Bank Management and Performance

Discussion

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Disclaimer: The views expressed in this discussion are my own and do not necessarily represent the views of the Federal Reserve Board of Governors, the Federal Reserve System, or its staff.
CEO Succession and Performance at Rural Banks

- Mike Milchanowski, Drew Dahl, Daniel Coster

Key finding:
- CEO replacement at rural banks, relative to urban banks, does not cause declines in performance
  - Focus on sustainability of skilled labor/leadership
  - Might we rethink “talent as exogenous”, and focus instead on training, learning, development?
- Consistent with behavioral psychology research on growth and learning (*Mindset*, C. Dweck)
Stress Testing Community Banks

• Robert DeYoung, Joseph Fairchild

• Key contribution:
  • A “top-down” stress testing model specifically developed for community banks, uses public data
  • Offers community banks opportunity to analyze risks
    – Useful for researchers/supervisors too!
    – For leaders of community banks?
      • An app for that? Alternate scenarios?
    – Update annually?
Home-Biased Credit Allocations

• Duc Duy (Louis) Nguyen, Ivan Lim

• Key findings:
  • Evidence of “favoritism bias”: Banks make more loans and open more branches in areas near CEO’s birthplace. Favoritism stronger among “altruistic CEOs,” in struggling areas, and for marginal mortgage applicants.
    – Explores factors that affect how credit is allocated
    – Home community: More-generous credit to underserved
      • Surprising?
      • Which (remote) borrowers are disadvantaged? Does it “add up”?
    – Are assumptions about CEOs’ motivations a stretch?
      • Test these in greater depth in another paper?
Technology Investment, Firm Performance and Market Value: Evidence from Banks

• Zifeng Feng, Zhonghua Wu

• Key Findings:
  • Positive relationship between tech spending and performance, but driven by large banks
    – Adding technology “out of necessity” – explore further?
      • Growing sales but not profit
      • What’s the counterfactual? “If banks didn’t invest, then...”
    – Consider tech investments rather than spending?
      • Consider composition of tech spending
    – An “instrument” (exogenous driver of tech adoption)?
      • CEO’s university had “tech” (engineering/IT) focus
Themes

• In these papers, community banks appear to show resilience
  – Occupying a niche distinct from larger banks

• Technology’s nuanced role at community banks
  – Business models driving differences

• Bank leadership matters!
  – In expected, but also perhaps less obvious, ways
Concluding Questions

• What “human” elements of community banking are important to understand more deeply?

• Is human interaction more than an informational advantage?
  – In a tech-forward world, is human interaction a strategic advantage?