

Institutional efficiency and corporate finance: an empirical investigation on Italian manufacturing industry

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Considering the Italian manufacturing industry between 2014 and 2016, this work analyzes the relation between the courts' ability to enforce credit rights and the opportunity to finance business activities with operating debts instead of financial ones, delaying payments and decreasing the financial costs. According to our results, if the time necessary to settle an insolvency case increases by 1,000 days, we can expect an increase in operating debt between 3 and 11%, and a decrease of financial expenses between 2,000 and 7,000 Euro. These results are extremely significant if we consider that the average time needed to enforce outstanding credits can go up to 4,000 days (i.e., South of Italy). The economic implications of these results could be far-reaching for the whole economy, decreasing both the competitiveness and the financial stability of the national system, as well as triggering a cascade effect on the market.