W. Hoelzl, A. Reinstaller: Financing constraints and young technology-oriented firms: Results from a survey

Financing constraints play an important role in innovation and entrepreneurship policy. The existence of financing constraints is often invoked to justify policy intervention to support innovating firms or start-ups. Capital market imperfections are seen as important market failure that constrains the ability of technology-oriented firms to implement socially valuable innovation projects.

In this literature equity and credit constraints are considered in an undifferentiated way. This is unfortunate, as the costs and incentives associated with equity and credit are very different from each other (e.g. Cuming and Johan 2009). This is part of the explanation why the academic literature paints a more sceptical picture of the effectiveness of government intervention to relax financing constraints in a much more sceptical manner than the policy literature. Available evidence shows that only a small number of enterprises is affected by financing constraints (e.g. Vos et al. 2007, Storey 1994, Mina and Lahr 2013). The available evidence also shows that financing constraints have an impact on firm growth (Botazzi et al. 2011) and firm internationalization (Buch et al. 2011). However much of this literature looks in a quite indiscriminate way at financing constraints of SMEs but does not focus on technology-oriented start-ups.

Our contribution is based on an extensive survey of technology-oriented firms in Austria and provides a clearer picture of the structure financing constraints of these firms. The survey was focused on the impact of financial constraints on the market introduction of innovations by young technology oriented firms. The gross sample consisted of 333 firms. 165 firms answered the questionnaire leading to a response rate of 50%. Using this detailed dataset we analyse the structure and importance of financing constraints in the process of bringing to new innovative products to the market. We also study the appropriateness of different forms of finance (e.g. equity finance, mezzanine capital, bank credits) in this process.

58% of the enterprises said that they did not have sufficient financial resources when they introduced their products to the market. However, this resulted in most of the cases in a delayed introduction of the products into the market and to a scaling down of market development activities. Almost no firm stopped the market launch due to financing constraints. Firms' opinions on the appropriate policy action are consistent with this result. Internal financing and public subsidies play an important role for the commercial launch of innovative products or the implementation of new processes.

Although a large majority of firms consider equity financing via external investors or mezzanine capital as well-suited for their company, only few of them actually seek such financing. One of the main results of the paper is that the financing constraints of young technology firms are primarily related to the existence of an equity gap. Companies facing financing constraints hold a more positive view on measures designed to improve access to private or public risk capital than companies without such constraints. Young technology oriented firms, and especially financially constrained ones do not consider bank credit to be an appropriate form of finance.

We put our results in broader perspective and discuss their implications for the academic literature as well as for policy.

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