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### **The Estimated Parameters in the Regressions are based on Robust Standard Errors**

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#### **Description**

Internet Banking can reap private benefits at the expense of other shareholders. Prior research on the effect of outside stock ownership on managerial control focuses on institutional investors and block holders. The availability of public information for this group of investors is one reason they receive so much attention. Institutional investors are often included as block holders because of their size. Another reason for the interest in block holders is the strong incentive they have to actively monitor managers. The size and investment policies, in some instances, make monitoring the most cost effective means of controlling managers by these investors. According to Shleifer and Vishny, unaffiliated block holders can monitor and control managers through direct negotiation or by facilitating acquisition by outsiders. Even when internal efforts to control managers fail, external control can be made easier by the presence of a block holder. In a study of the announcement of block trades, Barclay and Holderness associate increased stock prices with these announcements and increased turnover of top managers following the transaction. This evidence is also consistent with the hypothesis that block holders can be active of commercial banking and finance, as most of these trades did not involve increased concentration of ownership but only a change of the block holder. Unaffiliated block holders are potentially the single most powerful group of outside shareholders that could influence the behavior of insiders. First, the size of their

holdings usually allows these investors to make or influence board appointments. Owners of large blocks of shares may also gain greater access to managers between regular shareholder meetings. Finally, holders of a large portion of the firm's shares can be a catalyst for takeovers, so managers have additional incentives to heed the concerns of these investors. The presence of unaffiliated block holders among the investors in a firm should, therefore, be a positive force for outside shareholders, thus reducing the probability of failure.

### **Local Economic Conditions**

Local Economic Conditions has been shown in several studies to impact firm performance and may be relevant since larger institutions may have less risk exposure are subject to more public scrutiny and regulators may be more inclined to delay the closure of larger institutions. We include a binary variable, to differentiate between states with less stringent asset and liability powers and other states. In addition to the difference in the regulation between states, savings and loan associations also differ as to their supervisory agency as the state banking departments supervise institutions with state charter and the federal home loan bank board supervise those with federal charter. Federally chartered institutions also controlled a disproportionate amount of total industry assets, which suggest that on average they are larger than state chartered institutions. One additional firm-specific characteristic, firm age, is captured with a binary variable that differentiates between established firm, that is, those that were five years and older those institutions that were less than five years old. To control for the effect that local economic conditions may have on the failure of an institution, we include a variable that is equal to the annual growth rate in the number of new housing permits issued in any of the states or Puerto Rico where the institution is located. The number of new housing permits issued in each state and Puerto Rico is extracted from the U.S. Statistical abstract microfiches for each year from 1982 through 1994.

This study expands on the claim by previous researchers that an efficiency indicator should be added to the current bank rating system used by regulators. The findings are promising that an equitable model can be developed to rate fairly an institution regardless of size. However, this study uses only the parametric stochastic frontier efficiency approach. A similar analysis using other parametric and nonparametric techniques would provide more insight into this area. Furthermore, while a strong introduction to the problem, the research presented in this paper contains only two years of data. The use of a more comprehensive time frame would serve to better justify the results. Finally, the choice of the financial ratios used to simulate rating is arbitrary. As long as the system remains proprietary information it is a researcher's best guess as to the accuracy of the ratios chosen to represent a bank's rating. The comparisons between failed and non-failed firms are reported. It appears the largest institutions were among the ones most likely to survive. Even though the sample is restricted to publicly traded institutions, it includes some relatively small firms. Only the equity holdings of independent outside directors, affiliated directors and unaffiliated block holders reflected any significant difference between the failed and non-failed institutions. Outside directors held of the equity of failed institutions compared for non-failed institutions. These differences are significant

at better than the one percent level.

### **Parameters in the Regressions**

Next, we conduct a more complex analysis using the logistic regression technique to obtain maximum likelihood estimates. This model relates the probability that an institution failed between 1983 and 1994 to variation in equity ownership and a series of control variables. The levels of significance for the estimated parameters in the regressions are based on robust standard errors. These standard errors are obtained from an estimator of the variance-covariance matrix that is associated with White and Huber. The version of the estimator applied here is presented in Stata and groups the observations by firms; the groups are treated as independent while the observations within each group are not independent. This was the presumption of Lorraine Sullivan a full-time student with a part time job who, first, presumed Kazak must be legal, since Napster had been shut down and second, only downloaded music for home, personal use a play list to listen to when cleaning house or doing homework. On the contrary, however, Sullivan and many others did not understand the basic framework of the programs that leaves your file open to other sharers, unless you purposefully close it, giving accessibility to all downloaded files to anyone utilizing the program. The Aimster court explained, the purchase of a single cd could be levered into the distribution within days or even hours of millions of identical.