ACCESS TO INFORMAL VENTURE CAPITAL AND AMBITIOUS ENTREPRENEURSHIP – CROSS-COUNTRY EVIDENCE (SUMMARY)

Sofia Avdeitchikova
The Ratio Institute, Sweden, sofia.a.soderquist@gmail.com

Kristina Nyström
The Ratio Institute and Royal Institute of Technology, Sweden
SUMMARY

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Principal Topic

Insufficient access to capital is believed to be one of the major factors that restrains growth and development of young and innovative firms. These firms are less likely to obtain traditional means of finance and thus rely more on other sources of capital, like support from family and friends, informal and formal venture capital.

Many empirical studies have emphasized the importance of institutional venture capital for enabling high growth entrepreneurship and innovation. Yet, there are reasons to believe that provision of informal venture capital will have as significant, if not more significant effect on entrepreneurship. In this paper, we study the relationship between the level of informal venture capital invested and the level of ambitious entrepreneurship in a country, defined as firms that have intentions to grow in terms of employment, internationalize and innovate. We further distinguish between whether or not the capital is provided through an existing relationship, and whether or not the investor has relevant human capital.

Method

We use Global Entrepreneurship Monitor panel data, were representative samples of the population in the different countries are surveyed with respect to the level and type of entrepreneurial activity, as well as informal investing activity in the countries. We include data for 2001-2010 for efficiency-driven and innovation-driven countries (in total 33 countries). Econometric methods for panel data are applied, which allows us to control for individual heterogeneity and for time-specific effects.

Results and Implications

Overall, we find a positive and significant relationship between the level of informal investing and entrepreneurial activity in the country. Access to competent capital is also significantly and positively related to entrepreneurial activities. The share of arms-length money is significantly and negatively related to entrepreneurial activities.

No relationship is found between the availability of any kind of informal venture capital and firms' intention to internationalize, while access to arms-length money appears to be positively related to ambitious entrepreneurship in terms of job growth expectations. Finally, access to informal investments is positively related to ambitious entrepreneurship in terms of innovativeness, while the relationship between availability of arms-length money and the innovativeness of the entrepreneurial activities appears to be negative.

CONTACT: Sofia Avdeitchikova; sofia.a.soderquist@gmail.com; (T): +46 730 550016; The Ratio Institute, Sveavägen 59, 113 59 Stockholm, Sweden.