Credit constraints and open innovation strategies

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We investigate whether credit constraints affect firms’ reliance on open innovation strategies. Using data on 7,000 Italian small and medium-sized enterprises, we find that credit restricted firms are 26% more likely to collaborate for innovation than firms not suffering from credit constraints. This result is confirmed both for product and process innovators. However, when accounting for the intensity of the product innovation, we find a negative impact of credit rationing on open innovation for firms introducing completely new products in the market. This confirms the relevance of opportunity costs in the choice between internal and open innovation in presence of credit restrictions. We also look at the role played by innovation partners. In particular, we show that the existence of credit constraints positively affects the probability of firms innovating with their suppliers. Finally, we provide evidence that the impact of credit frictions on innovation collaborations varies with the innovation environment and with the socio-economic conditions of the province where firms are located.