

# THE UNIFORM RELATIONSHIP BETWEEN MANAGERIAL ABILITY AND BANK LOAN QUALITY: DOES IT HOLD? EVIDENCE FROM QUANTILE REGRESSIONS

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Discussion

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# Overview

## research questions

- study the relationship between **MA** and **bank loan quality** by investigating the impact of MA on NPLs
- non-uniform impact that depends on **the bank's risk level** is investigated by **quantile regressions**

## contribution

- use of QR in the context of bank lending and managerial abilities

# Overview

## data and approach

- Sample 126 MENA banks (19 countries)
- Period 2006–2020 (... frequency)
- quantile regression
  - 1 dependent loan quality - NPL
  - 2 independent - MA

# Overview

## results

- 1 *the impact of MA is positive across low quantile levels of bank risk (measured by NPLs) and it becomes negative for higher levels, but in the tables, it is viceversa, is it a typo? (negative means good manager reduce NPL positive means good managers increase NPL)*
- 2 quantile-on-quantile regression (QQR) confirms the existence of a non-uniform relationship between MA and NPLs

## big picture

- interesting study, with important policy implications

## Comments and Questions: MA measure

### Efficiency Ratio (Equation 3):

$$MAX_{it} = \frac{\text{loan} + \text{other\_earning\_assets}}{\text{fixed\_assets} + \text{labor\_costs} + \text{personal\_expense}}$$

### Second Step – Estimating MA:

$$\text{BankEfficiency}_{it} = \alpha_0 + \alpha_1 \text{size}_{it} + \alpha_2 \text{Age}_{it} + \alpha_3 \text{LEV}_{it} + \alpha_4 \text{INFL}_{jt} + \\ + \alpha_5 \text{GDP}_{jt} + \text{Year dummies} + \text{Bank dummies} + \varepsilon_{it}$$

- The residual from this model is **main measure of MA** (Demerjian et al., 2012).

# Comments and Questions: MA measure

- **Managerial ability measure**

- ① might still reflect **unobserved bank-level characteristics that changes in time**, but do not directly related to manager's abilities
- ② **collective vs. individual contribution**: the measure attempts to attribute firm-level efficiency to managers. Yet many factors (teams, technology, location, labor quality) collectively determine efficiency
- ③ **stability of the measure**: MA should, in theory, persist for a given manager (i.e., skill doesn't vanish overnight). Does this measure fluctuates with transitory firm conditions—e.g., a temporary shock to demand?
- ④ **external shocks and luck vs. skill**: Good (or bad) luck can boost (or reduce) apparent managerial ability in any given period—DEA scores might capture these one-off fluctuations.
- ⑤ is calculated using **two-step procedure**. That should effect standard errors, no? Not clear if it is taken into account.

# Comments and Questions

## Regression analysis and Identification

- **potential reverse causality?** if a bank experiences rising NPLs, the board might recruit a “turnaround specialist” manager who differs in skill or approach. Partly taken into account by the lag, but is it fully taken into account?
- **potential omitted factor?** Could it be that corporate governance culture, risk appetite or some other factor affect both MA and NPL. A bank with an aggressive lending culture might hire managers who excel at rapid loan growth (and thus appear “efficient” using the Demerjian DEA-based measure) but that same culture fosters riskier lending, which could increase future NPLs. In that case, both the MA score and the NPL ratio are driven by an underlying risk-taking philosophy that is not fully captured by standard controls or bank/time fixed effects.

## Comments and Questions

- **Intuition of the results?** : *“MA does not affect NPLs at the lower quantile levels, (from 0.05 to 0.30). The impact becomes significantly negative at medium quantiles (from 0.35 to 0.85) and significantly positive at highest quantile levels (0.9 and 0.95).”*

It is not clear why relationship change the sign at high quantile levels? what is the intuition of that? there should be some channels through which the effect works. Can you investigate them further?

For example, can you interact MA with a measure of manager overconfidence, or examine whether certain corporate governance indicators intensify or mitigate the effect?

- **Economic significance of the results?**  
In table five - how one can interpret the **magnitude** of the coefficients? What is the **economic significance** of the results?



# Comments and Questions

## suggestions

- **Panel QR with fixed effects - incidental parameters problem:** there is a discussion in the literature regarding the use of fixed effects in the panel QR (see for example, Gu, Volgushev (2019), Machado, Santos Silva (2019) both in the Journal of Econometrics).
- **Arab Spring 2011** mentioned as a pivotal moment. It would be great to take it into account somehow. Could it be a structural break? One can at least include additional dummy, same as for Financial Crisis and Covid-19.
- countries are **heterogeneous** and differ not only by GDP and inflation, can you consider country fixed effects as well?
- Explore an **event study design** around known CEO turnovers or major changes in top management to see how NPLs evolve pre- and post-hire.
- Is the **potential survivorship bias**? do banks disappear from your sample ?

# Comments and Questions

## additional comments

- in equation (5) in the paper  $\mu_t$  is the same as *Year\_FE*, and  $\alpha_i$  and *Bank\_FE*, you use it twice
- many of the papers cited are not in bibliography section: including but not limited to Ben Naceur and Omran, 2011; Ghosh, 2017; Dimitrios et al., 2016, etc.
- several abbreviations were not given, like MENA, for example

## conclusion

- paper studies important and interesting questions, has great potential

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