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Cross-national differences in access to finance: Influence of culture and institutional environments☆

Raj Aggarwal[a,1], John W. Goodell[b,*]

[a] Sullivan Professor of International Business and Finance, University of Akron, Akron, OH 44325, United States
[b] College of Business Administration, University of Akron, Akron, OH 44325, United States

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ABSTRACT

In spite of rising interest, there is little prior research on the degree to which national differences in access to finance are determined by national culture. Using World Economic Forum survey data for over eighty countries, this paper examines the determinants of (1) access to equity financing, (2) access to loan financing (3) access to venture capital and (4) overall access to capital. We document that less access to financing is associated with the cultural dimensions of uncertainty avoidance and masculinity. But, greater access to financing is positively associated with greater national wealth and better investor protection. Consistent with earlier literature we also find that greater access to finance is associated with greater government favoritism toward selected firms. These results should be of much interest to policy makers, scholars, bankers and managers of multinational firms.

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* Corresponding author. Tel.: +1 330 972 5361.
E-mail addresses: aggarwa@uakron.edu (R. Aggarwal), johngoo@uakron.edu (J.W. Goodell).
[1] Tel.: +1 330 972 2780.

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1. Introduction

In this paper, we examine the determinants of cross-national differences in firms' access to finance, with particular focus on the role of national culture. As surveyed by Levine (2005), a large body of literature has shown the importance of efficient financial systems and easy access to finance for economic development. Additionally, as described by Beck and Demirguc-Kunt (2008) there are broader social benefits to an efficient financial system as Beck et al. (2007) find that nations with better developed financial systems and easier access to finance not just have faster economic growth but also reduced economic inequality and greater benefits for the poorer population.

However, questions remain. For instance, Allen et al. (2005) note that the important financial system of China appears as a conspicuous counterexample to the notion that the financial systems, and consequent financial growth, of nations is largely determined by legal and institutional quality. China is one of the fastest growing economies but its existing legal and institutional framework is not well developed by Western standards. Are there other factors to be considered in understanding the role of finance in economic growth? Is national culture an important and previously overlooked partial determinant of cross-national differences in access to finance?

The literature has begun to look to at an expanded set of factors to explain cross-national differences in access to finance. For instance literature such as Morck et al. (2000a) and Faccio (2006) finds that, across countries, government favoritism is a significant determinant of economic growth. In this paper, while controlling for government favoritism as well as other relevant institutional and other factors, we explore the role of national culture, in particular cross-national differences in uncertainty avoidance, as an important determinant of firms' access to finance in a country. For example, as we describe in more detail in subsequent sections, we rate China as 29th out of 82 countries for access to finance. We also concomitantly note (see Appendix 3) that China rates 12th out of our sample of 82 countries for having the smallest uncertainty avoidance (as measured by Hofstede, 2001). Does a cultural predilection toward uncertainty avoidance act to limit nations' access to finance?

Another motivation for this study examining the relationship between uncertainty avoidance and access to finance is the high level of current relevance of this topic. Following the recent global financial crisis (GFC), are financial institutions and populations becoming naturally more circumspect and cautious regarding the extending of finance? We believe that important inferences may be drawn from an empirical study focused on the association of access to finance with uncertainty avoidance.

More specifically, using data on eighty-five countries and controlling for relevant variables, this paper examines the determinants of overall access to finance; as well as the determinants of access to equity, loans, and venture capital separately. We document that greater access to financing is positively associated with greater national wealth, better investor protection, and a financial architecture that favors equity financing over debt financing. We also find, consistent with earlier literature, that greater access to finance is associated with greater government favoritism toward selected firms. Less access to financing is associated with the cultural dimension of uncertainty avoidance and masculinity. These results should be much interest to managers, scholars, and monetary and other policy makers.

2. The determinants of access to finance

As stated by Rajan and Zingales (2003), access to finance is integral to the notion of economic renewal as characterized in creative destruction (Schumpeter, 1911, 1939). Easy access to finance allows new firms to arise which can compete with incumbent firms. This competition provides vitality to the economic system: better products, more efficient employment and an overall better standard of living. Greenwood and Jovanovic (1990) note that access to finance promotes economic growth because it allows a better rate of return on capital. In turn, growth allows for further development of the financial system.

Previous literature suggests that access to finance is a major determinant of economic growth (Rajan and Zingales, 1998; Beck et al., 2000b; Claessens, 2006). Another view holds that access to finance is a lynchpin of economic development, a point of view more recently reaffirmed by Beck and Demirguc-Kunt (2008). Research into the determinants of access to finance continues to be of considerable ongoing interest, especially in light of the recent financial crisis and its concomitant