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Too Small to Succeed versus Too Big to Fail: How Much Does Size Matter in Banking?

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**Abstract**

Even though large banks could imply large risks and heightened vulnerability for a country's macroeconomy, the presence of many small banks with similar behavior such as Islamic banks could also cause systemic risks. This article makes an initial attempt to investigate the impact of bank size on banking performance. Our study spans 12 emerging countries with dual banking systems and applies two-step dynamic system GMM estimator. The results show that size really does matter in the banking industry, and its impact on performance tends to be non-linear with a trade-off between profitability and efficiency. Comparing conventional with Islamic banks, we find that bank size has almost the same impact on the performance of both types of banks.