

Local Gambling Attitudes, Corporate R&D Investment and Long-Term Financial Performance

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Abstract : This paper examines the influence of local gambling attitudes on a firm's long-term financial performance. Firms located in gambling-prone regions may be more willing to take risks, thus spending more on innovative projects. However, firms in such regions may also be likely to choose projects impulsively and allocate resources inefficiently. By studying Chinese publicly listed firms from 2010 to 2017, we find that firms in more gambling-prone regions invest more in R&D. Both local gambling attitudes and firms' R&D spending are positively associated with firms' long-term financial performance. More importantly, our study reveals that the positive impact of R&D spending on firms' long-term financial performance is weakened by gambling-friendly attitudes, probably because firms in gambling-prone regions are more likely to overinvest in risky projects. This effect is stronger for larger firms, state-owned enterprises (SOEs), firms with more government subsidies, and firms with weaker internal control.

Keywords : regional gambling attitudes, long-term financial performance, R&D, risk, local bias

Conference Title : ICFCA 2022 : International Conference on Financial and Cost Accounting

Conference Location : Montreal, Canada

Conference Dates : June 16-17, 2022