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Bank financing, institutions and regional entrepreneurial activities: Evidence from China

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Abstract

We investigate the effects of bank financing on regional entrepreneurial activities in China. We present contrasting findings on the role of quantity vs. quality of bank financing on small business formation in China: while we document a consistent, significantly positive relationship between the quality of bank financing and new venture formation, we find that the quantity of supplied credit is insignificant. We report that formal institutions are positively correlated to regional entrepreneurial activities, and informal institutions substitute formal institutions. Our findings also reveal that the institutional environment tends to supplement bank financing in promoting regional entrepreneurial activities.

JEL classification: D02 G21 L21

Keyword: Entrepreneurial activities, Bank financing, Institutions, Rule of law, Social trust

1. Introduction

Entrepreneurship involves mobilizing resources in the formation of new ventures to pursue opportunities based on commercializable innovations (Aldrich, 1990). During the entrepreneurial process, the acquisition of financial resources is crucial for making an innovative idea into a reality (Black and Strahan, 2002; Blinks and Ennew, 1997). The role of banks in facilitating entrepreneurial activities as well as economic growth has been well established in the existing

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