

BANKING MARKET STRUCTURE, CREATION AND ACTIVITY OF FIRMS: EARLY EVIDENCE FOR COOPERATIVES IN THE ITALIAN CASE

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ABSTRACT

This paper empirically investigates whether local differences in the structure of banking markets impact on the creation and activity of firms, with a special focus on cooperatives. More in detail, the aim is to verify if bank market power displays different effects on the creation and activity of cooperative firms, as compared to non-cooperatives. Focusing on cooperatives is of great interest since the role of external sources of financing, and especially of bank credit, has been regarded a critical factor influencing the creation, functioning and survival of these firms. Indeed, according to a strand of the relevant literature in the field, due to their atypical property rights structure, members' typical limited wealth, and consequent risk aversion and liquidity constraints, bounds the personal collateral available for obtaining loans (Ben-Ner, 1988). Moreover, the so-called cooperatives' *vaguely defined property rights* (Cook, 1995) create a commitment problem of members (Schlicht *et al*, 1977), which makes agency problems in credit markets more severe for these firms than for other enterprises (Drèze, 1993; Dow, 2003). However, opposed to these conclusions, research on cooperatives suggests that their success is highly dependent on the type of institutional context prevailing in the regional or national economy, so that in the presence of supportive institutions, finance might not be a concern for these firms (Hovart, 1975; Thomas and Logan, 1982; Hodgson, 1993; Gagliardi, forthcoming). Considering these arguments, although bank credit represents also for other firms an important channel of resources acquisition, it seems reasonable to argue that the structure of the banking market can have particularly relevant implications in the case of cooperatives, as it may contribute to cater their financing requirement, thus stimulating their creation and activity. The empirical analysis, implemented with reference to the Italian provinces, uses data on cooperatives, partnerships and corporations operating in 28 industries during the period 1998-2003. Bank market power is measured at the local (provincial) level by using the Herfindhal-Hirschman index of concentration, computed on deposits. The evidence obtained reveals non-monotonic effects of bank market power on firm creation and activity. With regard to the former, a bell-shaped relationship is found for both cooperative and non-cooperative firms, suggesting that a moderately concentrated banking market tends to favour firms' creation. A less homogeneous pattern characterises firms' activity: a bell-shaped parabola is still found for non-cooperative firms, whilst a U-shaped relationship emerges for cooperatives, showing that active coops benefit from relatively more intense banking competition.

Keywords: Cooperatives; Local banking competition; Institutional analysis.

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