

Effect of Financial and Institutional Ecosystems on Startup Mergers and Acquisitions

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Abstract : The conventional wisdom has maintained that being in proximity to entrepreneurial ecosystems helps startups to raise financing, develop and grow. In this paper, we examine the effect of a major component of an entrepreneurial ecosystem-financial or venture capital clusters on the exit of a startup through mergers and acquisitions (M&A). We find that the presence of a venture capitalist in a venture capital (VC) cluster is a major success factor for M&A exits. The location of startups in the top VC clusters did not turn out to be significant for success. Our results are robust to different specifications of the model that use different time periods, types of success, the reputation of VC, industry and the quality of the startup company. Our results provide evidence for VCs, startups and policymakers who want to better understand the components of entrepreneurial ecosystems and their relation to the M&A exits of startups.

Keywords : financial institution, mergers and acquisitions, startup financing, venture capital

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