

R&D Investment Smoothing and Corporate Diversification

Takashi Hatakeda[†]

January, 2012

Abstract

We estimate dynamic R&D investment models in publicly traded Japanese manufacturing firms over the period of 2001-2009. Splitting into two subsamples divided by the degree of corporate diversification, we show evidence that less-diversified firms have an increased tendency to smooth R&D. To clarify the causes behind corporate diversification, we also turn our eyes on financial liquidity or share ownership structure, showing that financially unconstrained firms tend to smooth R&D investment. We, furthermore, provide evidence that corporate diversification doesn't improve the financial liquidity of financially constrained firms, but deteriorates the liquidity of some financially unconstrained firms, which makes R&D smoothing difficult.

Keywords: Corporate diversification, R&D, Investment smoothing, Financial liquidity

[†] Graduate School of Business Administration, Kobe University, 2-1 Rokkodai Nada Kobe, 657-8501, Japan. Email: hatakeda@kobe-u.ac.jp.