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Financing patterns of innovative SMEs and the perception of innovation barriers in Germany

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Abstract

We analyze the role of public support in the financing pattern of R&D in German SMEs and their assessment of financing conditions in the context of other framework conditions for innovation. In Germany, there is a diversity of overall well-funded technology-neutral and technology-specific programs providing grants to R&D and innovation projects. Different types of SMEs access public funding for R&D and innovation activities to varying degrees. Using an extensive sample of 2,700 German SMEs that participated in public R&D promotion programs during the 2005-2010 period, we identify four groups of companies with different patterns of public and private sources of R&D finance, such as own capital, grants, private and subsidized loans.

The firms in our sample are generally positive about public financing of R&D in Germany in 2010. Despite the different funding patterns, we find only slight variations in this assessment across the four groups of subsidized SMEs. Nevertheless, medium-sized R&D companies (often with external equity investment) that have to finance the market introduction of innovations without a track record, appear to suffer from deficiencies in the provision of loans. Further, the companies perceive obstacles to innovation primarily in the non-financial sphere, namely the supply of skilled personnel, market regulation and competition conditions. Therefore, future work on innovation policies for SMEs should put greater emphasis on the non-financial external framework conditions for firm R&D and innovative activities.

Financing patterns of innovative SMEs and the perception of innovation barriers in Germany[§]

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Abstract

We analyze the role of public support in the financing pattern of R&D in SMEs and their assessment of financing conditions in the context of other framework conditions for innovation. Using the sample of 2,700 German SMEs that participated in public R&D promotion programs during the 2005-2010 period, we identify four firm groups with different R&D financing patterns. The companies are generally positive about public financing of R&D in Germany. Nevertheless, a group of medium-sized R&D companies that have to finance the market introduction of innovations without a track record, appears to suffer from deficiencies in the provision of loans. SMEs perceive obstacles to innovation primarily in the non-financial sphere, namely the supply of skilled personnel, market regulation and competition conditions. Therefore, future work on innovation policies for SMEs should put greater emphasis on the non-financial external framework conditions for firm R&D and innovative activities.

JEL-Classification: O14, O25, O38, L20

Keywords: R&D promotion, Financing of R&D, Small and medium sized enterprises, Barriers to innovation

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1 Introduction

Innovative small and medium-sized enterprises (SMEs) are key actors in the national and regional innovation systems. Compared to large firms, they face additional disadvantages when engaging in R&D and innovation activities, beyond those usually considered that pertain to the market failures comprised of external effects, information asymmetries in risk assessment, and the indivisibility of R&D. Indeed, SMEs suffer more from constraints to external R&D funding opportunities, benefit less from knowledge spillovers owing to their limited absorption capacity, and are often less capable of imposing innovations on the market. Further, in many cases, they can only achieve the necessary level of R&D capacity and access to the diversity of the requisite technological expertise through cooperative partnerships. Small companies can usually not distribute innovation risk across a range of projects, they have more limited opportunities to exploit economies of scale, and they must compete with larger companies for skilled staff (Hall, 2010, Schneider and Veugelers, 2010, Veugelers, 2008, , Czarnitzki and Delanote, 2013). As a result, SMEs tend to underinvest in R&D from a socio-economic perspective. In order to alleviate these difficulties to innovation—especially those related to financial limitations—and, thus, align the R&D expenditure to the social desirable level, governments promote R&D and innovation by SMEs through direct and indirect financial measures.

In this paper, we analyze how subsidized German SMEs use private and public sources to finance their R&D activity, such as own capital (including external equity investment), grants and (subsidized) loans. In Germany, due to a highly diverse range of programs on the national, the federal states and the EU level, SMEs principally have the opportunity of obtaining R&D subsidies from different sources. Thus, the question arises whether there is an “optimal mix” of these programs and private sources to finance R&D. To assess the functioning and efficiency of R&D subsidy programs in Germany, one first needs to develop an understanding of the overall allocation of subsidies in SMEs. Therefore, we provide some insights into much neglected aspects, i.e., who (which type of firms) actually participates in which type of public measures and why (Tanayama, 2009). Since individual firms receive different amounts of

public funds, R&D subsidies may give a variety of different incentives to conduct R&D and/or to change innovative behavior. Hence, our main goal is to explore this heterogeneity of subsidized firms taking the financing structure of R&D activity into consideration.

Yet, note that public R&D support—even though important and in the focus of technology policy—is still only one factor influencing the scale of R&D and innovation activity of firms and their innovation performance. Indeed, there are many other external framework conditions, beyond the financial constraints, that may have significant positive or negative effects on SMEs' R&D and innovation, such as market conditions (labor market, supply/sales markets), bureaucratic hurdles (restrictive laws and regulations), access to knowledge and information, or intellectual property rights (see e.g., Hölzl and Janger, 2012, Hashi and Stojcic, 2010, Mohnen et al., 2008, Veugelers, 2008, Aghion et al., 2005, Aghion et al., 2009). However, public R&D promotion in the context of other framework conditions for R&D and innovation of SMEs has been scantily investigated so far; an oversight this paper intends to address as well.

Considering the significant expansion of public support of R&D and innovation activity in SMEs in response to the 2008/09 crisis, we expect that the importance of financial constraints for German SMEs has decreased, in general. Nevertheless, one could suppose that the scarcity of financing resources is still a great problem for some types of SMEs—especially, young innovative companies (YICs) (Schafer et al., 2004). In economic literature and technology policy these firms get special attention because they are expected to bring a great number of break-through innovations and to foster growth and the creation of jobs (Hall, 2010, Schneider and Veugelers, 2010, Czarnitzki and Delanote, 2012). Hence, we investigate how important financial and non-financial constraints are for different types of subsidized SMEs.

Our empirical analysis is based on unique and representative survey data on 2,708 German SMEs that participated in public R&D promotion programs during the 2005-2010 period. In the first step of our analysis, we identify four types of SMEs employing a cluster analysis that uses information on the internal and external financing sources of R&D activity. In the second step, we analyze the differences between the SME groups in respect to firm characteristics and innovative behavior. Special emphasis is

placed on the distribution of YICs across the revealed types of SMEs to find out whether they tend to follow one specific financing pattern of R&D activity. Finally, we explore whether there are differences in the assessment of the importance and the quality of various financial and non-financial framework conditions between the identified groups of SMEs.

The next section describes the dataset and the methodology used in this paper. Section 3 depicts the four identified types of subsidized SMEs. Section 4 discusses the differences in innovation behavior between the SME groups and outlines the analysis results regarding the usage of different sources and types of R&D programs by the SMEs clusters. In Section 5, we analyze the self-assessment of financial and non-financial framework conditions for innovation by the clusters of subsidized SMEs. The final section provides a summary and conclusions.

2 Data and methodology

Our analysis is based on the micro-level data collected via survey by the German Institute for Economic Research (DIW Berlin) in 2011, on behalf of the German Federal Ministry of Economics and Technology (BMWi). This survey was sent to approximately 12,000 German firms that obtained public funding which financed R&D projects over the 2005-2010 period. Approximately 3,000 firms responded to the survey, covering more than one-third of total SMEs that were federally subsidized in 2010.¹ Hence, our survey data is quite representative for SMEs publicly supported in 2010. Further, compared to the Mannheim Innovation Panel,² our dataset has two advantages that make it particularly suitable for our study purposes: (1) it also includes micro-enterprises; and (2) it contains information on both the amount and the sources of R&D financing in SMEs.

Once companies with more than 250 employees are removed, the final sample contains 2,708 SMEs—1,429 of which are manufacturing firms; 828 and 451 are engaged in services and other sectors

¹ According to the information of the Federal Ministries, we estimate a total of 8,500 SMEs were supported by a project grant of the Federal Government in 2010.

² The Mannheim Innovation Panel is the annual innovation survey of German companies and part of Eurostat's Europe-wide Innovation Survey.

(like construction or handcraft), respectively. The questionnaire consisted of more than 20 questions eliciting general information about the firm, its R&D and innovative activities (including the pattern of R&D financing), the participation in public R&D support programs, as well as the assessment of various framework conditions for R&D and innovation activity. Table A 1 of the Appendix presents some descriptive statistics of subsidized SMEs included in our sample.

In the first step of our empirical analysis, we aim at synthesizing highly heterogeneous subsidized SMEs into a manageable and interpretable set of typologies regarding the R&D financing behavior. An effective way to do this, which is also common practice, is employing the cluster analysis (Evangalista and Vezzani, 2010, Hollenstein, 2003). In this case, publicly supported SMEs with an as similar as possible R&D financing pattern are clustered in groups rendering the differences between the groups as large as possible. The cluster analysis was carried out using four variables: three variables measuring the share of R&D financing sources—internal funding, public R&D subsidies, and other external funding (public and private credits)—over total R&D expenditure in 2010, as well as a dummy variable as an indicator for R&D firms, i.e., companies having R&D expenditures higher than the total turnover in 2010. We include the latter variable in the cluster analysis because we suppose that these firms are concentrated on R&D activities. Compared to other companies, that finance R&D from their own business activities, R&D firms may follow a different pattern of financing their R&D activity (often with an external equity investment). We realize that looking at the R&D financing structure for only one year may raise a potential concern. However, there is pervasive evidence in the existing literature that indicates that the subsidies granted to a firm are relatively persistent over time, so that a firm whose R&D activity was subsidized in the past is more likely to be subsidized again (Zúñiga-Vicente et al., 2012). Analyzing German innovative firms, Aschhoff (2010) found participation in the direct funding scheme to be quite stable, as well. Hence, we can expect that the clusters—each using public R&D support to a different

extent—found in our analysis, are quite stable over the medium-term assuming substantially equivalent conditions of public promotion.³

In order to interpret the identified clusters and check the internal consistency, we estimate probit regressions, which relate the likelihood of being assigned to each specific cluster to various firm characteristics and abilities, such as firm size, R&D and innovation activities, labor productivity or industry sector. Additionally, we take firm participation in public R&D support programs at different levels (that is, at the Federal Government, federal states (Länder) and EU levels) into consideration. In a further step, the relationship between SMEs' patterns of the R&D financing behavior and participation in different types of R&D support programs is explored based on probit regressions.⁴ Finally, we investigate the importance of various framework conditions (employing probit models) and obstacles to innovation (using ordered probit regressions) from the viewpoint of the identified types of SMEs. Note that we also control for firm size, R&D intensity and economic sector in the second and third analysis steps. Table 1 sets out a more detailed depiction of the variables used in each step of the econometric analysis.

[Table 1 here]

3 R&D financing patterns of subsidized SMEs

Basically, there are three sources of financing R&D and innovation projects: (1) internal sources, that is retained profits or (new) equity, (2) external sources such as bank loans or other debt contracts (including subsidized loans), and (3) external public sources like government grants or tax credits. There is a whole branch of theoretical and empirical literature illustrating that firms indeed first and foremost

³ Still, it would be interesting to test whether the clusters are stable too and/or whether subsidized SMEs transfer from one group to another over time, i.e., whether an intensively supported SME, for instance, can become a supported borrower or a predominantly self-financing SME. But to do this, long-term data on the project grants of subsidized firms is needed.

⁴ As it is possible that a firm uses both types of programs, one could suggest that a bivariate probit model might be appropriate at this stage of the econometric analysis GREENE, W. H. 2003. *Econometric analysis*, London, Prentice Hall International. However, since the estimation results from the binary probit model reveal that the correlation coefficient between the error term of the two estimation equations turns out to be insignificant, three univariate probit models are estimated here: for participating in (1) technology-neutral programs only, (2) technology-specific programs only, and (3) using both types of public R&D promotion programs.

use internal funds to finance innovation projects (as compared to debt) (OECD, 2010, Revest and Sapio, 2012).

Subsidized SMEs in our sample finance their R&D activity primarily via internal funding—on average, about 63 percent of the R&D expenditures are financed from the internal capital (see the last column in Table 2).⁵ Subsidies amount to approximately 30 percent, with bank loans (including subsidized loans) playing only a minor role (5 percent).⁶

In Germany, grants designated for R&D project costs that are eligible for funding are traditionally the preferred way to promote R&D and innovation by SMEs.⁷ We distinguish between two types of grants initiated by the German Federal Government, the federal states (Länder) and the EU namely technology-neutral and technology-specific grants. Technology-neutral public support is characterized by the possibility of submitting funding applications with no thematic restriction. On the other hand, in technology-specific support schemes companies apply for a subsidy based upon a unique thematic request of proposals. The technological area of the eligible projects is restricted, mostly to selected high-tech fields. Due to the technological and pre-competitive focus of the supported R&D projects, technology-specific programs usually provide larger subsidies to SMEs (between 50 and 70 percent of the R&D project costs eligible for funding without limits for maximum grants) than technology-neutral programs (between 30 and 50 percent of the R&D project costs and grants restricted to a maximum, subsidized loans). Various programs employ different selection or ranking criteria for choosing projects and firms. However, the approval rates of technology-neutral programs are usually higher. For the characteristics of main R&D support programs of the Federal Government for SMEs see Table A2 of the Appendix.

⁵ Only about 2 percent of SMEs in our sample are companies with external equity investment. Yet, in this case, due to our data, we are not able to distinguish between strictly internal capital and equity capital provided by external investors.

⁶ Based on the KfW-Mittelstandspanel data, Zimmermann (2010) investigates the financing structure of innovation expenditures for German SMEs. He shows that, on average, 71 percent of innovation expenditures are financed via internal capital, 16 percent through bank loans, 7 percent via public support and the remaining 6 percent through other sources. Compared to our findings, his results show that bank loans (public subsidies) play a more (less) important role in financing structure. Nevertheless, note that he analyzes not only subsidized firms as in our case, on the one hand, and, on the other, he explores the financing structure of innovation and not R&D activity.

⁷ Through 2013 Germany has not had R&D tax credits, like those commonly used in other OECD countries.

By means of the cluster analysis, four types of SMEs differing from each other in respect to the financing structure of R&D can be identified.⁸ Table 2 shows the distribution of subsidized SMEs in each cluster according to the sources of R&D financing. A total of 2,708 SMEs were used in the analysis and 231 of them could not be assigned to any of the four cluster—largely due to missing or incomplete information on the R&D financing structure. These firms can be described with respect to their R&D financing pattern as follows:

- (1) The first cluster consists of 1,118 SMEs that finance, on average, half of their R&D expenditure through internal funding and half via public R&D programs. Accordingly, we label these firms intensively supported SMEs. The average R&D expenditure in 2010 of this firm group is 217,000€.
- (2) The second cluster includes only 284 SMEs that use various sources to finance the R&D activity—i.e., internal funding, public R&D subsidies, and external R&D funding (private and public credits). However, note that only these firms place high importance on the latter R&D funding source. Thus, we name this group of SMEs supported borrowers. These firms exhibited relatively high R&D expenditures in 2010 amounting to about 430,000€, on average.
- (3) The third cluster, with 1,016 firms, is similarly relevant among the subsidized SMEs in Germany as the group of intensively supported SMEs. These SMEs engage primarily internal funding (on average, 85 percent of R&D expenditures) to finance R&D. Further, they also rely on public aid for R&D, but to a significantly lesser extent than the cluster described above. They hardly use external funding via credits. We label this firm group self-financing SMEs. On average, these firms spend in 2010 about 500,000€ on the R&D activity.

⁸ To identify clusters in our study, we employ the two-step cluster procedure developed by CHIU, T., FANG, D., CHEN, J., WANG, Y. & JERIS, C. 2001. A robust and scalable clustering algorithm for mixed type attributes in large database environment. Proceedings of the seventh ACM SIGKDD international conference on Knowledge discovery and data mining. San Francisco, California: ACM. since this method handles a mixture of continuous and categorical variables; this is of high relevance to our study MOOI, E. & SARSTEDT, M. 2011. Cluster Analysis. A Concise Guide to Market Research: The Process, Data, and Methods Using IBM SPSS Statistics. Berlin Heidelberg: Springer-Verlag.. The sensitivity analysis shows that clusters determined using sub-samples (e.g., manufacturing firms only) are largely comparable to those presented in Table 2. Thus, we conclude that our findings from the cluster analysis are robust.

(4) The fourth and last cluster is the smallest, consisting of only 59 subsidized SMEs. It contains R&D firms with R&D expenditures in excess of the revenue. Consequently, these firms are referred to as R&D SMEs below. The R&D expenditure of these companies in 2010 was significantly higher than that of other firm groups; it amounted to 1,718,000€, on average. Many of these firms are high-tech start-ups and could probably raise external equity investment. These companies finance on average about 50 percent of the R&D expenditure through internal funding, similar to the group of intensively supported SMEs. Public R&D aid (34 percent) and other external funding, like credits (13 percent), comprise the other half of their R&D expenditure.

[Table 2 here]

4 Finance structure and innovation behavior

4.1 R&D and Innovation

Now that we have built R&D finance SME groups, we can analyze their innovation behavior. To better interpret the found clusters as distinctive groups of subsidized SMEs, four probit models—which relate the probability of belonging to each cluster to various firm-related characteristics—are estimated (see Table 3). Based on these findings, the four clusters can be described as follows:

Intensively supported SMEs: These firms appear to be significantly smaller and are more frequently based in East Germany, which is a structurally weak region. They engage in exporting to a lesser extent compared to other groups of subsidized SMEs. Further, they exhibit both a lower R&D personnel intensity and R&D effort (measured as R&D expenditure per R&D employee), and a lower sales share from the new-to-the-market products. Nevertheless, they tend to cooperate in R&D more frequently than SMEs in the other clusters. Moreover, intensively supported SMEs attach high importance to the R&D support programs provided at the Federal Government and EU levels but little relevance to the KfW promotion programs with subsidized loans.

Self-financing SMEs: The firms in this cluster are significantly larger (in terms of number of employees), have higher export intensity, and appear to be less likely to be located in East Germany than other types of publicly supported SMEs. As to R&D and innovation, they show a higher sales share due to new-to-the-market products and cooperate in R&D less frequently than other firms.

Supported borrowers: Compared to other subsidized SMEs, supported borrowers are more likely to be located in West Germany and tend to be affiliated with the services sector less frequently. Additionally, there are more company spin-offs in this cluster. With respect to public R&D support, as one could expect, the findings show that these SMEs appear to participate in the programs provided by KfW more often than other types of firms.

R&D SMEs: Compared to other firm groups, R&D SMEs show significantly higher R&D and innovation capacities. R&D personnel intensity, R&D effort (measured as R&D expenditure per R&D employee), as well as sales share due to new-to-the-market products are all significantly higher for these firms. As one could expect, however, the labor productivity of R&D SMEs is lower than the one of other firms. Moreover, these companies are less likely to be affiliated to the services sector and participate in R&D promotion programs provided at the Federal Government level.

[Table 3 here]

In addition, we investigate the distribution of young innovative companies (YICs) across our four groups of subsidized firms. Accordingly to the literature, we define those firms as YICs that (1) are not older than 5 years, (2) exhibit a R&D personnel intensity (measured as the fraction of R&D full-time employees over total employment) higher than 15 percent, and (3) have 10 and more employees.⁹ Looking at the relative frequency distribution of YICs across the four clusters, one might conclude that these firms are more likely to be found among the R&D SMEs (see Table 4). Yet, considering the absolute frequencies, one immediately sees that YICs are particularly well represented among self-

⁹ We use the latter criterion to account for the fact that very small firms may achieve very easily a high R&D personnel intensity.

financing SMEs and intensively supported SMEs. Hence, our results indicate that YICs are not a homogenous firm type with respect to the R&D financing structure. In other words, different YICs use various funding sources in order to conduct R&D.

[Table 4 here]

4.2 Participation in public programs

Among the surveyed SMEs, the vast majority of firms (63 percent) participated in technology-neutral support programs only; one tenth used technology-specific support only, and about 27 percent—both types of public R&D support.¹⁰ Accordingly, we estimate three probit models for each combination of types of R&D promotion from which firms benefit. The corresponding results (presented in Table 5) reveal that, compared to the reference group of self-financing SMEs, intensively supported SMEs attach great importance to both categories of the R&D support programs, that is, technology-neutral and technology-specific promotion, but are less likely to only participate in the latter type of programs. Further, supported borrowers appear to use technology-specific support programs only. Finally, R&D SMEs are less (more) likely to participate in technology-neutral (technology-specific) R&D support programs only.

The results also show that technology-neutral promotion is rather employed by smaller firms, those with a lower R&D intensity and less frequently affiliated with the services sector. Technology-specific programs are used more frequently by companies with a lower R&D intensity and those from the service sector. However, larger firms and those with a higher R&D intensity are more likely to participate in both types of programs at the same time. This reveals, on the one hand, that SMEs have to have sufficient R&D capacities in order to use technology-neutral and technology-specific promotion simultaneously. On the other hand, however, this may also simply reflect the fact that firms employing the two categories of support measures have higher needs for R&D financing. Finally, participating in

¹⁰ Note that, in the case of firm participation in the one type of R&D support programs only, more than one R&D project may be supported by one or several programs at the same time.

only technology-neutral promotion programs appears to be associated with only marginal access restrictions.

[Table 5 here]

5 Perception of financial and non-financial framework conditions for innovation

Framework conditions for firm R&D and innovation include not only those relating to R&D financing but also those pertaining to market conditions or access to knowledge and information. According to the literature, particularly relevant framework conditions, which may also constitute barriers to innovation, are the availability of internal and external financial funds, the product market regulation, the access to knowledge and information, the supply of qualified R&D personnel, as well as the appropriability of the innovation's revenues (intellectual property rights) (Mohnen et al., 2008, Veugelers, 2008, Aghion et al., 2005, Aghion et al., 2009, Hirsch-Kreinsen, 2011).

In our survey, the companies assessed the importance of fourteen different framework conditions in the areas of financing and market related conditions as well as access to information, on the one hand, and, on the other, the quality of each. Figure 1 shows the relevance of the framework conditions from the viewpoint of subsidized German SMEs. The vast majority of companies regard the following conditions as highly important: internal financing capacity (91 percent of firms), openness of customers to innovation (85 percent), the access to information on public R&D support (85 percent) and new technologies (81 percent), as well as fair competitive conditions (78 percent) and the availability of qualified workforce (75 percent). At last, 73 percent of firms consider public support as relevant.

To explore whether the firm groups identified in the cluster analysis assess the importance of particular framework conditions differently, we estimate a probit model for each considered framework condition, which relates the probability of attaching a high relevance to a specific framework condition to dummy variables for belonging to firm clusters and other variables. The corresponding results (presented in Table 6) show some significant differences between the firm groups. Not surprisingly, compared to the

reference category of self-financing SMEs, the three other clusters attach higher importance to both the state R&D financing and access to information on public measures for promotion of R&D and innovation. R&D SMEs assess internal financing capacity as less important. This is not surprising because many of these firms are probably financed by equity capital. Fair competitive conditions are more relevant for intensively supported SMEs and supported borrowers. Further, both intensively supported SMEs and R&D SMEs attach higher importance to access to universities and research institutes. Access to information on possible R&D cooperation partners is particularly important to intensively supported SMEs. This confirms the finding depicted in the previous section: These firms heavily depend on collaboration activities when conducting R&D due to their size. Nonetheless, both intensively supported SMEs and R&D SMEs attach lesser relevance to the openness of customers to innovations. Access to information on sales and supply markets, as well as procurement policy in the public sector is relevant for intensively supported SMEs only. This may be because these firms appear to be at the beginning of the commercializing process of their innovations.

[Figure 1 and Table 6 here]

As mentioned above, in addition to the importance of various framework conditions, firms also assessed their current quality in Germany (on three-point Likert scale: (1) unfavorable, (2) neutral, and (3) favorable). Figure 2 presents the fractions of firms that assess specific framework conditions as highly important and unfavorable; hence, it shows barriers to R&D and innovation from the point of view of subsidized German SMEs. Overall, the surveyed companies assess various framework conditions for R&D and innovation activity as quite good. Firms perceive stronger obstacles to innovation only with respect to the availability of skilled labor (about 45 percent of companies that regard this factor as important and unfavorable), followed by laws and standards (approximately 30 percent), as well as fair competitive conditions (20 percent). The finding that only about 9 percent of the firms which assess state R&D support or external financing by loans as important, regard these framework conditions as unfavorable may be reassuring, especially, when comparing this result to the assessment of other

conditions. Nevertheless, note that the surveyed SMEs are all recipients of subsidies; hence, the problem of SMEs' R&D financing is still a reason for concern.

In order to investigate the differences in the assessments of framework conditions between the identified clusters of subsidized SMEs, we estimate an ordered probit model for each considered framework condition. Table 7 displays the corresponding results showing the average marginal effects (and standard errors) for the outcome (1) “unfavorable framework condition.” Compared to the reference group of self-financing SMEs, the three other groups of firms view the internal funding capacity as an obstacle to R&D and innovation. Nevertheless, intensively supported SMEs and R&D firms are more likely to give higher assessments to public R&D support. Interestingly, supported borrowers do not perceive access to credit as a barrier to innovation to a higher extent than the reference category. At first sight, this is a surprising result since the literature generally argues that loans are only difficult to obtain for financing R&D projects (Petersen and Rajan, 1994, Blackwell and Winters, 1997, Cole, 1998, Stiglitz and Weiss, 1981, Jaffe et al., 1993). However, Meuleman and De Maeseeneire (2012) find that receiving a R&D subsidy implies a positive signal about the SMEs' quality and provides better access to long-term debt. Thus, it seems to be very likely that supported borrowers benefit from such positive signals of public R&D support, and, as a result, appear to have no large difficulties to obtain private external capital via credits to finance R&D. Nevertheless, R&D SMEs assess the access to private external R&D financing (credits) as unfavorable. Obviously, in the case of these firms, the positive signals of public promotion cannot outweigh the problem of the high risk related to their R&D undertakings. Further, these companies also consider the framework condition laws and standards as unfavorable. Intensively supported SMEs assess the level of information on new technologies as better, same as possible R&D cooperation partners and public R&D support measures but are more likely to regard openness of customers to innovations as a barrier to R&D and innovation. We interpret the latter as an indication that these small firms intend to start the commercialization of their innovations.

[Figure 2 and Table 7 here]

6 Discussion and Conclusions

German subsidized SMEs are quite heterogeneous in financing R&D and innovation. Two types of firms dominate our sample of subsidized firms: self-financing SMEs with a funding rate of only about 13 percent (the lowest public support quota in the firm sample), on the one hand, and, on the other hand, intensively supported SMEs that finance on average about half of the R&D expenditure by public grants. With its relatively high funding rate, the R&D activities of the latter firm group seem to be highly dependent on public R&D subsidies.

Self-financing SMEs are significantly larger and appear to be less likely to be located in the structurally weak regions of East Germany than other types of publicly supported SMEs. They have higher export quotas and show higher sales shares of innovative products new-to-the-market. Self-financing SMEs cooperate less frequently in R&D, indicating that these companies have sufficient capacity to successfully undertake R&D and innovation activity on their own. In contrast, intensively supported SMEs are relatively small firms that use grants more intensively than all other firm groups. These firms are more likely to be located in East Germany. The R&D intensity and the R&D expenditure per R&D employee are lower below those of the bigger SMEs of the other groups. However, apparently, to compensate the disadvantage of small R&D capacities, these firms are more active in R&D cooperation with other companies and research institutes (Rothgang et al., 2011). Intensively supported SMEs are less frequently subsidized by technology-special programs only but more frequently use both technology-neutral and technology-special programs. At the time of the survey, their innovation activities were less successful in terms of the share of sales of products new-to-the-market. In comparison to self-financing SMEs, they feel more hampered by a lack of openness of customers to innovations but less affected by problems with public subsidies. Overall, we interpret this firm group as small SMEs in an early stage of the innovation process that are well supported by public R&D promotion.

The two remaining firm groups are significantly smaller. Supported borrowers are the only firm cluster that places high importance on external R&D funding by private or public credits. Like self-

financing SMEs, supported borrowers are more likely to be located in West Germany. The cluster comprises the highest share of company spin-offs. With respect to public R&D support, our findings show that the borrowers are less likely to use only technology-specific support programs. This result may reflect that subsidized R&D projects in this cluster are less frequently cutting-edge and more frequently close to the market. Due to high financing volumes and lower financial risks, this latter type of projects appears to be more appropriate for the support through credits. Concerning the firm assessment of the quality of the other external framework conditions, we hardly find differences between supported borrowers and self-financing firms.

R&D SMEs form a very small group in our sample. Compared to other firm clusters, these SMEs show significantly higher capabilities for R&D and innovation. R&D personnel intensity, R&D effort, as well as sales share due to new-to-the-market products are all significantly higher for these firms. Like intensively supported SMEs, they use both technology-neutral and technology-special programs more frequently and are less affected by problems with the availability of public R&D grants. Although both firm groups are more hampered by an insufficient internal financing capacity than self-financing SMEs, they seem to be well-supported by R&D promotion programs. Important differences between these two types of firms are firm size (intensively supported SMEs are smaller) and R&D intensity (which is lower in intensively supported SMEs). R&D SMEs are more likely to assess laws, standards and other authorization procedures, as well as the availability of loans as significant innovation barriers. Our results suggest that these firms usually develop product innovations that are close and new to the market and, therefore, they frequently have to cope with product market regulations, i.e., resource and time consuming authorization procedures. In that phase, SMEs also need larger amounts of external finance in the form of loans and face challenges obtaining them. Consequently, better access to low interest (subsidized) loans could help to mitigate financing problems of SMEs during the implementation phase of innovation projects.

Overall, our findings suggest that most innovative SMEs in Germany have easy access to public grants. This is partly due to the significant increase in funding of SME programs as part of the second

economic stimulus package (Konjunkturpaket II) to counteract the effects of the global financial and economic crisis in the period 2008 to 2010. Overall, the direct support of SMEs' R&D was equivalent to about one-quarter of SMEs R&D expenditures in 2010 (Belitz et al., 2013). Not surprisingly, our results indicate high levels of satisfaction of subsidized SMEs with the R&D and innovation support system in Germany.

Different types of firms use different combinations of grants of technology-neutral and technology-specific programs to pursue their innovation objectives. Indeed, innovative SMEs show different needs for public financial support to R&D and innovation depending on the importance of R&D and innovation in the firm and on the development stages of the innovation projects. Moreover, our results show that young innovative companies (YICs) are distributed across all four groups. This indicates that these companies, like other innovative SMEs, utilize different sources for external finance. Thus, we conclude that the success of technology policy does not solely depend on individual support programs but on program portfolios and their interaction. Consequently, SMEs should get the opportunity to individually select the adequate support scheme for their portfolio of innovation projects. Our classification of particular sub-groups of SMEs according to their financing structure of R&D activity is a step to further develop a comprehensive SME policy, applying specific instruments to target the market failure induced by barriers to financing different bundles of innovation projects of SMEs sub-populations.

Moreover, a successful SME innovation policy needs not only measures to reduce financial constraints but a systemic approach, creating the framework conditions for a favorable environment for innovation (Barbosa and Faria, 2011). So far, other hampering factors such as shortage of qualified human resources, access to technological information, demand and the competition regulations have received less attention in the innovation literature than financial constraints. This is an unjustified omission which calls for more research into the obstacles to innovative activity (Mohnen et al., 2008). Our analysis of the assessment of various framework conditions by the subsidized SMEs reveals that companies assess various framework conditions for R&D and innovation activity as quite good. Firms perceive stronger obstacles to innovation only with respect to the availability of skilled labor, followed by

laws and standards, as well as fair competitive conditions. These market-related non-financial conditions are the dominant obstacles to innovation. Only a small part of subsidized SMEs in Germany assesses current public support as important barrier to innovation. Of course, this positive assessment is only made by firms receiving R&D grants but they represent the great majority of SMEs applying for public support. Our results are in line with (Pellegrino and Savona, 2013) which are providing evidence for innovative firms in the UK that non-financial systemic types of obstacles have a more deterring effect than financing problems, limiting SME's ability to innovate.

Finally, another important conclusion of our analysis is that future work on the evaluation of R&D promotion systems should focus on interactions of individual programs. In a significant number of SMEs several projects are subsidized simultaneously, by the same or by different programs. Hence, in the evaluation of R&D promotion programs this fact should be taken into consideration. So far, scholars have either evaluated one specific policy instrument or otherwise treatment effects have been derived as averages of different policy interventions.¹¹ Analyzing heterogeneous treatments of successive or parallel projects grants resulting in different shares of subsidies in total R&D expenditures should be the next step to develop a systemic evaluation approach.

¹¹ Only a few studies offer a comparative analysis of different instruments. One example is the study of CZARNITZKI, D. & LOPES BENTO, C. 2011. Innovation subsidies: Does the funding source matter for innovation intensity and performance? Empirical evidence from Germany. Open Access publications from Katholieke Universiteit Leuven. Katholieke Universiteit Leuven., who conducts a multiple treatment effects analysis on the impact that national subsidies compared to, or in combination with, European subsidies have on innovation and R&D of German companies. In another study, CLAUSEN, T. H. 2009. Do subsidies have positive impacts on R&D and innovation activities at the firm level? Structural Change and Economic Dynamics, 20, 239-253. analyses whether and how "research" and "development" subsidies stimulate private R&D and innovation spending, using the actual amount of the subsidies. BUSOM, I., CORCHUELO, B. & MARTINEZ ROS, E. 2012. Tax incentives or subsidies for R&D? UNU-MERIT Working Paper Series, *ibid.* study whether firms' use of R&D subsidies and R&D tax incentives are correlated to two sources of underinvestment in R&D, financing constraints and appropriability. They find that these two instruments do not have the same ability to address each source of R&D underinvestment.

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Tables

Table 1 Variables used in the empirical analysis.

Variable	Description	Used in:
Internal funding	share of internal funding over total R&D expenditure in 2010, in %	Cluster
Public R&D subsidies	share of public R&D subsidies over total R&D expenditure in 2010, in %	Cluster
Other external funding (credits)	share of other external funding (credits) over total R&D expenditure in 2010, in %	Cluster
R&D firm (d)	a dummy for a firm with R&D expenditures greater than sales	Cluster
Technology-neutral promotion	a dummy for participating in technology-neutral public R&D support programs over the period 2005-2010	Probit
Technology-specific promotion	a dummy for participating in technology-specific public R&D support programs over the period 2005-2010	Probit
Firm size (ln)	logarithm (ln) of the firm size measured as a number of employees in 2010	Probit
Research spin-off (d)	a dummy for a spin-off from a university or research institute	Probit
Company spin-off (d)	a dummy for a spin-off from another company	Probit
East Germany (d)	a dummy for firm location in East Germany	Probit
R&D intensity	share of R&D employees over total employment in 2010, in %	Probit
R&D expenditure per R&D employee	R&D expenditure per R&D employee in 2010, in EURk	Probit
Products new-to-the-market	Sales share due to products new-to-the-market in 2010, in %	Probit
Products new-to-the-firm	Sales share due to products new-to-the-firm in 2010, in %	Probit
Cooperation in R&D	a dummy for cooperation activity in R&D	Probit
Export quote	export/sales ratio in 2010, in %	Probit
Productivity	sales per employee in 2010, in EURk	Probit
Manufacturing	a dummy for affiliation with the manufacturing sector	Probit
Services	a dummy for affiliation with the service sector	Probit
Other sectors	a dummy for affiliation with the other sectors	Probit
Supported via ...		
federal programs	a dummy for participation in federal R&D support programs	Probit
Länder programs	a dummy for participation in R&D support programs of Länder	Probit
EU programs	a dummy for participation in the R&D support programs of the EU	Probit
KfW programs	a dummy for participation in R&D support programs of KfW	Probit

Note: Cluster and Probit refer to cluster analysis and probit regressions, respectively.

Table 2 Types of SMEs according to the financing structure of the R&D activity (cluster analysis).

Cluster name	Cluster 1 Intensively supported SMEs	Cluster 2 Supported borrowers	Cluster 3 Self-financing SMEs	Cluster 4 R&D SMEs	Total
Internal funding (a)	<u>50.08</u>	<u>32.31</u>	<u>85.79</u>	<u>52.85</u>	62.76
Public R&D subsidies (a)	<u>49.15</u>	26.28	13.22	33.95	31.43
Other external funding (credits) (a)	0.77	<u>35.41</u>	0.99	13.19	5.13
Total	100.00	100.00	100.00	100.00	100.00
R&D firm (d)	0	0	0	<u>1</u>	0.02
Number of observations	1,118	284	1,016	59	2,477
R&D expenditure (in 1000 EUR)	217	427	509	1,718	395
R&D expenditure per R&D employee (in 1000 EUR)	43	66	63	374	62

Notes: (a) The shares of the respective sources of R&D financing over total R&D expenditure (as percentages) in 2010 according to the SMEs types are presented (mean values). (d) denotes a dummy for being a R&D firm with R&D expenditures greater than sales. Underlined figures signal the (one or two) most important sources of R&D financing in each cluster.

Table 3 The profile of clusters (probit estimates).

Dependent variables:	Intensively supported SMEs	Supported borrowers	Self-financing SMEs	R&D SMEs
Independent variables:				
Firm size (ln)	-0.0973*** (0.013)	-0.0026 (0.009)	0.0978*** (0.013)	0.0029 (0.003)
Research spin-off (d)	0.0103 (0.035)	-0.0322 (0.026)	-0.0206 (0.035)	0.0035 (0.005)
Company spin-off (d)	-0.0030 (0.024)	0.0286* (0.015)	-0.0318 (0.024)	-0.0038 (0.006)
Firms otherwise created (d)			reference category	
East Germany (d)	0.1384*** (0.023)	-0.0784*** (0.017)	-0.0856*** (0.024)	-0.0024 (0.005)
West Germany (d)			reference category	
R&D intensity	-0.0018*** (0.001)	-0.0003 (0.001)	0.0006 (0.001)	0.0005*** (0.000)
R&D expenditure per R&D employee	-0.0015*** (0.000)	0.0000 (0.001)	0.0000 (0.000)	0.0002*** (0.000)
Products new-to-the-market	-0.002*** (0.000)	0.0004 (0.001)	0.0014*** (0.000)	0.0002** (0.000)
Products new-to-the-firm	0.0000 (0.000)	0.0002 (0.001)	-0.0004 (0.000)	0.0001 (0.000)
Cooperation in R&D (d)	0.0825*** (0.024)	-0.0202 (0.015)	-0.0453* (0.024)	-0.0041 (0.005)
No cooperation in R&D (d)			reference category	
Export quote	-0.0014*** (0.000)	0.0001 (0.001)	0.0018*** (0.000)	-0.0001 (0.000)
Productivity	0.0000 (0.000)	0.0000 (0.001)	0.0001 (0.000)	-0.0009*** (0.000)
Manufacturing (d)	-0.0191 (0.027)	0.0320* (0.019)	-0.0213 (0.027)	0.0108** (0.005)
Other sectors (d)	0.0330 (0.034)	0.0399* (0.023)	-0.1196*** (0.036)	0.0150** (0.006)
Services (d)			reference category	
Supported via ...				
federal programs (d)	0.1204* (0.069)	0.0407 (0.046)	-0.1088 (0.066)	-0.0311*** (0.011)
Länder programs(d)	0.0356 (0.027)	0.0144 (0.018)	-0.0361 (0.027)	-0.0014 (0.005)
EU programs (d)	0.0848** (0.035)	-0.0155 (0.023)	-0.0536 (0.036)	0.0020 (0.006)
KfW programs (d)	-0.0876** (0.039)	0.1135*** (0.020)	-0.1034*** (0.038)	0.0014 (0.008)
Log likelihood	-1,190.4	-625.1	-1,215.0	-55.1
Chi ²	277.1***	85.7***	171.4***	301.9***

Notes: Reported are the average marginal effects and corresponding standard errors in parentheses. Number of observations is 1,928. (d) denotes dummy variables. * p<0.10, ** p<0.05, *** p<0.01.

Table 4 Distribution of young innovative companies (YIC) across firm groups.

	Intensively supported SMEs	Supported borrowers	Self-financing SMEs	R&D SMEs	Total
Number of all firms	1.058	261	953	56	2.328
Number of YIC	29	11	43	10	93
YIC in %	2,7	4,2	4,5	17,9	4,0

Notes: YIC refers to young innovation companies. Those are here defined as firms which (1) are not older than 5 years, (2) exhibit the R&D personnel intensity (measured as fraction of R&D full-time employees over total employment) higher than 15 percent, and (3) have 10 and more employees.

Table 5 Participation in the technology-neutral and technology-specific public support programs (probit estimates).

Dependent variables: Independent variables:	Technology-neutral promotion only	Technology-specific promotion only	Both technology-neutral and technology-specific promotion
	Intensively supported SMEs (d)	-0.0217 (0.022)	-0.0349*** (0.013)
Supported borrowers (d)	0.0354 (0.034)	-0.0603*** (0.022)	0.0225 (0.031)
R&D SMEs (d)	-0.2281*** (0.066)	0.0344 (0.037)	0.1824*** (0.058)
Self-financing SMEs (d)	reference category		
Firm size (ln)	-0.0930*** (0.012)	-0.0074 (0.007)	0.0996*** (0.011)
R&D intensity	-0.0030*** (0.000)	-0.0007** (0.000)	0.0036*** (0.000)
Manufacturing (d)	0.0503** (0.023)	-0.0519*** (0.013)	0.0046 (0.021)
Other sectors (d)	0.0810*** (0.031)	-0.0443** (0.019)	-0.0325 (0.029)
Services (d)	reference category		
Log likelihood	-1,473.7	-683.6	-1,305.6
Chi ²	90.1***	31.7***	112.1***

Notes: Reported are the average marginal effects and corresponding standard errors in parentheses. Number of observations is 2,314. The reference categories are self-financing SMEs and service firms. (d) denotes dummy variables. * p<0.10, ** p<0.05, *** p<0.01.

Table 6 Firm assessment of the importance of framework conditions for firm R&D and innovative activities (probit estimates).

Dependent variables:	Intensively supported SMEs (d)	Supported borrowers (d)	R&D SMEs (d)	Log likelihood	Chi ²
Internal financing capacity	-0.005 (0.013)	-0.0297 (0.018)	-0.068** (0.034)	-630.9	65.71***
Private external R&D financing (credits)	0.036* (0.02)	0.3269*** (0.026)	0.1579*** (0.059)	-1,134.4	197.6***
State R&D financing	0.1597*** (0.02)	0.1069*** (0.031)	0.2823*** (0.08)	-1,234.1	76.7***
Availability of skilled labor	-0.02 (0.02)	-0.0045 (0.031)	-0.0288 (0.061)	-1,165.8	46.7***
Access to universities and research institutes	0.0524** (0.021)	-0.0037 (0.033)	0.1397* (0.074)	-1,336.3	46.8***
Openness of customers to innovations	-0.0416** (0.017)	0.0053 (0.026)	-0.0968** (0.048)	-896.6	25.2***
Procurement policy in the public sector	0.0324* (0.019)	0.0188 (0.028)	-0.064 (0.065)	-950.1	45.8***
Fair competitive conditions	0.0393** (0.02)	0.075** (0.032)	-0.0582 (0.059)	-1,079.1	17.6**
Laws, standards and other authorisation procedures	-0.0351 (0.042)	-0.0247 (0.062)	0.1097 (0.117)	-474.9	15.9**
Access to information on ...					
... sales and supply markets	0.0416* (0.023)	-0.0064 (0.036)	0.0088 (0.07)	-1,395.0	37.1***
... new technologies	0.0283 (0.018)	-0.0063 (0.028)	-0.026 (0.053)	-1,019.9	14.7**
... the management of innovation processes	0.0394 (0.024)	0.0291 (0.036)	0.0462 (0.073)	-1,378.9	25.2***
... possible R&D cooperation partners	0.0933*** (0.022)	0.0422 (0.034)	0.0278 (0.07)	-1,370.5	31.3***
... public measures for promotion of R&D and innovation	0.1339*** (0.017)	0.0639** (0.025)	0.1023* (0.057)	-888.6	74.3***

Notes: The dependent variables in the probit models—i.e., firm assessment of the importance of framework conditions takes the value of 1 if the corresponding framework condition is of high importance to a firm, and 0 otherwise. Reported are the average marginal effects and corresponding standard errors in parentheses. In the models, we control also for firm size, R&D intensity and economic sector; the estimates for those covariates are not shown for the sake of brevity. (d) denotes dummy variables. The reference category is the group of self-financing SMEs. * p<0.10, ** p<0.05, *** p<0.01.

Table 7 Firm assessment of the quality of framework conditions for firm R&D and innovative activities (ordered probit estimates).

Dependent variables:	Independent variables: Intensively supported SMEs (d)	Supported borrowers (d)	R&D SMEs (d)	Log likelihood	Chi2
Internal financing capacity	0.0236* (0.012)	0.103*** (0.019)	0.1467*** (0.039)	-2,128.5	63.0***
Private external R&D financing (credits)	0.0123 (0.02)	-0.036 (0.03)	0.1222* (0.065)	-1,849.4	90.5***
State R&D financing	-0.0738*** (0.012)	-0.0219 (0.019)	-0.1023** (0.04)	-1,958.0	50.5***
Availability of skilled labor	-0.0399* (0.022)	-0.0086 (0.034)	0.0309 (0.071)	-1,878.8	22.6***
Access to universities and research institutes	-0.011 (0.007)	0.001 (0.011)	-0.0296 (0.024)	-1,810.6	21.5***
Openness of customers to innovations	0.0151** (0.007)	0.0045 (0.011)	0.0062 (0.022)	-1,797.5	16.5**
Procurement policy in the public sector	-0.0077 (0.022)	0.0342 (0.034)	-0.0484 (0.069)	-1,319.6	27.84*
Fair competitive conditions	-0.0131 (0.017)	-0.0028 (0.026)	-0.0468 (0.056)	-1,622.9	22.2**
Laws, standards and other authorisation procedures	-0.0287 (0.036)	0.0067 (0.052)	0.1811* (0.098)	-542.8	12.9*
Access to information on ...					
... sales and supply markets	-0.0196 (0.013)	0.0311 (0.019)	0.0366 (0.04)	-1,614.5	12.3*
... new technologies	-0.0123* (0.007)	0.03*** (0.011)	0.0242 (0.022)	-1,659.6	37.0***
... the management of innovation processes	-0.0209** (0.01)	0.0197 (0.015)	0.022 (0.031)	-1,250.7	17.3**
... possible R&D cooperation partners	-0.0344*** (0.01)	0.0065 (0.014)	0.0073 (0.029)	-1,683.7	22.5***
... public measures for promotion of R&D and innovation	-0.0479*** (0.01)	-0.0115 (0.015)	-0.048 (0.03)	-1,823.9	39.6***

Notes: The dependent variables in the ordered probit models—i.e., the quality of various framework conditions is assessed by firms on three-point Likert scale: (1) unfavorable, (2) neutral, and (3) favorable. Reported are the average marginal effects and corresponding standard errors in parentheses for the outcome (1), that is, those for unfavorable framework conditions. In the models, we control also for firm size, R&D intensity and economic sector; the estimates for those covariates are not shown for the sake of brevity. (d) denotes dummy variables. The reference category is the group of self-financing SMEs. * p<0.10, ** p<0.05, *** p<0.01.

Figures

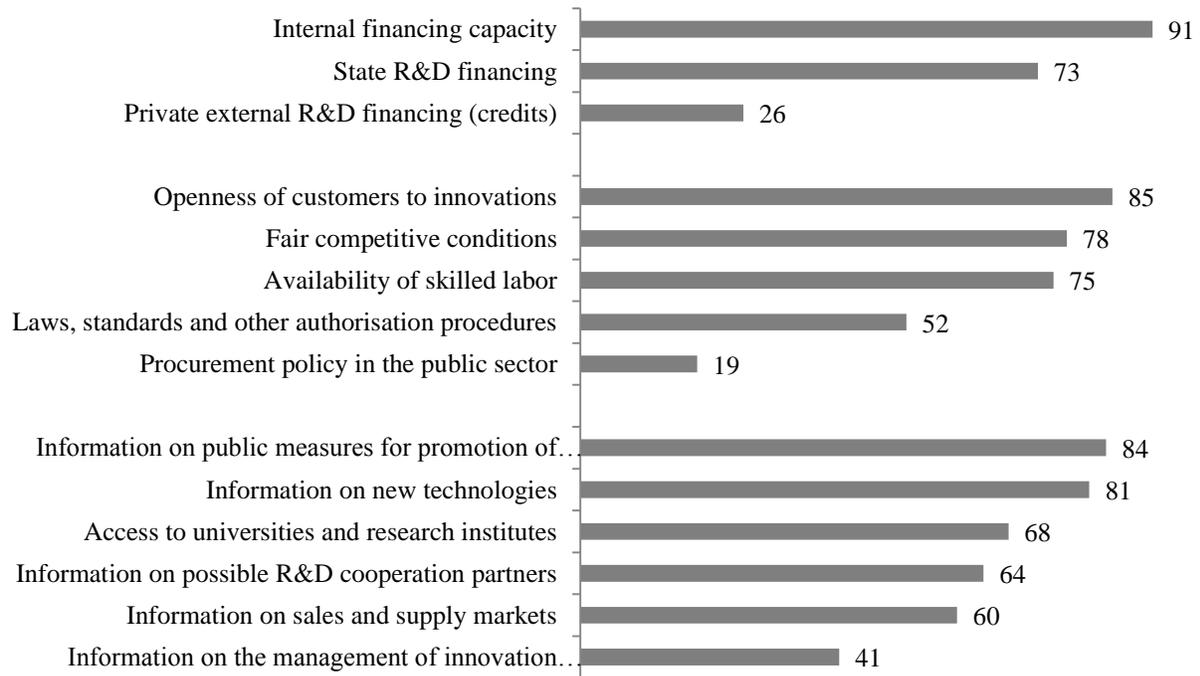


Figure 1 Importance of framework conditions.

Note: Reported are the fractions of firms that view the respective framework condition as highly important (as percentages).

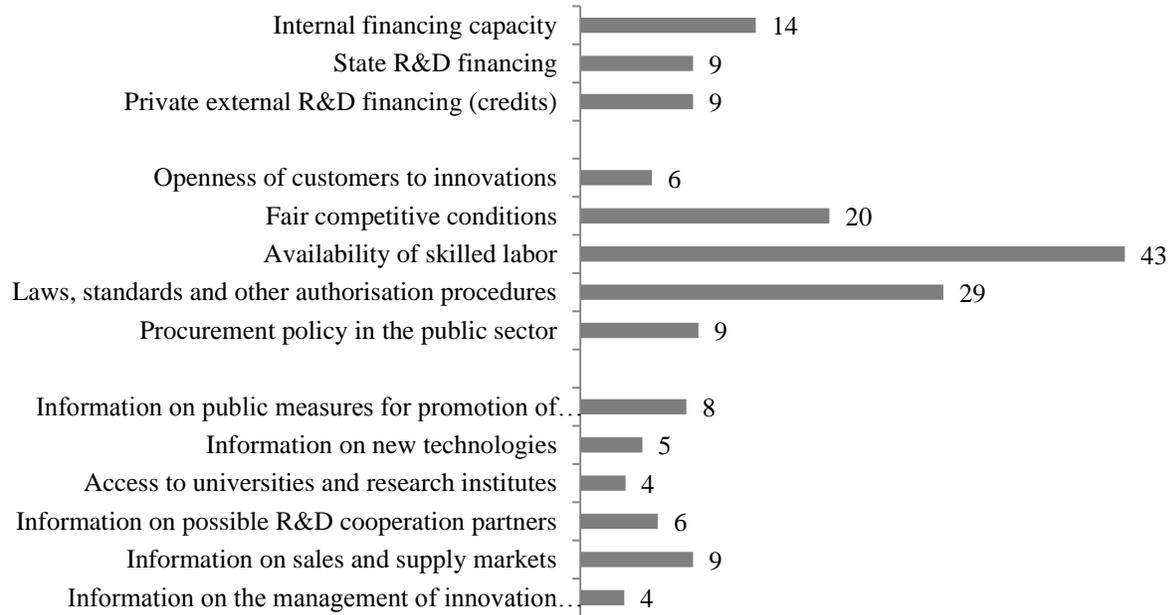


Figure 2 Assessment of framework conditions.

Note: Reported are the fractions of firms that view the respective framework condition as highly important and assess it as unfavorable (as percentages).

Appendix

Table A 1 Descriptive statistics—sample characteristics

Variables	N	Subsidized SMEs	
		Mean	SD
Firm size (in employees) in 2010			
up to 5	2,708	0.134	0.340
6 to 19	2,708	0.392	0.488
20 to 49	2,708	0.265	0.441
50 to 99	2,708	0.119	0.324
100 and more	2,708	0.090	0.286
Research spin-off	2,708	0.124	0.329
Company spin-off	2,708	0.330	0.470
East Germany	2,708	0.355	0.479
West Germany	2,708	0.645	0.479
R&D intensity (N of R&D employees over total employment) in 2010	2,524	32.8	27.3
R&D effort (R&D expenditure per R&D employee; kEUR) in 2010	2,293	61.6	267.5
Sales share due to products new to the market in 2010	2,405	23.5	25.9
Sales share due to products new to the firm in 2010	2,377	25.2	27.4
R&D cooperation activity	2,611	0.656	0.475
Export quote in 2010	2,383	25.0	25.9
Productivity in 2010	2,456	129.5	196.2
Industry			
Manufacturing	2,708	0.528	0.499
Services	2,708	0.306	0.461
Other sectors	2,708	0.167	0.373
Supported in 2005-2010 via...			
federal programs	2,522	0.969	0.173
Länder programs	2,522	0.263	0.441
EU programs	2,522	0.120	0.325
KfW programs	2,522	0.091	0.288

Notes: N and SD refer to the number of observations and standard deviation, respectively.

Table A2 Characteristics of main R&D support programs of the German Federal Government for SMEs in 2010.

Name of the program	ZIM-SOLO	ZIM-KOOP	KMU-innovativ	Specialist programs
Promoting agent	Federal Ministry of Economics and Technology		Federal Ministry of Education and Research	
Technology orientation	Technology-neutral		Technology-specific	
Type of projects	Single projects	Collaborative projects	Single and collaborative projects	Single and collaborative projects
Submission of proposals	Continuously	Continuously	Six-monthly	Irregular tenders to application
Approval rate	66 % ¹⁾	66 % ¹⁾	19 % ²⁾	Not available
Support quota	35 -45 %	40-50 %	50-70 %	50-70 %
Maximum grant	157,500	175,000	No limit	No limit
Average grant per SME and project (in euros)	116,000	117,000	248,000	291,000
Length of a typical project	1 – 2 years	1,5 – 3 years	2 years	3 years
Total subsidies to SMEs in 2010 (in million euros)	150	219	47	225
Awarding of grants per year	1300 ¹⁾	2250 ¹⁾	281 ²⁾	770 ¹⁾

Notes: 1) Average of the period 2008 – 2010. 2) Average of the period 2007 – 2010.

Sources: Rammer et al. (2011), Federal Ministry of Economics and Technology; Own estimations.