ACCESS TO FINANCE IN GREEN START-UPS AND YOUNG GREEN COMPANIES–A THREE COUNTRY STUDY (SUMMARY)

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SUMMARY

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Principal Topics

Eco-innovation is increasingly acknowledged as a way for business to reduce negative environmental impact originating from or exacerbated by economic activity. Start-ups and young companies have been found to contribute especially towards environmental goals by developing radical eco-innovation. Young companies are also, however, observed to generally struggle with access to finance. This paper examines whether “green” start-ups and young “green” companies (0-8 years) might struggle to an even greater extent, as such companies are theorised to display a different mix of characteristics compared to other companies (e.g. linked to entrepreneurial motivation, strategy or product features).

Method

Three methodological steps are employed in this investigation. First, interviews with 24 green start-ups in Finland, Germany and Sweden were completed. Second, a survey with three random samples of companies in the same countries yielded a data set with answers from 273 companies to questions related to the company itself, finance and funding and the sustainability of the company. Third, the participating 273 companies’ product portfolios were assessed according to the EU’s classification “Environmental Goods and Services Sector” yielding a group of 54 companies with green products/services and a control group of other companies.

Results and Implications

The interview results suggest that green start-ups and young green companies may experience particular challenges in their search for finance/funding due to a lack of investor/funder knowledge about sustainability-related issues that are relevant to investment. First results from the survey establishes that there is generally no significant difference between green companies and other companies in neither challenges experienced in access to finance nor rejection from financial institutions/funding programmes. However, green companies do significantly more often use the founders’ own funds in the expansion phase, which is related to difficulties in access at this stage. In order to account for further differences within the group of green companies, a regression analysis including a range of control variables will be carried out for the final paper. While usage of financial instruments is similar across the two groups, interestingly, green companies significantly more often bootstrap using overdraft or supplier credit. Furthermore, they significantly more often use private incubators and IPO/share issues as financing methods, potentially indicating a higher level of innovativeness.

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