R&D investment and corporate growth in Europe

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Impact of innovation on firm growth has received some attention among scholars. However, prior empirical evidence on the R&D investment-firm growth relationship is at odds with the expectation that R&D investment can increase firm-specific capabilities and determine a competitive advantage that could allow a firm to conquer a higher market share and to improve its growth. In this paper we add some additional empirical evidence to the literature, investigating firm growth determinants on a sample of 680 large EU publicly-traded corporations, from 12 industrial sectors and 11 EU countries over the period from 2002 to 2011. Our results show that R&D investment exerts a positive effect on corporate growth in Europe, even after taking into account country, sector and year fixed effects. We find that "good" governance and legal environment improves corporate growth. Both external (total debt) and internal (cash flows) financing are important determinants of growth. We document that cash flow has a positive effect on growth, while leverage is negatively associated with growth. Firms operating in countries with good governance and legal environment have lower corporate growth-cash flow sensitivities. Firm growth negatively affects its age as far as younger firms grow faster than older once. The implications of the findings for research and practice are offered.