Influence of National Culture on Accounting Conservatism and Risk-Taking in the Banking Industry

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Abstract

Using an international sample of banks and country-level indices for individualism and uncertainty avoidance as proxies for national culture, we study how differences in culture across countries affect accounting conservatism and bank risk-taking. Consistent with expectations, our cross-country analysis indicates that individualism is negatively (positively) related to conservatism (risk-taking) and uncertainty avoidance is positively (negatively) related to conservatism (risk-taking). We also find that cultures that encourage higher risk-taking experienced more bank failures and bank troubles during the recent financial crisis.