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NON-FINANCIAL CONTRIBUTIONS FROM VENTURE CAPITAL FIRMS – A COMBINED APPROACH (SUMMARY)

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SUMMARY

NON-FINANCIAL CONTRIBUTIONS FROM VENTURE CAPITAL FIRMS – A COMBINED APPROACH

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Principal Topic

It is recognized that Venture Capitalists (VCs) add value to their portfolio firms, i.e. provide valuable support and governance. However, researchers are in dispute as to what degree VCs add value and previous research indicate that the value added activities are affected by stage, industry, company profile and so forth, in addition to the VCs' personal preferences and knowledge. This study examines the value added contributions from Norwegian Venture Capitalists, as perceived by both Venture Capitalists (VCs) and their Portfolio Companies (PFCs). The aim is to reveal the structure, differences and pattern regarding VC value adding activities, in order to get a better understanding of how VCs contribute to their PFCs' total resource base.

Method

In order to examine the specific VC value adding activities within these areas, information from both PFCs and VCs is collected. In total, 221 Norwegian companies that have received VC funding, as well as 90 partners/investment managers within Norwegian VC companies, were identified. 64 portfolio companies (29%) and 20 partners/investment managers (22%) returned the questionnaire. The two parties were asked to rate the same value adding activities on a 7-point Likert scale. In addition, the portfolio companies were asked to rate both expected and actual value added, in order to compare both expectations and actual experience. Later, the results were compared and examined for differences using T-test and Welch modified T-test.

Results and Implications

The empirical results show that there are significant differences when comparing VCs' and PFCs' perception of the value added contributions within all areas. However, VCs are also, to some extent, identified as contributors to the PFCs' resource base. Financial activities are valued the most and product development knowledge is valued least, while the importance of marketing, organizational and economical knowledge are in dispute. The result also reveals that the patterns of the VC-stated value added are more in line with the PFCs' expectations than their actual experiences.

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