

Underinvestment and overinvestment cases of the Russian companies depending on stage of the life cycle

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The effects of risk-shifting and debt overhang are considered as the main reasons of over- and underinvestment in the context of agency conflict between owners and creditors. Since their preferences vary from one stage of life cycle to another, the incentives to over- and underinvestment differ at stages of the life cycle. To investigate effect risk-shifting and debt overhang in depending on the life cycle, the relative approach of determining stages of life-cycle is used. The methodology is following: firstly, ranking in terms of revenue growth, retained earnings (as the share of total assets), age of a company and growth of the market share. Then summing the components and defining a stage according to total index.

In order to conduct analysis financial and non-financial information from database Ruslana Bureau Van Dijk has been used. The sample contains 9785 estimations, only from non-financial Russian companies during the period from 2002 to 2013.

On the first step of empirical study of risk-shifting and debt overhang problems the sample of Russian companies has been divided into 3 subsamples that refer to stages of life-cycle: growth, maturity and decline. On the second step there has been a testing of the hypotheses concerning the identification of risk-shifting and debt overhang. Initially it was necessary to select companies with high Debt ratio, low M/B and EBIT ratios. Then the regression of investment on debt level has run on the selected companies on each subsample. However, in case of hypothesis that concerns risk-shifting effect an additional step must have been done. In order to control the risk of investment it was necessary to regress investment on EBIT volatility, and then select for model only those companies that have positive coefficient before investment. Finally, testing of the remaining hypotheses about the particularities of companies has been based on the sample of firms in which risk-shifting or debt overhang has been identified.

The risk-shifting and debt overhang problems have been identified mostly at the decline stage. Smaller companies and those that have debt with call features are more prone to risk-shifting at every next stage of the life cycle. The debt overhang effect is more likely to occur in companies with significant shares of short-term debt and capital owned by institutional investors.

Since both effects mostly occur under high debt share, but the influence on the investment is various, it is better to investigate these issues simultaneously.