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Do Public Firms invest less than their Privately-held peers?

Evidence from European Firms

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Abstract

The impact of the ownership structure on managerial decisions is a major topic within the corporate finance field. By following two alternative methodologies, this master thesis compares the corporate investment behavior of observably similar privately-held and publicly-traded European companies for the period of 2006 to 2015. The study unveils that unlisted firms do invest more in R&D than their stock market listed peers. Yet, when corporate investment is measured as the annual increase in gross fixed assets instead, the relationship is no longer clear. Still, the impact of the firms' listing status on corporate investment is much stronger when the latter is measured by R&D expenditures. We, thus, suggest that the legal requirements imposed upon listed enterprises to disclose key financial information are a deterrent for companies whose competitive advantage heavily relies on R&D to go public. The overall attained results are consistent with the agency theory's view on the impact of short-termism and managerial myopia on public firms' underinvestment. When considering the European financial crisis' effect on investment levels, we find that private and public firms are equally affected. Even though it did have an impact on absolute investment levels, the financial crisis seems to have not significantly affected the relative corporate investment behavior of private and public companies. In fact, private enterprises were documented to invest more in R&D than their publicly-listed peers regardless of the period being considered. When gross investment is considered, results vary for the post-crisis period though.

Keywords

Corporate Investment, Listing Status, Public and Private Ownership, Agency Costs, Underinvestment, Managerial Myopia, Short-termism

Resumo

O impacto da *ownership structure* nas decisões administrativas da empresa é um tema bastante relevante na área das finanças empresariais. Tendo seguido duas metodologias alternativas, o presente estudo tem como objecto comparar os níveis de investimento de empresas Europeias públicas e privadas entre 2006 e 2015. A análise revela que empresas privadas investem mais em R&D do que semelhantes empresas cotadas em bolsa. Contudo, ao analisar o investimento empresarial como o aumento anual de ativos fixos, as conclusões já não são tão claras. Ainda assim, o impacto da *ownership structure* no nível de investimento empresarial é bastante superior quando o mesmo é medido pelas despesas em R&D. Os requisitos legais impostos a empresas cotadas para que estas divulguem informação financeira regular são propostos como um impedimento a uma Oferta Pública Inicial de empresas cuja vantagem competitiva reside maioritariamente nas suas atividades de R&D. Os resultados globais são consistentes com a teoria ligada à *agency theory* de que o *short-termism* e a *managerial myopia* levam ao sub-investimento por parte de empresas cotadas. Analisando o impacto da crise financeira nos níveis de investimento, concluímos que tanto as empresas cotadas como as não cotadas são igualmente afectadas. Apesar de impactar os níveis de investimento absolutos, a crise não teve um efeito significativo no investimento relativo de empresas públicas e privadas. Efetivamente, empresas não cotadas investem mais em R&D do que empresas cotadas, independentemente do período considerado. Todavia, os resultados variam para o pós-crise quando o investimento é medido pela variação de ativos fixos.

Résumé

L'impact de la structure de propriété dans les décisions de gestion est un topique majeur dans le champ de la finance d'entreprise. En appliquant deux différentes méthodologies, ce mémoire de recherche compare le comportement de l'investissement corporatif en entreprises Européennes similaires, cotées et non cotées en bourse, dans le période de 2006 à 2015. L'étude dévoile le fait que les entreprises non cotées investissent vraiment plus en R&D que leurs pairs cotés au marché boursier. Pourtant, quand l'investissement d'entreprise est mesuré en fonction de l'augmentation annuelle d'immobilisations brutes, la relation n'est plus claire. Cependant, l'impact du statut des sociétés listées sur l'investissement d'entreprise est beaucoup plus fort quand le dernier est mesuré par des dépenses R&D. On suggère, ainsi, que les conditions légales imposées aux entreprises cotées pour la divulgation de leurs informations financières constitue une force de dissuasion empêchant d'entrée en bourse des entreprises dont l'avantage compétitif compte lourdement sur R&D. Au général, les résultats obtenus sont en accord avec la vision de l'*agency theory*, par rapport à l'impact du *short-termism* et de la myopie managériale sur le sous-investissement des sociétés publiques. En considérant l'effet de la crise financière européenne sur les niveaux d'investissement, on constate que les sociétés privées et publiques sont également affectées. Bien qu'il y a vraiment eu un impact sur des niveaux absolus d'investissement, la crise financière semble ne pas avoir significativement affecté le l'investissement corporatif relatif des sociétés publiques et privées. En fait, les entreprises non cotées ont été documentées pour investir plus en R&D que leurs pairs publiquement cotés, indépendamment de la période considérée. Quand on considère l'investissement brut en immobilisations, les résultats varient pendant la période de post-crise.