The influence of foreign equity and board membership on corporate strategy and internal cost management in Portuguese banks

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Abstract

This study examines the influence of foreign equity and board membership on corporate strategy and the management of internal costs of banks headquartered in Portugal using proprietary data maintained by the Central Bank. The findings reveal that foreign equity reduces both total and operating costs, and foreign board membership reduces domestic banks' dependence on revenues from traditional areas of business and enhances the potential for generating revenues from non-traditional areas of business. These results are controlled for a variety of standard accounting ratios used in the literature. We argue that foreign equity and board membership forces banks to redirect corporate strategy and to reduce internal costs.

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1. Introduction

Enterprise governance is an emerging concern. The Chartered Institute of Management Accountants (CIMA) (2005) in the UK uses this term to describe both corporate governance and business governance aspects of organizations.[1] CIMA clearly distinguishes the external and internal aspects of corporate governance where the external dimension focuses on the role of boards and the internal dimension on the value drivers. Horngren et al. (2005) contend that the effectiveness of corporate governance affected by boards is increasingly judged based on how far they are concerned with overseeing the strategic management of firms and, indirectly, on their influence on the management of internal costs of firms. The paper aims to make an empirical assessment of this general proposition. It does so by focusing on the influence of foreign equity holders and board members on the oversight they achieve in the strategic and the cost management dimensions of the functioning of banks.

At a national level, corporate governance is defined as the legal, institutional, and cultural mechanisms adopted by equity owners to exercise control over corporate insiders and management (La Porta et al., 1999). Corporate governance patterns differ markedly across countries in several respects such as the importance of large stockholders, the legal protection of shareholders, the extent to which relevant laws are enforced, the treatment of stakeholders such as labour and the community, the reliance on debt finance, the structure of the board of directors, the way in which executives are compensated, accounting practice, and the frequency and treatment of mergers and takeovers (Shleifer and Vishny, 1997). The best practices of corporate governance tend to be associated with the Anglo-American, German and Japanese systems

[1] The CIMA Strategic Scorecard is a tool that is being developed by the CIMA. It emerged from an earlier project led by the International Federation of Accountants (IFAC, 2004) to develop the framework of enterprise governance. This framework emphasises the need to balance the conformance and performance aspects of the business in order to generate long-term sustainable shareholder value. The scorecard should provide the means for the board of directors of companies of all sizes to obtain assurance that the strategic process is operating effectively in order to generate long-term sustainable value. The objectives of the scorecard are to: assist the board, particularly the independent non-executive directors, in the oversight of a company's strategic process; assist the board in dealing with strategic choice and transformational change; give assurance to the board in relation to the company's strategic position and progress; track actions in, and outputs from, the strategic process; and assist the board in identifying key points at which it needs to take decisions. The scorecard is primarily an internal tool that aims to help boards improve their effectiveness. However, the process of preparing the scorecard and the resulting outputs can help boards to fulfil their external reporting responsibilities.

(Oxelheim and Randøy, 2003). These are considered to be reliable proxies for "good" governance systems mainly because of their stricter information requirements (OECD, 2004).

At the firm level, corporate governance can be defined as a set of relationships between a firm's management, its board, its shareholders and other stakeholders. It provides the structure through which the objectives of the company are set and the means used to determine how to attain those objectives and monitor performance. "Good" corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring. The presence of an effective corporate governance system within an individual company and across an economy as a whole provides a degree of confidence that is necessary for the proper functioning of a market economy resulting in lower internal costs.[2] Corporate governance is now increasingly regarded as engaging boards' oversight of firms' strategic management and cost management effectiveness (O'Connell, 2004).

A "good" corporate governance system can reduce information asymmetries and ease monitoring (Edwards and Nibler, 2000).The removal of barriers to cross-border investment nowadays gives firms the alternative of breaking away from domestic governance systems in order to reap rewards associated with the adoption of a more demanding system that comes in the form of improved performance. The potential gain from complying with a "good" system needs to be appraised after allowing for the substantial costs incurred by the compliance itself. These costs arise from such factors as more extensive accounting and reporting, the need for a broader and more qualified investor-relations staff, and more top management time allocated to investors (Stulz, 1999).

Although much of this also applies to banks, it is true that the banking firm differs significantly from corporations in other economic sectors. There is a clear conflict inside banks (between the interests of the shareholders and of the depositors), since managers are usually willing to take high-risk projects that increase share value at the expense of the value of the deposits. To avoid crises of confidence and bank runs, small deposits are insured and banks are

[2] Corporate governance impacts economic performance because it provides mechanisms that affect the returns on investment by suppliers of external finance to firms. Firms typically have more productive uses for these resources than the actual suppliers of external finance. But asymmetries of information inhibit such opportunities (Tirole, 2001).

regulated (John et al., 2000). Therefore, special attention should be given to governance issues in the context of banks.

Banks can adopt a "good" governance system through foreign equity and foreign board membership. Foreign equity, through foreign exchange listing, is the most widely recognized way of breaking out of a segmented home market. A foreign exchange listing signals a firm's commitment to the higher reporting standards prevailing in the market in which it lists and this can boost foreign investors' recognition of the firm and increase the ability to attract new investors. On the other hand, globalization of equity creates an opportunity for foreign shareholders to acquire large stakes in foreign firms. However, foreign investors must be confident that the capital they provide will be properly monitored. While the cost of getting involved can be prohibitive for small equity holders, larger shareholders can afford active monitoring (Shleifer and Vishny, 1997). Since board representatives for large foreign shareholders are more likely to use their influence and perform arm's-length monitoring, their entry as owners should help domestic banks move into newer lines of business and lower internal costs. The banking literature recognizes the importance of foreign equity and several empirical studies confirm the positive influence of foreign ownership on domestic bank performance (Levine, 2003).

Alternatively, banks can "import" a more demanding corporate governance system by simply having one or more representatives of that system as board members thereby signalling greater commitment to corporate monitoring and transparency, which is expected to be valued by investors. The presence of at least one foreign member representing a more demanding system will probably result in more active boards that are more independent of management. To date, only one study (Choi and Hasan, 2005) analyzes the influence of the presence of foreign directors on the performance of domestic banks in Korea. The study confirms the hypothesis that presence of foreign directors improves stock market returns of banks that allow foreign equity holdings. However, this result is based on a very small sample (77 observations) and the association is confirmed on the basis of only one dummy variable; there is therefore ample scope to build on this initial contribution.

The empirical analysis in this study is based on banks headquartered in Portugal. The advantage of breaking away from a segmented or partly segmented capital market is likely to be greatest for firms based in small capital markets, as is the case of Portugal, due to limited

availability of a domestic shareholder base and lower availability of a pool of experts to perform the oversight function (Stulz, 1999). Consequently, we expect both foreign equity and board membership to influence corporate strategy and internal costs management of domestic banks.

The paper is organized as follows. In section 2 we outline some fundamentals relating to the corporate governance and the banking sector in Portugal. In section 3 we present the main hypotheses tested in this paper. In section 4 we describe the data and methodology and in section 5 we present the empirical findings. Finally, in section 6 we summarize the main findings and suggest some avenues for future research.

2. Corporate governance and the banking sector: The case of Portugal

Banks face a wide range of complex risks in their day-to-day business, including risks relating to credit, liquidity, exposure concentration, interest rates, exchange rates, settlement and internal operations. The nature of the bank business – notably the maturity mismatch between assets and liabilities, relatively high gearing and reliance on creditor confidence – creates particular vulnerabilities. The consequences of mismanaging these risks can be severe, not only for the individual bank but also for the financial system as a whole. This reflects the fact that the failure of one bank can rapidly affect another through inter-bank exposures and confidence deterioration. In order to address this problem, banks need to create and maintain systems that enable them to identify, monitor and control their risks. Therefore, corporate governance is of fundamental importance both at the level of the individual bank and for the entire financial system, since it is the foundation for effective risk management.

It is difficult to generalize the study of corporate governance because of the multiplicity of systems. However, differentiating outsider from insider systems is a starting point. The former, currently dominant in the United Kingdom and the United States, is a characteristic of economies with a large number of listed firms, a liquid capital market where ownership and control rights are frequently traded and there is little concentration of shareholding. On the other hand, the insider system, attributed to continental Europe and Japan, is characterized by a small number of listed companies, an illiquid capital market where equity and control are infrequently traded and there is a high concentration of shareholding in the hands of corporations, institutions, families or governments (Lannoo, 1999).

This distinction establishes two main sets of differences between the two systems – also known as shareholder and stakeholder systems. The differences are: the structure of equity (the

Anglo-American system is characterised by a dispersed equity structure – stakes of less than 3% per investor; in contrast, both Germany and Japan have a system that is typified as a concentrated ownership structure – stakes greater than 10-20%); and the degree of liquidity and depth of financial markets (Rebérioux, 2002). In recent years financial liberalisation has been forcing European corporate governance systems to move towards an outsider director system in which the monitoring, oversight and control of firms is undertaken by outsiders rather than insiders (see for example Lambert and Sponem, 2005).

Focusing on the particular context of the Portuguese banking sector, and given the concentrated equity structure, we can say that most Portuguese banks do not face a conflict of interest between owners and entrenched managers who control the bank without equity stake.[3] Owners holding a substantial fraction of a bank's voting equity partially internalize the benefits of monitoring management and, thus, limit the extent to which managers can pursue their own aims at the expense of the equity owners in general (Feltham and Wu, 1994). Nevertheless, the relevance of the corporate governance topic has been growing in the past two decades because the country has undergone extensive financial liberalisation – as a result of the European integration process – and consequently the banking system has seen huge transformations with regards to ownership structure, openness and deregulation. Prior to this transformation, the entire banking system had been nationalized in 1975 (except for three foreign banks) and until 1984 operated under a regime of total dependence on political priorities, directed credit and binding credit ceilings, controlled interest rates and no foreign bank entry. The first and most important changes were the possibility of opening new banks (since 1984), the privatization of the nationalized banks (which began in 1989), the elimination of interest rate controls on lending (1988) and on deposits (1992), the removal of credit ceilings (1990) and of other controls such as on branching and on new products. The privatization program that initially limited equity ownership to 25% by foreign investors has been progressively relaxed. Tavares (2004) and Choi and Hassan (2005) contend that the analysis of the influence of foreign equity participation in domestic firms has not received significant attention from researchers. They argue that countries that have undergone a process of financial liberalisation turn out to be interesting settings for

[3] The insider model has been the predominant pattern of corporate governance observed in Portugal, as in most other countries from continental Europe, as investors often have large equity stakes (the concentrated structure allows owners to monitor, oversee and control firms from within), there are a small number of listed firms and the capital market is illiquid

analyzing the role played by foreign equity holders.[4] Choi and Hassan (2005) look at the influence of foreign equity on stock returns of domestic banks in Korea after the Asian crises, whereas we look at the role of foreign equity on the corporate orientation and internal cost management of domestic banks in Portugal.

Corporate governance research also recognizes the essential role played by the board of directors in sustaining an effective organisation (Jensen, 1993). We add a special angle to this issue by examining the case of outside board members representing a *foreign* corporate governance system, and claim that outside board members have a particularly important role to play with respect to monitoring companies in countries that have undergone recent financial liberalisation as is the case of Portugal. Oxelheim and Randøy (2001) also stress the importance of analysing the influence of foreign board membership on the activity of domestic firms in countries that have undergone recent financial liberalisation. Their study focuses on the influence of foreign board members on the market value of non-financial firms in Norway and Sweden, where firms are bound by law to have a two-tier system with employee representation on their boards. Choi and Hassan (2005) also analyse the influence of foreign directors on the stock market returns of banks headquartered in Koreas, where regulatory authorities demand a board structure in which two thirds of the members are insiders along with the establishment of an audit committee. Our study focuses on the influence of foreign board members on the corporate strategy and internal cost management of domestic banks in Portugal, where regulatory authorities recommend the appointment of a minimum of three directors, two of which must be executives and one non-executive.[5]

The structural transformation in the financial sector raises important questions about the role played by foreign participants and how their presence affects the corporate orientation and internal cost management of domestic banks. Thus, it reinforces the interest in the analysis of the two internal corporate governance mechanisms (equity and board of directors) from this

[4] Two countries in Europe that have undergone a process of financial liberalisation are Portugal and Italy. Data on corporate governance of banks are generally maintained by central banks that limit access to in-house researchers. In the case of the present study access to proprietary data maintained by the Central Bank of Portugal turned out to be determinant for undertaking the study. If data becomes available then the basic hypothesis advanced by Horngren et al. (2005) can be tested in other contexts as well.

[5] Ministry of Finance, Article 15 of "Regime Geral das Instituições de Crédito e Sociedade Financeiras".

perspective (foreign element). [6] Additionally, there is practically no research on management accounting practices in small countries like Portugal, contributing to the existing literature on management accounting practices across the world. The fact that the authors are based in Portugal also brings an element of the researcher's logic into the study.

3. The influence of foreign equity and board members: The hypotheses

The corporate governance literature suggests that firm performance depends on some factors such as the structure of equity and the quality of the monitoring and decision-making undertaken by its board of directors (Seal, 2006). In most cases, foreign equity holders tend to be institutional investors who have a better understanding of demand and supply conditions on a global basis. Foreign equity owners and board members can force domestic banks to move away from traditional interest-based business to non-interest based business as they better informed about state of the art techniques in the banking business. When allowed, such foreign equity and board membership, can simultaneously improve the bank's strategic and operational practices and external monitoring. Therefore, we expect an increase in foreign equity and board membership to have a negative influence on traditional lines of banking business and a positive influence on non-traditional lines of business.[7]

Hypothesis 1: There is a negative relationship between foreign equity and board membership and interest margin and a positive relationship between foreign equity and board membership and non-interest margin.

In the corporate governance literature, outside directors are often seen as value-enhancing as they are not subject to the same potential conflicts of interest that are likely to affect the judgments of the insiders. Foreign outside directors are likely to be even more independent and have fewer conflicts of interest than local outside directors. Their experienced insights and understanding of markets and competition beyond the local environment can bring a value enhancing perspective to management (Burns and Scapens, 2000). Even the simple advice and counselling to top management from alternative, independent and experienced sources makes it plausible to assume that foreign directors can provide performance enhancing benefits to the

[6] We abstract from the analysis of the joint influence of equity and board membership. This is certainly a fruitful area for future research.

[7] Traditional sources of income in banking relate to interest margin, which is equivalent to the contribution margin in the manufacturing enterprise. Non-interest margin relates to revenues derived from provision of services. Operating costs refer to staff, advertising and depreciation. Provisions for loan losses reflect bank management's expectations of losses on current loan portfolio. These definitions are based on Saunders and Cornett (2003, p.39).

local banks. For example, Oxelheim and Randøy (2003) investigate value effects of a foreign-based board of director on firms and report a significantly higher Tobin's Q for those firms that allow foreign directors to sit on their board.[8] Choi and Hassan (2005) investigate the influence of foreign equity holders and board members and find a positive influence of foreign equity on the stock market performance of domestic banks in Korea. In this paper we are interested in the benefits at the operational cost level that includes both standard fixed and variable costs and total cost levels that include other costs not considered in operational costs (Saunders and Cornett, 2003).

Hypothesis 2: There is a negative relationship between foreign equity and board membership and both operation and total costs.

Risk management practices brought by foreign board members can ultimately enhance the overall soundness of the domestic banking system. [9] Foreign directors can encourage the adoption of sophisticated risk-based practices when lending and managing credit portfolios, defending higher credit provisioning. Foreign equity owners and board members may also be more willing to address the deterioration of asset quality, tolerating lower profits in order to build longer-term institutional strength. Thus, foreign equity owners and directors may force increases in the provision for credit losses, thereby reducing profits and ultimately overall accounting performance (see for example Cobb et al., 1995).

Hypothesis 3: There is a positive relationship between foreign equity and board membership and provisions for credit losses.

4. Data and method

This study uses a proprietary data set that comprises 44 banks headquartered in Portugal covering a time frame between 1996 and 2004. Prior to 1996, there were few banks and presence of foreign equity and board members was also limited. To construct the variables used in this analysis, we compiled data on corporate orientation and cost variables (dependent variables), equity and board members (independent variables), and a set of accounting ratios to control our results (independent variables) used by Claessens et al., (2001) and Choi and Hasan (2005). Specifically, we use contribution margin to total assets (INTMRG) and non-contribution margin

[8] We are unable to use Tobin's Q as many banks are not listed on the stock exchange.

[9] The classical tool available to bank managers to manage risk is the constitution of provisions for credit losses (Saunders and Cornett, 2003).

to total assets (NINTMRG) as proxies for corporate orientation. Banks oriented towards the retail market will derive higher revenues from the contribution margin whereas banks oriented towards the investment banking type of operations will derive larger revenues from non-contribution margin. We use the ratios of operating costs to total assets (OPCOST) and total costs to total assets (TCOST) as proxies for costs; and provisions for credit losses to total credit (PCLTC) as proxy for risk management practices. Saunders and Cornett (2003) consider these aggregates as relevant for income and cost analysis of financial institutions. These variables and the independent variables referred below are summarized in Table 1.

[Insert Table 1]

In order to investigate the influence of foreign equity and board membership on corporate strategy and internal costs, we assembled seven independent variables. Foreign equity is measured as a dummy that assumes a value of 1 in each year if any percentage of equity is owned by a foreign shareholder, but in other cases 0 (DFOS) and a continuous variable reporting the share of equity owned by foreigners in each year (FOSP). Additionally, we used five variables to quantify foreign board membership: a dummy that takes a value of 1 in each year if there is any foreign director on the board, or 0 in other cases (DFBRD); a continuous variable reporting the percentage of foreign directors on the board in each year (FBRDP); a continuous variable that represents the number of foreign directors on the board in each year (FBRDN); a dummy variable that assumes a value of 1 in each year if the president of the board is foreign, or 0 in other cases (DFPRS); and a dummy variable that takes a value of 1 in each year if the president and/or any vice-president of the board is foreign, or 0 in other cases (DFTOPBRD).

Other accounting variables, namely equity to total assets (CAP); securities to total assets (SEC); credit to total assets (CRED); fixed assets to total assets (FIX); provisions to total assets (PROV); operating costs to total assets (OPCOST); client deposits to total assets (DEP); cash and liquid assets to total assets (LIQ); and overdue credit to total credit (OVDCRED) are included in the analysis to control for the influence of foreign equity and board membership.

[Insert Table 2]

Table 2 presents the descriptive statistics of the variables used in the study. We can observe that mean values for the percentages of foreign equity and foreign board membership are 5% and 9%, respectively. We also report the descriptive statistics and the t-test for equality of means between banks with and without foreign equity (Tables 3) and between banks with and

without foreign board membership (Table 4). We can observe striking differences across several variables in the groups that have accommodated foreign equity and board membership. In the case of foreign equity, banks do not differ when it comes to having a foreign CEO or board member. In the case of foreign board membership, banks differ in interest margin but not in non-interest margin. Correlations not reported here between some of the seven variables related to foreign equity and foreign board membership were found not to be linearly dependent.

[Insert Tables 3 and 4]

The model is defined as $I_{it} = \alpha_0 + \beta F_{it} + \gamma C_{it} + \varepsilon_{it}$, where I_{it} is a vector of the dependent variables for bank i at time t, F_{it} represents one of the seven variables measuring foreign ownership and board membership of domestic bank i at time t – i.e., DFOS, FOSP, DFBRD, FBRDP, FBRDN, DFPRS and DFTOPBRD – and C_{it} is the set of bank-specific control variables for i at time t. Finally, α_0 is a constant, β and γ are coefficients and ε_{it} is an error term. This model is estimated through the ordinary least squares (OLS) regression. We are interested in estimating the effect of foreign equity and board members on the corporate strategy and internal costs of domestic banks. So in order to evaluate potential reverse causality we also estimate the relation through two-stage least-square (2SLS) by using size as the instrument as recommended by Oxelheim and Randøy (2003).

The empirical examination in a single host country controls for unobserved host country effects that can obscure the bank-specific factors of interest to the study. However, we are aware that our results apply only to banks that have operations in Portugal. Pooling of the data masks relationships between dependent and independent variables that differ from one bank to another. One alternative is to use a fixed effects model at the expense of losing significant degrees of freedom. Alternatively if one is willing to assume that banks differ not in terms of their means but their variances then a random effects model could also be estimated. Since the time period under analysis is short, it appears reasonable to assume that the model's parameters are stationary over time and hence tests of non-stationarity were not conducted. The use of these alternative estimation procedures constitutes a promising avenue for future research.

5. Empirical findings

The key regression estimates of our proposed relationship between foreign equity, foreign board membership and bank performance are reported in Tables 5-11. The results indicate that foreign equity – dummy (DFOS) and share (FOSP) is significantly related to operating costs

(negative), total costs (negative) and provisions for credit losses (negative). The dummy for foreign director (DFBRD) is significantly related to interest margin (negative), non-interest margin (positive), operating costs (negative) and total costs (positive); the percentage of foreign directors (FBRDP) and the number of foreign directors (FBRDN) are significantly related to interest margin (negative), operating costs (negative) and total costs (positive); the dummy for foreign president (DFPRS) is significantly related to interest margin (negative) and provisions for credit losses (positive); and the foreign top director dummy (DFTOPBRD) is significantly related to total costs (positive) and provisions for credit losses (positive). Thus, we do not reject hypothesis 1, 2 and 3. In the thirty two-stage least regressions, only five regressions did not show signs of variables consistent with OLS estimates. Insofar as significant relations are concerned, only four variables produced inconsistent results suggesting that reverse causality is not a problem.

[Insert Table 5 and 6]

Concentrating on the foreign equity variables (Tables 5 and 6), there is a statistically strong negative relationship between the existence (DFOS) and the extent (FOSP) of foreign equity and bank costs (operating and total costs). The operating costs and total costs regressions show that the coefficients for FOSP have a higher magnitude than the coefficients for DFOS. Additionally, both foreign equity variables have a stronger impact on total costs than on operating costs. For example, the existence of foreign equity implies a reduction in total costs of 4.1%, while operating costs decline 1.1%; and a 1 percentage point of foreign equity implies a reduction in total costs of 12%, while operating costs decline 3.2%. Foreign equity thus creates an environment that is conducive to cost reduction that is achieved by transferring or requiring top management to adopt certain operational and management strategies.[10]

[Insert Tables 7-11]

Focusing on foreign board member variables (Tables 7-11) we also observe strong relationships. We find that most of the foreign board membership variables (in particular, DFBRD, FBRDP, FBRDN and DFPRS) are significantly and negatively related to interest margin. Inversely, almost all variables (more specifically, DFBRD, FBRDP, FBRDN and DFTOPBRD) are positively related to non-interest margin, although only the foreign director

[10] Choi and Hassan (2005) found a positive influence of foreign equity on the performance and stock market returns of banks headquartered in Korea.

dummy has a significant relation. The coefficients of foreign board member variables in interest margin regressions have a higher magnitude than the coefficients of the same variables in non-interest margin regressions. Foreign board membership reduces the interest margin by 0.7% on average and increases the non-interest margin 0.4%. Similar relationships can be observed in regressions for the share and number of foreign directors in the overall board structure. A foreign CEO reduces the interest margin by 6.0%. The decline in interest margin associated with the presence of foreign board members supports the view that a higher level of foreign monitoring reduces domestic banking dependence on traditional areas of business. Despite the less significant relationship with non-interest margin, the presence of foreign directors seems to lead to an increase in revenues from non-traditional banking sources.

Furthermore, except in the case of foreign president dummy, the foreign board member variables are negatively related to operating costs and most of these are significant suggesting that having foreign directors on the board brings diversity of knowledge, expertise and objectivity and, consequently, reduction in internal costs. Nevertheless, unlike in the foreign equity regressions and contrary to our expectations, we do not find a negative relationship between any foreign board member variable and total costs. Most of these variables are positively associated with total costs. A possible explanation for this relationship is the fact that our proxy of total costs includes the cost of funds, which on average represents more than 50% of the indicator for all banks in the sample. This leads to the conclusion that the presence of foreign board members does not reduce costs of funding for domestic banks.

The regressions also indicate that a foreign president (significant) and foreign top director dummies are positively related to our risk variable (PCLTC). Although the mere existence of foreign directors does not affect the level of provisions, the presence of a president with major influence on the board seems to promote the adoption of more prudent practices in the lending and management of credit risk. With a leading foreign element on the board banks seem to be more willing to address the deterioration of asset quality and, consequently, their practices appear to lead to higher levels of provisions for credit losses. On the other hand, foreign equity variables are negatively related to provisions for credit losses (low significance), which could mean that foreign investors are more interested in bank profitability and less concerned with asset quality.

Our results indicate that the presence of foreign equity and board members forces banks to re-orient the corporate strategy and reduce operating and total costs. Foreign board members' independence appears to play an important role in the corporate orientation and internal cost management of domestic banks.

6. Summary, implications and conclusions

CIMA and management accounting scholars and commentators are currently promoting the notion that corporate governance links directly to the strategic dimension of firms, and indirectly to the cost dimension of firms. As this is an emerging topic, it has received limited attention to date. This paper makes an initial contribution to this literature by examining the influence of foreign equity and board members – two approaches that can be used to signal compliance with a "good" corporate governance system – on the corporate orientation and internal cost management of domestic banks.

The findings indicate that there is a negative and statistically significant relationship between the foreign equity and the internal costs of banks. Evidence shows that the mere existence of foreign equity reduces operating and total costs, probably because foreign equity owners enhance monitoring activity and influence the bank management to adopt more efficient strategic and operational practices. There is also a negative and statistically significant relationship between foreign board members and operating costs consistent with the view that foreign board members bring diversity of knowledge, expertise and objectivity and, consequently, improvements in organizational structure and operational efficiency. Unlike foreign equity, foreign board membership has a positive influence on total costs. One possible explanation is that foreign board members may be more costly to hire. Furthermore, most of the foreign board member variables are negatively related to interest margin and positively related to non-interest margin. This supports the idea that foreign directors bring new perspectives to the domestic banking activity reducing their dependence on traditional areas of business as they seek other sources of business. Finally, our results indicate that presence of a foreign president improves provisions for credit losses. A director with major influence on the board seems to be more willing to address the deterioration of asset quality, supporting more prudent practices in managing credit risk. This approach contributes to the possible enhancement of the overall soundness of the domestic banking system.

Corporate governance assumes significant importance in the promotion of financial stability as a means of encouraging banks to effectively identify, monitor and manage their business risks and therefore banking supervisors are placing greater emphasis on this issue. In the particular case of Portugal that has undergone recent financial liberalisation and is progressively adopting "good" corporate governance practices we propose that foreign equity and board membership benefited domestic banks from the strategic and the cost management dimension as advanced by Horngren et al. (2005).

In future extensions of this study, it would be desirable to empirically examine the main hypothesis tested in this paper in other markets that have undergone similar natural experiments in liberalisation. If larger data sets are available then it would also be desirable to empirically investigate the joint influence of foreign equity and board membership on the corporate orientation and management of internal costs in domestic banks. The existing literature on corporate governance recognises the role of outside directors in overseeing the corporate strategy of firms and influencing the management of internal costs. The findings of this study suggest that *foreign* outside directors and equity can also influence the strategic and the cost management dimensions of the functioning of banks. In markets experiencing increasing globalisation the *foreign* element of corporate governance will remain a fruitful area for future research.

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Table 1 Description of dependent and independent variables

Variable	Description
Dependent Variables	
INTMRG	Ratio of net interest income to total average assets
NINTMRG	Ratio of net non-interest income to total average assets
OPCOST	Ratio of operating expenses to total average assets
TCOST	Ratio of total costs to total average assets
PCLTC	Ratio of provisions for credit losses to total credit
Independent Variables	
DFOS	Dummy variable that takes a value of 1 if there is any level of foreign ownership in the bank and 0 otherwise
FOSP	Percentage of foreign ownership
DFBRD	Dummy variable that takes a value of 1 if there is any foreign director on the board and 0 otherwise
FBRDP	Percentage of foreign directors to total directors on the board
FBRDN	Number of foreign directors on the board
DFPRS	Dummy variable that takes a value of 1 if the president of the board is foreign and 0 otherwise
DFTOPBRD	Dummy variable that takes a value of 1 if the president and/or any of the vice-president of the board is foreign and 0 otherwise
Controls	
CAP	Ratio of the book value of shareholder equity to total assets
SEC	Ratio of securities to total assets
CRED	Ratio of total credit to total assets
FIX	Ratio of fixed assets (minus accumulated depreciation and provisions) to total assets
PROV	Ratio of specific and general provisions to total assets
OPCOST	Ratio of operating expenses to total average assets
DEP	Ratio of client deposits to total assets
LIQ	Ratio of cash and liquid assets to total assets
OVDCRED	Ratio of overdue credit to total credit

Table 2 Descriptive statistics on selected variables for all banks between 1996 and 2004

	Mean	Median	Minimum	Maximum	Std. Dev.	N
INTMRG	0.03	0.02	-0.01	0.19	0.02	288
NINTMRG	0.02	0.01	-0.03	0.11	0.02	288
OPCOST	0.03	0.02	0.00	0.22	0.02	288
TCOST	0.12	0.09	0.00	0.62	0.10	288
PCLTC	0.04	0.03	0.00	0.68	0.06	288
DFOS	0.19	0.00	0.00	1.00	0.40	288
FOSP	0.05	0.00	0.00	0.50	0.12	288
DFBRD	0.41	0.00	0.00	1.00	0.49	288
FBRDP	0.09	0.00	0.00	0.58	0.12	288
FBRDN	0.92	0.00	0.00	10.00	1.77	288
DFPRS	0.00	0.00	0.00	1.00	0.06	288
DFTOPBRD	0.10	0.00	0.00	1.00	0.30	288
CAP	0.13	0.08	-0.26	0.97	0.16	288
SEC	0.16	0.11	0.00	0.84	0.17	288
CRED	0.47	0.48	0.00	0.99	0.28	288
FIX	0.06	0.04	0.00	0.51	0.07	288
PROV	0.02	0.01	0.00	0.13	0.02	288
DEP	0.38	0.37	0.00	0.90	0.27	288
LIQ	0.06	0.04	0.00	0.92	0.09	288
OVDCRED	0.04	0.02	0.00	0.67	0.06	288

Table 3 Descriptive statistics on selected variables for banks with and without foreign equity between 1996 and 2004

	Banks with Foreign Equity					Banks without Foreign Equity					t - test[a]	
	Mean	Median	Min	Max	Std. Dev.	Mean	Median	Min	Max	Std. Dev.	t	Sig.(2-tailed)
INTMRG	0.02	0.02	0.00	0.04	0.01	0.03	0.02	-0.01	0.19	0.03	-3.61	0.00
NINTMRG	0.01	0.01	0.00	0.02	0.01	0.02	0.01	-0.03	0.11	0.02	-6.76	0.00
OPCOST	0.01	0.02	0.00	0.03	0.01	0.03	0.02	0.00	0.22	0.03	-8.09	0.00
TCOST	0.07	0.07	0.00	0.16	0.03	0.14	0.10	0.02	0.62	0.11	-7.89	0.00
PCLTC	0.03	0.02	0.01	0.09	0.02	0.04	0.03	0.00	0.68	0.07	-2.47	0.01
DFOS	1.00	1.00	1.00	1.00	0.00	-	-	-	-	-	-	-
FOSP	0.25	0.20	0.01	0.50	0.14	-	-	-	-	-	-	-
DFBRD	0.54	1.00	0.00	1.00	0.50	0.38	0.00	0.00	1.00	0.49	2.16	0.03
FBRDP	0.15	0.11	0.00	0.44	0.17	0.07	0.00	0.00	0.58	0.10	3.47	0.00
FBRDN	2.00	1.00	0.00	10.00	2.61	0.66	0.00	0.00	8.00	1.39	3.70	0.00
DFPRS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.07	-1.00	0.32
DFTOPBRD	0.05	0.00	0.00	1.00	0.23	0.11	0.00	0.00	1.00	0.32	-1.59	0.11
CAP	0.06	0.06	0.01	0.14	0.03	0.15	0.08	-0.26	0.97	0.17	-7.09	0.00
SEC	0.09	0.07	0.00	0.39	0.08	0.18	0.12	0.00	0.84	0.18	-5.15	0.00
CRED	0.53	0.57	0.08	0.98	0.23	0.46	0.45	0.00	0.99	0.29	1.87	0.06
FIX	0.06	0.05	0.00	0.16	0.05	0.06	0.04	0.00	0.51	0.07	0.30	0.76
PROV	0.01	0.01	0.00	0.03	0.01	0.02	0.01	0.00	0.13	0.02	-2.01	0.05
DEP	0.36	0.40	0.00	0.73	0.20	0.38	0.36	0.00	0.90	0.29	-0.65	0.52
LIQ	0.03	0.03	0.00	0.11	0.02	0.06	0.04	0.00	0.92	0.10	-4.29	0.00
OVDCRED	0.03	0.02	0.00	0.14	0.03	0.04	0.03	0.00	0.67	0.07	-2.78	0.01
N			56					232				

Table 4 Descriptive statistics on selected variables for banks with and without foreign board members between 1996 and 2004

	Banks with Foreign Board Membership					Banks without Foreign Board Membership					t - test[a]	
	Mean	Median	Min	Max	Std. Dev.	Mean	Median	Min	Max	Std. Dev.	t	Sig.(2-tailed)
INTMRG	0.02	0.02	-0.01	0.13	0.02	0.03	0.02	-0.01	0.19	0.03	-3.19	0.00
NINTMRG	0.02	0.01	-0.01	0.07	0.02	0.02	0.01	-0.03	0.11	0.02	0.73	0.47
OPCOST	0.02	0.02	0.00	0.08	0.02	0.03	0.02	0.00	0.22	0.03	-2.62	0.01
TCOST	0.14	0.09	0.00	0.62	0.13	0.11	0.09	0.02	0.57	0.08	2.23	0.03
PCLTC	0.04	0.03	0.01	0.67	0.06	0.04	0.03	0.00	0.68	0.06	-0.38	0.71
DFOS	0.26	0.00	0.00	1.00	0.44	0.15	0.00	0.00	1.00	0.36	2.13	0.03
FOSP	0.08	0.00	0.00	0.50	0.15	0.03	0.00	0.00	0.43	0.08	2.95	0.00
DFBRD	1.00	1.00	1.00	1.00	0.00	-	-	-	-	-	-	-
FBRDP	0.22	0.20	0.09	0.58	0.09	-	-	-	-	-	-	-
FBRDN	2.27	1.00	1.00	10.00	2.16	-	-	-	-	-	-	-
DFPRS	0.01	0.00	0.00	1.00	0.09	-	-	-	-	-	-	-
DFTOPBRD	0.25	0.00	0.00	1.00	0.43	-	-	-	-	-	-	-
CAP	0.13	0.09	-0.26	0.74	0.14	0.13	0.08	-0.04	0.97	0.17	0.04	0.97
SEC	0.18	0.13	0.00	0.78	0.16	0.15	0.09	0.00	0.84	0.18	1.22	0.22
CRED	0.48	0.48	0.00	0.98	0.27	0.46	0.48	0.00	0.99	0.29	0.61	0.54
FIX	0.06	0.04	0.00	0.30	0.06	0.06	0.04	0.00	0.51	0.07	-0.25	0.80
PROV	0.02	0.01	0.00	0.10	0.01	0.02	0.01	0.00	0.13	0.02	-0.80	0.42
DEP	0.37	0.36	0.00	0.87	0.24	0.38	0.42	0.00	0.90	0.29	-0.55	0.58
LIQ	0.05	0.03	0.00	0.32	0.06	0.06	0.04	0.00	0.92	0.11	-1.25	0.21
OVDCRED	0.04	0.02	0.00	0.66	0.07	0.04	0.03	0.00	0.67	0.06	-0.76	0.45
N			117					171				

Table 5 Regressions for foreign equity (dummy variable)

	INTMRG	NINTMRG	OPCOST	TCOST	PCLTC
DFOS	-0.02	-0.03	-0.01[a]	-0.04[a]	-0.01
	(-0.89)	(-1.09)	(-3.53)	(-3.16)	(-1.67)
CAP	0.008	-0.001	0.069[a]	0.047	-0.130[a]
	(0.99)	(-0.12)	(8.16)	(1.33)	(-5.90)
SEC	0.00	0.01	-0.03[a]	0.18[a]	0.02
	(0.13)	(1.76)	(-3.31)	(4.61)	(0.93)
CRED	0.020[a]	-0.014[b]	0.002	-0.056	0.012
	(3.25)	(-2.45)	(0.23)	(-1.82)	(0.81)
FIX	-0.03	-0.01	0.02	0.49[a]	0.47[a]
	(-1.45)	(-0.71)	(1.07)	(5.43)	(9.93)
PROV	0.89[a]	0.15	0.13	1.89[a]	-
	(7.88)	(1.43)	(0.96)	(3.30)	-
OPCOST	0.31[a]	0.39[a]	-	-	0.55[a]
	(6.32)	(8.52)	-	-	(3.75)
DEP	-0.02[a]	-0.01	-0.00	-0.08[a]	-0.00
	(-3.70)	(-1.79)	(-0.41)	(-4.2)	(-0.39)
LIQ	0.00	-0.02	0.01	0.10	0.05
	(0.36)	(-1.49)	(0.42)	(1.68)	(1.42)
OVDCRED	-0.11[a]	-0.04	0.06[b]	-0.39[a]	-
	(-4.29)	(-1.54)	(2.12)	(-3.06)	-
INTERCEPT	0.004	0.014[a]	0.018[a]	0.101[a]	0.005
	(0.85)	(3.01)	(3.13)	(4.27)	(0.37)
N	288	288	288	288	288
Adj. R Square	0.59	0.32	0.35	0.39	0.35
F	42.11[a]	14.66[a]	18.37[a]	21.12[a]	20.08[a]

[a] 1% level of significance; [b] 5% level of significance

Table 6 Regressions for foreign equity (percentage)

	INTMRG	NINTMRG	OPCOST	TCOST	PCLTC
FOSP	-0.02	-0.01	-0.03[a]	-0.12[b]	-0.05
	(-1.81)	(-1.25)	(-3.14)	(-2.59)	(-1.82)
CAP	0.01	-0.00	0.07[a]	0.02	-0.13[a]
	(0.90)	(-0.14)	(8.27)	(1.48)	(-5.95)
SEC	-0.001	0.013	-0.030[a]	0.187[a]	0.022
	(-0.09)	(1.74)	(-3.16)	(4.74)	(0.91)
CRED	0.021[a]	-0.013[b]	0.004	-0.046	0.014
	(3.44)	(-2.30)	(0.60)	(-1.48)	(0.93)
FIX	-0.025	-0.012	0.021	0.484[a]	0.467[a]
	(-1.41)	(-0.73)	(0.96)	(5.29)	(9.92)
PROV	0.87[a]	0.14	0.09	1.77[a]	-
	(7.60)	(1.28)	(0.67)	(3.03)	-
OPCOST	0.31[a]	0.39[a]	-	-	0.55[a]
	(6.23)	(8.56)	-	-	(3.75)
DEP	-0.02[a]	-0.01	-0.00	-0.09[a]	-0.01
	(-3.95)	(-1.91)	(-0.68)	(-4.25)	(-0.58)
LIQ	0.00	-0.02	0.01	0.11	0.06
	(0.33)	(-1.47)	(0.56)	(1.82)	(1.49)
OVDCRED	-0.11[a]	-0.04	0.07[b]	-0.36 [a]	-
	(-4.24)	(-1.47)	(2.34)	(-2.85)	-
INTERCEPT	0.01	0.01[a]	0.02[a]	0.10[a]	0.01
	(1.11)	(3.05)	(2.93)	(4.04)	(0.38)
N	288	288	288	288	288
Adj. R Square	0.59	0.32	0.35	0.38	0.35
F	42.73[a]	14.71[a]	17.93[a]	20.52[a]	20.19[a]

[a] 1% level of significance; [b] 5% level of significance

Table 7 Regressions for foreign board membership (dummy variable)

	INTMRG	NINTMRG	OPCOST	TCOST	PCLTC
DFBRD	-0.01[a]	0.01[b]	-0.01[b]	0.03[a]	0.00
	(-3.47)	(2.26)	(-2.41)	(2.85)	(0.35)
CAP	0.01	-0.00	0.08 [a]	0.07[b]	-0.13[a]
	(1.46)	(-0.23)	(9.18)	(2.01)	(-5.76)
SEC	0.01	0.01	-0.02[b]	0.20[a]	0.03
	(0.71)	(1.95)	(-2.22)	(5.19)	(1.42)
CRED	0.02[a]	-0.02[a]	0.01	-0.06[b]	0.01
	(3.74)	(-2.69)	(0.62)	(-2.04)	(0.91)
FIX	-0.03	-0.02	0.02	0.46[a]	0.46 [a]
	(-1.53)	(-0.88)	(0.75)	(5.09)	(9.78)
PROV	0.875[a]	0.18	0.140	2.154[a]	-
	(7.85)	(1.66)	(1.01)	(3.73)	-
OPCOST	0.29[a]	0.42[a]	-	-	0.62[a]
	(6.22)	(9.24)	-	-	(4.27)
DEP	-0.01[a]	-0.01	0.00	-0.08[a]	-0.00
	(-3.67)	(-1.71)	(0.02)	(-3.79)	(-0.19)
LIQ	0.00	-0.02	0.01	0.13[b]	0.06
	(0.36)	(-1.34)	(0.69)	(2.10)	(1.59)
OVDCRED	-0.10[a]	-0.04	0.07	-0.37[a]	-
	(-4.19)	(-1.59)	(2.40)	(-2.90)	-
INTERCEPT	0.004	0.011[b]	0.013[b]	0.073[a]	-0.004
	(0.97)	(2.57)	(2.33)	(3.19)	(-0.26)
N	288	288	288	288	288
Adj. R Square	0.60	0.33	0.34	0.38	0.34
F	44.94[a]	15.25[a]	17.24[a]	20.78[a]	19.56[a]

[a] 1% level of significance; [b] 5% level of significance

Table 8 Regressions for foreign board membership (percentage)

	INTMRG	NINTMRG	OPCOST	TCOST	PCLTC
FBRDP	-0.03[a]	0.01	-0.03[b]	0.12[a]	0.00
	(-3.68)	(1.55)	(-2.58)	(3.01)	(0.04)
CAP	0.01	-0.00	0.08[a]	0.08[b]	-0.13[a]
	(1.29)	(-0.07)	(9.03)	(2.217)	(-5.75)
SEC	0.00	0.02[b]	-0.02[b]	0.21[a]	0.03
	(0.39)	(2.15)	(-2.45)	(5.48)	(1.45)
CRED	0.02[a]	-0.02[a]	0.01	-0.06[b]	0.01
	(3.82)	(-2.62)	(0.68)	(-2.10)	(0.95)
FIX	-0.03	-0.013	0.01	0.48[a]	0.46[a]
	(-1.66)	(-0.79)	(0.63)	(5.24)	(9.79)
PROV	0.85[a]	0.18	0.12	2.25[a]	-
	(7.64)	(1.67)	(0.87)	(3.88)	-
OPCOST	0.26[a]	0.42[a]	-	-	0.61[a]
	(6.16)	(9.09)	-	-	(4.21)
DEP	-0.02[a]	-0.01	-0.00	-0.07[a]	-0.00
	(-3.99)	(-1.55)	(-0.21)	(-3.53)	(-0.19)
LIQ	0.01	-0.02	0.01	0.13[b]	0.06
	(0.45)	(-1.39)	(0.75)	(2.04)	(1.58)
OVDCRED	-0.10[a]	-0.04	0.08[b]	-0.38[a]	-
	(-4.09)	(-1.60)	(2.47)	(-2.99)	-
INTERCEPT	0.01	0.01[b]	0.01[b]	0.07[a]	-0.00
	(1.20)	(2.52)	(2.48)	(2.98)	(-0.22)
N	288	288	288	288	288
Adj. R Square	0.61	0.33	0.34	0.38	0.34
F	45.30 [a]	14.84 [a]	17.38 [a]	20.95 [a]	19.54 [a]

[a] 1% level of significance; [b] 5% level of significance

Table 9 Regressions for foreign board membership (number)

	INTMRG	NINTMRG	OPCOST	TCOST	PCLTC
FBRDN	-0.01[a]	0.00	-0.01[b]	0.01[b]	-0.00
	(-2.91)	(1.41)	(-2.05)	(2.25)	(-0.63)
CAP	0.01	0.00	0.074 [a]	0.08[b]	-0.13 [a]
	(0.96)	(0.07)	(8.75)	(2.36)	(-5.77)
SEC	0.00	0.02[b]	-0.023[b]	0.21[a]	0.03
	(0.42)	(2.14)	(-2.44)	(5.45)	(1.45)
CRED	0.02 [a]	-0.01[b]	0.00	-0.05	0.01
	(3.43)	(-2.48)	(0.41)	(-1.79)	(0.98)
FIX	-0.02	-0.02	0.02	0.45[a]	0.46 [a]
	(-1.37)	(-0.94)	(0.85)	(4.94)	(9.81)
PROV	0.89[a]	0.16	0.16	2.05[a]	-
	(8.04)	(1.51)	(1.16)	(3.54)	-
OPCOST	0.30[a]	0.42 [a]	-	-	0.56 [a]
	(6.33)	(9.06)	-	-	(4.13)
DEP	-0.02 [a]	-0.00	0.00	-0.07 [a]	-0.00
	(-3.79)	(-1.62)	(-0.08)	(-3.66)	(-0.22)
LIQ	0.01	-0.02	0.01	0.13[b]	0.06
	(0.40)	(-1.38)	(0.73)	(2.04)	(1.57)
OVDCRED	-0.11 [a]	-0.03	0.07[b]	-0.34 [a]	-
	(-4.45)	(-1.43)	(2.20)	(-2.68)	-
INTERCEPT	0.00	0.01[b]	0.013[b]	0.07[a]	-0.00
	(0.99)	(2.59)	(2.36)	(3.13)	(-0.12)
N	288	288	288	288	288
Adj. R Square	0.60	0.32	0.33	0.38	0.34
F	44.04[a]	14.77[a]	16.97[a]	20.22[a]	19.62[a]

[a] 1% level of significance; [b] 5% level of significance

Table 10 Regressions for foreign president

	INTMRG	NINTMRG	OPCOST	TCOST	PCLTC
DFPRS	-0.06[a]	-0.02	0.03	0.13	0.500[a]
	(-3.12)	(-1.06)	(1.04)	(1.28)	(11.849)
CAP	0.01	-0.00	0.08[a]	0.08[b]	-0.070[a]
	(0.73)	(-0.13)	(9.09)	(2.20)	(-3.76)
SEC	0.00	0.02[b]	-0.02[b]	0.21[a]	0.014
	(0.55)	(2.19)	(-2.51)	(5.41)	(0.74)
CRED	0.02[a]	-0.02[b]	0.00	-0.05	0.01
	(3.19)	(-2.47)	(0.37)	(-1.64)	(0.89)
FIX	-0.03*	-0.02	0.02	0.48[a]	0.37[a]
	(-1.86)	(-0.93)	(0.80)	(5.16)	(9.53)
PROV	0.91[a]	0.164	0.16	1.99[a]	-
	(8.16)	(1.53)	(1.15)	(3.44)	-
OPCOST	0.33[a]	0.41[a]	-	-	0.33[a]
	(6.93)	(8.99)	-	-	(2.82)
DEP	-0.02[a]	-0.01	0.00	-0.07[a]	0.01
	(-3.92)	(-1.76)	(0.08)	(-3.61)	(0.48)
LIQ	0.01	-0.02	0.01	0.12*	0.03
	(0.67)	(-1.32)	(0.69)	(1.88)	(0.83)
OVDCRED	-0.08[a]	-0.03	0.06*	-0.43[a]	-
	(-2.85)	(-0.99)	(1.75)	(-3.08)	-
INTERCEPT	0.00	0.01[a]	0.01[b]	0.08[a]	0.00
	(0.52)	(2.79)	(2.12)	(3.44)	(0.39)
N	288	288	288	288	288
Adj. R Square	0.60	0.32	0.33	0.37	0.56
F	44.35[a]	14.64[a]	16.44[a]	19.61[a]	46.92[a]

[a] 1% level of significance; [b] 5% level of significance

Table 11 Regressions for foreign top directors on the board

	INTMRG	NINTMRG	OPCOST	TCOST	PCLTC
DFTOPBRD	-0.01	0.01	0.00	0.05[a]	0.02
	(-1.47)	(1.51)	(-0.12)	(3.23)	(1.82)
CAP	0.01	0.00	0.076 [a]	0.071 [b]	-0.13[a]
	(1.13)	(-0.03	(9.01)	(2.06)	(-5.82)
SEC	0.00	0.02[b]	-0.02[b]	0.21 [a]	0.031
	(0.48)	(2.06)	(-2.46)	(5.36)	(1.35)
CRED	0.02[a]	-0.01[b]	0.00	-0.04	0.02
	(3.06)	(-2.21)	(0.31)	(-1.28)	(1.14)
FIX	-0.03*	-0.01	0.02	0.49[a]	0.47 [a]
	(-1.67)	(-0.73)	(0.70)	(5.37)	(9.95)
PROV	0.92[a]	0.15	0.17	1.88[a]	-
	(8.06)	(1.38)	(1.19)	(3.27)	-
OPCOST	0.32[a]	0.41[a]	-	-	0.61[a]
	(6.65)	(8.97)	-	-	(4.28)
DEP	-0.01[a]	-0.01	0.00	-0.08[a]	-0.01
	(-3.43)	(-1.85)	(0.01)	(-4.15)	(-0.41)
LIQ	0.01	-0.02	0.01	0.11	0.05
	(0.56)	(-1.51)	(0.77)	(1.76)	(1.46)
OVDCRED	-0.11[a]	-0.03	0.07[b]	-0.35[a]	-
	(-4.30)	(-1.46)	(2.32)	(-2.77)	-
INTERCEPT	0.00	0.01[a]	0.01[b]	0.07[a]	-0.01
	(0.69)	(2.69)	(2.10)	(3.22)	(-0.34)
N	288	288	288	288	288
Adj. R Square	0.59	0.33	0.32	0.39	0.35
F	42.45[a]	14.82 [a]	16.26[a]	21.20[a]	20.18[a]

[a] 1% level of significance; [b] 5% level of significance