INSTITUTIONAL CHANGE AND VENTURE CAPITAL INVESTMENTS (SUMMARY)

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Principal Topic

The institutional development of countries is an important determinant of venture capital (VC) investments (Guler & Guillen, 2010b; Khoury, Junkunc & Mingo, 2015). VC firms are more likely to invest in countries that provide certainty regarding the appropriability of economic returns on investments. The attention to the impact of the macro-environment on VC activity is a relatively recent phenomenon. In this study, we analyze the change in VC investments after a major institutional change. In particular, we look at the effect of the introduction of a common currency in Europe, the Euro, on the venture capital investments of VC firms based in Europe.

Method

We collected data on VC firms from Euro and non-Euro countries that invested before and after the introduction of the Euro. We included VC investments from 1993 to 2004. Our sample contains 215 VC firms based in Europe: 100 of those are Euro VC firms and 115 are non-Euro VC firms. The investment data are obtained from Thomson ONE.

Following studies from the finance literature (Bris, Koskinen & Nilsson, 2006, 2009, In press), we implement a difference-in-difference analysis to estimate the effect of the Euro on VC activity. Specifically, we analyze the effect of the Euro in the amount and the number of investments made by VC firms. We define the year 1999 as the first year after the introduction of the Euro. In this design, the Euro VC firms are the treated group and the non-Euro VC firms are the control group. The treatment effect is determined by comparing what happened to the Euro firms before and after the treatment against what happened to non-Euro firms before and after the treatment.

Results and Implications

We find that not all firms can make the most of the Euro. In particular, our results show that VC investments after the Euro increase as the size of the VC firm and the number of investment partners increase. We also find that having international experience prior to the Euro has a positive effect on VC investments after the introduction of the Euro. The results of this study can provide an explanation on how institutional change can foster entrepreneurial activity.

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