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DOES COUNTRY MATTER FOR THE PERFORMANCE OF NEW VENTURES? (SUMMARY)

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SUMMARY

DOES COUNTRY MATTER FOR THE PERFORMANCE OF NEW VENTURES?

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Principal Topic

We examine the effect of the country in which a new venture is located on its performance. A substantial part of entrepreneurship research seeks to understand the sources of performance difference across entrepreneurial firms. Scholars have explored various influences on start up performance such as characteristics of the founding team, the network of the founder, or the effects of venture capital funding. While a large literature exists that looks at how country affects the amount of entrepreneurial activity, few scholars have investigated how much country differences can explain the heterogeneity of start-up performance. In this study we investigate how much country matters -- not for whether or not a start-up gets created in the first place -- but how much the country location of a start-up affects its post-founding performance. By doing so, we contribute to our understanding of the differences in start-up performance.

Method

To identify the country effect on start-up performance, we conduct a variance decomposition analysis. This methodology is commonly applied in the strategic management literature to examine sources of heterogeneity of firm performance (Schmalensee, 1985; Rumelt, 1991; Fitza et al., 2009). Our sample is based on data from Thomson Financial and consists of 6,531 startups across 12 countries (Australia, USA, Canada, Germany, UK, Italy, France, Japan, Taiwan, South Korea, Singapore, Ireland, Sweden, and Switzerland).

Results and Implications

This paper adds to the existing literature of the determinants of start-up performance. But the study also adds to our understanding of country effects on firm performance more broadly. The start-up case might illustrate under which conditions countries matter. In the past country effects where mostly studied in the context of established firms. However, larger firms -- especially ones with an international presence -- might be less dependent on the local environment. Start-ups on the other hand are more exposed to -- and more influenced by -- the local economic, political, social, cultural, and institutional conditions. Thus examining the differences in country effect between start-ups and established firms can contribute to our general understanding of how countries influence performance. The study also has practical implications: If country has a significant performance effect, investors such as VCs but even entrepreneurs themselves might want to consider in which countries to focus their activities.

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