ITALIAN CORPORATE GOVERNANCE, INVESTMENT, AND FINANCE

Robert E. Carpenter
(UMBC)

Laura Rondi
(Ceris-Cnr)

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Abstract

Italian industrial structure and financial markets have several distinct features. Italian firms are relatively small, few trade publicly and no corporate bond market exists. The limited types of external funds available to Italian firms makes them prone to financing constraints. We examine a panel containing over 1100 Italian firms. We find that firm size does not appear correlated with the severity of financing constraints. We also find that small firms are frequently mature. Our results suggest that young firms face financing constraints, while mature firms may develop relationships with lenders that lower the costs of external funds. Small, young firms appear to face the tightest financing constraints. Many firms are affiliated with pyramidal business groups. We find that affiliation with pyramidal business groups appears to reduce the effect of financing constraints. Our results have important implications for government policy to promote small firm growth in Italy.

Key words: business groups, cash flow, corporate investment, capital structure, panel data

JEL: L20, L11, G32

Robert Carpenter: Department of Economics, UMBC, 1000 Hilltop Circle, Baltimore, MD 21250 USA; email bobc@umbc.edu. Laura Rondi: Ceris-CNR (Economic Research Institute on Firms and Growth), email L.Rondi@ceris.cnr.it.

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