Alternative financing and investment in intangibles: evidence from Italian firms

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Abstract

This paper uses the Italian 2012 reform that introduced minibonds, a financial instrument specifically designed for Small and Medium Enterprises (SMEs), to check whether more accessible market-based finance promotes investment in intangible assets, a crucial component in knowledge economies. We apply a propensity score matching to address selection bias, run diff-in-diff estimates over 1,454 different samples to test our hypotheses, and use a meta-analysis to summarize the results. We find that minibond-issuing firms increase investments in intangible assets, a component difficult to finance via bank credit, more than other firms and investments in tangibles. Two mechanisms are at work: minibond issuances increase financial resources available to the firm (financial effect) and, above all, signal an improvement in business practices (reputational effect). These effects are more intense for smaller, more opaque, and bank-dependent firms. Our results are not affected by model dependence or endogeneity issues and are robust to different specifications.

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Keywords: intangibles; corporate bonds; bank dependence; minibonds; market-based finance; SMEs; investment.