

FIRMS' FINANCIAL CONSTRAINTS AND STRUCTURE OF INVESTMENT: AN APPLICATION ON R&D SECTOR OF LARGEST EU COUNTRIES

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Abstract:

This paper assesses the role of financial constraints in explaining firms' structure of investment. Previous empirical works, using firm-level data, stated that financially constrained firms chose to invest more in tangible assets, in the detriment of intangible assets, such as research and development (R&D) expenditure. However, none of these researches investigated the structure of investment of R&D firms, considering the role of financial constraints. To fill in this gap, we test the impact of leverage, liquidity and profitability on the structure of investment of R&D firms. The structure of investment is computed as a ratio between tangible assets, and the sum between tangible and intangible assets, employing firm-level data. We use data from 2007 to 2014 for 325 firms located in France (219), Germany (67) and UK (39), drawing a comparison between these countries. Our GMM analysis shows that, in general, the leverage, computed as a ratio between long term debt and total assets, has no significant impact on the structure of investment. For Germany and UK, an increased profitability ratio allows firms to invest more in long-term, intangible assets. We also report that the liquidity ratio has no significant impact on the structure of investment, neither does the economic growth ratio, used for robustness purpose. These findings remain unchanged under different dynamic- and system-GMM specifications, but should be interpreted with caution, given the particularities of the R&D industry.

Keywords: structure of investment, financial constraints, firm-level data, comparative study, panel data analysis, R&D industry