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Bank holding company performance, risk, and “busy” board of directors

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Abstract

We examine the association between “busyness” of the board of directors (serving on multiple boards) and bank holding company (BHC) performance and risk. We estimate several simultaneous-equations models employing the 3SLS technique and instrumental variables to account for endogeneity. We obtain four main results. First, BHC performance measures (return on equity, Tobin’s Q and EBIT over total assets) are positively associated with busyness of directors. Second, BHC risk measures (total, market, idiosyncratic, credit and default risks) are inversely related to busyness of directors. Third, performance (risk) benefits of having busy directors strengthened (weakened) during the financial crisis of 2007–2009. Fourth, busy directors are not more likely to become problem directors (fail the 75% attendance standard), and if sitting on boards of both BHC and non-financial firms, they attend more of the BHC board meetings, than those of the non-financials. Our findings partially alleviate concerns that over-boarded directors shirk their responsibilities.

JEL classification

G21; G390; G18

Keywords

Bank governance; Busy directors; Risk; Performance

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