Financing R&D Investments: Relationship Lending or Financial Markets?

G. Micucci and P. Rossi

Discussion by

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Paper's objectives

Micucci 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

	Prob(R&D > 0)	R&D/Sales
Cash flow	$\oslash$	$+$
Equity- or bond-issuing	$+$	$+$
Main bank relationship length	$+$	$+$
Bank debt concentration	$-$	$\oslash$

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*?