INSIDE THE BLACK BOX OF OUTCOME ADDITIONALITY: EFFECTS OF EARLY-STAGE SUBSIDIES ON RESOURCE ACCUMULATION AND FIRM PERFORMANCE (SUMMARY)

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INSIDE THE BLACK BOX OF OUTCOME ADDITIONALITY:
EFFECTS OF EARLY-STAGE SUBSIDIES ON RESOURCE
ACCUMULATION AND FIRM PERFORMANCE

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Principal Topic

This paper examines the outcome additionality of early-stage public innovation by drawing on arguments from the signaling literature and the resource-based view. Despite the theoretical justification of public support to innovation projects it is far from clear how and when such activities impact the performances of targeted firms. Partly due to theoretical shortcomings, since the literature that investigates the mechanisms behind outcome additionality is scarce. Partly due to methodological challenges, where the empirical documentation has been difficult. In this paper we narrow the identified gap by opening the black box of outcome additionality and reveal the causal mechanisms that transform public subsidies into firm-specific outcomes by expanding theory and applying a superior methodological approach.

Method

In order to take into account the issues of selectivity and endogeneity, we apply a discontinuity analysis approach and a sophisticated matching technique where we compare approved subsidy applications only with those that were almost approved. We use a unique longitudinal dataset of 154 Swedish innovative new ventures that received public subsidies matched with a control group of 130 firms that almost received the same subsidy but where rejected due to program limitations.

Results and Implications

In line with our hypotheses, subsidized firms increase their human and financial resources in terms of employees and equity capital more than ventures without such support shortly after public funding has been granted, which seems to be explained by certification effects. Thereafter we show that young ventures that receive governmental subsidies also perform better than non-subsidized firms in a long-term perspective and that the effect is enhanced for firms with more human or financial resources. From a theoretical perspective we thereby find empirical support for the market failure argument that young innovative ventures do benefit immensely from governmental intervention, where subsidies increase a firm’s ability to attract critical resources in the short term which in turn lead to superior performance in the long run.

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