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A Study of the Effect of 'Busy' Boards on Bank Performance: A Statistical Framework

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Abstract

This study assesses the effect of a specific corporate governance variable: Busy boards, on bank performance across two valuation indicators: Tobin Q and Price to Book Value (PBV) and one accounting measure, Return on Assets (RoA); and risk indicators: Capital Risk Asset Ratio (CRAR), Gross Non-Performing Advances Ratio (NPR) and Total Loans Ratio. It conducts a multivariate panel regression analysis. Busy directors bring 'reputational' capital to the bank, but when the number of directors having more than 6 outside directorships increases, it may lower banks' performance. The study cautions on "Over Busy Boards".

The study conducts a multivariate panel regression analysis using fixed effects model with the help of STATA Version 10.

The study evidences that bank ownership: government/private has an influence on bank performance. The ownership variable also impinges on the effect of board busyness on bank performance.

The reputational hypothesis, that contends that a firm that is able to attract directors with reputation, enhances its 'reputational' capital and increases shareholder value, is proved in the case of private banks.The role of busy Non-Executive Directors on boards of government banks is that they enhance the risk-taking capabilities of these banks. The study suggests that while busy directors bring 'reputational' capital to the bank, when the number of directors having more than 6 outside directorships increases, board oversight over the bank may reduce and this lowers the banks' performance. Hence, the study cautions on "Over Busy Boards".

Key Words: Corporate Governance, Commercial Banks, India, Busy Boards.

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