

HIGH STAKES, HIGHER STANDARDS: WHY RISK IS REDRAWING THE BOUNDARIES OF CORPORATE GOVERNANCE



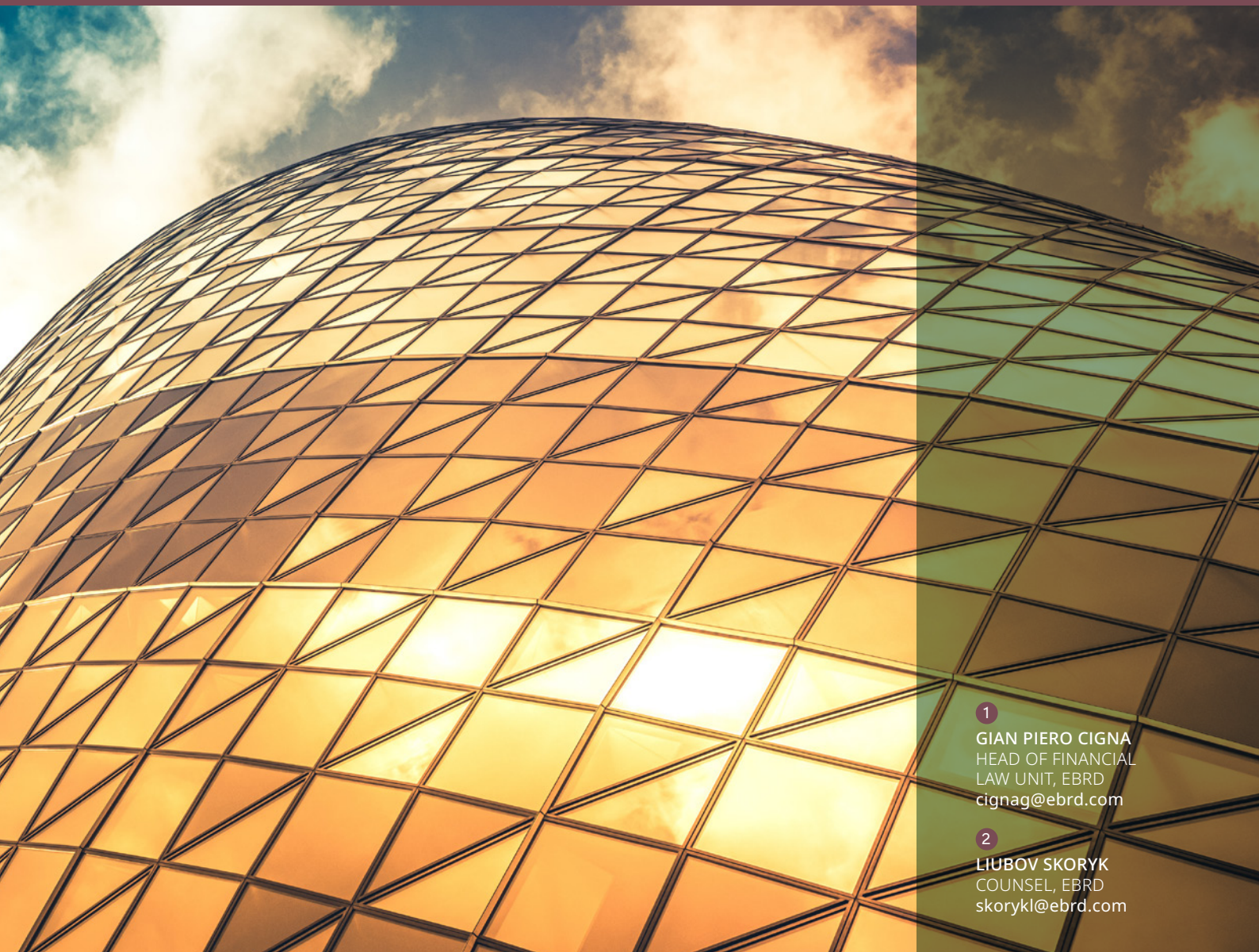
“ Strong corporate governance enables economies to allocate capital more effectively, manage risk more transparently and sustain trust in institutions. ”



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As this article explains, the corporate governance paradigm is no longer about how companies are run internally; it is about how they manage risks – especially those that affect the wider economy. When company failures can harm markets, taxpayers or essential services, their governance becomes a matter of public interest and a core element of economic governance. This article looks at banks, listed companies, state-owned enterprises and strategic sectors, showing that crises have consistently pushed standards higher.



The evolution of corporate governance did not begin as an exercise in public policy. It began as a private-law response to a narrower problem: how to ensure that those who manage a company act in the best interests of those who own it. Over time, however, that narrow concern has widened. Where the failure of a company can impose costs far beyond its shareholders – on taxpayers, consumers or markets, or in terms of the continuity of essential services – corporate governance is more than just a matter of internal corporate order; it is part of economic governance.

This shift is increasingly visible across a range of sectors. Since the 2008-09 global financial crisis, banks have been treated as deserving of higher governance standards because of their financial leverage, their dependence on public confidence and the systemic consequences of failure. Listed companies have gradually been subjected to stronger governance discipline as capital markets have deepened and corporate scandals have exposed the limits of disclosure-based regulation. State-owned enterprises (SOEs) have increasingly been recognised as requiring stronger governance – not only because they may be systemically important, but also because weak governance in public ownership structures can lead to fiscal losses, political interference and market distortions. More recently, companies operating in strategic sectors such as energy, transport, telecommunications and digital infrastructure have begun to attract heightened regulatory attention where the resilience and continuity of essential services are at stake.¹

The unifying factor is not ownership, size or listing status taken in isolation, but rather risk – more precisely, the extent to which corporate failure, poor oversight or weak internal controls result in risk spilling over into the wider economy and society.

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Corporate governance standards rarely evolve in a purely preventive fashion. More often than not, standard setting and law making crystallise after crises have exposed the inadequacy of existing assumptions. The history of the Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance illustrates this well. These principles were first issued in 1999 as a global benchmark after the Asian financial crisis. They were then revised in 2004, after corporate scandals in the early 2000s had exposed weaknesses in board oversight,

¹ See European Commission (n.d.) and KPMG (2025).

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transparency and auditing. They were updated again in 2015 following the global financial crisis – this time under the auspices of the G20 and the OECD – with active participation from the Basel Committee on Banking Supervision, the Financial Stability Board and the World Bank Group. A further revision in 2023 broadened the focus again, reflecting concerns linked to resilience, sustainability and digitalisation.² Taken together, these revisions suggest that governance norms are repeatedly recalibrated when shocks reveal that the previous focus was too narrow.

That broader pattern helps to explain why governance reform is often reactive. In periods of strong market performance, proposals to tighten prudential or governance requirements are frequently resisted as unnecessary constraints on innovation, profitability or growth. Only when a crisis materialises do those reforms come to be seen as prudent rather than intrusive. Crises do not replace policy judgement, but they often provide the political conditions in which contested reforms become actionable.

CORPORATE GOVERNANCE AND THE PUBLIC INTEREST

The modern language of corporate governance is commonly held to have developed in line with the rise of large companies with dispersed ownership in the 19th and early 20th centuries. By the 1820s a growing number of corporations in the United States of America already had publicly traded equity, raising questions about how directors and managers should be held to account. Later, the classic account by Berle and Means framed governance around the

separation of ownership and control in the modern corporation.³ In the United States, the stock market crash of 1929 and the subsequent securities legislation of the 1930s embedded disclosure, investor protection and accountability as core legal concerns.

For much of the 20th century, governance remained largely tied to capital-market integrity and shareholder protection. Over time, however, it acquired a broader public dimension. Major corporate scandals, banking failures and state-sector crises showed that weaknesses in boards, controls and disclosure do not remain neatly confined within the relevant company. They can undermine confidence in markets, distort competition and damage the credibility of public institutions. For the EBRD, corporate governance is a practical instrument of economic governance.⁴ Strong corporate governance enables economies to allocate capital more effectively, manage risk more transparently and sustain trust in institutions. This alignment is increasingly explicit in the Bank's framing of economic governance as a pathway to better-functioning markets and accountable state participation in the economy.⁵

This connection is especially strong in transition economies. Poorly defined accountability, politicised decision-making and weak internal controls can impair capital allocation and depress investor confidence, even if the legislative framework appears modern. In such contexts, strengthening boards, internal controls, ownership arrangements and disclosure can have positive effects well beyond the individual company.

For this reason, the question is not just whether some companies need higher governance standards; it is whether differentiated governance standards are becoming an increasingly necessary instrument of public policy where company-level governance failures create market-level consequences.

² See OECD (2023).

³ See Berle and Means (1933).

⁴ See EBRD (2025b).

⁵ See EBRD (2026).

BANKS AS THE STARTING POINT FOR DIFFERENTIATED STANDARDS

Banks are the clearest example of the type of company that needs higher governance standards. Banks are not ordinary companies. They operate with high financial leverage, transform maturity, rely on public confidence and can transmit distress rapidly across the economy. Unsurprisingly, the governance of banks has gradually been drawn into the architecture of prudential regulation.

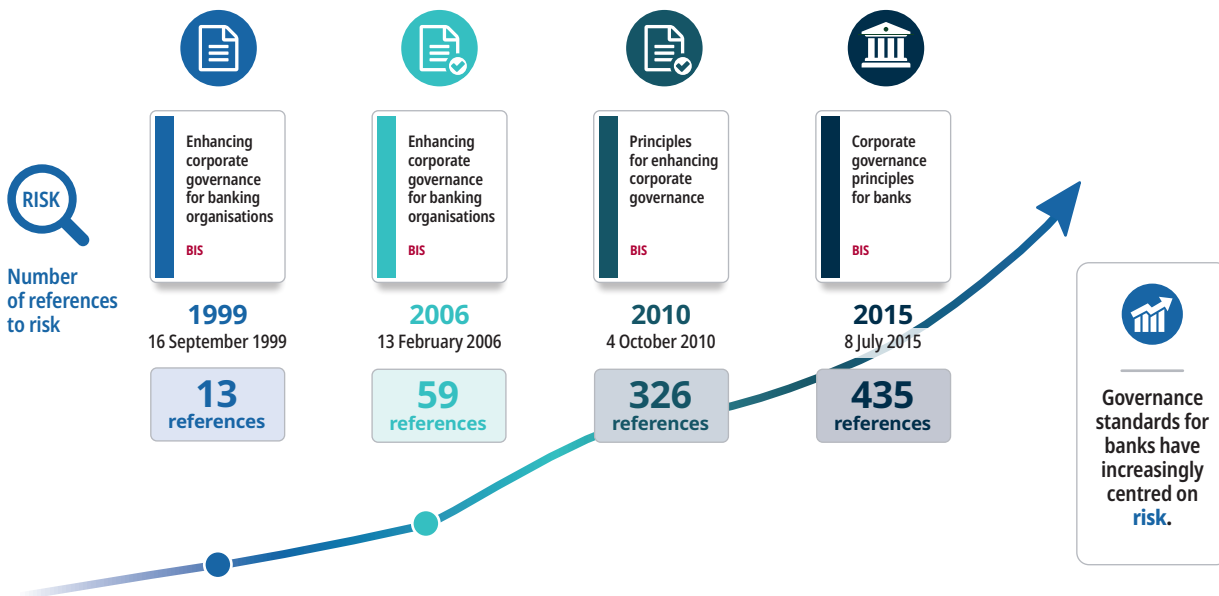
This did not happen all at once (see Figure 1). The Basel Committee on Banking Supervision issued its first governance guidance for banks in 1999, revised it in 2006, updated it in 2010 and issued a substantially revised set of corporate governance principles for banks in

2015.⁶ Basel guidance before the 2008-09 global financial crisis remained relatively close to the broader OECD model: it stressed strong boards, accountability, internal controls and transparency, but risk had not yet become the organising principle of the regime. The 2015 Basel principles, by contrast, explicitly emphasise risk governance, the board's role in overseeing effective risk management systems, strong board committees, control functions, the three lines of defence and sound risk culture.

⁶ See <https://www.bis.org/bcbs/publ/d328.htm>.

Figure 1. The rising focus on risk

References to risk in global standards on the corporate governance of banks



A material shift: References to risk increased more than 30-fold from 1999 to 2015, reflecting the rise of risk-based governance.



From compliance to resilience: Governance standards have evolved to help banks anticipate, manage and mitigate the risks that matter most.

The turning point was the global financial crisis, which demonstrated that risk in banks could not simply be treated as a technical matter of capital ratios and models. Banks that appeared adequately capitalised under pre-crisis frameworks still failed, because boards did not understand, challenge or control the risks that were accumulating. In other words, the crisis transformed banking governance into a prudential sub-regime within corporate governance. Banks had long been included within the European Union (EU) concept of public-interest entities,⁷ but genuinely tailored and more intrusive governance rules for banks emerged only after the crisis, particularly through the Capital Requirements Directive and related supervisory guidance.⁸

In Albania, for example, EBRD assistance provided to the country's central bank has focused on strengthening supervision over the corporate governance of banks, reviewing legislation and supervisory practices, and formulating a new methodology aligned with recent international and European developments. The domestic framework now requires independent directors on bank boards, annual governance self-assessments and three key board committees – audit, risk and remuneration. The practical lesson is clear: differentiated governance standards did not arise because legislators decided in the abstract that banks were special, but rather because repeated crises demonstrated that firm-level governance failures in banks quickly become system-level failures.

LISTED COMPANIES: NO LONGER THE WHOLE STORY

Listed companies remain the classic home of enhanced corporate governance. In their case, the original focus was on board accountability, protection of minority shareholders, disclosure and the prevention of managerial abuse in companies with dispersed ownership. The OECD Principles of Corporate Governance were designed first and foremost as a benchmark for that environment.⁹

Yet even here, the framework has evolved in response to crises. The revision of those principles in 2004 followed the wave of accounting scandals in the early 2000s. And the 2015 revision took place after the global financial crisis and with the explicit involvement of institutions concerned with financial stability, not just company law.¹⁰

Recent EU sustainability reporting reforms point in the same direction, albeit through transparency rather than direct governance mandates. EU rules now require large companies and listed companies to report regularly on the social and environmental risks they face, on the opportunities arising from those issues, and on the impact their activities have on people and the environment. The first companies subject to the Corporate Sustainability Reporting Directive (CSRD) were required to apply these new rules in respect of the 2024 financial year in reports published in 2025.¹¹ The CSRD does not, by itself, create a separate governance regime comparable to that of banks. It does, however, reinforce the trend towards seeing governance as part of a firm's capacity to identify, disclose and manage wider sustainability-related risks and opportunities.

⁷ See Accountancy Europe (2017).

⁸ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms. See also EBA (2021).

⁹ The Financial Stability Board includes the G20/OECD Principles of Corporate Governance in its Key Standards for Sound Financial Systems because corporate governance is considered relevant to the stability, robustness and proper functioning of financial systems. These principles support market confidence, integrity, economic efficiency and financial stability by establishing an internationally recognised and assessable benchmark for the legal, regulatory and institutional frameworks governing companies, especially publicly traded companies. See OECD (2023) and https://www.fsb.org/work-of-the-fsb/about-the-compendium-of-standards/key_standards.

¹⁰ See Roffia (2025).

¹¹ See European Commission (2025a).

STATE-OWNED ENTERPRISES: GOVERNANCE AS ACCOUNTABILITY TO THE PUBLIC

Higher governance standards for SOEs are justified, because many operate in strategic sectors and their failure imposes direct costs on taxpayers.

This is why the EBRD consistently describes SOE governance as a major focus of its policy and regulatory work. SOEs play a dominant role in many of the economies where the Bank operates, with significant implications for fiscal stability and economic growth. The Bank's work has therefore focused on ownership arrangements, governance structures, transparency requirements, legal reform and capacity building, in line with the OECD Guidelines on Corporate Governance of State-Owned Enterprises.¹²

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Stronger governance
at company level
can help to turn
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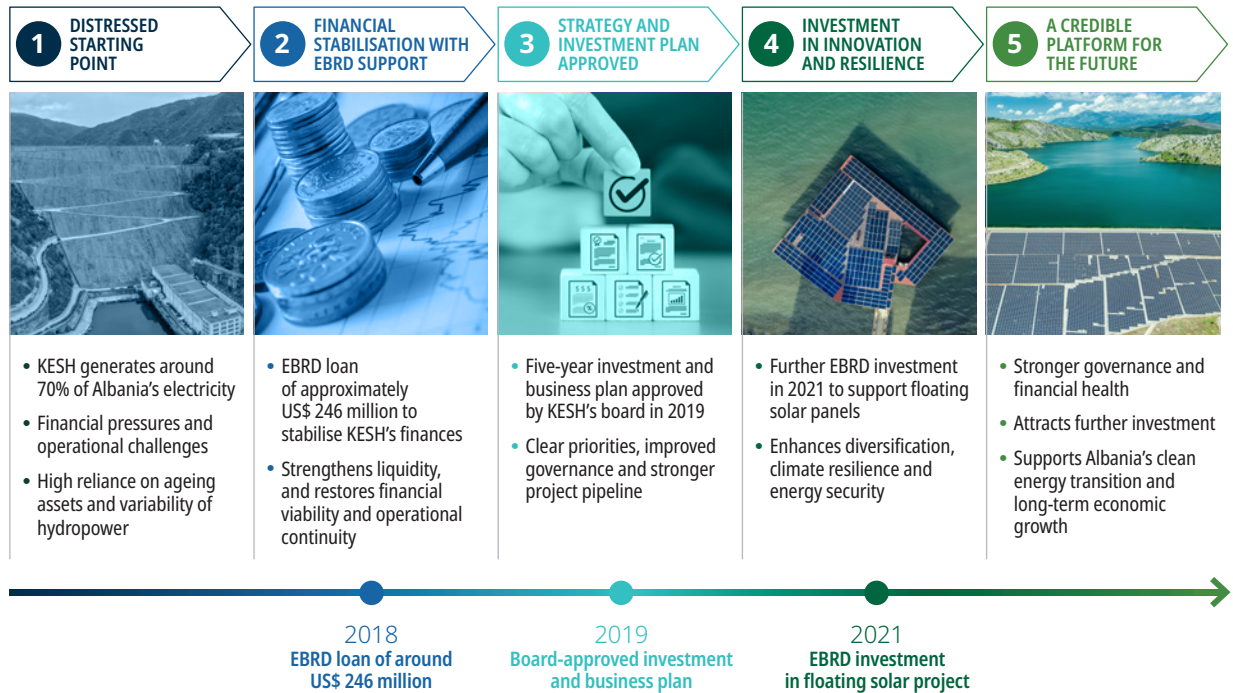
Ukraine provides a particularly clear illustration of this. A defining moment for SOE governance reform in Ukraine was the country's 2014 political and economic crisis, which pushed it to the brink of financial default and exposed deep structural weaknesses in its largest SOEs. The governance crisis – combined with the aftermath of the “Revolution of Dignity” (also known as the “Maidan Revolution”) – made it clear that companies like Naftogaz (the largest SOE in Ukraine) were not “bankable”. In such a dire context, stronger corporate governance – often setting standards that exceeded those applied to private companies – became a precondition for financial support and, ultimately, for Ukraine's integration into international markets. In response, the EBRD led a multi-year reform programme for Naftogaz and other major SOEs, strengthening supervisory boards, clarifying ownership roles and improving transparency through legislative reform and capacity building.¹³ What began as a targeted intervention in a single strategic SOE quickly evolved into a broader, sector-wide transformation, shaping legislation, ownership practices and expectations across the entire SOE landscape.

A similar operational logic can be found elsewhere. As part of the EBRD's engagement with KESH, a state-owned company in Albania that generates around 70 per cent of the country's electricity, financial stabilisation, strategy development and board-approved investment planning were linked to later financing for renewables and resilience-related projects (see Figure 2). The EBRD's initial loan of approximately US\$ 246 million to stabilise the company's finances was followed by a five-year investment and business plan approved by the company's board in 2019, as well as a further investment in 2021 to support floating solar panels. Stronger governance at company level can help to turn a distressed or politicised enterprise into a more credible platform for investment and reform.

Consequently, strategic SOEs need higher governance standards, because public ownership often amplifies the external consequences of weak governance. Ownership matters, but risk matters more.

¹² See EBRD (2021).

¹³ See EBRD (2025a).

Figure 2. EBRD support for KESH

Source: EBRD.

FROM MARKET DESIGN TO RESILIENCE: STRATEGIC SECTORS IN THE NEW NORMAL

A similar shift may now be under way in non-financial sectors. The last decade has seen a series of shocks – pandemic disruption, war-related energy insecurity, cyber-attacks, supply-chain fragmentation and climate-related stress – that have exposed European economies' dependence on companies operating in energy, transport, telecommunications, health, digital infrastructure and related systems.

Recent EU legislation suggests that governance is beginning to adapt. The NIS2 Directive¹⁴ raises the common level of ambition on cybersecurity across the EU, extends obligations to a much wider range of critical sectors and explicitly introduces accountability of top management for non-compliance with cybersecurity risk-management measures, thereby bringing cybersecurity into the boardroom.¹⁵ The sister Critical Entities Resilience Directive¹⁶ adopts an all-hazards approach and aims to strengthen the resilience of essential services across sectors, including energy, transport, health and banking.

These instruments have not yet created a fully fledged sector-specific corporate governance regime for critical non-financial companies which is comparable to that of banks. They do, however, represent an important shift, moving at least some of the responsibility for resilience out of technical or operational silos and onto the desks of company management.

¹⁴ Directive (EU) 2022/2555 on measures for a high common level of cybersecurity across the Union (the NIS2 Directive) is the European Union's revised cybersecurity framework, requiring covered entities in critical and important sectors to adopt risk-management measures, report significant incidents and ensure management accountability for compliance.

¹⁵ See European Commission (n.d.).

¹⁶ Directive (EU) 2022/2557 on the resilience of critical entities is the European Union's framework for strengthening the resilience of entities that provide essential services, requiring member states to identify critical entities and requiring those entities to assess risks and take technical, security and organisational measures to enhance their resilience.



Preparedness for disruption is increasingly treated as a governance issue. Boards are expected not just to absorb shocks but to understand how they affect strategy, capital allocation and long-term viability. What is emerging is not a single, formal “sustainability function” but a broader expectation that governance connects risk, strategy and future positioning. If the old normal was centred on mitigation, the new normal is increasingly about strategic resilience.

PROPORTIONAL GOVERNANCE AS PUBLIC POLICY

Across banks, listed companies, SOEs and critical infrastructure, a common pattern emerges. Governance standards tend to tighten when boards, incentives and internal controls are no longer sufficient to contain risks whose consequences extend beyond the firm. At that point, company-level governance failures become a matter of economic governance, affecting market stability, fiscal outcomes and trust in institutions. The policy question now, therefore, is not whether differentiation exists – it plainly does – but how far it should go, and on what basis.

A cautiously descriptive answer is that differentiated governance standards are most defensible where there is a clear connection between company-level governance failure and public or systemic harm. In such cases, risk-based triggers for higher standards reflect a broader economic governance objective: ensuring that markets allocate capital, manage risk and deliver essential services without transferring the costs of failure to taxpayers or the wider economy. This logic is most developed in banking, increasingly visible in strategic SOEs and now emerging – albeit more unevenly – in cyber-resilience, critical infrastructure and sustainability reporting.

A useful and instructive contrast can be drawn with the European Commission’s proposed “28th regime”,¹⁷ which is framed as an optional EU-wide company-law framework designed to reduce legal friction for startups and scaleups.¹⁸ The EU, therefore, is simultaneously moving in two different directions: reducing legal friction where firms need room to grow, while gradually raising governance expectations where firms generate significant externalised risk. Together, these trends point towards a more differentiated corporate law landscape in which both opportunity and responsibility are increasingly shaped by the public consequences of firm-level failure.

¹⁷ See European Parliament (2026).

¹⁸ See European Commission (2025b).



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