

Determinants of Board structure and its impact on performance of bank sector of Georgia

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ABSTRACT

After gaining independence, the banking system has made a significant contribution to the Georgian economy. The financial sector of Georgia is fully represented by banks. The profitability of the banking sector is one of the best in the region. According to the data of the first and second quarters of 2021, ROE was 16.5%, and ROA - 1.8%. The high rate of profitability ensures stability in the banking sector. Despite the stability of the Georgian banking sector, compared to other companies, banks face a more competitive and volatile global environment. In general, the banking sector is very sensitive to public scrutiny and the risks associated with management and stakeholder failure. Governance issues in banks are gaining enormous importance. The purpose of this research is to study the determinants of the structure of the Board of Directors and their impact on the profitability of the banking sector in relation to Georgia. The study identifies the structure of the board of directors as an alternative function of the management mechanism, the characteristics of the board, and the control variables. The banking sector of Georgia is represented by 15 banks, whose empirical research was conducted quarterly for 2017-2021. The study found that firm size and age of the supervisory board were negatively correlated with ROE, while the size, duality, concentration of ownership, corporate insiders and institutional ownership were positively correlated with ROE. However, these variables are not statistically significant. The study also examined the relationship between board of directors parameters and net interest margin. The study found that the size of the supervisory board, the size of the board of directors, corporate insiders are statistically significant. Of these variables, blockholders, supervisory board size, and corporate insiders are negatively correlated with net interest margin, while board size and duality are positive.

KEYWORDS Agency Theory; Principal; Agent; board of directors; institutional ownership; ownership concentration; CEO duality; Leverage; ROA; ROE

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