

# RESEARCH ON THE INFLUENCE OF FINANCIAL CONSTRAINTS ON INVESTMENT DECISIONS OF COMPANIES IN EMERGING CAPITAL MARKETS

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## **Abstract**

For companies operating in imperfect capital market and facing the asymmetry of information, fund attraction is expensive or impossible source of funding. Hence, the question of research the impact of financial constraints on the level of companies' investment becomes relevant.

With growing business needs in analytical tools and lack of empirical works, during last several decades many economic researches devoted to the impact of financial constraints on investment policy of companies.

In the foreign literature the question of financial constraints factors and their impact on companies' investment policy is extensively discussed. Such factors include, for example, dividends, the company's size, its age, and others. For analysis of the investment policy, on the basis of selected factors and their size, the companies are divided into two groups – the more and the less financially restricted. However, due to the increased criticism of this approach, the authors often have to resort to multifactor indexes for companies been attributed to a particular subgroup. For this purpose clustered or linear discriminant analysis are used.

Since financial restrictions are non-observed variable, an important stage of the research is the process of selecting the proxy variables. Many researchers say that depending on the level of financial constraints, the investment policy of the companies depends on the availability of internal financing sources in varying degrees. Thus, the assumption is that the relation of investment of the company's cash flow can be used as a proxy variable to financial restrictions of the company. Many researchers agree that the sensitivity of investment to cash flow of the company for financially limited companies is higher than that for financially unlimited.

Similarly to the results of research conducted on developed capital markets, the conclusion of this research was obtained that financial constraints factors have a significant impact on the company's investment policy in part based on the level of investment of internal cash flow of the company. In addition, it was found that the relationship has non-linear form to more limited companies from India and China.

This work is a base for further research the financial constraints and contributes to the analysis and development tool, which is used at the time of investment decisions.

**JEL: G31**

**Key words:** investment decisions, financial constraints, sources of financing, cash flow, sensitivity of investment.

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