5
Risk of Network Insolvency

5.1 The theoretical framework to support a network rating

The general conclusions about networks and business combinations in this chapter are related to the assessment of creditworthiness according to the principles of Basel, both in the current formulation and in the third revision (De Laurentis and Caselli, 2006; De Laurentis and Maino, 2010; Quattrociocchi, 2012b). The adoption of methodologies to calculate the rating has forced companies to redefine the policy and the conditions of financial/economic/balance stability also for the current economic cyclical scene (Murè, 2010). In particular, the introduction of Basel II has made it necessary to reconsider the models for analyzing and managing credit risk. In some cases, a reduction in faith in the reliability to businesses, especially smaller ones, of the use of balance data and automated analysis, or the anchoring of creditworthiness assessment to hard variables (Cowan and Cowan, 2006), rather than soft (Brunner et al., 2000; Grunert et al., 2005; Cattaneo et al., 2012), has sparked a chain reaction, begun during periods of tighter credit but also exacerbated by the financial crisis (Iannuzzi et al., 2011). In some cases there has been a short circuit of the bank–enterprise relationship, involving depersonalization, which has overshadowed the ability to assess intangible factors related to the entrepreneur, the history of the company, and the competitive environment (Paravani, 2006). In other words, the new models of credit analysis of SMEs showed increased risks for banks that could also threaten solvency
of businesses. To remedy this situation, a proposal was made to change the capital requirements of the financial institutes. In 2011, the Basel Committee finished a new framework, which aims to review and strengthen rules on bank capital adequacy. In this field of research, acutely pragmatic, this contribution aims to provide functional claims to improvements in analysis of creditworthiness and assign ratings to those companies, particularly SMEs, articulated in networks who work in socio-economic and territorial composites.

5.2 The financing of business networks

In order to define an effective process of assigning ratings to a business network, we need to define the circumstances under which networks would receive funding and, therefore, be subject to analysis and assessments by the banking system, aiming at an appreciation of the network's creditworthiness.

The identification procedures and methodologies that should comprise the assignment process and quantification of a network rating depend on the subject, such as the recipient of the funding (Fig. 5.1). In fact, from the bank’s point of view, financing a network may mean both lending to the individual businesses that are part of the network and to the network as a whole, distinguished from the individual businesses that make it up.

In the first case, the network is considered only indirectly to be a recipient of funding; in fact, the rating will necessarily be assigned to individual companies; in the second case, direct financing of the network, there are two specific cases:

- When aggregations, although not provided with legal and patrimonial autonomy, may be financed according to the logic of specialized lending: the “network-object”;
- When combinations with legal personality and equity are formed: “network-subject.”

To deal with problems associated with direct funding, networks are divided into two main categories (De Laurentis, 2011a): on the one hand, the financing of individual firms in the network and, on the other hand, the financing of the network itself (Fig. 5.1).