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Abstract:

Relationship between Board Characteristics  
And Capital Adequacy Risk Taking at Bank Holding Companies

This study tests for a relationship between characteristics of the board of directors of U.S. bank holding companies (BHC) and the capital adequacy risk taking of those banks, as measured by the capital leverage ratio of the bank. The underlying theory for this study is agency theory, based on the seminal work of Jensen and Meckling (1976). A literature review begins with the field of bank risk and narrows to the research of risk taking within the corporate governance of banks. The methodology of the study to test for the relationship between board characteristics and capital adequacy risk taking is linear regression. The board characteristics represented by the independent variables are the board size, the percent of outside directors, CEO/board chair duality, average total years of service of board members, the average age of board members, and the average number of other boards which the board members serve on. Independent variables measuring CEO compensation include the CEO base pay relative to total bank assets and CEO incentive pay relative to total bank assets. Other independent variables include ownership structure, market power, and total assets. The dependent variable, which is the measure of capital adequacy risk, is the tier 1 capital leverage ratio of the bank.