The aim of this study was to gain an insight into the financial problems that small and medium-sized enterprises (SMEs) in the Stuttgart region faced, especially with regard to their innovations. Furthermore, the authors aimed at proposing policy solutions. Changing financial conditions for SMEs have been stated as the reason why this is worth examining, the authors singling out new banking regulations (Basel II). We would like to add that financing innovations has been underrepresented as a field of research in both theoretical and empirical literature and that this is one of the reasons why this book is worth reading. Neither its geographical coverage nor the fact that the study was done for Germany, which has a bank-based financial system, makes it any the less appealing. Its methodology – although not without problems, as elaborated below – cases and policy conclusions will be of interest to policy makers, consultants and experts in any national system of innovation as well as to academic audiences.

The book represents a welcome addition to studies based on the Community Innovation Survey, which fails to incorporate financing innovation questions on a meaningful scale. The authors of the study did an in-depth analysis of the SMEs in the aforementioned region, in addition to scrutinizing empirical literature and gathering data on financing innovations programmes. Analysis of the firms was based on 214 (7.1%) out of about 3,000 firms to whom the questionnaire had been sent. The survey was done in the summer of 2008 and encompassed mainly SMEs. Additionally, 21 firms were surveyed over the phone.

There are five main parts of the book, excluding the list of references that follows in the end: (1) Introduction, (2) Experience and problems of SMEs with financing, (3)
Need for new offers for financing innovation, (4) Financing offers and “products” for financing innovation, and (5) Summing-up of the results and policy recommendations. A list of 24 figures and 12 tables follows the contents page, making easy orientation in the book possible.

Although the study analyses a number of indicators regarding innovation products of the surveyed enterprises (e.g., intensity of research and development (R&D), innovation type of enterprises – i.e., whether an enterprise is high-tech-startup, SMEs with/without regular R&D, etc., costs of an innovation project), it fails to distinguish innovation projects according to their radicality. In other words the information on whether the innovation in question is incremental (representing a small improvement in the quality of service, product or process) or radical (representing something new to the market or, in the case of process innovations, representing a substantial change for the better) is missing from this research. In this way the authors can neither ask nor be informed about what the surveyed enterprises do, for which purposes they need external financing and from whom. Furthermore, because the authors did not consider national system of innovation (NSI) they were not able to analyse problems of financing innovations in greater detail. Any such problem does not have to lie only in the relationship between an enterprises and a (potential) financier, but could be a reflection of other conditions, say the ownership structure of an enterprise, failure of intellectual property rights protection, weak linkages between different organisations in NSI or similar. For the aforementioned reason an interested reader may ask himself whether the stated causes for innovation financing problems (figure 18, p. 43) might represent a manifestation of problems that are not strictly (or only) financial.

In addition to this the authors of the study asked enterprises about which financial arrangements they would prefer – by offering them a list of 10 possible choices. Notwithstanding the fact that their feedback is welcome and that it enables policymakers to design financial instruments the usefulness of the answers from the entrepreneurs is restricted. As can be expected in a country with bank-based financial system, the surveyed enterprises are very much in favour of credits, while venture-capital-like funds with limited profit orientation are the least preferred. However, transaction cost economics would suggest that venture capital financing would be more appropriate for radical innovations, while bank-based financing would be more appropriate for incremental innovations. Unfortunately a theoretical framework is missing from the book. If the goal of policy makers is to change industrial structure a question necessarily arises about whether granting more credits (or granting credits under more favourable terms for enterprises) could significantly influence that change. Information received from the entrepreneurs, strengthened by telephone interviews, is nevertheless helpful for determining the strengths and weaknesses of individual financial instruments.

Probably the best part of this book is in the 4th chapter that deals with possible ways of financing innovations. The authors have taken into account not just programmes at the national level, but also those at the level of the state, as well as some of those in other economies. The authors carefully analysed the problems firms usually had with financing innovations and discussed the advantages and disadvantages of various options firms could possibly use, with respect to their sizes. Micro financing, loan guarantees, grants, venture capital funds that are not primarily profit oriented as well as government demand
are all considered, with useful real-life examples on how different financial instruments (programmes) for financing innovations have already been implemented.

Practitioners in the field of innovation policy, consultants and experts in national system of innovation will be interested to read this book, not least because the subject of financing innovations is rarely seen in the literature. Although the authors could have done more to analyse problems of financing innovations in their specific case they have described and explained a number of financial instruments (programmes) that could help policy makers design a better national system of innovation.

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