Comment on Minetti et al. (2015)

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1. Summary: Question

Q. Does the provision of trade credit through supply chains induce the participation to supply chains?

⇒ Study the determinants of “being in supply chains” by using unique Italian survey data

⇔ An important but not yet examined issue

1. Summary: Model

- IV estimation for **1**(*being in supply chains*) :

Benchmark: Simply in supply chains
Extension: Size of partner, buy/sell, Up-/Downstream, Domestic/International

$$\begin{cases} \mathbf{1}(\boxed{SupplyChain_i}) = F(\boxed{R_i}, Z_i) \\ \boxed{R_i} = G(\boxed{share\_gruppo_i}, \boxed{diff\_UC\_Cap_i}) \end{cases}$$

Financial Rationing: Endogenous variable

IV (province-level)

1. Summary: Results

- 1st & 2nd stage:

Share_gruppo (province-level)

(#M&A related branches)/(#Total branches)

Endogenous variables

⇒(-)⇒ **1**(*Rationed*) ⇒(+)

⇒(-)⇒ *#(Banks)* ⇒(+) ⇒ **1**(*SupplyChain*)

⇒(+)⇒ *Duration* ⇒(-)

1. Summary: Results

☐ 1st & 2nd stage:

(#M&A related branches)/(#Total branches)

Endogenous variables

$\Rightarrow(-)\Rightarrow$ $\mathbf{1}(\mathit{Rationed})$ $\Rightarrow(+)$

$\Rightarrow(-)\Rightarrow$ $\#(\mathit{Banks})$ $\Rightarrow(+)\Rightarrow$ $\boxed{\mathbf{1}(\mathit{SupplyChain})}$

$\Rightarrow(+)\Rightarrow$ $\mathit{Duration}$ $\Rightarrow(-)$

☐ Clearly a new insight!

2. Major Comment-1

- Any direct evidence supporting the story?
  - E.g., can firms observe the following change after joining the supply chain?

(Account receivable – payable)/sales ↑

  - Such improvement in working capital might be consistent with your story

2. Major Comment-2

- How to justify IV?

⇒Ration↑(as in the paper)

- “Smaller” *share_gruppo*$_i$ might represent higher competition among firms in, for example, urban area (i.e., demand-side)

⇒Ration↓(opposite to the paper)

- “Smaller” *share_gruppo*$_i$ might also mean higher competition among banks

⇒ Competing effects associated with IV?

2. Major Comment-3

- Again, how to justify IV

  - What is the story associated with $diff\_UC\_Cap_i$?

  - How does the accomplishment of “more difficult M&A” (higher $diff\_UC\_Cap_i$) lead to less credit rationing?

2. Major Comment-4

- □ **1**($SupplyChain_i$) is a “status” (≠ dynamics)

  - ■Do firms face a choice to stay in supply chains every periods?

  - ■ Any persistency?

  - ■Any chance to study the dynamics?

2. Major Comment-5

- Bargaining b/w firms & partner may matter

  - “Relative” size b/w the firm & the partners might be useful to examine the role of trade credit provided through supply chain

  - Analysis in 5.3 partly captures this?

2. Major Comment-6

- Interaction with "Working capital" (WC)

BTW, no need to instrument this?

- β(Rationing): **-0.331**
- β(Need for WC): **-0.584**
- β(Rationing × Need for WC): **+0.700**

- In the case of no need for WC, how can we interpret β(Rationing)<0?

3. Minor Comments-1

- Why do the marginal impacts differ b/w the linear & non-linear IV estimations?

- **1**(large or medium)=0 contains small & not participate (i.e., is it appropriate to use these jointly as the base-case)?

- **1**(upstream)=0 contains downstream & not participate (same as above)?

3. Minor Comments-2

- What is the baseline case, i.e., $\mathbf{1}(\cdot)=0$, in the study of working capital?

- What is the dependent variable in Table 5 & 7?

- Relationship between Table 6 and 5.3?

- Table 8 is not consistent with the explanation?

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