Which Firms Benefit More from Financial Development?
by Jan Bena and Štěpán Jurajda

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Sami Torstila, Helsinki School of Economics

Key findings

- Is the effect of financial development on company growth different for different kinds of companies?

- Financial development
  - Proxied by ratio of private credit to GDP and by ratios of stock market capitalization to GDP and stock market total value traded to GDP, total capitalization to GDP (averaged over 1990-1994), and an index of accounting quality
- Asymmetric information
  - Proxied by firm age and size

- Key results:
  - Financial development particularly helps young firms / or is it median age firms?
  - This is particularly so for young firms with little equity
  - Presumably because they rely most heavily on availability of external capital
  - However, there seems to be no clear relation to firm size

Link to literature

- Rajan and Zingales (1998, AER) regress industry growth on
  - country and industry fixed effects and
  - the interaction between external finance dependence and financial development
- This paper follows a similar approach using firm level data
  - EU-15 countries
  - More than 100 employees or more than €20m assets
  - Between 1995-2003
- Beck et al. (2004) quite closely related, but numerous methodological differences
- The paper also relates to survey findings such as Beck et al. (2005) suggesting financial development helps small companies most
- Interaction terms not linear but based on quintiles of size and age distribution, with robustness checks based on deciles and parametric specifications

Miscellaneous comments

- The results are a little bit puzzling:
  - No size effect, despite theory and survey evidence
  - Age effect somewhat unclear: inverted-U age interaction?
  - Highest benefits about 18 years after incorporation?
- Would it be possible to extend to smaller firms than 100 employees?
- Tables and figures could be condensed (18 pages including variable definitions)
- Structure of section 5 difficult to follow (8 subsections)