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Home ► All Journals ► Economics, Finance & Business ► Economics of Innovation and New Technology ► List of Issues ► Volume 17, Issue 6 ► IMPACT OF FINANCIAL CONSTRAINTS ON INNOV

Economics of Innovation and New Technology > Volume 17, 2008 - Issue 6

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Original Articles

IMPACT OF FINANCIAL CONSTRAINTS ON INNOVATION: WHAT CAN BE LEARNED FROM A DIRECT MEASURE?

Frédérique Savignac

Pages 553-569 | Received 26 Apr 2006, Published online: 15 Aug 2008

66 Cite this article

https://doi.org/10.1080/10438590701538432

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significantly reduce the likelihood that firms have innovative activities. The probability

to encounter financial constraints is explained by firms' ex ante financing structure and economic performances.

Keywords:

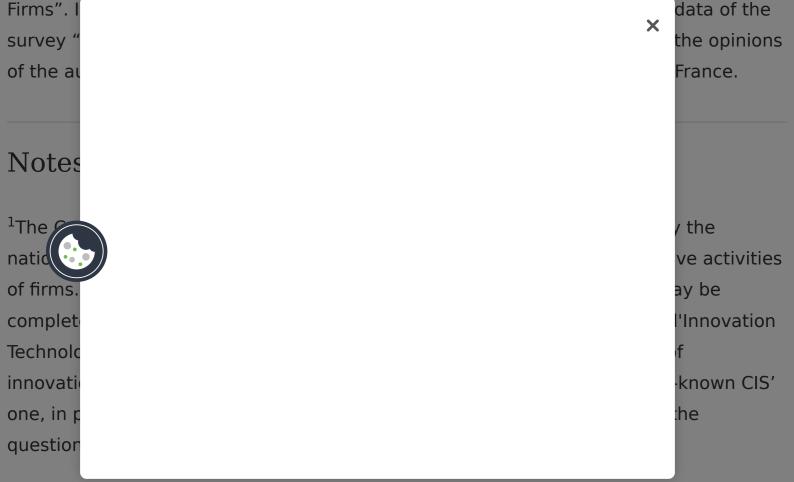
Innovation Financing constraints Recursive bivariate probit

JEL Classification:

G31 C35 031

Acknowledgements

I thank P. Sevestre for his helpful suggestions and advice. I am grateful to the referees for their constructive comments and suggestions as well as to E. Avenel, D. Czarnitzki, J. Mairesse, P. Mohnen and to the participants at various conferences (AFSE annual congress, 2nd ZEW conference on Innovation and Patenting and REPERES, EUREQua, ERUDITE, INRA-GAEL seminars). A previous version circulated under the title "The Impact of Financial Constraints on Innovation: Evidence from French Manufacturing



²This qualitative information is then similar to the one used by Angelini and Generale (2005) to examine the effect of financial constraints on firm size. Guiso (1998) and Piga and Atzeni (2007) focus on the determinants of credit rationing and they also adopt a direct indicator of financing constraints taken from a survey. They consider that firms are financially constrained when they applied to bank credit but failed to obtain it.

³Our dataset is presented in the appendix.

⁴See the details of the identification of innovative, non-innovative firms in the appendix.

⁵Firms were allowed to provide multiple answers.

⁶More recently, Aghion et al. <u>(2005)</u> proposed a model with an inverted U-shape relationship between innovation and competition. In this model, competition may increase innovation profit margin but strong competition may also reduce incentives to innovate for laggards.

⁷The importance of technological opportunities is given by a qualitative measure issued from the FIT survey. The same indicator was used in previous works such as Crépon et al. (1998) or Barlet et al. (1998). In the survey, the firms are asked: "Do You consider that Your market is technologically: not innovative? weakly innovative? moderately

innovati as × referenc r the other levels.

⁸See the us remind that in t possible constrai sistency in aken at their the defi valu

⁹In the F tor as it was done by introduc obtain a demand

ve have we did not ecific

 10 There is some confusion about this question because of Maddala's assertion (1983, p. 222). He states that the parameters of the first equation are not identified if there is no exclusion restriction on the exogenous variables (as in the linear case). But Wilde (2000) shows that this is only true in the simple example of Maddala's book, where x $_{2i}$ and x $_{1i}$ are both constants. Wilde shows that identification in the simultaneous probit case is achieved as soon as both equations of the model contain a varying exogenous regressor. However, as examined by Monfardini and Radice (2004), without instruments, the identification of the parameters of the first equation strongly relies on the functional form of the distribution of errors and in practice, availability of instruments help to obtain results which are more robust to distributional misspecification.

¹¹See the details of these definitions in the Appendix.

¹²The univariate probit regression on the subsample of 'potentially innovative' firms is given in the Appendix (Table I).

¹³Such a test have been made with cash flow or profit margins and the results can be obtained from the author.

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