

Board structure, Ownership structure, and Firm performance: Evidence from Banking

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Abstract

This paper examines the interrelations among five ownership and board characteristics in a sample of 260 bank and savings-and-loan holding companies. These governance characteristics, designed to reduce agency problems between shareholders and managers, are insider ownership, blockholder ownership, the proportion of outside directors, board leadership structure, and board size. Using two-stage least squares regressions, we present evidence of interdependencies between board and ownership structures. The results suggest that banks substitute between governance mechanisms that align the interests of managers and shareholders. These findings suggest that cross-sectional OLS regressions of bank performance on single governance mechanisms may be misleading. Indeed, we find statistically significant relationships between performance and insider ownership and blockholder ownership when using OLS regressions. However, these statistically significant relationships disappear when the simultaneous equations framework is used. Together, these findings are consistent with optimal use of each governance mechanism by banks.

Keywords: Corporate governance, board structure, ownership structure, performance, banking, simultaneous equations

JEL classification: G21, G32, G34

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