

Startup Performance from an Economic Perspective: Impact Evaluation After Funding Stage

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Abstract

Entrepreneurship is considered an essential driver of economic development through its impact on job creation and welfare effects. SMEs are placed at the core of the concept of entrepreneurship. In this scope, governments all over the world prepare strategies and action plans in order to increase the number of firms and support the entrepreneurship ecosystem. Therefore, one of the major tools used by governments is to allocate grants to SMEs. However, there is a growing concern and questioning of the effective use of such mechanisms in recent years. It is now mostly debated that governments may adopt a new approach on this issue. This study intends to explore the effectiveness of SMEs from a different perspective. Rather than focusing on traditional SMEs, the performance of startups will be neatly analyzed. Startups, which are by nature different than traditional enterprises due to their innovative and technological features, are often defined as SMEs with the potential to grow rapidly. In this paper, counterfactual impact evaluation will be implemented for a treatment group, which is funded by investors in Istanbul, Turkey. The results are being compared to those of a control group. Employing difference in differences estimation, the comparison is based on a variety of indicators including employment, revenue, and profit generation in the ICT sector. Our results show us that the performance of funded startups positively diverges from the unfunded startups after the intervention period. At the end of this study, it has been concluded that governments are recommended to be involved in the entrepreneurship ecosystem as investors rather than grant allocators.

Keywords: Startup, SMEs, Impact Evaluation, Funds

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