



Kasetsart University

# Collectivism and Connected Lending

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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

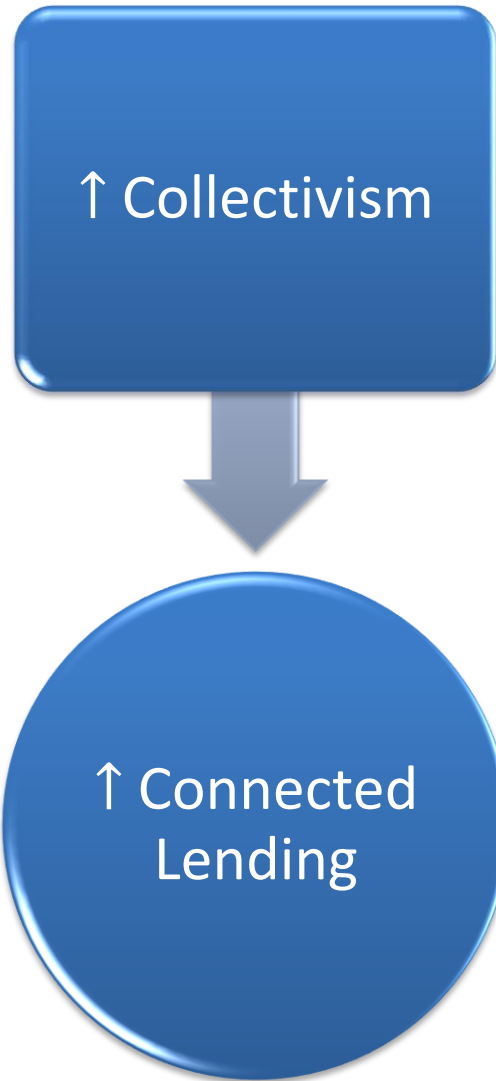
- ***Collectivism increases*** the corruption of bank officials

(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**

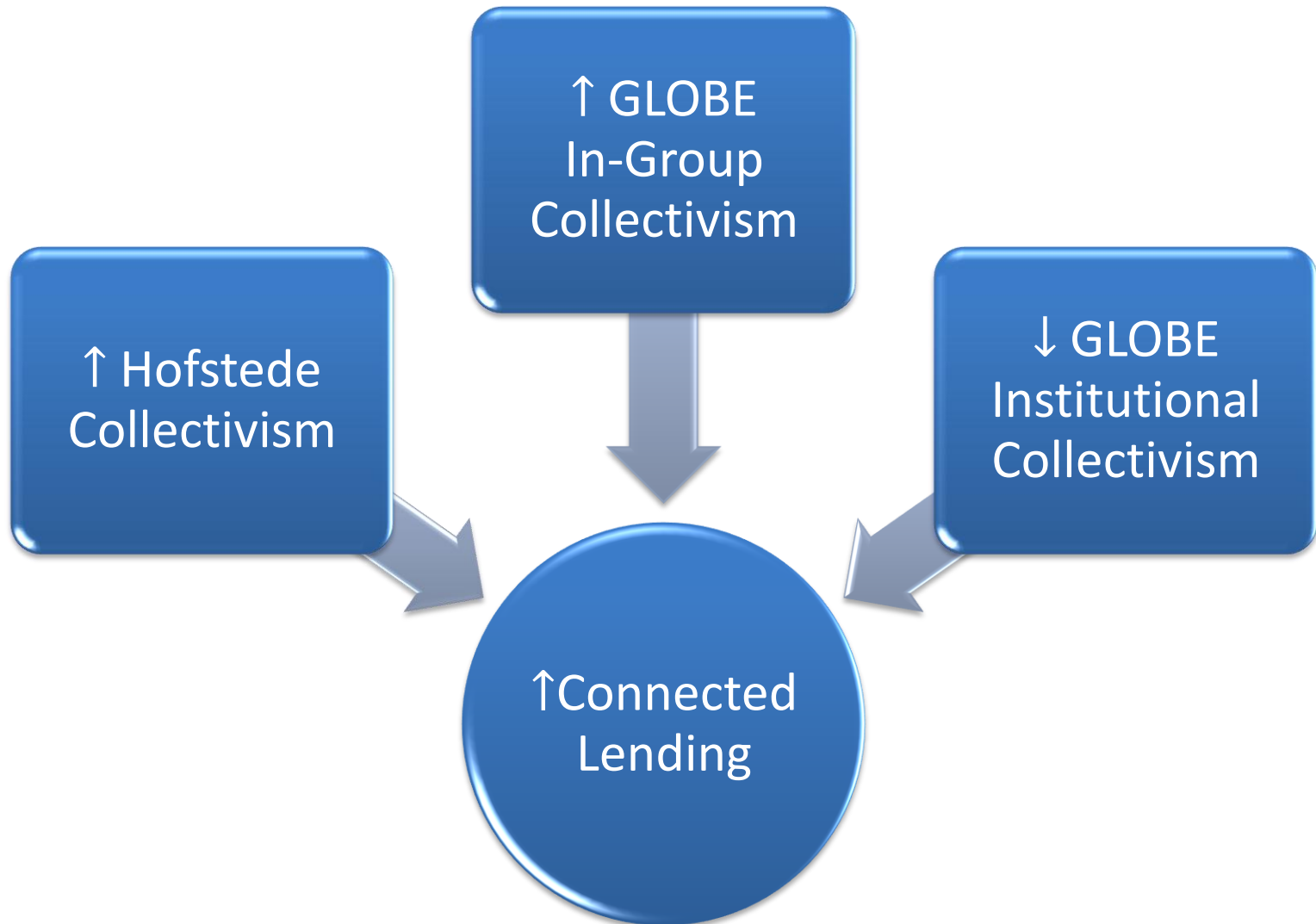


# This paper...

- 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 $_{i,j}$*

$$\begin{aligned} &= \alpha + \beta' \text{ Cultural Dimensions}_j \\ &\quad + \delta' \text{ Other Country-Level Controls}_j \\ &\quad + \gamma' \text{ Firm Characteristics}_{i,j} + \varepsilon_{i,j} \end{aligned}$$

- 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 <sup>2</sup>	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**