

## Chapter 13

# A Comparative Historical Analysis of the Evolution of the Venture Capital Industry in the Economic Regions of the United States of America, Europe, and China

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### ABSTRACT

*Venture capital (VC) provides a platform to empowered individuals with financial constraints to transform their ideas into business models and attain commercial success. This article reviewed the growth and trends of VC industry across various regions such as the United States of America (USA), Europe, China, and India. Initially, VC firms flourished and developed in the USA and still it harbors the largest VC industry. From the USA, VC firms spread to Europe and then much later to emerging economies like China and India. Although the VC ecosystem had started late in China, it had registered higher growth when compared to Europe in terms of VC investment. China has become the second largest VC market. It was backed by government initiatives, vast market opportunities, and home-grown technology firm investments. India has started observing growth in VC space later than China but had ample opportunities to allow for a surge in VC activities.*

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## **INTRODUCTION**

Global economy post second world war registered growth especially in the western world (Maddison, 1995). Global economy fluctuated during the 1970s-1990s (Inglehart & Abramson, 1994). This was because of a sharp decline in global economy during the 1970s due to rising oil prices, fluctuating exchange rates and political instability around the world (Barsky & Kilian, 2004). A sharp rise in global economic activities was observed during the 1990s due to introduction of Information Technology (IT) as an industry (Oliner & Sichel, 2000). Till the 1990s, Venture Capital (VC) industry remained mostly confined within United States of America (USA) then it spread to other parts like Europe and Asia (Bottazzi and Da Rin, 2002). VC firms witnessed a sharp rise in developing nations in the 2000s and it influenced industrialist, governments and most significantly entrepreneurs (Megginson, 2004). Multiple perspectives regarding the description of VC as a construct has been defined (Sapienza, 1992). According to Bottazzi and Rin (2002), VC could be defined as a support to entrepreneurs in the form of investment and turning their ideas into product and services. Kaplan and Stromberg (2003), defined VC as a long-term investment for Small to Medium sized Enterprise (SME), in the form of capital and providing intangible benefits like network connection and business expertise. VC funds had been able to build companies from scratch to mature organizations (Rice et al., 2000). VC investors engaged actively with the startup firm by placing its member in the board of the startup and provided valuable assistance (Hansen et al., 2000). Over the years, VC firms concentrated on management, revenue model, ownership, market conditions, potential of the firm to be funded, amount of capital required by a firm to overcome losses (if any) (Metrick & Yasuda, 2010). VC firms aspired to secure strategic fit to VC fund's objectives (De Clercq et al., 2006). VC firms, subsequent to the funding, over the next four to seven years generally worked with the owners and helped it become a mature organization (Sahlman, 1990). Once the invested company reached maturity and became successful, VC firms exited from the company by taking it public through an Initial Public Offering (IPO) or selling its shares to big companies in the form of acquisition or liquidation (Barry et al., 1990). This process helped the VC firms fund to be free from its previous investment and allowed it to invest in new companies (Gompers, 1997). VC firms typically lived by such cycles of entry to exit (Tekler, Tekler & Teraman, 2016). So, for new small sized companies having limited access to capital markets VC firms had become an essential source of capital (Martin, Sunley & Turner, 2002) The variation of VC at different stages while funding a new firm has been tabulated in table 1.

Despite all of these, VC firms remained as a popular source for fund raising as funding through bank loans and other methods was not readily available and had relatively strict repayment schedules (Jeng & Wells, 2000). Highly competent companies with higher valuations were usually targeted by VC firms (Zider, 1998). VC firms which provided for new and small business in emerging industries were termed as angel investors (DeGennaro, 2010).

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