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Perspectives of Corporate Governance in Croatian Banking Sector

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ABSTARCT: Financial market of any country firstly has to be "secure", but although financial market is regulated and monitored, we were witnesses of bad examples (Island). So, globally all aspects of corporate governance became interesting: ownership; nature of activities; liquidity ratios, etc. The goal of this paper is to give perspectives of corporate governance in Croatian banking sector. The results of the research conducted in October 2010 are presented. The situation regarding corporate governance issues in banks is highlighted. According to the research in Croatian banks in the future corporate governance should give more attention to responsiveness; equity; efficiency and effectiveness; and on accountability. Mentioned principles are not clearly defined and recognizable. These will assure differentiation on market and trust of all stakeholders.

Keywords: *corporate governance, banking sector, the Republic of Croatia*
JEL Classification: *D22, K23, M14*

1. INTRODUCTION

The well functioning financial system is a key issue for healthy development and growth of the national economy. The last financial and economic crisis has revealed many holes and malfunctions of the financial markets and misconduct of its institutions and key participants like: *the greed of managers, the company's engagement in manipulative deals, corruption, the lack of state intervention on the market, the little focus placed on moral, ethics and losing of the human values as well as social responsibility of corporations.* Thus, special focus should be put on the governance system. Precisely, the focus should be on encouraging and supporting effective implementation of already agreed standards, primarily as an issues for companies, their boards and their shareholders, but also as an important role for supervisory, regulatory and enforcement authorities (OECD Steering Group on Corporate Governance, 2010,6). Crowther and Aras (2009) stated that good governance is not simply a matter of adopting a set of rules, but a continuous process of implementing tailored strategic initiatives to maximize long-term value and furthermore **has to be considered as an environment of trust, ethics, moral values and confidence** – as a synergic effort of all the constituents of society – that is the stakeholders, including government; the general public etc; professional/service providers – and the corporate sector. Any confidence in management is more important in financial organization than other business (Aras, 2009, 91). Corporate governance arrangements, as well as legal and regulatory systems, vary widely between countries (Basel Committee on Banking Supervision, 2006). Financial market with stocks exchange, multinational corporations, unique currency (Europe, USA), etc. **needs global governance**. Global governance

(Crowther, Aras ,2009) can be considered to be the complex of formal and informal institutions, mechanisms, relationships, and processes between and among states, markets, citizens and organizations, both inter- and non-governmental, through which collective interests on the global plane are articulated, rights and obligations are established, and differences are mediated. Nowadays, global governance tries to find solutions for threats of the European financial markets i.e. Greece, Portugal, and Ireland etc.

In the Republic of Croatia economy is still facing the recession problems while banking sector is relatively stable due to responsible risk management, high capitalization and active monetary policy. This stability has enabled the support of all economic activities and enhanced the economic recovery. From the above, it is notable the important role banks have for Croatian economy, especially their healthiness and good business practice. As such, banks have to conduct their business responsibly in order to retain their reputation and support the economy. Governance system in the banks and its way of functioning should be transparent, credible, ethically motivated and responsibility-oriented.

This paper presents the research results of desk and field research. Field research was carried out in October 2010 on sample of seven (7): *six big and one medium-sized* from thirty-four (34) existing banks (6 large, 3 medium-sized, and 25 small banks); selection criteria was report to Croatian National Bank on the consolidated basis (Banks Bulletin, No.20, 2010). The banks were: *Erste & Steiermarkische Bank, Hrvatska poštanska banka, Hypo-Alpe – Adria Bank, Privredna banka Zagreb, Raiffeisenbank Austria, Societe Generale – Splitska banka, and Zagrebačka banka.* The research tool was on-line questionnaire, created in a way to explore a manager's perception of *(1) corporate governance; (2) ethics and corporate social responsibility and (3) corporate communication and reputation.* Respondents' were equally divided: male 50%; female 50%. Average number of years on the managerial position was 7 years. The average age of respondents is as follows: 37, 5% of managers have between: *31-35 years*; 37, 5% of managers have between: *41-45 years*. 75% of the respondents have a bachelor degree; none of them has finished a MBA, nor have attained the scientific master or doctoral degree. Majority of the respondents were senior executives four (4), two(2) hold a position of a middle manager and one (1) low level management. In corporate governance system, it is inevitable to emphasize the gender structure, namely, in the analyzed banks 66, 7% of women is in supervisory board as well as in the board of directors. The average number of women employed (in general) in analyzed banks is 83, 3%.

The paper provides a contribution in the field of banking sector in Croatia, as well as it opens new questions to be posed in this direction. This paper will supplement researches (Borozan and Hadrović, 2003, Kowalski et.al. 2003, Koričan and Ćorić, 2009, Sever, 2009) also mainly focused on the CSR and corporate governance. The goal of this paper is to give perspective (holistic picture) of corporate governance in Croatian banking sector. In our future work except corporate governance we will analyzed the values of social responsibility and communication in Croatian banking sector.

2. CORPORATE GOVERNANCE EXPECTATION

Corporate governance usually represents strategic orientation throw set of processes, customs, polices, laws and institutions affecting the way any corporation is directed, administered and controlled. Corporate governance is reliant on external factors (law, institutions, market, global situation, etc.), but internal factors (employees, strategies, knowledge, etc.) can give opportunity to differentiate from competitor on global market. Also, corporate governance help businesses to meet global challenges while improving organizational competitiveness and safeguarding the interests of all stakeholders (Aras, 2009, 87). Corporate governance is very important because of its influence on: reputation; rights and treatments of shareholders, relations with stakeholders; transparency and openness of company, etc. Corporate governance is nowadays used as managerial tool. Good corporate governance should contribute to better company performance by helping a board discharge its duties in the best interests of shareholders; if it is ignored; the consequence may well be vulnerability or poor performance (FRC, Financial reporting Councile, 2008). **Governance needs to assure expected behavior, ethical standards, culture, and to monitor institutional changes, community and media environments.** But crisis has opened the old debate about the costs and benefits of regulation as opposed to market mechanisms (OECD Steering Group on Corporate Governance, 2010, 6). Good corporate governance requires appropriate and effective legal, regulatory and institutional foundations (Basel Committee on Banking Supervision, 2006). Furthermore we can recognize eight principles of governance which underpin every system of governance (Crowther and Aras, 2009, 26-30): (1) transparency; (2) rule of law; (3) participation; (4) responsiveness; (5) equity; (6) efficiency and effectiveness; (7) sustainability and (8) accountability.

In financial markets, there are various areas in which problems related to corporate governance arise like agency problems and the subsequent ethical problems that may lead to; the problems concerning insider trading; manipulation; reporting for general public; and providing information to investors (Aras, 2009, 87). The banking sector is not necessarily totally corporate. Some part of it is, of course, but a segment of banks is mostly government owned as statutory corporations or run as cooperatives (Leeladhar, 2009). Although government ownership of a bank has the potential to alter the strategies and objectives of the bank, a state-owned bank may face many of the same risks associated with weak corporate governance that are faced by banks that are not state-owned (Basel Committee on Banking Supervision , 2006). A good banking system is the backbone of a sustainable economy – and the banks' vested involvement in influencing the market is not good for the economy (Maharjan, 2011). Since the market control is not sufficient to ensure proper governance in banks, the government does see reason in regulating and controlling the nature of activities, the structure of bonds, the ownership pattern, capital adequacy norms, liquidity ratios, *etc.* (Leeladhar, 2009). But it is important for jurisdictions to regularly review whether their supervisory, regulatory and enforcement authorities are sufficiently resourced, independent and empowered to deal with corporate governance weaknesses that have become apparent (OECD Steering Group on Corporate Governance, 2010, 6). From banking industry perspective, corporate governance involves the manner in which the business and affairs of banks are governed by their boards of directors and senior management, which affects how, they (Basel Committee on Banking Supervision, 2006):

- set corporate objectives;
- operate the bank's business on a day – to – day basis;
- meet the obligation of accountability to their shareholders and take into account the interests of other recognized stakeholders;
- align corporate activities and behavior with the expectation that banks will operate in a safe and sound manner, and in compliance with applicable laws and regulations, and
- protect the interests of depositors.

Banking as a sector has been unique and the interests of other stakeholders appear more important to it than in the case of non-banking and non-finance organizations the involvement of government is discernibly higher in banks due to importance of stability of financial system and the larger interests of the public (Leeladhar,2009). So, effective corporate governance practices are essential to achieving and maintaining public trust and confidence in the banking system, which are critical to the proper functioning of the banking sector and economy as a whole (Basel Committee on Banking Supervision, 2006). On other side, poor corporate governance may contribute to bank failures, which can pose significant public costs and consequence due to their potential impact on any applicable deposit insurance systems and the possibility of broader macroeconomic implications, such as contagion risk and impact on payment systems consequently all market can lose confidence (Basel Committee on Banking Supervision, 2006). A variety of factors, including the system of business laws and accounting standards, can affect market integrity and overall economic performance but such factors are often outside the scope of banking supervision (Basel Committee on Banking Supervision, 2006). There are four important forms of oversight that should be included in the organizational structure of any bank in order to ensure appropriate checks and balances (Basel Committee on Banking Supervision, 2006): (1) oversight by the board of directors or supervisory board; (2) oversight by individuals not involved in the day – to-day running of the various business areas; (3) direct line supervision of different business area and (4) independent risk management, compliance and audit functions. In addition, it is important that key personnel are fit and proper for their jobs.

At the end, we should highlight that the corporate governance of banks in developing economies is important because (Arun and Turner, 2004): (1) banks have dominant position in financial system and they are important engine of economic growth; (2) financial market is usually undeveloped and banks represent main source of finance for the majority of firms; (3) banks in developing country are usually the main depository for the economies saving's; (4) developing economies have recently "liberalized" banking system through privatization/disinvestments and reducing the role of economic regulation.

3. SOME INSIGHTS INTO CROATIAN BANKING SECTOR

The Republic of Croatia covers an area of 56 594 km2 and according to the 2009 mid-year population estimate, this area was populated by 4.4 million inhabitants. Real GDP has decreased for 5, 8% in 2009 compared with 2008, and for 1, 4% in 2010 compared with the previous year due to the negative movements of domestic demand (negative trends on the labor market, low level of consumer optimism have influenced the household demand and all this was further supplemented with the decrease of investments) (Croatian Bureau of Statistics, 2011). The structure of the gross added value in 2009 (current prices) was the following: *public sector and defense (18%), agriculture (6, 7%), industry (19, 1%), construction (8%), hotels and restaurants (4,4%), trade (10,9%), transport and storage (8,3%), and* ***financial services and real estate (24,4%)*** (Croatian National Bank, 2011a). The registered unemployment rate for March 2011 was 19, 3%. The average monthly paid off net earnings per person in paid employment in legal entities of the Republic of Croatia for February 2011 amounted to 5 242 HRK[1] (Croatian Bureau of Statistics, 2011). The inflation rate in February 2011 was 2, 2% due to the increase in prices of un-manufactured and manufactured alimentary goods. At the end of 2010 the gross foreign debt was 45, 8 billion Euros or 99, 7% of GDP. Due to the negative movements in the real sector and the high price of foreign borrowing the Croatian National Bank has continued to conduct politics of high HRK liquidity in the banking sector in order to enhance and improve domestic financing conditions and stronger credit activity recovery. At the beginning of March 2011, Croatian National Bank has decreased the rate of minimal coverage of the total foreign currency liability for liquid foreign currency receivables from 20% to 17%. (Croatian National Bank, 2011b). The discount rate of the Croatian National Bank is 9% the same as the interest rate for Lombard credit, whilst the reserve requirement is 13% (Croatian National Bank, 2011c).

The Croatian National Bank, as stipulated by the Constitution of the Republic of Croatia, is the central bank of the Republic of Croatia. The status, tasks, objectives and capital ownership of the central bank, its powers, organization and relations with the bodies of the Republic of Croatia, banks and international institutions and organizations are regulated by the Act on the Croatian National Bank (Official Gazette 75 of 1 July 2008). According to the Credit Institutions Act (Official Gazette 117 of 26 September 2008) credit institutions in the Republic of Croatia are divided into three main groups: banks, savings banks and housing savings bank and their initial capital shall not be less than HRK 40 million (for the banks), less than HRK 8 million (for savings bank) and less than HRK 20 million (for savings housing bank). “Credit institution” means a legal person authorized by the competent authority, whose business is: (1) to receive deposits and other repayable funds from the public and to grant credits for its own account; or (2) to issue means of payment in the form of electronic money. A credit institution is a joint-stock company.

According to the Banks Bulletin (Croatian National Bank, 2010a and 2010b) we can distinguish - *small banks dispose of less than HRK1.0bn of total assets of all banks, medium size banks dispose of assets in size of HRK a 1.0-10.0bn and large banks dispose of assets exceeding HRK10.0bn.* Thus in statistic analysis of financial reports submitted by banks to the Croatian National Bank takes into account different bank peer groups. The number of large banks, their order by assets, and their total market shares, show no considerable variations in the last five years. By the end of the 2009 and in the first half of 2010 most of the market, i.e. **82.7%** and i.e. **82.2% respectively, of total bank assets still belonged to the group of large banks.** The bank ownership structure at the end of the first half of 2010 was: nineteen (19) banks were under majority ownership of domestic shareholders and 15 banks were under majority ownership of foreign shareholders. **Bank assets under majority ownership of foreign shareholders amounted to 90.6% of total asset of all banks** (Table 1), slightly lower share than by the end of 2009, as a consequence of the unchanged level in foreign ownership of overall bank assets and the simultaneous growth in domestically owned private bank assets by 5.1%, and in domestic state ownership of bank assets by 1.4%. The greatest impact in domestic ownership of bank asset share growth occurred in small banks, prevailingly owned by domestic shareholders.

[1] The exchange rate for the Croatian Kuna on February 26th, 2011, according to the Croatian National Bank Exchange rate list (middle reate) was 1Eur = 7, 414 HRK

Table 1. Ownership Structure of Banks and Their Asset Share in Total Bank Assets, end of period

	2007		2008		2009		2010	
	No.of banks	Share	No.of banks	Share	No.of banks	Share	No.of banks	Share
Domestic ownership	17	9,6	18	9,4	19	9,1	19	9,4
Domestic private ownership	15	4,9	16	4,9	17	4,9	17	5,2
Domestic state ownership	2	4,7	2	4,5	2	4,2	2	4,2
Foreign ownership	16	90,4	16	90,6	15	90,9	15	90,6
Total	**33**	**100**	**34**	**100**	**34**	**100**	**34**	**100**

Source: Banks Bulletin, No.21, year 10, Croatian National Bank, Zagreb, December 2010, p. 20

The ownership structure according to the headquarters of the corporations is presented in the following table (Table 2).

Table 2. The ownership structure according to the headquarters of corporations

YEAR	AUSTRIA	ITALY	FRANCE	OTHER	DOMESTIC
2007	59,1	20,1	7,5	3,8	9,6
2008	59,7	19,7	7,4	93,8	9,4
2009	60,4	19,4	7,3	3,7	9,1

Source: Croatian National Bank Annual Report, 2009, p. 64

It can be noted from the above that the greatest share in terms of ownership belongs to the Austrian corporations, followed by Italian and French corporations (country of residence of the owners).

The analysis of asset concentration, net credit and deposits over the longer period showed that the bulk of the sum of all stated items remains concentrated in the top ten banks, viewed by their asset size (Table 3). **Considerable amount of 41.5% in total bank assets in 2010 are further shown in the first two banks.** First five banks had together a share of 75,4% at the end of 2009 and 75.1% at the end of 2010 of total bank assets, with the share of 92,5% at the end of 2009 and 92.1% at the end of 2010 in total bank assets held by the first ten banks. Compared to the end of 2009, the shares in total net credits of all banks decreased only in the first two banks, which, after the decrease by 1.8 percentage points, amounted to 42.3% at the end 2010.

Table 3. Biggest Banks in the Republic of Croatia

No.	Name	Total Assets '000 HRK	Share in total Assets in %	Asset Growth
1	Zagrebačka Banka d.d.	92.814.083	24,10	3,83
2	Privredna Banka Zagreb d.d.	65.061.033	16,89	1,04
3	Erste&Steiermarkische Bank d.d.	49.142.273	12,76	7,47
4	Raiffeisenbank Austria d.d.	39.501.232	10,26	-2,17
5	Hypo Alpe-Adria Bank d.d.	38.764.907	10,07	46,23
6	Societe Generale - Splitska banka	27.702.201	7,19	0,75
7	Hrvatska poštanska banka d.d.	13.985.623	3,63	-4,46
8	OTP banka Hrvatska d.d.	12.629.864	3,28	-1,90
9	Volksbank d.d.	7.664.000	1,99	-0,18
10	Međimurska banka d.d.	2.838.241	0,74	-0,80

Source: Croatian National Bank, Audited data on banks, 31st of December 2009

The share of net credit in the top five and top ten banks increased slightly from 76,4% at the end of 2009 to 76.8% at the end of 2010 and from 92% at the end of 2009 to 92.9% at the end of 2010 respectively. Unlike the reduction in assets and net credits in the first two banks, increase in concentration of deposits was shown in this group only and amounted to 43.3%. The share in total bank deposits decreased in the first five banks from 76,6% at the end of 2009 to 75.8% at the end of 2010, and in the first ten banks from 93,1% at the end of 2009 to 91.4% at the end of 2010. The following table presents the biggest banks in the Republic of Croatia.

Decrease in profits for the first semester of 2010 led to the further fall in bank profitability, and to lower values in Return on average assets (ROAA) and Return on average equity (ROAE) regarding the same period of 2009. ROAA decreased from 1.5%, to which it amounted at the end of the first half of 2009, to 1.2% at the end of the first half of 2010. It decreased both in large and small banks, while the increase in medium-size bank indicators represent the consequence of profits obtained by the bank which had operated with a loss in the same period of the previous year. The lowest value indicator was still stated in small banks (0.2%), in medium-size banks it amounted to 0.7%, and in large banks to 1.3%.

After providing the short introduction of the situation in the banking sector in Croatia, the research results are provided.

Corporate governance in practice – the evidence of Croatian banks

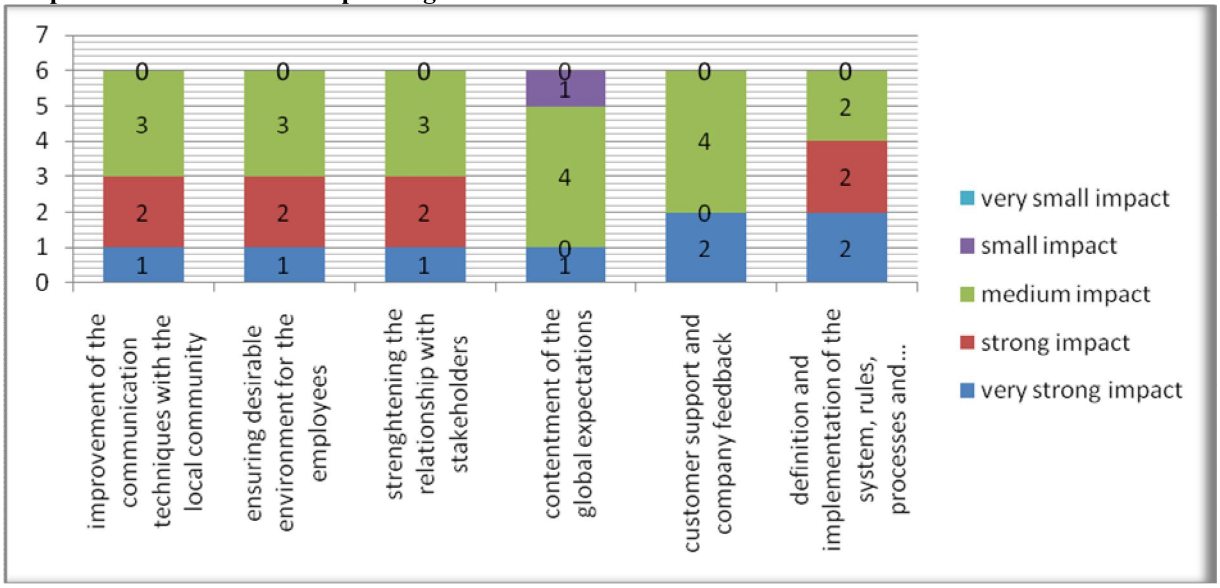
Research results are presenting all major banks in Croatia - six (6) large banks and one (1) medium-sized bank which report to Croatian National Bank on the consolidated basis. All banks are: (1) listed in Zagreb Stock Exchange and they are publishing price sensitive information; (2) registered as brokers on the Zagreb Stock Exchange meaning they perform, on the basis of authorization issued by the Croatian Financial Services Supervisory Agency the activities covered by the investment services referred to in the Croatian Capital Market Act (Official Gazette 88/08) and (3) members of the Exchange.

Research results showed that corporate governance in Croatian banks is mainly recognized in the processes of**: *strategic planning (66, 7%), financial reporting (66, 7%) and security of the business system (66, 7%)***; *public relations (33, 3%) and controlling (16, 7%).* Further, corporate governance (Graph 1) has very **strong impact on** *the definition and implementation of the systems, rules, processes and conditions for managing the bank*; **strongly impact** *on (1) the strengthening of the relationship with stakeholders; (2) ensuring desirable environment for the employees; and (3) on the improvement of the communication with the local community* and **medium impact** managers gave to *the contentment of the global expectations,* what should be change in future because of new demand of society – global governance especially at financial market. It is also important that managers have emphasized the importance the local community as important stakeholder, where main banks activities take place.

Different elements have been influencing the bank's business behavior. Research results pointed out that according to managers' perspective the **extremely important impact** on their bank has notably (1) *customer satisfaction and (2) gaining profits*, while *employee satisfaction and community benefits* are perceived as **important factors influencing the bank**. It is evident that gaining profits is not considered as the starting point but it guides banks management towards it. Although managers put **customers and making profits on the top of their interests, employees** are also perceived as important factor. Employees are assets of the company, if recognized, they can foster greater productivity, assure customer loyalty, raise working atmosphere, raise credibility, etc. **Customers** should be treated well and banks have to consider their interest in order to fulfill their needs. Social responsibility and ethical behavior within it are valued for the benefits they bring to the company in terms of gaining greater profits.

For all corporations good cooperation with stakeholders is needed, so participation as a principle of corporate governance is recognized. For managers in banks stakeholder participation means: (1) *way of understanding stakeholders, learning and improving the organization within stakeholders' expectations (66,7%)* and *identification, development and implementation of appropriate strategy, plans and ways of stakeholder engagement (66,7%);* (2) *identification and understanding of different stakeholders, their engagement possibilities, their expectations (33,3%)* and *defining ways of stakeholder inclusion in decision process which improves the sustainability of the* *organization* (33,3%) and (3) *defining the conflict and dilemmas between different expectations of stakeholders* (16,7%).

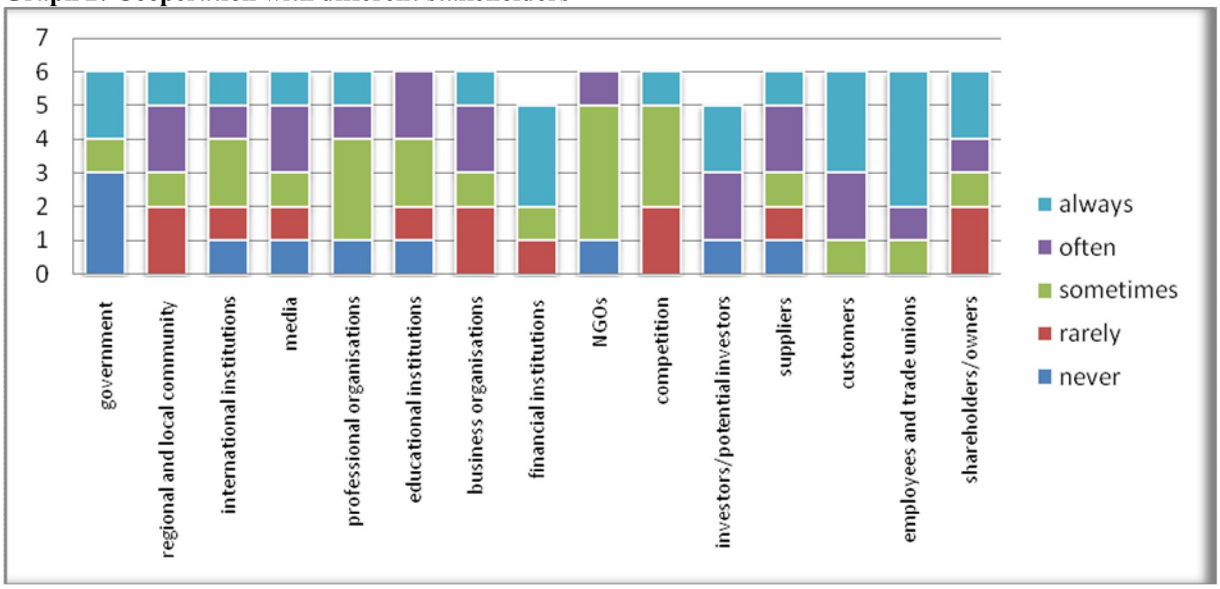
Graph 1: The influence of corporate governance on their bank



Source: Authors' analysis

The following graph (Graph 2) presents precise results of their cooperation with different stakeholders whether on a very frequent basis, rarely, often, sometimes or there is no cooperation at all.

Graph 2: Cooperation with different stakeholders



Source: Authors' analysis

It could be noted from the above that the banks **always** cooperate with (1) *employees and trade unions, (2)* financial *institutions and (3) customers*. That is in order with factors that influence on corporate governance. Furthermore, they often cooperate with educational institutions, media, business organizations, regional and local community, suppliers and other stakeholders. They sometimes cooperate with nongovernmental organizations (NGOs), competition, professional organizations, international institutions, and shareholders/owners. What is surprising is the point that their level of cooperation with shareholders on the not so frequent basis. It means that the shareholders/owners – managers in the banks relationship is built on trust and transparency as some of key elements of corporate governance. On the other side, bearing in mind these are publicly traded companies, shareholders/owners do believe in the institutional framework and requirements.

As all of the banks are listing their shares on the Zagreb Stock Exchange, they have the obligation to comply with the defined Code of Corporate Governance issued by Zagreb Stock Exchange. The main scope of the Code of Corporate Governance is to establish high corporate governance standards and to enhance transparency of the corporations (banks) in order to facilitate the access to capital with lower costs. **The main principles of the Code of Corporate Governance are**: (1) transparency of the business conduct, (2) clearly defined procedures for the activities performed by the Supervisory Board, Board of directors and other organs and structures that are included in the decision-making process, (3) avoidance of the conflict of interests, (4) effective internal control and (5) effective system of responsibilities (Zagreb Stock Exchange and Croatian Financial Services Supervisory Agency, 2011).Survey showed that *50% of banks have accepted the internal code of conduct* - as a set of principles which define the behavior of the corporation and guidelines for improved accountability, enhanced conduct and better performance which is good because they use external and internal factor in strategic orientation. Also managers of the banks think that Code of Conduct is really applied into practice and that it provides clear indications to the bank. The formal policy of corporate governance covers the following elements: statement of compliance of the formal policy with current legislation (33,3%), the remuneration framework and performance evaluation of the members of board of directors/supervisory board, CEO and senior executives (0%), independency statement of board of directors/supervisory board (16,7%), attendance of board of directors/supervisory board (0%), biographies, CVs of the members of board of directors/supervisory board disclosed (33,3%), and 50% does not know. In 50% of the banks the formal policy of corporate governance exists, whilst 16, 7% it does not and in other banks there is no such policy. In the majority of the banks (66,7%) the remuneration/compensation of the board members, members of the supervisory board and executive managers is not externally communicated, whilst in 33,3% of the banks, the remuneration is communicated on aggregated level for the board of directors/supervisory board, while in 16,7% the remuneration is communicated on individual level for each member of the board.

The transparency requirements on the regular market on Zagreb Stock Exchange are: *financial reports, auditors' reports, acquisition of own shares, corporate governance code, GA notice and decisions, other price sensitive information.* For the official market, the requirements are: *regular market requirements plus supervisory board meeting, acquisition of share from management, reporting in English, besides Croatian.* On the Prime market the requirements are: *official market requirements plus annual report presenting, corporate actions calendar and other requirements.* **The survey companies are listed on Zagreb Stock exchange and have to publish annual, semi-annual and quarterly financial and business reports depending on the type of the security,** so rule of law as principle of corporate governance is also in use. Except this law has lots of impact in other fields on banks because of their role in society. All of the reports have to be delivered electronically using Intranet (Zagreb Stock Exchange, 2011) so transparency as a principle of corporate governance is guaranteed. But trust is a base of all reports, activities etc. so banks need "environmental" trust and any misconduct can destroy reputation and trust in bank. Although, in only 40% of the banks, integrated reports are publicly available. Integrated reports cover, apart from financial date, the non-financial performances of the banks (their social and environmental performances). Maybe we can say that responsible business practices was firstly recognized in banks activities. So, principle of responsibility is very accurate in banks sector. Survey results showed that managers are linking responsible business practice with*: the fight against corruption (80%); the environmental protection (60%); the protection of human rights (60%); the way of thinking (managing risks, taking care of local community) (60%), the economic benefits for all (60%) and philanthropic giving (40%).* Responsible business practice is closely connected with CSR practice. Survey showed that 80% of banks are very strongly and moderately engaged in CSR activities. But only 20% of cooperation's have a person in charge for CSR activities- who is either member of the board or senior manager. Some of the corporations are clearly not engaged in CSR activities. The main reasons for the lack of engagement are: *the lack of financial resources (50%) and the lack of technical support (50%).* For *80% - CSR is ethical responsibility*; for - *40% of the respondents' social responsibility is perceived as corporation's strategic commitment*; for *40% - as economic responsibility* and for *20% - the voluntary* *responsibility*. And main reasons for engagement in CSR are*: enforcing reputation (100%), market enlargement, employees' expectations (50%)* and *management requirement, customer requirement and attraction of best employees (25%).*

According to the research in Croatian banks corporate governance in future should give more attention to responsiveness; equity; efficiency and effectiveness; and on accountability. Stated principles are not clearly defined and recognizable and will assure differentiation on market and trust of all stakeholders.

4. CONCLUSION

In this turbulent time when many different factors affect each sector of the economy, financial sector which significantly influence on economic stability and in Croatia has grate impact on gross added value has to be closely monitored. Croatian economic situation is not good – *small country on the entrance in European Union; registered unemployment rate around 20 %, gross foreign debt 99, 7% of GDP, high credit rate; etc*. Head of the Croatian National Bank, Željko Rohatinski (Rohatinski, 2010) introduced to the public some stimulation that can enhance economic recovery: (*1) timeliness – fast action, (2) efficiency – differentiations of multiplier effects, (3) focus on long-term problems, (4) focus on investments, (5) social fairness, (6) bearing in mind the difficulties of the most vulnerable and (7) focus on areas with the highest rate of unemployment*. Accordingly, banks should follow at least some of the mentioned impulses, because role of institutions goes beyond the legal framework (Schwab, 2011). The most problematic factors for doing business in Croatia except well known: inefficient government bureaucracy (18, 8), tax rates (13, 8), tax regulation (13, 5), corruption (13, 2) is also **access to financing (10, 9)** (Schwab, 2011, 136) which discourage new investments. Banks as part of financial market have great influence on financing but corporate governance of banks is still focused on "obligatory" and "seen" principles: participation (*employees, financial institutions, local community etc.)*; legal obligations (*Code of conduct, etc.*) connected with transparency (*annual report, integrated report, etc.*) and social responsibility (*fight against corruption, environmental protection, etc*.). Although, survey showed that corporate governance system is recognized primary as *the process of strategic planning*, corporate governance has **strongest impact on** *the definition and implementation of the systems, rules, processes and conditions for managing the bank*. Banks are putting **customers and making profits on the top of their interests,** but global competitiveness **(**Schwab, 2011) highlight access to financing as problematic factor to do business in Croatia (high credit rate; etc.) which is not corresponding with the expectation of costumers.

Croatian banks in future should place more attention in corporate governance initiatives on responsiveness; equity; efficiency and effectiveness; and on accountability, principles that will assure differentiation on market and trust of all stakeholders. Trust in banking sector will surely rise if banks put an effort and try to decrease credit rate etc.

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