Discussion of

“Relationship Lending and Firm Innovativeness: New Empirical Evidence"

by Caterina Giannetti

Tanja Tanayma
Helsinki Center of Economic Research

Helsinki Center of Economic Research

The Paper 1/4

- The paper examines the effects of relationship lending on the innovativeness of firms

- Identifies two phases of the innovation process:
  1) Discovery phase – the development of an innovation
  2) Introduction phase – bringing products to the market

The Paper 2/4

Measurement of innovativeness:

1) Whether the firm has introduced new product or process innovations in 2001-2003
2) Share of turnover in 2003 due to new products of process introduced during 2001-2003

Measurement of the relationship lending:

1) The duration of the relationship with the main bank (+)
2) Main bank's share of the total banking debt (+)
3) The number of bank lenders (-)

The Paper 3/4

Controlling for:

- R&D investment, capital, size, age, industry, other sources of finance, structural change, international operations, listed vs. not listed companies
- External financial need of the industry, concentration of the banking sector

Data used:

- Two waves of a survey on Italian manufacturing firms
- Covers a representative sample of Italian manufacturing firms
- Periods covered: 1998-2000 2001-2003

The Paper 4/4

Main results:

- Relationship lending plays an important role on the innovativeness for high-tech firms
- Not so for small firms
- Longer relationship with the main bank may have negative impact on innovativeness of low-tech firms

Comments: Set-up 1/2

Motivation: The functions of various sources of funding in the different phases of innovation

- To what extent can you contribute to this question?
- Is it more about access to finance that happens to be relationship lending in Italy?

Comments: Set up 2/2

Division to discovery and introduction phase

1. Discovery phase – Development of innovation
   - Measured as introduction of product or process innovation
   - Innovation = new product introduced on the market / new process used within production process
2. Introduction phase – Bringing products to the market
   - Share of turnover due to new products of process
   - “Success” of introduced innovations

Comments: Econometrics 1/2

Interesting and plausible results, but to some extent difficult to interpret and assess

1. Timing of the variables: Innovativeness measures and covariates seem to be mainly measured over the same time period

2. Only coefficient estimates presented:

   - With **non-linear models, transformed dependent variable** and **interaction terms** it is not straight forward how to interpret the coefficients

   - Meaningful marginal effects and related standard errors should be calculated

3. Different estimated models are based on different samples of the data – how does this affect the results?

Comments: Econometrics 2/2

More specific:

- Exclusion restriction could be better motivated, does not seem to work extremely well

- Some inconsistencies with the EFN-measure

- Concentration of the banking sector bad for innovativeness – How about underlying regional factors affecting both concentration and innovativeness (e.g. disadvantaged regions)?

- Panel data selection model: 64 observations, only frequent innovators, time variation of the firm level characteristics