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<AT>National Culture and Bank Performance: Evidence from the Recent Financial Crisis

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<ABS-HEAD>Highlights ► We examine the link national culture/bank performance during the recent crisis ► We use three dimensions of national culture ► Our international sample covers 3,438 banks from 48 countries. ► Banks in high UA societies performed better during the crisis ► Banks in high PD societies performed better during the crisis ► Banks in individualistic societies performed worse during the crisis ► Banks in collectivist societies performed better during the crisis

<ABS-HEAD>Abstract

<ABS-P>We examine whether the prevailing national culture has been material in determining bank performance during the recent financial crisis. In this paper, we focus on three particular national culture dimensions: uncertainty avoidance, individualism/collectivism, and power distance. We expect banks from high uncertainty avoidance and power distance societies to perform relatively better during the recent financial crisis. On the other hand, banks in individualistic (collectivist) societies are likely to perform worse (better) during the crisis. Using an international sample of 3,438 banks from 48 countries, we find support for our main conjectures. Specifically, we establish that uncertainty avoidance, collectivism, and power distance have a first order impact on bank performance during the crisis. Our results are robust to a battery of additional checks, including additional variables, alternative samples, and correcting for potential endogeneity.

<KWD>Keywords: Culture; Bank performance; Bank diversification; Risk; Crisis

<KWD>JEL classification: G01; G21; G28

<H1>1. Introduction

In this paper, we examine whether the prevailing national culture has been material in determining bank performance during the recent financial crisis. Our interest in this issue stems from three observations: (1) a PWC and Economist Intelligence Unit global survey in 2008 where two thirds of the participants identified culture, in addition to excessive risk taking as the major cause for the banking crisis of 2007-2008 (Kanagaretnam et al., 2011); (2) a recent study by Fahlenbrach et al. (2012) where the authors advance "bank risk culture" as a potential explanation for why some banks have a

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