

# Finance & Management Research Seminar

## “A behavioral theory of R&D expenditures: The impact of risk-taking tendency”

Oveis MADADIAN & Maud VAN DEN BROEKE – IESEG

**Thursday, September 27<sup>th</sup>, 2018 – 2:00pm – 4:00pm**

### Abstract:

This study draws attention to the important issue of firms' (historical) risk-taking tendency in explaining R&D change decisions based on the behavioral theory of the firm (BTOF) framework. Existing BTOF studies provide us with inconsistent findings regarding the relationship between performance comparison against aspiration level and subsequent R&D change decisions. Using a sample of US listed firms from 2000 to 2016, we provide evidence that the decision to increase, decrease or stabilize R&D intensity (i.e., R&D expenditures, scaled by net sales) depends not only on the firm's performance relative to aspiration level, but also on the firm's (historical) risk-taking tendency. Our results show that when performance exceeds aspiration level, firms with low risk-taking tendency either decrease their R&D intensity or maintain the status quo (depending on how far performance exceeds aspiration level), whereas firms with medium or high risk-taking tendency increase their R&D intensity. On the contrary, when performance falls below aspiration level, risk-taking tendency has a less important role in decision-makings, as firms generally tend to increase their R&D intensity. Finally, we find that that increases in slack result in rising R&D intensity and the positive relationship is stronger for firms with higher risk-taking tendency.

- **Lille: Room E220, 7 rue Solférino**
- **Paris: Visio Room PR13, Promenade Building**