Bad luck or bad management?
Evidence from Thai commercial banks

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ABSTRACT

This paper aims to investigate the negative orderly relationships between the non-performing loans and the cost efficiency, using 14 of Thai commercial banks from Q1 2001 to Q3 2009. To test these relationships, following Podpiera and Weill (2008), this paper employs the Granger causality framework by applying GMM dynamic panel estimators. The sample is categorized into the subsamples: small; medium; and large-sized banks, and the whole sample: all 14 commercial banks. The empirical results exhibit that the evidences of the Bad management hypothesis are found for all the subsamples and the whole sample. This means declines in cost efficiency significantly precede increases in non-performing loans. Bank managers should concentrate more on monitoring and controlling on bank expenses, e.g. operating expenses, to have less cost inefficiency. This would make banks have better performance and reaches long-term competitiveness.