Bank of Brazil SA. In Mercado Tradicional, Banestes SA had the highest score reaching 25 practices (approximately 61% of total ) and Banco BTG Pactual SA had the lowest score with only 11 practices (approximately 27% of the total). In N1 segment, Bradesco achieved the highest score with 31 practices (approximately 75.61% of the total) and Bank Cruzeiro do Sul SA reached the lowest score with only 16 disclosed practices (approximately 39% of the total). Finally, the N2 segment Bank Santander (Brazil) SA had the highest score with 27 disclosed practices (approximately 65.85% of the total) and Bank Pine SA and Bank Induval SA had the lowest score of the segment with 21 disclosed practices (approximately 51.22% of total).

Figure 1 shows the number of subcategories disclosed by each financial institution in the study.

**Figure 1: Level of disclosure (0-41) according with the Code of Best Practice for Corporate Governance IBGC (2009).**



Source: The authors

From Figure 1 we can see that Bank BTG Pactual SA had the lowest number of disclosed practices, with only 11 (approximately 26.83% of the total). Among financial institutions analyzed, Bank Bradesco SA reported the largest number of corporate governance practices of the Board administration, with 31 subcategories in accordance with the code of IBGC (approximately 75.60% of the total) followed by Bank Santander (Brazil) SA which reported 27 subcategories (approximately 65.85% of the total).

It is worth noting that banks which have reached the highest scores have shares traded on the NYSE. In order to answer the specific objective proposed previously, we analyzed the isomorphic posture of the Banks listed on the BM&FBovespa by checking which subcategories were evidenced by these two banks and were also reported by other banks. In other words, we verified if Bank Bradesco SA and Bank Santander (Brazil) SA were target of benchmarking regarding disclosure of corporate governance practices of the board. It is noteworthy that despite Itau Unibanco Holding SA also have shares traded on the New York Stock Exchange, it did not present a high level of disclosure, and therefore we did not use it as a reference to analyze the isomorphic behavior. Table 3 illustrates the subcategories that were disclosed by the two banks which have shares traded on the NYSE and BM&FBovespa, and also the subcategories which were also disclosed by banks that have only shares traded on BM&FBovespa.

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**Table 3: Reference table for Isomorphic behavior**

Subcategory	Bank Bradesco S.A. (Yes/No)	Bank Santander (Brasil) S.A. (Yes/No)	Other Financial institutions (% of firms which disclosed same information)
1.1	Y	Y	100.00%
1.2	Y	Y	19.23%
1.3	Y	Y	100.00%
1.4	Y	N	19.23%
1.5	Y	Y	30.77%
1.6	Y	Y	80.77%
1.7	Y	Y	100.00%
1.8	N	Y	23.08%
1.9	N	N	0.00%
1.10	N	N	0.00%
1.11	Y	Y	100.00%
1.12	Y	Y	100.00%
1.13	Y	N	0.00%
2.1	Y	Y	76.92%
2.2	N	N	3.85%
2.3	N	Y	0.00%
2.4	Y	Y	92.31%
2.5	Y	Y	65.38%
2.6	Y	Y	80.77%
3.1	Y	Y	88.46%
3.2	Y	Y	65.38%

Source: The authors

Subcategory	Bank Bradesco S.A. (Yes/No)	Bank Santander (Brasil) S.A. (Yes/No)	Other Financial institutions (% of firms which disclosed same information)
3.3	N	N	0.00%
3.4	N	N	30.77%
4.1	Y	Y	76.92%
4.2	N	N	23.08%
5.1	Y	Y	96.15%
5.2	Y	Y	96.15%
5.3	Y	Y	100.00%
5.4	Y	Y	26.92%
5.5	Y	Y	96.15%
6.1	Y	N	3.85%
6.2	N	N	0.00%
6.3	Y	Y	15.38%
6.4	N	N	0.00%
6.5	Y	Y	3.85%
6.6	Y	Y	80.77%
6.7	Y	Y	19.23%
6.8	Y	N	7.69%
6.9	Y	N	3.85%
6.10	Y	N	30.77%
6.11	Y	Y	53.85%

According with Table 3, it is noteworthy that 19 (46.34%) subcategories disclosed by the two banks with shares traded on the NYSE were disclosed by more than 50% of the population of other banks. Only five subcategories that were not disclosed by the Banks Bradesco SA and Santander (Brazil) SA were also not disclosed by other banks. The subcategories 2.2, 3.4 and 4.4 despite not having been disclosed by the two main banks were disclosed by other financial institutions. The results reject the initial premise of the research as we cannot draw a clear isomorphic behavior. There are several possible explanations for this result, but one reason that may explain this fact is related to one of the hypotheses of DiMaggio and Powell (1983) who points out that the greater the vitality aspect of the business, the greater the isomorphism. These Brazilian companies probably do not yet have the feature to assign the disclosure of corporate governance a high degree of vitality to the business. Thus, the results found in this study suggest that the disclosure of corporate governance of the board is not considered something vital to the business, and therefore this subject is not target of isomorphism, thus supporting the hypothesis of DiMaggio and Powell (1983).

The levels of disclosure of corporate governance practices of the board evaluated in quartiles showed the following configuration: no company achieved very low level of disclosure; 15 companies had low level of disclosure; 12 companies had an medium level of

disclosure and only one company showed a high level of disclosure, represented by Bank Bradesco SA. Moreover, it is noteworthy that Banco Bradesco SA was the only company that submitted the composition of all committees focus of study, also featuring several others including risk and ethical conduct committees.

The findings of the current study are consistent with those of Oliveira and Silva (2004) who conducted a study in the Brazilian banking sector looking reporting standards and corporate governance practices adopted by banks and concluded that despite the increasing trend in the adoption of practices, there is still a long way to go, both in establishment of new standards, and in compliance with those existing.

These results, with respect to mimetic isomorphism, agree with the findings of Dias Filho and Moura (2009). The banks analysed have mostly 5-11 members on the board and the number of independent counsellors are small. Therefore, in Brazil, the findings are consistent with Ferreira, Kirchmaier and Metzger (2010), since there is no normative that addresses the experience of the board, however BM&FBovespa has regulations on the amount and independence of the council per listing segment. Moreover, this study found low levels of corporate governance, as well as Egyptian companies investigated by Samaha et al (2012).

The study found similar results to those of Oliveira et al (2011) in relation to the size of the board and the audit committee, but differs in relation to remuneration of the members. The study of Oliveira et al (2011) found no disclosure of the remuneration of the members of the board. This divergence should be explained by the fact that in the year of the study (2009) CVM Instruction n. 480 was not yet in force.

## 5. FINAL CONTRIBUTIONS

This study set out with the aim of assessing the corporate governance practices of boards of directors disclosed by companies in the banking sector listed on the BM&FBovespa, according to the recommendations by the code of best corporate governance practices of IBGC. Thus, we implemented a descriptive research for analysis of six practices (categories of study): assignments, composition and qualification, segregation of duties, wages, internal regulations and existence of committees and advisory council which were subdivided into 41 subcategories.

We find evidence that governance practices of boards of directors disclosed by most companies (15) achieved below 50% of total governance practices relating to the management board in relation to what is suggested by IBGC. The main results of each of the six categories analyzed are presented below.

Firstly, for assignments, the board of all companies trace strategic guidelines, define capital structure, define the succession process of counsellors and executives, present the evaluation of the directors and report information to shareholders. No company announced if it supports and encourages the corporate governance practices, and that formally evaluate the CEO at least once a year. These considerations may suggest one reason for the low level of disclosure of corporate governance practices found in this study. Relating to composition of the board, 79% of companies has between 5 and 11 members. It is worth noting that in 32% of companies the term of the board is greater than two years, which affect the renewal and the rotation of board members.

The segregation of the functions of chairman and chief executive of the company occurs in 79% of the companies, and the CEO is not a member of the board in 21% of companies. In all companies the remuneration policy and the remuneration of directors are approved by the assembly. All companies disclosed the remuneration of the members, this fact was verified due to instruction CVM 480 of 2009 which establishes mandatory remuneration disclosure of directors and executives in the form of reference from 2010.

No company defined in its bylaws that the committees should be coordinated by independent counsellors. Although the audit committee was the most common (82%), sustainability committee was found just in a small proportion of companies (7%). Moreover, the result of the analysis of the documents also showed that only 7% of companies have advisory board.

BTG Pactual Bank SA had the lowest number of good corporate governance practices (only 11, approximately 26.83% of the total). It is noteworthy that the Bank of Brazil, despite having shares listed on the Novo Mercado, considered maximal level of corporate governance of BM&FBovespa, presented only an "average" level of disclosure of corporate governance practices of the board. Bradesco and Santander Banks were the two companies that scored higher in this study, respectively 76% and 66% of full disclosure. These companies have shares traded on the New York Stock Exchange which leads to higher demands of corporate governance and greater transparency to attract foreign investors. Although the company Itau Holdings SA also have shares traded on the New York stock exchange, it achieved just 51% of the total. This result goes against the premise of the research that has been expecting a higher level of disclosure of corporate governance practices by this company.

Regarding mimetic isomorphic posture, we did not find a trend of companies adopting the same practices that Bradesco and Santander Banks. This may be due to the fact that there is no culture by these companies which relate higher disclosure of corporate governance practices and a high degree of vitality to the business.

In summary, we conclude that listed companies in the banking sector of the BM&FBovespa presented mostly a "low" level of disclosure of good corporate governance practices of the board. These companies still have a long way to perform in order to increase transparency and strengthen the capital market to interested users. Regarding to the isomorphic posture, it was not found in this study that there is this behaviour by companies of the banking sector. Thus, according with the hypothesis of DiMaggio and Powell (1983), the disclosure of corporate governance practices of the board probably does not have a high degree of vitality to these companies, which explains the lack of isomorphism.

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