No Bank, One Bank, Several Banks: Does It Matter for Investment?

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November, 2010

Abstract
This paper examines whether financial constraints affect investment decisions for older (larger) firms. We combine data from the Spanish Mercantile Registry and the Bank of Spain Credit Registry (CIR) to classify firms according to their number of banking relations: one, several, or none. Our empirical strategy combines two approaches based on a common dynamic model of firm finance and investment. First, using a standard Euler equation adjustment cost approach, we find that banked firms in our sample are likely to exhibit cash flow sensitivity while unbanked firms are not. Second, using structural maximum likelihood estimation, we find that unbanked firms’ investment behaviour is close to that predicted by a model of (contingent) credit subject to moral hazard from unobserved effort, while single-banked and multiple-banked firms behave as if operating in a more limited financial environment, as in a traditional debt model. Firms in the unbanked category do not rely on bonds, equity or formal financial markets, but rather on other firms in a financial or family-tied group. To the best of our knowledge, we are among the first to document the importance of such groups in a European country. We control for reverse causality by treating bank relationships as endogenous and/or by appropriate stratifications of the relatively large sample.