IWH Halle Institute for Economic Research
Member of the Leibniz Association

Financing and Obstacles of High Growth Enterprises: the European Case

Discussion by Matthias Mertens

What is the study about?

- Investigates link between different turnover growth phases of firms and barriers to growth (to investment).
- Studies how financing sources differ between high turnover growth and not-high turnover growth ("stable", "declining") firms
- Studies which type of obstacles prevent firms from growing
- Using data on European firms (ORBIS for years 2003 - 2016 and detailed EIB Group Survey on Investment and Investment Finance for years 2016-2017)

Findings

- Documents financing heterogeneities between growing and not-growing firms (partly rely on different types of financing)
- High turnover growth firms are financially constrained
- High revenue growth firms face an insufficient availability of high-skilled employment and judge business regulations as being an obstacle to their investment
- Firms with productivity and profitability levels similar to high turnover growth firms judge uncertainty as obstacle to their investment (actual high turnover growth firms do not!)

General Assesment

- Studying why firms grow and decline is an important question
- Relevant for understanding success of firms, relevant to understanding how financing conditions play a role for firm growth
- Sheds novel light on the reasons why certain firms might not grow sufficiently
- Detailed investment data for Europe.
- Related to various literature strands: finance, capital (mis)allocation, business dynamism, firm performance
- Some work can be done to tighten up loose ends (**I like the potential of the study a lot**).

Comments – General write up, clarity

- Please, explain the data in a separate data section (not in a Footnote). Hard to understand the data, and how the variables you use relate to the conclusions you draw.

- Connected: Provide more details on the data and your sample. E.g. one is Orbis 2003-2016. The other is EIB data 2016-2017. How do you combine this? Particularly as you use lagged values from the EIB data in (Eq. 2).

- General comment: The draft is in some parts quite unclear. E.g. page 15 states „we focus on four non-finance related barriers (…)“. But it seems these variables reflect reasons why firms do not invest. This is not immediately clear. Other example: The abstract uses the terms „actual and potential HGE“. These are unclear to the reader at this point (or are they established terms in your literature?). Generally: Verbose writing (but thats natural for an early draft).

Contribution and literature

- Be clear about how contributions relates to the literature. What has been found in the literature on firm growth / firm lifecylcle? Would like to hear much more about the broader literature you address and how you specifically contribute to it.

- Several literature strands could be added to the review: (mis)allocation, business dynamism, studies on determinants of firm growth (see e.g. work by Haltiwanger an co authors).

Comments – Methodology/approach

- Like the idea of measuring FC. Robust to various definitions? e.g. "thought would be turned down" may reflect bad judgement but not actual FC.

- Provide a detailed description of HGE. How do they relate to other firms? Table 2 is a good start (put this as first table). Need to know about other characteristics, too. Mean comparisons of **productivity**, capital intensity, size, export status, R&D status,…. In a tabular way vs. "stable" and "declining" firms.

- Why do you not define HGE within industries? Your regressions control for industry FE after all.

Comments – Methodology/approach

- Why no year fixed effects? You might even want country-sector FE (interaction)

- Since you use turnover growth for HGE definition, you could control for Value-added over Revenue in some specifications (high revenue growth may reflect higher intermediate intensity, is this what you like to capture, maybe provide a discussion). Similar: capital intensity.

- Define HGE based on employment, value-added for robustness. Results may depend on the definition of HGE.

Comments – Methodology/approach

- I wonder about the propensity score approach. Why not doing this with more variables? Most importantly: Industry FE. Particularly as you define productivity based on industry-specific regressions. Also: How you define profitability?

- Related: Why should firms with same productivity and profitability as HGE have the potential to growth? I do not see this. You need to explain how you conclude this and what we learn from looking at these firms.

- You could characterize country-heterogeneities. After all you advertise this as “European case”. Your analysis seems to not utilize this yet. Country-specific regulations might be highly relevant. In some countries HGE may better use their potential, etc.

Comments - conclusions

- Some quite strong statements/conclusions that need a stronger foundation. E.g. policy conclusion that highest positive impact on economic growth can be achieved by alleviating the financing impediments of HGE is quite strong. Note: There is a budget constraint for the social planner, you do not know how HGE evolve if we allocate more money to them (maybe they will only growth weakly from now on), etc.

Comments - conclusions

- You call HGE dynamic and innovative. Are they? For that we need the description of HGE. -> Can also help you in your statements on why we should support them. E.g. you can calculate and present productivity and marginal products of capital for them. Note: strictly speaking, you do not know whether it is good that these firms grow. For instance, distortions may cause the “wrong” firms to grow right now.

My conclusion

- Topic is relevant and interesting. **Great work so far.**
- Like the potential of the study and look forward to the next draft.
- Description of HGE characteristics and applied data is key now.
- Moderate some claims or validate them with the data if feasible. Clarify some points.
- Given the suspected sensitivity of your results to the HGE definition (you even discuss this a bit), provide extensive robustness tests particularly on this -> Also explain why turnover growth is what you focus on.

IWH
Halle Institute for Economic Research
Member of the Leibniz Association

Financing and Obstacles of High Growth Enterprises: the European Case

Discussion by Matthias Mertens