



NATIONAL RESEARCH UNIVERSITY
HIGHER SCHOOL OF ECONOMICS

The Influence of Bank Board Members' Business Reputation on Company Performance

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14.02.2025



Relevance

Since 2013, the central bank has purged the banking sector of unscrupulous, unstable players

894

operating banks in
2013

314

operating banks in
2025

7 182

top managers, shareholders and
members of the Board of Directors
on the Central Bank's blacklist by
2020



Business reputation of a board members

Researchers' opinion:

Significance of director's personal characteristics for increasing efficiency and competitiveness:

- **banks** (Rymanov, 2017, Prosvirkina and Emelyanova, 2018; Talavera et al., 2018; Karminsky et al., 2018; Tam et al., 2021)
- **companies** (Adams, 2017; Kirpishchikov et al., 2021)

Metrics:

- **busyness** (Lin et al, 2016; Fredriksson et al, 2020; Masulis and Mobbs, 2023; Tang et al, 2024)
- **compensation** (Fredriksson et al, 2020)
- **tenure** (Milbourn, 2003)
- **employment in the BOD of large companies** (Le et al, 2022)



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Central bank opinion:

Directors of banks bailed out by the central bank have poor business reputation



Theoretical foundations

Agency theory (Jensen, Meckling, 1976):

- banks can increase the monitoring efficiency of directors (Ghosh, 2016)
- bank directors may put pressure on top management and make riskier decisions (Minton, Taillard, Williamson, 2014)

Upper echelon theory (Hambrick, Mason, 1984):

- bankers' characteristics and experience can influence the choice of financial strategies

Resource dependency view:

- bank directors assist firms in obtaining additional and more attractive credit (Dittmann et al., 2010; Sisli-Ciamarra, 2012)
- bankers serve as financial experts that provide information about debt market (Fracasso et al., 2024)
- bank directors help to overcome financial problems, especially during economic downturns (Gilson, 1990; Santos, Winton, 2008)



How **bankers on board** influence company's performance?

- providers of expertise → positive impact on firm performance and governance (Nachane et al., 2005)
- contribute to increase the financial leverage of the firm, reduce the efficiency of investment → negative influence on financial performance (Mitchell, 2008)
- investment bankers → increases the probability of future acquisitions of the firm (Huang et al., 2011)



How **negative experience** of directors influences company's performance?

Professional experience:

- At least one director in common with the firm filing for bankruptcy → more corporate risk (Gopalan et al., 2018)
- Presence of related directors with a firm that is sued reduces the valuation of the firm (Fich, Shivdasani, 2007)

Life experience:

- CEOs who have experienced a crisis have less debt, save more cash and invest less than other firms (Dittmar and Duchin, 2015)
- CEO who survives a fatal disaster without extreme negative consequences runs a more aggressive firm, while a CEO who survives a disaster with extreme negative consequences behaves more conservatively (Bernile et al., 2017)
- CEOs who grew up during the Great Depression are averse to debt and lean excessively on internal finance (Malmendier et al., 2011)



Hypothesis

H1: Unsatisfactory business reputation of a bank's BoD member negatively affects the performance of the companies where the director works



Sample

- 215 companies from Moscow Exchange Broad Market Index (MICEX BMI)
- Period: 2013-2020
- Sources: annual reports, Thomson Reuters, SPARK-Interfax

Year	Share of companies with “bad” bank directors	Share of companies with “good” bank directors
2013	0.132	0.316
2014	0.192	0.376
2015	0.150	0.345
2016	0.120	0.402
2017	0.175	0.421
2018	0.148	0.357
2019	0.170	0.372
2020	0.190	0.418



Descriptive statistics

	2013	2014	2015	2016	2017	2018	2019	2020
N of companies	125	126	113	109	110	112	108	99
N of companies' directors	1153	1165	1062	1053	1032	1003	1008	898
Total N of banks	843	800	724	626	521	461	374	358
N of banks with an available list of directors	524	563	499	532	464	396	353	335
N of banks' directors	3474	3498	3077	3075	2618	2265	2031	1935



Descriptive statistics

Statistic	N	Mean	St. Dev.	Min	Pctl(25)	Median	Pctl(75)	Max
“Good” directors	743	0.417	0.493	0	0	0	1	1
“Bad” directors	743	0.162	0.368	0	0	0	0	1
Financial leverage	743	0.556	0.227	0.005	0.381	0.564	0.731	0.998
MV/BV	743	1.080	0.675	0.208	0.707	0.951	1.241	7.197
Liquidity	743	1.671	1.783	0.179	0.877	1.181	1.846	18.926
Tangibility	743	0.474	0.250	0.000	0.279	0.502	0.676	0.923
Board size	743	9.443	2.439	5	7	9	11	19
State ownership	743	0.054	0.168	0.000	0.000	0.000	0.000	0.923
Sales	743	374,819.200	1,149,124.000	14	16,083.5	62,168	222,595.5	8,676,000
ROA	743	0.057	0.098	-0.444	0.006	0.046	0.108	0.496
Log(board size)	743	2.211	0.264	1.609	1.946	2.197	2.398	2.944
Log(sales)	743	10.947	2.081	2.639	9.686	11.038	12.313	15.976



Model I

Heckman sample selection model

The presence of banker's can be endogenous

Selection equation:

$$\begin{aligned} & \textit{Dummy}_{it} \\ &= \gamma_1 \cdot \log(\textit{Board Size})_{it} + \gamma_2 \cdot \frac{MV}{BV} + \gamma_3 \cdot \textit{Fin lev}_{it} + \gamma_4 \cdot \textit{Liquid}_{it} + \gamma_5 \cdot \textit{Tang}_{it} + \gamma_6 \cdot \textit{State own}_{it} + \gamma_7 \\ & \cdot \log(\textit{Sales})_{it} + u_{it} \end{aligned}$$

Outcome equation:

$$\begin{aligned} & \textit{Performance}_{it} \\ &= \beta_1 \cdot \textit{Good dir}_{it} + \beta_2 \cdot \textit{Bad dir}_{it} + \beta_3 \cdot \log(\textit{Board Size})_{it} + \beta_4 \cdot \frac{MV}{BV} + \beta_5 \cdot \textit{Fin lev}_{it} + \beta_6 \cdot \textit{Liquid}_{it} + \beta_7 \cdot \textit{Tang}_{it} \\ & + \beta_8 \cdot \textit{State own}_{it} + \beta_9 \cdot \log(\textit{Sales})_{it} + \varepsilon_{it} \end{aligned}$$



Model II

Heckman sample selection model

We add an interaction between financial leverage and directors' reputation in the outcome equation

Selection equation:

$$\begin{aligned} & \text{Dummy}_{it} \\ &= \gamma_1 \cdot \log(\text{Board Size})_{it} + \gamma_2 \cdot \frac{MV}{BV} + \gamma_3 \cdot \text{Fin lev} + \gamma_4 \cdot \text{Liquid} + \gamma_5 \cdot \text{Tang} + \gamma_6 \cdot \text{State own} + \gamma_7 \cdot \log(\text{Sales}) \\ &+ u_{it} \end{aligned}$$

Outcome equations:

- $$\text{Performance}_{it} = \beta_1 \cdot \text{Good dir}_{it} + \beta_2 \cdot \text{Bad dir}_{it} + \beta_3 \cdot \text{Good dir}_{it} \cdot \text{Fin lev}_{it} + \beta_4 \cdot \log(\text{Board Size})_{it} + \beta_5 \cdot \frac{MV}{BV} + \beta_6 \cdot \text{Fin lev}_{it} + \beta_7 \cdot \text{Liquid}_{it} + \beta_8 \cdot \text{Tang}_{it} + \beta_9 \cdot \text{State own}_{it} + \beta_{10} \cdot \log(\text{Sales})_{it} + \varepsilon_{it}$$
- $$\text{Performance}_{it} = \beta_1 \cdot \text{Good dir}_{it} + \beta_2 \cdot \text{Bad dir}_{it} + \beta_3 \cdot \text{Bad dir}_{it} \cdot \text{Fin lev}_{it} + \beta_4 \cdot \log(\text{Board Size})_{it} + \beta_5 \cdot \frac{MV}{BV} + \beta_6 \cdot \text{Fin lev}_{it} + \beta_7 \cdot \text{Liquid}_{it} + \beta_8 \cdot \text{Tang}_{it} + \beta_9 \cdot \text{State own}_{it} + \beta_{10} \cdot \log(\text{Sales})_{it} + \varepsilon_{it}$$



Results

Variable	ROA	MV/BV
Good director	-0.014 (0.016)	-0.003 (0.088)
Bad director	-0.023** (0.012)	0.020 (0.068)
Control variables
Observations	743	743

* – significance at 10%; ** – 5%; *** – 1%



Results

Variable	ROA	MV/BV
Good director	-0.048 (0.048)	1.012*** (0.266)
Bad director	-0.033 (0.026)	0.331** (0.145)
Good director*Fin lev	0.057 (0.074)	-1.721*** (0.397)
Bad director*Fin lev	0.020 (0.046)	-0.628** (0.250)
Fin lev	-0.265*** (0.085)	3.169*** (0.449)
Control variables
Observations	743	743

* – significance at 10%; ** – 5%; *** – 1%



Results

Variable	ROA	MV/BV
Super good director	-0.038 (0.027)	0.111 (0.160)
Bad director	-0.028 (0.024)	0.118 (0.133)
Super good director*Fin lev	0.045 (0.053)	-0.028 (0.316)
Bad director*Fin lev	0.018 (0.040)	-0.174 (0.220)
Fin lev	-0.229*** (0.036)	1.497*** (0.217)
Control variables
Observations	743	743

* – significance at 10%; ** – 5%; *** – 1%



Results

Variable	ROA	MV/BV
Good director	-0.003 (0.016)	-0.050 (0.091)
Bad director	-0.020 (0.012)	0.017 (0.072)
Good director*Year 2020	-0.120** (0.051)	0.560** (0.251)
Bad director*Year 2020	-0.001 (0.034)	-0.068 (0.198)
Year 2020	0.071 (0.054)	-0.286 (0.270)
Control variables
Observations	743	743

* – significance at 10%; ** – 5%; *** – 1%



Further development

- Connected directors
- Channel through investments, risks



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