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INNOVATION AND FINANCIAL PERFORMANCE: AN EUROPEAN EVIDENCE

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ABSTRACT

Purpose- The purpose of this study is to explore the relationship between innovation and financial performance in the context of European listed companies. Starting from the initial thesis of Schumpeter, this topic attracts the interest of academics and managers because innovation is included among the factors capable of influencing the value, profitability and competitive advantage of companies. The empirical evidence in this regard appears divergent: the existing literature shows positive or negative impacts or indicates the absence of a relationship between innovation (summarised in research and development expenditure) and financial performance.
Methodology- The study employs correlation analysis in order to figure out the existence of a link between innovation and financial performance. In accordance with the literature review, we use R&D expenses divided by sales as proxy of innovation and return on equity (ROE), return on capital employed (ROCE), EBITDA margin and profit margin as measures of financial performance. Data are obtained form the Amadeus Bureau van Dijk database and refers to the year 2020. Given the need to consider companies for which all the quantities mentioned are available for 2020, the final sample is made up of n. 224 European listed companies.
Findings- Pearson's correlation coefficient with EBITDA margin is 0.027, with ROA is 0.016, with Net profit margin is 0.034 and with ROE is 0.025, highlighting a weak positive relationship between the independent variable and each dependent variables (that means the R&D activities will increase the profitability of firms on the same financial year). However the p-value, higher than the α=0.05 threshold, makes the correlation coefficient not statistically significant. The analysis reveals that innovation, measured by the ratio R&D espenses to sales, does not show any correlation with financial performance instantly, that is on the same financial year. Our results are consistent with the branch of studies according to which R&D activity has no effects on company performance.
Conclusion- The analysis conducted does not prove the existence of a significant relationship between innovation and financial performance. A possible explanation can be found in the circumstance whereby the effect of research and development activities, as well as for all intangible assets, on the performance of companies is mainly observable in the medium-long term (what is known in the literature as the “lagged effect” of intangible assets on performance); therefore limiting the analysis to just one year does not allow us to fully grasp the impact itself. The conclusion reached is not to be understood in an absolute sense since innovation can also be measured by other indicators other than research and development expenses, such as the use of ICT, graduate employees, etc. Hence the possibility of further research developments and points of reflection considering the impact of R&D on the firm’s long-run performance and including other factors in the analysis.

Keywords: Innovation, firm performance, financial performance, listed companies
JEL Codes: G30, L29, O30,

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