SC24006

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

Gregory G. Kaufinger
Kutztown University of Pennsylvania

Chris Neuenschwander
Anderson University (SC)

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