

# DOES THE EDUCATION LEVEL OF BOARD MEMBERS AFFECT THE BANK'S PERFORMANCE? EVIDENCE FROM US BANKS

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## Abstract

The scientific literature on banks' corporate governance has considered multiple characteristics of the board of directors to try to understand its effects in terms of banking performance; however, there is a gap in the literature on the effects of the quality of education of board members on the banks' performance. Indeed, there is no consensus in the literature that human capital resources can predict risk-taking or bank performance. This study seeks to reduce this gap by examining for the period 2000–2021 the impact of the quality of the education background of board members on the performance of a group of large US banks. The results of this empirical investigation may offer relevant policy implications. The Federal Reserve System may consider adopting stricter measures than those currently imposed to control the behavior of the bank's board members and reduce agency problems.

## 1. INTRODUCTION

The corporate governance literature includes a specific line of research that studies the association between board member training and firm performance. However, there are few studies that analyze this

relationship in the banking sector and focus mainly on the chief executive officer's (CEO) education background while neglecting all members of the board.

Furthermore, empirical studies on this topic are considered specific samples of banks. Above all, it should be pointed out that these empirical results do not lead to univocal conclusions. This study contributes to the literature in the following ways. First, the study analyzes a large sample of US banks over a long period. Studies that analyze such large samples do not seem to exist in the literature. Second, our study analyzes the education of all board members and not just the CEO.

## 2. DATA AND METHODS

The analysis sample was constructed considering data from different sources. Financial data relating to banking institutions was obtained from Moody's Analytics BankFocus while data relating to the education of board members were acquired from the BoardEx database. Macroeconomic data was acquired from the World Bank database. The analysis model is based on linear regression with fixed effects. The variable formation of councilors is defined as the number of members holding a master's degree or doctorate divided by the number of the council qualification of council members and the delegation of members. The most widespread performance variables in the literature (return on equity (ROE), return on assets (ROA) and Tobin's Q) were considered. The control variables include both governance variables (board size, board independence) and dimensional variables (total asset, loan to deposit).

## 3. PRELIMINARY EMPIRICAL RESULTS

The first results of the empirical analysis show a sufficient level of significance of the influence of the education level of the board members on the financial performance of banks. This means that the recruitment of board members must consider the education background. This study addresses these gaps in the literature. Therefore, it is interesting to expand the existing research in other countries to see if these results will be confirmed.

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