Discussion on

Collectivism and Connected Lending

PIER Research Workshop

21-22 July 2017

Key findings and comments

1. **Key findings on institutional collectivism**

2. **Determinants of connected lending**

3. **Measurements**

4. **Methodology**

1. Key findings

- **Country-level institutional collectivism matters to firm-level connected lending.**

- **Hofstede collectivism**
  - Linked to corruption of bank officials, but not lending cronyism.
  - Rather related to work orientation

- **GLOBE In-Group collectivism**
  - Rather related to ties with family, not ties within group

- **GLOBE Institutional collectivism**
  - Related to collective action and collective distribution of resources

2. Determinants of connected lending

- "The need to have special connections with banks"

- Country-level factors highly correlated with connected lending
  - Economic development, not only growth
  - Access to finance
  - Rule of law/corruption

- Firm-level factors quite irrelevant (?)
  - Size
  - Types of financing
  - Government-related or foreign firm
  - Existing relationships with banks

Table 2 Hofstede's collectivism and the need for special connections

	(1)	(2)	(3)	(4)	(5)
Hofstede Collectivism	0.0065***	0.0074	0.0030	0.0069***	0.018***
	(0.0018)	(0.0049)	(0.0018)	(0.0017)	(0.0040)
Hofstede Power Distance		-0.0024			0.00017
		(0.0050)			(0.0027)
Hofstede Masculinity		0.0065*			0.014***
		(0.0032)			(0.0020)
Hofstede Uncertainty Avoidance		0.0024			-0.013***
		(0.0040)			(0.0021)
Hofstede Long-Term Orientation		0.000054			0.012***
		(0.0038)			(0.0019)
Supervisory Power			0.096*		-0.0086
			(0.047)		(0.021)
Private Monitoring			-0.070		0.16***
			(0.072)		(0.046)
Bank Concentration				-0.0050	-0.0016
				(0.0028)	(0.0014)
Private Bureau Age				-0.0024	0.0049**
				(0.0025)	(0.0019)
Sales	0.0039	0.015	0.010	0.0043	-0.0070
	(0.0045)	(0.0079)	(0.0055)	(0.0087)	(0.0093)
Government	-0.32***	-0.28***	-0.35***	-0.33***	-0.16
	(0.060)	(0.087)	(0.069)	(0.098)	(0.11)
Foreign	-0.18***	-0.20***	-0.17***	-0.22***	-0.23**
	(0.049)	(0.053)	(0.051)	(0.067)	(0.085)
Export	-0.10**	-0.0090	-0.11**	-0.081	0.020
	(0.045)	(0.050)	(0.041)	(0.054)	(0.064)
Manufacturing	-0.16	-0.069	-0.18	-0.10	-0.18*
	(0.100)	(0.085)	(0.11)	(0.060)	(0.082)
Services	-0.12	-0.035	-0.16	-0.026	-0.062
	(0.095)	(0.065)	(0.096)	(0.063)	(0.080)
Number of Competitors	0.064	0.042	0.070	0.023	0.034
	(0.048)	(0.073)	(0.051)	(0.059)	(0.045)
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

The dependent variable is Special Connections. The errors are clustered at the country level. Robust clustered standard errors are reported in parentheses. *, **, and *** indicate significance at the 10, 5, and 1 percent level, respectively.

Table 3 In-Group collectivism, institutional collectivism, and the need for special connections

	(1)	(2)	(3)	(4)	(5)
In-Group Collectivism	0.17**	-0.022	0.042	0.12	-0.074
	(0.064)	(0.11)	(0.068)	(0.097)	(0.17)
Institutional Collectivism	-0.42***	-0.58***	-0.34***	-0.42***	-1.10***
	(0.12)	(0.18)	(0.100)	(0.15)	(0.25)
Power Distance		-0.048			-0.44
		(0.15)			(0.30)
Assertiveness		-0.24			-0.80
		(0.16)			(0.50)
Gender Egalitarianism		-0.051			-0.43
		(0.16)			(0.23)
Uncertainty Avoidance		-0.21			0.083
		(0.17)			(0.30)
Future Orientation		-0.0033			0.31
		(0.16)			(0.33)
Performance Orientation		0.30			0.19
		(0.22)			(0.29)
Humane Orientation		0.16			-0.21
		(0.092)			(0.24)
Supervisory Power			0.074		0.14**
			(0.044)		(0.049)
Private Monitoring			-0.16**		-0.24**
			(0.065)		(0.091)
Bank Concentration				-0.0035	-0.0022
				(0.0029)	(0.0024)
Private Bureau Age				-0.0019	0.0026
				(0.0026)	(0.0036)
Sales	0.0013	-0.0077	0.010	0.0077	-0.017
	(0.0062)	(0.0068)	(0.0059)	(0.0086)	(0.013)
Government	-0.35***	-0.33***	-0.38***	-0.43***	-0.34***
	(0.064)	(0.064)	(0.068)	(0.099)	(0.098)
Foreign	-0.23***	-0.22***	-0.23***	-0.24***	-0.22***
	(0.051)	(0.052)	(0.057)	(0.072)	(0.075)
Export	-0.11*	-0.11*	-0.076	-0.040	-0.013
	(0.052)	(0.049)	(0.051)	(0.063)	(0.064)
Manufacturing	-0.13	-0.15	-0.16	-0.087	-0.12
	(0.10)	(0.098)	(0.11)	(0.068)	(0.064)
Services	-0.10	-0.10	-0.12	-0.017	-0.034
	(0.094)	(0.090)	(0.099)	(0.065)	(0.056)
Number of Competitors	-0.038	-0.064	-0.039	-0.054	0.0059
	(0.050)	(0.042)	(0.051)	(0.078)	(0.070)
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

The dependent variable is Special Connections. The errors are clustered at the country level. Robust clustered standard errors are reported in parentheses. *, **, and *** indicate significance at the 10, 5, and 1 percent level, respectively.

3. Measurements: survey on collectivism

- Survey questions are different (weak correlation)

	Correlations between Hofstede and GLOBE (2)
GLOBE's practices scores	
Power distance	0.56**
Institutional collectivism	0.22
In-group collectivism	−0.81**
Uncertainty avoidance	−0.67**
Gender egalitarianism	−0.19
Assertiveness	0.30*
Future orientation	−0.05
GLOBE's values scores	
Power distance	−0.10
Institutional collectivism	−0.59**
In-group collectivism	−0.33*
Uncertainty avoidance	0.36**
Gender egalitarianism	0.03
Assertiveness	0.20
Future orientation	−0.22

[†]$p<0.10$; *$p<0.05$; **$p<0.01$.

Source: Tang and Koveos (2008)

# 3. Measurements: survey on collectivism

- **Survey methodology differences**

Differences	GLOBE Model	Hofstede Model
Time period	1994-1997	1967-1973
Primary researchers involved	170	1
Respondents	Managers	Non-managers and managers
Organizations surveyed	951	1
Type of organizations	Non-multinational	IBM and its subsidiaries
Industries	Food processing, financial and telecommunication services	Information technology
Number of societies surveyed	62	72
Analysis	Team effort	Single effort
Project design	US-based	Dutch-based
Number of cultural dimensions	Nine	Four

Source: Shi and Wang (2011)

3. Measurements

- **Collectivism (individualism) much influenced by level of economic development**
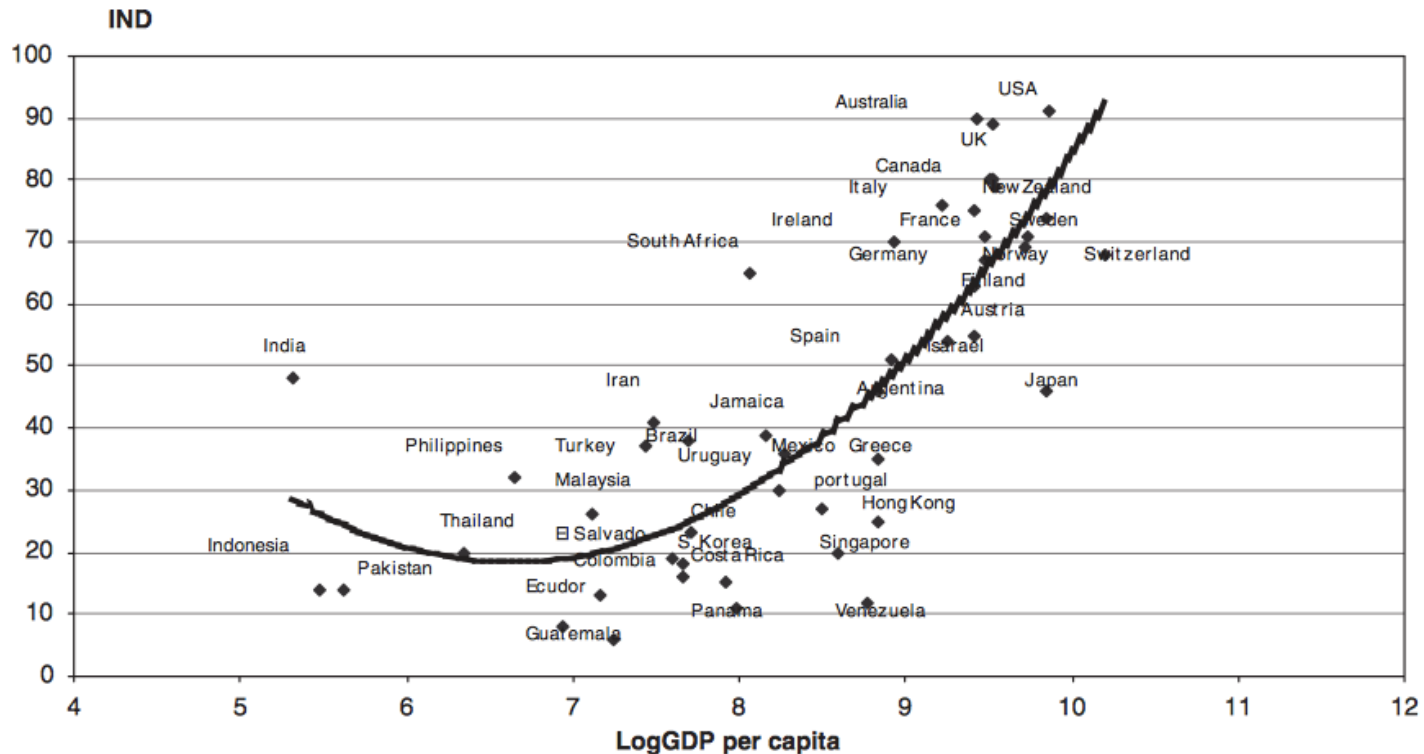
Source: Tang and Koveos (2008)

4. Methodology

$$\text{Special Connections}_{i,j} = \alpha + \beta' \text{ Cultural Dimensions}_j + \delta' \text{ Country-Level Controls}_j$$

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

- **Caution on nested data**

- **Variation of cultural dimensions across firms - country aggregate not a representative of individual or organizational culture?**

- **Robustness**

Table 7 Institutional collectivism and the need for special connections—robustness tests

	(1) Ordered probit 3 categories	(2) Probit 2 categories	(3) IV probit	(4) Only firms with bank finance	(5) Only firms without bank finance
In-Group Collectivism	-0.37***	-0.42***	-2.70***	-0.55***	-0.33***
	(0.098)	(0.11)	(0.56)	(0.12)	(0.098)
Institutional Collectivism	0.081	0.057	-0.27***	0.062	0.021
	(0.044)	(0.057)	(0.084)	(0.053)	(0.052)
Supervisory Power	-0.16***	-0.18**	-0.29***	-0.17**	-0.15**
	(0.056)	(0.068)	(0.046)	(0.067)	(0.055)
Private Monitoring	0.0093	0.0024	-0.022***	0.0089	0.016**
	(0.0063)	(0.0069)	(0.0072)	(0.0062)	(0.0063)
Sales	-0.37***	-0.43***	-0.35***	-0.35***	-0.32***
	(0.066)	(0.080)	(0.094)	(0.092)	(0.075)
Government	-0.24***	-0.23***	-0.28***	-0.33***	-0.14
	(0.064)	(0.070)	(0.069)	(0.092)	(0.074)
Foreign	-0.044	-0.074	-0.087	0.023	-0.10*
	(0.060)	(0.059)	(0.058)	(0.061)	(0.047)
Export	-0.14	-0.15	-0.21**	-0.070	-0.29
	(0.11)	(0.092)	(0.079)	(0.087)	(0.16)
Manufacturing	-0.12	-0.11	-0.15*	-0.029	-0.24
	(0.092)	(0.084)	(0.074)	(0.077)	(0.15)
Services	-0.012	-0.040	-0.079	-0.024	0.0090
	(0.053)	(0.054)	(0.040)	(0.057)	(0.066)
Number of Competitors	-0.37***	-0.42***	-2.70***	-0.55***	-0.33***
	(0.098)	(0.11)	(0.56)	(0.12)	(0.098)
Observations	3446	3446	3446	1326	1545
Pseudo R^2	0.025	0.034	n/a	0.029	0.019
Countries	33	33	33	28	28

The dependent variable is Special Connections. The errors are clustered at the country level. Robust clustered standard errors are reported in parentheses. *, **, and *** indicate significance at the 10, 5, and 1 percent level, respectively.