

Bank Ownership and Governance Quality in Four Post-Crisis Asian Economies

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1. Introduction

The 1997-98 Asian Financial Crisis has been associated with bank failures in several Asian economies. The bank failures have been viewed by some as a contributing factor of the Crisis. Realizing that banks are crucial to economic growth, Asian governments have strived to reform their banking sectors. One potentially important item on the bank reform agenda is corporate governance. It is not clear how much Asian policymakers have done to alter the governance structures and practices of their banks, and the economic impact of such changes.

To investigate how corporate governance of banks has evolved after the Crisis and their economic consequences, this report examines (1) the corporate governance characteristics of 59 banks in four Asian economies (Indonesia, the Republic of Korea, Malaysia, and Thailand) and (2) the roles of corporate governance in the banks' performance and operating efficiency. The period of study is 2000 to 2003, a period shortly after the Crisis. The four economies are chosen because they were hard hit by the Crisis, and many of their banks have been restructured since then. It is therefore useful to report the current state of these countries' bank governance, and whether bank performance can be attributable to the new governance structures.

Based on a comprehensive survey of banks in the four Asian economies conducted by the Asian Development Bank Institute, this report provides the first-hand evidence on the governance structures of the Asian banks. It examines the characteristics of the boards of directors and the ownership and control structures of the banks. Based on these governance characteristics, a corporate governance score is created to gauge the quality of the banks' governance in terms of the degree of professionalism and protection offered to outside equity investors. The report examines whether variations in the banks' governance structures and quality can be associated with differences in the banks' ownership and control structures. Finally, the report empirically addresses whether the banks' performance and efficiency can be related to their governance structures.

A few findings are documented in this report. First, almost 70% of the banks have concentrated ownership and are controlled by families, governments, or foreigners. Nevertheless, there is a significant (30%) presence of widely held banks. Second, the governance characteristics of the banks as revealed in their board structures do not appear to be of low protection to outside shareholders. Different from western firms though, there exists significant politicians' involvement in the management and the governance of the banks. There are also many banks that are not led or governed by bank professionals. Third, the banks' governance structures are significantly related to the banks' ownership and control structures. Family or state controlled banks tend to adopt governance structures that cater the controlling owners. By contrast, more diffusely owned or foreigner controlled banks tend to adopt governance structures that are more professional and more protective to outside equity holders. Fourth, overall, the banks' performance and efficiency are unrelated to the corporate governance characteristics. Further analysis reveals that significant positive relationships between governance quality and performance exist in sub-samples of countries and/or control types.

The remainder of the report proceeds as follows. Section 2 describes the sample and the basic characteristics of the banks. Section 3 examines the relation between bank governance and performance. And Section 4 concludes the report and provides policy implications.

2. Basic Characteristics of the Asian Banks

2.1. The Sample

The Asia Development Bank Institute's Corporate Governance of Bank Survey compiles governance and financial data of 63 banks in four Asian economies (Indonesia, the Republic of Korea, Malaysia and Thailand) hard hit by the 1997-1998 financial crisis. The governance data on bank ownership structure and boards of directors are taken as of 2003. The financial information of the banks covers a period of 4 years from 2000 to 2003. Our initial sample consists of 63 banks and 252 bank-year observations. However, we remove a few bank-year observations whose key governance or financial data are missing. Our final sample consists of 59 banks and 232 bank-years observations. Of the 59 banks, 23 are in Indonesia, 14 in the Republic of Korea, 10 in Malaysia, and 12 in Thailand (Table 1).

2.2. Basic Bank Characteristics

Table 1 reports the basic characteristics of the sample banks. Panel A focuses on ownership and control structures. Overall, 30% of the banks are controlled by the state. Another 30% of the banks are controlled by foreigners. Family controlled banks are less popular, accounting for only 12% of the sample. The state, family and foreigner controlled banks in the four countries account for over 70 percent of the total. The remaining banks are likely more widely-held, as they are not controlled by any of the three types of owners.

Across the four economies, Malaysia has the highest percentage of state controlled banks (40%), followed by Thailand (33%), the Republic of Korea (28%), and Indonesia (26%). Malaysia also has the highest percentage of family controlled banks (30%), followed by Thailand (17%), Indonesia (9%), and the Republic of Korea (0%). Except for Malaysia's sample that does not include foreigner-controlled banks¹, the rest of the economies all have significant percentages of banks controlled by foreigners with Indonesia 39%, the Republic of Korea 36%, and Thailand 30%.

Significant assets and financial restructuring have occurred to the Asia's banking sector after the financial crisis. Panel B of Table 1 reports that almost 54% of the 59 banks have experienced control change, 58% have been recapitalized by their governments, 41% received equity injections by foreigners, 37% experienced mergers and acquisitions, and 46% engaged in layoff of workers. Korean banks have the highest percentage of control change (86%), while Malaysian banks did not have any change in control nor equity injections by foreigners since the Crisis. Instead, most (90%) of the Malaysian banks were recapitalized by the government, the highest percentage among the four economies under study. Thai-banks have experienced the highest rate of layoff (80%), followed by the Republic of Korea (78%), Indonesia (30%), and Malaysia (0%).

Panel C of Table 1 reports the geographical scope of the banks. The basic statistics clearly indicate that most of the banks concentrate on domestic and regional operations. No nationwide bank has substantial (over 30%) international business. Of the regional banks, only 7 percent, or 4 regional banks have substantial (over 30%) out-of-region business.

Panel D of Table 1 shows the scope of services provided by the sample banks. The most significant bank business is credit card (81%) and mutual fund management (71%). Perhaps due to the Republic of Korea's relatively more developed capital market, all of the Korean banks provide fund management and investment advice services. In contrast, only 48% and

¹ Malaysia does have some foreign owned commercial banks which are not covered in this study.

26% of Indonesia banks provides fund management and investment advice services respectively. Moreover, unlike the banks in the other three countries, all banks in Malaysia provide real estate investment, development and management services.

2.3. Bank Governance Characteristics

To measure bank governance quality, we construct a corporate governance score from a few basic governance characteristics of the banks that capture governance quality and do not highly correlate with each other. The corporate governance score is similar to other governance indices such as in Gompers, Ishii, and Metrick (2003), but is simpler in terms of number of governance characteristics included. Seven governance dummy variables are used to construct the bank governance score:

- independent directors dominating the board
- chairman/CEO is non-politically connected
- chairman is not the CEO
- small board
- auditor is a Big-four accounting firm
- existence of second largest shareholder, and
- chairman/CEO is a professional.

Independent directors dominate the board (value equal to 1) when at least 50 percent of the bank's directors are classified as independent, and equal to 0 otherwise. The chairman/CEO is non-politically connected (value equal to 1) if neither Chairman nor CEO is a former or current official of the ministry of finance or other financial supervisory agency or elected and non-elected politicians, or else the dummy variable is equal to 0. The dummy variable of separate chairman and CEO equals 1 if the chairman and the CEO are not the same person, and 0 otherwise. Small board is equal to 1 if the number of directors on the board is smaller than the median of the 59 banks, and 0 otherwise. The Big-four auditor dummy is equal to 1 if the bank is externally audited by a Big-four auditor, and 0 if the bank is audited by a local auditor. The dummy of existence of a second largest shareholder is equal to 1 if the bank has a second largest shareholder with more than or equal to 5 percent of equity ownership, and 0 otherwise. Last, the dummy of chairman/CEO professionalism is equal to 1 if both the chairman and the CEO have educational background in finance, and economics, or accounting or law.

To summarize the overall governance characteristic of the banks, the corporate governance score is defined as the sum of the values of the seven dummy variables. The corporate governance score ranges between 0 and 7. The higher the score, the more protective is the bank's governance structure to outside equity investors.

Basic Statistics

Table 2A provides the mean values of the governance dummy variables, as well as the summary statistics of the corporate governance score. Overall, 37% of the banks' boards are dominated by independent directors, 66% of the banks have non-politically connected chairmen and CEOs, 74% of the banks have separate chairman and CEO, 78% of the banks appoint Big-four auditors, 68% of the banks have a non-controlling second large shareholder, 73% of the banks have chairmen and CEOs with banking background. The governance data seem to indicate that the bank governance characteristics do not deviate much away from the conventional corporate governance benchmark. One exception is the low fraction of banks that have independent boards. This is mainly contributed by Indonesia and Thailand that have only 17% and 8% of their banks with independent boards, respectively.

There are cross country variations in the other bank governance characteristics. Thai-banks

have the highest fraction (75%) of non-politically connected Boards, followed by Indonesia (70%), the Republic of Korea (64%), and Malaysia (50%). Most banks' chairmen and CEOs are not the same person in these four selected countries, except the Republic of Korea. Only 21% of the Korean banks have different persons to work as chairman and CEO. Board size is quite different among the countries. Comparing with 87% and 43% of banks with small boards in Indonesia and the Republic of Korea, no bank in Thailand and only 10% of banks in Malaysia have small boards.² All Malaysian banks appoint Big-four auditors, while only 64% of Korean banks hire Big-four auditors. Indonesia and Malaysia have the highest percentage of banks with second large shareholders (91% and 80%), whereas the presence of second large shareholders is smaller in the Republic of Korea (50%) and Thailand (33%). Finally, the Republic of Korea has the highest percentage (93%) of banks whose chairmen or CEOs are bank professionals, followed by Thailand (75%), Indonesia (65%), and Malaysia (60%).

We next turn to the basic statistics of the corporate governance score. The mean and median governance scores for the full sample of banks from the four countries are 4.42 and 4, respectively. There is a cross-sectional variation in the governance score, as the minimum and maximum scores are 2 and 6, respectively. Across the four economies, Indonesia has the highest mean corporate governance score of 5.04, followed by Malaysia (4.3), the Republic of Korea (4.14) and Thailand (3.67).³

One potential concern of the corporate governance score is that most of the corporate governance dummy variables can be highly correlated and therefore collectively the score does not provide a comprehensive measure of governance quality. Table 2B reports Spearman correlation coefficients between pairs of the governance variables. In the table, high correlations are only found between the dummy of board independence and the dummy of non-politically connected chairman/CEO (correlation coefficient -0.26), and between the dummy of board independence and the dummy of chairman is not the CEO (-0.43). On the other hand, 5 of the 7 governance dummy variables are highly correlated with the corporate governance score. Since most of the governance dummies are not highly correlated with each other and most of the dummies are highly correlated with the corporate governance score, the corporate governance score reasonably summarizes the overall governance characteristic of the banks.

Governance Characteristics by Control Type

We next examine the governance characteristics of the banks by type of control in Table 3A. We divide our sample into four groups: foreigner controlled, family controlled, state controlled, and others containing mostly widely-held banks. The widely-held banks have the highest percentage (50%) of banks with boards dominated by independent directors. The rest control types typically do not have outsider dominated boards. Foreigner controlled group has the highest percentage (83%) of banks with non politically-connected chairman and CEO, followed by the widely held banks (69%), state banks (56%), and family banks (43%). Foreigner controlled banks also have the highest rate (83%) of separate CEO and chairmanship, followed by state banks (78%), widely-held banks (69%), and family controlled banks (57%). Widely-held banks have the highest percentage of small boards (69%), followed by state banks (44%), foreigner controlled banks (33%), and family controlled banks (28%). The use of Big-four auditors is popular among all of the control type. Family and foreigner controlled banks are more likely to have second large shareholders (86% and 83%, respectively) than widely-held and state banks (62% and 50% respectively). Widely-held and

² Indonesia has a dual board system. The reported board statistics are for the board of commissioners which are typically small in size. The statutory minimum size is just two.

³ The higher average score for Indonesian banks is due largely to the dual board system (that separates the CEO from the chair of the board of commissioners) as well as the generally small size of the Indonesian boards of commissioners.

foreigner controlled banks are more likely to have bank professionals as chairman and CEO (81% and 78% respectively) than are family and state banks (71% and 61% respectively).

Overall, the above governance characteristics of the different control types are quite as expected. Widely held or foreigner controlled banks tend to have governance structures that are more aligned with the interests of outside shareholders, whereas family or state banks tend to have governance structures that are more aligned with the interests of controlling shareholders (family or the state). Also interesting, state and family banks tend to be more political while less professional than foreigner controlled and widely-held banks. Consistently, the widely-held and foreigner controlled banks have higher corporate governance scores than the family and state banks have. The mean (median) corporate governance score for the widely held banks is 4.88 (5), followed by 4.61 (5) of the foreigner controlled banks, 4 (4) of both the family and state banks.

Table 3B reports Spearman correlation coefficients between the governance variables and the control types. Foreigner control is positively correlated with non-politically connected chairman/CEO and the existence of the second largest shareholder. State control is negatively related to the existence of the second largest shareholder. Widely-held banks are associated with small boards. Overall, state and family controls are associated lower corporate governance scores, while widely held banks and foreigner controlled banks are associated with higher corporate governance scores. The association between control type and corporate governance score is statistically significant for state and widely held banks.

3. Bank Governance and Performance

In this section, we evaluate the performance of the Asian banks and whether the performance is related to the governance structures of the banks.

3.1. Bank Performance Statistics

We examine three measures of bank performance and efficiency: (1) return on assets (ROA), (2) interest margin, and (3) non-performing loan ratio. ROA, a profitability measure, is defined as the net profit after tax divided by total assets at year-end. Interest margin or ex post interest spread is defined as the net interest income (interest income – interest expense) divided by total assets at year-end. We use interest margin to measure the efficiency of the bank intermediation. Non-performing loan ratio is defined as non-performing loans divided by total loans at year-end.

Table 4 reports the basic statistics of the performance measures. The dataset includes 59 banks in the four selected countries with 232 bank-years observations from 2000 to 2003. ROA of the Asian banks is generally low. The mean of the pooled data is 0.34%, ranging from -12.13% to 4.79%. Across the four economies, Indonesian and Malaysian banks have higher ROA (0.77% and 0.71%) whereas Korean and Thai banks have lower ROA (0.2% and -0.5%). The banks are generally operated at 2.25% interest margin. Consistent with the ROA statistics, Indonesian and Malaysian banks have higher interest margin than banks in the other two economies. The mean and median non-performing loan ratios are 9% and 5.37%, respectively. Thai banks have the highest mean non-performing loan ratio (12.57%), followed by Indonesian banks (10.10%), Malaysian banks (8.84%), and Korean banks (4.37%). As indicated in the standard deviation and the minimum and maximum statistics, there exist substantial variations in these performance/efficiency ratios across the banks and years.

We include two control variables in our analysis: bank size and bank capitalization ratio. We take the natural log of the banks' total assets in million of US dollars to proxy for the bank size. As in Panel D, the size of the Korean banks is the largest, followed by the Malaysian banks, the Thai banks, and the Indonesian banks. Bank capitalization ratio is defined as the book

value of equity divided by total assets. It measures the degree of bank risk. As in Panel E, the mean (median) capitalization ratio of the full sample is 6.29% (5.48%). Across the economies, Indonesian banks have the highest capitalization ratio (8.74%), followed by Thai banks (5.44%), Malaysian banks (4.64%), and Korean banks (4.33%).

3.2. Bank Governance and Performance

In this sub-section we examine the relation between bank governance and performance. Ideally, we would have corporate governance quality in an earlier year than the performance. However, we only have 2003 corporate governance data that we can link with 2000-03 performance. Unless the corporate governance structures remain stable during that period, any relation found in this analysis cannot be confirmed causal.

Correlation Analysis

To gain an initial view of the relations between the governance and performance of the banks, we prepare the Spearman correlation coefficient matrix between the performance measures and the governance variables in Table 5. A few observations follow. First, the corporate governance score is positively related to ROA and interest margin, as the correlation coefficients (21% and 29%, respectively) are both highly significant. The governance score is also significantly negatively related to bank size while positively related to bank capitalization.

Broken down into elements that comprise the corporate governance score, we find that ROA is significantly positively related to the chairman-CEO separation dummy, the small board dummy, and the dummy for second large shareholder. Interest margin is positively related to the chairman-CEO separation dummy, the small board dummy, the Big-four auditor dummy, and the dummy for second large shareholder, while negatively related to the dummy for professional chairman/CEO. The non-performing loan ratio is negatively related to the board independence dummy, the small board dummy, while positively related to the chairman-CEO separation dummy and the Big-four auditor dummy.

The overall corporate governance score is negatively related to bank size while positively related to bank capitalization. Breaking down into individual governance characteristics reveals that a few of the governance variables are correlated with bank size and bank capitalization. The board independence dummy and the professional chairman/CEO dummy are positively related to bank size. On the other hand, the chairman-CEO separation dummy, the small board dummy, and the second large shareholder dummy are negatively related to bank size. The board independence dummy and the professional chairman/CEO dummy are negatively related to bank capitalization. The chairman-CEO separation dummy, the small board dummy, and the second large shareholder dummies are positively related to bank capitalization.

Table 5 also reports that correlations between the performance measures and the different bank control types. ROA is positively related to family control. The non-performing loan ratio is positively related to state control while negatively related to widely-held banks. The state controlled banks may make their loan decisions based on not only commercial risk assessment but also its political agenda. For example, policy loans may be granted by the state controlled banks to distressed enterprises. Bank size is larger in state banks but smaller in widely-held banks. Bank capitalization is larger in foreigner controlled banks while lower in state banks. Finally, we define a restructuring dummy variable equal to 1 if, after the 1997-98 financial crisis, the bank has gone through control change, recapitalization by government, foreigner capital injection, merger, acquisition, or layoff, and 0 otherwise. Foreigner controlled banks are more likely to have been restructured since 1997, while family banks and widely-held banks experienced smaller degrees of restructuring since 1997.

In summary, the correlation coefficients in Table 5 suggest a positive relation between bank performance/efficiency and the coherence of the banks' corporate governance characteristics with those of the so-called "good governance" model. However, the corporate governance characteristics are also related to the banks' size and risk profiles, which call for a more comprehensive regression analysis to better isolate their relations.

Regression Analysis

We next perform a series of regressions to analyze the relation between bank governance and performance. The three performance/efficiency measures are alternatively used as the dependent variable. The independent variables include bank size, bank capitalization, the restructuring dummy, the foreigner control dummy, the family control dummy, the state control dummy, and the corporate governance score. To control for fixed effects, we include country and year dummies in the regression model. The regression is initially run on the pooled sample of 232 bank-firm observations.

Table 6A reports the ROA regression results. To evaluate whether our regression results are affected by collinearity issues between the bank control types and the corporate governance score, three model specifications are used. Column (1) reports the results of the first model that includes the control type variables but leaving out the governance score. Column (2) reports the results of the second model that includes the corporate governance score but leaving out the control type variables. Column (3) reports the results of the third model that includes both the control type variables and the governance score.

The results in Table 6A show that ROA is positively related to bank size, bank capitalization, weakly negatively related to foreigner control, and unrelated to the corporate governance score. The negative and significant relation between foreigner control and ROA is a bit surprising as it appears contrary to prior studies' findings. Claessens et al. (2001) report that foreign banks have higher profitability than domestic banks in developing countries. Bonin, Hasan and Wachtel (2004) find that foreign-owned banks are more cost-efficient than other banks and provide better services. Our result, however, may be due to selection bias considering badly-performed banks are more likely to be taken over by the foreign investors in the region.

Table 6B reports the country-by-country ROA regression results. Here the country dummy variables are not included. The results show that in Indonesia, family controlled banks have higher ROA, and higher corporate governance score is also associated with higher ROA. In Malaysia, state controlled banks are associated with lower ROA.

Table 6C reports the results of the regressions by bank control type. The independent variables now exclude the control type dummies while including both the country and year dummies. We find that only within the widely held bank sample ROA is positively related to the governance score.

Next we examine the regressions of interest margin. In Table 7A, the pooled regression results show that interest margin is positively related to the governance score. In addition, foreigner controlled banks, family controlled banks, and state controlled banks are associated with higher interest margin than are the wide-held banks. As expected, bank capitalization is negatively associated with interest margin as interest margin is lower for lower risk banks. Bank size is unrelated to interest margin in this pooled sample.

Table 7B reports the results of the interest margin regression by country. We find that interest margin is significantly positively related to the corporate governance score in Malaysia and Thailand, while it is significantly negatively related to the corporate governance score in the Republic of Korea. The relation is positive but insignificant for the Indonesian sample.

Moreover, the statistics in Table 7B suggest that interest margin varies with control type. Compared with widely-held banks, foreigner controlled banks have higher interest margins in Indonesia and Thailand. In Indonesia and Thailand, family banks have higher interest margins than widely-held banks have. But in Malaysia, family banks have smaller interest margins than widely-held banks have. State banks have higher interest margins in Indonesia and Thailand while smaller interest margins in the Republic of Korea and Malaysia. These results suggest that banks with a concentrated control enjoy higher interest margins than widely held banks have in Indonesia and Thailand, but the reverse is true in the Republic of Korea and Malaysia. The type of control does not seem to matter much to interest margin.

Interestingly, interest margin is positively related to bank capitalization in the Republic of Korea but they are insignificantly related in the other three economies. This is different from the pooled regression results in Table 7A where interest margin and bank capitalization is negatively related.

Table 7C reports the results of the interest margin regression by control type. Here we find that interest margin is positively related to the corporate governance score within family controlled banks, but their relations are insignificant in the other three types of control. Interest margin is positively related to bank capitalization for state banks and foreigner controlled banks but negatively related with each other in widely-held banks. Within family and state controlled banks, interest margin is negatively related to the incidence of bank restructuring since 1997.

Table 8A reports the results of the pooled non-performing loan regressions. The non-performing loan ratio is unrelated to the corporate governance score but is positively related to state controlled banks. Smaller and restructured banks also have higher non-performing loan ratios.

Table 8B reports the non-performing loan regression results country by country. We find that the non-performing loan ratio is significantly negatively related to the corporate governance score in Indonesia. State banks have higher non-performing loan ratios in Indonesia and Malaysia. Family controlled banks in Thailand have higher non-performing loan ratios. Restructured banks in Indonesia and Thailand have higher non-performing loan ratios. The non-performing loan ratio is negatively related to bank size in Indonesia and Malaysia but positively related with each other in Thailand. The non-performing loan ratio is negatively related to bank capitalization in Malaysia and Thailand, and marginally so in the Republic of Korea.

Table 8C reports the non-performing loan regression results by control type. Here we find a positive relation between non-performing loan and the corporate governance score within the family controlled banks. In addition, non-performing loan is negatively related to bank size for family and state banks. It is negatively related to bank capitalization for foreigner controlled banks.

In summary, the regression results reported in Table 6-8 suggest that the performance and efficiency of the banks in the four Asian economies is neither unanimously nor strongly related to the banks' corporate governance characteristics. However, we do find significant relations between governance and performance in some sub-samples by country or control type, and the relations are generally positive with few exceptions.

4. Conclusions and Policy Implications

We have analyzed the recent corporate governance structures and the performance of 59 banks in four Asian economies heavily impacted by the Asian Financial Crisis. We find that the banks' corporate governance characteristics are generally in line with their ownership and

control structures. Widely-held banks and foreigner controlled banks are likely to adopt governance structures that are more consistent with those of the U.S. and U.K. That is, their boards are more independent, smaller, consist of fewer politicians, more separate function between chairman and CEO, and more professional bank leadership. By contrast, banks with concentrated control in the hands of family or the state tend to adopt governance structures that are different from the western widely-held model. Their boards tend to be less independent, larger, consisting of more politicians, less separation between the CEO and chairmanship, and less professional leadership. The different governance structures between the widely-held /foreign banks and family/state controlled banks may be due to their different business models: the former are more reliant on arms-length transactions and equity markets for external financing, whereas the later are more reliant on relationship-based banking and less dependent on external equity markets for financing needs. We call for more research into these hypotheses.

Overall, we do not find strong support that the banks' performance or efficiency is related to their governance structures. Assuming that the banks' governance structures are endogenously determined by their business environments, the lack of relation is what we should find. However, we do find relations between bank performance and governance structures in a few sub-samples. This suggests that more analysis should be performed to find out whether these relations are spurious or suggest that governance matters under certain conditions. It will be also useful to expand the size of the bank sample so that more robust results can be found.

The primary policy implication of this research is that when reforming a country's bank governance, it is important to realize that the banks in the country is subject to a set of institutional constraints including the quality of the country's laws, regulations, the political system, the tax system, culture, social norm, and so on. To adapt to the institutional environments, the banks will likely adopt policies (including corporate governance) that maximize their overall objective value. Specifically, when a bank is constrained by government interventions such as deposit insurance, policy lending, bailout requirements, or even corruption, bank efficiency or shareholder wealth maximization will be just one (and not necessarily the most important one) of the several objectives of the bank. In this case, we cannot expect the bank to have a governance structure that is similar to an otherwise unconstrained bank. Also, we do not necessary expect that the efficiency of the bank bears any causal relations with the bank's governance structures, because the governance structures are optimally chosen subject to the bank's institutional constraints. Future research and policy making should therefore focus on identifying the institutional constraints faced by banks, their effects on the banks' incentives and objectives, and hence the banks' governance and other policies.

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Table 1
Bank Characteristics

	Indonesia	The Republic of Korea	Malaysia	Thailand	Total
Number of banks	23	14	10	12	59
Panel A: Who control the banks? (in percentage of total bank number)					
State controlled	26.09	28.57	40.00	33.33	30.51
Family controlled	8.70	0.00	30.00	16.67	11.86
Foreigner controlled	39.13	35.71	0.00	33.33	30.51
Others	26.08	35.72	30.00	16.67	27.12
Panel B: Extent of restructuring after the Asian crisis (in percentage of total bank number)					
Control change	56.52	85.71	0.00	58.33	54.24
Recapitalized by government	52.17	42.86	90.00	58.33	57.63
New equity injection by foreigners	47.83	42.86	0.00	58.33	40.68
Mergers and acquisitions	17.39	35.71	100.00	25.00	37.29
Layoff	30.43	78.57	0.00	80.00	45.61
Panel C: Geographical scope (in percentage of total bank number)					
Nationwide with substantial (over 30%) international business	0.00	0.00	0.00	0.00	0.00
Nationwide with international business below 30%	78.26	57.14	100.00	100.00	81.36
Regional with substantial (over 30%) business outside of the region	17.39	0.00	0.00	0.00	6.78
Regional with out-of-the-region business below 30%	4.35	42.86	0.00	0.00	11.86
Panel D: Scope of services provided (in percentage of total bank number)					
Credit card	56.52	100.00	100.00	91.67	81.36
Insurance	52.17	100.00	60.00	66.67	67.80
Securities underwriting	52.17	42.86	100.00	75.00	62.07
Securities brokerage	56.52	14.29	77.78	25.00	43.10
Fund management	47.83	100.00	90.00	66.67	71.19
Investment advice	26.09	100.00	90.00	91.67	67.80
Real estate investment, development & management	0.00	7.14	100.00	8.33	20.34

Table 2A
Governance Characteristics of Banks in Asia

		Indonesia	The Republic of Korea	Malaysia	Thailand	Total
	Number of Banks	23	14	10	12	59
(1)	Independent directors dominate the board	17.39	78.57	60.00	8.33	37.29
(2)	Chairman/CEO is non-politically connected	69.57	64.29	50.00	75.00	66.10
(3)	Chairman is not the CEO	100.00	21.43	70.00	91.67	74.58
(4)	Small board	86.96	42.86	10.00	0.00	45.76
(5)	Auditor is a Big-four firm	73.91	64.29	100.00	83.33	77.97
(6)	Existence of Second large shareholder	91.30	50.00	80.00	33.33	67.80
(7)	Chairman/CEO is a professional	65.22	92.86	60.00	75.00	72.88
	Mean	5.04	4.14	4.3	3.67	4.42
Corporate Governance score (sum of (1) through (7))	Standard deviation	0.71	1.23	0.82	1.07	1.07
	Median	5.00	4.00	4.00	4.00	4.00
	Minimum	4.00	2.00	3.00	2.00	2.00
	Maximum	6.00	6.00	6.00	5.00	6.00

Table 2B
Spearman correlation coefficients between the governance characteristics of Asian Banks
(Asterisks denote the levels of statistic significance: * 1%; ** 5%; * 10%)**

	Independent directors dominate the board	Chairman/CEO is non-politically connected	Chairman is not the CEO	Small board	Auditor is a Big-four firm	Existence of Second large shareholder	Chairman/CEO is a professional
Independent directors dominate the board	1						
Chairman/CEO is non-politically connected	-0.262**	1					
Chairman is not the CEO	-0.435***	-0.089	1				
Small board	-0.005	0.011	0.068	1			
Auditor is a Big-four firm	-0.097	0.051	0.065	-0.086	1		
Existence of Second large shareholder	-0.144	-0.034	0.181	0.123	0.159	1	
Chairman/CEO is a professional	0.076	0.046	-0.269**	-0.052	-0.048	-0.094	1
Corporate Governance score	0.109	0.340***	0.190	0.529***	0.329**	0.464***	0.278**

Table 3A
Governance Characteristics of Banks in Asia by control type

		Foreign r controlle d	Family controlle d	State controlle d	Others
	Number of Banks	18	7	18	16
(1)	Independent directors dominate the board	27.28	28.57	38.89	50.00
(2)	Chairman/CEO is non-politically connected	83.33	42.86	55.56	68.75
(3)	Chairman is not the CEO	83.33	57.14	77.78	68.75
(4)	Small board	33.33	28.57	44.44	68.75
(5)	Auditor is a Big-four firm	72.22	85.71	72.22	87.50
(6)	Existence of Second large shareholder	83.33	85.71	50.00	62.50
(7)	Chairman/CEO is a professional	77.78	71.43	61.11	81.25
Corporate	Mean	4.61	4.00	4.00	4.88
Governance	Standard deviation	0.92	0.58	1.28	0.96
score (sum	Median	5.00	4.00	4.00	5.00
of (1)	Minimum	2.00	3.00	2.00	3.00
through (7))	Maximum	6.00	5.00	6.00	6.00

NOTE to authors: spelling for "number" is incorrect

Table 3B**Spearman correlation coefficients between the governance and the performance characteristics of Asian Banks by control type**

(Asterisks denote the levels of statistic significance: *** 1%; ** 5%; * 10%)

	Foreigner controlled	Family controlled	State controlled	Others
Numebr of Banks	18	7	18	16
Independent directors dominate the board	-0.130	-0.066	0.022	0.160
Chairman/CEO is non-politically connected	0.241*	-0.180	-0.148	0.034
Chairman is not the CEO	0.133	-0.147	0.049	-0.082
Small board	-0.165	-0.127	-0.018	0.281**
Auditor is a Big-four firm	-0.092	0.069	-0.092	0.140
Existence of Second large shareholder	0.220*	0.141	-0.252*	-0.069
Chairman/CEO is a professional	0.073	-0.012	-0.175	0.115
Corporate Governance score	0.129	-0.201	-0.224*	0.245*

Table 4						
Summary statistics of the size, capitalization, and performance of banks in Asia (2000-2003)						
	Number of Observations	Mean	Standard Deviation	Median	Minimum	Maximum
Panel A: ROA						
Indonesia	88	0.0077	0.0253	0.0110	-0.1213	0.0402
The Republic of Korea	56	0.0019	0.0116	0.0067	-0.0436	0.0142
Malaysia	40	0.0071	0.0093	0.0080	-0.0370	0.0230
Thailand	48	-0.0059	0.0262	0.0016	-0.1213	0.0479
Total	232	0.0034	0.0214	0.0069	-0.1213	0.0479
Panel B: Interest margin						
Indonesia	88	0.0265	0.0328	0.0293	-0.0742	0.0905
The Republic of Korea	56	0.0195	0.0070	0.0196	-0.0013	0.0310
Malaysia	40	0.0233	0.0035	0.0230	0.0170	0.0322
Thailand	48	0.0178	0.0109	0.0187	-0.0074	0.0527
Total	232	0.0225	0.0213	0.0224	-0.0742	0.0905
Panel C: Non-performing loan ratio						
Indonesia	88	0.1010	0.1552	0.0417	0.0023	0.7223
The Republic of Korea	56	0.0437	0.0401	0.0277	0.0084	0.1741
Malaysia	40	0.0884	0.0582	0.0720	0.0132	0.2587
Thailand	48	0.1257	0.1034	0.1187	0.0023	0.5859
Total	232	0.0901	0.1141	0.0537	0.0023	0.7223
Panel D: Bank Size (log assets in MM USD)						
Indonesia	88	6.9615	1.7933	7.1296	3.9890	10.2910
The Republic of Korea	56	9.8180	1.2600	10.1106	6.9955	11.9468
Malaysia	40	8.9159	0.7475	8.6324	7.7344	10.4221
Thailand	48	8.8808	1.0371	9.0677	7.0692	10.4468
Total	232	8.3851	1.8089	8.6130	3.9890	11.9468
Panel E: Bank capitalization ratio						
Indonesia	88	0.0874	0.0570	0.0735	-0.0715	0.3587
The Republic of Korea	56	0.0433	0.0091	0.0422	0.0243	0.0643
Malaysia	40	0.0464	0.0208	0.0450	0.0197	0.1345
Thailand	48	0.0544	0.0208	0.0541	-0.0102	0.1026
Total	232	0.0629	0.0423	0.0548	-0.0715	0.3587

Table 5**Spearman correlation coefficients between the governance and the performance characteristics of Asian Banks**

(Asterisks denote the levels of statistic significance: *** 1%; ** 5%; * 10%)

	ROA	Interest Margin	Non-performing loan	Bank size	Bank Capitalization	Restructured since 1997
Independent directors dominate the board	-0.069	-0.019	-0.110*	0.216***	-0.370***	0.032
Chairman/CEO is non-politically connected	-0.046	-0.008	0.102	0.035	0.041	0.100
Chairman is not the CEO	0.124*	0.204***	0.164**	-0.320***	0.400***	0.081
Small board	0.277***	0.263***	-0.270***	-0.518***	0.249***	-0.371***
Auditor is a Big-four firm	0.076	0.139**	0.125*	0.065	-0.023	-0.012
Existence of Second large shareholder	0.170***	0.253***	-0.078	-0.252***	0.325***	0.014
Chairman/CEO is a professional	-0.095	-0.157**	0.020	0.211***	-0.164**	-0.045
Corporate Governance score	0.207***	0.292***	-0.066	-0.250***	0.199***	-0.083
Foreigner controlled banks	-0.079	0.028	-0.095	-0.091	0.147**	0.277***
Family controlled banks	0.120*	0.017	0.104	-0.045	-0.027	-0.110*
State controlled banks	-0.005	-0.067	0.134**	0.228***	-0.132**	0.075
Widely held banks	0.001	0.029	-0.117*	-0.111*	0.005	-0.284***

Table 6A
Results of ordinary least squared regressions of ROA on bank ownership and governance characteristics

	(1)	(2)	(3)
Intercept	-0.0379*** (-3.52)	-0.0338*** (-2.88)	-0.0394*** (-3.24)
Bank Size	0.0034*** (3.40)	0.0027*** (2.86)	0.0033*** (3.35)
Bank Capitalization	0.1574*** (4.47)	0.1556*** (4.37)	0.1585*** (4.46)
Restructured after 1997	0.0009 (0.22)	-0.0037 (-1.00)	0.0009 (0.21)
Foreigner Controlled	-0.0076** (-2.01)		-0.0075* (-1.94)
Family Controlled	0.0045 (0.97)		0.0049 (1.01)
State Controlled	-0.0057 (-1.58)		-0.0053 (-1.37)
Corporate Governance Score		0.0006 (0.44)	0.0004 (0.28)
Indonesia	0.0152*** (3.73)	0.0119*** (2.64)	0.0146*** (3.13)
The Republic of Korea	0.0071* (1.77)	0.0064 (1.60)	0.0070* (1.74)
Malaysia	0.0113*** (2.60)	0.0141*** (3.29)	0.0110** (2.47)
Year dummies (not reported)			
F-value	5.44	5.62	5.01
Adjusted R-square	0.187	0.167	0.1840
Observations	232	232	232

Table 6B
Results of ordinary least squared regressions of ROA on bank ownership and governance characteristics by country

	Indonesia	The Republic of Korea	Malaysia	Thailand
Intercept	-0.0726*** (-2.93)	-0.0169 (-1.28)	-0.0438 (-1.40)	0.0762 (0.60)
Bank Size	0.0038* (1.98)	0.0000 (-0.03)	0.0053* (2.04)	-0.0040 (-0.39)
Bank Capitalization	0.1934*** (3.84)	0.6373*** (3.93)	0.0909 (1.18)	0.4295* (1.77)
Restructured after 1997	-0.0007 (-0.10)	-0.0063 (-1.40)	- -	-0.0056 (-0.23)
Foreigner Controlled	-0.0077 (-0.94)	0.0023 (0.60)	- -	-0.0425 (-1.31)
Family Controlled	0.0190* (1.76)	- -	0.0051 (1.41)	-0.0318 (-1.44)
State Controlled	-0.0108 (-1.33)	0.0030 (0.65)	-0.0067* (-1.84)	-0.0340 (-1.04)
Corporate Governance Score	0.0092** (2.26)	-0.0012 (-0.89)	0.0008 (0.35)	-0.0086 (-0.82)
Year dummies (not reported)				
F-value	2.45	4.20	1.80	2.05
Adjusted R-square	0.143	0.344	0.141	0.182
Observations	88	56	40	48

Table 6C**Results of ordinary least squared regressions of ROA on bank ownership and governance characteristics by control type**

	Foreigner Controlled	Family Controlled	State Controlled	Others
Intercept	-0.0832*** (-3.48)	-0.0452 (-0.85)	-0.0176 (-0.60)	-0.0404*** (-3.03)
Bank Size	0.0034 (1.62)	0.0068 (1.30)	0.0043* (1.78)	0.0034*** (3.51)
Bank Capitalization	0.5744*** (7.19)	0.3369 (1.10)	0.2047** (2.38)	-0.0001 (0.00)
Restructured after 1997	-	-0.0032 (-0.39)	-0.0160 (-1.48)	-0.0029 (-1.09)
Corporate Governance Score	0.0020 (0.62)	-0.0110 (-1.19)	-0.0058 (-1.32)	0.0028** (2.18)
Country dummies (not reported)				
Year dummies (not reported)				
F-value	8.71	2.56	2.52	3.66
Adjusted R-square	0.472	0.3510	0.177	0.301
Observations	70	27	72	63

Table 7A			
Results of ordinary least squared regressions of interest margin on bank ownership and characteristics			
	(1)	(2)	(3)
Intercept	0.0174 (1.50)	0.0102 (0.82)	0.0029 (0.22)
Bank Size	0.0008 (0.71)	0.0010 (0.96)	0.0005 (0.47)
Bank Capitalization	-0.0747** (-1.98)	-0.0753** (-1.99)	-0.0640* (-1.70)
Restructured after 1997	-0.0034 (-0.76)	-0.0013 (-0.33)	-0.0037 (-0.84)
Foreigner Controlled	0.0068* (1.66)		0.0083** (2.03)
Family Controlled	0.0087* (1.74)		0.0121** (2.36)
State Controlled	0.0051 (1.33)		0.0087** (2.13)
Corporate Governance Score		0.0024 (1.61)	0.0039** (2.41)
Indonesia	0.0125*** (2.86)	0.0093* (1.95)	0.0068 (1.37)
The Republic of Korea	0.0015 (0.35)	-0.0013 (-0.30)	0.0007 (0.17)
Malaysia	0.0060 (1.28)	0.0035 (0.77)	0.0035 (0.73)
Year dummies (not reported)			
F-value	2.23	2.50	2.56
Adjusted R-square	0.060	0.061	0.081
Observations	232	232	232

Table 7B				
Results of ordinary least squared regressions of interest margin on bank Ownership and governance characteristics by country				
	Indonesia	The Republic of Korea	Malaysia	Thailand
Intercept	0.0007 (0.02)	0.0291*** (3.38)	0.0147 (1.67)	-0.1183*** (-2.83)
Bank Size	-0.0005 (-0.22)	-0.0002 (-0.23)	0.0004 (0.58)	0.0097*** (2.86)
Bank Capitalization	-0.0661 (-1.01)	0.2174** (2.06)	-0.0097 (-0.45)	0.0024 (0.03)
Restructured after 1997	-0.0080 (-0.89)	-0.0037 (-1.26)	-	-0.0043 (-0.54)
Foreigner Controlled	0.0212** (2.00)	-0.0024 (-0.94)	-	0.0335*** (3.14)
Family Controlled	0.0374*** (2.66)	-	-0.0045*** (-4.41)	0.0166** (2.27)
State Controlled	0.0291*** (2.75)	-0.0077** (-2.60)	-0.0034*** (-3.30)	0.0227** (2.10)
Corporate Governance Score	0.0060 (1.13)	-0.0023** (-2.60)	0.0014** (2.23)	0.0100*** (2.89)
Year dummies (not reported)				
F-value	2.38	2.78	5.90	5.40
Adjusted R-square	0.137	0.225	0.501	0.483
Observations	88	56	40	48

Table 7C

Results of ordinary least squared regressions of interest margin on bank ownership and governance characteristics by control type

	Foreigner Controlled	Family Controlled	State Controlled	Others
Intercept	0.0238 (1.11)	-0.0554* (-1.93)	0.0311* (1.92)	-0.002 (-0.04)
Bank Size	-0.0001 (-0.06)	-0.0007 (-0.25)	0.0002 (0.15)	0.0036 (1.23)
Bank Capitalization	0.17338** (2.43)	0.2516 (1.52)	0.2187*** (4.57)	-0.2962*** (-4.29)
Restructured after 1997	- -	-0.0238*** (-5.36)	-0.0211*** (-3.53)	-0.0041 (-0.51)
Corporate Governance Score	-0.0009 (-0.32)	0.0220*** (4.41)	-0.0036 (-1.45)	0.0003 (0.08)
Country dummies (not reported)				
Year dummies (not reported)				
F-value	2.00	30.3	9.14	3.25
Adjusted R-square	0.104	0.910	0.5340	0.266
Observations	70	27	72	63

Table 8A
Results of ordinary least squared regressions of non-performing loan ratio
on bank ownership and governance characteristics

	(1)	(2)	(3)
Intercept	0.1354** (2.26)	0.1578** (2.39)	0.1333* (1.96)
Bank Size	-0.0106* (-1.92)	-0.0070 (-1.30)	-0.0106* (-1.91)
Bank Capitalization	0.0533 (0.27)	0.0373 (0.19)	0.0549 (0.28)
Restructured after 1997	0.0488** (2.13)	0.0409* (1.95)	0.0488** (2.12)
Foreigner Controlled	-0.0123 (-0.58)		-0.0121 (-0.56)
Family Controlled	0.0273 (1.05)		0.0279 (1.03)
State Controlled	0.0494** (2.47)		0.0499** (2.32)
Corporate Governance Score		-0.0082 (-1.04)	0.0006 (0.07)
Indonesia	-0.0308 (-1.35)	-0.0195 (-0.77)	-0.0316 (-1.22)
The Republic of Korea	-0.0613*** (-2.74)	-0.0687*** (-3.05)	-0.0615*** (-2.73)
Malaysia	-0.0516** (-2.13)	-0.0349 (-1.45)	-0.0520** (-2.09)
Year dummies (not reported)			
F-value	3.46	2.95	3.18
Adjusted R-square	0.113	0.078	0.109
Observations	232	232	232

Table 8B				
Results of ordinary least squared regressions of non-performing loan ratio on Bank ownership and governance characteristics by country				
	Indonesia	The Republic of Korea	Malaysia	Thailand
Intercept	0.5653*** (4.50)	0.0036 (0.09)	0.7464*** (4.62)	-0.4079 (-0.92)
Bank Size	-0.0358*** (-3.72)	0.0018 (0.53)	-0.0645*** (-4.80)	0.0745** (2.07)
Bank Capitalization	-0.2288 (-0.90)	-0.7693 (-1.63)	-1.0297** (-2.59)	-3.2316*** (-3.80)
Restructured after 1997	0.0741** (2.10)	0.0151 (1.15)	- -	0.1727** (2.07)
Foreigner Controlled	0.0621 (1.51)	0.0013 (0.12)	- -	0.1061 (0.94)
Family Controlled	-0.0744 (-1.35)	- -	-0.0071 (-0.37)	0.1508* 1.94
State Controlled	0.2288*** (5.54)	-0.0084 (-0.64)	0.0502** (2.69)	-0.0798 (-0.69)
Corporate Governance Score	-0.0702*** (-3.40)	0.0058 (1.50)	-0.0099 (-0.89)	-0.0364 (-0.99)
Year dummies (not reported)				
F-value	7.17	8.03	4.33	3.59
Adjusted R-square	0.415	0.535	0.406	0.355
Observations	88	56	40	48

Table 8C
Results of ordinary least squared regressions of non-performing loan ratio on bank ownership and governance characteristics by control type

	Foreigner Controlled	Family Controlled	State Controlled	Others
Intercept	0.0774 (0.74)	0.9133*** (6.86)	0.6438*** (4.26)	0.2527*** (3.14)
Bank Size	0.0093 (1.01)	-0.1006*** (-7.65)	-0.0619*** (-4.99)	-0.0100 (-1.69)
Bank Capitalization	-0.9210** (-2.64)	-0.3476 (-0.45)	-0.2474 (-0.55)	0.1677 (1.21)
Restructured after 1997	- -	-0.0021 (-0.10)	0.0996* (1.78)	0.0234 (1.46)
Corporate Governance Score	-0.0086 (-0.62)	0.0752*** (3.25)	-0.0239 (-1.04)	-0.0027 (-0.35)
Country dummies (not reported)				
Year dummies (not reported)				
F-value	2.43	27.69	7.66	6.40
Adjusted R-square	0.142	0.902	0.484	0.466
Observations	70	27	72	63