

Dynamics of Investment and Firm Performance: Comparative evidence in manufacturing industries

Marco Grazzi, Nadia Jacoby, Tania Treibich

Abstract

For long, the impossibility to access observed investment data has hindered empirical research on the topic. It was indeed only recently that scholars could start investigating the nature of the investment behavior of firms with proper data. Among the first attempts in this direction is the contribution by Doms and Dunne (1998) with data on U.S. plants and firms.

In this work we employ two similar datasets, Micro.3 and EAE, reporting firm level data for Italy and France. Both databases contain longitudinal data on a virtually exhaustive panel of French and Italian firms with 20 employees or more over 1989-2007.

Some descriptive statistics provide an overview of the process of firm level investment. In any given year most firms report very low investment rates, at the same time the tail of the distribution reveals that some undergo large investment episodes.

There is, however, at least another dimension in which the lumpy nature of investment gets revealed and this has to do with how firms decide to allocate investment over time. Do firms change their capital endowment smoothly over time or, on the contrary, do we observe spikes in such patterns? Further how to define a 'spike'? In this respect, the present paper contributes to the existing literature also showing that the investment rate display a clear negative dependence on firm's size, and any study of the investment needs to account for this dependence to get an unbiased definition of the investment spikes.