

# Taking the Lord's Name in Vain: The Impact of Connected Directors on 19<sup>th</sup> century British Banks<sup>1</sup>

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## ABSTRACT

This paper utilizes data on the presence of prominent individuals—that is, those with political (e.g., Members of Parliament) and aristocratic titles (e.g., lords)—on the boards of directors of English and Welsh banks from 1879-1909 to investigate whether the appointment of well-connected directors enhanced equity value for bank shareholders. Our analysis of panel data shows that the appointment of connected directors did not increase equity returns (as measured by the capital gain plus dividend yield on bank shares). In fact, we find that the appointment of MPs to directorships had *negative* effects on bank equity returns. Our event-study analysis corroborates this finding, showing that a bank's shares exhibited *negative* abnormal returns when their directors were elected to Parliament. Taken together, our results indicate that connected directors yielded little—or even negative—economic payoff to bank shareholders in pre-war Britain.

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## 1. Introduction

The prevalence of politically influential firms in emerging market economies is extensively documented, as companies frequently appoint well-connected individuals to chief officer positions and/or directorships (Faccio 2006, Gomez and Jomo 1997). The economic rationale behind such appointments is a subject of controversy. A positive interpretation is that these directors are selected because they bring some knowledge or experience that is relevant to the firm's operation—either specific know-how about the business or more general expertise in organization, management, and logistics. Additionally, their presence on the board might reassure the firm's customers, who would otherwise be less willing to purchase the products made by the firm, or financiers (e.g., creditors and shareholders), who would otherwise be less willing to provide the firm with debt or equity finance. A less charitable view is that these individuals are selected for political reasons: because they can influence politicians, regulators, or other government officials in ways that may materially affect the company's performance. These opposing views have important implications for the allocation of resources across and within firms, financial and economic development, and prescriptions about what type of regulations ought to govern potential conflicts of interest.

The empirical literature in development economics suggests that political connections can be pernicious and are likely to constitute a form of rent-seeking.<sup>4</sup> Firms seek connections with politicians who can protect their economic interests, while politicians seek close connections with firms in order to extract resources, both for private gain and to protect their political interests (Faccio 2006, Faccio, Masulis, and McConnell 2006, Fisman 2001, Johnson and Mitton 2003, Khwaja and Mian 2005, Imai 2006, Sukhtankar 2012). The welfare implications of this negative view of politically connected firms is that if left unchecked, they will stifle market competition and distort the allocation of resources toward connected firms and away from their more efficient competitors, imposing substantial economic costs. Moreover, another strand of the related literature shows that politically connected firms suffer from deficient internal governance since managers and directors, who are appointed based on political consideration, are less likely to represent shareholders' interests (e.g., Bertrand et al., 2006; Fan, Wong, and Zhang, 2007, Horiuchi and Shimizu, 2001).

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<sup>4</sup> See Goldman, Rocholl, and So (2009), Lee et al. (2013), and Fisman et al. (2006) for the literature on politically connected firms in the US.

A more historically inclined literature recognizes that political connections can have a positive role for economic development in the face of market and institutional failure. For example, in a weak institutional environment where the government finds it difficult to make a credible commitment to protect property rights, firms with viable investment projects might seek political connections as an informal way to secure property rights (Haber 2002, Razo 2008). Similarly, when firms face difficulty raising finance from outside investors due to asymmetric information problems, they might seek political connections as a way of signaling their high quality assets and management. Ghita, Cuyvers, and Deloof (2009) show that firms with better social and political connections had higher levels of growth and probability of survival in Belgium during 1858-1909. Okazaki and Sawada (2014) also show that the firms benefitted from political connections in Japan in the late 1920s and early 1930s during the long periods of recession and financial difficulty.

Hannah (2007: 667) notes the presence of titled individuals on the board provided a positive signal to British investors during the 19th century. Similarly, Braggion and Moore (2013) show that the presence of Members of Parliament (MPs) on boards of directors was associated with greater access to external capital for firms in “new tech” industries in Britain during 1895-1906. During a time in which British securities markets stand accused of starving new tech firms for capital and having accelerated Britain’s relative economic decline, this effect is not trivial (Kennedy 1987).<sup>5</sup>

A related extensive literature explores many different aspects of boards of directors and their role in corporate governance. This literature includes studies of board size (Coles, Daniel, and Naveen, 2008), structure (Linck, Netter, and Yang, 2008), composition (Hermalin and Weisbach, 1988; 1998; Menozzi et al., 2012), and the impact of outside directors (Duchin, Matsusaka, and Ozbas, 2010), women (Adams and Ferreira, 2009), and celebrities (Ferris et al., 2011) on corporate governance and firm performance.

This paper contributes to the literature by measuring the extent to which well-connected individuals served on the boards of English and Welsh banks during 1879-1909.<sup>6</sup> We do this by

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<sup>5</sup> One substantial strand of related research shows that well-connected directors and, in particular, those connected with reputable financial institutions, help firms raise external funds to undertake large investment projects in an underdeveloped financial system (De Long, 1991, Ramirez 1995). However, the economic benefits of bank-firm relationship seem to depend on institutional context (see Fohlin, 1998, Rajan and Zingales, 1998, Cull, Imai, and Haber 2012).

<sup>6</sup> We use the term “British” throughout the paper; however, our sample consists of English and Welsh banks.

focusing on an easily identifiable quality of directors: their titles. Specifically, we focus on two types of titles: political and noble. By political titles, we mean individuals who were simultaneously Members of Parliament (MPs) and on the board of directors. By noble titles, we mean directors who possessed aristocratic titles, who were likely to have had a well-connected network even though their direct political influence may have been less than members of the House of Commons.<sup>7</sup> By using these two types of titles, we hope to distinguish between the political influence of directors and other aspects (for example, social standing or notoriety), although we are mindful of the fact that this is an imperfect distinction and that our measures of connection exclude prominent individuals from the arts, sciences, finance, and industry without political or noble titles whose notoriety may nonetheless have prompted their appointment and affected shareholder value. We match these data on the profile of bank directors with data on balance sheet characteristics and the share prices of British banks to investigate whether the appointment of politically connected directors generated economic value for bank shareholders.

We focus on pre-war British banks for two reasons. First, consistent with the characterization of non-financial firms in Braggion and Moore (2013), we find that well-connected directors were ubiquitous--and became more so--among British banks in the pre-war era, which provides an ideal setting in which to examine their economic impact on bank performance. Second, analysis of political connections in contemporary settings frequently shows that close association with public officials generates substantial rents for financial institutions (Braun and Raddatz, 2010, Duchin and Sosyura 2012, Acemoglu et al., 2013). However, these studies examine financial systems which are tightly regulated with both an explicit and implicit government safety net and barriers to competition that provide banks with rent seeking opportunities. In contrast, the pre-war British banking sector was largely unregulated and, for the most part, stable (Schwartz, 1986), which allows us to examine the economic impact of political connections in a different regulatory environment that might have made political connection less valuable to banks.

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<sup>7</sup> Nobles were members of the House of Lords, which was theoretically co-equal with the House of Commons. Its concurrence was required on all legislation prior to 1911 and, in fact, several governments during 1875-1900 were headed by prime ministers serving in the House of Lords. There is reason to believe that the power the House of Lords to influence legislation decreased during the 19<sup>th</sup> century. A turning point in this decline occurred when King William IV was advised to create enough new peers to pass the Reform Act of 1832 over the objection of the majority of the sitting members of the House of Lords. Under this threat, the House of Lords allowed the law to pass. Parliament of the United Kingdom (2006).

To preview our results, politically connected banks in the pre-war Britain share some of the same characteristics--such as being large and in close proximity to the financial center--that are often found to be associated with politically connected firms in contemporary settings (e.g., Johnson and Mitton 2003, Faccio 2006). However, we find little statistical evidence of a systematic difference in equity returns between politically connected and unconnected banks--even when we apply a propensity matching model to make a fair comparison between them. Moreover, panel regressions with bank fixed effects and year fixed effects show that the appointment of well-connected directors to bank boards, on average, did not increase the rate of return on bank shares, although there is some evidence that banks that are relatively small and located in more remote areas might have benefitted from the appointment of well-connected directors. When we consider directors with political and noble titles separately in panel regressions, we find that the appointment of MPs to directorships had *negative* effects on the rate of return on bank shares, whereas that the appointment of directors with noble titles had no discernible effect. Our event-study analysis corroborates the panel regression results: we find that banks' share prices tended not to react negatively when their directors lost seats in Parliament or died. Rather, we find some evidence that banks tended to experience negative abnormal returns when their directors won seats in Parliament.

Our results contrast with those of Braggion and Moore (2013), who find substantial benefits from political connections for non-financial firms in "new tech" industries--but no significant effect in "old industry" firms--during 1895-1906, a period that largely coincides with our study. One reason for this contrast may be that the firms Braggion and Moore study were younger, lesser known establishments in new lines of industry and needed to signal to investors their "soundness" by the appointment of prominent board members.<sup>8</sup> By contrast, the banking industry was older and more firmly established than the firms investigated by Braggion and Moore: joint stock (i.e., incorporated) banking had become legal under legislation passed in 1826,<sup>9</sup> so the reputation-building benefit of high profile directors is likely to have been limited or outweighed by the cost of having these directors who might have been less attentive to banks' affairs.

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<sup>8</sup> Braggion and Moore (2013) classify new tech firms sectors as chemicals, electricity supply, electricity generation, bicycle, and motorcars, based on Kennedy (1987) and Cull et al. (2006).

<sup>9</sup> "An Act for the Better Regulation of Co-Partnerships of Certain Bankers in England" (7 Geo. IV, c. 46).

The outline of the paper is as follows. Section 2 describes the data. Section 3 presents the empirical analysis. Conclusions follow in section 4.

## 2. Data

Our data, which encompasses all joint stock banks in England and Wales, are gathered primarily from the *Economist's* Banking Supplement (the list of banks used in our study is included in Appendix). The *Economist* Banking Supplement also provides the bank balance sheet data used in our analysis, including bank size (total assets) and the riskiness of assets (which we proxy for by loans-to-assets ratio and cash-to-assets ratio). Stock price information, which we use to calculate the rate of return on bank shares (i.e., change in share price plus dividends over the beginning-of-the-period share price) as a measure of financial performance, is drawn from the *Investor's Monthly Manual*.<sup>10</sup> We focus on English and Welsh banks in order to obtain a homogeneous sample (i.e., Scottish, Irish, and foreign banks with shares listed on the London Stock Exchange are excluded from our study), and only include banks for which we can obtain information about their directors, balance sheets, and dividends, and share prices.<sup>11</sup> We also gather information about the distance of banks' headquarters from London and their year of establishment (to calculate their age) to capture different dimension of heterogeneity. The data sources for establishment year are Crick and Wadsworth (1936), Gregory and Henderson (1936), Sayers (1957), and the *Register of Defunct and Other Companies*. The locations of banks' headquarters were taken from the *Investor's Monthly Manual*.

Following Faccio (2006) and Braggion and Moore (2013), we collect information about the profile of each individual serving on the boards of directors of English and Welsh banks to identify which banks had political or noble connections. These data are drawn from the *Stock Exchange Yearbook* and *Burdett's Official Intelligence*. Both publications provide the name and title, if any, of each bank director and chief officer, which we record in order to identify which banks selected individuals with political or noble titles to be on its board of directors. In particular, we keep track of the numbers of directors, directors with noble titles, and directors

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<sup>10</sup> We do not include private banks because of the absence of consistent balance sheet data and, since they were not publically traded, the complete absence of share price data.

<sup>11</sup> Given that not all banks report the detailed information about their directors in the *Stock Exchange Yearbook* or *Burdett's Official Intelligence*, fewer banks are included in our sample than appear in the *Economist* Banking Supplement.

with political titles, that is, individuals who serve as members of the House of Commons (MPs) for each bank over time.<sup>12</sup> Since the composition of directors is fairly stable, we collect this information on biannual basis from 1879 to 1909. More specifically, to capture connectedness, we generate three variables,  $Connected_{it}$ ,  $MP_{it}$ , and  $Noble_{it}$ , which identify the presence of directors with either political or noble titles, directors with political titles, and directors with noble titles for bank  $i$  in year  $t$ .<sup>13</sup> We also keep track of the total number of directors to capture the size of the board of directors, which we use as a control.<sup>14</sup>

Both MP directors and noble directors might be appointed as board members based on similar economic rationales. As suggested by Braggion and Moore (2013), both were well-recognized and reputable individuals with high social standing, and thus having them on the board of directors might have been useful as a quality signal; i.e., the presence of these well-connected individuals on the board of directors might have enabled banks to reassure financiers (e.g., depositors, creditors, and shareholders), who would otherwise be less willing to entrust the banks with their wealth. Furthermore, both were well connected in political circles, and their presence on the board of directors might have allowed banks to influence politicians and/or other government officials who could materially affect the bank's performance. Nonetheless, the distinction between MP directors and noble directors might be important because MP directors served in the primary legislative body and thus were more likely to have had a substantive

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<sup>12</sup> The inherited titles of British male peers (all bank directors at this time were males), in descending order of precedence, are Duke, Marquess, Earl, Viscount, and Baron. It is customary to refer to peers by their specific titles, except for Barons, who are generally referred to as "Lord." If his father has multiple titles, the eldest son of a Duke, Marquess, or Earl may use one of his father's lower ranking titles before he succeeds to the peerage (i.e., the son of the Duke of Rutland is known as the Marquess of Granby). Younger sons of Dukes and Marquesses are styled as "Lord," a courtesy title, while younger sons of Earls and all sons of Viscounts and Barons are styled as "The Honourable" (however, the title Honourable is not limited to the sons of peers, but could also indicate that the holder is a judge). Below the peerage are baronets, essentially inherited knighthoods, which are distinguishable by "Sir" before the name and "Bart" after it. Below baronets are knights, who are distinguished by "Sir" before their name ([www.Debretts.com](http://www.Debretts.com)). Some foreign directors have non-British noble titles, such as Count. We include Duke, Marquess, Lord, Earl, Viscount, and Baron among noble titles. The frequency of each of these titles in the data on bank directors is: MP (408), Duke (0), Marquess (16), Lord (129), Earl (18), Viscount (7), and Baron (7). Our results do not change if we broaden the definition of noble titles to include Count, Sir, Bart, and Hon (these results are not reported to conserve space but are available upon request from the authors).

<sup>13</sup> Because individuals with noble titles—excluding sons of sitting peers who may hold a noble title by courtesy--sit in the House of Lords they cannot, by definition, sit in the House of Commons (i.e., they cannot be MPs). Our data on bank directors include only one person with the tile of both Lord and MP, Henry Brudenell-Bruce, later the 5th Marquess of Ailesbury who served in the House of Commons as "Lord Henry Brudenell-Bruce" prior to acceding to the peerage upon the death of his father.

<sup>14</sup> In addition to a zero-one variable denoting the *presence* of connected directors, we also use the *number* of connected directors in our econometric analysis. The results are qualitatively similar to those reported in the paper and are not reported to conserve space, but are available upon request from the authors.

impact on economic policy than noble directors. In addition, MP directors had to run (“stand” in British parlance) for election and reelection, which might have given them different political objectives than directors that sat in the House of Lords and did not need to stand for reelection.<sup>15</sup>

### 3. Empirical Analysis

Figure 1 shows the proportion of banks with at least one connected director during 1879-1909.<sup>16</sup> In 1879, about 20% of banks had an MP on their board of directors, similar to the proportion found by Braggion and Moore (2013) for non-financial firms. This proportion remained stable until the turn of the century before increasing to 35% by 1909, suggesting that a large proportion of banks were politically connected by the end of our sample period. A little over 5% of banks had at least one noble director in 1879, but this number steadily increased to about 35% by 1909. Similarly, the proportion of banks with connected directors of either sort was 23% in 1879 and increased to more than 50% by 1909. Thus, our data contain substantial variation, both across banks and over time; i.e., some banks were connected while others were not, and more importantly, those banks that were politically connected were connected at different points in time during the sample period. This pattern should help us ascertain whether the presence of connected directors had any effect on the financial performance of banks in panel data analysis with bank fixed effects and year fixed effects. In addition, Figure 1 shows that the statistical variation of the presence of MP directors is much richer than that of the presence of noble directors, since the title of MP can be gained and lost as a result of elections while losing a hereditary peerage is far more difficult.<sup>17</sup> This means, econometrically, that the impact of MP directors can be estimated with more precision than that of noble directors when it is estimated with within-bank variation over time.

We observe a similarly increasing pattern in the average number of connected directors per bank (Figure 2), which suggests that banks had a strong—and increasing--proclivity to

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<sup>15</sup> We also collect the data on the party affiliations of MPs to examine whether the economic impact of MP directors on bank performance depends on party affiliation, but find no statistically discernible difference between MPs that are affiliated with different political parties.

<sup>16</sup> We focus on listed banks that reported balance sheet information in order to maintain consistent sample for the latter part of this paper. Both the *Stock Exchange Yearbook* and *Burdett's Official Intelligence* included information on more banks than the *Economist* Banking Supplement; however, financial data was not available for a number of banks listed in these publications.

<sup>17</sup> The right to “disclaim” hereditary peerages was not established until the passage of the Peerage Act in 1963.

appoint connected individuals to their boards. However, even though the average number rose over time, the absolute level remained low, which may suggest that demand for political connections was low. Moreover, this number may be somewhat misleading because the average total number of directors rose at the same time (Figure 3).<sup>18</sup> Thus, even though connected directors became more common over the sample period, bank boards typically did not have a majority of political or noble directors.

Table 1 presents descriptive statistics on our sample of banks, highlighting the fact that our sample is unbalanced—statistically significantly so—on several dimensions. Unconnected banks are more numerous, smaller (by asset size), more highly capitalized (i.e., higher capital-to-assets ratio), have smaller boards of directors, younger, and, on average, further from London than connected banks. Unconnected banks are likely to have higher loan-to-asset ratios and lower cash-to-asset ratios than their connected counterparts.

To examine the statistical correlation between “connectedness” and profitability as demonstrated in Braun and Raddatz (2010), we measure the difference in bank equity returns (as measured by the capital gain plus dividend yield on bank shares) between connected and unconnected banks in three different ways (Table 2). First, we first calculate the simple difference as a benchmark and then regress bank equity returns on a dummy variable indicating the presence of connected directors while controlling for bank size (as measured by the natural log of bank assets) so as to compare connected banks with unconnected ones which share similar observable characteristics. Second, to better neutralize the effects of bank size, we include a propensity matching estimator based on log of assets.<sup>19</sup> Panel A of Table 2 considers connected and unconnected banks; Panel B considers the impact of MP directors and noble directors separately. The results in Table 2 show that the difference in average returns—by the first two measures—is positive and significant for 1879, 1887, 1889, and 1899, negative for 1907 and 1909, and not statistically significant—or with consistent signs—in the remaining years.<sup>20</sup>

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<sup>18</sup> Note that the average number of MP directors is more volatile than the average number of noble directors. This is partly due to the fact that most of the MP directors belong to the Conservative Party and that a significant number of the incumbent Conservative MPs lost their seats in the general elections of 1880, 1892, and 1906.

<sup>19</sup> We also use other observable bank-level characteristics for controls in the first stage probability model. The results are qualitatively similar but are not reported to conserve space.

<sup>20</sup> The pattern of signs may suggest that any slightly positive return in the early years deteriorates and becomes negative by the end of the sample, a possibility that we explore with more rigor in the panel data analysis that follows.

However, these differences decrease in magnitude and become statistically insignificant when we apply propensity-matching analysis.<sup>21</sup>

These results suggest that there is no systematic difference between connected and unconnected banks in terms of return on equity. The results in Panel B are not strikingly different for MPs and noble directors, and suggest that neither title added much value to bank equity in a systematic way. Of course, we are mindful of the selection effects that may lurk behind these patterns; for example, if struggling banks were likely to appoint connected directors, we might expect connected banks' equity returns to be somewhat lower in some years.

To further probe the importance of bank heterogeneity, we run a fixed-effects panel regression to control for a variety of factors that might have affected bank profitability quite aside from the presence of connected directors:

$$Return_{it} = \beta_i + \beta_t + \beta_1 Connected_{it} + \beta_2 Bank\ Characteristics_{it} + \varepsilon_{it},$$

where  $Connected_{it}$  represents one or more indicators of connectedness: the presence of at least one MP director; the presence of at least one Noble director; the presence of at least either one MP or one noble director; or the presence of a director with the title “the Right Honourable” (discussed below).  $Bank\ Characteristics_{it}$  represents a variety of time-varying bank-level characteristics that might influence equity returns: lagged return, bank size (natural log of assets), total number of directors, cash-to-asset ratio, loan-to-asset ratio, bank age, asset growth, standard deviation of bank return, and capital-to-asset ratio. Lagged return is included to capture persistence in bank returns since bank shares might have been illiquid (Acheson and Turner 2008: 135). The total number of directors is included to account for the possibility that an increase in the size of the board of directors, which tended to accompany the appointment of politically connected directors, negatively affected bank performance, as corporate finance literature shows that firm performance is negatively correlated with the size of board of directors (Coles, Daniel, and Naveen, 2008). Finally, we include various proxies for bank risk-taking, such as loan-to-asset ratio, cash-to-asset ratio, bank asset growth, and the standard deviation of equity

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<sup>21</sup> The overlapping assumption of the propensity matching analysis is mostly valid, with the exception 1901, 1903, 1905, and 1907 in which the estimated probability densities of being politically unconnected differ significantly between unconnected banks and connected banks (see Figure 4)

returns. The capital-to-asset ratio is included to capture the effects of leverage and possible moral hazard effects (Grossman and Imai, 2013). All regressions include bank and year fixed effects; that is, the coefficient on the dummy variables for the presence of connected directors is estimated based on the comparison of bank performance before and after the entry of connected directors, relative to the statistical benchmark of banks which did not experience the entry of connected directors in a given year. The results are presented in Table 3.<sup>22</sup>

In the specifications which control only for bank fixed effects and year fixed effects, the coefficient on connected directors is negative, but not significantly different from zero (column 1). When we look more closely at the precise form of connectedness, the coefficient on nobles is positive, but not significantly different from zero, while the coefficient on MPs is both negative and significantly different from zero (column 6). The negative coefficient on MP, between 4 and 7 percent, depending on the specification, is economically significant as well, which is comparable to the 7 percent average return of bank shares during the sample period.

To probe the possibility that the results are influenced by the “pre-trend” (i.e., poorly performing banks might have appointed connected directors to send a positive signal to the financial markets), we incorporate dummy variables (Connected Lead, MP Lead, and Noble Lead) which equals one if a bank does not have a connected director in current time period ( $t$ ) but will have one in the subsequent time period ( $t+1$ ), and zero otherwise. This variable leads the onset of political connections variable, and thus captures pre-trend in returns; i.e., if the coefficient on it is positive (negative), then the bank was performing better (worse) than usual before it appointed a connected director. The results show that the coefficients on these dummy variables are insignificant, suggesting that there is no unusual systematic movement in returns prior to the appointment of connected directors (columns 2 and 7).

The result that the presence of connected directors did not benefit bank shareholders and that MP directors might have *reduced* the value of bank shares holds even when we control for the observable bank characteristics (columns 3-5 and 8-10).<sup>23</sup> Most of these covariates are not statistically significant, presumably because they do not vary significantly over time and thus their impacts are captured by bank fixed effects. Nevertheless, some of the significant results

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<sup>22</sup> In all of the panel regressions, standard errors are clustered at the bank level.

<sup>23</sup> The number of observations varies across these different specifications due to varying data availability of the control variables.

show that equity returns tended to decline over a bank's lifetime, which suggests that banks became less dynamic as they aged. Also, the negative coefficient on the standard deviation of returns suggests that the value of equity fell when uncertainty rose. The negative and significant coefficient on capital-to-asset ratio captures the effects of leverage.

To assess the potential impact of connectedness more concretely, we examine whether some connected directors provided banks with positive economic payoffs. We do so by incorporating a proxy for the political influence of connected directors: a dummy variable that takes on the value one for the presence of a director with a title the Right Honourable (abbreviated "Rt. Hon."). Although there are several officials who are authorized to use this title, including certain members of the nobility and lord mayors, it is most commonly used for members of the Privy Council, a group of appointed advisors to the monarch, which typically consists of high-ranking members of the cabinet and opposition. Thus, there is a high likelihood that directors with the title Rt. Hon. had, currently have, or will have an influential role in government. The signs on this coefficient are inconsistent and never significant at standard levels (columns 3-5 and 8-10), suggesting that even these ultimate political insiders did not promote bank profitability.

One possible explanation for the worsening financial performance of banks upon the appointment of MP directors is that these directors might have been less attentive to their banks' affairs because of their duties in Parliament (i.e., busy director hypothesis as described in Kaplan and Reishus, 1990) or because they were appointed by entrenched managers to enhance their prestige, rather than to enhance the value of bank equity.<sup>24</sup> If that is the case, the appointment of MP directors can exacerbate agency problems to the detriment of bank shareholders. Alternatively, these directors might have pushed banks to make more conservative asset management decisions, since the failure of banks would hurt their reputation. To check whether this mechanism was partly in play, we run panel regressions of the loan-to-asset ratio, cash-to-asset ratio, standard deviation of returns, and capital-to-asset ratio on our measures of political

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<sup>24</sup> Additionally, there is anecdotal evidence that politicians directed their banks to unsound pernicious lending practices. For example, Sir Gabriel Goldney, Baronet and Member of Parliament, was also a Director of the North Wiltshire Bank in the 1860s. He was approached by a railway engineer Roland Brotherhood to relax the bank's lending term for his struggling railway company, the Railway Work, in exchange for help in getting Goldney re-elected. Goldney was successfully re-elected and advised the bank that the lending conditions could be relaxed for the Railway Work, although shortly after, the bank changed its mind and Brotherhood's enterprise failed. See <http://www.chippenham.gov.uk/rowland-brotherhood.6230.aspx>. Whether this type of episode is an isolated incident or rather systematic can only be inferred statistically, given its illicit nature.

connections with bank fixed effects and year fixed effects. The results are presented in Table 4. The coefficients on MP directors are insignificant except for the one on capita-to-asset ratio (column 8), which is marginally significant, suggesting that banks did not necessarily pursue safe investment strategy after the appointment of MP directors. The coefficient on the presence of noble directors is positive for the loan-to-asset ratio (column 5), however, there is little evidence to suggest that asset management changed significantly after connected directors were appointed.

The result that politically connected directors were irrelevant or even detrimental to bank returns on average does not mean that they were never useful. In addition, these results raise the question of why banks invited them to join their boards. We believe that the agency problem between bank managers and outside shareholders might have been important in generating these results, however, a definitive answer to this question will require additional data on the nature of banks' corporate governance and in-depth archival research. Nonetheless, we examine whether the impact of political connections depends on different dimensions of non-linearity and whether some banks benefited from political connections under some circumstances.

First, the related literature suggests that political connections are more valuable during the period of economic recession and financial distress (Okazaki and Sawada, 2014; Faccio, Masulis, and McConnell, 2006; Acemoglu et al., 2013). To explore this possibility, we include the interaction of political connections with a dummy variable for recession years.<sup>25</sup> Second, the related literature points out that political connections serve as a signal of quality when firms face difficulty raising finance from outside investors due to asymmetric information problems (Ghita, Cuyvers, and Deloof, 2009; Hannah, 2007; Braggion and Moore, 2013). As a proxy for the severity of asymmetric information problem, we include the interaction of political connections with bank size, bank age, and distance to London (measured as the log of distance in miles plus 1 to ensure that banks located in London do not drop out of our sample), as we conjecture that smaller, younger banks, and banks that are located in more remote areas might have been more likely to face serious asymmetric information problems. Third, Figures 1 and 2 may indicate that

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<sup>25</sup> We identified the recession periods using Moore and Zarnowitz's (1986) catalogue of British business cycles. We note that the pre-1900 business cycles were of long duration. In particular, we the economy underwent a long recession from the beginning of 1883 to the middle of 1886 and from the middle of 1890 to the end of 1894. Following a long expansion from 1894 to 1900, recessions become more short-lived. Hence, in our bi-annual data, we identified periods in which the British economy was in recession, unambiguously, and created a dummy variable for those time periods (i.e., the recession dummy is unity from 1883-1885, from 1885-1887, and from 1891-1893).

that any returns to political connections declined because access to politicians became less special—and therefore the rents associated with them became diluted—over time and that the cost of having them on the board began to exceed any benefits they might bring. To explore this possibility, we include the interaction of political connection with a measure of access to politically connected directors, that is, the proportion of banks with connected directors.

Table 5 displays the results of these interaction effects. Three of the interaction terms are statistically significant. The interactions of political connections with bank size and with distance from London are significant (i.e., the shareholder of small banks and of banks whose headquarters were located in remote areas seemed to have benefitted from politically connected directors), suggesting that political connections might have played an important role for banks that were still in the process of building up reputational capital. This interpretation is also largely consistent with Braggion and Moore (2013). The interaction of political connection with the proportion of banks with connected directors in a given year is also significant (i.e., the more prevalent the connected directors are in the banking sector, the less beneficial it is to have connected directors), which is consistent with the view that having access to politicians became less special over time.

An econometric concern about the above empirical analysis is selection bias; i.e., banks that appointed politically connected individuals to directorships might be systematically different from those that did not. The statistical comparison of average returns (even with propensity matching analysis), can give us a biased estimate of the impact of political connections because of selection based upon unobservable characteristics. Panel regression analysis even with bank fixed effects and year fixed effects might have important selection bias as well. The direction of bias can go in either direction, depending on the relative future profitability of these banks, although we suspect that negative bias is greater danger (i.e., banks that were less dynamic and less profitable might have sought out a political connections to invigorate their performance). We address this concern by estimating the abnormal shareholder returns associated with the electoral success (or failure) of bank directors since elections, especially close ones, are, to some extent, random events (Snowberg, Wolfers, and Zitzewitz, 2007). Another advantage of event study methodology is that it allows us to compare our results with other studies on politically connected firms which undertake similar analyses (Faccio, 2006, Braggion and Moore, 2013). Note that this event study methodology is only applicable to directors who are MPs; nobles

retain their titles throughout their lifetimes, although their personal fortunes and reputations can certainly vary over time.

To perform event studies, we compile detailed information from Craig (1989a, b) and *Popular Guide to the House of Commons* (1892, 1906) about the results of each of the six general elections during the course of our sample (April 1880, December 1885, August 1886, August 1892, October 1900, and February 1906) for bank directors who competed in these elections. We identify bank directors who ran for election and record their election results.<sup>26</sup>

The election or reelection to, or loss of a seat in Parliament by a bank director should have the greatest effect on bank share price if it comes as a surprise; if the outcome is seen as a foregone conclusion well ahead of the election, an efficient market will have priced in the anticipated event (Fama, 1965). Because there was no pre-election polling at the time, we judge the extent to which an electoral victory or defeat was a surprise by looking at the margin of victory, focusing on results in which the directors won or lost by a small margin (3 percentage points or less), as the equity market is unlikely to have reacted to the election results that are more or less anticipated.<sup>27</sup> We also collect the monthly share prices and dividends of their banks around the month of the elections and calculate abnormal return associated with close elections.

We identify 20 banks with directors who stood for election to Parliament and won or lost by a small margin.<sup>28</sup> Four bank directors were elected in the 1886 election, two won and one lost in the 1892 election, two won in the 1895 election, four won and one lost in the 1900 elections, and two won and three lost in the 1906 elections. We drop cases in which two or more directors from the same bank competed in an election with different results (i.e., some won while others lost), given that it is not clear how market participants perceived these events.<sup>29</sup> We also drop

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<sup>26</sup> The data set contains 87 such directors. Table A1 displays the breakdown of elections in which they participated.

<sup>27</sup> The results that include all elections are displayed in Table A2. Even though abnormal returns for banks whose directors won (lost) elections are mostly positive (negative), they are not statistically significant with large p-values (in parenthesis). That is, there is no clear evidence that the electoral results had any consistent effects on the share prices of politically connected banks; however, these insignificant abnormal returns are likely to be attributable to the fact that many of these election results were anticipated.

<sup>28</sup> There are two potentially important shortcomings of the data used in this analysis. First, the market for individual bank shares might have been quite illiquid, which means that the prices might not respond sensitively to election news, which would lead to a downward bias in the estimated impact of political connections (in absolute value). Second, since we have a limited number of cases in which bank directors won or lost elections by a small margin, it is difficult to generalize these results to the population of politically connected banks in the pre-war Britain. The abnormal return analysis, however, complements the panel data analysis as it provides a corroborating piece of econometric evidence.

<sup>29</sup> The estimated abnormal return for these cases is in general statistically insignificant.

cases in which directors stood for election to a multimember (most often two-, occasionally three-seat) constituency, in which the margin of victory is harder to interpret.

Given the event clustering, we follow MacKinlay (1997) and aggregate returns into a portfolio for each group. We use 12-, 24-, and 36-month estimation windows prior to each of the election months to estimate a market model as follows:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}$$

where  $R_{it}$  and  $R_{mt}$  are returns on portfolio  $i$  and market return in the London Stock Exchange. We then calculate the predicted return, based on the above market model during each of the election months.<sup>30</sup> Finally, the abnormal return is the difference between the actual return and the predicted return.

The estimated abnormal returns are reported in Table 8. Again, the results show little evidence of the positive effects of political connections: the news of directors losing their elections did not seem to have any significant effects on the share prices of their banks. Rather, in some cases (the 1892, 1895, and 1906 elections), banks with directors who won their election contests experienced *negative* abnormal returns, on average.<sup>31</sup> These finding contrast sharply with those of Faccio (2006) and Braggion and Moore (2013), who detect positive abnormal return for politically connected firms.

As a further test on the importance of MP directors for banks, we examine how the share prices of connected banks moved in response to the death of politically connected directors in the spirit of Johnson, Magee, Nagarajan, and Newman (1985), and more recently Fogel, Ma, and Morck (2014). We identify five cases in which politically connected directors passed away

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<sup>30</sup> Two important considerations guided our choice of different estimation windows (12, 24, and 36 months). First, given that liquidity for individual bank shares were low (Acheson and Turner (2008, 135), the estimate of abnormal return over a month as opposed to a day or a week is more likely to capture the full impact of election news. Second, given that we are using the monthly data, we need a sufficient number of observations to estimate the baseline market model. The relevant trade-off here is that if the estimation window is too short, then the number of observations is too small and the parameters in the baseline market model will not be estimated with precision (i.e., large standard errors), whereas if it is too long, the estimation of the market model will be susceptible to structural change and fails to generate the unbiased estimate of abnormal return. The use of differently sized estimation windows allows us to check the robustness of results.

<sup>31</sup> Our results are qualitatively similar if we broaden our focus to elections in which the margin of victory is 5 percent, although less significant.

during our sample period, two Liberal MPs<sup>32</sup> and three Conservative MPs.<sup>33</sup> Estimated abnormal returns, using 12-, 24-, and 36-month windows are presented in Table 7; almost all are negative, but not significantly different from zero (with average p-values between 66.5 and 78.1 percent), suggesting that connected directors did not affect the share prices of their banks.

#### 4. Conclusion

This paper analyzes the impact of political connections on bank performance by analyzing data on the presence of Members of Parliament (MP) and members of the nobility on boards of directors of the British banks from 1879-1909. When we analyze cross-sectional variation, we find that large banks were more likely to have politically connected individuals on their boards of directors, but banks with connected directors were no more profitable than those without. Furthermore, we find that the appointment of politically connected directors did not enhance equity value for bank shareholders, though we find some evidence that smaller banks that are located in remote areas benefited from political connections. On the contrary, we find some evidence that the appointment of connected individuals into the directorship had *negative* effects on banks' long-term financial performance.

These results contrast sharply with those of Braggion and Moore (2013), who show that political connections brought about economic rents to the shareholders of non-financial firms in the pre-WWI Britain. The results also contrast with those of Braun and Raddatz (2010), Duchin and Sosyura (2012), Acemoglu et al. (2013), whose analysis of political connections in contemporary settings shows that close association with public officials generates substantial rents for financial institutions. Because the banking industry was older and more firmly established than the non-financial firms investigated by Braggion and Moore (2013), it may be that the reputation-building benefits of high profile directors was limited or outweighed by the cost of having these directors who might have been expensive to hire and less attentive to banks' financial affairs. Also, because the pre-war British banking sector was largely unregulated and, for the most part, stable, it may be that the amount of regulation-related rents to be captured with

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<sup>32</sup> FA Yeo, MP for Swansea and a director of Swansea Bank (who died in 1888) and J. Tomkinson, MP for Cheshire Crewe and a director of Lloyds Bank (1910).

<sup>33</sup> T. Knowles, MP for Liverpool Everton and a director of Manchester and Liverpool District Banking Company (died 1883), F.A. Hankey, MP for Chertsey and a director of the Consolidated Bank, Ltd. (1892), and F. Dixon Hartland, MP for Uxbridge and a director of the London City and Midland Bank (1909).

political connections was small to begin with. One can also conjecture that if their electoral success was connected to a specific branch of industry, their appointment might also have led to costly pernicious lending.

An important question remains, however: why would a bank would choose to put an MP on its board doing so would lower the equity value of the bank? One possible explanation is that that hiring connected directors was a form of “prestige consumption,” similar to purchasing expensive art for the firm’s walls, or as a different dimension of competition with rivals. However, to definitively answer this question, it will be necessary to discover whether other stakeholders benefited from this arrangement, what kind of an illicit exchange took place between the bank and an MP, and how the decision to put a MP on its board was reached within each financial institution. This suggests an agenda for archival research.

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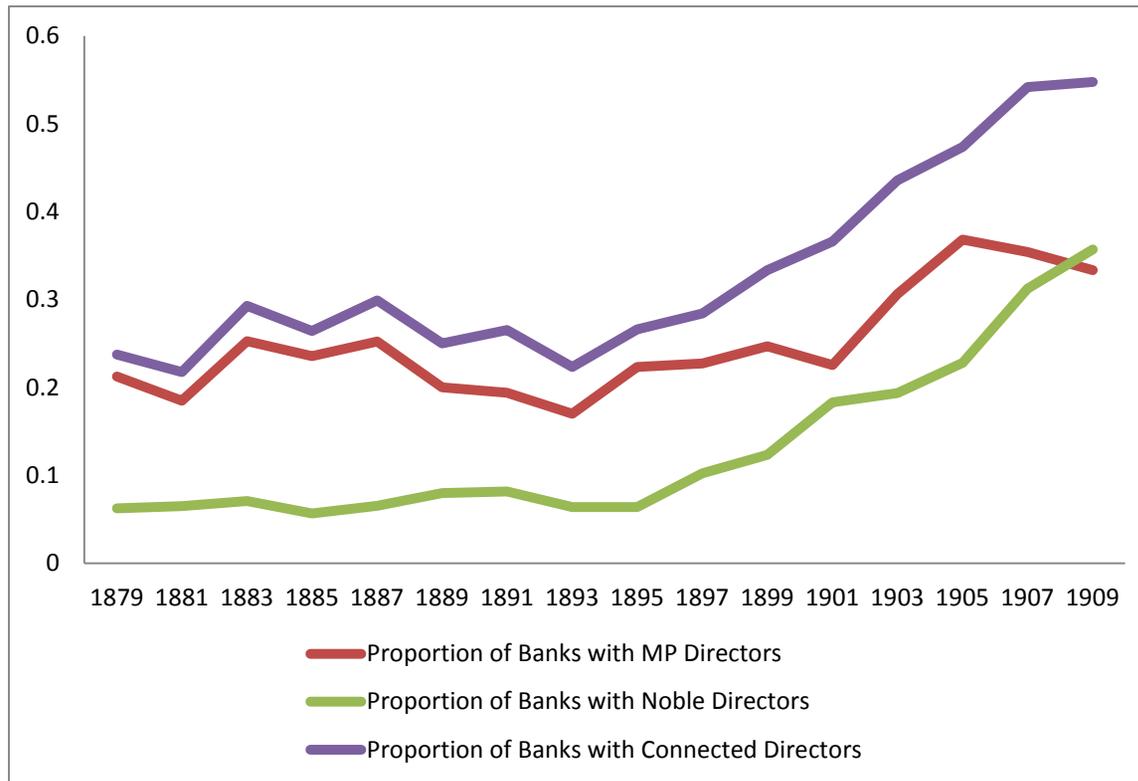
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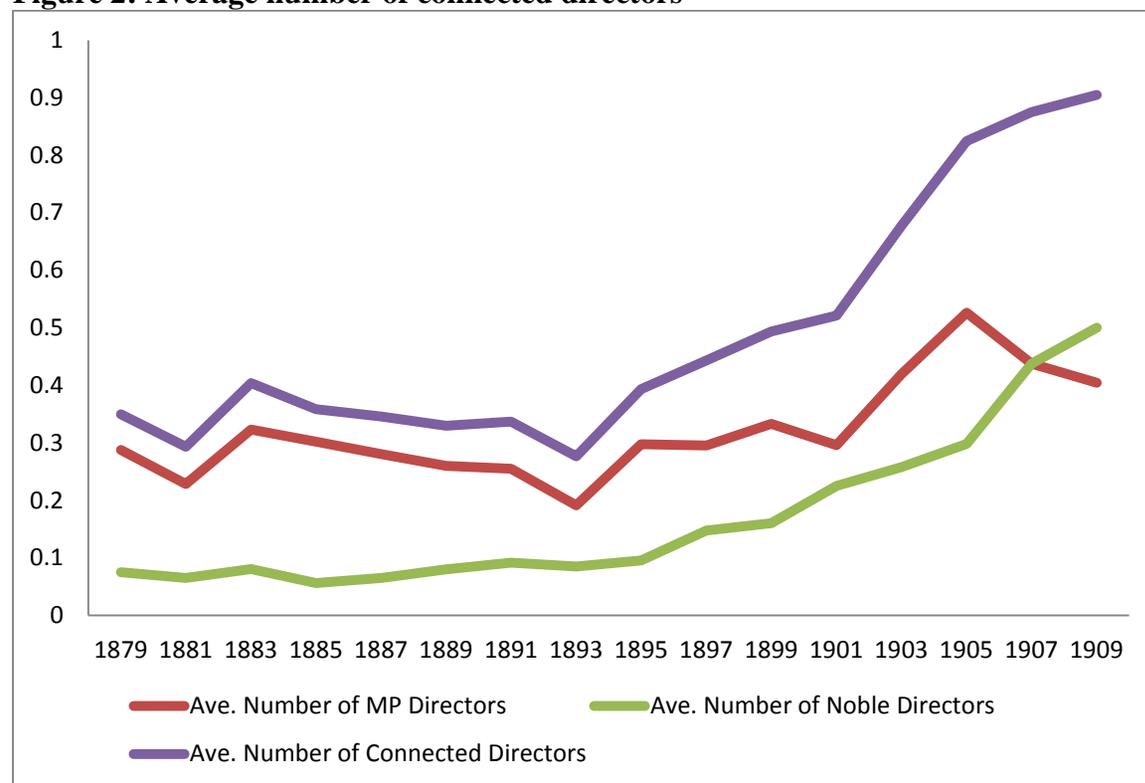
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**Figure 1: Proportion of banks with connected directors**



MP Directors simultaneously served as Members of Parliament. Noble directors held title of Duke, Marquess, Lord, Earl, Viscount, or Baron. Connected directors include both MP Directors and noble directors.  
Sources: *Stock Exchange Yearbook* and *Burdett's Official Intelligence*.

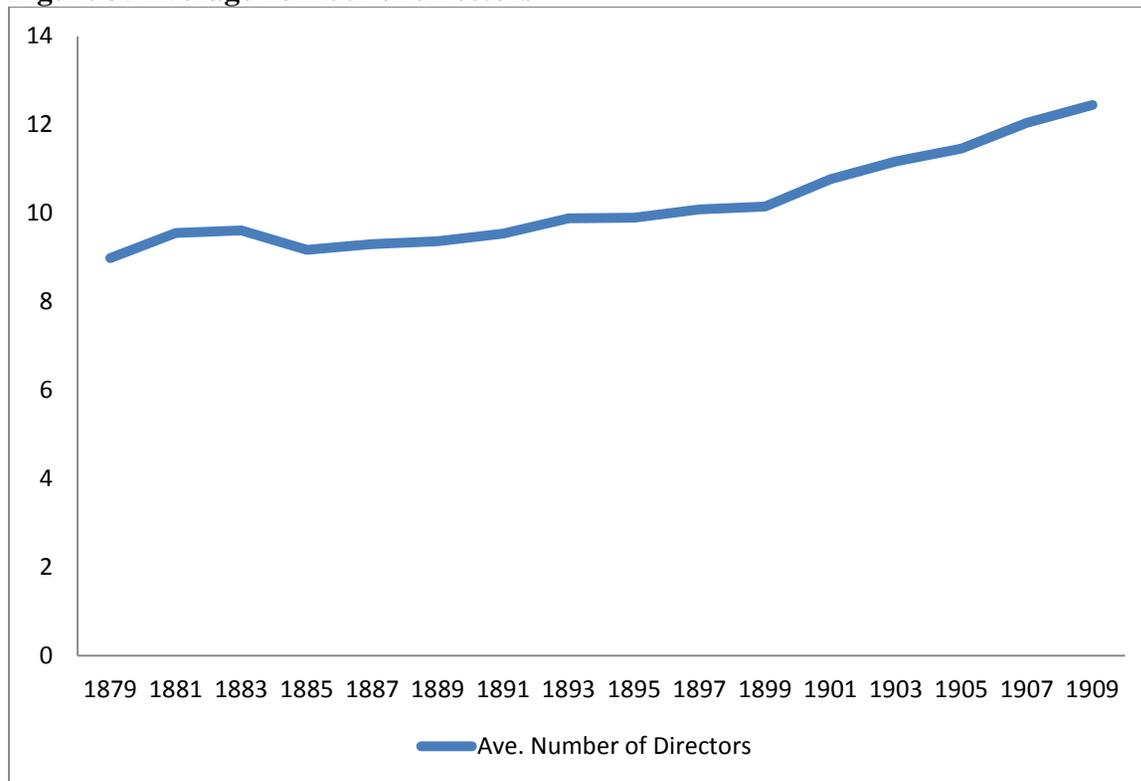
**Figure 2: Average number of connected directors**



MP Directors simultaneously served as Members of Parliament. Noble directors held title of Duke, Marquess, Lord, Earl, Viscount, or Baron. Connected directors include both MP Directors and noble directors.

Sources: *Stock Exchange Yearbook* and *Burdett's Official Intelligence*.

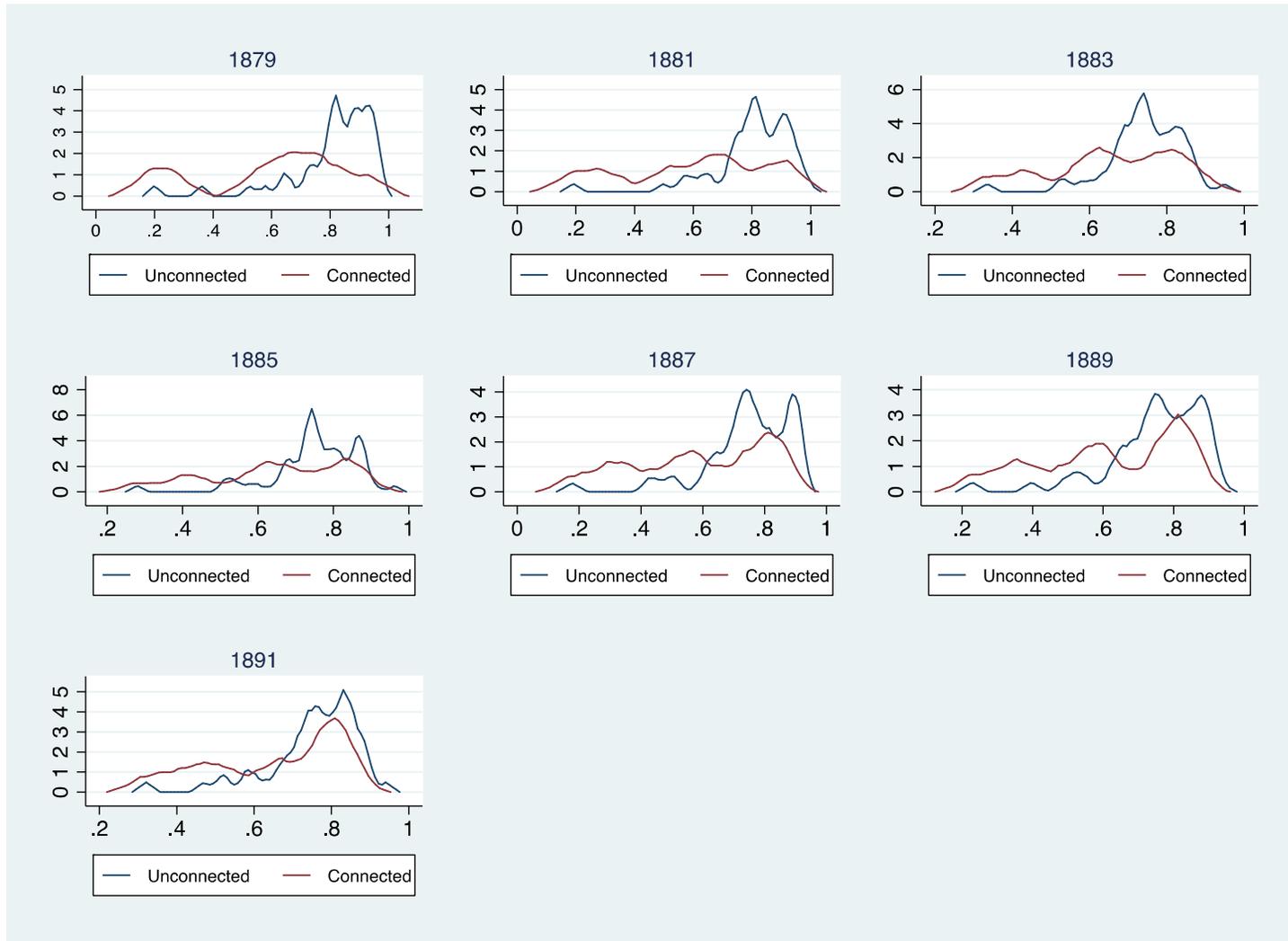
**Figure 3: Average number of directors**



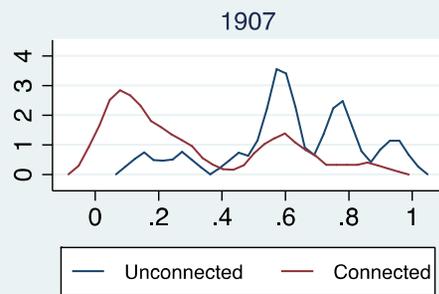
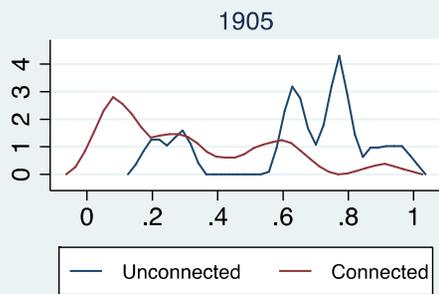
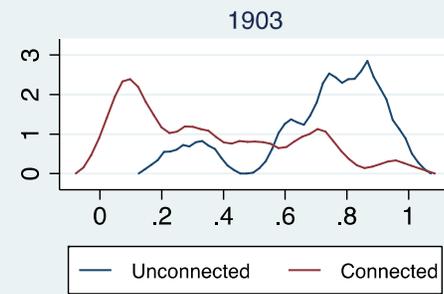
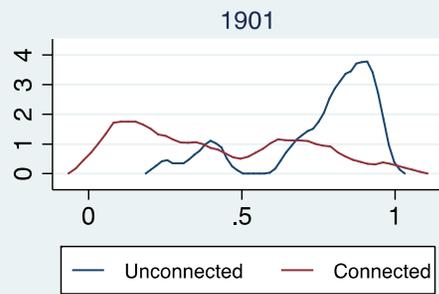
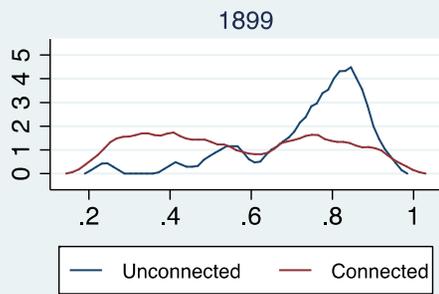
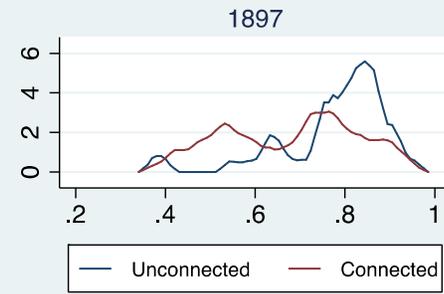
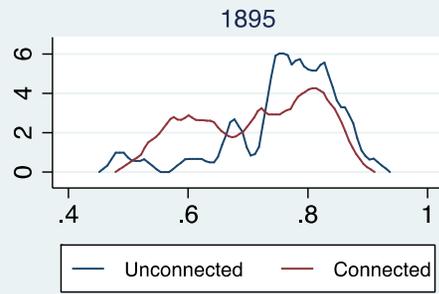
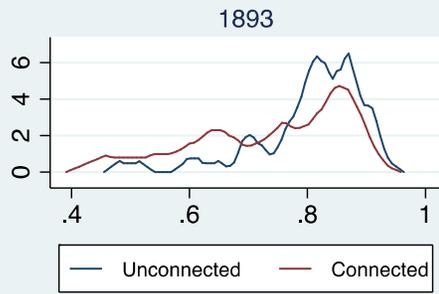
Sources: *Stock Exchange Yearbook* and *Burdett's Official Intelligence*.

**Figure 4: The Estimated Probability Densities of Being Politically Unconnected**

Panel A (1879-1891)



Panel B (1893-1907)



**Table 1: Descriptive Statistics (Sample Balance)**

Variables	Bank-Year Obs. (Unconnected Banks)	Mean (Unconnected Banks)	Bank-Year Obs. (Connected Banks)	Mean (Connected Banks)	Mean Diff
<b>Return</b>	714	0.0840	315	0.0900	-0.00600
<b>Log(Assets)</b>	714	14.60	315	15.71	-1.102***
<b>Total # of directors</b>	714	8.863	315	13.42	-4.556***
<b>Loan-to-Asset Ratio</b>	713	0.697	314	0.601	0.096***
<b>Cash-to-Asset Ratio</b>	665	0.138	298	0.188	-0.049***
<b>Age</b>	575	58.35	263	64.99	-6.646***
<b>Standard Deviation of Return</b>	687	0.0290	308	0.0250	0.00300
<b>Log(Dist. London)</b>	714	4.473	315	2.879	1.593***
<b>Capital-to-Asset Ratio</b>	714	0.278	315	0.238	0.040***

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Banks are classified as connected banks if they have one or more directors who are either the members of parliament or hold aristocratic titles (Duke, Marquess, Lord, Earl, Viscount, and Baron). Return is dividend-adjusted return on bank shares. Standard Deviation of Return is calculated based on monthly return over two years. Distance from London is the distances of a bank's headquarter from London, calculated with Google maps.

The balance sheet data are taken from the *Economist Banking Supplement*. The total number of directors is calculated based on *Stock Exchange Yearbook* and *Burdett's Official Intelligence*, which provide the data on directorship. The data on monthly share prices are from *Investor's Monthly Manual*. The data sources for establishment year is Crick and Wadsworth (1936), Gregory and Henderson (1936), Sayers (1957), and *Register of Defunct and Other Companies*.

Table 2: Difference in Average Return between Connected and Unconnected Banks

**Panel A:**

	(1) 1879	(2) 1881	(3) 1883	(4) 1885	(5) 1887	(6) 1889	(7) 1891	(8) 1893	(9) 1895	(10) 1897	(11) 1899	(12) 1901	(13) 1903	(14) 1905	(15) 1907	(16) 1909
Connected - Unconnected (No Control)	0.170** (0.0719)	0.0194 (0.0300)	-0.0490 (0.0629)	0.00746 (0.0192)	0.122 (0.0782)	0.0807* (0.0452)	-0.0360 (0.0286)	0.0160 (0.0229)	0.0328 (0.0226)	-0.136 (0.137)	0.0391* (0.0212)	-0.0166 (0.0243)	0.00527 (0.0248)	-0.0168 (0.0185)	-0.0974 (0.0685)	-0.0696*** (0.0240)
Connected - Unconnected (Control for Bank Size)	0.184** (0.0820)	0.0296 (0.0376)	-0.0449 (0.0720)	-0.00482 (0.0193)	0.183* (0.107)	0.125** (0.0598)	-0.0148 (0.0272)	0.0158 (0.0239)	0.0321 (0.0228)	-0.165 (0.151)	0.0215 (0.0207)	-0.0483* (0.0245)	0.0246 (0.0271)	-0.0213 (0.0192)	-0.0221 (0.0400)	-0.0280 (0.0200)
Connected - Unconnected (Propensity Matching Estimate)	0.150 (0.103)	0.0201 (0.0348)	-0.0494 (0.0896)	-0.0280 (0.0397)	0.104 (0.231)	0.0720 (0.0528)	-0.00702 (0.0269)	0.0192 (0.0253)	0.0326 (0.0214)	-0.296 (0.249)	0.0151 (0.0255)	-0.0497 (0.0330)	0.0145 (0.0307)	-0.0188 (0.0140)	-0.0755 (0.0467)	-0.0262 (0.0199)
Observations	68	77	85	90	80	80	77	77	72	65	58	49	47	39	34	31

**Panel B:**

	(1) 1879	(2) 1881	(3) 1883	(4) 1885	(5) 1887	(6) 1889	(7) 1891	(8) 1893	(9) 1895	(10) 1897	(11) 1899	(12) 1901	(13) 1903	(14) 1905	(15) 1907	(16) 1909
Banks with MP - Unconnected (No Control)	0.183*** (0.0663)	0.0174 (0.0289)	-0.0535 (0.0742)	0.00777 (0.0195)	0.0377 (0.0432)	0.0851* (0.0469)	-0.0378 (0.0273)	0.00835 (0.0256)	0.0384 (0.0232)	-0.187 (0.163)	0.0155 (0.0201)	-0.000520 (0.0247)	0.0107 (0.0229)	-0.0212 (0.0171)	-0.135 (0.0924)	-0.0456** (0.0222)
Banks with Noble - Unconnected (No Control)	-0.0969 (0.159)	0.0123 (0.0202)	-0.0287 (0.0387)	0.0185 (0.0222)	0.296 (0.277)	0.00525 (0.0469)	-0.0397 (0.0574)	0.0494 (0.0370)	-0.0417** (0.0160)	0.0926 (0.0592)	0.103*** (0.0285)	-0.0230 (0.0347)	-0.0112 (0.0255)	-0.00294 (0.0191)	0.0373 (0.0568)	-0.0627* (0.0318)
Banks with MP - Unconnected (Control for Bank Size)	0.182** (0.0771)	0.0225 (0.0316)	-0.0506 (0.0788)	-9.70e-05 (0.0196)	0.0918* (0.0494)	0.115** (0.0561)	-0.0253 (0.0249)	0.00902 (0.0259)	0.0372 (0.0231)	-0.201 (0.169)	0.00300 (0.0199)	-0.0231 (0.0294)	0.0237 (0.0241)	-0.0249 (0.0174)	-0.0753 (0.0555)	-0.0138 (0.0253)
Banks with Noble - Unconnected (Control for Bank Size)	-0.0980 (0.151)	0.0228 (0.0265)	-0.0193 (0.0354)	-0.00100 (0.0256)	0.373 (0.292)	0.0687 (0.0578)	-0.00165 (0.0518)	0.0543 (0.0418)	-0.0477** (0.0208)	0.0520 (0.0528)	0.0818*** (0.0243)	-0.0469 (0.0323)	0.00439 (0.0273)	-0.00562 (0.0189)	0.0689 (0.0738)	-0.0417* (0.0233)
Banks with MP - Unconnected (Propensity Matching Estimate)	0.169 (0.107)	0.0219 (0.0375)	-0.0359 (0.0959)	-0.0275 (0.0383)	0.0632* (0.0367)	0.0749 (0.0468)	-0.0110 (0.0253)	0.0184 (0.0267)	0.0348 (0.0218)	-0.407 (0.294)	-0.0110 (0.0268)	-0.0667 (0.0511)	0.0310 (0.0355)	-0.0293* (0.0164)	-0.121** (0.0609)	-0.0324* (0.0166)
Observations	68	77	85	90	80	80	77	77	72	65	58	49	47	39	34	31

Robust standard errors in parentheses.

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

See Table 1 for the data sources. In the propensity matching analysis, banks are matched up based on the size of assets.

Table 3: Panel Regression Analysis with Bank Fixed Effects and Year Fixed Effects (Dependent Variable: Return)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Presence of Connected Directors	-0.0216 (0.0208)	-0.0191 (0.0250)	-0.0277 (0.0275)	-0.0345 (0.0315)	-0.0301 (0.0276)					
Connected Lead		0.00956 (0.0260)								
Presence of MP Directors						-0.0453* (0.0238)	-0.0463 (0.0281)	-0.0536* (0.0300)	-0.0743** (0.0366)	-0.0637** (0.0303)
MP Lead							-0.00342 (0.0273)			
Presence of Noble Directors						0.0161 (0.0372)	0.0208 (0.0406)	0.0149 (0.0378)	0.0238 (0.0409)	0.00888 (0.0311)
Noble Lead							0.0202 (0.0333)			
Presence of Rt. Hon.			-0.0115 (0.0269)	-0.00631 (0.0279)	0.000256 (0.0250)			-0.00875 (0.0280)	-0.00379 (0.0295)	0.00104 (0.0267)
Lagged return			-0.00502 (0.0216)	-0.0113 (0.0228)	0.00142 (0.0199)			-0.00769 (0.0217)	-0.0156 (0.0222)	-0.00188 (0.0206)
Log(Assets)			-0.0883* (0.0510)	-0.0124 (0.0519)	-0.00676 (0.0408)			-0.0829 (0.0502)	-0.00266 (0.0469)	0.00198 (0.0368)
Total number of directors			0.00210 (0.00282)	-0.000414 (0.00270)	-0.000321 (0.00251)			0.00272 (0.00268)	0.000236 (0.00270)	0.000128 (0.00254)
Loan-to-Asset Ratio			0.391* (0.235)	0.402 (0.273)	0.401 (0.245)			0.366 (0.222)	0.370 (0.255)	0.374 (0.229)
Cash-to-Asset Ratio			0.489 (0.452)	0.505 (0.513)	0.716 (0.476)			0.489 (0.452)	0.505 (0.513)	0.715 (0.475)
Age				0.000515 (0.00281)	0.00487** (0.00191)				6.60e-05 (0.00258)	0.00512** (0.00179)
Asset Growth					0.119 (0.106)					0.119 (0.103)
(sd) return					-2.730*** (0.441)					-2.720*** (0.445)
Capital-to-Asset Ratio					-0.547*** (0.143)					-0.529*** (0.140)
Constant	0.0416 (0.0436)	0.0403 (0.0450)	1.027 (0.748)	-0.117 (0.706)	0.334 (0.588)	0.0454 (0.0434)	0.0451 (0.0447)	0.963 (0.744)	-0.218 (0.674)	0.230 (0.563)
Observations	1,029	1,029	935	762	736	1,029	1,029	935	762	736
R-squared	0.081	0.081	0.112	0.096	0.421	0.084	0.085	0.117	0.105	0.428
Number of Banks	113	113	109	85	84	113	113	109	85	84

Standard errors (clustered at bank-level) in parentheses.

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

See Table 1 for the data sources. All regressions include bank fixed effects and year fixed effects.

Table 4: Impact of Connected Directors on Bank Risk

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Loan-to-Asset Ratio	Cash-to-Asset Ratio	sd of return	Capital-to-Asset Ratio	Loan-to-Asset Ratio	Cash-to-Asset Ratio	sd of return	Capital-to-Asset Ratio
Presence of Connected Directors	0.0121 (0.0137)	3.86e-06 (0.00561)	-0.00422 (0.00376)	0.0106 (0.00791)				
Presence of MP Directors					-0.000348 (0.0140)	0.00529 (0.00624)	-0.00286 (0.00425)	0.0120* (0.00660)
Presence of Noble Directors					0.0332** (0.0149)	-0.000756 (0.0116)	-0.00173 (0.00462)	-0.00930 (0.0148)
Constant	0.726*** (0.0127)	0.155*** (0.00474)	0.0601*** (0.0105)	0.288*** (0.00940)	0.728*** (0.0126)	0.154*** (0.00483)	0.0599*** (0.0105)	0.289*** (0.00916)
Observations	1,027	963	995	1,029	1,027	963	995	1,029
R-squared	0.164	0.029	0.053	0.172	0.167	0.030	0.053	0.174
Number of Banks	113	110	113	113	113	110	113	113

Standard errors (clustered at bank-level) in parentheses.

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

See Table 1 for the data sources. All regressions include bank fixed effects and year fixed effects.

Table 5: Panel Regression Analysis of Interaction Effects (Dependent Variable: Return)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Presence of Connected Directors	-0.025	0.570**	-0.035	-0.115**	0.0641					
Connected*Recession	-0.032	-0.273	-0.0397	-0.05	-0.0465					
Connected*Size	-0.033	-0.0389**								
Connected*Age		-0.0181								
Connected*Distance from London			7.6E-05							
Connected*# of Banks with Connected Directors			-0.00028	0.0210**						
Presence of MP Directors				-0.01	-0.287					
MP*Recession					-0.181	-0.0612*	0.131	-0.137**	-0.108**	-0.0009
MP*Size						-0.033	-0.434	-0.064	-0.0486	-0.0515
MP*Age						-0.015				
MP*Distance from London						-0.033				
MP*# of Banks with MP Directors							-0.013			
Constant	0.369	-0.14	0.342	0.309	0.0443	0.248	0.0937	0.322	0.229	0.115
	-0.617	-0.612	-0.575	-0.588	-0.688	-0.579	-0.716	-0.578	-0.573	-0.601
Observations	736	736	736	736	736	736	736	736	736	736
R-squared	0.422	0.426	0.421	0.427	0.425	0.428	0.428	0.43	0.43	0.429
Number of Banks	84	84	84	84	84	84	84	84	84	84

Standard errors (clustered at bank-level) in parentheses.

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

See Table 1 for the data sources. All regressions include bank fixed effects and year fixed effects as well as all of the control variables employed in Table 4.

**Table 6: Abnormal Return of Politically Connected Banks on Election Months**

Panel A (12 month estimation window)					
	(1)	(2)	(3)	(4)	(5)
	1886 Elections	1892 Elections	1895 Elections	1900 Elections	1906 Elections
Abnormal Return (Close Win)	1.456 (1.659)	-3.338* (1.847)	-1.948* (1.013)	0.154 (0.949)	-4.595** (1.875)
Abnormal Return (Close Loss)		2.608 (1.847)		-0.319 (0.949)	-2.407 (1.875)
Panel B (24 month estimation window)					
	(1)	(2)	(3)	(4)	(5)
	1886 Elections	1892 Elections	1895 Elections	1900 Elections	1906 Elections
Abnormal Return (Close Win)	1.380 (1.558)	-1.995 (1.858)	-1.931** (0.836)	-0.233 (1.366)	-4.173*** (1.502)
Abnormal Return (Close Loss)		1.895 (1.858)		-0.414 (1.366)	-2.212 (1.502)
Panel C (36 month estimation window)					
	(1)	(2)	(3)	(4)	(5)
	1886 Elections	1892 Elections	1895 Elections	1900 Elections	1906 Elections
Abnormal Return (Close Win)	0.740 (2.087)	-3.235 (4.256)	-2.114** (0.985)	1.066 (6.457)	-4.288*** (1.424)
Abnormal Return (Close Loss)				-0.413 (6.457)	-1.933 (1.424)

Robust standard errors in parentheses.

Data sources:

Election results: Craig (1989a, b) and Popular Guide to the House of Commons (1892, 1906).

Share prices: *Investor's Monthly Manual*.

**Table 7: Abnormal Return Associated with Death of MP Directors**

	(1) 12 month estimation window	(2) 24 month estimation window	(3) 36 month estimation window
Abnormal Return (Death, Consolidated Bank)	0.125 (0.952)	-0.0292 (0.987)	-0.392 (0.850)
Abnormal Return (Death, Lloyd's)	-0.402 (0.851)	-0.384 (0.827)	-0.254 (0.903)
Abnormal Return (Death, London City and Midland)	-0.462 (0.823)	-0.825 (0.637)	-0.626 (0.763)
Abnormal Return (Death, Manchester and Liverpool)	-0.0676 (0.974)	-0.0278 (0.987)	0.284 (0.891)
Abnormal Return (Death, Swansea)	-0.494 (0.811)	-0.429 (0.806)	-0.364 (0.861)
Average AR (Death)	-0.260	-0.339	-0.270
p-value (Death)	0.781	0.665	0.771

p-values in parenthesis.

Five cases: Liberals FA Yeo, MP for Swansea and a director of Swansea Bank (who died in 1888) and J. Tomkinson, MP for Cheshire Crewe and a director of Lloyds Bank (1910). Conservatives T. Knowles, MP for Liverpool Everton and a director of Manchester and Liverpool District Banking Company (died 1883), F.A. Hankey, MP for Chertsey and a director of the Consolidated Bank, Ltd. (1892), and F. Dixon Hartland, MP for Uxbridge and a director of the London City and Midland Bank (1909).

## Appendix

### List of Banks in the Sample

ADELPHI BANK, LTD  
ALLIANCE BANK, LTD  
ASHTON, STALYBRIDGE, HYDE & GLOSSOP  
BANK OF BOLTON, LTD  
BANK OF LIVERPOOL  
BANK OF WESTMORLAND  
BANK OF WHITEHAVEN, LTD  
BARCLAY AND CO.  
BARNESLEY BANKING COMPANY  
BIRMINGHAM AND MIDLAND BANK  
BIRMINGHAM BANKING COMPANY, LTD  
BIRMINGHAM JOINT STOCK BANK, LTD  
BIRMINGHAM, DISTRICT AND COUNTIES BANKING  
BIRMINGHAM, DUDLEY, & DISTRICT BANKING CO  
BOLITHO, WILLIAMS, FOSTER  
BRADFORD BANKING COMPANY  
BRADFORD COMMERCIAL JOINT STOCK BANK  
BRADFORD DISTRICT BANK, LTD  
BRADFORD OLD BANK, LTD  
BUCKS AND OXON UNION BANK, LTD  
BURTON, UTTEEXETER, & ASHBOURN UNION BANK  
BURY BANKING COMPANY  
CAPITAL AND COUNTIES BANK  
CARLISLE AND CUMBERLAND BANKING COMPANY  
CARLISLE CITY AND DISTRICT BANK  
CENTRAL BANK OF LONDON, LTD  
CITY BANK, LTD  
CONSOLIDATED BANK, LTD  
CORNISH BANKING COMPANY, LTD  
COUNTY OF GLOUCESTER BANKING COMPANY  
COUNTY OF STAFFORD BANK  
CRAVEN BANK, LTD  
CROMPTON AND EVAN UNION BANK, LTD  
CUMBERLAND UNION BANKING COMPANY  
DERBY AND DERBYSHIRE BANKING COMPANY  
DEVON AND CORNWALL BANKING COMPANY  
EXCHANGE AND DISCOUNT BANK, LTD  
GERMAN BANK OF LONDON, LTD  
GLAMORGANSHIRE BANKING COMPANY  
GLOUCESTERSHIRE BANKING COMPANY  
HALIFAX & HUDDERSFIELD UNION BANKING CO.  
HALIFAX COMMERCIAL BKNG. COMPANY, LTD  
HALIFAX JOINT STOCK BANKING COMPANY  
HUDDERSFIELD BANKING COMPANY  
HULL BANKING COMPANY  
IMPERIAL BANK, LTD  
INTERNATIONAL BANK OF LONDON  
KNARESBOROUGH AND CLARO BANKING COMPANY  
LANCASHIRE AND YORKSHIRE BANK, LTD  
LANCASTER BANKING COMPANY  
LEAMINGTON PRIORS & WARWICKSHIRE BANK  
LEEDS AND COUNTY BANK, LTD  
LEICESTERSHIRE BANKING COMPANY  
LINCOLN AND LINDSEY BANKING COMPANY  
LIVERPOOL COMMERCIAL BANKING COMPANY  
LIVERPOOL UNION BANK  
LLOYD'S BANKING COMPANY, LTD  
LONDON & COUNTY BANKING COMPANY, LTD  
LONDON AND HANSEATIC BANK, LTD  
LONDON AND PROVINCIAL BANK, LTD  
LONDON AND SOUTH-WESTERN BANK, LTD  
LONDON AND WESTMINSTER BANK  
LONDON AND YORKSHIRE BANK, LTD  
LONDON CITY AND MIDLAND

LONDON JOINT STOCK BANK  
MANCHESTER JOINT STOCK BANK, LTD  
MANCHESTER & LIVERPOOL DISTRICT BANKING CO.  
MANCHESTER AND COUNTY BANK, LTD  
MANCHESTER AND SALFORD BANK  
MARTIN'S  
MERCANTILE OF LANCASHIRE  
MERCHANT BANKING CO, OF LONDON, LIMITED  
METROPOLITAN AND BIRMINGHAM, LTD  
MOORE & ROBINSON'S NOTTINGHAMSHIRE BKG. CO., LTD  
NATIONAL BANK OF LIVERPOOL, LTD  
NATIONAL BANK OF WALES, LTD  
NATIONAL PROVINCIAL BANK OF ENGLAND  
NORTH AND SOUTH, WALES BANK  
NORTHAMPTONSHIRE BANKING COMPANY  
NORTHAMPTONSHIRE UNION BANK  
NORTH-EASTERN BANKING COMPANY, LTD  
NORTH-WESTERN BANK, LTD  
NOTTINGHAM & NOTTINGHAMSHIRE BANKING CO.  
NOTTINGHAM AND DISTRICT  
NOTTINGHAM JOINT STOCK BANK, LTD  
OLDHAM JOINT STOCK BANK, LTD  
PALATINE BANK  
PARE'S LEICESTERSHIRE BANKING COMPANY  
PARR'S BANKING COMPANY, LTD  
PRESTON BANKING COMPANY, LTD  
SHEFFIELD AND HALLAMSHIRE BANK  
SHEFFIELD AND ROTHERHAM BANKING COMPANY  
SHEFFIELD BANKING COMPANY  
SHEFFIELD UNION BANKING COMPANY  
STAFFORDSHIRE JOINT STOCK BANK, LTD  
STAMFORD, SPALDING & BOSTON BANKING CO.  
STUCKEY'S BANKING COMPANY  
SWANSEA BANK, LTD  
THREE TOWNS BANKING COMPANY, LTD  
UNION BANK OF BIRMINGHAM, LTD  
UNION BANK OF LONDON  
UNION BANK OF MANCHESTER, LTD  
UNITED COUNTIES BANK  
WAKEFIELD AND BARNESLEY UNION BANK  
WEST RIDING UNION BANKING COMPANY  
WHITEHAVEN JOINT STOCK BANK  
WILLIAMS, DEACON, AND MANCHESTER AND SALFORD  
WILTS AND DORSET BANKING CO.  
WOLVERHAMPTON & STAFFORDSHIRE BANKG. CO.  
WORCESTER CITY & COUNTY BANKING CO.  
YORK CITY AND COUNTY BANK  
YORK UNION BANKING COMPANY  
YORKSHIRE BANKING COMPANY

Table A1: Election Results

<b>Elections</b>	<b># of Participating Bank Directors</b>	<b>Won</b>	<b>Re-elected</b>	<b>Lost</b>
1880	27	6	9	12
1885	32	6	15	11
1886	24	1	22	1
1892	21	3	11	7
1895	25	4	17	4
1900	22	0	17	5
1906	26	5	9	12
Total	177	25	100	52

Data sources: Craig (1989a, b) and *Popular Guide to the House of Commons* (1892, 1906).

Table A2: Abnormal Return of Politically Connected Banks on Election Months

	(1)	(2)	(3)
	12 month estimation window	24 month estimation window	36 month estimation window
Win in 1880	-1.570 (0.411)	-0.417 (0.836)	-0.800 (0.727)
Win in 1885	-0.239 (0.860)	0.0171 (0.990)	0.448 (0.782)
Win in 1886	-0.220 (0.909)	0.105 (0.958)	0.440 (0.848)
Win in 1892	0.520 (0.791)	0.589 (0.771)	0.211 (0.896)
Win in 1895	0.381 (0.854)	0.193 (0.929)	0.177 (0.942)
Win in 1900	1.132 (0.552)	0.870 (0.665)	1.201 (0.600)
Win in 1906	-0.978 (0.617)	-0.564 (0.781)	-0.473 (0.837)
Loss in 1880	0.141 (0.941)	0.0563 (0.978)	-0.461 (0.840)
Loss in 1885	-0.982 (0.606)	-0.964 (0.631)	-1.223 (0.593)
Loss in 1892	-0.283 (0.885)	-0.119 (0.953)	-0.702 (0.760)
Loss in 1900	-0.319 (0.867)	-0.414 (0.837)	-0.413 (0.857)
Loss in 1906	-1.990 (0.310)	-1.572 (0.439)	-1.351 (0.556)
Average AR (Win)	-0.139	0.113	0.172
p-value (Win)	0.846	0.879	0.833
Average AR (Loss)	-0.687	-0.602	-0.830
p-value (Loss)	0.426	0.504	0.418

p-value in parenthesis.

See Table A1 for data sources.