

FINANCIAL MARKET CAPITALISM AND COMPANY INNOVATION STRATEGIES: THE UNCOMPLETED PICTURE

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THE FINN-PROJECT

- ▶ FINN: Financial market and companies innovation strategies
- ▶ October 2012 – September 2015
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 - ▶ University of Bern: Andreas Hack
- ▶ Funding:  Deutsche
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AGENDA

1. Financial Market Capitalism vs. the logic of innovation
2. Research questions and assumptions: “innovation configuration”
3. The case of private equity and innovation: empirical evidence and contradictions
4. Research perspectives - Introducing the FINN-Project

FINANCIAL MARKET CAPITALISM

- ▶ Shareholder value
- ▶ Short term strategies
- ▶ Return on equity
- ▶ Stronger involvement of investment companies
- ▶ Less use of credit more equity financing
- ▶ specific, new configuration of economic institutions and actors
 - ▶ Laws
 - ▶ Norms

(Windolf 2005)

FINANCE AND INNOVATION: CONTRADICTIONS



Return on investments
Short termism
Shareholder value
Certainty

Visions
Uncertain future
Autonomy, time
New knowledge, learning
Trust
Risk

FINANCE AND INNOVATION: AN INTERDEPENDENCY

- ▶ Interdependency and contradictions
- ▶ Capitalistic systems need progress through innovation
- ▶ Innovation needs financing and markets



FIRST QUESTIONS

- ▶ How are innovation strategies affected by the growing financial market orientation of companies?
- ▶ Do incremental and shortly realisable innovation prevail in order to reduce uncertainty and risks – instead of radical innovation projects?
- ▶ No unidirectional path: Which specific financing instruments do companies create or ask for?



FINANCING INNOVATION: FIRST EVIDENCES?!

Sociological analyses

Strong effect: The control of external investors over management decisions in financial market oriented companies retards innovation.

(Deuschmann 2006)

Statistics: financing innovation

- 24 % bank loans
- 18 % shareholder loans
- < 10 % bonds, private equity and stocks

- 41 % exclusively cash flow
- 82 % generally cash flow

(Rammer 2009, cf. Hummel 2011)

INNOVATION CONFIGURATION

Financial market segment

Corporate governance

Interrelation of actors

Financing preferences

...

Technological path

Mature - growing

conditions

Market competition

...

Innovation strategy

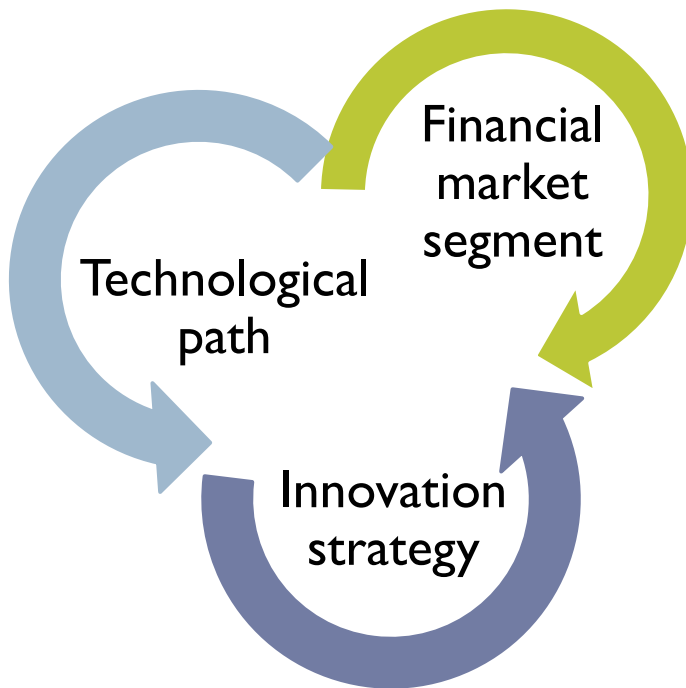
Incremental - radical

Visibility

Appropriability

...

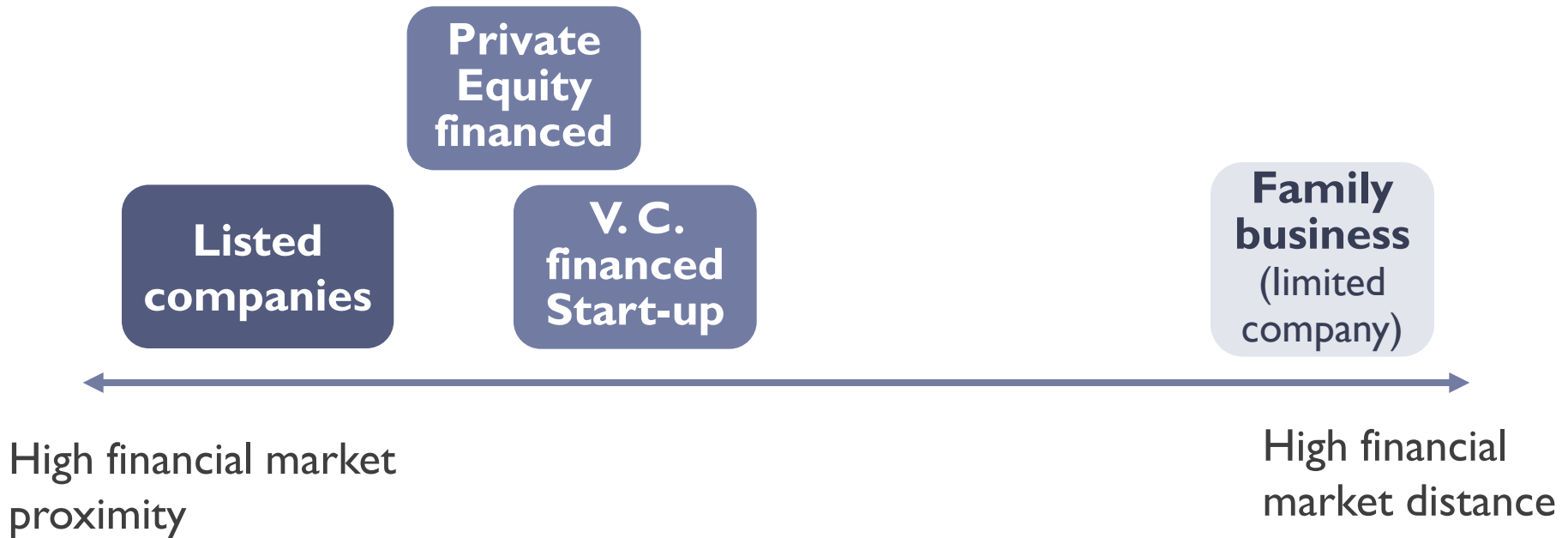
INNOVATION CONFIGURATION: ASSUMPTIONS



- ▶ Financial market and technological conditions shape the specific innovation strategy
- ▶ Innovation (strategies) influence the financial market segment and the technological base
- ▶ This interrelation is described as **innovation configuration**

(Hirsch-Kreinsen 2011, cf. Lippert/Jürgens 2011)

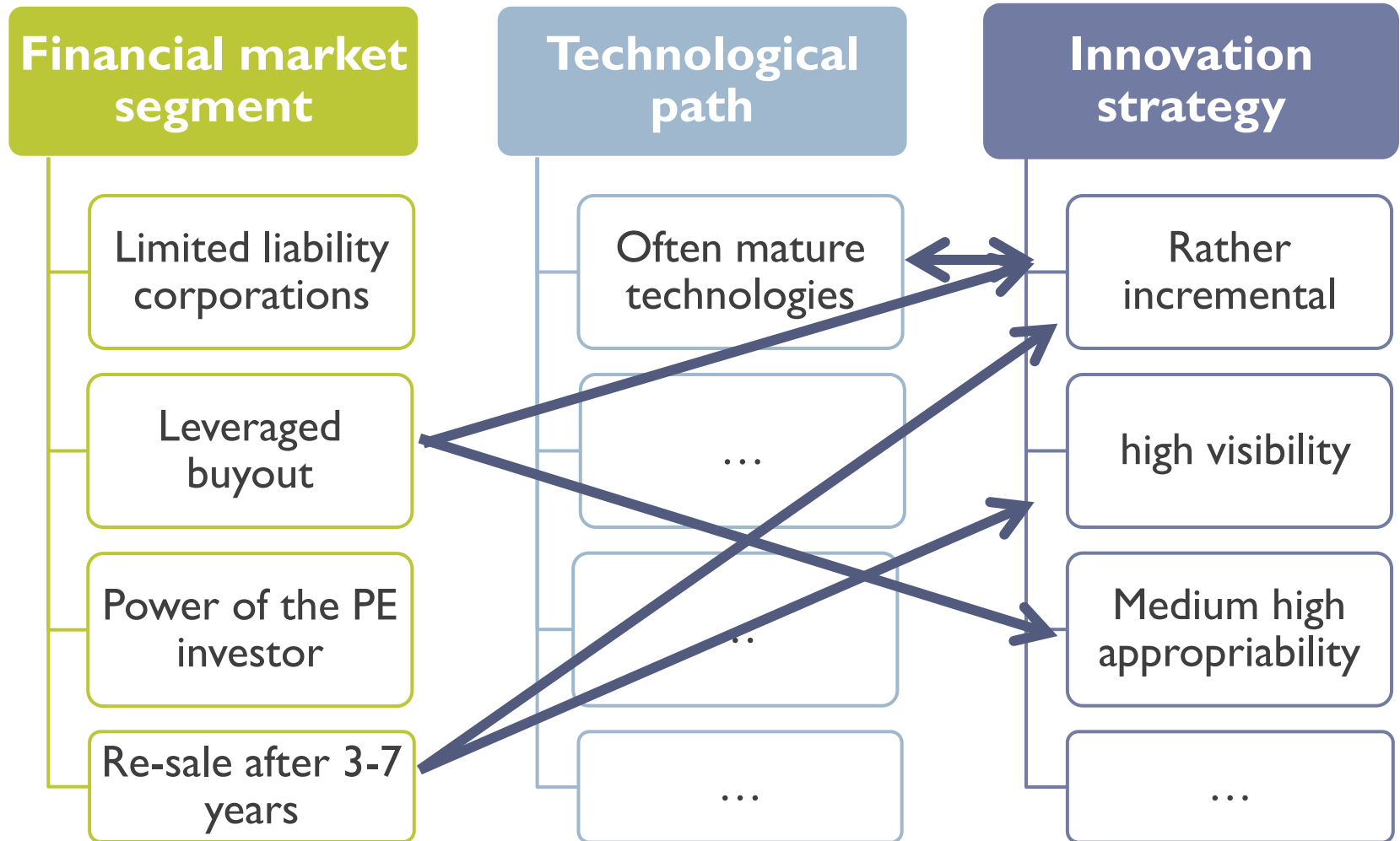
INNOVATION CONFIGURATIONS: 4 EXAMPLES



THE CASE OF PRIVATE EQUITY: PUBLIC DEBATE

- ▶ Fast re-sale after 3-5 years
- ▶ Short term strategies
- ▶ High expectations on yield returns
- ▶ Cost cutting program: displacements, suspensions of staff
- ▶ Poor cooperation with employees
- ▶ High involvement of the PE company
- ➔ High barriers for innovation

THE CASE OF PRIVATE EQUITY



THE CASE OF PRIVATE EQUITY: 1ST RESULTS FROM THE LITERATURE

- ▶ “no evidence that LBOs sacrifice long-term investments”
- ▶ “more influential innovations” (Lerner et al. 2011)
- ▶ Innovation success depends highly on PE-company strategies (Ughetto 2010)
- ▶ Hypotheses:
 - ▶ PE offers an interesting alternative to classical financing instruments for which an increasing demand and a more differentiated market can be expected.
 - ▶ PE involvement fosters innovations: merely highly visible, in order to receive a higher price for the company and with a high appropriability in order to gain high yields.

SUMMARY AND 1ST HYPOTHESES

- ▶ Financial market orientation of company strategies is not to deny. These macro level studies offer a basis for first hypotheses:
 - ▶ Short term strategies to enhance yield returns support particularly low risk innovation activities.
 - ▶ Innovations with a high visibility become more important for companies with a high financial market proximity.
 - ▶ The high rate of cash flow financing is possibly an indicator that companies create their own space for innovation apart from shareholder orientation and yield maximization.
- ▶ For a systematic analysis of these hypotheses a deeper insight in the different innovation configurations is required.

RESEARCH PERSPECTIVES – THE FINN-PROJECT

- ▶ Private equity case as one starting point for our FINN-Project research
- ▶ Further steps:
 - ▶ Additional hypotheses related to the other innovation configurations
 - ▶ Empirical studies qualitative company case studies and an internet based quantitative survey
- ▶ Financial market influence and company innovation strategies: the uncompleted picture

Thank you!

