Financing R&D Investments: Relationship Lending or Financial Markets?
G. Micucci and P. Rossi

Discussion by
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Paper’s objectives

Mickey and Rossi examine the role of financial factors in fostering the propensity to invest in R&D and the intensity of R&D investments of Italian manufacturing firms, distinguishing

1. self-financing
2. relational bank debt
3. arm-to-length market debt
## Paper’s results

<table>
<thead>
<tr>
<th></th>
<th>Prob(R&amp;D &gt; 0)</th>
<th>R&amp;D/Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow</td>
<td>Ø</td>
<td>+</td>
</tr>
<tr>
<td>Equity- or bond-issuing</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Main bank relationship length</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Bank debt concentration</td>
<td>−</td>
<td>Ø</td>
</tr>
</tbody>
</table>

**Table:** The impact of financial factors on firms’ R&D
Paper’s contributions

- This is one the few paper in the literature analyzing the impact of relationship banking on firms’ R&D and the only one for Italy (for Germany, see Hoewer, Schmidt and Sofka (2011))

- The dataset is very informative
Concerns/Suggestions

- Related literature
- Reverse causation
- Fixed effects (conditional logit?)
- Time varying fixed effects
- Selection bias
- Measuring financial factors
  - relationship length suffers of truncation problems
  - continuous measures for financial markets?