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THE EFFECTS OF R&D AND COMPETITION ON FIRM VALUE: INTERNATIONAL EVIDENCE

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Abstract: Using a new comprehensive database of 75 countries spanning 2004-2013, we examine the joint effects of research and development (R&D) intensity and competition on the value-creation of a firm. We introduce country-specific institutional characteristics related to institutional quality, R&D infrastructure and training and test whether these variations change the effect of R&D intensity on firm value. Moreover, we calculate the marginal effect of R&D intensity on firm value for high and low-income countries separately, based on different degrees of competition. Our findings suggest that in developing countries the positive effect of R&D intensity on the market valuation of a firm exists primarily for firms in less competitive industries. In developed countries, however, the positive effect of R&D intensity on Tobin's Q is evident for all competition levels. The results are empirically robust after controlling for potential endogeneity and employing alternative country-level attributes. Our findings have strong policy implications based on differences in R&D related investments made by firms in developing and developed countries.

JEL classification: L10; O30; F23

Keywords: R&D; Competition; Tobin's Q; Institutions

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