

Cultural Stereotypes of Multinational Banks

Teaching Material

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Introduction

- Cultural stereotypes are historically determined and change very slowly
 - “It is harder to crack prejudice than an atom.” (Einstein)
- Grain of truth? Hard to differentiate between biases and fundamentals!
- This paper: Cultural stereotypes lead us to trust or distrust in other nations, ethnicities, etc.



Culture & Finance

- Cultural closeness is crucial for financial markets but is it because of trust-related biases (i.e., stereotypes) or information-related problems?
 - Historical example: a concentration of commercial and financial transactions among individuals with a common cultural background (see e.g. Greif 1989, 1991)
 - Modern investors underweighting culturally distant foreign markets (Karolyi, 2016);
 - and overweighting firms whose CEOs are of a common cultural background (Grinblatt and Keloharju 2001)
 - Also, many corporate activities decline with cultural distance:
 - less frequent corporate acquisitions (Kogut and Singh, 1988)
 - diminished bond/equity issuance by firms (Siegel, Licht & Schwartz, 2011)
 - lower syndicated bank loans (Giannetti and Yafeh, 2012)
 - reduced merger volumes (Ahern, Daminelli and Fracassi, 2015)

This paper

- In this paper: Does “cultural trust” matter for bank lending to governments?
 - Focus on an ideal laboratory: bank exposures of sovereign debt in Europe
 - Supranational supervision of banks & homogenous regulatory treatment of gov’t bonds
 - Cultural trust measure from *Eurobarometer* surveys (Guiso et al., 2009) as well as our new online survey (15x15 vs. 30x30)
 - How much each country’s residents “trust” in people from another country
 - Merge with a unique bi-annual dataset collected from *EBA* and *CEBS* between 2010 and 2021.
 - More detailed than ECB supervisory confidential data
 - Construct a bank-level trust measure by leveraging bank branch networks
 - A full mapping of bank branches across Europe for each bank from *SNL Financial* (as of 2016)
 - **Identification**: compare banks headquartered in the same country at the same point in time and with regards to their exposures towards the same target country/sovereign
 - **Mechanisms**: (1) Delegation, (2) information, (3) human capital

Literature

■ Bilateral trust in international econ and finance:

- A higher level of trust at the country level has a positive impact on levels of economic exchange such as trade, portfolio investment and foreign direct investment (Guiso, Sapienza and Zingales, 2009 QJE).
- Greater trust leads to more decentralisation of multinational firms (Bloom, Sadun and Van Reenen, 2012 QJE).
- International investment decisions of venture firms are influenced by bilateral trust (Bottazzi, Da Rin and Hellmann, 2016 RFS).
- Equity analysts' stock recommendations are biased in favour of firms in foreign countries more trusted by the analysts' home country (Pursiainen, 2022 JF)

■ Cultural attitudes and investment biases:

- Cultural proximity and investments: Kogut & Singh (1988 JIBS); Grinblatt and Keloharju (2001 JF); Siegel, Licht and Schwartz (2011 JFE); Giannetti and Yafeh (2012 MS); Ahern, Daminelli and Fracassi (2015 JFE); Karolyi (2016 JCF).
- U.S. banks whose CEOs immigrated from countries with high average levels of trust charge lower syndicated loan rates (Hagendorff, Lim and Nguyen, 2022 MS).

■ Determinants of banks' sovereign exposures:

- Mostly to explain why banks' home bias in gov't exposures increases during crises (Broner, Martin and Ventura, 2010 AER; Saka, 2020 JMCB; Crosignani, 2021 JFE)

Data

■ Eurobarometer:

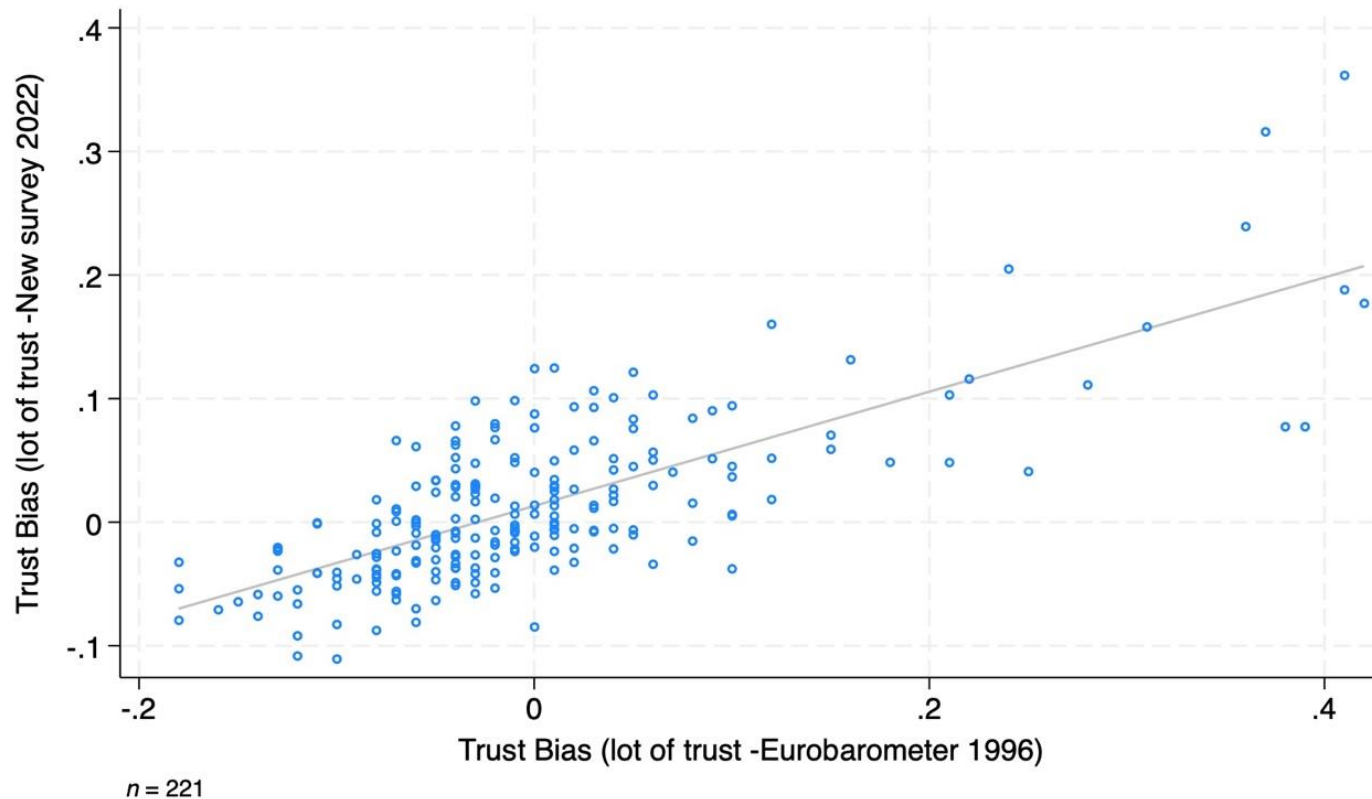
- ❑ Latest trust question in 1996.
- ❑ *“I would like to ask you a question about how much trust you have in people from various countries. For each, please tell me whether you have a lot of trust, some trust, not very much trust, or no trust at all”*
- ❑ **Country-level bilateral trust:** Percentage of people in home country who express “a lot of trust” towards people in target country (Pursiainen, 2022)

Appendix Table A.5: Trust by Home and Target Countries

| | Target countries | | | | | | | | | | | | | | |
|---------------|------------------|---------|---------|---------|--------|---------|--------|---------|-------|-------------|--------|----------|-------|--------|------|
| | Austria | Belgium | Denmark | Finland | France | Germany | Greece | Ireland | Italy | Netherlands | Norway | Portugal | Spain | Sweden | GB |
| Austria | 0.65 | 0.25 | 0.21 | 0.24 | 0.17 | 0.36 | 0.15 | 0.15 | 0.12 | 0.23 | 0.27 | 0.14 | 0.14 | 0.29 | 0.15 |
| Belgium | 0.18 | 0.40 | 0.23 | 0.18 | 0.23 | 0.19 | 0.09 | 0.15 | 0.08 | 0.24 | 0.19 | 0.10 | 0.11 | 0.20 | 0.18 |
| Denmark | 0.34 | 0.30 | 0.48 | 0.34 | 0.19 | 0.29 | 0.13 | 0.27 | 0.11 | 0.40 | 0.54 | 0.13 | 0.12 | 0.47 | 0.35 |
| Finland | 0.41 | 0.29 | 0.42 | 0.73 | 0.23 | 0.27 | 0.15 | 0.25 | 0.10 | 0.33 | 0.55 | 0.13 | 0.12 | 0.47 | 0.34 |
| France | 0.11 | 0.22 | 0.18 | 0.16 | 0.33 | 0.16 | 0.09 | 0.13 | 0.07 | 0.18 | 0.19 | 0.11 | 0.12 | 0.20 | 0.09 |
| Germany | 0.32 | 0.18 | 0.25 | 0.22 | 0.22 | 0.55 | 0.11 | 0.13 | 0.08 | 0.24 | 0.25 | 0.10 | 0.13 | 0.29 | 0.17 |
| Greece | 0.08 | 0.17 | 0.18 | 0.10 | 0.25 | 0.17 | 0.51 | 0.16 | 0.12 | 0.18 | 0.09 | 0.16 | 0.21 | 0.13 | 0.15 |
| Ireland | 0.14 | 0.16 | 0.18 | 0.13 | 0.15 | 0.18 | 0.09 | 0.44 | 0.11 | 0.19 | 0.14 | 0.10 | 0.11 | 0.13 | 0.18 |
| Italy | 0.11 | 0.09 | 0.13 | 0.16 | 0.12 | 0.18 | 0.07 | 0.08 | 0.20 | 0.14 | 0.16 | 0.05 | 0.11 | 0.18 | 0.11 |
| Netherlands | 0.15 | 0.29 | 0.36 | 0.30 | 0.11 | 0.15 | 0.08 | 0.15 | 0.04 | 0.36 | 0.35 | 0.09 | 0.08 | 0.37 | 0.21 |
| Norway | | 0.31 | 0.57 | | 0.22 | 0.27 | 0.14 | 0.27 | 0.12 | 0.37 | | 0.13 | 0.13 | | 0.38 |
| Portugal | 0.05 | 0.10 | 0.10 | 0.06 | 0.21 | 0.11 | 0.06 | 0.06 | 0.07 | 0.11 | 0.07 | 0.44 | 0.13 | 0.06 | 0.12 |
| Spain | 0.13 | 0.16 | 0.17 | 0.14 | 0.13 | 0.20 | 0.12 | 0.13 | 0.15 | 0.20 | 0.19 | 0.14 | 0.49 | 0.20 | 0.10 |
| Sweden | 0.58 | 0.42 | 0.63 | 0.59 | 0.34 | 0.41 | 0.31 | 0.45 | 0.28 | 0.48 | 0.69 | 0.33 | 0.29 | 0.64 | 0.53 |
| Great Britain | 0.15 | 0.17 | 0.27 | 0.18 | 0.08 | 0.15 | 0.11 | 0.15 | 0.08 | 0.30 | 0.22 | 0.12 | 0.09 | 0.20 | 0.39 |

Data

- Eurobarometer (1996) vs. our new online survey (2022):
 - In collaboration with Respondi. 30 x 30 country matrix.



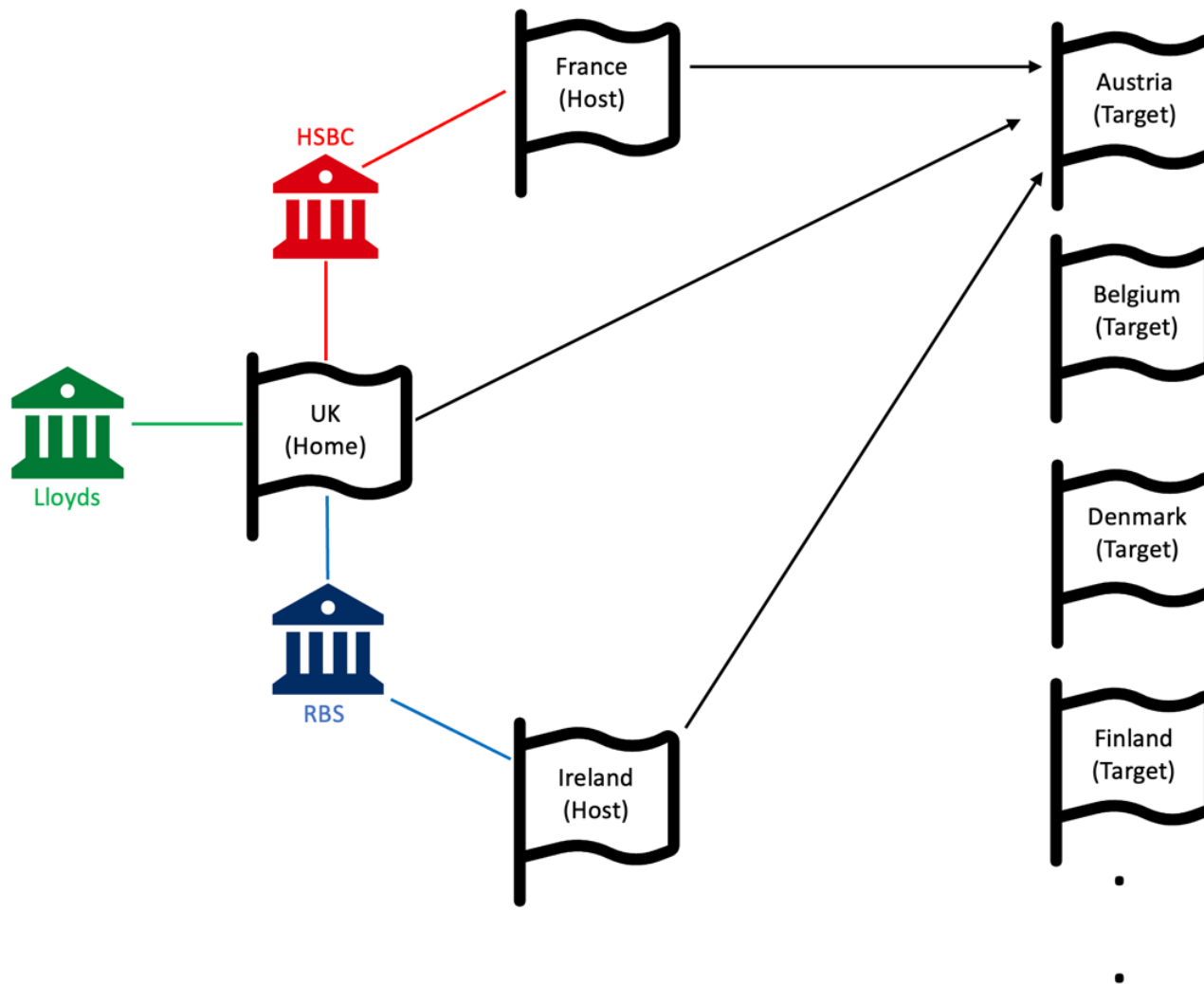
Data

- European Banking Authority (EBA) and CEBS:
 - Stress-tests, capital exercises, transparency exercises between 2010-2021.
 - Consolidated bank-level exposures to up to 200 sovereigns (restricted to 30 European sovereigns)
 - Banks manually traced over time due to mergers, closures, name changes, etc.
 - Result: 159/108 banks located in 27 European countries across 22 points in time (11 years) with exposures to 30 European gov'ts

Appendix Table A.1: Data Disclosure Details from the European Banking Authority (EBA)

| Disclosure Name | Disclosure Date | Information Date | Banks covered | Banks with sovereign breakdown |
|--------------------------------------|-----------------|-------------------|---------------|--------------------------------|
| 2010 EU-wide stress testing exercise | 23/07/2010 | 2010-Q1 | 91 | 91 |
| 2011 EU-wide stress testing exercise | 15/07/2011 | 2010-Q4 | 90 | 90 |
| EU Capital exercise 2011 | 08/12/2011 | 2011-Q3 | 65 | 65 |
| EU Capital exercise 2012 | 03/10/2012 | 2011-Q4; 2012-Q2 | 62 | 62 |
| 2013 EU-wide transparency exercise | 16/12/2013 | 2012-Q4; 2013-Q2 | 64 | 64 |
| 2014 EU-wide stress testing exercise | 26/10/2014 | 2013-Q4 | 123 | 123 |
| 2015 EU-wide transparency exercise | 24/11/2015 | 2014-Q4 & 2015-Q2 | 105 | 105 |
| 2016 EU-wide transparency exercise | 02/12/2016 | 2015-Q4 & 2016-Q2 | 131 | 87 |
| 2017 EU-wide transparency exercise | 24/11/2017 | 2016-Q4 & 2017-Q2 | 132 | 91 |
| 2018 EU-wide transparency exercise | 14/12/2018 | 2017-Q4 & 2018-Q2 | 130 | 130 |
| 2019 EU-wide transparency exercise | 29/11/2019 | 2018-Q4 & 2019-Q2 | 131 | 131 |
| 2020-1 EU-wide transparency exercise | 08/06/2020 | 2019-Q4 | 127 | 127 |
| 2020-2 EU-wide transparency exercise | 11/12/2020 | 2020-Q2 | 129 | 129 |
| 2021 EU-wide transparency exercise | 03/12/2021 | 2020-Q4 & 2021-Q2 | 120 | 117 |

Identification strategy (bank-level)



Empirical setting – LPM

Country-level trust bias is proxied by \mathfrak{Z} in:

$$\text{Country-level Bilateral Trust}_{hc} = \alpha_1 \theta_h + \alpha_2 \theta_c + \mathfrak{Z}_{hc}$$

Bank-level trust bias becomes:

$$\text{Bank-level Trust Bias}_{b,c} = \sum_{i=1}^n (\text{Weight}_{b,i} \times \text{CountryLevel Trust Bias}_{i,c})$$

$$\begin{aligned} \blacksquare \text{SoxExp}_{bhct} = & \beta_1 \text{Bank-level trust bias}_{bc} \\ & + \beta_2 \text{BankBranches}_{bc} + \beta_3 \Omega_{bt} \\ & + \beta_4 \mu_{ct} + \beta_5 \rho_{hct} + \varepsilon_{bhct} \end{aligned}$$

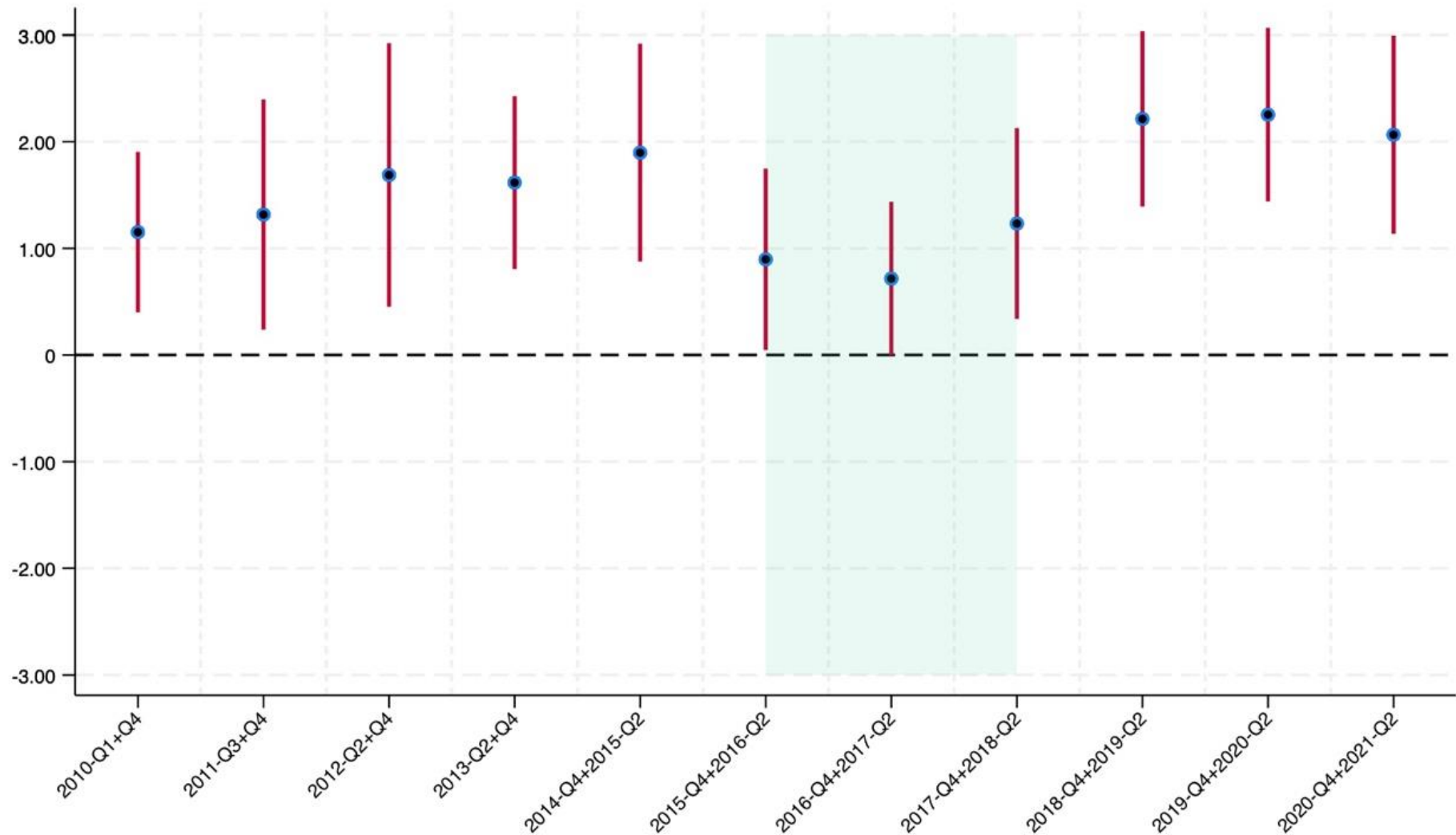
Main results (baseline)

Table 2: Bank-level Trust Bias and Probability of Sovereign Exposure

| Outcome → | (1) Sovereign Exposure | (2) Sovereign Exposure | (3) Sovereign Exposure | (4) Sovereign Exposure | (5) Sovereign Exposure |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Bank-level Trust Bias | 1.353*** [0.110] | 1.757*** [0.329] | 1.604*** [0.301] | 1.630*** [0.300] | 1.562*** [0.310] |
| Bank-level Branches | | | -0.090*** [0.027] | -0.153*** [0.053] | -0.163*** [0.056] |
| Bank-level Branches (squared) | | | | 0.014 [0.011] | 0.016 [0.012] |
| Bank x Time FEs | Yes | Yes | Yes | Yes | Yes |
| Target Country x Time FEs | Yes | Yes | Yes | Yes | No |
| Home Country x Target Country FEs | No | Yes | Yes | Yes | No |
| Home Country x Target Country x Time FEs | No | No | No | No | Yes |
| Observations | 23,760 | 23,760 | 23,760 | 23,760 | 21,615 |

Economic magnitude: One standard deviation rise in bank-level trust bias increases the probability of investing in a target country by 14 per cent (compared to unconditional probability of %58)

Main results (persistency)



Dependent variable: Sovereign exposure (dummy)

Main results (other relationships)

Table 4: Bank-level Trust Bias and Probability of Sovereign Exposure when Controlling for Bank-level Relationships with Target country.

| Outcome → | (1) Sovereign Exposure | (2) Sovereign Exposure | (3) Sovereign Exposure | (4) Sovereign Exposure | (5) Sovereign Exposure | (6) Sovereign Exposure | (7) Sovereign Exposure | (8) Sovereign Exposure |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Bank-level Trust Bias | 1.562*** [0.281] | 1.638*** [0.368] | 1.732*** [0.384] | 1.381*** [0.460] | 1.371*** [0.467] | 1.287*** [0.458] | 1.309*** [0.442] | 1.290*** [0.451] |
| Bank-level Branch Relationship | | -0.004 [0.009] | 0.000 [0.012] | -0.004 [0.014] | -0.010 [0.015] | -0.012 [0.014] | -0.013 [0.015] | -0.013 [0.014] |
| Bank-level Merger Relationship | | | -0.370 [0.641] | -0.447 [0.609] | -0.418 [0.642] | -0.396 [0.622] | -0.402 [0.620] | -0.366 [0.638] |
| Bank-level Media Relationship | | | | 0.496 [0.358] | 0.472 [0.360] | 0.394 [0.383] | 0.359 [0.381] | 0.394 [0.393] |
| Bank-level Political Relationship | | | | | 0.929 [0.806] | 0.872 [0.806] | 0.827 [0.790] | 0.844 [0.769] |
| Bank-level Distance Relationship | | | | | | -0.071 [0.088] | -0.084 [0.093] | -0.079 [0.091] |
| Bank-level Legal Origin Relationship | | | | | | | -0.048 [0.059] | -0.051 [0.061] |
| Bank-level Religious Relationship | | | | | | | | 0.042 [0.244] |
| Control for Bank-level Branches | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Control for Bank-level Branches (squared) | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Bank x Time FEs | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Home Country x Target Country x Time FEs | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 21,615 | 21,615 | 21,615 | 21,615 | 21,615 | 21,615 | 21,615 | 21,615 |

Main results (IV)

Table 5: Instrumented Bank-level Trust Bias and Probability of Sovereign Exposure

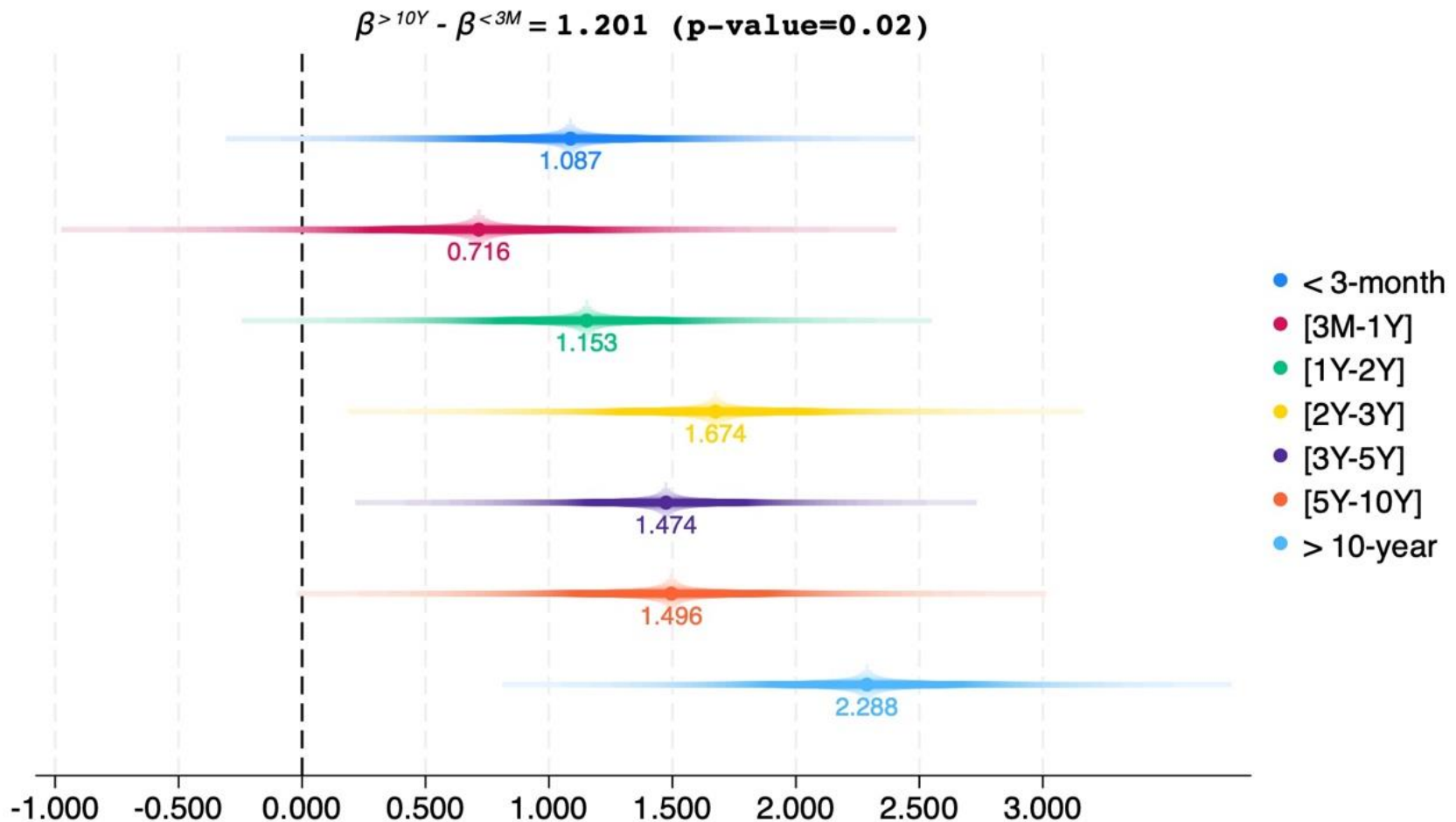
| Outcome → | (1) (2SLS) Sovereign Exposure | (2) (First-stage) Bank-level Trust Bias | (3) (2SLS) Sovereign Exposure | (4) (First-stage) Bank-level Trust Bias |
|--|--|--|--|--|
| Panel A | | | | |
| Bank-level Trust Bias | 3.014*** [0.871] | | 4.491*** [1.608] | |
| Bank-level Branches | -0.167*** [0.055] | 0.007 [0.013] | -1.113** [0.453] | 0.149** [0.066] |
| Bank-level Branches (squared) | 0.020** [0.009] | -0.003 [0.003] | 1.015* [0.516] | -0.123 [0.089] |
| Bank-level Genetic Distance | | -13.676*** [1.229] | | -7.619*** [0.882] |
| First-stage Kleibergen-Paap F-stat | | 123.84 | | 74.65 |
| First-stage Montiel-Pflueger F-stat | | 125.93 | | 54.49 |
| Panel B | | | | |
| Bank-level Trust Bias | 2.037*** [0.531] | | 2.658*** [0.874] | |
| Bank-level Branches | -0.164*** [0.055] | 0.004 [0.010] | -0.786** [0.396] | 0.105** [0.045] |
| Bank-level Branches (squared) | 0.017* [0.010] | -0.002 [0.003] | 0.724 [0.459] | -0.081 [0.061] |
| Bank-level Somatic Distance | | -0.043*** [0.003] | | -0.027*** [0.003] |
| First-stage Kleibergen-Paap F-stat | | 220.99 | | 69.15 |
| First-stage Montiel-Pflueger F-stat | | 206.19 | | 118.39 |
| Bank x Time FEs | Yes | Yes | Yes | Yes |
| Home Country x Target Country x Time FEs | Yes | Yes | Yes | Yes |
| Observations | 21,615 | 21,615 | 20,241 | 20,241 |
| Bank Sample | All | All | Foreign | Foreign |

Main results (validity: new survey)

Table 7: External Validity - Bank-level Trust Bias (from Online Survey) and Probability of Sovereign Exposure

| Outcome → | (1) Sovereign Exposure | (2) Sovereign Exposure | (3) Sovereign Exposure | (4) Sovereign Exposure | (5) Sovereign Exposure |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Panel A | | | | | |
| Bank-level Trust Bias (online – lot of trust) | 1.439*** [0.176] | 1.531*** [0.428] | 1.549*** [0.427] | 1.508*** [0.419] | 1.561*** [0.470] |
| Panel B | | | | | |
| Bank-level Trust Bias (online – graded) | 0.486*** [0.075] | 0.664*** [0.222] | 0.679*** [0.223] | 0.664*** [0.224] | 0.682** [0.266] |
| Control for Bank-level Branches | No | No | Yes | Yes | Yes |
| Control for Bank-level Branches (squared) | No | No | No | Yes | Yes |
| Bank x Time FEs | Yes | Yes | Yes | Yes | Yes |
| Target Country x Time FEs | Yes | Yes | Yes | Yes | No |
| Home Country x Target Country FEs | No | Yes | Yes | Yes | No |
| Home Country x Target Country x Time FEs | No | No | No | No | Yes |
| Observations | 47,520 | 47,520 | 47,520 | 47,520 | 43,230 |

Main results (long vs. short maturities)



Main results (salience shocks: crises)

Table 9: Interaction between Bank-level Trust Bias and Eurozone Crises

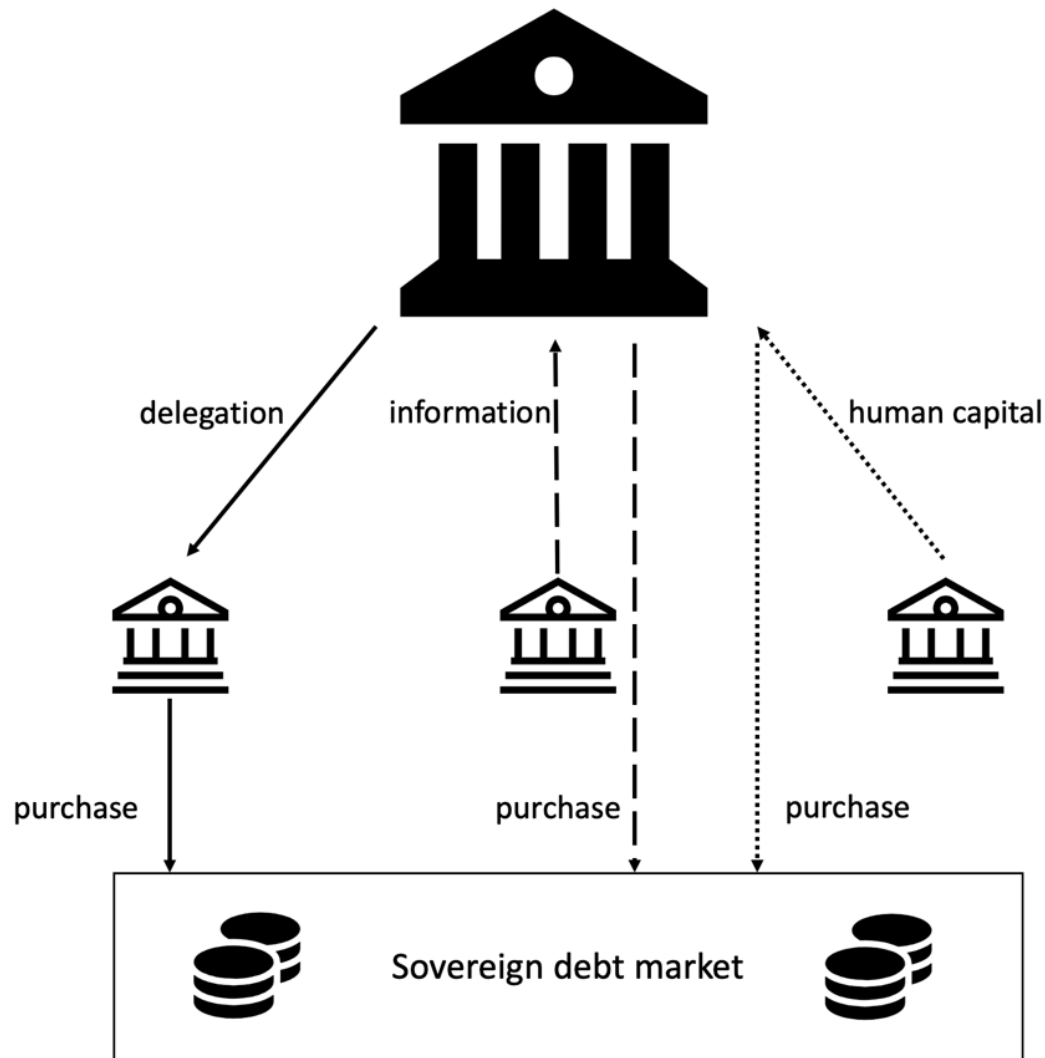
| Panel A | | (1) | (2) | (3) | (4) |
|---|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Outcome → | | Sovereign Exposure (dummy) | Sovereign Exposure (dummy) | Sovereign Exposure (dummy) | Sovereign Exposure (dummy) |
| Bank-level Trust Bias x Eurozone Crises | | 3.178** [1.528] | 5.438*** [1.675] | 3.370** [1.568] | 5.541*** [1.788] |
| Bank-level Trust Bias | | 1.438*** [0.308] | 1.404*** [0.481] | 1.177*** [0.380] | 1.245** [0.583] |
| Panel B | | (1) | (2) | (3) | (4) |
| Outcome → | | Sovereign Exposure (log nominal) | Sovereign Exposure (log nominal) | Sovereign Exposure (log nominal) | Sovereign Exposure (log nominal) |
| Bank-level Trust Bias x Eurozone Crises | | 9.642 [7.597] | 21.367* [10.863] | 13.411* [7.811] | 25.955** [11.281] |
| Bank-level Trust Bias | | 11.361*** [2.688] | 8.305** [4.171] | 10.093*** [2.690] | 7.496* [4.501] |
| Control for Bank-level Branches | | Yes | Yes | Yes | Yes |
| Control for Bank-level Branches (squared) | | Yes | Yes | Yes | Yes |
| Bank x Time FEs | | Yes | Yes | Yes | Yes |
| Home Country x Target Country x Time FEs | | Yes | Yes | Yes | Yes |
| Observations | | 21,615 | 20,241 | 7,455 | 6,979 |
| Bank Sample | | All | Foreign | All | Foreign |
| Event window | | Full | Full | ±2-year | ±2-year |

Main results (salience shocks: Brexit)

Table 10: Interaction between Bank-level Trust Bias and Brexit Salience

| Panel A | | (1) | (2) | (3) | (4) |
|---|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Outcome → | | Sovereign Exposure (dummy) | Sovereign Exposure (dummy) | Sovereign Exposure (dummy) | Sovereign Exposure (dummy) |
| Bank-level Trust Bias x Brexit Salience | | 0.638 [1.821] | 0.604 [1.948] | 1.225 [2.077] | 1.311 [2.206] |
| Bank-level Trust Bias | | 1.536*** [0.335] | 1.632*** [0.530] | 1.168*** [0.387] | 1.469** [0.635] |
| Panel B | | (1) | (2) | (3) | (4) |
| Outcome → | | Sovereign Exposure (log nominal) | Sovereign Exposure (log nominal) | Sovereign Exposure (log nominal) | Sovereign Exposure (log nominal) |
| Bank-level Trust Bias x Brexit Salience | | 29.788*** [10.691] | 25.945** [10.268] | 37.097*** [11.111] | 35.027*** [10.774] |
| Bank-level Trust Bias | | 10.546*** [2.589] | 7.638* [4.124] | 9.544*** [3.227] | 7.923 [4.826] |
| Control for Bank-level Branches | | Yes | Yes | Yes | Yes |
| Control for Bank-level Branches (squared) | | Yes | Yes | Yes | Yes |
| Bank x Time FEs | | Yes | Yes | Yes | Yes |
| Home Country x Target Country x Time FEs | | Yes | Yes | Yes | Yes |
| Observations | | 21,615 | 20,241 | 8,445 | 7,909 |
| Bank Sample | | All | Foreign | All | Foreign |
| Event window | | Full | Full | ±2-year | ±2-year |

Potential mechanisms



Mechanism results (information)

Table 11: Country-level Trust Bias and Managers' Country-specific Sentiments during Earning Calls

| Outcome → | (1) Managerial Sentiments | (2) Managerial Sentiments | (3) Managerial Sentiments | (4) Managerial Sentiments |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
| Panel A | | | | |
| Country-level Trust Bias (a lot of trust – Eurobarometer) | 1.612*** [0.288] | 0.838** [0.365] | 1.046*** [0.121] | 0.571*** [0.145] |
| Observations | 11,465 | 10,750 | 12,212 | 11,459 |
| Panel B | | | | |
| Country-level Trust Bias (graded – Eurobarometer) | 0.593*** [0.141] | 0.153* [0.087] | 0.406*** [0.076] | 0.125*** [0.045] |
| Observations | 11,465 | 10,750 | 12,212 | 11,459 |
| Panel C | | | | |
| Country-level Trust Bias (a lot of trust – Online Survey) | 2.173*** [0.626] | 0.594** [0.262] | 1.823*** [0.506] | 0.322** [0.152] |
| Observations | 18,956 | 17,988 | 21,910 | 20,869 |
| Panel D | | | | |
| Country-level Trust Bias (graded – Online Survey) | 0.481** [0.189] | 0.060 [0.088] | 0.494** [0.192] | 0.026 [0.042] |
| Observations | 18,956 | 17,988 | 21,910 | 20,869 |
| Home Country x Time FEs | Yes | Yes | Yes | Yes |
| Target Country x Time FEs | Yes | Yes | Yes | Yes |
| Aggregated Over | Financial Firms | Financial Firms | All Firms | All Firms |
| Country-Pair Sample | All | H-Country≠T-Country | All | H-Country≠T-Country |

Country-level trust biases predict the tone of the managerial sentiments during quarterly earning calls.

Mechanism results (human capital)

Table 12: Bank-level Branch Networks and Nationalities of Directors/Managers at Bank Headquarters

| Outcome → | (1) Nationality at HQ | (2) Nationality at HQ | (3) Nationality at HQ | (4) Nationality at HQ | (5) Nationality at HQ |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Panel A | | | | | |
| Bank Branches in Target Country | 0.278*** [0.043] | 0.281*** [0.042] | 0.157*** [0.024] | 0.156*** [0.024] | 0.121** [0.053] |
| Panel B | | | | | |
| Log of Bank Branches in Target Country | 0.110*** [0.008] | 0.111*** [0.008] | 0.074*** [0.009] | 0.071*** [0.010] | 0.046*** [0.014] |
| Panel C | | | | | |
| Share of Bank Branches in Target Country | 1.105*** [0.087] | 1.105*** [0.087] | 0.590*** [0.096] | 0.590*** [0.096] | 0.682** [0.282] |
| Bank FEs | No | Yes | No | Yes | Yes |
| Target Country FEs | No | No | Yes | Yes | No |
| Home Country x Target Country FEs | No | No | No | No | Yes |
| Observations | 660 | 660 | 660 | 660 | 600 |

Bank branch networks predict the nationality of the high-level managerial teams at HQs.

Conclusions

- We aim to extend the econ/finance literature on cultural stereotypes by proposing a tighter identification strategy (from country to bank-level).
 - Our results imply an economically substantial effect of cultural trust biases (i.e., stereotypes) on European banks' cross-country investments.
 - Documenting information and human capital mechanisms supporting our bank-level measure.
- Implications:
 - Cultural trust (or lack of it) likely to create inefficiencies for sovereign debt markets.
 - Diversity is key: Positive and negative stereotypes balance each other in diverse managerial groups.