

Market Concentration, Market Dynamism and Business Survival

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Andrew Burke[†]

Bettany Centre for Entrepreneurial Performance & Economics, Cranfield School of Management, UK and Max Plank Institute for Economics, Germany

Holger Gorg & Aoife Hanley
University of Nottingham, UK

Abstract

The paper uses a unique dataset comprising the population of new ventures that enter the UK market in 1998. We argue that we would expect the effect of market concentration on firm survival to be different according to whether an industry is static (low entry and exit) or dynamic. In our empirical analysis we find support for this hypothesis. Industry concentration rates reduce the survival of new plants but only in markets marked by low entry and exit rates. Specifically, a 10 percent increase in the 5-firm concentration ratio or the Herfindahl index in a dynamic market, raises the survival rate of new ventures by approximately 2 percent. Our results suggest greater leniency towards more dominant firms in industries showing buoyant entry and exit rates.

JEL classification: L40, L11, L25, M13

Keywords: new firms, survival, market concentration, competition policy, dynamic industries

[†] Corresponding author: Professor Andrew Burke, Cranfield School of Management, Cranfield University, Cranfield, Bedford, MK43 0AL, United Kingdom. E-mail: andrew.burke@cranfield.ac.uk

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