

The Stock Market Valuation of R&D Expenditure and Corporate Governance

Hung-Kun Chen

Assistant Professor

Department of Banking and Finance

Tamkang University, Danshui, Taiwan

No. 151, Yingzhuan Rd., Danshui Dist., New Taipei City 25137, Taiwan

hkchen@mail.tku.edu.tw

Li-Hong Hong

College of Management

Yuan Ze University, Chung-li, Taiwan

S977201@mail.yzu.edu.tw

Yanzhi Wang

Associate Professor

College of Management

Yuan Ze University, Chung-li, Taiwan

yeanjyh@saturn.yzu.edu.tw

Abstract

This paper examines whether firms with more research and development (R&D) expenditure earn higher return when the mechanism of corporate governance is well established. We find that firms with well corporate governance experience a positive impact of the R&D intensity on stock return, while firms with poor corporate governance have no-effect of the R&D intensity on stock return. This finding suggests that good governance can mitigate potential overinvestment in R&D spending. Namely, R&D strategy is more effective in well-governance firms.

Keywords: R&D, Corporate governance