# Comments on

Renee B. Adams and Hamid Meheran,

"Corporate Performance, Board Structure and its Determinants in the Banking Industry"

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# Summary

- Empirical study on relation between board composition and firms performance in banking industry
- Findings: banking firms with larger boards doe not under perform  their peers in terms of market to book ratio

# Surprising!

- “Across these studies, a number of regularities have emerged-notably, the fact that board composition does not seem to predict corporate performance, while board size has a negative relationship to performance.” (Hermalin and Weisbach, Economic Policy Review, 2003 )

# The endogeneity of board size

- Carefully investigate the determinants of board structure
- M&A activity: it may leads to more persistent increases in board size
- Organizational structure of bank holding company

# Robustness

- Even taking these potential endogeneity into account, performance is not negatively related to board size!

# Clear messages

- No “one fits all” corporate governance structure form!
- At least, constraints on board size in the banking industry may be counter-productive.

# Demsetz and Lehn (1985)

- If diffuse ownership structure is not efficient, and we would observe no diffuse ownership structure in a “rational world”! (Demsetz and Lehn, JPE, 1985)
- For non-financial firms, the smaller is the board size, the better the performance is. We should observe that board size should converge to three or 5.

# Comments: endogeneity and econometric methodologies

- Darius Palia (2001), The endogeneity of Managerial Compensation in Firm Valuation: A Solution, *The Review of Financial Studies* 14, 735-64
- Board size and performance: better performing banks can afford to retain target directors longer around M&A

# Comments: endogeneity and econometric methodologies

- In particular, when the performance is extremely poor, for instance, in cases of accounting loss, there would be strong pressure to make the board slim.
- Simultaneous equations for corporate governance structure and performance, instrumental variables, two-stage least squares, three-stage squares

# Other comments

- Random effect models v.s. fixed effect models