

Board Regulation and Its Impact on Composition and Effects: Evidence from German Cooperative Banks

Authors : Markus Stralla

Abstract : This study employs a GMM framework to examine the impact of potential regulatory intervention regarding the occupations of supervisory board members in cooperative banking. To achieve insights, the study proceeds in two different ways. First, it investigates the changes in board structure prior and following to the German Act to Strengthen Financial Market and Insurance Supervision (FinVAG). Second, the study estimates the influence of Ph.D.Share, professional concentration and supervisory power on bank-risk changes in consideration of the implementation of FinVAG. Therefore, the study is based on a sample of 246 German cooperative banks from 2006-2011 while applying four different measures of bank risk, namely credit-, equity-, liquidity-risk, and Z-Score, with the former three also being addressed in FinVAG. Results indicate that the implementation of FinVAG results in (most likely unintentional) structural changes, especially at the expense of farmers, and affects all risk measures and relations between risk measures and supervisory board characteristics in a risk-reducing and therefore intended way. To disentangle the complex relationship between board characteristics and risk measures, the study utilizes two-step system GMM estimator to account for unobserved heterogeneity and simultaneity in order to reduce endogeneity problems. The findings may be especially relevant for stakeholders, regulators, supervisors and managers.

Keywords : bank governance, bank risk-taking, board of directors, regulation

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