

**Faculty of Business, Law and Social Sciences**

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| **Proposed Title:**  Building back better through innovation: challenges of corporate decision making in times of uncertainty and crises  **Project Reference Number 18** |
| **School:**  Business School |
| **Proposed Supervisory Team:**  Dr Hanna Szymborska  Dr Danilo Spinola  Prof Bruce Philp |
| **Abstract:**  This project aims to analyse how macroeconomic conditions shape investment strategies of non-financial corporations (NFCs) in the UK under high levels of uncertainty. It examines how changes in financial sector operations observed since the 1980s contributed to firms’ preference for speculative financial investment over investment in production and innovation. Emergence of new financial products facilitated a shift in the ways in which firms finance their operations away from bank lending towards financial markets. Since the 2007 crisis, the slow pace of economic recovery has prompted many NFCs to invest in financial assets and accumulate cash as an alternative strategy to raise funds compared to investing in production (Stockhammer 2006). In result, global investment fell by an estimated US$900 billion in 2012/13 (Sakoui 2014), constraining investment spending on Research & Development (R&D).  In the existing literature on corporate finance, factors relating to firm-specific circumstances, such as size and profitability, tend to be analysed separately from the aforementioned processes related to changing financial sector operations. This project proposes to analyse these areas jointly as interactions between firms-specific and systemic conditions influence firms’ profit fluctuations, confidence, and investment decisions in a way that is not sufficiently explored in the literature. Preference for financial investment can be understood by the need to generate sufficiently high returns to placate shareholders, which is necessary to maintain competitiveness and avoid hostile takeovers (Lazonick 2000; Mazzucato 2015; Chakraborty et al. 2017). However, the opportunity to pursue this strategy is uneven across firm size, with large multinational corporations able to capture an increasing market share, depriving their competitors of investment opportunities for innovation.  The project asks the following research questions:  How do changing financial sector operations and uncertain economic conditions affect objectives and decision-making across firms of different sizes?  How does market concentration influence profitability and capacity for R&D investment?  How can economic policy effectively promote investment and innovation?  Building on existing studies, the project purses a three-stage mixed-methods approach:  First Stage: Preliminary data collection and qualitative analysis, including a systematic literature review across UK firms of different sizes, to analyse differences in firms’ objectives, motivation, strategic decisions, and profit allocation under uncertainty.  Second Stage: Econometric panel data analysis of R&D expenditure, financial investment, and market concentration using data from UKIS and Compustat between 2010 and 2019, to generalise findings of the first stage analysis to the UK corporate sector after the 2007 crisis.  Third Stage: Examination of alternative policy scenarios to encourage investment and innovation and promote sustainable growth in the UK, using interdisciplinary stock-flow consistent modelling framework (Botta et al. 2020; Caiani et al, 2014; Nomaler et al, 2021).    The project will provide a new understanding of corporate decision making under uncertain economic conditions, expanding research on corporate finance and contributing to public policy. The need to address low corporate investment levels and uneven capacity to innovate is urgent in light of Brexit and the Covid-19 crisis. In the UK, cash accumulated by NFCs is currently equivalent to 40% of GDP (ICAEW 2020). Our findings will inform how these vast resources could be mobilised for economic growth through innovative investment and job creation. Economic policies implemented after the 2007 crisis have been largely ineffective in promoting investment: Instead, the UK has been suffering from a “productivity puzzle”, with fewer goods and services produced per hour worked compared to the pre-2007 period (ONS Labour Productivity Bulletin 2015). Therefore, this project will contribute to improving the efficacy of economic policy to better support corporations during periods of uncertainty to promote innovative investment. |
| **Research Environment:**  UoA: Business and Management  Centre for Applied Finance and Economics |
| **Applicant Requirements:**  The candidate should have:   * A good bachelor degree (2.1 or equivalent); * Strong analytical skills (knowledge of quantitative methods is desirable); * Interest in applying pluralistic perspectives in economic theory and research. * An interest in stock-flow consistent economic modelling is desirable   It is desirable for the candidate to hold a postgraduate Masters degree in disciplines of interests (for instance: economics, political economy, finance, business studies, critical management), or a similar level of professional experience. |
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