THE FINANCING OF INNOVATION WITHIN CHINA (SUMMARY)

Paul J.A. Robson  
Durham Business School, Durham University, England, p.j.a.robson@durham.ac.uk

Jia Wang  
Durham Business School, Durham University, England

Mark S. Freel  
University of Ottawa, Canada / Strathclyde Business School, Scotland
SUMMARY

THE FINANCING OF INNOVATION WITHIN CHINA

Paul J. A. Robson, Durham Business School, Durham University, England
Jia Wang, Durham Business School, Durham University, England
Mark S. Freel, University of Ottawa, Canada / Strathclyde Business School, Scotland

Principal Topic

It is generally held that “…a strict reliance on a market system will result in underinvestment in innovation, relative to the socially desirable level” (Martin & Scott, 2000, p. 438). Innovation is essentially a speculative process. In the main, resources must be committed prior to revenue receipts (Brophy & Shulman, 1993). Furthermore, costs and revenues are inevitably difficult to anticipate with any precision (Moore and Garnsey, 1993). In research and development projects the ‘assets’ purchased are frequently idiosyncratic, with limited scrap or resale value (Tylecote, 1994; Baldwin et al, 2002). Moreover, whilst “…large firms may diversify their innovative projects and obtain more stable cash flows” (Giudici & Paleari, 2000, p. 40), small firms are, more often, constrained to ‘put all their eggs in one basket’, developing single research projects that require considerable funding, relative to turnover base. The consequence of the foregoing is a high degree of project risk, in the face of an uncertain return. Accordingly, “…there is bound to be some discrimination against investment in inventive and research activities” (Arrow, 1971, p. 153), and such discrimination may be most marked in the small firm sector. Thus, the objective of this paper is to investigate the funding environment of innovative ventures, in the Beijing area of China.

Method

The current study is based in the Beijing area of China. The sample consists of 452 manufacturing and service sector ventures that provided useable responses to a questionnaire which addressed innovation, finance, and general characteristics of the ventures. Attention in the paper focuses upon product and process innovation. We utilise non-parametric statistics of chi-squared independence tests and logit regression techniques.

Results and Implications

A healthy and a growing small venture sector has been argued to be important in order to be able to sustain competitive advantage, as well as to provide economic development at all levels: local, regional and national (Porter, 2006). Capital plays a pivotal role in facilitating and sustaining development. This paper advances the literature at the theoretical and the policy levels regarding the financing of smaller enterprise innovation in China.

CONTACT: Paul J.A. Robson; p.j.a.robson@durham.ac.uk; (T): +44(0)1913345456; Durham Business School, Durham, DH1 3LB, UK.