THE FIRST GLOBELICS CONFERENCE
"INNOVATION SYSTEMS AND DEVELOPMENT STRATEGIES FOR THE THIRD MILLENIUM"

INNOVATION, FINANCING AND LOCAL SYSTEMS OF PRODUCTION

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The main task of this paper is to analyze the financing impact on the innovation activities. We'll try to show that the institutional conditions of the financial system can delay or fasten the innovation generating process. To accomplish this analysis we will try show that the firm's environment plays a important role in its ability to innovate. Furthermore we will discuss the role of a company's size in this process and compare first part analysis results with the ones in this last part. Finally we will try to define some alternatives to the innovation financing in local production systems, considering the following variables: The role of the State, the role of the company's innovation strategy, the role of the regional location of a firm, and the institutional organization and the structure of the financial sector.

Innovation and Finance

Among the areas most affected by the technology expansion are the sectors of communications and transports (logistics) and, at every technologic and social boom, the world "shrank" a little more. Equally important was the investors attitude, who insisted in assuming the risk and the benefits related to the building and exploration of the new and admirable technologies changes.

Innovation and Finance

These periods, however, were not only important for the technology researchers . Each one of these periods has been characterized by a high expansion on the stock market and real estate in the countries known as the main financial centers of Europe and North America.

Each period has been followed by a fast growth of commodities prices , a huge increase in the volume of loans to the less developed markets and countries, and, due the international credit expansion, a considerable increase in the world commerce and a considerable increase in financial instability.

Definitions:

- Firm: is a bundle of assets structured by routines and strategies and it has the alternative of holding money instead of investing it. Therefore, all investment decisions are portfolio decisions.
-The portfolio of the firm is not composed only by the technology portfolio. The investment portfolio of a firm comprises many other types of assets, such as capital goods and financial assets.
-Capital goods are strictly correlated with innovation projects and the latter with the riskless asset. A portfolio change which would lead to a greater share of investments in innovation projects would also lead to a higher degree of capital goods investment.
- An increase in holdings of the riskless asset would imply more investments in other financial assets.

Why the Innovation Companies are Differents?

-Very brief life cycles – 5 years is a long time in technology and innovation.

- Above average risk-return equations.

- Up-front investment in R&D/innovation can produce early losses.

- Timescales for exploiting technologies/innovation are finite and unusually short.

- International marketing is often required

- Rapid increases in sales and costs may be necessary to exploit the market

-Exits often depend on fashionable acquisition and public listing markets on the IPO.

- Assistance form nonexecutives and “hands-onïnvestors is often critical.

Why the Innovation Companies are Differents?

International market is frequently requested

- Fast increase on the sells and costs can be necessary for the market exploration

- The exit depending frequently on the IPO.

- Executive and investors consultant assistance to the administration are frequently critics .

Specialized Institutions

The competitive advantages of the financial institutions is essentially due to its specialization and economy of scale wich characterizes the collect activities and information procedures about the risks and return of the asset markets conditions.

The risk evaluation contributes for the economic growth reducing the risk for the end investor so it can incentive the asset demand for the higher asset return risk increasing the productivity in the innovation investment companies portfolio.

FINEP: asset innovation + asset market return risk on innovation

The equity investment is the more adequate way to give a financial support for the technologic based companies.

-Collateral difficulties

-Low capacity of indebtedness

-Participate on the discussion about the innovation´s strategy of the company and the sector.

-Possibility of higher return.