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Can technological misallocation generate financial frictions? We build a theoretical model with testable implications, in which the misallocation between R&D and production activities generates borrowing constraints. The investor offers the innovator a rent that is contingent to the success of its project in order to make them exert an incentive-compatible effort level. However, this rent distorts the allocation of effort between activities. Specifically, it leads to a suboptimal level of effort impulsing a reallocation of resources from production to R&D. Consequently, the investor cannot appropriate the surplus resulting from innovation. This distortion increases the cost of external financing for firms that have large amount of _____

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Intangible assets. Using Compustat data for manufacturing firms in the United States between 1982 and 2007, we show that cash-flow sensitivities are positive and increasing in firms with high R&D intensities.