ELSEVIER

Journal of Economics and Business 60 (2008) 332–354

Journal of Economics & Business

Risk-taking behaviour and ownership in the banking industry: The Spanish evidence

Teresa García-Marco[a,1], M. Dolores Robles-Fernández[b,*]

[a] *Department of Business Administration, Public University of Navarre Campus de Arrosadía s/n, 31006 Pamplona, Spain*

[b] *Department of Foundations of Economic Analysis II, Universidad Complutense, Campus de Somosaguas s/n, 28223 Madrid, Spain*

Received 12 February 2007; received in revised form 20 April 2007; accepted 22 April 2007

Abstract

This paper analyses the determinants of risk-taking in Spanish financial intermediaries, with special emphasis on the ownership structure and size of the different entities. On the one hand, the specific legal configuration of Spanish Savings banks may lead them to differ from Commercial banks in their risk behaviour. In particular, they may invest in riskier projects. Nevertheless, other theories indicate that greater stockholder control in Commercial banks may induce them towards greater risk-taking in certain situations. In this paper we test these hypotheses with a dynamic panel data model (1993–2000) for Spanish Commercial banks and Savings banks. We analyse whether differences in risk behaviour are related to different ownership structures or to other factors such as the size of the entity.

JEL classification: C33; G21; G32

Keywords: Commercial banks; Savings banks; Corporate control; Ownership structure; Bank risk-taking

1. Introduction

This paper presents empirical evidence on the differences in risk-taking behaviour between two financial intermediaries that compete for loans and deposits in the Spanish financial market: Spanish Commercial banks and Spanish Savings banks (hereinafter SCBs and SSBs, respectively). The former are privately owned banks that are shareholder-oriented corporations with a

* Corresponding author. Tel.: +34 913942247; fax: +34 913942613.
E-mail addresses: tgmarco@unavarra.es (T. García-Marco), mdrobles@ccee.ucm.es (M.D. Robles-Fernández).
1 Tel.: +34 48 169491; fax: +34 48 169404.

0148-6195/$ – see front matter
doi:10.1016/j.jeconbus.2007.04.008

concentrated ownership structure. They are firms under strong shareholder control. The Spanish Savings banks have a legal status akin to commercial non-profit organisations, since profits must be either retained or distributed in cultural and social community programs. In addition, the control of SSBs is shared among multiple interest groups: local and regional governments, employees, depositors and their founding entities. In this sense, their ownership structure comes close to the shared ownership model (García-Cestona & Surroca, 2005; Salas & Saurina, 2002).

The singular legal form of Spanish savings banks makes the Spanish case special and different from the rest of the Western countries. In the USA, before they were mostly converted into joint-stock companies beginning in the decade of the 1980s, there were savings and loans that compulsorily had a mutual structure in which the depositors were in turn owners of the entity, together with others that presented the typical form of a joint-stock company. Likewise, in Europe, banks organised as joint-stock companies coexist with savings banks organised in a different way, depending on the national legislation of each country. Thus there are savings banks set up as joint-stock companies or private entities (Ireland, United Kingdom, Italy, Sweden, Belgium, Finland, Holland and Denmark), as mutual institutions (France), as public entities (Portugal, Switzerland, Austria, Germany, Greece and Luxemburg), or as private foundations (Spain and Norway). In the Spanish case, unlike mutual savings institutions, the members of the governing bodies include not only depositors, but also employees and public administrations. This presence of public authorities on their governing bodies will affect decision-making. For example, Spanish regional governments may have incentives to control the Savings banks in their regions to enhance the sustainability of certain adjustment policies. The influence of these regional governments may weigh too heavily on certain commercial decisions taken by Savings banks, and could lead to excessive risk-taking. Hence, the actual objective function of the savings banks is difficult to ascertain, although anecdotal evidence indicates that managers and workers are possibly the most powerful interest group of the organisation.

In this context, the IMF in its 1999 report and the OECD in its 2000 report recommended examining a change in legal form, in an attempt to approach a joint-stock structure. The studies carried out indicate that SSBs achieve profitability levels similar to those of SCBs. Also, SSBs have gained market share in retail banking during the period under study (Hasan & Lozano, 2002; Salas & Saurina, 2002). However, the differences in behaviour in the face of risk has barely been analysed for this type of entity.[2]

The first objective of this article is to provide new evidence for the current debate. Our aim is to analyse if the different organisational form of the two Spanish financial entities – savings banks and banks – is reflected in different risk-taking behaviour. We find the most relevant evidence for this issue in the comparison of mutual institutions with the banks in the United States. In general, these authors conclude that banks have more incentives to take risks (Cordell, MacDonald, & Wohar, 1993; Esty, 1997; Karels & McClatchey, 1999). However, this evidence is not directly transferable to the Spanish case. The Spanish savings banks are very different from mutual savings. As we mentioned above, the SSB range of objectives serves a variety of sometimes-conflicting interests among different stakeholders. In addition, SSBs are immune to market corporate control with the exception of friendly takeovers or mergers by other saving banks. The dispersed ownership structure and the lack of corporate control of SSBs would appear to give managers freedom of action, which induces Savings banks to undertake more risk.

[2] Only Fernández et al. (2005) analyse this risk-taking behaviour in the face of regulatory changes.