

Social Capital and the Viability of Nonprofit Firms: Evidence from Norwegian Savings Banks

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Background

- Norwegian banking sector is special: three types of banks exist and compete
- In particular, the high number of savings banks is interesting
 - and they don't just do mortgage lending...
- Despite deregulation in 1984, many savings banks survive
 - About 50% of savings banks have disappeared (mergers or conversions)

Savings banks are (commercial) nonprofit firms

- Nonprofit *doesn't* mean that firms don't earn profits
- Nonprofit firms are defined by
 - Non-distribution constraint
 - * The person(s) with control are barred from receiving residual earnings
 - Therefore, nonprofit firms have no owners
 - * Owners of firms have (1) control and (2) residual cash flow rights
- PCC-banks are *not* nonprofit firms

- Surprisingly many nonprofit firms compete with for-profit firms in developed economies (Hansmann, 1996)
 - Esp. in health care, education and financial intermediation
- Why doesn't the one organizational form drive out the other types?
 - Firms with owners operate more efficiently
 - Collective decision-making costs may be high in firms without owners
 - When control rights are diffuse, managers may have *de-facto* control

Hansmann (1996) says about U. S. mutual (nonprofit) banks

- Were established as response to a market failure in a world without deposit insurance
 - Existing commercial banks owned by wealthy individuals
 - SBs provided small savers with a secure investment
 - >< commercial banks
- Today, small savers are protected by regulation and mutual banks serve no specific economic purpose
 - Their nonprofit form → they die out only slowly...

Our hypothesis (alternative to Hansmann)

- (Pure) savings banks are controlled by their stakeholders
 - By design, the nonprofit form gives the bank an incentive to internalize the effect of its actions on its stakeholders
 - But, collective decision-making costs may still be high
- *Social capital* impacts collective decision-making costs
 - Savings banks' stakeholders = the local community
 - Communities with high social capital have lower collective decision making costs

The concept of social capital

- *“Social capital may be defined as features of social life— networks, norms, and trust—that enable participants to act together more effectively to pursue shared objectives for mutual benefit” (Putnam, 1993,1995)*
- A society with high social capital is characterized by
 - Civic engagement
 - Generalized reciprocity/trust

- Civic engagement
 - Community members are engaged, informed, and they interact with each other

- Generalized norm of reciprocity
 - Im willing to do something good for you, because I know that at some other point someone (else) will do something good for me
 - In the extreme, this is altruism (velgørenhed)

- We say: Savings banks in high SC-communities have lower collective decision-making costs bc
 - stakeholders with different interests can more easily agree
 - tend to share interests: the well-being of the community
- Therefore, we would expect that it is the savings banks in the low social capital communities that don't survive after deregulation

We would like your input!

- Does the link we propose between social capital and collective decision-making costs ring true?
- Examples of how savings banks take into account stakeholders' interests

- Estimate the probability that a savings bank exits during the year
- Use data for 1987 to 2005
- Use municipal data for the municipalities where the savings bank has branches for each bank each year
 - for each bank weigh according to number of branches in the municipalities.

- Explanatory variables:
 - proxy for SC, newspaper subscription
 - equity ratio in 1987
 - size, \ln of total assets 1987
 - competition measured by weighted average market share (total assets) of competing banks
 - other municipal variables



Table 4:
Descriptive Statistics II: Bank Level Variables

	Median	Mean	Std.dev.	Min.	Max.
Subscriptions	1.17	1.18	0.27	0.50	1.93
Subscriptions (County Level)	1.18	1.07	0.27	0.22	1.41
Donation Ratio	0.15	0.16	0.07	0.00	0.48
Donation Ratio (County Level)	0.13	0.14	0.05	0.00	0.26
Committed Donor Ratio (1990)	0.11	0.11	0.06	0.00	0.35
Committed Donor Ratio (1990) (County Level)	0.11	0.11	0.03	0.01	0.15
Equity Ratio (1987)	9.69	10.31	2.63	3.15	20.08
Log(Total Assets) (1987)	6.38	6.40	1.12	2.91	11.33
Bank Asset Competition	0.51	0.48	0.31	0.00	1.00
Competing Banks	1.36	1.52	1.52	0.00	11.27
Competing Branches	0.32	0.55	0.72	0.00	5.64
Competing Large Banks	0.33	0.35	0.28	0.00	0.99
Competing Commercial Banks	0.17	0.19	0.19	0.00	0.94
Log(Population)	8.71	8.88	1.04	6.26	13.18
Pop. over 67 Years	16.09	16.03	3.14	6.48	26.44
Pop. w. Higher Education	1.50	1.67	0.92	0.19	9.69
Lagged Unemployment	2.46	2.60	1.11	0.20	6.21

	(1)	(2)	(3)	(4)
Subscriptions	-1.25 [*] (0.46)	-1.25 [*] (0.48)	-2.12 [*] (0.77)	-1.21 [*] (0.47)
Equity Ratio (1987)	-0.32 [*] (0.07)	-0.32 [*] (0.07)	-0.32 [*] (0.07)	-0.32 [*] (0.07)
Log(Total Assets) (1987)	0.03 (0.11)	0.03 (0.11)	0.06 (0.10)	0.02 (0.10)
Bank Asset Competition	0.79 (0.58)	0.84 (0.58)	1.09 (0.62)	1.06 (0.54)
Log(Population)	-0.41 (0.23)	-0.36 (0.23)	-0.40 (0.23)	-0.43 (0.24)
Pop. w. Higher Education	0.24 (0.21)	0.14 (0.23)	0.12 (0.22)	0.23 (0.30)
Pop. over 67 Years	0.06 (0.04)	0.06 (0.04)	0.06 (0.04)	0.06 (0.05)
Lagged Unemployment	- -	-0.19 (0.12)	-0.18 (0.12)	-0.20 (0.13)
α_0	3.90 (2.12)	3.91 (2.17)	4.87 (2.41)	4.36 (2.50)
$\log(j)$	-0.12 (0.41)	0.10 (0.45)	0.09 (0.45)	0.29 (0.47)
$\log(j)$ squared	-0.24 (0.15)	-0.29 (0.15)	-0.28 (0.15)	-0.35 (0.16)
No. Obs	2412	2412	2412	2195
Pseudo-R ²	0.13	0.13	0.13	0.13
p-value LR-Test 1	0.00	0.00	0.00	0.00
p-value LR-Test 2	0.00	0.00	0.00	0.01

