

# **Asset-Liability Management as an Indicator of Governance Quality in the Banking Sector**

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## **ABSTRACT**

This study aims to investigate whether effective asset-liability management (ALM) is associated with governance quality within the US banking industry. Based on stewardship theory, we hypothesize that there ought to be a significant, positive association between a strong balance sheet and governance quality due to the inherent fiduciary responsibility and internal controls associated with an ALM management process. Due to endogeneity concerns, we employ two-stage least squares regression (2SLS) and examine the relationship between governance risk scores (a component of ESG quality scores) and 10 ALM quality metrics for a cross-sectional sample of 251 US publicly traded banks for fiscal year 2022. Aligning with our expectations, the findings show that two aspects of asset-liability management, specifically better cash coverage and higher ROA, are associated with overall governance quality, as well as with three governance quality pillars: audit/risk/oversight quality, shareholder rights, and compensation. Contrary to expectations, however, the remaining ALM quality indicators were not significantly associated with governance quality. Even so, the results provide some evidence that a well-managed balance sheet is an indicator of bank governance quality. The results should be of interest to bank executives, regulators, investors, and other key stakeholders in the banking industry.

Keywords: Asset-Liability Management, Governance, Banking Industry, Financial Performance