



Kasetsart University

Collectivism and Connected Lending

Siwapong Dheera-aumpon

Department of Economics, Kasetsart University

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Connected Lending

- In Thailand, firms connected to prominent families have better access to long-term loans and have more assets and sales than unconnected firms. (Charumilind et al., 2006)
- In Mexico, loans to directors and their families have lower interest rates, longer maturities and higher default rates. (La Porta et al., 2003)
- In Russia, firms being major shareholders of banks get more loans than other firms. (Laeven, 2001)



Measure of Connected Lending — Need for Special Connections

- World Business Environment Survey (2000)
“How problematic is the need for special connections with banks or financial institutions for the operation and growth of its business?”
 - 1 - no obstacle
 - 2 - minor obstacle
 - 3 - moderate obstacle
 - 4 - major obstacle

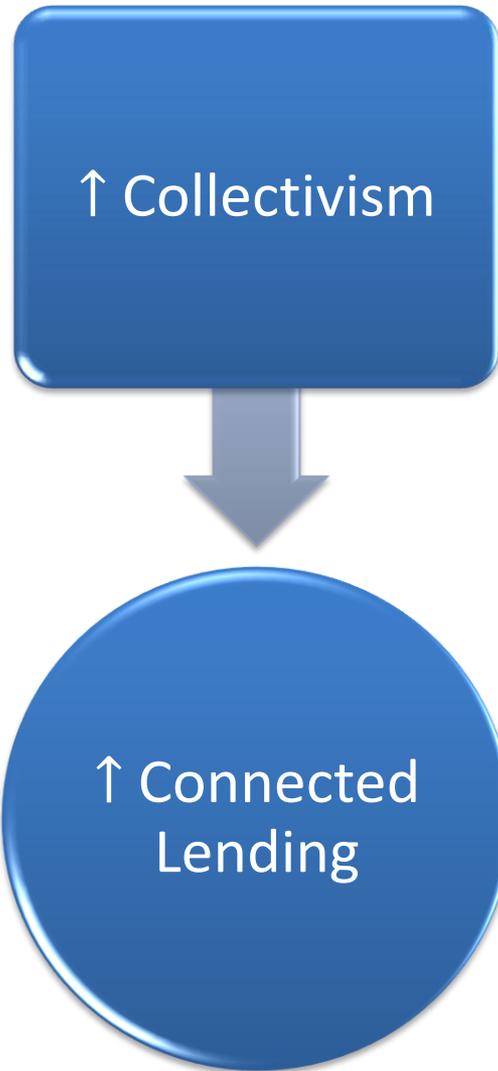


Collectivism and Corruption in Bank Lending

- ***Collectivism increases*** the corruption of bank officials
(Zheng et al., 2013, and El Ghoul et al., 2015)
- Cultural data from ***Hofstede (2001)***



Concept





Hofstede National Culture

- Cultural dimensions constructed from a survey data

- Individualism/Collectivism

the degree of interdependence a society maintains among its members

- Power Distance

- Uncertainty Avoidance

- Masculinity/Femininity

- Long-Term Orientation/Short-Term Orientation

- Survey conducted between **1967 and 1973**

The data for the need for special connections are taken from the World Business Environment Survey (WBES) conducted between **1999 and 2000**



GLOBE National Culture

- Survey conducted in **1990s**
- 9 Dimensions
 - In-Group Collectivism
 - Institutional Collectivism
 - Power Distance
 - Uncertainty Avoidance
 - Gender Egalitarianism
 - Assertiveness
 - Future Orientation
 - Performance Orientation
 - Humane Orientation

the degree to which individuals express **pride, loyalty, and cohesiveness** in their organizations or families

the degree to which organizational and societal institutional practices encourage and reward **collective distribution of resources and collective action**

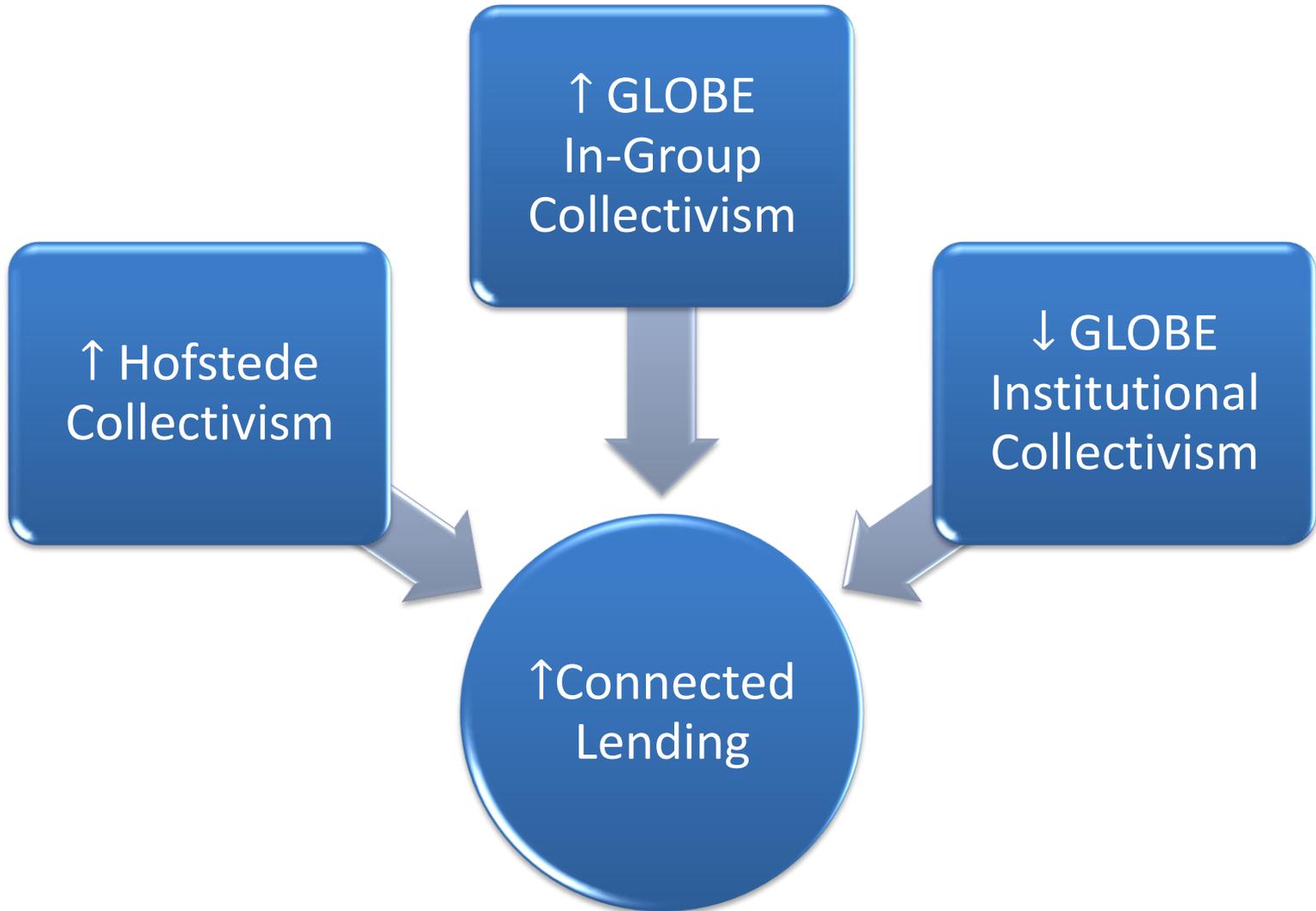


This paper...

- examines the relationships between the need for special connections with banks and
 - Hofstede Collectivism
 - GLOBE In-Group Collectivism
 - GLOBE Institutional Collectivism



Hypotheses





Data

- World Business Environment Survey (WBES, 2000)
 - How problematic the need for special connections with banks is for the firm's operation and growth
 - 1 for no obstacle, 2 for minor obstacle, 3 for moderate obstacle, and 4 for major obstacle
- Hofstede (2001) and House et al. (2004)
 - Cultural dimensions
- ...



Data

- Bank Supervision
 - Barth, Caprio, and Levine (2004)
 - Supervisory Power
 - Private Monitoring
- Bank Competition
 - Beck, Demirgüç-Kunt, and Maksimovic (2004)
 - Bank Concentration
 - Private Bureau Age
- Firm Characteristics...



Model and Method

Special Connections $_{i,j}$

$= \alpha + \beta' \text{ Cultural Dimensions}_j$

$+ \delta' \text{ Other Country-Level Controls}_j$

$+ \gamma' \text{ Firm Characteristics}_{i,j} + \varepsilon_{i,j}$

- Ordered probit
- Robust clustered standard errors



Should be renamed as
Work-Orientation
(Brew and Venaik , 2011)

Results

	(1)	(2)	(3)	(4)	(5)
Hofstede Collectivism	0.0065*** (0.0018)	0.0074 (0.0049)	0.0030 (0.0018)	0.0069*** (0.0017)	0.018*** (0.0040)
Hofstede Power Distance		-0.0024 (0.0050)			0.00017 (0.0027)
Hofstede Masculinity		0.0065* (0.0032)			0.014*** (0.0020)
Hofstede Uncertainty Avoidance		0.0024 (0.0040)			-0.013*** (0.0021)
Hofstede Long-Term Orientation		0.000054 (0.0038)			0.012*** (0.0019)
Supervisory Power			0.096* (0.047)		-0.0086 (0.021)
Private Monitoring			-0.070 (0.072)		0.16*** (0.046)
Bank Concentration				-0.0050 (0.0028)	-0.0016 (0.0014)
Private Bureau Age				-0.0024 (0.0025)	0.0049** (0.0019)
	Sales, Government, Foreign, Export, Manufacturing, Services, Number of Competitors				
Observations	4230	2196	3632	2539	1496
Pseudo R ²	0.015	0.014	0.017	0.023	0.046
Countries	40	20	33	26	13



Should be renamed as Family Collectivism
(Brew and Venaik , 2011)

	(1)	(2)	(3)	(4)	(5)
In-Group Collectivism	0.17** (0.064)	-0.022 (0.11)	0.042 (0.068)	0.12 (0.097)	-0.074 (0.17)
Institutional Collectivism	-0.42*** (0.12)	-0.58*** (0.18)	-0.34*** (0.100)	-0.42*** (0.15)	-1.10*** (0.25)
Power Distance		-0.048 (0.15)			-0.44 (0.30)
Assertiveness		-0.24 (0.16)			-0.80 (0.50)
Gender Egalitarianism		-0.051 (0.16)			-0.43 (0.23)
Uncertainty Avoidance		-0.21 (0.17)			0.083 (0.30)
Future Orientation		-0.0033 (0.16)			0.31 (0.33)
Performance Orientation		0.30 (0.22)			0.19 (0.29)
Humane Orientation		0.16 (0.092)			-0.21 (0.24)
Supervisory Power			0.074 (0.044)		0.14** (0.049)
Private Monitoring			-0.16** (0.065)		-0.24** (0.091)
Bank Concentration				-0.0035 (0.0029)	-0.0022 (0.0024)
Private Bureau Age				-0.0019 (0.0026)	0.0026 (0.0036)
Sales, Government, Foreign, Export, Manufacturing, Services, Number of Competitors					
Observations	4068	4068	3446	2310	2149
Pseudo R ²	0.018	0.023	0.022	0.025	0.040
Countries	40	40	33	23	21



Robustness Checks

- Controlling for other factors
 - Growth
 - Inflation
 - Private Credit
 - Press State Ownership
 - Political Connections
 - Anti-Self-Dealing
 - Rule of Law
 - Government Effectiveness
 - General Financing Obstacle
 - General Corruption Obstacle
- Different estimation models
 - Ordered probit with 3 categories
 - Probit
 - IV probit
- Different subsamples
 - Firms with bank finance
 - Firms without bank finance



Conclusions

- ***GLOBE Institutional Collectivism decreases*** the need for special connections with banks
- ***Hofstede Collectivism and GLOBE In-Group Collectivism*** have ***no*** significant effect on it
- The need for special connections with banks is ***different*** from the corruption of bank officials



Collectivism and Connected Lending

THANK YOU