Good and Bad Banks? Governance, Chairmen's Human Capital andPerformance

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CONTEXT

- **Presence of heterogeneous players (organizations) competing, and performance differences within each group**
- **Compare *Cajas* vs commercial banks in terms of performance and risk**
- **Then the crisis hits…, and nevertheless heterogeneity within the types is still present.**
- **Severe crisis: the regulator moves and Savings banks are forced to transform themselves and practically disappeared.**

- **What can we observe? Lessons for other countries? For other industries?**

RESULTS

- **We find that commercial banks were, in general, more profitable than *Cajas*, although they incurred in higher risk during the boom years.**
- **However, during the crisis, banks seemed to control their risks in a better way than *Cajas*, and banks showed a better performance.**
- **Moral hazard hypothesis? shareholder-oriented vs stakeholder approach**
- **Those institutions with a chairman that had more years of previous banking experience, more years spent in the entity and a top degree in their education, performed better than those without such profile.**
- **Our results do not find evidence concerning an influence of the political affiliation of the chairmen on banks' performance.**

RESULTS -2

- **However, about politicization of *Cajas*, a major presence of politicized seats in the governing bodies implied better profitability but worse risk performance.**
- **A hidden agency problem for *Cajas* (aggravated by low levels of human capital) unnoticed in the "happy" years could have come to surface unmasked during the crisis.**
- **Excessive growth (territorial expansion), taking residual high risks, involvement in real state.**

I. MOTIVATION 2006

Debate around the Cajas **Why should we care?**

Spanish banks are well positioned in general

Large commercial banks

Presence of Savings Banks: many and some quite large

50% of the Financial System

Non-profit Organizations, subject to private law

Isolated from the market for corporate control

No shareholders, stakeholders and **WIDE Mission**

Property Rights Paradox

Source:
THE BANKER

world ranking in assets

Bank	2009	2000	B or SB[a]
Banco Santander Central Hispano	**10**	**36**	**B**
Banco Bilbao Vizcaya Argentaria	**30**	**25**	**B**
Caja de Ahorros y Pensiones de Barcelona	47	91	SB
Caja Madrid	69	102	SB
Banco Popular	**84**	**187**	**B**
Grupo Bancaja	105	270	SB
Banco Sabadell	**133**	**228**	**B**
Caja de Ahorros del Mediterráneo	142	270	SB
Bilbao Bizkaia Kutxa	184	256	SB
Banca March	**186**	**337**	**B**
Caixa Galicia	188	391	SB
Caixa de Catalunya	191	327	SB
Ibercaja	201	357	SB
Unicaja	202	382	SB
Caja Gipuzkoa San Sebastian	220	309	SB
Bankinter	**230**	**370**	**B**
Caixanova	289	508	SB
Banco Pastor	**292**	**534**	**B**
Caja de Ahorros de Murcia	313	512	SB
Caja Laboral	337	371	CB
Caja España de Inversiones	364	502	SB
CajAstur	382	597	SB
Caja de Navarra	387	512	SB
Caja Duero	390	567	SB
Caixa Penedès	404	672.	SB
Caja de Burgos	447	633	SB
Caja de Ahorros y Monte de Piedad de Córdoba	458	625	SB
Caja de Ahorros y M Piedad de Burgos	460	633.	SB
Caja Inmaculada	471	617	SB

I. MOTIVATION: Issues

1) **Who controls/takes the decisions in the Cajas?**

   Corporate Governance Issues

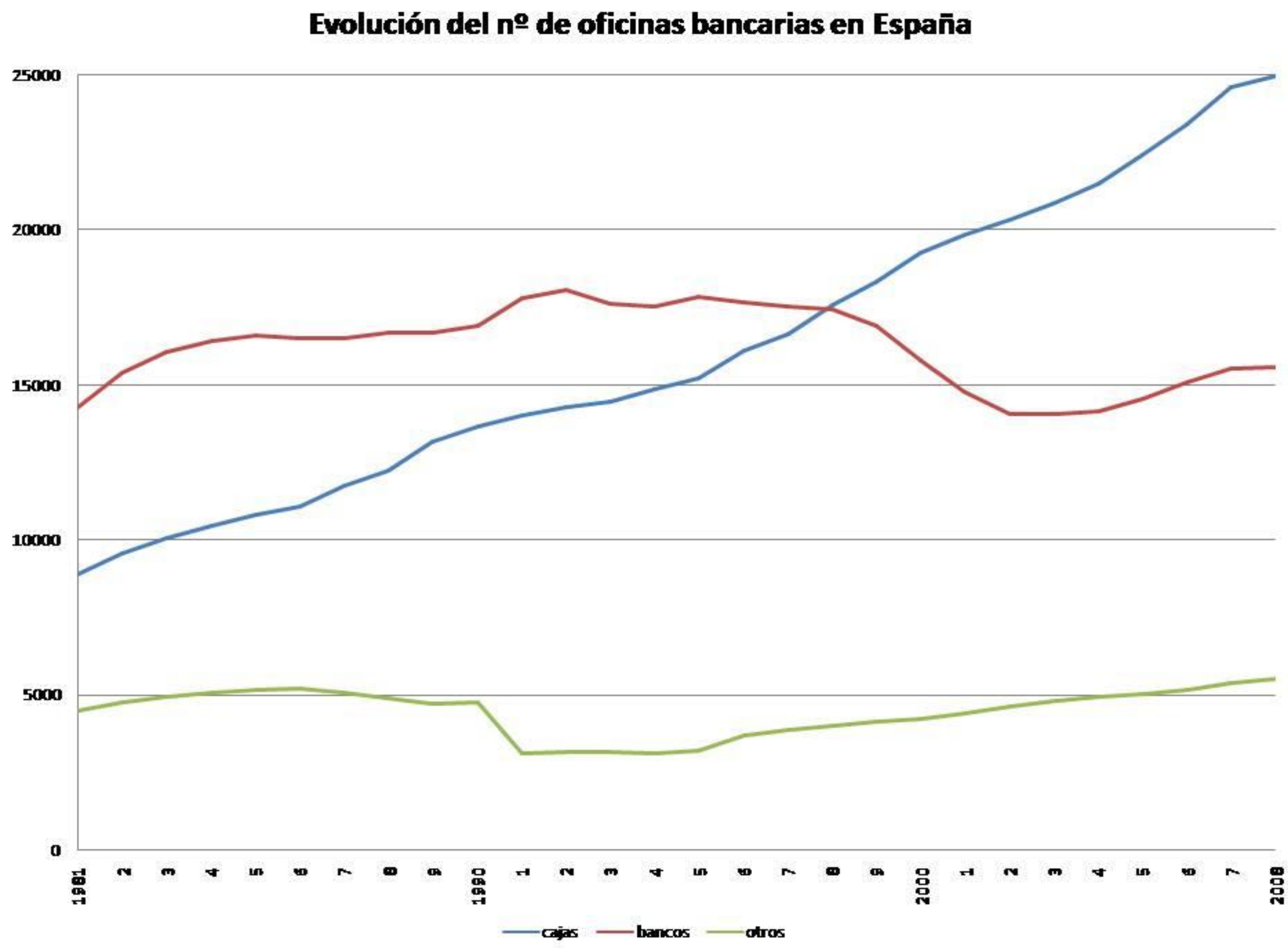
   Foundations: decision rights and residual rents are separated …

2) **Can/must we maintain different organizations within the financial system?**

   Privatization of Cajas?

   Would CG improve if we privatize?

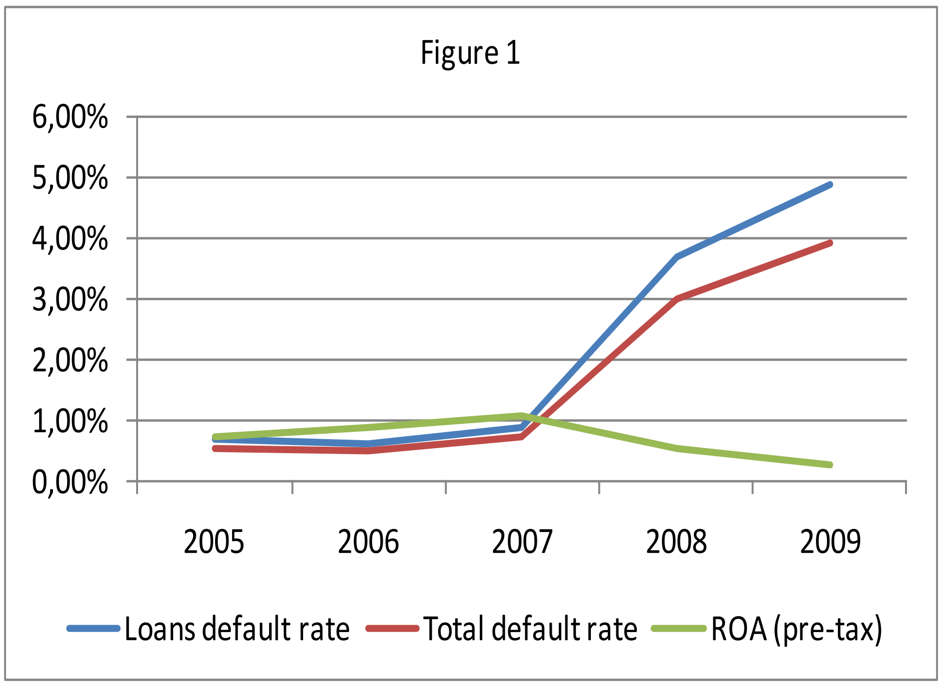
I. MOTIVATION: Issues

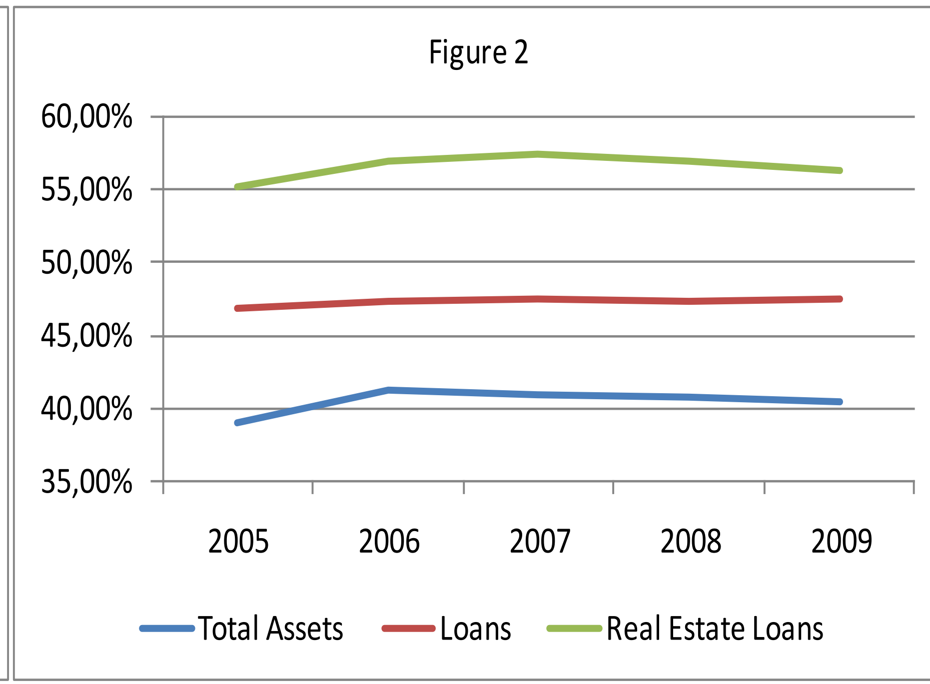


I. Motivation….The crisis hits

Effects of the financial crisis over the *Cajas*

- Some evidences in performance (default rates, ROA)… (Figure 1)
- … with special attention to the balance sheet structure respect the whole banking sector (Figure 2)





I. Motivation... the crisis hits

Changes in the sector: Evidence of restructuring

- *Fund for Orderly Bank Restructuring* (FROB-I) June 2009
  - 45 entities → 19 groups
  - 3 mechanisms: mergers, IPS (Instit'l protec. Syst) or takeover of non-viable institutions
  - Resizing, recapitalization and synergies?
  - Which institutions are the leaders?
- Changing the regulation of *Cajas* (governance) July 2010
  - The legal form
  - New limits and voting rights for *cuotas participativas*
  - Reduce Politization: the role of Public Administrations
  - Tax neutrality of mergers
  - The role of the Social Foundations
- The stress tests (round 1) July 2010

I. Motivation… the crisis hits

Changes in the sector: Evidence of restructuring

- *Fund for Orderly Bank Restructuring* (FROB-II) 2011-2012
- The stress tests (round 2) December 2011
- European Mechanism of Stabilization (MEDE) July 2012
  - Only 2 (very small) Savings banks remain as such
  - 4 + 3 former SBs now transformed into Commercial Banks
- 3 more owned by the FROB, on sale.
- Economic Recovery? July 2014
  - Before 45 SBs. Now only 2 (very small) SBs remain as such
  - 5 (SBs with no problems) + 2 (under FROB-controlled) + 3 (earlier FROB-controlled, then sold to banks). All those transformed into Commercial Banks.

I. Motivation
Some relevant questions …

FACTS

1. Intrinsic limitation for *Cajas* to raise equity of quality (core capital). Only through capitalization of profits and preferred shares
2. Despite the theoretically implicit and necessary more conservative character of *Cajas*, they have been involved in some kind of risks and markets that perhaps were not appropriate for their own nature, purposes and experience…

QUESTIONS

1. Which are the different effects (in *Cajas*' governance and performance) during the crisis?
2. What could be the reasons behind those differences among *Cajas*?
    1. Politization? Differences in Corporate Governance?
    2. Director's human capital?

2. CORPORATE GOVERNANCE AND CAJAS

Corporate Governance alternatives:

Shareholder value vs. Stakeholder value; Legal regimes, Crisis

Shleifer &Vishny (1997)

Tirole (2006), Zingales 1998, 2000, 2010

Jensen (2001) enlightened value maximization

Allen, Carletti (2007, 2010)

Salas (2000, 2010)

Ferri, Kalmi and Kerola (2012)

Bøhren, Josefsen Steen (2012); Bøhren and Josefsen (2013)

Implementation Problem

Mission

diversity of goals…

2. … and Savings Banks

Fundación empresa, non-profit *(ambiguous nature)*.

No Cooperatives, no mutual, no public banks

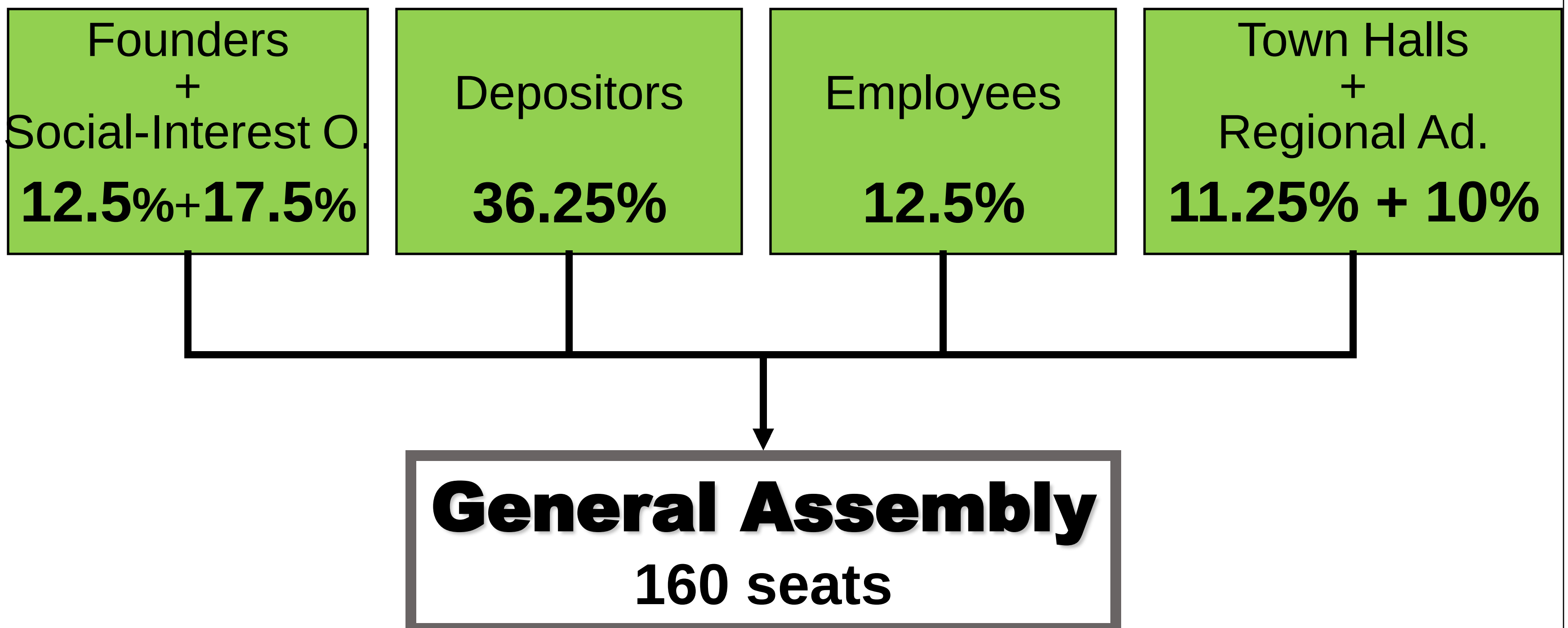
No explicit owners *(but Stakeholders)*

Wide Mission versus profit maximization (*conflicts*)

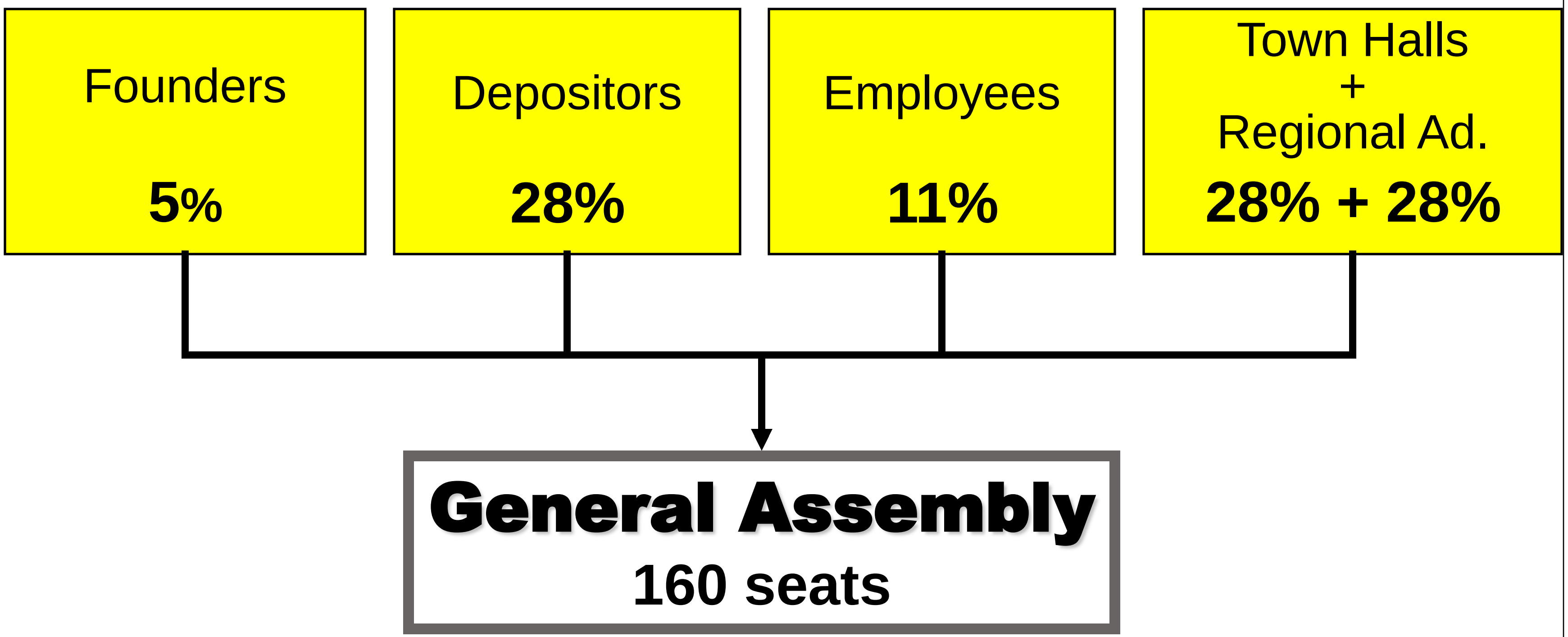
On average 25% of the profits go to Social Dividend "Obra Social"

Remaining profits go to Reserves… History matters

“La Caixa” General Assembly Composition



"Bancaixa" General Assembly Composition



2. CORPORATE GOVERNANCE: Mission

Make financial services a <u>universal service</u> rendered in conditions of <u>economic efficiency</u> and <u>without abuses</u> of dominant positions. At the same time, they make a contribution to a sustained <u>regional development</u> and to <u>welfare improvement</u> for the less-favored people.

3. Related Empirical Studies

- **Cuñat and Garicano (2010)**
- **García-Meca and Sánchez-Ballesta (2012)** for the Spanish case.
- **Hau and Thum (2009)** private and state-owned German banks in 2007-2008

3. Related Empirical Studies

- **Crespí-GCestona and Salas (2004):** Unlike banks, the usual control mechanisms don´t work in Cajas, only mergers seem to work

    maybe competition is enough to discipline

In fact, in 2010, the solution has been to merge SBs, SIP is called a cold merger (one leading Caja)

- **GCestona and Surroca (2007)** Different types of cajas in terms of their mission.

    Cajas achieve goals that private banks cannot pursue.

3. Performance and CG: A Literature Review
Corporate Governance and *Cajas*

- Crespí, García-Cestona and Salas (2004) analyze the governance of Spanish banks (3 categories) on 2 issues:
  - Check if poor economic performance activates governance interventions that favor the removal of executive directors and the merger of non-performing banks
  - If the relationship between governance intervention and economic performance vary with the ownership form of the bank

- There is a statistically significant negative relationship between performance and governance intervention for all 3 categories of banks, but with differences for each category of ownership:
  - For commercial banks: internal control mechanisms work well
  - The mentioned relationship is stronger in the case of Subsidiaries
  - For *Cajas*: internal controls are weak, the unique significant mechanism is **mergers**

3. Performance and CG: A Literature Review

Corporate Governance and *Cajas*

- Cuñat and Garicano (2010) focus on analyzing the lending behavior and the situation of non-performing loans of *Cajas* during the period previous to the current financial crisis. They check the role of governance and human capital to explain the differences among entities
- Their paper focuses on:
  1. How the formal (e.g., the way the board is appointed) and real governance mechanisms (e.g., the actual composition of the board, and the role played by political parties) affect some dependent variables (Returns or individual loans)
  2. How the chairmen's human capital (education degree) affects the same variables
- The final conclusion of the research is that the problem with the performance heterogeneity of *Cajas* is not politization but the lack of professionalization

3. Performance and CG: A Literature Review

Corporate Governance and *Cajas*

- García-Meca and Sánchez-Ballesta (2012) focus on the impact that banking experience, and board politicization may have on risk (Z-score, and the loan loss reserves).
  - H1 More political influence in saving banks is associated to higher risk.
  - H2 More banking experience of the chairman in saving banks is associated to lower risk.
  - H3 Risk is greater in saving banks than in commercial banks during the financial crisis.
- They find lack of significance of the political presence, the importance of the banking experience (0 or 1) of the chairman, and the riskier approach of savings banks during the crisis.

Data description

- We collect data from different sources: Period 2004-2009

1. Financial information → Bureau van Dijk's Bankscope

2. Governance information on *Cajas* → Spanish National Securities Market Commission (CNMV)

3. Information on chairmen's human capital (i.e., experience, education and political affiliation) → Boardex database, banks' web pages, published CVs, news clippings and newspapers archives.

Hypotheses

- **H1(a). Commercial banks are better performers (ROA, risk) than *Cajas* in boom years.**
- **H1(b). Commercial banks are better performers than *Cajas* during the crisis.**

- **H2(a). There is a positive relationship between human capital (i.e., experience and education) of the chairman and the performance of banks and *Cajas*.**
- **H2(b). There is a negative relationship between the politicization of the chairman and the performance of both commercial banks and *Cajas*.**

- **H3. Less politicized *Cajas* are better performers than more politicized ones.**

The performance…

1. **ROA**
2. **ROA volatility: the standard deviation of the ROA over 3-year windows**
   (Laeven and Levine, 2009)

3. **Z-score (full sample): Hesse and Čihák (2007) and Lepetit and Strobel (2013)**
   [[(Equity / Total Assets) + ROA] / ROA Standard Deviation]$^{-2}$
   Higher values imply higher risk (higher probab. of bank failure)

4. **Z-score (year window):García-Meca and Sánchez-Ballesta (2012)**
   Ln [[(Equity / Total Assets) + ROA] / ROA Standard Deviation]
   Higher values imply lower risk (lower probab. of bank failure)

5. **E*x post* credit risk: Salas and Saurina, 2002**

   Non-performing Loans / Gross Loans ratio

The models

1. $Performance_{i,t} = b_0 + b_1 \cdot \text{Bank}_{i,t} + b_2 \cdot \text{Crisis}_{i,t} + b_3 \cdot (\text{Bank x Crisis})_{i,t} + b_4 \cdot \text{Ln Size}_{i,t} + b_5 \cdot \text{Gross Loans/Total Assets}_{i,t} + b_6 \cdot \text{Equity/Total Assets}_{i,t} + b_7 \cdot \text{Year}_{i,t} + \varepsilon_{i,t}$

2. $Performance_{i,t} = b_0 + b_1 \cdot \text{Chairman previous banking experience}_{i,t} + b_2 \cdot \text{Chairman entity experience}_{i,t} + b_3 \cdot \text{Chairman education 2}_{i,t} + b_4 \cdot \text{Chairman education 3}_{i,t} + b_5 \cdot \text{Chairman education 4}_{i,t} + b_6 \cdot \text{Chairman has political affiliations}_{i,t} + b_7 \cdot (\text{Chairman education 4 x Crisis})_{i,t} + b_8 \cdot (\text{Chairman has political affiliations x Crisis})_{i,t} + b_9 \cdot \text{Bank}_{i,t} + b_{10} \cdot \text{Crisis}_{i,t} + b_{11} \cdot (\text{Bank x Crisis})_{i,t} + b_{12} \cdot \text{Ln Size}_{i,t} + b_{13} \cdot \text{Gross Loans/Total Assets}_{i,t} + b_{14} \cdot \text{Equity/Total Assets}_{i,t} + b_{15} \cdot \text{Year}_{i,t} + \varepsilon_{i,t}$

3. $Performance_{i,t} = b_0 + b_1 \cdot \text{\% of seats by Employees}_{i,t} + b_2 \cdot \text{\% of seats by Depositors}_{i,t} + b_3 \cdot \text{\% of seats by Municipalities and Regions (Politicization)}_{i,t} + b_4 \cdot \text{Compensation per board member}_{i,t} + b_5 \cdot \text{Crisis}_{i,t} + b_6 \cdot \text{Ln Size}_{i,t} + b_7 \cdot \text{Gross Loans/Total Assets}_{i,t} + b_8 \cdot \text{Equity/Total Assets}_{i,t} + b_9 \cdot \text{Year}_{i,t} + \varepsilon_{i,t}$

A Descriptive Analysis of key issues

Human capital of the Spanish banks chairmen

	Value	Description	Cajas Chairman		Cajas Executive Chairman		Cajas Non Executive Chairman		Commercial banks Chairman		Commercial banks Executive Chairman		Commercial banks Non Executive Chairman	
Experience	0	With no previous banking experience	**62**	***92,5%***	21	*87,5%*	41	*95,3%*	**12**	***60,0%***	8	*61,5%*	4	*57,1%*
	1	With previous banking experience	**5**	***7,5%***	3	*12,5%*	2	*4,7%*	**8**	***40,0%***	5	*38,5%*	3	*42,9%*
		TOTAL	**67**	***100,0%***	24	*100,0%*	43	*100,0%*	**20**	***100,0%***	13	*100,0%*	7	*100,0%*
	Years	"Global" experience (Average)	**32**		28		35		**34**		33		37	
	Years	"Banking" experience (Average)	**13**		15		13		**25**		28		20	
	Years	"Entity" experience (Average)	**12**		13		12		**19**		21		16	
Education	1	No education	**10**	***14,9%***	2	*8,3%*	8	*18,6%*	**0**	***0,0%***	0	*0,0%*	0	*0,0%*
	2	Undergraduate university education (Medicine, Law degree, ...)	**32**	***47,8%***	9	*37,5%*	23	*53,5%*	**6**	***30,0%***	4	*30,8%*	2	*28,6%*
	3	Undergraduate university education (Economics degree, ...)	**12**	***17,9%***	5	*20,8%*	7	*16,3%*	**9**	***45,0%***	4	*30,8%*	5	*71,4%*
	4	PhD in Business Economics, or MBA in prestige institutions	**13**	***19,4%***	8	*33,3%*	5	*11,6%*	**5**	***25,0%***	5	*38,5%*	0	*0,0%*
		TOTAL	**67**	***100,0%***	24	*100,0%*	43	*100,0%*	**20**	***100,0%***	13	*100,0%*	7	*100,0%*
Political affiliation	0	Has not been a political appointee	**35**	***52,2%***	7	*29,2%*	28	*65,1%*	**17**	***85,0%***	13	*100,0%*	4	*57,1%*
	1	Has been a political appointee	**32**	***47,8%***	17	*70,8%*	15	*34,9%*	**3**	***15,0%***	0	*0,0%*	3	*42,9%*
		TOTAL	**67**	***100,0%***	24	*100,0%*	43	*100,0%*	**20**	***100,0%***	13	*100,0%*	7	*100,0%*
Turnover	1	Worsening (Overall)	**8**	***27,6%***	3	*30,0%*	5	*26,3%*	**4**	***66,7%***	3	*100,0%*	1	*33,3%*
	2	Remaining constant (Overall)	**12**	***41,4%***	3	*30,0%*	9	*47,4%*	**2**	***33,3%***	0	*0,0%*	2	*66,7%*
	3	Improving (Overall)	**9**	***31,0%***	4	*40,0%*	5	*26,3%*	**0**	***0,0%***	0	*0,0%*	0	*0,0%*
	1	Worsening (Education)	**5**	***17,2%***	4	*40,0%*	1	*5,3%*	**3**	***50,0%***	3	*100,0%*	0	*0,0%*
	2	Remaining constant (Education)	**17**	***58,6%***	4	*40,0%*	13	*68,4%*	**3**	***50,0%***	0	*0,0%*	3	*100,0%*
	3	Improving (Education)	**7**	***24,1%***	2	*20,0%*	5	*26,3%*	**0**	***0,0%***	0	*0,0%*	0	*0,0%*
		TOTAL	**29**	***100,0%***	10	*100,0%*	19	*100,0%*	**6**	***100,0%***	3	*100,0%*	3	*100,0%*

A Descriptive Analysis of key issues

Human capital of the Spanish banks chairmen

	Value	Description	*Cajas*						Commercial bank			
			Chairman		Executive Chairman		Non Executive Chairman		**Chairman**		Executive Chairman	
Experience	0	With no previous banking experience	**62**	***92,5%***	21	*87,5%*	41	*95,3%*	**12**	***60,0%***	8	*61,5%*
	1	With previous banking experience	**5**	***7,5%***	3	*12,5%*	2	*4,7%*	**8**	***40,0%***	5	*38,5%*
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Turnover	1	Worsening (Overall)	**8**	***27,6%***	3	*30,0%*	5	*26,3%*	**4**	***66,7%***	3	*100,0%*	1	*33,3%*
	2	Remaining constant (Overall)	**12**	***41,4%***	3	*30,0%*	9	*47,4%*	**2**	***33,3%***	0	*0,0%*	2	*66,7%*
	3	Improving (Overall)	**9**	***31,0%***	4	*40,0%*	5	*26,3%*	**0**	***0,0%***	0	*0,0%*	0	*0,0%*
	1	Worsening (Education)	**5**	***17,2%***	4	*40,0%*	1	*5,3%*	**3**	***50,0%***	3	*100,0%*	0	*0,0%*
	2	Remaining constant (Education)	**17**	***58,6%***	4	*40,0%*	13	*68,4%*	**3**	***50,0%***	0	*0,0%*	3	*100,0%*
	3	Improving (Education)	**7**	***24,1%***	2	*20,0%*	5	*26,3%*	**0**	***0,0%***	0	*0,0%*	0	*0,0%*
		TOTAL	**29**	***100,0%***	10	*100,0%*	19	*100,0%*	**6**	***100,0%***	3	*100,0%*	3	*100,0%*

A Descriptive Analysis of key issues

Human capital of the Spanish banks chairmen

	Value	Description	Cajas: Chairman		Cajas: Executive Chairman		Cajas: Non Executive Chairman		Commercial banks: Chairman		Commercial banks: Executive Chairman		Commercial banks: Non Executive Chairman	
Experience	0	With no previous banking experience	**62**	*92,5%*	21	*87,5%*	41	*95,3%*	**12**	*60,0%*	8	*61,5%*	4	*57,1%*
	1	With previous banking experience	**5**	*7,5%*	3	*12,5%*	2	*4,7%*	**8**	*40,0%*	5	*38,5%*	3	*42,9%*
		TOTAL	**67**	*100,0%*	24	*100,0%*	43	*100,0%*	**20**	*100,0%*	13	*100,0%*	7	*100,0%*
	Years	"Global" experience (Average)	**32**		28		35		**34**		33		37	
	Years	"Banking" experience (Average)	**13**		15		13		**25**		28		20	
	Years	"Entity" experience (Average)	**12**		13		12		**19**		21		16	
Education	1	No education	**10**	*14,9%*	2	*8,3%*	8	*18,6%*	**0**	*0,0%*	0	*0,0%*	0	*0,0%*
	2	Undergraduate university education (Medicine, Law degree, ...)	**32**	*47,8%*	9	*37,5%*	23	*53,5%*	**6**	*30,0%*	4	*30,8%*	2	*28,6%*
	3	Undergraduate university education (Economics degree, ...)	**12**	*17,9%*	5	*20,8%*	7	*16,3%*	**9**	*45,0%*	4	*30,8%*	5	*71,4%*
	4	PhD in Business Economics, or MBA in prestige institutions	**13**	*19,4%*	8	*33,3%*	5	*11,6%*	**5**	*25,0%*	5	*38,5%*	0	*0,0%*
		TOTAL	**67**	*100,0%*	24	*100,0%*	43	*100,0%*	**20**	*100,0%*	13	*100,0%*	7	*100,0%*
Political affiliation	0	Has not been a political appointee	**35**	*52,2%*	7	*29,2%*	28	*65,1%*	**17**	*85,0%*	13	*100,0%*	4	*57,1%*
	1	Has been a political appointee	**32**	*47,8%*	17	*70,8%*	15	*34,9%*	**3**	*15,0%*	0	*0,0%*	3	*42,9%*
		TOTAL	**67**	*100,0%*	24	*100,0%*	43	*100,0%*	**20**	*100,0%*	13	*100,0%*	7	*100,0%*
Turnover	1	Worsening (Overall)	**8**	*27,6%*	3	*30,0%*	5	*26,3%*	**4**	*66,7%*	3	*100,0%*	1	*33,3%*
	2	Remaining constant (Overall)	**12**	*41,4%*	3	*30,0%*	9	*47,4%*	**2**	*33,3%*	0	*0,0%*	2	*66,7%*
	3	Improving (Overall)	**9**	*31,0%*	4	*40,0%*	5	*26,3%*	**0**	*0,0%*	0	*0,0%*	0	*0,0%*
	1	Worsening (Education)	**5**	*17,2%*	4	*40,0%*	1	*5,3%*	**3**	*50,0%*	3	*100,0%*	0	*0,0%*
	2	Remaining constant (Education)	**17**	*58,6%*	4	*40,0%*	13	*68,4%*	**3**	*50,0%*	0	*0,0%*	3	*100,0%*
	3	Improving (Education)	**7**	*24,1%*	2	*20,0%*	5	*26,3%*	**0**	*0,0%*	0	*0,0%*	0	*0,0%*
		TOTAL	**29**	*100,0%*	10	*100,0%*	19	*100,0%*	**6**	*100,0%*	3	*100,0%*	3	*100,0%*

Spanish commercial banks and *Cajas* comparison

Commercial banks and *Cajas* (boom and crisis periods)

- *Commercial banks were more profitable than Cajas, although incurred in higher risk during the boom period.*
- *However banks control their risks in a better form than Cajas, and banks showed better performance during the crisis.*

	Model 1	Model 2	Model 3	Model 4	Model 5
	Random effects	Random effects	Random effects	Random effects	Random effects
VARIABLES	ROA	ROA Volatility	Z-score (full sample)	Z-score (year window)	Imp.Loans / Gross Loans
Bank (1 = commercial bank; 0 = Caja)	0.3616**	0.1469*	0.0156**	-0.3328	-0.2033
	[2.5154]	[1.6994]	[2.0357]	[-1.2558]	[-1.0067]
Crisis (1 = 2008 and 2009 years)	-0.4606***	0.2099***	0.0112***	-1.3010***	4.3777***
	[-4.8408]	[3.7001]	[2.8710]	[-9.5969]	[13.2906]
Bank x Crisis	-0.0428	-0.1594***	-0.0106**	0.4715**	-0.9791**
	[-0.2298]	[-2.9352]	[-2.0270]	[2.2220]	[-2.1139]
Ln Size	0.0517**	0.0027	-0.0040**	-0.0413	0.0489
	[2.0187]	[0.1607]	[-2.3301]	[-0.7475]	[0.7657]
Gross Loans / Total Assets	-0.0022	-0.0008	-0.0006***	-0.0019	0.0106
	[-0.8922]	[-0.5218]	[-5.8090]	[-0.2734]	[0.9256]
Equity / Total Assets	0.1736***	0.0312	-0.0033***	0.0380	-0.0965*
	[5.8845]	[1.1879]	[-2.9358]	[0.7526]	[-1.8816]
Constant	-0.8190***	-0.0717	0.1091***	4.9678***	0.4210
	[-2.8522]	[-0.4172]	[5.7563]	[6.3287]	[0.3043]
Time dummies	Yes	Yes	Yes	Yes	Yes
Observations	341	341	341	340	315
R^2	0.68	0.25	0.41	0.29	0.71
Chi^2	104.44***	69.38***	246.52***	204.76***	387.46***

Robust z-statistics in brackets

*** p<0.01, ** p<0.05, * p<0.1

Spanish commercial banks and *Cajas* comparison

The role of **chairman's human capital** in commercial banks and *Cajas*

Those institutions with a chairman that had more years of banking experience, more years spent in the bank and a top degree in their education, performed better than those without such profile.

	Model 6	Model 7	Model 8	Model 9	Model 10
	Random effects	Random effects	Random effects	Random effects	Random effects
VARIABLES	ROA	ROA Volatility	Z-score (full sample)	Z-score (year window)	Imp.Loans / Gross Loans
Lagged deper					
Chairman: number of previous years experience	-0.0025	-0.0029	-0.0008**	-0.0017	-0.0244
	[-0.5243]	[-1.1169]	[-1.9949]	[-0.2512]	[-1.4784]
Chairman: number of entity years experience	-0.0010	-0.0031***	-0.0002	0.0187***	-0.0143*
	[-0.4455]	[-2.8945]	[-1.5388]	[4.0608]	[-1.9192]
Chairman: education 2 (non economics degree)	-0.0652	0.0563	0.0036	-0.1341	-0.4674*
(the omitted is Chairman with no education)	[-0.7971]	[0.9746]	[0.9877]	[-0.5559]	[-1.9095]
Chairman: education 3 (economics degree)	-0.0313	0.0405	0.0086	-0.0834	-0.0642
	[-0.4140]	[0.6023]	[1.4444]	[-0.2914]	[-0.2107]
Chairman: education 4 (PhD, MBA)	-0.0897	0.1101	0.0100*	-0.6140**	-0.1209
	[-0.6858]	[1.4084]	[1.9587]	[-2.0834]	[-0.3805]
Chairman has political affiliations	0.0378	-0.0673**	-0.0045	0.2396	-0.1201
	[0.5368]	[-2.3937]	[-1.1218]	[1.3810]	[-0.8120]
Chairman (education 4) x Crisis	-0.1088	-0.0607	-0.0008	0.5184**	-0.8493**
	[-0.5083]	[-0.8790]	[-0.1734]	[2.1052]	[-2.0315]
Chairman has political affiliations x Crisis	-0.1112	0.0912	0.0077	0.0077	0.0906
	[-0.8293]	[0.9582]	[1.3484]	[0.0360]	[0.1684]
Bank (1 = commercial bank; 0 = Caja)	0.3950***	0.1499	0.0174**	-0.3156	-0.0661
	[2.8595]	[1.5171]	[2.2331]	[-1.1663]	[-0.2994]
Crisis (1 = 2008 and 2009 years)	-0.3699***	0.1758***	0.0077***	-1.4114***	4.5665***
	[-3.8998]	[3.5780]	[2.9234]	[-8.6306]	[12.9913]
Bank x Crisis	-0.0954	-0.1217***	-0.0072	0.4383**	-0.9944**
	[-0.5558]	[-2.5865]	[-1.6096]	[2.0020]	[-2.0805]
Ln Size	0.0604**	0.0006	-0.0048**	-0.0375	0.0738
	[2.3695]	[0.0391]	[-2.3293]	[-0.6789]	[1.1575]
Gross Loans / Total Assets	-0.0020	-0.0011	-0.0006***	-0.0015	0.0112
	[-0.8689]	[-0.6153]	[-7.0118]	[-0.2473]	[1.1141]
Equity / Total Assets	0.1771***	0.0285	-0.0035***	0.0515	-0.0863*
	[5.8312]	[1.0660]	[-3.3246]	[0.9843]	[-1.7782]
Constant	-0.8951***	0.0059	0.1195***	4.6634***	0.5552
	[-3.3271]	[0.0314]	[4.9349]	[6.5857]	[0.4214]
Time dummies	Yes	Yes	Yes	Yes	Yes
Observations	341	341	341	340	315
R^2	0,68	0,26	0,44	0,34	0,74
F-ratio (Chi²)	317.90***	118.26***	653.53***	259.30***	430.15***

Robust z-statistics in brackets

The influence of *Cajas'* politicization

No evidence concerning the effect of chairman political affiliation over bank performance

However, focusing on the level of politicization of *Cajas* governance, we observe that a major presence of politicized seats in the governing bodies implied better profitability but worse risk performance.

	Model 6	Model 7	Model 8	Model 9	Model 10
	Random effects	Random effects	Random effects	Random effects	Random effects
VARIABLES	ROA	ROA Volatility	Z-score (full sample)	Z-score (year window)	Imp.Loans / Gross Loans
Lagged deper					
Chairman: number of previous years experience	-0.0025	-0.0029	-0.0008**	-0.0017	-0.0244
	[-0.5243]	[-1.1169]	[-1.9949]	[-0.2512]	[-1.4784]
Chairman: number of entity years experience	-0.0010	-0.0031***	-0.0002	0.0187***	-0.0143*
	[-0.4455]	[-2.8945]	[-1.5388]	[4.0608]	[-1.9192]
Chairman: education 2 (non economics degree)	-0.0652	0.0563	0.0036	-0.1341	-0.4674*
(the omitted is Chairman with no education)	[-0.7971]	[0.9746]	[0.9877]	[-0.5559]	[-1.9095]
Chairman: education 3 (economics degree)	-0.0313	0.0405	0.0086	-0.0834	-0.0642
	[-0.4140]	[0.6023]	[1.4444]	[-0.2914]	[-0.2107]
Chairman: education 4 (PhD, MBA)	-0.0897	0.1101	0.0100*	-0.6140**	-0.1209
	[-0.6858]	[1.4084]	[1.9587]	[-2.0834]	[-0.3805]
Chairman has political affiliations	0.0378	-0.0673**	-0.0045	0.2396	-0.1201
	[0.5368]	[-2.3937]	[-1.1218]	[1.3810]	[-0.8120]
Chairman (education 4) x Crisis	-0.1088	-0.0607	-0.0008	0.5184**	-0.8493**
	[-0.5083]	[-0.8790]	[-0.1734]	[2.1052]	[-2.0315]
Chairman has political affiliations x Crisis	-0.1112	0.0912	0.0077	0.0077	0.0906
	[-0.8293]	[0.9582]	[1.3484]	[0.0360]	[0.1684]
Bank (1 = commercial bank; 0 = Caja)	0.3950***	0.1499	0.0174**	-0.3156	-0.0661
	[2.8595]	[1.5171]	[2.2331]	[-1.1663]	[-0.2994]
Crisis (1 = 2008 and 2009 years)	-0.3699***	0.1758***	0.0077***	-1.4114***	4.5665***
	[-3.8998]	[3.5780]	[2.9234]	[-8.6306]	[12.9913]
Bank x Crisis	-0.0954	-0.1217***	-0.0072	0.4383**	-0.9944**
	[-0.5558]	[-2.5865]	[-1.6096]	[2.0020]	[-2.0805]
Ln Size	0.0604**	0.0006	-0.0048**	-0.0375	0.0738
	[2.3695]	[0.0391]	[-2.3293]	[-0.6789]	[1.1575]
Gross Loans / Total Assets	-0.0020	-0.0011	-0.0006***	-0.0015	0.0112
	[-0.8689]	[-0.6153]	[-7.0118]	[-0.2473]	[1.1141]
Equity / Total Assets	0.1771***	0.0285	-0.0035***	0.0515	-0.0863*
	[5.8312]	[1.0660]	[-3.3246]	[0.9843]	[-1.7782]
Constant	-0.8951***	0.0059	0.1195***	4.6634***	0.5552
	[-3.3271]	[0.0314]	[4.9349]	[6.5857]	[0.4214]
Time dummies	Yes	Yes	Yes	Yes	Yes
Observations	341	341	341	340	315
R^2	0,68	0,26	0,44	0,34	0,74
F-ratio (Chi^2)	317.90***	118.26***	653.53***	259.30***	430.15***

Robust z-statistics in brackets

	Model 11	Model 12	Model 13	Model 14	Model 15
	Random effects	Random effects	Random effects	Random effects	Random effects
VARIABLES	ROA	ROA Volatility	Z-score (full sample)	Z-score (year window)	Imp.Loans / Gross Loans
% of seats by Employees	1.9331	-1.8438**	-0.0813	3.8076	-2.1435
(the omitted is % of seats by Founders)	[1.4155]	[-2.0026]	[-1.4824]	[1.4979]	[-0.4369]
% of seats by Depositors	0.1457	-0.2093	-0.0039	0.2302	-0.5973
	[0.2497]	[-0.8531]	[-0.3043]	[0.2631]	[-0.3628]
% of seats by Municipalities and Regions	0.3940*	0.3509**	0.0055	-1.4087*	0.4450
(Politicization)	[1.8864]	[2.0494]	[0.9436]	[-1.8566]	[0.4835]
Compensation per board member	0.0005**	0.0003*	-0.0000	-0.0012*	-0.0005
	[2.3650]	[1.7508]	[-1.1963]	[-1.6746]	[-0.7104]
Crisis (1 = 2008 and 2009 years)	-0.5157***	0.2016***	0.0092***	-1.2224***	4.1144***
	[-7.0435]	[4.8994]	[2.9819]	[-9.0663]	[12.6333]
Ln Size	-0.0190	0.0088	0.0009	0.0723	0.1090
	[-0.6730]	[0.3293]	[0.7271]	[0.5018]	[0.8377]
Gross Loans / Total Assets	0.0030	-0.0015	-0.0002**	0.0148	-0.0099
	[0.8995]	[-0.6428]	[-2.0302]	[1.3752]	[-0.5129]
Equity / Total Assets	0.1148***	-0.0355	-0.0040***	0.1789***	-0.2470***
	[3.9443]	[-1.5914]	[-2.9307]	[3.4393]	[-3.0404]
Constant	-0.5631	0.4423	0.0518***	2.0079	2.8850
	[-1.0508]	[1.4567]	[3.3208]	[1.2065]	[1.3502]
Time dummies	Yes	Yes	Yes	Yes	Yes
Observations	240	240	240	239	232
R^2	0,54	0,24	0,37	0,44	0,74
F-ratio (Chi²)	169.80***	89.98***	224.36***	216.67***	289.90***

Robust z-statistics in brackets
*** p<0.01, ** p<0.05, * p<0.1

Main conclusions

- We find that commercial banks were, in general, more profitable than *Cajas*, although they incurred in higher risk during the boom period.
- However banks seemed to control their risks in a better form than *Cajas*, since during the crisis period banks showed a better performance.
- This is contrary to the moral hazard hypothesis, and being a shareholder-oriented bank implies a stricter control over managers under an agency problem approach, even when protected by deposit insurance.
- Those institutions with a chairman that had more years of previous banking experience, more years spent in the entity and a top degree in their education, performed better than those without such profile.
- Our results do not find evidence concerning a potential influence of the political affiliation of the chairmen over the entities' performance.
- However, focusing on the effects of the level of politicization of *Cajas* governance, we can conclude that a major presence of politicized seats in the governing bodies of those entities implied better profitability but worse risk performance.

Main conclusions

- There is the possibility that a hidden *Cajas* agency problem (aggravated by a potential lack of human capital) during the "happy" boom years in Spain could have been unmasked during the crisis years.
- For instance, the evidence noted by Illueca et al. (2013) about the negative effect of the 1988 Spanish banking deregulation (i.e., the removal of branching barriers on the *Cajas*) in connection with the specific governance nature (and the politicization) of *Cajas* over their ex ante risk-taking and their ex post loan defaults, could help to explain the existence of a differentiated behaviour between *Cajas* (e.g., with less knowledge about the new territories in which they expanded rapidly thus taking residual high risks; mostly orientated in taking heavy real-estate risk shares; funding several nonviable political projects because of their influence in governing bodies) and commercial banks, and this particular behaviour of many *Cajas* originated a deferred problem of distress (masked during the boom period and unmasked during the financial crisis).

CHALLENGES AHEAD…

What can we learn from these organizations without formal owners unlisted but competitive?

What can we learn from these organizations about governance during a period of crisis?

Many non-profit firms in other sectors: health, education,… social goals.

Maybe different type of directors are needed for these different organizations….

A theoretical model with a stakeholder approach and participation? *Needed*!

V. THE END…

Takk!!