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Strategies for Mitigating U.S. Banks' Risks from Exposure to Derivatives and the Underlying Assets

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Walden University

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Othman Abdelmoumen

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Walden University
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Abstract

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by

Othman Abdelmoumen

MBA, Regis University 2005

BS, Metropolitan State University of Denver 2002

Doctoral Study Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Business Administration

Walden University

April 2023

Abstract

Many banks' executives lacked strategies to mitigate the risk of default on subprime mortgages and their linked derivatives to prevent bank insolvency. This led to severe financial losses and insolvency of many banks in 2008-2009. Grounded in the corporate governance agency problem and stewardship theories, the purpose of this qualitative multiple case study was to explore (CG) strategies some bank executives implemented to mitigate the risk of default of subprime mortgages and their linked derivatives to prevent bank insolvency. The participants were four bank executives who worked for federally insured banks in Colorado. Data were collected from semi-structured interviews and a review of archival documents from U.S. government sources, like the Federal Deposit Insurance Corporation. Thematic analysis was used to analyze the data, and four themes emerged: (a) excessive risk-taking, (b) riskiness and complexities of mortgage-backed securities (MBS), (c) no capital reserves for massive subprime defaults, and (d) moral hazard. A key recommendation for bank executives is to set up a protocol to monitor the selling process of subprime loans and MBS, emphasizing the suitability and affordability of the loans to the consumers to protect the banks from losses or insolvency. The implications for positive social change include the potential for bank executives to act in the best interest of stakeholders to avoid the insolvency of financial institutions and banks.

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Dedication

I am dedicating my DBA studies to my parents who are no longer with me. My dad never went to school for him, and millions of Algerians were under a brutal, racist, and inhuman colonial occupation. He had a great thirst for acquiring knowledge that I inherited from him. He did not have a graduate degree, but he was brave, savvy, and full of wisdom. My mother was my bedrock. She was the epicenter of all my success in life. Without her, and God's greatest gifts and help, I do not know where I would have ended up. She provided me with the necessary resources and encouragement to come to the U.S. Although it was hard for her to let me go, she knew we would see each other again. She might not be here physically, but I hope that she is looking down on me and celebrating this achievement with me. I love you, Mom, and I love Dad. Always will. I also dedicate this to my wife, Nadia, and sons Zoubir and Adam. I hope that my sons will follow in my footsteps.

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I would like to recognize, again, my parents for their sacrifices and the great job they did in raising me and caring for me even when I got older. I thank Dr. Craig Martin for his patronage and guidance throughout the DBA program's final journey. He was always there when I needed help. Thanks, Dr. C. I would like to acknowledge my family, my brothers, and my sisters in Algeria. All my friends wished me well and good luck. I want to acknowledge, again, my wife Nadia, for her support and my sons Zoubir and Adam for being my sons. I love you very much. Finally, I would like to send my thanks and gratitude to the Almighty God, creator of heavens and earth, that allowed me and gave me the strength to go through the DBA journey and make it to the finish line. I will never be able to thank you enough for the blessings you have bestowed upon me.

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Section 1: Foundation of the Study

Background of the Problem

In this study, I sought to explore the failure of corporate governance (CG) in a specific sector of the economy. The financial crisis of 2008 brought banking and financial system to a total collapse. More than 500 U.S.-based banks failed (Federal Deposit Insurance Corporation [FDIC], 2020, p. xiii). The weakness and ineffectiveness of CG protocols in banks were judged to be the main factors that directly contributed to the 2008 financial crisis (Fernández Sánchez et al., 2020).

The executives of 500 banks in the United States did not foresee the inherent risk of derivatives and their underlying assets' default risk which were in the form of subprime mortgages. When owners of those mortgages started to default, it created an unprecedented crisis that caught many executives in the banking and financial industry by surprise (Song & Wang, 2020). The principals in some banks knew that mortgage-backed securities (MBS) were highly risky and that the underlying assets of subprime mortgages would likely collapse (FDIC, 2020). However, agents supporting subprime mortgages convinced the principals to retain the securities on their balance sheets (Song & Wang, 2020). The securitization of MBS with highly risky subprime mortgages as underlying assets proved to be catastrophic to the whole banking system (Song & Wang, 2020). In this study, I also introduce and explain the complexities of unregulated derivatives markets, complex insurance products, subprime mortgage lending schemes, different risk

categories, and different CG risk mitigating solutions and strategies that banks and other businesses could benefit from (FDIC, 2020, p. xii).

Problem Statement

The 2008 financial crisis led to the bankruptcy of one of the largest investment banks in the United States, Lehman Brothers (Hearit, 2018, p. 238). According to the FDIC, 2020, p. xiii), more than 500 federally insured banks became insolvent and failed from 2008 to 2013. The general business problem is the failure associated with high-risk derivatives linked to subprime mortgages held as assets within federally insured banks. The specific business problem is that some banks' executives did not develop and implement strategies to mitigate the risk of default on subprime mortgages and their linked derivatives to prevent the insolvency of the banks.

Purpose Statement

The purpose of the qualitative multiple case study was to explore the CG strategies that some bank executives developed and implemented to mitigate the risk of default of subprime mortgages and their linked derivatives to prevent insolvency of the banks and mitigate the risk of moral hazard (MH). The population is comprised of two large federally insured U.S. banks located in Colorado and the participants are four executives who work at those banks with proven experience in the subject matter. This study's findings and conclusions may lead to positive social change by providing banks' executives with information on value-added strategies that might create new ways to reconfigure processes and practices that could promote operational efficiency that contributes to better risk assessment and monitoring systems of insolvency to mitigate the

potential loss of capital and investments of retirees and small investors within the communities.

Nature of the Study

The qualitative method is suitable for this study because it allows for the exploration and gathering of insights into the 2008 financial crisis (see Yin, 2018). The quantitative method is not suitable for this study because it is designed to examine empirical variables' characteristics and the relationship between them, and in this study testing a hypothesis or examining variables' characteristics was not the objective (see Saunders et al., 2019). I did not choose the mixed method because the quantitative method portion was not suitable for addressing my study's purpose.

According to Saunders et al. (2019), there are three different research designs when choosing the qualitative method: (a) case study, (b) phenomenology, and (c) ethnography. The multiple case study design allows a researcher to explore the what, how, or why questions (Saunders et al., 2019). Also, by using a multiple versus a single case design, I was able to obtain and compare details and perspectives concerning a specific event replicated across more than a single case (see Yin, 2018). The phenomenology design is a study of phenomena appearing or living in participants' real environment (Yin, 2018), which was not the purpose of my study; the phenomenology design was not suitable because my research study was not based on participants' lived experiences. Ethnography is a design used to study the culture and social behavior of a group (Wood & Mattson, 2019). I did not choose ethnography because my study was not focused on ethnic groups' cultures or habits.

Research Question

The research question guiding this study was: What are the CG strategies that some bank executives developed and implemented to mitigate the risk of default of subprime mortgages and their linked derivatives to prevent insolvency of the banks and mitigate the risk of MH?

Interview Questions

1. What was your understanding of the riskiness of MBS derivatives relevant to influencing severe financial losses?
2. What were the strategies to mitigate risks of derivatives and subprime mortgages that made you avoid insolvency issues during the 2008 financial crisis?
3. What were the key barriers to implementing your bank's strategies to handle the subprime mortgage defaults during the 2008-2009 financial crisis?
4. How did you address the key barriers to implementing those strategies?
5. What else can you share about the mitigating strategies for the riskiness of derivatives and subprime mortgage default?
6. What is the educational and experience level with MBS and subprime mortgages?

Conceptual Framework

CG is a reference to the private and public sectors. CG involves laws, regulations, and accepted business practices and is defined as processes and structures that provide the decision-making ultimate authority to company executives or agents (Dyer et al., 2016). My study's conceptual framework was grounded in the stewardship and agency problem theories, two major components of CG.

The stewardship theory was first introduced in 1997 by James Davis, Davis Shoorman, and Lex Donaldson. This theory implies employees will be less opportunistic due to feeling more psychological ownership over the firm (Brown; et al., 2021). Also, the theory states that the agents' (managers and executives) goals are aligned with the principles' (owners) goals. However, agency theory is the opposite when agents and principles have different goals (self-interests). The agency theory was first introduced in 1976 by Jensen and Meckling.

In summary, using the conceptual framework of CG enabled me to identify and explore the lack to set strategies to mitigate the inherent riskiness of derivatives and subprime mortgage defaults and enlighten shareholders and stakeholders in the industry and beyond and help them develop and implement efficient mitigating strategies to protect inherent risks in derivatives products and their underlying assets (subprime mortgages) that could increase the risk of insolvency of banks.

Operational Definitions

Assets: Economic resources with a value that an individual, corporation, or country possesses or is within the control of the persons, for which an economic appreciation and benefit are expected in the future. (Maharaj, 2020).

Bank capitalization: The difference between the assets and liabilities that represent the net value of the bank (FDIC, 2022).

Credit default swaps (CDS): Insurance policies or contracts in which a purchaser swaps the risk of default with a buyer to protect against devastating and unexpected losses. CDS are considered derivatives (Maharaj, 2020).

Derivatives: Securities that obtain their values based on another asset (Maharaj, 2020).

Fiduciary: A relationship of trust of an entity or person when handling financial assets, usually monetary assets (Gilreath, 2018).

Insolvency: An entity or person's inability to pay back the debt owed (Gilreath, 2018).

Moral hazard (MH): In economics, a situation in which an economic actor has an incentive to increase its exposure to risk because it does not bear the full costs of that risk (Investopedia, 2022).

Mortgage-backed securities (MBS): A derivative created through the securitization of mortgages as underlying assets (Gilreath, 2018; Maharaj, 2020).

Securities: Intangible assets and financial instruments bought and sold in the open markets. There are three types of securities: equity, debt, and hybrid (Gilreath, 2018).

Stress test for U.S. banks: A forecasting quantitative evaluation of bank capital that tests how a hypothetical macroeconomic recession scenario would affect firm capital ratios (Federal Reserve, 2022).

Subprime mortgages: Mortgages designed for borrowers with poor credit scores are considered by banks to be risky loans. They are inherently expensive loans with a higher cost to borrow than regular mortgages (Gilreath, 2018).

Assumptions, Limitations, and Delimitations

Assumptions are held beliefs and a set of actions or facts that can be challenged or not accepted and assumed to be valid for the sake of a study (Hancock & Algozzine,

2016). Assumptions are of utmost concern when conducting a qualitative study (Yin, 2018). For this research, I made three assumptions about the subject matter. I assumed the bank population in this study would be adequate. I assumed the bank executives would be knowledgeable about the subject matter. I assumed participants would meet with me and answer my interview questions honestly and to the best of their expert ability.

According to Yin (2018), there are multiple limitations when conducting qualitative research. In my study, some of the limitations were that I did have executives from banks that became insolvent. Also, the participants were local, thus, could not give a general view of the banking system.

Delimitations of the research refer to boundaries a study must abide by and stay within (Hancock & Algozzine, 2016). Some delimitations are banks' stock prices decline, the number of assets lost, and other debts and liabilities that can be acquired through financial statements.

Significance of the Study

Contribution to Business Practice

The financial crisis of 2008 created large economic losses in output and large declines in employment, and a severe decline in household wealth and other economic activities (FDIC, 2020, p. xi). The findings from my research could provide bank executives with recommendations and strategies for the mitigation of risks inherent in derivatives investing and their underlying assets default by creating policies and strategies that would benefit and affect social change in the banking system. This study's

findings and recommendations could help bank executives acquire a better understanding and knowledge about risky financial assets and design policies by practicing good CG and providing better disclosure of risky assets to make more efficient and effective financial decisions and also enhance consumer decision-making. The results of this research could benefit other businesses in practicing good CG by adopting strategies of risk mitigation in their industries of risky assets regardless of their nature of being either tangible or intangible.

Implications for Social Change

Good CG is an effective factor that affects social change. CG enables consumers to be more involved in demanding more transparency from banks, especially those who would have a direct impact and influence on peoples' livelihoods by having transparency in disclosing risky assets in their financial statements. This would help the way companies are managing their risky assets and business decisions are made that would not jeopardize customers' financial well-being and livelihoods.

A Review of the Professional and Academic Literature

The purpose of my case study was to understand the CG strategies that some bank executives developed and implemented to mitigate the risk of default on subprime mortgages and their linked derivatives to prevent the insolvency of banks. A critical analysis and synthesis of the literature provided the conceptual framework for the research relating to value-added strategies and their application to banks and financial institutions (Saunders et al., 2016). The literature review is the foundation for understanding the phenomena surrounding CGs of U.S. banks and financial institutions'

operations success, failure, and sustainability. Also, the literature review intends to identify knowledge gaps and illustrate the justification for the research aim (Saunders et al., 2016).

The literature review will consist of peer-reviewed articles and sources relating to the topic of CG in general and failure in the United States and other countries. The literature review is organized by introducing a global view of CG and then critically and methodically explaining the main goal of CG and its components. I will focus on the general concept of CG from different perspectives and then I will focus on the two theories that my study is based on, which are the stewardship and agency problem theories. Although my study is for a specific sector of the economy, the elements of CG are the same except for the products and services the banking sector provides and the federal and state strict regulations banks must adhere to. This literature review will show the importance of CG in many different sectors of the economy and its influence on business decision-making, formulation of strategies, access to information, and performance.

The primary databases used in this literature review included EBSCO Research Databases, ProQuest, ABI/INFORMS Global, and Walden University online library resources. Key search terms included *corporate governance*, *stewardship problem theory*, *agency problem theory*, *responsibility*, *corporate strategies*, *banking*, *finance*, *derivatives*, *risks*, *subprime*, *CDS*, and *qualitative method*. All references were published in 2016 or later. The literature review is structured as follows: an introduction to the

subject matter, a detailed overview of CG, then an address to the two main theories, other components of CG, a contrast among theories, and a conclusion.

Table 1

Five Years of References, 2017–2022

Total number of references	118
Peer-reviewed articles and journals	114
Books	4%
Peer-reviewed	96%
Current articles	78%

A rich volume of scholarly research on CG has provided many important insights into the governance of publicly traded firms worldwide (Garg, 2020). The globalization and the interconnection of world economies, the technological advances in making capital transfers, securities investing, and systemic and inherent risks to global markets and economies exponentially increased the importance of CG and brought it to the forefront in creating strategies and implementing them in mitigating those risks and to avoid another devastating crisis like in 2008. Also, globalization of business operations and financial markets (i.e., adding complementary political processes for example integration and expansion of the European Union, formation of regional free trade associations and the World Trade Organization, etc.) has raised interest in CG that was seen primarily as a means of securing investors' interests and the debate about the convergence of CG systems worldwide (Becic, 2011). Although the 2008 event will not be the last financial crisis, it will continue to be one of the most researched events for a long time; volumes have already been written about its causes (Troncoso, 2019). The weakness and the ineffectiveness of banks' CG protocols were judged to be the main

factors contributing to the 2008 financial crisis (Fernández Sánchez et al., 2020). At present, the focus on management and CG of banks will play an ever more crucial role given the prevailing importance of banking institutions as a source of finance for the corporate sector.

Solvency has been the primary goal of any bank or financial institution. Banking stability is of utmost importance to any economy because of its multiple roles and functions, which include intermediation, payment facilitation, and credit creation. Thus, the stability of the banking industry is one of the critical ingredients in economic growth (Oino, 2021). Such stability is defined as the possession of assets over liabilities and the ability to pay financial obligations and liabilities (i.e., debts) (Olha & Valerria, 2020).

Corporate Governance

Overview

CG is a reference to the private and public sectors. CG involves laws, regulations, and accepted business practices. Dyer et al. (2016) defined CG as processes and structures that provide the decision-maker with ultimate authority. CG sets the guidelines and processes by which a firm is managed (Giannarakis et al., 2020). CG plays a greater role in an economic context that includes macroeconomic policies and market factors that are mainly the legal, regulatory, and institutional environment (Festić et al., 2020). CG incorporates the ethical side of the business and the responsibility of firms to the societal environment and social development (Festić et al., 2020). Good CG needs strong processes to mitigate risks and encourage ethical behavior (Bace, 2018). Becic (2011, p. 1361) defined CG as a system of supervisory mechanisms used by all stakeholders to

ensure returns on their investments in the corporation without jeopardizing the corporation's prosperity (Fernández Sánchez et al., 2020). Globally, there are two distinct systems of CG. The first is the Anglo-Saxon model focused on the interests of shareholders (owners and principals) and the other model is used in Europe and Japan and considers the interests of all stakeholders (employees, managers, suppliers, buyers, and the community (Festić et al., 2020).

Anglo-Saxon Model of CG

The Anglo-Saxon CG model has been the focus of many studies and research because of the economic collapses and corporate scandals that occurred in this century and the last one. CG has been scrutinized in the past, and many researchers explored and focused on the relationship between CG and company performance. For example, the duality of the chief executive officer (meaning CEO and part of the board that is supposed to oversee CEO activities and decision-making), board independence, board compensation, board ownership, board composition, and audit committees (Chaudhary & Shrivastava, 2021). Some researchers also suggested that the CG structure consists of several mechanisms that minimize agency conflicts, align the interests of principals and agents, and value creation (Elgharbawy & Abdel-Kader, 2021). Some researchers concluded that CG can be measured and quantified through an apparatus of board size, CEO duality, gender diversity, ownership structure and concentration, managers' income, and CG index (Lungu et al., 2020). Others tie CG efficacy to performance using different CG variables like Tobin's Q, return on equity, return on asset, return on investment, and economic value added (Chbib & Page, 2020; Coletta & Arruda de Souza Lima, 2020;

Ekanayake & Wijethilake 2019; Gupta & Nashier, 2019; Kanf & Song, 2019; Kuo et al., 2020; Liu, 2019; Merendino & Melville, 2019; Pham & Pham, 2020

The *laissez-faire* principle of Adam Smith is the guiding doctrine in a capitalistic model where the assumption is that markets self-regulate and self-monitor. The law and economics perspective suggests that severe competition among companies will fend off deception and cheating through the increase of impetus for companies to trade equitably to safeguard their reputations (Lewis & Schwartz, 2020) and the basis of a successful and sustainable outcome for firms in having good CG (Chaudhary & Shrivastava, 2021). Also, CG activists are becoming more known for their involvement in decision makings like labor unions and other shareholder activists (Del Guercio & Woidtke, 2019). Many researchers suggested that CG has a direct correlation with firm performance (Chaudhary & Shrivastava, 2021).

The importance of CG was amplified in the past decades with the internet bubble and the financial crisis of 2008. Although some researchers suggest the financial crisis of 2008 had much greater and more devastating consequences than the former (Festić et al., 2020). The 2008 crisis proved the ineffectiveness of the managerial strategies in place, especially when confronted with unexpected pressures and conflicts of interest (Festić et al., 2020). The crisis showed that different banks had different factors of influence their governance and how to respond in a time of crisis (Festić et al., 2020).

Before the 2008 financial crisis, some researchers outlined the main issues concerning the CG of banks. Alexander's (2006) analysis of the important problems facing the CG of banks and financial institutions and the related issue of financial

regulation is reducing the social costs of bank risk-taking. At the time the analysis about the important role of CG was published, the only major crisis the banking system faced was the savings and loans crisis of the late 1980s and the systemic risk that posed at the time to the whole U.S. economy and the world (Alexander, 2006). The banking system is a crucial component of capitalism and the financial structures apparatus and their functions; however, despite scenarios based on mathematical models, the financial crisis of 2008 was not predicted. Thus, the human aspect of CG must play a crucial role in financial activities in mitigating risk (Bace, 2018; Capriglione & Casalino, 2014). Improving the quality of human capital on the board of directors and executive positions to mitigate the riskiness of products and quick processes is the first line in practicing good CG executives did not have strategies and effective knowledge of the risky products that led to the crisis of 2008 (Bace, 2018; Capriglione & Casalino, 2014).

The exploration of U.S. banks and financial institution' operations exist in a variety of research studies. Likewise, studies of CG have aimed to identify factors contributing to performance downturn in U.S. bank operations. One could categorize the downturn, and some failures, as a continuation of enterprise operations through challenging times to realize and adopt new strategies to attain stated financial goals, and many opportunities exist for executives at the leadership level to improve CG to increase profitability and sustainability (Vershoor, 2016).

An analysis of banks and financial institutions in the United States before the 2008 financial crisis indicated that the highest priority was on increasing income from aggressive growth strategies from concentrated MBS and brokered deposits rather than

regular retail banking deposits (Hatten et al., 2018). Many researchers argued that large nontraditional bank products, like MBS and CDS and other securities-related products, made the collapse of Lehman Brothers almost a collapse of the banking and financial system (Engelen, 2017).

Researchers suggested that executives of publicly traded firms should be monitored by the owners (i.e., shareholders and stakeholders) and their decision-making strategies scrutinized. If pursuits are not in the best interest of labor unions or so-called special interests punish those executives by devaluating their human capital (Del Guercio & Woidtke, 2019). This type of CG scheme is *shareholder activism* (Del Guercio & Woidtke, 2019; Elgharbawy & Abdel-Kader, 2021). This activism increased because executives were paid excessive monetary packages even though their banks were failing and had to be bailed out by the government (Fernández Sánchez et al., 2020).

Good CG is the first line of defense against excessive risk-taking and risk mitigation of a macroprudential or systemic risk (Gaganis et al., 2020). There is empirical evidence demonstrating that strong ethical values are the main factor for effective CG. CG's benefits can emanate from espousing high ethical standards as well as from synergies between compliance and a focus on organizational and ethical values (Fotaki et al., 2020). While the subject of CG is vast and rich in the literature, I am narrowing it to banking systems; however, banks have unique features that amplify CG's issues and might lower the effectiveness of the standard of its protocols (Fernández Sánchez et al., 2020). Even though boards of directors (BODs) of financial firms have the same legal responsibilities as boards of nonfinancial firms, the former are against added pressure to

satisfy non-shareholders and stakeholders than the latter. Thus, regulators, for example, expect BODs to behave in a way that ensures the safety and accuracy of the financial institution, which is a goal that may not necessarily be in shareholders' best interest (Fernández Sánchez et al., 2020). This creates agency problems.

Banks' CG and other financial institutions have a considerable difference from general CG because of their scope, which goes beyond the shareholders to include debtholders, insurance policyholders, and other creditors (Hopt, 2013). Lack of and inefficient oversight was a big factor contributing to the 2008 financial crisis, and egregious risk-taking was the leading reason for significant financial losses (Gontarek & Belghitar, 2018). Failures in risk mitigation are characterized by a failure to implement strategies that would identify, measure, monitor, and communicate risk exposures, and it is the duty of top executives and the BOD to put forward the tolerance level and the kind of risks that should be undertaken (Gontarek & Belghitar, 2018). The crisis demonstrated that the CG of banks is of utmost importance because its failures can have a tremendous burden on public finance (Hallerberg & Markgraf, 2018). The crisis also showed that insolvency and bank failures did not touch privately and publicly owned banks but government-owned banks, for example in Germany (Hallerberg & Markgraf, 2018). As a result, some studies call for laws that have appropriate authority to supervise the internal procedures of banks and other financial institutions, specifically for risk mitigation, internal control, compliance, and internal and external auditing (Hopt, 2013).

For this literature review, I did not look at CG from an accounting perspective; however, many researchers have tried to measure the CG of companies and their financial

performance (Lungu et al., 2020). According to Pašić et al; (2016) and Nguyen & Vo (2020), studies showed financial performance and cost-effectiveness improved significantly with government-owned banks. In addition, banks with bigger BODs are more cost-efficient in the long and short term, with better financial performance in the short term. Also, there is no measurable impact on financial performance or cost-effectiveness from foreign ownership, board independence, and CEO duality (Nguyen & Vo, 2020).

Other measures of CG for banks and financial institutions have used a scorecard, such as in Malaysia (Muhmad et al., 2016). This measure led to the creation of bank CG reporting scores to quantify the commitment of banks toward CG. The results of CG reporting scorecards showed a lack of disclosure in board structures, duties and effectiveness, accountability and audit, and shareholder rights (Muhmad et al., 2016). A bank CG's reporting score is an indicator of whether an organization or a firm follows the guideline and code of CG practices shown through the division of rights and responsibilities among the board, stakeholders, shareholders, and management section, and the rules established and followed to make decisions on corporate affairs (Muhmad et al., 2016). This study shows that banks all over the world are trying to find a way to create strategies and protocols for good stewardship of banks and to compel executives (agents) to adhere to stricter codes of conduct and acquire the necessary knowledge and experiences for better risk mitigation for the benefit of shareholders and stakeholders (principals) alike.

Effective CG protocols will greatly help banks' executives to efficiently act on capital allocation decision-making by imposing tighter supervision on lending, thus helping to prevent executives from acting in their interests, which might create a typical agency problem (Nguyen & Vo, 2020). According to Pašić et al.:(2016), Adams and Mehran (2008) noted the failure of CG played a significant role in this crisis. The information about risk exposure was not always forwarded to bank BODs and top executives at the leadership level, risks were often managed on a short-term rather than a long-term basis, and the remuneration and incentive systems also encouraged a short-term orientation (Kirkpatrick, 2009).

The literature about CG is vast and rich because of its importance in managing a company effectively, efficiently, and ethically. Although the concept of CG of banks or bank governance differs largely from the general concept of CG, which is comprised of internal and external governance being the disciplining forces of markets in a distinctive sector of the economy for corporate control, in the banking sector, there was a total lack of discipline (Hallerberg & Markgraf, 2018). Hambrick et al. (2008, p. 384) argued that practicing good CG is a fluctuating concept subject to different interpretations by different institutional actors and changing interpretations over time. Even the Anglo-American concept of CG is different from one sector to another sector of the economy (Park et al., 2020).

For example, in the 1960s, with the advances in technology, a CG of information technology (IT) was developed and received immense attention in the late 1990s. The concept of IT governance has developed to become the object of greater attention and

analysis encompassing the mechanisms of CG (Panetta et al., 2017). That is the subject matter of my research. When innovation technology is introduced or a new financial product is created (i.e., MBS and CDS) through financial engineering, executives must incorporate new protocols and develop new strategies to handle these products from ethical, legal, and riskiness point of view. The principals of Goldman Sachs (in this case, BOD) in some banks knew that MBS were highly risky, and their underlying assets of subprime mortgages would collapse; however, their agents (in this case executives in the sales department) convinced them to continue because they were making huge profits (Song & Wang, 2020).

Stewardship Theory

Stewardship theorists asserted that the agent individual or organization is inclined to act in the interests of the principal and society (Mills et al., 2021). It assumes the pro-organizational and collectivistic views of intrinsically motivated individuals (Löhde et al., 2021). Proponents of the theory assume that the stewards of the companies (Executives and managers) act in perfect harmony with the shareholders' interests, as they believe they will be rewarded for their commitment and effort toward wealth maximization (Löhde et al., 2021). A relationship that is based on altruistic and trustful relationships decides a governance system distinguish by high involvement and collectivism at all organizational levels (Löhde et al., 2021). Other researchers look at the theory that assumes that individuals seek to attain higher-order needs through pro-organizational action and therefore will naturally align their interests with those of the company's principals Chrisman, (2019a). The proponents of the Stewardship theory argue that

family-owned companies are more receptive to the theory and more successful in aligning the interests of the owners with the managers through the role of trust and commitment to family values that make family and nonfamily employees in the business perception of stewardship in the organization Löhde et al., (2021). Chrisman (2019) argue that the theory's focus should be pertinent in terms of making a realistic hypothesis about human and organizational conduct because it relies on a model of human that describes them as self-engendering and egotistical rather than self-interested and egotistical and when people hold these characteristics, stewardship theory conclude they will embrace personal interests to those of the principal, placing higher utility on organizational objective than individual ones (Chrisman, 2019a). Some studies show that stewardship is synonymous with leadership and innovation and its impact on society and the environment. Domínguez-Escrig et al. (2019) argued that stewardship is the conduct of leadership that exhibits big worry for the impact of the firms' activities on society and radical innovation fully liaises the relationship between leaders' stewardship conduct and innovation success. They also add that the theory which shows great concern for the impact of the organization's activity on society and the environment. that these behaviors are a type of prosocial action that seeks to have a positive effect on others (Domínguez-Escrig et al., 2019). The study of stewardship has been gaining interest in recent years, and several authors have tried to expand the literature on this concept. However, more research is needed because there is little information on the consequences of stewardship. In the UK and as well in the US, stewardship success is based on the interpretation of what fiduciary duties mean to the agents vis-a-vis the principals or owners. Regulators

were counting on insurance companies, asset managers, pension funds, and other institutional investors to monitor the market which eventually failed, and most people and governments blamed them for the crisis of 2008 (Tilba & Reisberg, 2019). Stewardship theory accepts elements like trusting executives, their professionalism, loyalty, and willingness to be concerned for the interests of others (Keay, 2017). According to some scholars, the stewardship theory is based on family business assumptions that are dynamic and it determines the governance structure to address the workplace anomaly, unsymmetrical altruism, and patriarchy that are found to establish how the agents(executives) act and thus characterize the owner's (principals) react in terms of governance protocols (Löhde et al., 2020). This asymmetric altruism and workplace anomalies are the divergences of goals between principal and manager, the problem of self-control, opportunistic behavior, and a lack of control mechanisms to detect such behavior which is the contrast of the stewardship theory and typical of agency problems which will be addressed in detail later in this review (Ann Sophie K. Löhde et al., 2020). Stewardship theory is considered a replacement for agency theory for studying family firm governance although existing assumptions limit its practicality and applicability for objectives positioning and control protocols (Chrisman, 2019). He further argued that the stewardship theory's model of man does not realistically show the path individuals think and behave and the suppositions for objectives do not completely catch the multiple, varying, and discording objectives of the organization stakeholders and the disbanding of controlling and incentives overlooking the value of these communication and motivation protocols (Chrisman, 2019b). This model of governance has been a topic of study and

investigation in the research field of the family business (Madison et al., 2016). The theory also implies that employees (Agents) will be less opportunistic because of the assumption of more psychological ownership by having a greater stake in the company (Brown et al., 2021). Miller and Le Breton-Miller, (2005) created a model called the 4C which can be summarized as command means to be free in making daring and adaptive decisions for the viability of the business; connection refers to the capability to develop and sustain lasting, wining relationships; continuity in the pursuit of a lasting and substantive mission, and community relates to the ability to feed a culture of cohesion and caring.

This approach is not shared by some researchers who argue that some accountability and monitoring of the managers or board of directors is necessary (Keay, 2017). Rossignoli et al., (2021) go further by showing that corporate performance is affected by a wider set of directors' traits and personal profiles thus, setting standards that would highlight the need to extend CG reporting requirements which will scrutinize the board of directors' behaviors and tie it to the company's performance through a Tobin's Q measures which would be beneficial for investors and markets alike.

Agency Theory

Most of the literature on CG has focused on the governance problems facing companies and firms in the non-financial sector of the economy and most of these studies take the principal-agent problem as the commencement of the analysis, in which the principals are the owners/shareholders of the firm, and the agent is the managers/employees/ of the company (Alexander, 2006).

Agency Problem

In 1976, Jensen and Meckling defined agency problems as an occurrence when differences in interests between principals (shareholders) and company agents (managers & executives). The principal is motivated and concerned with the improvement of financial or otherwise by increasing the company revenues and net income whereas the agent is motivated in maximizing their economic welfare and psychological needs through obtaining investment, credit, and compensation contracts obtained from the company (Putri & Prasetyo, 2020). An agency problem is, also, defined as a principal's dissatisfaction with the outcome of an agent's performance (Anwar, 2016). Most CG research focuses on the principal-agent problem as the starting point of analysis, in which the principal is the owner/shareholder of the firm, and the agent is the manager/employee of the firm (Alexander, 2006). He argued that the traditional model of the principal-agent problem did meet the expectation in considering the important role that financial regulation can play in representing stakeholder interests in the economy (Alexander, 2006). The CG of banks and financial institutions has become an important domain of financial regulation due to the systemic risks that the banking system undertaking constitutes for the economy and society in general and that is due to the history of failure of savings and loan crises in the 1980s and the Asian currency crises in the 1990s by which the overwhelming majority of experts recognized that effective prudential and systemic risk regulatory mechanisms for the banking business needed robust CG guidelines for banks and financial institutions (Alexander, 2006). Most of the literature on CG has addressed the governance issues confronting companies and firms in the non-

financial sector.’ Most of these studies take the principal-agent problem as the starting point of analysis, in which the principal is the owner/shareholder of the firm, and the agent is the manager/employee of the firm. Calvo and Calvo (2018) argued that the theory’s focal point is on the relationships among businesses, in which the shareholders or owners (the principal) commission tasks to executives, managers, or employees (the agent) who then execute tasks. According to this point of view, principal-agent relationships should supervise the asymmetries of the information with efficiency and risk-bearing costs, with the assumption that each makes decisions in their self-interest within the limitations of bounded rationality and risk aversion (Calvo & Calvo, 2018). The theoretical point of view on agency and stewardship divergates primarily in their fundamental hypothesis about the behaviors of agents (managers), which successively affects their relationship with the company’s owners, (principals) and the theory applies the economic model of persons, assuming an agent taking advantage of their position to maximize their wealth (Löhde et al., 2021). Asymmetric information and segregation of ownership and control determine the conflict of interests between owners and managers and conflicting goals can be solved by having specific governance structures and mechanisms that, although it entails agency costs for the company, will ensure the maximization of the shareholders’ wealth (Löhde et al., 2021). Banking risk management, as a crucial component of banking business and bank governance, is an important part of corporate CG, and every important participant (Principal/Agent) in the CG of the bank is responsible for implementing risk management strategies (Rakočević et al., 2011). They attribute the problem of CG is sole to the agency problem, that is, the

principal-agent problem between shareholders and managers because of the belief that the agency problem is more evident in banks when comparing it with the non-financial sector, due to information asymmetry being higher in the banking sector and even within the banking sector, a difference exists depending on the ownership structure of the bank (Rakočević et al., 2011). Some researchers suggested that the real cause of the financial crisis of 2008 was the agency problem that existed because of the huge compensation and bonus structure that was in place when selling those highly risky derivatives (MBS) and the demand for them and the most aggressive investment bankers and their teams were well-known phenomena in the years before the financial crisis (Hopt, 2013) which was not in the best interest of the shareholders.

The failure to appreciate an impending financial collapse resulted in the biggest housing market meltdown since the Great Depression which led to the Financial Crisis of 2008 and the securitization of residential mortgages with the risk of default into highly risky derivatives (MBS) by financial institutions without a doubt the principal reason (Gilreath, 2018).

Some studies suggested that the financial crisis of 2008 went beyond CG failure and agency problems. It was a fraud with criminal intent. Mortgage initiators inveigle consumers about loan terms and eligibility requirements and sold them with the knowledge of the likelihood of default (Lewis & Schwartz, 2020). Also, Banks that securitized those mortgages were dishonest about the worthiness of the loans and the extent of their careful review and at the same time, originators and underwriters of mortgage-backed securities MBS were shorting them even as they offered them for sale

to trusted consumers, and they perpetuated falsehood to shareholders about their own MBS holdings (Lewis & Schwartz, 2020). This behavior has been consistent with lucrative bonuses and incentives, managers (agents) use of an unusual tonality when their company issues new securities, and undertaking other financial transactions with an excessively optimistic tone with the intent to mislead shareholders (principals) (Maurice Yolles, 2020). That is why some advocates from an ethical perspective look at the agency theory as warning sign evidence that it is impossible to carry out successful economic activities without moral norms and principles whereas more fundamentally, business ethicists are concerned with the realm of agency theory and morality that have been distinguished as mutually exclusive, and agency theory has been cast as the malefactor (Pouryousefi & Frooman, 2017).

The two main components are the agency problem which is the divergence of interest between agents (executives and managers) and the principals (owners and investors) and the stewardship theory, in contrast, converges and aligns the interest of agents and principals. The two theories are good for the study of governance because they have been created in different fields of social science (economics, political science, public administration, and organization theory) and have helped researchers in analyzing issues concerning CG (Schillemans & Bjurstrøm, 2020). There are assumptions in the agency theory that agents have more information than the principals in a form of informational asymmetries and choice conflict (Del Guercio & Woidtke, 2019). Through this review, a lot of pieces of literature drew a comparison between the agency problem theory and stewardship. Some concluded that the theories are mutually exclusive and

opposite in achieving companies' goals and aligning interests. Agency theory has a perception of negative self-interest whereas stewardship theory gives a positive perception of ownership and stake in the outcome (Obermann et al., 2020). Some characterize the agency theory as the owner's unfavorable feeling about an agent's performance results (Anwar, 2016) whereas stewardship theory is used in a political and environmental which includes worries about social justice, democracy, and pluralism, and which offers a wide range and deep ethical basis from which human responsibility and care for nature are born (Cockburn et al., 2019) and is also used to create sustainability policies to manage the cities environment by encouraging all stakeholders and city agencies to align to achieve those policies (Romolini et al., 2016). Others argued that agency theory is based on calculated contracts and the logic of consequentiality and stewardship theory, in contrast, assumes unselfish behaviors from agents involved in the same cause as their principals (Schillemans & Bjurström, 2020). The agency theory even took religious use in Islamic financial institutions audits (Khalid & Sarea, 2021) and stewardship theory is used to frame a relationship in the international and domestic supply chain by aligning buyers and suppliers to the same goals rather than having an adversarial relationship which is a characteristic of agency theory (Aßländer et al., 2016). This mutual exclusivity of the theories is also present in the other components of CG where the old paradigm that the shareholders' theory is to maximize shareholders' wealth is not wrong or incorrect rather it puts at odds with the stakeholders' theory which advocates the role of other stake interest in CG management (Lipshaw, 2020).

CG can also play a great role in innovation to solve poverty, inequality, hunger, conflict, climate change deforestation, and pandemics, among others. It slows or stops the progress of sustainable development. In addition, it can help focus on the social and environmental challenges that society in general faces by creating innovative tools that do well and avoid catastrophe (Scherer & Voegtlin, 2020).

Moral Hazard and Background of the 2008 Financial Crisis

From an economic perspective, MH is defined as an outcome when agents take excessive risk to achieve an economic benefit with the knowledge of not bearing the full risk of loss of that excessive risk-taking (Finkelstein, 2015; Cvitanić, Possamai, & Touzi, 2017). “Too big to fail” dynamic for the banks led to a greater MH by agents (executives and employees alike) taking excessive risks in the subprime mortgage and MBS knowing full well that they do not bear the risk of loss and that the products were insured against losses which led to a massive bailout (Dam, & Koetter, 2012).

Before the 2008 crisis, the banks were not adequately capitalized to cover losses from subprime mortgages defaults which means they (banks) did not have enough capital reserves to cover the losses that were caused by the subprime mortgage default, and the inability of the insurance companies that issued the credit default swaps (CDS) contracts (i.e. American International Group AIG) to cover those losses from mortgage-backed securities (MBS) rapid decline in value to the point of worthlessness. Banks looked to generate higher profits by selling the sub-prime mortgages they issued to the bond markets. When the financial crisis of the early 2000s, which was caused by accounting fraud of the financial

statements committed by tech and internet companies, led to the first economic recession of the 21st century, investors searched for a new opportunity to invest their funds. One area seen as a promising lucrative investment opportunity was the bond market, where banks were beginning to sell MBS that were considered a safe investment because of the assumption that borrowers tended to pay their mortgages regularly for the life of their loans. Investors, looking for higher returns on their investment through high-interest rates, were unable to invest in US Treasury securities or municipal bonds because US Federal Reserve had significantly lowered the interest rates to 1 percent in June 2003 and maintained them low for the purpose to stimulate a weaker economic environment. This situation made High-yield mortgage-backed securities (HYMBS) more attractive to investors bringing a much more lucrative return on their investment boosted by a seal of approval from credit-rating agencies such as Fitch, Moody's, and Standard & Poor's (S&P) concluding that those securities were at the same level of safety as the US Treasuries, the debt-financing instrument of the federal government (Lewis, 2015). According to Lewis (2010), mortgage-backed securities (MBS) have never been as safe as US Treasury securities and became riskier as more of them were bought by the bond market. Thus, the more MBS are bought by investors, the more banks could care less about whom they were issuing mortgages. On the other hand, fund managers in turn had no adequate research made about the safety and the inherent riskiness of the MBS they were purchasing. Their only reliance was on the assurances given by credit-rating

agencies like Moody's. The most incredible and shocking about the MBS is that they were under no regulatory oversight either by any independent financial institution or government body. The period between 2002 to 2007, saw an incredible expansion of the subprime mortgage market. A lot of banks and other financial institutions invested heavily in the MBS, an area that had previously been under the purview of the Federal National Mortgage Association (also known as Fannie Mae) and the Federal Home Loan Mortgage Corporation (better known as Freddie Mac). These two government-sponsored enterprises (which are also publicly traded companies) were established to pool mortgage securities and expand opportunities for mortgage lending and new home purchases (Lewis, 2010). Fannie Mae and Freddie Mac often helped approved loans to high-risk borrowers known as subprime mortgages who are customers with less than perfect credit worthiness with low incomes who might become delinquent on their mortgage monthly payments. By 2006, Fannie and Freddie were no longer having a monopoly on the mortgage market: banks and other private lending institutions had granted approximately 84 percent of subprime mortgages issued that year. Banks earned a fee for each mortgage-backed security they sold to fund managers. By 2007, the mortgage-bond market was estimated to be worth \$6 trillion, the largest amount of the US bond market, then worth upward of \$27 trillion (Agarwal, 2014). Mortgage bonds were valued more than US Treasury bonds during this period. The need for more profits motivated banks and Wall Street investment firms to become even more ingenious, by packaging subprime

mortgages, retailing them after holding them for short periods, and disregarding a commonly known way of lending standards, in underwriting a loan for the potential borrower based on credit worthiness and income. Banks also walked away from traditional twenty and thirty-year fixed-rate mortgages and toward newly introduced mortgages which included interest-only loans and adjustable-rate mortgages (ARMs).

These new loans, initially, had low-interest rates that would eventually increase after a pre-determined period which would create negative amortization loans, which in turn makes the debt of the borrower upward increase month after month. These subprime mortgages ended up dominating the bond market. By the end of 2005, 20 percent of mortgages granted in the United States were subprime (Lewis, 2015).

The desire for quick profits created a shaky housing market. At the beginning of 2007 and continuing through the end of the decade, banks started foreclosing on properties all over the United States as a sizeable number of subprime mortgages were bound to reset ARM and usually upward to a higher interest rate. A deluge of subprime mortgage borrowers realized that they will no longer have the ability or the capacity to make monthly payments on those mortgages. As foreclosures ramped up, prices for home-dwelling started to fall drastically across the country which led for the first time in US history, to a national reversal in prices of homes since the Great Depression

In January 2008, economists announced that the US is in the process of experiencing the biggest one-year free fall in new single-family home retail in 27 years.

A lot of big and powerful financial institutions that had invested heavily in mortgage-backed securities (MBS) found themselves on the point of insolvency. One of them that got little or no attention at the time was HSBC Bank. It announced in February 2007 that it would see bigger than anticipated losses because of the defaults on subprime mortgages. In April of the same year, one of the largest subprime mortgage lenders in the United States, New Century Financial became insolvent and filed for chapter 11 bankruptcy protection. As the financial crisis increased and broadened domestically and internationally, the US Federal Reserve (Known also as the Feds) started lowering interest rates. Not only rates were cut ten times between mid-August 2007 and late October 2008, but the feds also started to loan money directly to both commercial banks and Wall Street investment houses. It even accepted, now almost worthless (MBS) as collateral, in the hope of keeping the functionality of the financial system.

In March 2008, at the request of the Federal Reserve, J. P. Morgan Chase was compelled to purchase the Wall Street investment bank, Bear Stearns. In September of the same year, another big Wall Street firm, Lehman Brothers, filed for bankruptcy protection, which lit the first sparks of a worldwide panic in the financial markets. The firm was, then, the fourth largest investment firm on Wall Street, faced. Over the weekend of September 13 to 14, 2008, an arrangement was initiated by the US government for either Bank of America or Barclays to purchase Lehman Brothers, in the same way as how the U.S. Treasury arranged for Bear Stearns's purchase (Hearit, 2018).). However, the deal did not go through with the would-be purchaser, and Lehman Brothers were allowed to fail. The ramification of the decision was extremely grave and

sent a shockwave to the global economy and the financial and banking system (Hearit, 2018). The decision not to bail out Lehman Brothers led to several unforeseen consequences, resulting in the U.S. government taking drastic measures by supplying enormous amounts of credit to large banks and investment banking firms such as JPMorgan Chase, Bank of America, and Wells Fargo (Hearit, 2018). By the end of the same month, Bank of America had taken over the Wall Street brokerage giant Merrill Lynch. The same fate was for Wachovia Bank became insolvent and was acquired by Wells Fargo the following month, and Washington Mutual became the largest bank failure in US history. Other banks around the world also faced insolvency.

At the same time in September 2008, under the direction of the administration of President George W. Bush, the US Treasury a policy was established to save Fannie Mae and Freddie Mac from becoming insolvent, which gave the US government total control of over \$5 trillion in home mortgages. To save the private financial sector, the Bush administration reached out to Congress to vote on a bailout program called the Troubled Asset Relief Program (TARP). Both chambers of congress passed it in October 2008. TARP applied \$700 billion to purchase assets and equity from banks and financial institutions to keep them anchored, and secure, and to prevent the country from slipping into a possible economic depression. The subprime mortgage crisis of 2008 was the root cause of the financial crisis that came right after, in which credit became tight and loan underwriting requirements became extremely and significantly difficult to meet and businesses and individuals were having a tougher time accessing credit and acquiring loans. As a result, businesses that were unable to get new lines of credit were becoming

more creative in finding new ways to save money by seeking new efficient avenues. This strategy led to an extensive number of layoffs across the country. From December 2007 to June 2009, approximately 7.9 million jobs were lost, a decrease of 6.1 percent in the overall US workforce. On top of that, the subprime mortgage crisis had an enormous impact on the global economy, hitting the nations of Greece, Spain, Ireland, Italy, and Portugal particularly hard. Although the United States emerged from the recession in mid-2009, the national economy remained weak and slow pace in the recovery that followed. Hiring was, also, weak, and unemployment rose through the end of the decade (Hearit, 2018 & Lewis, 2015).

The literature review of CG in the banking and financial institutions was an in-depth review of how this vital sector of the US economy and the world, for that matter, can have a devastating effect when CG fails. The banking sector is an important player in the economies of the world. It is where payments for goods and services are paid. It is where capital is raised and flows. CG of that sector is of utmost vitality to the economy.

The principal is motivated and concerned with the improvement of financial or otherwise by increasing the company revenues and net income whereas the agent is motivated in maximizing his or her economic welfare and psychological needs through obtaining investment, credit, and compensation contracts obtained from the company (Putri & Prasetyo, 2020). An agency problem is, also, defined as a principal's dissatisfaction with the outcome of an agent's performance (Anwar, 2016). Most CG research focuses on the principal-agent problem as the starting point of analysis, in which the principal is the owner/shareholder of the firm, and the agent is the manager/employee

of the firm (Alexander, 2006). The agency problem outlined in the LR was apparent in the themes of the research. The agents (executives/managers/employees) had a divergence in interest from the principals (shareholders/stakeholders/ consumers). The agents were in it for the lucrative compensations and incentives that were paid when risky loans are underwritten, and MBS are sold. Principal-Agent relationships should supervise the asymmetries of the information with efficiency and risk-bearing costs, with the assumption that each makes decisions in their self-interest within the limitations of bounded rationality and risk aversion (Calvo & Calvo, 2018) which was not the case in the themes from the data show. The fundamental hypothesis about the behaviors of agents (managers), which successively affects their relationship with the company's owners, (principals) and the theory applies the economic model of persons, assuming an agent taking advantage of their position to maximize their wealth (Löhde et al., 2021) which align with the themes of this qualitative study.

Archival data collected by researchers of the 2008 crisis suggested that the real cause of the financial crisis of 2008 was the agency problem that existed because of the huge compensation and bonus structure that was in place when selling those highly risky derivatives (MBS) and the demand for them and the most aggressive investment bankers and their teams were well-known phenomena in the years before the financial crisis (Hopt, 2013) and the principals' (shareholders and stakeholders) motivation and concerns should be with the improvement of financial well-being and maximizing their wealth through the companies' revenues and net income increase whereas the agent is motivated in maximizing his or her economic welfare and psychological needs through obtaining

investment, credit, and compensation contracts obtained from the company (Hott, 2022; Putri & Prasetyo, 2020) The financial incentives and conflicts of interest between agents and principals were the precursor to the 2008 financial crisis and the lack of criminal prosecutions of key financial executives has been a key factor in increasing MH (Murray et al.; 2017).

Some researchers asserted that the stewardship theory was not applied by the executives (principals/agents) for their objectives were not aligned with the objectives of the consumers or the shareholders (Owners). The shareholders and customers (principals) were under the assumption that their interests are being cared for by the agents by providing a safe asset to purchase with adequate return. Instead, the agents' behavior led to the bankruptcy of one of the largest investment banks in the United States, Lehman Brothers (Hearit, 2018. p 238) and according to the Federal Depository Insurance Corporation (FDIC, 2020. p xiii), more than 500 federally insured banks became insolvent and failed from 2008 to 2013. Shareholders' (principals) wealth witnessed a severe loss and decreased substantially.

The agents, in theory, were hired to act in the best interests of their owners to maximize their wealth, grow their investments, and provide financial products and services that are suitable and with minimal risk instead, the agents' interests were to make as much money from fees and commissions providing credit for those who cannot afford to repay it or afford the monthly payments (subprime mortgages) and selling MBS that they know were not as safe as US treasury bonds and market them as such with the backing of an erroneous rating from the top securities rating agency, like Moody's.

Shareholders' (principals) wealth witnessed a severe loss and decreased substantially the data show. The losses were estimated to be around \$10.2 trillion which is the combination of the loss of housing equity of \$3.3 trillion and \$ 6.3 trillion in stock market value (FDIC,2020). The CG of banks and financial institutions has become an important domain of financial regulation due to the systemic risks that the banking system undertaking constitutes for the economy and society in general and that is due to the history of failure of savings and loan crises in the 1980s and the Asian currency crises in the 1990s by which the overwhelming majority of experts recognized that effective prudential and systemic risk regulatory mechanisms for the banking business needed robust CG guidelines for banks and financial institutions (Alexander, 2006)

Corporate Reform Laws After the Corporate Scandal of 2001

Corporate scandals between 2000–2001 sounded the alarm about the accuracy of financial statements that companies produced for investors thus crumbling investor trust in financial reporting (Chen & Huang, 2013). In 2002, the US Congress passed the Sarbanes Oxley Act (SOX) (Banerjee & Kaya, 2017) to increase the quality and accuracy of financial statement reporting and raise investor confidence by restraining earnings management and accounting fraud (Chen & Huang, 2013). The CG failure was caused by executives (agents) at the highest level of Blue chip companies' hierarchies by taking advantage of a loophole in accounting standards in reporting debts that do not exceed a certain by a method called off-balance-sheet accounting thus, debt does not appear on financial statements and investors and shareholders (principals) do not have an accurate accounting of the debt and collapse of those blue-chip companies, like Enron (Haswell &

Evans, 2018) in asymmetrical information (Del Guercio & Woidtke, 2019). Some attributed the collapse in CG that led to Enron's largest bankruptcy in US history was based on unethical conduct and the culture of the Machiavellian level of the executives (agents) of the company with deregulations and laws that favored the behavior (Hunt, 2021). This failure led to the collapse of its auditor and investment consultant Arthur Andersen was one of the five largest accounting and auditing partnerships worldwide (Jones & Stanton, 2021). Executives' (agents) self-interest in the form of stock options was one of the factors that led to corporate scandals and failures in 2001 by abnormal stock returns, as well as abnormal trading volume to exercise their options thus, generating huge profits for them (Bartov et al., 2016). The financial crisis of 2009, which is the subject of my study, has a similar outcome as the corporate crisis of 2001. They estimate the valuation effects of the Sarbanes Oxley Act for firms in the financial services industry and find that, except for securities firms, these firms greatly benefited from its implementation, and these positive results may be caused by the expected improvement in the disclosures of the financial statements of the relatively confusing financial services firms, like banks (Banerjee & Kaya, 2017). SOX also brought focus on CG committees' size. Based on that, it would lower manipulation and increase the quality of accounting information the Chief Executive Officers (CEO) pay more attention to setting aside time for their respective boards rather than any other company (Banerjee & Kaya, 2017).

Some scholars went so far as argue that CG failures by executives might have a psychological pathology or psychopathy and that those executives might need to be screened to find out their tendencies to commit the worst excesses of greed and fraud like

what occurred in Enron (Boddy, 2016). Although SOX applies only to companies that are publicly traded and have assets over \$ 75 million, it had some negative impact on innovation for companies facing costly litigation and are financially constrained (Gao & Zhang, 2019).

In this LR, I will address only two major legislations that are aligned with the subject matter of CG and the two theories: The Sarbanes Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Financial Reform Laws After the Crisis of 2008

Dodd-Frank Wall Street Reform and Consumer Protection Act was passed (DFA) by Congress in 2010 in response to the 2008 financial crisis (Gao & Zhang, 2019). The law was the largest financial reform since the Great Depression (Allen et al., 2018). The crisis highlighted numerous problems within the financial and banking sector which the law needed to address the issues of wicked mortgage and other predatory lending and the systemic risk that those practices posed to the economy (Splinter, 2018). The act also established an independent regulatory agency, the Consumer Financial Protection Bureau (CFPB), with a mission of protecting consumers in their financial interaction with financial institutions and gave whistleblower protection to individuals who report alleged violations to the Securities and Exchange Commission (Boneck et al., 2021; Splinter, 2018). The law was enacted to improve the legal shield for whistleblower employees who report alleged fraudulent CG illegal failures against retaliatory actions against them (Shu-Acquaye, 2017). DFA was meant, among other things, to improve CG in banking and financial institutions by requiring them to be better capitalized by improving the

capabilities in mitigating unforeseen risks of losses, have more liquidity, and superior ability to liquidate assets at short notice to meet liquidity needs, and the avoidance of any market volatility from failing banks by requiring that large and complex financial institutions and banks have a successful resolution strategy through a stress test that the feds do to seek compliance with capital requirements thus, addressing systemic risks of bank insolvency (Allen et al., 2018; Turk, 2020). It also gave shareholders (principals) a say in controlling compensation, by approving or rejecting such payments on an advisory basis, for executives (agents) known as “golden parachutes” (Choi et al., 2020). The 2008 crisis shocked consumers and investors alike and was deemed the worst catastrophe since the great depression the loss of trust and confidence in CG and regulations plummeted and the Dodd-Frank act was passed to restore faith, trust, and confidence (Dancer, 2019). One positive occurrence of the law is that financial institutions and commercial banks became more conservative in managing their liquid assets thus lowering the MH that was one of the causes of the 2008 financial crisis (Fayman et al., 2019) and CDS was part of the MH that led to the crisis (Maharaj, 2020). Other scholars blame bad governance at the federal level for the crisis because the Federal Reserve flooded the markets with liquidity after the internet and corporate scandals of the early 2000s and the terrorist attack to stop avoid any chance of recession and keep the economy strong (Gorton et al., 2012). As mentioned earlier, executive compensation was at the center of the DFA where it was required for executives’ pay to be made public so transparency can be achieved and that they are abiding by their fiduciary duties through a CG protocol called “Say on Pay” (Honnen-Weisdorn et al., 2019; Newman et al., 2019). The Securities and Exchange

Commission was affected by the law because it oversees the broker-dealer and securities market and the introduction of the “best interest” clause in the law would improve better CG in the financial sector by improving the fiduciary duties, also, of the companies toward investors (Aber & Wilkes, 2020; Pasztor, 2018).

Impact of SOX and DFA laws

Like any law federal passed by the US Congress, the benefits of SOX and DFA are the contribution to the improvement of transparency and accountability (Hartung, 2015). The two acts proved to be a determinant factor in preventing and minimizing losses thus improving CG in managing liquidity, especially in banks (McKee et al., 2021). Historically, government regulations after the fact helped curb malfeasance and prevent repeated losses and improved CG in all sectors of the economy by requiring better disclosure of CG protocols through corporate social responsibility towards shareholders and stakeholders. Many scholars argued that good CG can be measured by financial performance through quantitative regression statistical methods (Lungu et al., 2020). One of the factors according to Chbib and Page (2020), Coletta and Arruda de Souza Lima (2020), and Merendino, and Melville (2019) studied the effect of the BOD on firm performance. Other researchers like Ekanayake (2019), Pham and Pham (2020), Liu (2019), Song and Kang (2019) and Wijethilake used other variables, like CEO’s duality, on CG relationship to performance through ROA, EPS, Tobin’s Q, and ROE. Fernando et al., (2020); Chijoke-Mgbame et al., (2020), and Ouni et al., (2020) used the diversity of gender in the board of directors, and Kuo et al. (2020) and Nashier and Gupta (2020) used ownership structure or ownership concentration as a variable for

performance measurement. This goes to show that CG is a protocol. Mechanism and human behavior can be empirically measured.

CG has always been a subject of interest for scholars in business since the 1950s about the role of businesses and companies towards society and the communities they serve. The concept was introduced, in Corporate Social Responsibility (CSR) in Howard R. Bowen's book, *Social Responsibilities of the Businessman* in 1953. Many definitions exist one of them is the alignment of interest of businesses with society or consumers in an efficient functioning economy (Beal, 2014). Since early business responsibility is solving societal problems through allocating resources was at the heart of the CSR concept (Mitnick et al., 2021). Knowing that market economies are not always "efficient", businesses must have a great awareness of the expectation of the community, thus intentionally enacting rules that guide their behavior to contribute to outcomes that meet those expectations (Beal, 2014). In recent years, customers are demanding more involvement from companies getting involved in resolving some sociopolitical controversial issues like minorities' rights and the environment (Hambrick & Wowak 2019; Kotler Sarkar 2017) which led to other scholars defining CSR as the companies' public positions per way of oral or written statements or actions undertaken of support for or opposition to one side of a partisan sociopolitical issue (Bhagwat et al., 2020). The role of CSR in improving good CG has been a topic of research for a long time and has been accelerated by the corporate scandals, the financial crisis, and recent civil unrest that rocked the United States, and mounting pressure from consumers and the public at large where changes in corporate behavior are realized faster than they used to be (Carlini &

Grace, 2021). For the subject matter of my study, I have been reviewing CSR in the banking and financial sector after the financial crisis. Customers and investors alike were demanding more transparency in products and decision-making in investing also called responsible investing (Giamporcaro et al., 2020). The paradigm was the markets were policing themselves through institutional investors like pension funds and portfolio managers in a way however the last twenty years showed us that the total collapse of governance and oversight led to the unprecedented financial crisis and corporate failures not seen since the depression (Giamporcaro et al., 2020), and research shows that governments can shape how CSR adoption and behavior (Dentchev et al., 2017). Although Giamporcaro et al., (2020) gave us the French view, other scholars argued almost the same except and went a little further by suggesting strong and well-enforced government regulatory protocols, with a special consensus anchored around corporations, the state, and relevant stakeholders (Campbell, 2019). Transparency in disclosing the company's data and concise and accurate financial statements will enhance CG and increase the trust and value of the company (Worokinasih & bin Mohamad Zaini, 2020) thus, CSR has a direct relationship with CG and will be a determinant factor for the fact that the role of companies is to maximize shareholders wealth, however, there are other stakeholders, as mentioned before, that their interest is taken into account by understanding the elements of social responsibility's economic, ethical, legal and philanthropy enables to determine a right relationship between CG and stakeholders' interests. (Saltaji, 2018). Culture has a big effect on the relationship between CG and CSR. Countries that model their CG on the Anglo-Saxon model have an individualistic

culture whereas countries that adopt the continental Europe model have a collective culture approach (Nikolić & Zlatanović, 2018). In the final analysis, CG is concerned with ethics, fairness, transparency, and accountability in all the operations and decision-making processes of the businesses whereas CSR is concerned with how those businesses interact with their stakeholders (Mohd Sarim et al., 2017).

In addition, CG and CSR are firmly connected to the market elements but the structure of CSR is based on an available system whereas the structure of CG based on established protocols and structures (Saltaji, 2018), and that led to the conclusion that firms and companies are part of a bigger society and should make a positive contribution to it and not just having the only goal is to maximize shareholders wealth (Al-Tawil, 2016).

Summary of the Literature Review and Conclusions

CG has become an essential and fundamental principle in running an efficient company with an eye on risk mitigation, value creation for shareholders, and accountability to other stakeholders (Rashid et al., 2020). Its importance will always be the focus of research and debate if human behavior is in question. Thus, good CG, from an agency theory perspective, is a structured system that oversees the operation of a corporation and lowers the conflicts of interest in it between the perception of the shareholders (Principals) that their executives (Agents) who are overseeing and managing it are doing it in their best interest for they know more about the business than them (Worokinasih & bin Mohamad Zaini, 2020). The stewardship theory is based on the trust that agents will always do what is right and in the best interest of the principles

(Schillemans & Bjurstrøm, 2020). This LR of CG showed that two systems of CG exist: The American/Anglo-Saxon and the European. Also, the core component of the CG is the prevailing Agency theory, the less prevailing Stewardship Theory, and the Shareholders and the Stakeholders theories. The concept of CG is used all over the world and has a big importance in companies that are publicly traded in the world's securities and commodities markets. Scandals and failures of companies added more scrutiny to the CG by passing additional laws and regulations that mitigate risks of financial calamities to the markets (Clive Roland Boddy, 2016; Gao & Zhang, 2019; Haswell & Evans, 2018; Hunt, 2021) and the overall economies of the US and the world in general.

This LR also showed that the gap in CG literature is minimal due to the fact of its importance and the subject matter of my study, for example, had a lion's share of the scrutiny by empirically tying good CG to companies' performances (Choi et al., 2020). The bailout of banks and financial institutions during the financial crisis of 2008 by taxpayers' money led the stakeholders to more accountability and reform of the system that led to the crisis (Alexander, 2015). The 21st century will shift the old paradigm of total control of corporations in the process of decision-making to society and consumer-oriented processes (Al-Tawil, 2016).

Transition

In this section, I introduced the background of the problem and the conceptual framework of CG. I detailed the concept through a rigorous LR and linked the concept to the subject matter with citations from peer-reviewed sources. Then, I described the role of the researcher, the participants of the study, the methodology, the design of the study,

and the way that I have chosen the participants (and their qualification in the subject matter) population and the sampling method. I also addressed the ethical issues and my adherence to the Walden University code of conduct and the Belmont report. Then, I followed by outlining the techniques by which data were collected, organized, and analyzed. Finally, I outlined the generally accepted steps on how research is conducted to give it Reliability and Validity. After receiving approval from IRB for my proposal, and the IRB number was issued, I started the process of collecting data. The IRB approval number is 07-19-22-0806020.

In Section 3, I have adhered to all the elements outlined in section 2. I presented the research findings, implications for social change, recommendations for action, recommendations for further research, reflections, and a conclusion.

Section 2: The Project

In Section 2, I present the research strategies and approaches used in the study. First, I provide the purpose statement, the role of the researcher, and the participants of the study. After that, I introduce the research method and design and the research's population and sampling. Then, I outline the ethical standards and code of conducting this study and the methods used to adhere to these ethical standards. Also, I present the data collection instruments, techniques, organization, and analysis. Finally, I conclude by explaining how reliability and validity were achieved and give a summary.

Purpose Statement

The purpose of this qualitative multiple case study was to understand the Strategies some bank executives developed and implemented to mitigate the risk of default of subprime mortgages and their linked derivatives to prevent insolvency of the banks and mitigate the risk of MH. The population comprised of executives of two large federally insured U.S. banks located in Colorado. Participants were four executives who work at those banks with proven experience in the subject matter. This study's findings and conclusions might lead to a positive social change by providing bank executives with information on value-added strategies that might create new ways to reconfigure processes and practices that could promote operational efficiency that contributes to better risk assessment and monitoring systems of insolvency. This could lead mitigate the potential loss of capital and investments of retirees and small investors within the communities and mitigate the risk of MH.

Role of the Researcher

As the researcher, I was responsible for the execution of the study (see Yin, 2018). The first step in this study was the participant selection process, which included the avoidance of bias or conflict of interest (see Johnson et al., 2019). After I chose the qualitative method for the research, the next step was selecting the research design: a multiple case study (see Yin, 2019). The rationale for an interview between a researcher and a participant was to increase the reliability and validity of the research (Mirick & Wladkowski, 2019). The rationale for choosing the population and the sample size was based on the abundance of archival data from reliable sources and the exploratory nature of the study, which allowed me to choose a smaller population and sample size (see Yin, 2019). According to Yin (2018), in a qualitative exploratory multiple-case study, it is appropriate and better to use a small sample of participants when conducting the study.

Next was the data collection and analysis process. I sought to block out any bias and ethical issues, through all elements of the research (see Saunders, 2016). In the qualitative method, a researcher is an instrument for gathering and analyzing data (Yin, 2018). This was very important for the credibility of my research. Some of the potential participants were former colleagues in the banking and financial services industry and I had intimate knowledge of their duties and responsibilities, thus access was not an issue (Vass et al., 2017). Furthermore, as a researcher, I adhered to the letter and spirit of the Belmont Report's basic ethical principles whose sole purpose is the protection of research participants (Ethical Principles and Guidelines for the Protection of Human Subjects of Research Participants, 1979).

Participants

The population was comprised of two large federally insured U.S. banks. Participants were four executives who worked at those banks with 20 years of proven experience in the subject matter. These executives oversaw subprime mortgage origination and MBS. Participants' input was of great value in determining the answer to the research question. Because I have been in banking and financial services for over 15 years, I had easy access to executives. I approached them for this study by contacting them directly and soliciting their cooperation face-to-face. Most were colleagues, and I knew the best time for interviews because I was familiar with their schedules. I had a list of potential participants and the executive and leadership positions they held in financial institutions. The participants were recruited, and data were collected in compliance with Walden University research ethics approval protocols which included approval by the university's institutional review board (IRB).

Research Method and Design

Research Method

The objective of this qualitative research was to generate a result of value to the study, to different stakeholders, and the broader scientific community (Hamilton & Finley, 2019). I chose the qualitative method because it would allow me to explore and gather insights into the 2008 financial crisis (see Yin, 2018). I did not choose the quantitative method because the quantitative method is used to examine empirical variable characteristics and the relationship between them. I was not testing a hypothesis or examining the variables' characteristics (see Saunders et al., 2019). I did not choose

the mixed method because the quantitative method portion was not suitable for addressing my study's purpose. The open-ended questions used to collect data in the qualitative method enabled me to have an inquisitive perspective to obtain the results needed for the research (see Leedy & Ormrod, 2019).

Research Design

According to Saunders et al. (2019), there are four different research designs when choosing the qualitative method: (a) case study, (b) phenomenology, (c) ethnography, and (d) narrative. I chose a multiple case study design to allow me to explore the what, the how, and the why of the phenomenon (see Saunders et al., 2019). Also, by using a multiple rather than a single case design, I was able to obtain and compare details and perspectives concerning a specific event replicated across more than a single case (see Yin, 2018). The case study design helped me to explore how the 2008 financial crisis was not forecasted by the executives of the banks and the financial institutions at the time and why there were no strategies to mitigate the risks that led to many failures.

Phenomenology is a study of phenomena appearing or lived in participants' real environment (Yin, 2018), which was not the purpose of my study. Therefore, the phenomenology design was not suitable because my research study was not based on participants' lived experiences. Ethnography is a design used to study the culture and social behavior of a group (Wood & Mattson, 2019). I did not choose ethnography because my study was not focused on ethnic group cultures or habits. Narrative inquiry is a design used to chronicle the experiences of individuals' life stories through a

storytelling approach (Saunders et al., 2019). The narrative approach was not appropriate for the study I was conducting.

Population and Sampling

The sampling was comprised of two large federally insured U.S. banks located in Colorado and the participants were four bank executives with proven experience in the subject matter. Participants' input was of great value in determining the answer to the research question. The sampling method was purposeful. The assumption was that the participants had intimate knowledge of the subject matter that would be covered in the interview questions (see Harati et al., 2019). According to Yin (2018), researchers use purposeful sampling as a method of non-probability in the selection of research subjects with the criteria of the population's subject matter. In addition, the assumption was that these participants would be able to provide data to answer the research question. Data saturation is obtained when there is enough information to duplicate a study when the capacity to obtain additional new information has been reached, and when further collecting is no longer realizable (Saunders et al., 2017; Young & Casey, 2019). Archival data from bank and government records in addition to data collected from participants was enough to reach data saturation.

When I received IRB approval, I began contacting selected participants and explaining the process of obtaining their consent. I provided further details about how the interview would be performed and answered any questions. To participate, participants had to meet the criteria provided earlier.

Ethical Research

I started participant selection and recruitment after I received IRB approval (07-19-22-0806020). I started contacting potential participants via e-mail and phone to ask them to participate in the study. I explained the topic of the research, the interview process, and the consent letter they would need to sign. The public company's data were easy to discuss and access during the interview process (see Grady et al., 2017). The consent form allowed participants to know their participation was strictly voluntary, the data and the information obtained after the completion of the interview would be handled and accessed with strict confidentiality, and their privacy was of utmost importance (see Gudkova, 2017). Participants could withdraw from the study and not answer any of the questions by sending an e-mail and/or making a courtesy phone call. There were no incentives for participating in the study financial or otherwise. I informed potential participants that their names, rank, and position would not be mentioned in the study, would be kept strictly confidential, and would not be recorded. Only their answers to interview questions would be codified and recorded using NVivo software. All data would be kept in a bank safe deposit box I own. According to Yin (2018), record keeping of research data should not exceed 5 years, thus the data would be stored in a USB flash drive with a password in a safe deposit box in one of the local banks where only I can access it.

Data Collection Instruments

As the primary author of the research, I was responsible for data collection, setting the interview's structure and questions, and finding, accessing, and collecting the

archival and secondary data (see Joubert & Swart, 2019). For the case study, I employed methodological triangulation by gathering data from interviews, document reviews, and member checking (see Yin, 2018). I used bracketing to reduce the risk and perception of bias by eliminating any preconceived notions or judgments and maintaining an objective mind about the banking and financial services industry; this enhances the reliability and validity of the data collection instrument (see Birt et al., 2016; Gregory, 2019; Thomas, 2017).

The qualitative method is of great value in achieving insights into the subject matter because it can help address difficult questions such as how and why efforts to execute best practices (Hamilton & Finley, 2019). Data gathering was achieved through open-ended questions and a review of archives from trusted sources of information like the (FDIC), the Securities and Exchange Commission (SEC), the Federal Reserve System, and other federal and state government sources. I further addressed how data were collected, which included the instruments, techniques, and analysis.

Some of the most important elements of this qualitative study are reliability and validity, which are vital in eliminating bias and increasing the credibility of the research (see Yin, 2018). I used purposeful sampling and bracketing. Purposeful sampling enabled me to select knowledgeable participants (see Yin, 2018). Bracketing was the process used to mitigate my bias and to reduce the risk and perception of bias by eliminating any preconceived notions or judgments and maintaining an objective mind about the banking financial services industry (Birt et al., 2016; Gregory, 2019; Thomas, 2017).

Technology has allowed researchers to reach participants remotely and might have the same effect as having the interview made face-to-face through teleconferencing like Zoom or WebEx to read the real emotions and body language of participants (Rasipuram & Dinesh, 2018). Six interview questions were asked about participants' roles, strategies, and general knowledge about some products and services. Interviews were recorded with prior consent and approval by the participants. An interview protocol was used to gather valuable information from people who had inside knowledge about the subject matter (see Brosy et al., 2020). This protocol helped me in asking follow-up questions if necessary and helped me keep participants focused on addressing the research question. When participants validate collected data, it gives the research greater credibility (Yin, 2018). I contacted participants as part of the trustworthiness of the research after the conclusion of the study to check their input about the findings.

Data Collection Technique

The biggest advantage of data collection techniques consisted of semi-structured interviews and archival and secondary sources that were backed by the full faith and credit of the United States, and state and local governments regulating and having oversight over the banking and financial services industry like the FDIC, SEC, and the Federal Reserve Bank System. The disadvantages of using semi-structured interviews include researcher bias, the quality of data collected, and the time and cost associated with performing multiple interviews (Yin, 2018). A semi-structured interview protocol allowed the harnessing of valuable information through data gathering from professionals who had inside knowledge about the subject matter being researched (Brosy et al., 2020).

The goal of using the semi-structured interview process was to create an open channel between the researcher and the participants (Yin, 2018). I had been communicating with the participants via e-mails and phone the data have been recorded and coded for analysis. I reiterated to the participants that their involvement in the study was voluntary and consensual and that they were able to withdraw at any time or not answer any questions that they deemed inappropriate. In addition, no incentives had been offered for their participation financial or otherwise. According to Yin (2018), record keeping of research data does not exceed 5 years, thus the data was stored in a USB flash drive with a password and was kept in a safe deposit box that I own in one of the local banks where only I can access. I used bracketing to reduce the risk and the perception of bias by eliminating any preconceived notions or judgments and maintaining an objective mind about the banking and financial services industry and this enhanced the reliability and validity of the data collection instrument (Birt et al., 2016; Gregory, 2019; &Thomas, 2017)

Data Analysis

I analyzed the data that I collected through triangulation data gathering techniques of semi-structured interviews and archives. Triangulation was attained through those techniques to achieve reliability and validity (Yin, 2018). In 1978, Norman Denzin identified four basic types of triangulations: (a) data triangulation: the use of multiple data sources in a single study; (b) investigator triangulation: the use of multiple investigators/researchers to study a particular phenomenon; (c) theory triangulation: the use of multiple perspectives to interpret the results of a study; and (d) methodological

triangulation: the use of multiple methods to conduct a study. Thus, I utilized Yin's five qualitative data analyses as the principal tool to analyze the data through triangulation which consists of data compilation, disassembly, reassembly, interpretation, and conclusion. Starting as an iterative process during the study and data gathering itself, the compiling of data implied first the assessment of the quality and scope of the data and the adaptation that follows, and secondly, the subsequent ordering of data in a meaningful format to best facilitate further analysis. Once the data has been obtained and ordered meaningfully, I split the data up and recorded it to better fit the purpose and scope of the project. This process of disassembling was, like the others, recursive. Connected, and in interaction with the disassembling, the data was reassembled, arrayed, ordered, and grouped in new ways, as well as set up in (new) graphs, tables, and/or displays. At the heart of the analysis, and in iteration with all other steps, the interpretation and re-interpretation of data looked for causal links and empirical evidence to support – or falsify the conceptual framework. This led to a deeper understanding of the subject matter. Once the data were sorted, assembled, and analyzed, they answered the question posed, and conclusions were drawn (Brønholt, 2017). According to Yin (2018), triangulation was the demonstration of research validity and reliability by acquiring data from different origins which were documentation, archival, records, interviews, direct participant observation, and physical artifacts. In this study, the sources of data were semi-structured interviews and financial public archives. In addition, I used NVivo software (Woods et al., 2016) to analyze and codify the data with other Microsoft office tools. The second most important tool for data analysis, I linked different archival sources

with the conceptual framework, the research question, and the LR to explain the subject matter by exploring the reasons behind what occurred.

Reliability and Validity

Trustworthiness of the Research

For this qualitative research, the overall term was the trustworthiness of the research. The four components were dependability (like quantitative reliability of data), transferability (like a generalization, or external validity), confirmability, and credibility (similar to internal validity in quantitative methodology).

Dependability

Dependability was the result of a study that was replicated, copied, and reproduced by others and the process of dependability assists the researcher to stay unbiased based on data, not opinions (Yin, 2018). The goal of achieving reliability, member checking (Chiumento et al., 2017, Yin, 2018), and triangulation is to be transparent in my protocols and sources which would be easy for others to trace my findings to the origins through Yin's five-stage of the research process (Lemon & Hayes, 2020). Other elements that enhanced the reliability and dependability of the research were purposeful sampling and bracketing to reduce the risk and the perception of bias by eliminating any preconceived notions or judgments and maintaining an objective mind about the banking and financial services industry and this enhanced the reliability and validity of the data collection instrument (Birt et al., 2016, Gregory, 2019, Thomas, 2017). Fitzpatrick (2019) defines validity as the danger that would hurt the correct outcome of a study. According to Colling ridge & Gantt (2019), qualitative research must

include a precise clarification of experiences using interview and observation techniques for validation of the results. Also, to achieve validity, Fusch et al., (2016) argued that using member checking, triangulation, and data saturation would have an enhanced effect on the research's transferability, accuracy, validity, confirmability, and credibility. It was important to achieve validity through confidence and efficacious means when conducting the study (Maslakci, 2020, Mohajan, 2017& Surface).

Credibility

Hammarberg et al., (2016) defined credibility as the veracity of the data and the result of the study. It was achieved through triangulation, member checking, and bracketing to ensure accurate data collection (Cypress, 2017). For example, Choosing the participants and keeping records of the interview enhanced the credibility of the research (Marshall & Rossman, 2016).

Transferability

Yin (2018) defined the transferability of research by its limitation, the interview process, and delimitation. It also could export the results of research to other research environments. It was the generalization of research findings and applying them to research (Saunders, 2017). I provided in detail the research process, protocols, and methodologies so that hopefully would be replicated by researchers.

Confirmability

Hussein et al., (2016) argued that a researcher can set up confirmability when data collection and reporting are unbiased and equitable. It was the accurate result of the trustworthiness of the studies' findings and confirmed the interpretations of data

produced by the participants were portrayed accurately (Korstjens & Moser, 2017).

Member checking, bracketing, and triangulation were good methods to establish the unbiased status of the research. Getting the participants' involvement by including their feedback in making sure my interpretation of the results was aligned with theirs (Moon et al., 2016).

Data saturation was obtained when there was enough information to duplicate the study when the capacity to get additional new information had been reached, and when further collecting was no longer realizable (Young & Casey, 2019, Saunders et al., 2017). Using too small of a sample or too, however, large of a sample will not ensure data saturation however, Yin (2018) argued that researchers can achieve data saturation with multiple interviews, observations, and the examination of relevant documents (archival data).

Transition and Summary

In Section 1, I have outlined the business problem, the purpose and the nature of the study, the method, and the design that I have used to attain the reliability and validity of the research. I have reviewed extensively the conceptual framework literature. In section 2, I outlined the steps taken in gathering and the collection of the data which entails the instrument, the technique, the organization, and the analysis. I addressed my role as a researcher and all the ethical elements that I abided by for the integrity of the study and eliminated any ethical issues. I finished the section by showing the key components needed to achieve the reliability, and validity of my research. In section 3, I finished by laying out the findings of the study, laying out themes, tying them to the

literature review and conceptual framework, application to professional practice, implications for social change, recommendations for action, further research, reflection, and a conclusion.

Section 3: Application to Professional Practice and Implications for Change

Introduction

The purpose of this qualitative multiple case study was to understand the CG strategies that some bank executives developed and implemented to mitigate the risk of default of subprime mortgages and their linked derivatives to prevent insolvency of the banks and MH. To achieve that, I conducted face-to-face interviews with four executives from two federally insured banks in Colorado. CG was the conceptual framework for this study. I collected data from interviews and secondary archival sources from federal regulatory agencies with the reliability of the full faith and credit of the U.S. government. Also, I conducted member checking with all the participants to ensure the accuracy of responses. Through interviews, archival data, and document reviews, I conducted methodological triangulation. To analyze the data obtained from the interview answers and the government sources, I used NVivo 12. Coding of data in a qualitative analysis refers to labels that help a researcher manage data to better create and assign labels (i.e., codes) from which patterns or themes emerge. The process helped with either a thematic or content analysis.

In addition to helping with the process with either a thematic or content analysis, coding also helped with the validity and transparency of the study's data analysis. There are three approaches to coding data for a qualitative study: (a) deductive, (b) inductive, and (c) hybrid. In the deductive approach, I pre-determined (or priori) a set of codes of the data. In this case, data from the interviews or literature review, or the research question itself. This approach was most effective in keeping me narrowly focused on the

data relevant to the research. In the inductive approach, data are coded based on the themes or patterns emerging from the data. Not having a predetermined set of codes helps a researcher navigate the data freely and follow where the data lead. However, because CG was not a new subject to study, the inductive approach alone was not the ultimate one. Hybrid is a combination of inductive and deductive approaches. Choosing a hybrid approach for coding the data allowed me to start with a predetermined set of codes obtained from the literature review and then add new codes derived from the interview question data and secondary and archival sources of data.

Presentation of the Findings

The collected data allowed me to conclude that the issue with the 2008 financial crisis was the agency problem portion of the CG in which agents and principles have different goals (self-interests). The findings outline the strategies that the executives put in place to answer the overreaching research question in a form of themes from the data collected. Those strategies were developed to mitigate the risk emanating from excessive risk-taking, massive subprime defaults or risks of insolvency, and the riskiness of MBS, and MH.

Thematic analyses were used to discover patterns or themes that convey meaning or answers to the study. The thematic analyses consisted of three steps: (a) qualitative data, (b) coding, and (c) themes. I went through the transcripts and found many patterns, and from those, clear themes emerged after comparing the collected data from interviews and archival sources. I used six open-ended questions and follow-up interview questions

to provide participants the opportunity to elaborate if any strategies were implemented to mitigate the risks of insolvency of banks and MH.

To achieve a thorough understanding of the banks' strategies attributed to their success, I used Yin's (2018) five-step process. The five-step process includes (a) compiling, (b) disassembling, (c) reassembling, (d) interpreting, and (e) summarizing the data. Most of the data collected were from reliable U.S. government sources like the SEC, FDIC, the Federal Reserve System, the Comptroller of the Currency, and the Mortgage Bankers Association. Other data were obtained from semi-structured interviews conducted with four bank executives. The themes that emerged from the data analysis are strategies to mitigate and reduce excessive risk-taking massive subprime defaults, the riskiness of MBS, and MH. Those strategies consisted of (a) stricter underwriting guidelines, (b) stricter bank capitalization requirements, and (c) methods to mitigate MH.

Theme 1. Excessive Risk Taking

The data show that most participants laid out strategies to mitigate excessive risk-taking fueled by the reward and commission and fees collected in banks providing subprime loans to customers who did not qualify for them and eventually would not be able to pay them. From the interview data, EB1 stated,

“They were pressured by the retail bankers' executives at the time to sign up and approve as many applicants as possible even if their Fair Isaac Corporation (FICO) score, which is an algorithm software that is used by banks and other

financial institutions and companies for calculating a person's credit score and worthiness, was less than 650, the highest score is 850.

The same claim was made by EB2 said

“There was a rush to sign up as many people as possible because the demand for the subprime mortgages went exponentially higher in the last 2 years leading to the crisis. Incentives were extremely lucrative with the combination of commissions on every subprime mortgage approved application and extra bonuses if we (all participants) meet our assigned quota and extra bonuses if we go over.

From the interview, the participants unanimously stated,

“After the crisis banks implemented an efficient underwriting process that requires a higher FICO score (650 and higher), a lower debt-to-income ratio of less than 36%, and an adequate 20% down payment for a mortgage loan to be approved. FICO score is an algorithm software that is used by banks and other financial institutions and companies for calculating a person's credit score and worthiness, from 400 the lowest to the highest is 850”.

Also, EB 3 stated,

“There was a rush to sign up as many people as possible because the demand for subprime mortgages went exponentially higher in the last two years leading to the crisis. Incentives were extremely lucrative with the combination of commissions on every subprime mortgage approved application and extra bonuses if we meet our assigned quota and extra bonuses if we go over. There were no worries about

the risks we were taking for the subprime loans we were selling had default insurance attached to them, but not for MBS”.

The egregious risk-taking was the leading reason for the financial crisis that resulted in significant financial losses (Gontarek & Belghitar, 2018). Banks that securitized those risky subprime loans were exaggerating the worthiness of the loans and the extent of their careful review. At the same time, originators and underwriters of mortgage-backed securities MBS were shorting them even as they offered them for sale to trusted consumers. They perpetuated falsehoods to shareholders about their own MBS holdings (Lewis & Schwartz, 2020).

The implementation of the strategy of stricter underwriting guidelines will eliminate the behavior that has been consistent with lucrative bonuses and incentives managers (agents) use of an unusual tonality when their company issues new securities and undertaking other financial transactions with an excessively optimistic tone with the intent to mislead shareholders (principals) (Yolles, 2020). This huge compensation and bonus structure was in place when selling those highly risky derivatives (MBS) and the demand for them and the most aggressive investment bankers and their teams were well-known phenomena in the years before the financial crisis (Hopt, 2013). The data from the interview showed that the banks implemented a strategy for selling MBS to customers and investors. Participants’ banks must disclose the following: (a) derivatives (MBS) are not regulated, (b) MBS market value is roughly \$9 trillion (FDIC, 2022), and (c) the riskiness of their underlying assets.

This strategy will help disclose the true value of MBS and their safety by solely relying on rating agencies like Moody's and S&P. Thus, participants banks created an internal protocol headed by a special department where the executives are chartered financial analysts who have an extensive background in the valuation of derivative and securities products. In addition, participants' banks implemented a strategy to assess the level of risk aversiveness of the customers and investors through age, the time horizon for retirement, income, and their investing knowledge and sophistication. If a customer is determined not to meet a certain level of investing sophistication and knowledge, MBS is not offered to them as an investment.

**Themes 2 and3 Riskiness and Complexities of Mortgage-Backed Securities
And No Capital Reserves for Massive Subprime Defaults**

According to Yang (2016), elements if not properly addressed could lead to CG failures, such as neglecting the need to develop business strategies, inadequate resources, and lack of leadership skills. Stricter banks' capitalization requirements have been implemented based on the Federal Reserve stress test guidelines. The Federal Reserve's stress test assesses whether banks are sufficiently capitalized to absorb losses during stressful conditions while meeting obligations to creditors and counterparties and continuing to be able to lend to households and businesses. The stress test is a forward-looking quantitative evaluation of bank capital that demonstrates how a hypothetical macroeconomic recession scenario would affect firm capital ratios.

For the first several years of stress testing, comprehensive capital analysis and review was a public exercise that included a quantitative and qualitative assessment. The

quantitative assessment evaluated whether banks had sufficient capital to continue operations throughout times of economic and financial market stress. The qualitative assessment evaluated whether banks had robust, forward-looking capital planning processes that account for their unique risks (Federal Reserve, 2022). The FDIC (2022) ranks bank capitalization into five levels: (a) well capitalized (if the bank significantly exceeds the required minimum level for each relevant capital measure); (b) adequately capitalized (if the bank meets the required minimum level for each relevant capital measure); (c) undercapitalized (if the bank fails to meet the required minimum level for any relevant capital measure); (d) significantly undercapitalized (if the bank is significantly below the required minimum level for any relevant capital measure); and (e) critically undercapitalized (if the bank is critically below the required minimum level for any relevant capital measure).

Participants (EB1, EB2, EB3, and EB4) unanimously agreed that the best strategy to mitigate the risks of insolvency is by being well-capitalized and exceeding the FDIC requirements which means that the financial assets are considerably higher than our short- and long-term liabilities which in turn give our banks a higher net worth. They added that this strategy will enhance regulators, customers, and investors in our confidence in the CG stewardship of our banks.

They also agreed, that passing the Federal Reserve stress test with a higher grade is another strategy that would enhance confidence in our banks' CG and mitigate the risks of insolvency.

The Federal Reserve's stress test assesses whether banks are sufficiently capitalized to absorb losses during stressful conditions while meeting obligations to creditors and counterparties and continuing to be able to lend to households and businesses. The stress test is a forward-looking quantitative evaluation of bank capital that demonstrates how a hypothetical macroeconomic recession scenario would affect firm capital ratios. The quantitative assessment evaluated whether banks had sufficient capital to continue operations throughout times of economic and financial market stress. The qualitative assessment evaluated whether banks had robust, forward-looking capital planning processes that account for their unique risks (Federal Reserve, 2022).

Theme 4. Moral Hazard

As Finkelstein, (2015) and Cvitanić et al. (2017) indicated in the literature review, MH was assumed to happen during the 2008 financial crisis because of the knowledge that agents can take excessive risk without bearing the risk of loss. Andersen and Jensen, (2022) confirm that too big to fail gave incentives to the excessive risk-taking that the banks (i.e., agents and executives) to increase revenues with the knowledge that they(banks) would be bailed out by the government. In addition, Hott, (2022) laid out a vision of how to mitigate the risk of MH in the banks through government regulation.

EB1, EB2, EB3, and EB4 stated that there was a rush to sign up as many people as possible because the demand for subprime mortgages went exponentially higher in the last two years leading to the crisis. Also, incentives were extremely lucrative with the combination of commissions on every subprime mortgage approved application and extra bonuses if we meet our assigned quota and extra bonuses if we go over. There were no

worries about the risks we were taking for the subprime loans we were selling had default insurance attached to them.

The data showed that the implementation of the strategy of implementing the methods to mitigate the MH will drastically reduce the risk of loss and insolvency to the banks. The data showed that exceeding the FDIC capitalization requirements will mitigate the risk of MH to the banks. The implementation of stricter underwriting requirements and guidelines will mitigate the risk of MH. The guidelines for offering and selling MBS products set by the banks will mitigate the risk of MH by being extremely careful about the financial sophistication of MBS's prospective customers and the detailed disclosures of their riskiness, their unregulated aspect, and the riskiness of their underlying assets.

Applications to Professional Practice

Management of risk to assure a balance is maintained between risk and reward. The issue with what happened in the 2008 financial crisis is the executives of the banks (agents) did not fulfill their obligation to the customers or shareholders (principals).

This qualitative multiple case study shed a light on some issues in CG of banks that if addressed properly would significantly lower the risks of insolvency of banks, MH, and severe losses to consumers. For agents(executives/managers/employees) of banks and financial institutions, they need to do the following:

- 1) Disclosing the inherent risks of MBS and their underlying assets.
- 2) Go beyond the required disclosures required by the federal and states regulatory agencies by educating consumers about derivatives.

- 3) Create an incentive plan for agents that would motivate them to provide superior products and services that would align with the financial goals of the principals.
- 4) Put in place compensation protocols that would incentives agents to properly manage risks taking on the detriments of principals.
- 5) Create adequate training to address the ramification of risk-taking and the consequences of moral hazard that caused the financial crisis of 2008.
- 6) Make good CG part of the decision-making process in managing risks.
- 7) Strive to achieve the goal of the stewardship theory.
- 8) Strive to minimize or eliminate all the factors that lead to the agency problem.

For principals(shareholders/stakeholders), they need to do the following:

- 1) Get more involved in decision-making in the implementation of good CG.
- 2) Be more active in monitoring how financial products are securitized and risky loans are underwritten.
- 3) Get better educated about risky derivatives when investing.
- 4) Make sure to understand and appreciate the riskiness of the derivatives underlying assets before investing.
- 5) Demand that CG is part of the strategic vision of any bank or financial institution which will lower moral hazard.

Implications for Social Change

CG involves laws, regulations, and accepted business practices and is defined as processes and structures that provide the decision-making ultimate authority to the

company's executives or agents (Dyer et al., 2016). The implications are expressed in terms of tangible improvements to individuals, communities, organizations, institutions, cultures, or societies, as the finding could affect social change/behavior. This study will help bring about social change by providing to the agents (executives and managers alike) the industry and beyond to act in the best interest of their clients and shareholders by learning from the mistakes that were made before the financial crisis of 2008 and follow the ethical guideline of the industry that was in the books at the time and were either ignored or not taught. Also, agents need to disclose the riskiness of the products to their clients and do the due diligence in finding out the risk averseness of each client. Also, I hope that the study will push agents to develop and implement efficient mitigating strategies to protect inherent risks in derivatives products (in this case MBS) and their underlying assets (in this case subprime mortgages) by using efficient underwriting standards that would decrease the risk of insolvency of banks and sever losses to owners. Becic (2011, p. 1361) defines CG as a system of supervisory mechanisms used by all stakeholders of high-importance inputs to ensure returns on their investments in the corporation without jeopardizing the corporation's prosperity. Agents must minimize the MH the banks faced leading to the crisis by setting standards on how to foresee and price risks and generate good returns without jeopardizing their institutions and the owner's financial well-being because the financial crisis of 2008 data showed that even the insurer (i.e. AIG) could become incapable and unable to cover losses of the insured (i.e. Lehman Brothers) and having strategies like increasing capital reserves in place to cover losses is one of the avenues that can be implemented to avoid total calamity.

For the US government, I hope this study will be able to push for strict regulations on the derivatives market as is the case for other securities like stocks and bonds, provide consumers with easy-to-read disclosure about their inherent riskiness, and make every banker that deals with consumers have a basic knowledge about them.

For the owners and principals (customers, shareholders, and stakeholders), I hope that this study will be a call for action for them in the sense that they should be active in asking for better services and demand better transparency in managing their assets and the banks' assets even though their banks' deposits are insured against banks' insolvency through the FDIC for \$ 250,0000 for each owner, some other assets are not, like investment products. Finally, this study will have a great added value to society in the form of MH risk mitigation. When banks exercise good CG and implement the strategies laid out in this study, the taxpayers will not have the burden to bail out banks that took unnecessary risks to generate profit regardless of their impact if they fail on the overall financial system and the economy. Practicing good CG will mitigate the risk of MH which will have a positive impact on society.

Recommendations for Action

From the themes emerging from the data analysis, there are several recommendations for action to sides of the CG debate. For the agents (Managers/executives), a protocol must be put in place to monitor the selling process of loans by putting more emphasis on the suitability and affordability of the loans to the consumers by enacting strong underwriting guidelines that protect the banks from losses or insolvency thus, protecting the shareholders and stakeholders (principals). The same

approach needs to be applied to the MBS. Agents must have a strong supervising regime in place to monitor the selling process to consumers and disclose the inherent risk in MBS and not compare their safety to those of the US treasury bonds. Reward hard work, not excessive risk-taking. Lower MH in the selling process because severe losses and insolvency can occur even if the risk is transferred to another entity for a premium. For the principals, always apply the principle of: “Buyer beware”. Shareholders, stakeholders, and consumers must become more active in monitoring the agents who handle their assets. Do not count on the fiduciary duties of the agents to always do the right thing and act in the best interest of the principals. The data of the study showed that lucrative incentives did push agents to forget their duties and responsibilities towards their owners and went for the “green”. Principals must always ask questions about how their assets are being managed and the risks that might be exposed and not blindly trust and follow their agents’ recommendations. Like Ronald Reagan once said: “Trust but verify”.

Recommendations for Further Research

The study found a correlation relationship between the conceptual framework of CG and the literature review (LR) and the themes that emerged from the data analysis.

As I mentioned in the LR, CG is a vast subject and has been studied widely in the last 100 years. However, CG was researched, in my opinion, broadly. Although there was some CG research on companies and sectors, never on products and services. My study showed a CG failure that was caused by a lack of anticipation of massive defaults of subprime mortgages, the lack of imagination that would happen believing that the assets were insured against default, and no strategies for setting aside reserves to cover the

losses emanating from those defaults. Further studies of CG must include how companies manage risky assets and convey to shareholders and consumers that all pertinent disclosure is provided, and the way risky asset valuations are consistent with industry standards and with currently updated SEC' and other regulatory agencies' guidelines and applicable laws. Another CG failure is just around the corner which will be the root cause of a massive recession with high unemployment and severe contraction of the economy and severe financial losses. Good CG will have a positive impact on all the stakeholders whether agents or principals. I found a few limitations in this study which can be summarized in the following:

The number of participants could have had a negative outcome on the adequate search for outlining a holistic gathering of success that would have answered the research question. Although I did have an issue recruiting participants, I noticed from some of them a reluctance to fully answer some questions about products and services. The interview questions and archival data might have given me a substantial amount of information about answering the research question and the study conceptual framework. Finally, the population sample was extremely small, and the financial crisis of 2008 saw the failure of over 500 banks (FDIC, 2020). However, the subject matter of CGs in the banking system is so vast and complex, (in my opinion my study might have contributed to the research of CG), further research and study of the subject is needed and warranted

Reflections

The DBA Doctoral Study process was arduous and long. But it was a journey that I would not forget or replace. From my first residency to the last one and everything in

between and after. My first chair was great and the last one greater and the best of them all. I had triumphs and a few downsides. The journey was good, but the destination will be better. I knew that it will be hard and long but that did not dissuade me from continuing until succeeding. Failure was not an option. I have learned the process of academic research and what it takes to do valid and reliable research and how rigorous the process was. The subject matter of CG in the banking sector was somewhat familiar to me but what did surprise me is the forthcoming of the participants about their lived experiences before the crisis and their truthfulness about the role they played (however small it was) in the overall scheme of crisis and how they approached their role as agents and how, in hindsight, awful they feel now. Also, how vast the subject matter of CG is. This research is the beginning, hopefully, of my journey as an independent scholar.

Conclusion

The study showed that failure in business, when interest in goals diverges between agents and principals, can happen with devastating consequences. When I first identified the business problem, it was the first mile of a long journey. I identified the nature of the problem and need a conceptual framework to help address and find out why the financial crisis of 2008 happened. After an initial review, I found out that there was a failure of massive proportion, and that failure was CG. I started researching the conceptual framework with a comprehensive literature review. After addressing all the elements for obtaining the IRB approval, I started gathering data and analyzing them with a tool, NVivo 12 pro, that I had to master in a few weeks, and themes started to morph from the data and helped me with answering the fundamental research question. I found

out that CG is a vast and rich subject matter. It is like a tree or plant that need nourishment and watering through constant update and studies. CG needs replenishment and constant update of guidelines and recommendations on how to attain good CG. It, is, in my opinion, a perpetual fight for excellence in CG because CG's failure in 2008 was not the same as in the early 2000s and will not be the same in the future. The DBA journey made me a better human being and Walden University helped me focus on my success and what knowledge I have acquired, and the ability to do research as an independent scholar will do in helping bring about positive social change.

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