

A study of environmental effects on the performance of Korean bank

Yong Joo Lee, Department of Finance and Supply Chain Management, Central Washington University, Ellensburg, WA 98926, leeyj@cwu.edu

Seong-Jong Joo, Department of Operational Sciences, Air Force Institute of Technology, 2950 Hobson Way, WPAFB, OH 45433, 937-255-3636, Ext 4761, seong-jong.joo@afit.edu

Abstract

Banks have been playing a pivotal role as financial intermediaries between companies and customers and also have to encounter large economic trials. Korean commercial banks are not exempted from the fierce competition and turbulence in their operations, either. Particularly, as Korea went through extreme financial crisis in 1997, banks had to find their own ways to survive from the economic hardships through downscaling their business operations or mergers & acquisition. Observing dynamics in the Korean banking industry, we have naturally directed our attention to the performance of each bank since the global economic crisis. In our study, we will investigate the environmental variables that might have impact on the performance of Korean banks. We will use the traditional DEA (Data Envelopment Analysis) method for the measurement of initial bank productivity using the data obtained from FSS (financial supervisory service). And then, we employ truncated regression analysis, which is deemed superior method to the Tobit regression analysis, to identify significant variables that possibly influence the bank performance in Korea.