Are expatriates managing banks' CEE subsidiaries more risk takers?[◊]

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Abstract

We analyze the largest credit institutions from CEE countries to understand the role of expatriates and of other top management team's characteristics for banks' risk profile, strategies and lending activity. We find that banks with expatriate CEOs or larger share of expatriates in the top management are more risk-takers, as indicated by alternative risk measures (loan-to-deposit ratio, share of risk-weighted-assets and provisions for loan losses in total assets). On the other hand, banks managed by expatriates and more interconnected with the parent financial institution or other related parties deliver more credit to companies and households (as share in total assets).

Keywords: corporate governance, international staffing, top management teams, financial interconnectedness, matching

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1. Introduction

The recent financial crisis has highlighted the need for a proper understanding of financial linkages between market players across countries and regions. Given the accelerated speed of globalization, cross-border banking flows and the number of multinational banks heightened. As such, over the last decades, the market shares of foreign banks increased significantly especially in emerging markets, including Central and Eastern Europe (CEE). As of 2013, foreign-controlled subsidiaries and branches accounted for over 72 percent of CEE banking sector assets. Staffing foreign subsidiaries, as well as understanding the particularities, motivations and different behaviors of top management teams within banking groups, including the international assignments aspects, are of particular importance in this context and represent critical issues in international management.

This paper is related to the stream of international staffing literature. Staffing decisions in an international environment are of a high degree of complexity (Torbiorn, 1997), being important to respond to host market conditions, to control subsidiaries' actions and for an effective implementation of business strategy. Particularly, nationality of the management positions is of key interest in multinational organizations, as these positions have a stronger potential to impact a host country subsidiary's effectiveness (Colakoglu et al., 2009). Perlmutter (1969) differentiate between three main orientations regarding global staffing: i) ethnocentric, in which the managerial style and skills of parent country are considered superior and thus home country nationals are preferred to fill in key positions, ii) polycentric, which is orientated toward host countries, as subsidiaries are managed by local executives and are loosely connected with the group and iii) geocentric, i.e. a world view, in which the nationality of the managers is of little importance in the appointment decision (principle "best man for the job"). Wind et al. (1973) latter introduced a forth orientation, i.e. regiocentric, which is similar to geocentric view, with the difference that it recognizes the existence of commonalities and leads to the design of regional strategies.

In light of the increasingly global nature of banks' activity, we analyze how managers' country of origin matters for the activity of the largest credit institutions in five CEE countries. We considered as expatriates the managers originated from parent bank country, as well as third countries nationals (in most cases, those managers had a relatively long international experience in the banking group). We provide empirical evidence on how other CEOs' and top management teams' characteristics impact banks' risk profile and strategies,

including the integration into financial conglomerates. The scope of this paper is to answer the following questions: i) are expatriates top management teams different than local ones and ii) how are managers' characteristics related to risk taking of banks and lending activities?

In order to answer to the abovementioned questions, we use a combination of traditional panel fixed effects regressions and propensity score matching techniques, which accounts for the endogeneity of management choice. The main results suggest that host countries credit institutions managed by expatriate CEOs and/or with a higher share of expatriate management board members are more risk-takers, as indicated by all indicators used to measure risk: loans-to-deposits indicator (LTD), share of risk weighted assets (RWA) in total assets and the ratio between provisions for loan losses (PLL) and total assets. However, the results are statistically significant only in a limited number of cases. Secondly, the results indicate that banks with expatriate managers grant more credit (as share in total assets) towards companies and households. Moreover, the funds from parent bank and from other members of the group have a significant and important role in sustaining lending. These evidences leave room for a more in-depth analysis of the importance of parent and related parties transactions for subsidiaries' business strategies, along with further deepening the analysis by using other indicators measuring risk appetite and banking group characteristics (for example tenure in a certain country etc.).

The paper is structured as follows. In Section 2, the literature on corporate governance and international staffing is briefly reviewed, while in Section 3 the sample and information used in the analysis are described. Section 4 details the methodological framework, whereas Section 5 presents the results. Finally, Section 6 concludes.

2. Related literature

Research on corporate governance highlights that management characteristics related to gender, education or work experience can affect companies' risk profiles, strategy, capacity of reacting to shocks etc. Barkema and Shvyrkov (2007) argue that top management teams' diversity, particularly in terms of tenure and education increases strategic innovation and the propensity to enter new geographic areas. Faccio et al. (2015) find that firms run by female CEOs have lower leverage, less volatile earnings, and a higher chance of survival than similar

firms run by male CEOs. Using a large sample of European companies, during 1999-2009, the authors find that transitions from male to female CEOs are associated with statistically significant reductions in risk-taking. The results are confirmed when controlling for the endogenous matching between firms and CEOs.

Out of management characteristics, an important feature is related to nationality, as it is shown by a large number of studies to affect firms' performance, cross-cultural awareness and ability to cope with the evolution on foreign markets. The nationality of the CEO and the top management team composition in terms of country of origin influence the activity of the company on international markets and can lead to a stronger interconnectedness with the parent company and group. Particularly, parent country nationals are considered followers of headquarters views, due to their familiarity with the objective, practices and policies of the parent company (Dorrenbacher et al., 2013).

Edstrom and Galbraith (1997) argue that there are three explanations for naming expatriates in subsidiaries' management: filling in positions for which there are not suitable qualified host country nationals, management development (improving the competencies of the expatriate manager in question) and organizational development (increasing knowledge, procedures and practices' transfer within the multinational). Moreover, Harzing (2001) identify three control functions for expatriates: bear, bumble-bee and spider. The bear function reflect a situation in which the expatriate acts as a long arm of headquarters managers, replacing or complementing the centralization of decision-making at headquarters or the surveillance over subsidiary operations by headquarters managers. The bumble-bee refers to the role of expatriates in the socialization of subsidiaries (these are used to fly from plant to plant and create cross-pollination), while the spiders weave an informal communication network within the organization. These various roles of the expatriates explain the increased interest in the analysis of the impact of nationality on companies' evolution.

In case of the banking sector, Bogaard and Sonkova (2013) argue that the appointment of managers involves a trade-off between insight into the local business environment and congruence of objectives with those of the parent bank. The authors find that the probability of the parent bank naming a CEO from the host country increases when the supervision and other institutions in the host country are strong. On the other hand, Majnoni et al. (2003) analyze the impact of the presence of national and foreign CEOs in the banks' governing

bodies on a dataset comprised of 18 Hungarian banks for the period between 1995 and 2000 and find no significant impact of managers' country of origin on banks' ROA, labor costs, loans and other variables. In case of foreign-controlled subsidiaries and branches, Cardenas et al. (2003) underline that the governance structures of the subsidiaries should be properly designed to reflect both the interests of the parent company and the stakeholders of the subsidiary. Allen et al. (2011) investigate the evolution of intra-group transactions between the parent bank and its foreign subsidiaries in EU during the recent crisis and find that related party transactions can generate problems for the stability of foreign banks' subsidiaries and in some cases, to the overall host countries financial stability. The authors attribute this evolution to weak governance in foreign subsidiaries.

Basel Committee on Banking Supervision (2014) draws attention that an effective corporate governance in financial system is crucial for an adequate functioning of the banking and real sector. In this respect, Beltratti and Stulz (2012) argue that bank level governance, country level governance and country regulation explain the variation in banks' performance during the crisis. They find that institutions with more shareholder-oriented boards had a poor performance during the financial turmoil. Minton et al. (2014) show that during the 2007-2008 financial crisis, the financial expertise of independent directors in US banks was associated with a lower performance, as a result of the higher risk assumed by banks with more independent financial experts prior the crisis. Erkens et al. (2012) find that financial firms with more independent boards have experienced worse stock returns in 2007-2008 on a panel of 30 countries. Aebi et al. (2012) highlight that the presence of a chief risk officer in banks' executive boards that directly reports to the board of directors and not to the CEO lead to higher stock returns and ROE during the crisis. At the same time, Berger et al. (2014) find that younger executive teams increase risk taking, as do board changes leading to a higher proportion of female executives.

An important issue in the corporate governance literature is related to the management's endogeneity. There is a broad variety of studies suggesting that top management teams' structure (Dezso and Ross, 2012; Faccio et al. 2015; Kaczmarek and Ruigrok, 2013 etc.) and top management changes (Fee et al., 2013) are endogenous. For example, Fee et al. (2013) argues that there is a high probability that firms/boards decide to simultaneously make a large set of major changes related to investment and financing decisions, along with leadership changes. In this case, it difficult to determine what role the management plays on firm's choices and performance.

Thus, firm's performance is a result of the previous governance's actions and at the same time, it is a factor that potentially influences the choice of subsequent governance structures. The endogeneity makes it difficult to determine the causal effect of management on the performance indicators of the organization. Sorting out the causality is important, as it helps understanding the relative importance of leadership in explaining the cross-sectional variation in performance, investment decisions, financing patterns and strategies. If managers' appointment is done on the grounds of unobservable characteristics correlated with the error term, traditional regression techniques are invalidated (spurious estimations). The endogeneity is commonly treated by means of instrumental variables, matching techniques or two-steps estimators. For example, Fang et al. (2012) use simultaneous equations, the instrumental variable approach and the event study estimation to solve the endogeneity spanning from the link between CEO social network heterogeneity and firm value. De Andres and Vallelado (2008) find an inverted U-shaped relation between bank performance and board size, as well as between the proportion of non-executive directors and performance, by employing a two-step system estimator.

3. Data description

The main scope of our study is to estimate the effect of expatriate management on banks' risk taking, strategy (including financial interconnectedness with the parent bank and other members of the banking group) and lending activity. To this end, we gather information on bank financial indicators and top management team members' characteristics, out of which the main variable of interest is nationality. The sample used in the empirical exercise consists of 27 credit institutions in five CEE countries: Croatia (5), Czech Republic (5), Hungary (6), Poland (6) and Romania (5). The choice of the sample is based on non-euro membership, geographical proximity and data availability. The choice of countries was also due to their similar governance structure, i.e. dual boards, consisting of management board and supervisory board. In Czech Republic, the board of directors consists of executive and non-executive members, the executive ones being considered top management in this paper (in line with banks' annual reports). The banks were selected among the largest banks in each country by total asset, as big players might have different behavior and strategies compared to smaller banks. The 27 selected banks hold assets totaling approximately 460 billion euros, representing 56 percent of the abovementioned countries banking sectors (as of 2013).

Information related to total balance sheet, profitability indicators, risk indicators (RWA, PLL), deposits, loans and advances to costumers, equity and other indicators related to asset structure and financial interconnectedness (parent funding, intra-group liabilities[1]) were collected for the period 2007-2013 from banks' annual reports and when available, from Bloomberg database. All nominal values are transformed in millions of euro based on the exchange rates provided by Bloomberg. The summary statistics of the variables used and the correlation matrix are presented in Table 1 and Table 3.

Data regarding CEOs and members of the top management teams, details about their nationality, birth year and tenure in the current position are collected from banks websites, annual reports, Reuters, Orbis Bureau van Dijk database and managers' curriculum vitae. In the few cases for which the managers' birth countries could not be traced directly, the observations for those managers were excluded from the analysis. We gather information on a total of 366 distinct managers over the period (Table 2). We notice that these are, to a large extent, males (86 percent of total number of managers), in late forties (the average age is 47 years). The average management team tenure is 4 years, and the average number of board members is 7. We create dummies indicating the nationality of the managers, as follows: domestic or host country managers (managers born in the host country), parent bank managers (managers born in the home country of the banking group headquarters) and third country managers (managers born in other countries than host and home country). In the following estimations, we used a binary dummy differentiating between expatriate and domestic CEOs. We assimilate the third countries nationals to the category of parent bank managers, since in most cases those managers had a relatively long international experience in the banking group[2]. Using this grouping, around 40 percent of the managers are considered expatriates (out of which 30 percent from parent bank country). However, as reflected in Table 2, the banking-level data reflect a quite heterogeneous picture (the share of expatriates in total management team members ranging from 0 to 100 percent). At the same time, during 2007-2013, the share of expatriate managers decreased in all countries except Hungary (from 48 percent to around 40 percent).

[1] Parent bank funding refers to received loans, deposits, subordinated debt and other liabilities to the parent company, while intra-group/related party liabilities are computed as the sum of liabilities to parent bank, associated companies, joint ventures and subsidiaries.

[2] For robustness check, we also used a multivariate dummy accounting for all three categories and the conclusions do not change regardless the measure used. An alternative approach would be taking into account cultural zones. However, since the widest majority of expatriate managers are from Western Europe (Netherlands, France, United Kingdom, Austria, Italy etc.) this approach is not justified in our case.

4. Methodology

4.1.Fixed effects regressions

In order to analyze the link between managers' characteristics and bank indicators, we first employ traditional fixed effects models. In this framework, we use two main categories of dependent variables: i) measures of risk (LTD, the share of RWA and PLL in total assets) and ii) lending indicators (the share of loans to costumer in banks' portfolio and loans' annual growth rate). Another category of dependent variable is represented by the interconnectedness with the financial conglomerate (parent funding and related party liabilities as share in total assets).

The independent variables are represented by banks and management characteristics, out of which top management team's country of origin is of particular interest. At bank level, the main control variables are related to previous size (log of total assets), profitability indicators (mainly ROA), capitalization level (ratio of equity to total assets), while for CEO and other management board members, we control for age and tenure[3]. The control variables for bank characteristics are commonly adopted in the literature (Berrospide and Edge, 2010; Beltratti and Paladino, 2013 etc.).

$$X_{it} = \beta_0 + \beta_y Y_{it-1} + \beta_z Z_{it-1} + u_i + e_{it} \quad (1)$$

where X_{it} is the explained variable for bank i, Y_{it-1} denotes the control variables for bank factors (one year lagged), Z_{it-1} a set of top management teams and/or CEO characteristics of bank i, u_i is bank-specific but time-invariant (fixed effect[4]) and e_{it} is the i.i.d. disturbance. All estimations are undertaken by including time dummies.

However, as argued in Section 2, a simultaneity issue emerges when analyzing the impact of leadership on bank variables as it is possible that the institution decides to simultaneously change its management, due to/along with the evolution of its indicators. For example, Bogaard and Sonkova (2013) argue that profitability problems could determine shareholders to appoint a parent-bank CEO. Thus, establishing the causality between management and company performance can prove to be a very difficult task, as bank evolution is both a result of the actions of previous managers and itself could be an important factor influencing the

[3] Gender is found not significant in all the estimates.
[4] The fixed effects were confirmed by the Hausman test (1978) and F test for significance of fixed effects.

appointment of subsequent leaders. In case of endogeneity of management choices, fixed effects estimators are inconsistent (De Andres and Vallelado, 2008).

4.2.Propensity score method

In order to accurately estimate the impact of expatriate management (having an expatriate CEO[5]), the natural process would be to compare the performance of a credit institution with an expatriate CEO with the performance it would have obtained if it had been administered by a domestic manager. Since this result is not observable from the data, the comparison can be done by using a control group, formed of banks with local CEOs (the control/counterfactual group). In order to do so, we employ propensity score matching to select the control group, following Rosenbaum and Rubin (1983). This matching method "corrects" the bias in assessing the effects of the treatment by controlling for the existence of confounding factors that might be correlated with both the dependent and the independent variables.

Matching methods (Heckman et al., 1997; Heckman et al., 1998) are used as efficient instrument to deal with problems arising from endogeneity. These have been used for testing the effect of external trade on firms' performance (Wagner, 2002; De Loecker, 2007), the impact of bank financing on micro-level indicators (Giannetti and Ongena, 2012) and more recently, on bank data (Drucker and Puri, 2005; Havrylchyk and Jurzyk, 2011). The main element of interest in these methods is the Average Treatment effect on the Treated (ATT), which is defined as the difference for each "treated" bank between: (i) the effective outcome the bank obtains under the treatment and (ii) the potential outcome resulted if it had not received the treatment. In the present case, a bank is considered in the "treated group" if it is managed by an expatriate CEO.

$$\mathrm{ATT}=\mathrm{E}[\mathrm{X_{it}}(1)-\mathrm{X_{it}}(0)|\ \mathrm{CEO\_expatriate_{it}}=1\ ]=\mathrm{E}[\mathrm{X_{it}}(1)|\ \mathrm{CEO\_expatriate_{it}}=1\ ]-\mathrm{E}[\mathrm{X_{it}}(0)|\ \mathrm{CEO\_expatriate_{it}}=1\ ] \quad (2)$$

where: $\mathrm{X_{it}}(1)$ is the outcome of the bank i (for example LTD, the ratio of RWA to total assets etc.) in year t ($\mathrm{t}=\overline{2007:2013}$) given it has an expatriate as CEO in year t and $\mathrm{X_{it}}(0)$ the outcome of the bank provided it had a domestic CEO. $\mathrm{CEO\_expatriate_{it}}$ is a dummy that takes the value 1 if the bank is managed by an expatriate CEO in the respective year.

[5] In this paper, we considered as the treatment having an expat as CEO rather than the switch from domestic to expatriate leadership in order not to decrease dramatically the number of treated units (there are very few cases in which such a change took place in the analysed period).

The term $E[X_{it}(0)|\ CEO\_expatriate_{it} = 1\ ]$ cannot be observed from the data and is named the counterfactual outcome. This can be approximated by the outcome for banks with domestic CEO ($E[X_{it}(0)|\ CEO\_expatriate_{it} = 0]$), provided we make two assumptions in order to eliminate the selection bias: i) the conditional independence assumption and ii) the common support assumption. The conditional independence assumes that the observable variables on which the matching is done are not affected by the treatment, i.e. conditional on the set of covariates Z_{it-1}, the outcome X is independent of the CEOs nationality:

$$X_{it}\ (1),\ X_{it}\ (0) \perp CEO\ |Z_{it-1} \qquad (3)$$

In this manner, treatment assignment is considered random and we can use the outcomes of banks with domestic CEOs as approximation of the counterfactual outcome (the outcome the banks with expatriate CEOs would have experienced in the absence of such manager). Heckman et al. (1998) show that for an unbiased estimation of ATT, it is necessary to assume mean conditional independence between the control group and the treatment:

$$E[X_{it}(0)|\ Z_{it-1},\ CEO\_expatriate_{it} = 1\ ] = E[X_{it}(0)|\ Z_{it-1},\ CEO\_expatriate_{it} = 0\ ] \qquad (4)$$

In order to construct the counterfactual group, the covariates do not have to be perfect predictors of the treatment status, i.e. for similar characteristics, there are banks having expatriate CEO and banks that do not:

$$0< P\ (\ CEO\_expatriate_{it} = 1|\ Z_{it-1}) < 1 \qquad (5)$$

The common support is a condition which ensures that the treatment and control banks overlap in the propensity scores (Becker and Ichino, 2002): banks which have a propensity score higher than the maximum propensity score of the controls and the control institutions with propensity score below the lowest propensity score of the treated units are dropped.

To perform the propensity score matching, we firstly estimate a logit regression, modeling the probability of being managed by an expatriate CEO, as a function of bank and management features:

$$P(CEO\_expatriate_{it} = 1|\ Z_{it-1}) = 1 \text{ if } CEO_{it}^{*} > 0 \text{ and 0 otherwise} \qquad (6)$$

Where CEO_{it}^{*} is a latent variable, dependent of bank - management specific observable characteristics, selected to respect the hypotheses: bank size, profitability (ROA), share of expatriate managers in total management team members and average board tenure in the previous year:

$$CEO_{it}^{*} = \frac{1}{1 + \exp(-(\beta_0 + \beta_1 size_{it-1} + \beta_2\, ROA_{it-1} + \beta_3 \%expatriate\_managers_{it-1} + \beta_4 avg\_board\_tenure_{it-1}))} \quad (7)$$

Thus, for each bank, the probability that it has an expatriate CEO appointed in a certain year (the propensity score) is a function of observable characteristics in the previous year. After estimating the propensity scores for each bank, in the next step we pair banks with expatriate CEO (treated group) and controls (control group) with the closest probability of having an expatriate CEO but in reality they have domestic leadership. For pairing the two groups of banks, we apply kernel and nearest-neighbor matching. The kernel matching pairs treated banks with a weighted average of all controls, the used weights being inversely proportional to the distance between the propensity scores of treated and control banks, while in the nearest neighbor method, each treated bank (managed by an expatriate) is matched with a single bank with domestic CEO by minimizing the absolute difference between the estimated propensity scores for the treated an control unit.

In this manner, the selection bias is reduced, i.e. the two sets of banks are as similar as possible in terms of variables included in the estimation, except for CEO nationality. The remaining difference between banks having an expatriate as CEO and matched banks with domestic CEOs indicates the causal effect of managers' birth country on banks' performance. The outcome variables are the same indicators used in the regression analysis: i) the risk indicators (LTD level, the ratio of RWA to total assets and the share of PLL in total assets) and ii) the share of costumer loans to total assets and loans' growth rate. The ATT of interest is obtained by averaging the differences between the two matched groups.

5. Results

5.1.Results from panel regressions

The analysis of bank's risk profiles reveals that the nationality of the CEO has significant positive coefficients in most of the regression explaining banks' LTD (Table 4). On the other hand, the coefficients of the share of expatriate managers in total number of members in the

top management teams are in most specifications positive, but generally statistically insignificant. This also holds for other management teams' characteristics (board average age, tenure and size do not have significant impact on LTD). These evidences might indicate a stronger relationship between CEO and risk compared to the link between management teams' composition and the risk appetite of credit institutions.

In case of the regressions explaining RWA (as share in total assets), the main determinants are bank specific characteristics (size, capitalization): smaller banks are more risk-takers and higher capitalization also raises the total risk[6] (Table 5). The coefficients indicating expatriate management teams or expatriate CEO are in most specifications positive, although not statically significant. Management board size has a negative, statistically significant, effect on RWA, which suggests that as the number of the managers increases, the banks are less risk takers. Similar conclusions are obtained when using PLL (as share in total assets) as a measure of risk. Smaller size and higher dependence of parent funding increases the level of risk. Having an expatriate as CEO seems to increase PLL, but the effect is not statistically significant.

The regressions' results for financial interconnectedness in the banking group are displayed in Table 7. These indicate that larger, more profitable and banks with higher capitalization benefit to a greater extent by funding from parent companies and related parties. The management characteristics with significant impact on the share of parent and other group parties funding are those related to CEO age and tenure and management board tenure. This suggests that more experienced management teams could have a better ability of successfully collecting funds from parent institution or other members of the group. Board size is negatively associated with funds collected from parent institutions or from related parties. Thus, a larger number of members in the top management team might decrease the risk profile of a bank, stemming from a higher reliance on parent funding.

We investigate how lending activity is impacted by CEO's country of origin, top management team's composition in terms of nationality and financial interconnectedness of the bank with its financial conglomerate (Table 8). The results indicate that the impact of having an expatriate as CEO on lending is positive, while a higher share of expatriates in top management team has a mixt impact on lending (however, the results are generally

[6] Kwan and Eisenbeis (1996) argue that management may be induced to offset higher capitalization by taking more risk.

statistically insignificant). At the same time, there is a significant role of parent and group funding for sustaining lending towards companies and households: banks benefiting to a larger extent of funds from the parent financial institution or from other related parties use these resources to deliver more credit to companies and households (as share in total assets). Although this can be considered a positive development, it has to be correlated with the quality/risk associated with the granted loans.

5.2.Propensity score matching results

The estimation of the propensity score is done by means of logistic regression, including country and year fixed effects. It indicates that larger and more profitable banks are more likely to have an expatriate CEO (Table 9). The impact of the share of expatriate managers in bank's boards on the probability of bank being managed by an expatriate CEO is negative, although not significant. At the same time, the longer the average board tenure, the lower the probability of the bank having an expatriate as CEO.

There is a relatively large heterogeneity across CEE countries regarding the probability of having expatriates as CEOs. Romania seems to be an outlier in the group of 5 CEE countries. In similar conditions about a bank (dimension, profitability, etc.), the probability for a Romanian bank to have an expatriate CEO is considerably higher than in other countries. At the opposite, Polish banks have a lower inclination in appointing expatriates as CEOs, all else being equal. In case of Czech Republic, Hungary and Croatia, the behavior is more homogeneous, the banks from these countries having similar propensity for expatriate CEOs, after controlling for bank's dimension and profitability and for characteristics of the top management teams (share of expatriates and average tenure).

Based on the estimated probability of banks having an expatriate CEO, we match the treated and control banks groups by kernel and nearest neighbor methods. By imposing the common support condition, the data verifies the balancing hypothesis, banks with close propensity scores having more similar distribution of observable characteristics (Table 10 for kernel matching). The comparison between the treated and matched group allows a more accurate assessment of the impact of CEO nationality on banks indicators.

The matching methods confirm the regression results regarding the risk profiles of banks with expatriate CEOs. Banks managed by expatriates have a higher inclination for taking risks, as indicated by higher LTD level, as well as a larger ratio of RWA and PLL to total assets. At

the same time, credit institutions with expatriate CEOs invest higher proportions of their balance sheets into loans to costumers (Table 11)[7]. However, the differences among banks' characteristics due to CEO country of origin are in most cases statistically insignificant[8], including in case of financial interconnectedness with the group. Significantly higher RWA and more involvement in lending to companies and households in case of banks with expatriate CEOs compared to the other banks only results for nearest neighbor matching. In case of PLL (as a share of total assets), banks managed by expatriates are more risk-takers in both unmatched and matched samples (by nearest neighbor and kernel method). The results highlight a stronger relationship between CEO and risk compared to board composition-risk, in line with previous results from panel fixed-effects models.

6. Conclusions

Based on a panel of banks from 5 CEE countries (Croatia, Czech Republic, Hungary, Poland and Romania), the paper studies how the country origin of the banks' managers is related to developments in banks' risk profiles, strategies (including cross-border financial interconnectedness) and lending.

The results from panel fixed effects regressions and matching techniques suggest that credit institutions with expatriate CEOs or higher share of expatriates in top management teams are more risk-takers, as indicated by higher loan-to-deposit ratio, higher share of risk weighted assets in total assets and greater provisions for loan losses. The results highlight a stronger relationship between CEO and risk compared to top management teams' composition-risk. At the same time, being managed by an expatriate CEO and having a higher degree of interconnectedness with the financial conglomerate have positive significant role for sustaining lending towards companies and households. A larger number of members in the top management team might decrease the risk profile of a bank. Nevertheless, the results are statistically significant in a limited number of specifications. This might be due other corporate governance aspects that might matter for banks' activity but are very difficult to quantify (including managers' personality, organizational culture of the banking group etc.).

[7] In estimating the variance of the treatment effect, we applied bootstrapping method suggested by Lechner (2002).

[8] This also holds for other indicators of asset structure such as the share of cash and cash equivalent and interbank assets to total assets.

The inclination for appointing expatriates as CEOs is heterogeneous among banks and countries. Larger and more profitable banks are more likely to have an expatriate CEO. The longer the average board tenure, the lower the probability of the bank having an expatriate as CEO. The coefficient for the share of expatriate managers in bank's boards is negative, although not significant. In similar conditions about a bank (dimension, profitability, etc.), the probability for a Romanian bank to have an expatriate CEO is considerably higher than in other countries. At the opposite, Polish banks have a lower inclination than in other countries in appointing expatriates as CEOs, all else being equal.

The results in the study are based on data from large banks. For smaller bank, the results might be more acute, having in mind the negative relationship found between the dimension of the bank and certain risk indicators. This is a further direction for research, along with the deepening the analysis by using other indicators measuring risk appetite (reserves for losses on loans, net interest income etc.) and banking group characteristics (for example, tenure in a certain country).

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Appendix

Table 1. Descriptive statistics of the bank specific variables

	2007			2013		
	Mean	Median	Std. dev	Mean	Median	Std. dev.
total assets (EUR mil.)	13,590	9,682	10,466	16,982	10,553	12,849
ROA (%)	1.58	1.54	0.71	0.63	1.03	1.46
ROE (%)	11.66	11.16	7.64	2.82	5.95	14.47
Risk Weighted Assets (% of total assets)	68.68	65.60	17.20	61.48	62.07	16.03
LTD	1.02	0.99	0.30	0.97	0.95	0.22
Parent funding (% of total assets)	9.78	4.73	11.19	8.81	6.09	8.53
Total related party* liabilities (% of total assets)	14.72	10.74	12.75	12.79	8.55	10.30
Equity (% of total assets)	9.81	9.22	4.08	11.59	10.92	3.14
Total loans (% of total assets)	62.75	61.43	10.60	63.13	64.53	11.45
Cash holding (% of total assets)	11.66	7.30	9.61	8.83	8.01	6.31
Interbank assets (% of total assets)	8.89	7.79	7.42	5.03	3.06	4.56

Source: Bloomberg, credit institutions' annual reports

Table 2. Descriptive statistics on managers' characteristics

	Total number of managers (2007-2013), out of which*:	Minimum across banks (2007-2013)	Maximum across banks (2007-2013)
	366		
women (percent)	14.48	0	75
men (percent)	85.52	25	100
domestic nationality (percent)	57.7	0	100
expatriates (percent), out of which:	42.3	0	100
parent bank nationals (percent)	31.8	0	100
third country nationals (percent)	10.5	0	100
age (in years)	47.2	33	67
management board tenure (in years)	4.0	1	22
top management team size (number of members)	6.7	2	18

*The statistics were computed based on the total number of distinct managers in 2007-2013. The figures for age, tenure and management team size represent the average across the sample.

Source: Bloomberg, Reuters, Orbis, credit institutions' annual reports, managers' curriculum vitae

Table 3. Correlation matrix of the main variables

Variables	TA	RWA	total loans	RWA (% of TA)	total loans (% of TA)	equity	equity (% of TA)	ROA	parent liab. (% of TA)	related party liab. (%TA)	costumer deposits	total liab.	CEO age	CEO nationality	average board tenure	%expatriate managers	average board age	% male managers	manag. team size	LTD	PLL	PLL (%TA)
assets (TA)	1																					
risk weighted assets (RWA)	0.90	1																				
total loans	0.96	0.95	1																			
RWA(%TA)	-0.21	0.14	-0.04	1																		
total loans (% of TA)	-0.09	0.14	0.12	0.63	1																	
equity	0.92	0.93	0.93	-0.06	-0.01	1																
equity (% of TA)	0.00	0.13	0.04	0.16	-0.01	0.33	1															
ROA	0.35	0.34	0.33	0.01	-0.14	0.41	0.32	1														
parent liab. (% of TA)	-0.34	-0.33	-0.29	0.14	0.26	-0.43	-0.26	-0.51	1													
related party liab.(%of TA)	-0.38	-0.38	-0.32	0.17	0.39	-0.45	-0.26	-0.44	0.86	1												
costumer deposits	0.98	0.89	0.95	-0.19	-0.08	0.91	0.03	0.39	-0.46	-0.49	1											
total liabilities	1.00	0.89	0.96	-0.22	-0.10	0.89	-0.04	0.34	-0.32	-0.37	0.98	1										
CEO age	0.23	0.13	0.16	-0.26	-0.14	0.20	-0.09	0.01	-0.16	-0.10	0.18	0.23	1									
CEO nationality	0.18	0.23	0.22	0.01	0.00	0.25	0.21	0.10	-0.11	0.00	0.21	0.17	-0.10	1								
average board tenure	0.15	0.07	0.10	-0.16	0.01	0.07	-0.18	0.06	-0.17	-0.25	0.16	0.16	0.34	-0.07	1							
% expatriate managers in board	0.23	0.26	0.23	-0.19	-0.27	0.31	0.19	0.22	-0.03	-0.04	0.22	0.22	-0.01	0.40	-0.27	1						
average board age	0.33	0.33	0.31	-0.04	-0.06	0.36	0.03	0.08	-0.19	-0.15	0.31	0.32	0.36	0.11	0.16	0.26	1					
% male managers	0.40	0.34	0.37	-0.26	-0.09	0.35	-0.10	0.16	-0.22	-0.14	0.40	0.41	0.00	0.14	0.09	0.23	0.20	1				
management team size	0.05	0.11	0.09	0.18	0.23	0.07	-0.04	0.11	-0.20	0.06	0.07	0.05	-0.15	-0.01	0.00	0.04	-0.01	0.04	1			
LTD	-0.28	-0.17	-0.15	0.47	0.64	-0.26	-0.04	-0.38	0.74	0.77	-0.38	-0.28	-0.27	-0.13	-0.16	-0.29	-0.18	-0.20	-0.02	1		
Provisions for Loan Losses	0.48	0.47	0.52	0.07	0.13	0.48	0.32	-0.13	0.10	0.05	0.48	0.48	0.27	0.39	0.05	0.26	0.36	0.15	-0.10	0.02	1	
PLL (%TA)	0.03	0.09	0.08	0.05	0.09	0.07	0.13	0.03	-0.15	-0.18	0.09	0.03	-0.03	0.29	0.15	0.07	0.02	-0.02	0.18	-0.21	0.52	1

Source: Bloomberg, Reuters, Orbis, credit institutions' annual reports, authors' calculation

Table 4. Determinants of LTD

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
VARIABLES	LTD	LTD	LTD	LTD	LTD	LTD	LTD	LTD	LTD	LTD
lag share of expatriate managers	0.109	0.117	0.0993	0.117	0.110					0.0780
	(0.125)	(0.113)	(0.102)	(0.103)	(0.101)					(0.107)
lag CEO nationality		0.143*	0.101			0.141*	0.122**	0.172*	0.109*	
		(0.0757)	(0.0808)			(0.0765)	(0.0486)	(0.0904)	(0.0574)	
lag TA	0.133	0.268**				0.231**	0.281**	0.0605		0.208
	(0.134)	(0.117)				(0.107)	(0.104)	(0.144)		(0.131)
lag ROA		0.453	1.351	0.807	0.870	0.689	-0.759	1.68	0.666	
		(1.536)	(1.357)	(1.583)	(1.493)	(1.520)	(1.180)	(1.570)	(1.230)	
lag capitalization	3.329**	3.458**				3.270**	3.655**			3.424***
	(1.349)	(1.271)				(1.241)	(1.425)			(0.822)
lag total loans				0.254**						
				(0.105)						
lag total loans/TA			0.728***		0.893***				0.627*	
			(0.230)		(0.241)				(0.307)	
lag average board age	0.00447									
	(0.00596)									
lag management team size										-0.0247
										(0.0150)
lag CEO age							-0.00760		-0.00495	
							(0.00695)		(0.00711)	
lag CEO tenure								0.00618		
								(0.00464)		
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bank fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-squared within	0.215	0.298	0.252	0.187	0.221	0.289	0.333	0.213	0.262	0.276
Number of observations	147	153	153	153	153	153	144	153	144	162

Huber- White robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1
Source: Bloomberg, Reuters, Orbis, credit institutions' annual reports, authors' calculations

Table 5. Determinants of the share of RWA in total assets

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
VARIABLES	RWA/TA	RWA/TA	RWA/TA	RWA/TA	RWA/TA	RWA/TA	RWA/TA	RWA/TA	RWA/TA	RWA/TA
lag share of expatriate managers	-0.0114	-0.00488	0.0394	0.00786	0.0349	0.0620				
	(0.0716)	(0.0740)	(0.0716)	(0.0711)	(0.0753)	(0.0899)				
lag CEO nationality						0.0536	0.0652	0.0583	0.0849	0.0521
						(0.0750)	(0.0774)	(0.0628)	(0.0748)	(0.0623)
lag TA	-0.218**	-0.224**	-0.108	-0.317***	-0.0645		-0.0593	-0.216*	-0.210*	-0.252**
	(0.0923)	(0.0938)	(0.0760)	(0.0921)	(0.0782)		(0.105)	(0.107)	(0.121)	(0.111)
lag ROA	0.706	0.689		0.800		0.336	0.725	1.07	2.21	1.14
	(0.926)	(1.037)		(1.038)		(0.921)	(0.991)	(1.150)	(1.320)	(1.160)
lag capitalization			2.240***		1.159**		1.114**			
			(0.589)		(0.544)		(0.503)			
lag parent funding/TA	0.104	0.112						0.150		
	(0.189)	(0.181)						(0.180)		
lag related party liabilities/TA			0.105	0.395					0.23	0.329
			(0.234)	(0.271)					-0.216	-0.222
lag total loans/TA						0.0785		-0.205		-0.261
						(0.152)		(0.365)		(0.370)
lag CEO tenure								-0.00205		-0.00261
								(0.00365)		(0.00370)
lag average board tenure	0.0120									
	(0.0119)									
lag management team size				-0.0148*						
				(0.00772)						
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bank fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-squared within	0.312	0.292	0.341	0.365	0.263	0.233	0.325	0.329	0.388	0.360
Number of observations	128	128	126	119	157	149	142	128	113	119

Huber- White robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1
Source: Bloomberg, Reuters, Orbis, credit institutions' annual reports, authors' calculations

Table 6. Determinants of Provisions for Loan Losses (as a share in total assets)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	PLL/TA	PLL/TA	PLL/TA	PLL/TA	PLL/TA	PLL/TA	PLL/TA	PLL/TA
lag share of expatriate managers	0.00298	-0.00831	-0.00474	0.00341	-0.00289			
	(0.00264)	(0.00911)	(0.00441)	(0.00371)	(0.00269)			
lag CEO nationality					0.000322	0.000518	0.00121	0.00188
					(0.00140)	(0.00140)	(0.00157)	(0.00175)
lag TA	-0.00991*	-0.01062*	-0.00890*	-0.00983	-0.01004*	-0.00938*	-0.00933*	-0.01130*
	(0.00517)	(0.00548)	(0.00455)	(0.00674)	(0.00512)	(0.00477)	(0.00471)	(0.00651)
lag ROA	-0.1409			-0.1018	-0.1397	-0.1489		
	(0.11140)			(0.82600)	(0.11360)	(0.11960)		
lag capitalization	0.0315	-0.00135	0.01814		0.03007	0.03537	-0.0075	-0.02168
	(0.05808)	(0.51700)	(0.05583)		(0.06144)	(6.569)	(0.04418)	(0.03824)
lag parent funding/TA				0.03773*				0.04384
				(0.02150)				(0.02686)
lag CEO tenure							-0.000191	
							(0.00022)	
lag average board tenure			-0.000874	-0.000698				
			(0.00064)	(0.00056)				
lag average board age		0.00019						
		(0.00032)						
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bank fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-squared within	0.206	0.142	0.167	0.392	0.206	125	131	111
Number of observations	125	119	131	105	125	0.201	0.124	0.320

Huber- White robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1
Source: Bloomberg, Reuters, Orbis, credit institutions' annual reports, authors' calculations

Table 7. Determinants of funding from parent credit institution and from related parties

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
VARIABLES	lag parent funding/TA	lag parent funding/TA	lag parent funding/TA	lag parent funding/TA	lag parent funding/TA	related party liab./TA	related party liab./TA	related party liab./TA	related party liab./TA	related party liab./TA	related party liab./TA	related party liab./TA	related party liab./TA	related party liab./TA
lag share of expatriate managers	0.0224	0.0121				0.0235	-0.00157	0.0292	0.0279	0.0272	0.0242			
	(0.0323)	(0.0384)				(0.0355)	(0.0677)	(0.0356)	(0.0298)	(0.0344)	(0.0365)			
lag CEO nationality			0.0169	0.000457	0.0148						0.00579	0.0124	0.0192	0.00657
			(0.0315)	(0.0231)	(0.0210)						(0.0199)	(0.0141)	(0.0155)	(0.0199)
lag TA	0.0834	0.0392	0.0251	0.0764	0.0237	0.106*	0.118**	0.0938*	0.113**	0.0996*	0.107*	0.110***	0.0512	0.0911
	(0.0499)	(0.0521)	(0.0522)	(0.0456)	(0.0543)	(0.0571)	(0.0556)	(0.0476)	(0.0426)	(0.0484)	(0.0591)	(0.0376)	(0.0566)	(0.0605)
lag ROA		0.266	0.218		-0.566	0.00571			0.365	0.468	0.0320		-0.719	
		(0.622)	(0.577)		(0.334)	(0.589)			(0.453)	(0.467)	(0.581)		(0.501)	
lag capitalization	1.052**			1.008**			0.690	0.413				0.808*		
	(0.380)			(0.406)			(0.422)	(0.421)				(0.405)		
lag parent funding/TA									0.296***	0.310***		0.285**		
									(0.0841)	(0.0895)		(0.102)		
lag related party liabilities/TA	0.383**	0.443**	0.359*	0.384**										
	(0.174)	(0.183)	(0.184)	(0.173)										
lag average board tenure								0.00795*	0.0103**					
								(0.00445)	(0.00407)					
lag management team size		-0.0055**								-0.00446*				
		(0.00222)								(0.00245)				
lag CEO age					0.00344**								0.00301**	
					(0.00141)								(0.00132)	
lag CEO tenure			0.00433**											
			(0.00203)											
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bank fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-squared within	0.400	0.357	0.392	0.397	0.244	0.391	0.427	0.450	0.536	0.498	0.392	0.523	0.411	0.417
Number of observations	130	122	122	130	126	124	120	132	120	120	124	128	116	121

Huber- White robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Source: Bloomberg, Reuters, Orbis, credit institutions' annual reports, authors' calculations

Table 8. Determinants of lending activity

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
VARIABLES	loans/TA	loans/TA	loans/TA	loans/TA	loans/TA	loans/TA	loans/TA	loans/TA	loans/TA	yoy loan growth	yoy loan growth	yoy loan growth	yoy loan growth
lag share of expatriate managers	0.000288	-0.0365	-0.0701*	-0.0705*	-0.0347	-0.0698*				0.0547	0.107	0.0457	0.0733
	(0.0282)	(0.0317)	(0.0359)	(0.0376)	(0.0319)	(0.0343)				(0.0768)	(0.119)	(0.0716)	(0.119)
lag CEO nationality					0.0297*		0.0314*	0.0268	0.0296				
					(0.0166)		(0.0171)	(0.0195)	(0.0196)				
lag TA	0.0534**	0.0704**	-0.00578	-0.00974	0.0673***	-0.00685	0.0588**	0.0617***	0.0192	-0.200*	-0.220*	-0.218*	-0.302**
	(0.0230)	(0.0261)	(0.0309)	(0.0325)	(0.0241)	(0.0320)	(0.0253)	(0.0194)	(0.0304)	(0.111)	(0.125)	(0.111)	(0.144)
lag ROA			0.410	0.605		0.410	0.345		0.622	1.963*	0.640		1.277
			(0.594)	(0.645)		(0.598)	(0.381)		(0.549)	(1.104)	(1.599)		(2.056)
lag ROE												0.129**	
												(0.0621)	
lag capitalization	0.620**	1.422***			1.263***		0.739***	0.838***			1.225		
	(0.258)	(0.364)			(0.365)		(0.169)	(0.248)			(1.294)		
lag parent funding/TA			0.181***			0.181***		0.0796					0.0273
			(0.0583)			(0.0588)		(0.0739)					(0.159)
lag related party liabilities/TA				0.248***					0.241***				
				(0.074)					(0.065)				
lag average board age	-0.000600										-0.00320		-0.00121
	(0.00159)										(0.00459)		(0.00578)
lag average board tenure		-0.00720*											
		(0.00401)											
lag management team size						-0.000373							
						(0.00455)							
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bank fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-squared within	0.117	0.239	0.138	0.156	0.242	0.138	0.159	0.155	0.149	0.319	0.299	0.286	0.282
Number of observations	147	162	130	123	162	130	153	138	123	153	139	150	119

Huber- White robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Source: Bloomberg, Reuters, Orbis, credit institutions' annual reports, authors' calculations

Table 9. Propensity score estimation. Logistic regression, marginal effects

	(1)
VARIABLES	P(CEO_expatriate=1)
lag size (log TA)	0.196***
	(0.0757)
lag ROA (percent)	0.0222
	(0.0446)
lag share of expatriate managers	-0.0526
	(0.171)
lag average management team tenure	-0.0489*
	(0.0291)
_Icountry_HR	-0.141
	(0.131)
_Icountry_HU	0.0848
	(0.145)
_Icountry_PL	-0.273*
	(0.153)
_Icountry_RO	0.487***
	(0.161)
_Iyear_2008	-0.0398
	(0.166)
_Iyear_2009	-0.0490
	(0.153)
_Iyear_2010	-0.00155
	(0.142)
_Iyear_2011	-0.0237
	(0.145)
_Iyear_2012	0.0289
	(0.139)
Logit Wald chi2	27.2
Logit Pseudo R-squared	0.1757
Number of observations	153

Column (1) indicates the average marginal effects on bank's probability of having an expatriate as CEO. Base country is Czech Republic.
Huber- White robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1
Source: Bloomberg, Reuters, Orbis, credit institutions' annual reports, authors' calculations

Table 10. Balancing hypothesis testing. Kernel Matching

	Unmatched	Mean				t-test	
Variable	Matched	Treated	Control	%bias	%reduct bias	t	p>t
size (log TA)	U	9.3746	9.4191	-6.8		-0.38	0.705
	M	9.3417	9.4019	-9.2	-35.5	-0.34	0.732
ROA (percent)	U	1.2044	0.77932	35.9		1.9	0.059
	M	1.1655	0.84508	27	24.6	1.34	0.185
share of expatriate managers	U	0.38159	0.31416	32.7		1.85	0.067
	M	0.38995	0.32052	33.6	-3	1.49	0.142
average management board tenure	U	3.6365	4.1186	-22.6		-1.24	0.216
	M	3.4929	3.6204	-6	73.6	-0.25	0.806

Source: Bloomberg, Reuters, Orbis, credit institutions' annual reports, authors' calculations

Table 11. Propensity score estimation. Average treatment of the treated (the treatment= having an expatriate CEO)

Variables	Unmatched	Kernel matching Average treatment of the treated.	Nearest neighbor matching Average treatment of the treated.	Observations
LTD	0.0509	0.0149	0.0268	153
	(0.0516)	(0.0849)	(0.0701)	
RWA/TA	0.0633**	0.0623	0.0766*	149
	(0.0279)	(0.0415)	(0.0394)	
PLL/TA	0.411***	0.589***	0.557***	125
	(0.128)	(0.194)	(0.172)	
Total loans/TA	0.0402**	0.0376	0.0439**	153
	(0.0182)	(0.0260)	(0.0190)	
Parent funding/TA	-0.000772	-0.0437	-0.0247	134
	(0.0217)	(0.0305)	(0.0276)	
Related party liabilities/TA	0.00796	-0.0591*	-0.0285	124
	(0.0250)	(0.0344)	(0.0332)	
Cash and cash equivalent/TA	0.0231**	-0.00101	-0.000831	153
	(0.0116)	(0.0158)	(0.0139)	
Interbank assets/TA	-0.0132	0.000841	0.00427	148
	(0.00839)	(0.0103)	(0.00845)	

Bootstrapped standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Source: Bloomberg, Reuters, Orbis, credit institutions' annual reports, authors' calculations