Venture Capital

An International Journal of Entrepreneurial Finance

ISSN: (Print) (Online) Journal homepage: https://www.tandfonline.com/loi/tvec20

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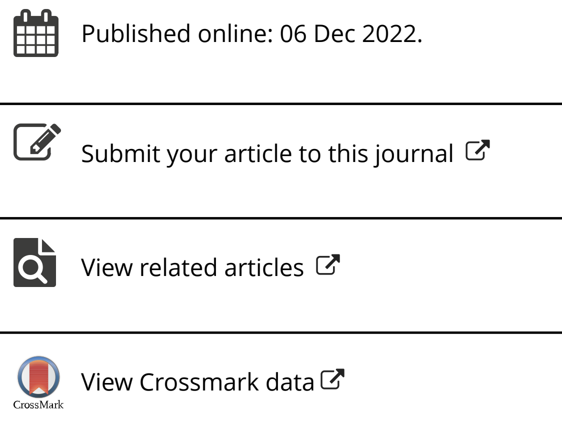
To cite this article: Elisabete Gomes Santana Félix, José Carlos Nunes & Cesaltina Pacheco Pires (2022): The impact of concentration among venture capitalists: revisiting the determinants of venture capital, Venture Capital, DOI: 10.1080/13691066.2022.2147876

To link to this article: https://doi.org/10.1080/13691066.2022.2147876



Published online: 06 Dec 2022.

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The impact of concentration among venture capitalists: revisiting the determinants of venture capital

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ABSTRACT
This article analyzes the impact of the level of concentration among Venture Capitalists (VCs) on the supply of venture capital (VC), through the reduced form model for the equilibrium amount of VC (using a simultaneous equation model on aggregated data from 15 European countries). It is shown that the level of concentration among VCs has a positive effect on VC supply, so creating conditions to increase the level of concentration can stimulate VC supply. The findings reveal the importance of unemployment and personal income rate on VC demand and the positive impact of stock market capitalization on VC supply.

ARTICLE HISTORY
Received 5 February 2021
Accepted 9 November 2022

KEYWORDS
Venture capital determinants; Europe; Herfindahl – Hirschman index; improvement-driven opportunity entrepreneurial activity; simultaneous equation model

1 Introduction

Venture Capital (VC) is a major driver of economic development, innovation and employment. This fact has been recognized both through research on VC and through international institutions. According to Invest Europe (2022), in 2022, total equity (including Venture Capital, Buyout and Growth) invested in European companies has supported more than 8,895 companies, for an overall amount of €138 billion, including innovative start-ups in growth, medium-sized companies wishing to develop themselves, large companies, and companies with revitalization needs.

New ventures (especially high-tech companies), in their early stages and with high levels of risk, present: information asymmetries associated with the highly technical content of their investment projects; low value and an intangible nature of most of their assets (which cannot serve as collateral); and the lack of history, which ultimately discourages traditional investors such as banks from lending capital to these companies (Berger and Udell 1990; Carpenter and Petersen 2002; Denis 2004; Chen et al. 2010; Colombo, D'Adda, and Quas 2018). Both Hyytinen and Toivanen (2003) and Chen et al. (2010) state that small and entrepreneurial technological companies are more likely to have higher levels of information asymmetry. They will always be companies with highly uncertain future prospects, and therefore, potentially serious agency conflicts (Chen et al. 2010).

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