

Benefits of Venture Capital Investments for Startups

For an emerging company, securing funding is the first step on the road to success. There are many options for startups as they look for the necessary funding to get their company off the ground, but it can often be daunting to determine which funding option is the best choice. While there is no one size fits all answer, a recent analysis by Dr. Douglas Cumming and Dr. Dan Li published in the *Journal of International Financial Markets, Institutions, & Money* (also highlighted in a recent *Wall Street Journal* article) indicates that venture capital investment plays a large role in stimulating the formation and growth of new firms.

According to the analysis, when there are higher levels of venture capital investment, there is not only more growth of existing startup companies, but also more new companies formed. Their results also indicated that venture capital investment made the largest impact on startups with 5 to 19 employees.

As a company grows, it will typically take on more types of funding, including bank loans. For example, the same study shows that for companies with 20 to 99 employees, there is a significant benefit to be achieved from traditional bank loans.

One of the biggest benefits of venture capital investment for early-stage startups is the personal investment venture capitalists make in the company. In addition to pure financing, venture capital investors are able to take the time to offer things that a larger financial institution simply cannot, such as critical advice and guidance as startups develop. It is this more active form of investment that often makes the difference in the successful development of an emerging company, especially at the earliest stages where the company may not have fully developed its management team, making this extra support even more important.

At later stages, bank loans become a great source of capital, as they do not dilute equity holders but can still provide the working capital a growing company needs.

Each company should evaluate its own capital needs, but as this study shows, venture capital still appears to have a significant role in the formation of new companies.