

1. Introduction

**FORM OF OWNERSHIP AND FINANCIAL CONSTRAINTS: PANEL DATA
EVIDENCE ON LEVERAGE AND INVESTMENT CHOICES BY ITALIAN FIRMS**

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ABSTRACT

This paper analyzes the effect of the forms of ownership on the substitutability between internal and external sources of finance. In particular, we test whether financial constraints are more severe for independent firms and whether there are differences between members of large national business groups and subsidiaries of foreign multinational corporations. The results obtained from leverage and investment equations estimated for a panel of Italian companies imply that independent firms face greater capital market imperfections. Members of national groups and subsidiaries of multinational corporations do not display excess sensitivity to cash flow in their investment decisions. The leverage equations suggest however that there are interesting differences between the two latter categories of firms.

JEL classification: E22, E44, C32