

Abstract

This thesis presents empirical work on three central aspects of industrial organizations: Entrepreneurship, innovation and competition. The first part of this dissertation focuses on competition and the effect of potential market entry on the conduct of incumbent firms. Using survey data we are able to identify the threat of entry as it is perceived by the firms. In the absence of actual entry, the threat of the market position by potential entrants is supposed to have disciplinary effects on the behavior of incumbents leading to lower price setting power and hence lower margins. Besides threat of entry, we consider barriers to entry and their effect on the optimal number of competitors in a market. We predict in a theoretical model that the optimal number of competitors decreases with the extent of entry barriers. This prediction is tested. Furthermore, we investigate how good standard concentration indices reflect the market structure on the relevant market by comparing them to competition variables taken from survey data based on the perception of the interviewed firms. As a result, standard concentration indices relying on industry definition do not seem to be able to accurately reflect the relevant market and the related competitive situation of the firm.

The second part deals with entrepreneurship and the impact of venture capital investors on specific firm decisions. The first section looks at changes in the top management team. The influence and the timing of VC investors regarding changes in the founding executive team is investigated. Furthermore, the impact of changes – whether induced by VC investors or not – regarding firm performance measured as firm growth in terms of employment and labor productivity is tested. Second, the impact of VC financing on firms' innovation activities is examined. Whereas innovation is represented by patenting activity and a new variable called innovativeness reflecting the degree of firms' innovation.

The last part takes a closer look at the persistence of firms' innovation activities. We link the dynamics of innovation behavior to business cycle fluctuations. Usually, it is assumed that innovation, and particularly, R&D expenditures follow a smooth path. But some studies highlight that innovation may be responsive to fluctuations in market demand. We look at different indicators of economic activity and their impact on firms' innovation decision. Furthermore, we test whether SMEs' innovation decisions are more vulnerable to business cycle fluctuations.