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SYNDICATION AND FINANCIAL PERFORMANCE IN VENTURE CAPITAL: THE MODERATING ROLE OF DESIRABILITY AS A SYNDICATION PARTNER (SUMMARY)

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SYNDICATION AND FINANCIAL PERFORMANCE IN VENTURE CAPITAL: 
THE MODERATING ROLE OF DESIRABILITY AS A SYNDICATION PARTNER

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Principal Topic

We extend the current literature on venture capital syndication by introducing and testing an argument how firm level investment strategies moderate the benefits from syndication. Syndication of investments with other investors serves as a resource acquisition strategy enhancing the quality of the deal flow, consequent investment decisions and the post-investment activities. Thus, syndication provides venture capital firms access to valuable network resources that contribute to the performance of the venture capitalists.

The benefits of syndication are likely to be affected by the quality of syndicated deals and partners. Thus, we hypothesize that VCs with good track-record, high status, and expertise are more attractive as syndication partners, and thus should be able to pick from larger pool of investments, consequently leading to enhanced financial performance. Additionally, we propose that the more VC relies on syndication to generate deal flow, the more it is reliant on externally controlled deal flow. Lack of VC’s attractiveness as a co-investor leads to lower quality deals it has to accept, thereby leading to lowered financial performance for VCs with extensive syndication.

Method

We use data on US venture capital funds to test our hypotheses. Using Heckman selection model, we regress the financial performance (measured as realized net IRRs) on the independent variables measuring the venture capitalist’s syndication, status (measured with Bonacich’s (1987) centrality index) and stage, geographical and industry focus (measured with Herfindahl index). Syndication measures and other investment measures are based on data obtained from the SDC VentureXpert database. The IRR data of investments is based on the Private Equity Intelligence database.

Results and Implications

Our hypothesized main effect of positive relationship between syndication and financial performance is supported. Furthermore, the desirability of a venture capitalist as a syndication partner enhances the positive effect of syndication on performance. Our results provide evidence that syndication affects the financial returns from investments and that investment strategy affects the impact of syndication. Our results guide the venture capitalists in selecting beneficial combinations of investment and syndication strategies.

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