6-6-2009

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Recommended Citation

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INTERACTIVE PAPER

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Principal topic

The relative VC portfolio firm performance is to a large extent an unexplored field of research. Previous research covers the performance of venture capital backed firms that have gone through an IPO. Only a few studies explicitly covers operating performance of the VC backed firms. These studies do not explain how VC financed firms perform the first years after the VC funding event itself. Generally the results show that VC firms tend to grow faster in size than comparable firms, but little or no research has been done on other performance dimensions.

This empirical study investigates the performance of VC backed firms across multiple dimensions of performance using parallel indicators for each performance dimension. The performance dimensions examined in this paper is related to growth, efficiency and profitability.

Method

The study is based on a matched pairs research design of venture capital backed and non-venture capital backed firms. The sample is based on 40 portfolio companies which were held by VC funds in 2004 and 40 similar companies not having received such funding. The matching variables was; industry, sales level, year established, number of employees and geography. In most cases several potential matches were identified. It is important to emphasise that matching was based on data collected the year before the VC investment event in order to not be disturbed by effects caused by the infused capital.

Results and implications

The results of this study show that surviving VC backed firms experience higher growth in size compared to surviving non-VC financed firms. However this comes at the cost of weaker performance related to profitability and efficiency. A more interesting finding is that the VC backed firms have significantly higher value of their total assets compared to similar non VC-backed firms in the year before the investment event. This could mean that the managers of those firms that later receive VC funding are more aggressive and more willing to seek external funding from other sources like friends and family, industrial players, government support programmes and private investors. It could also imply that these entrepreneurs are better at creating valuable resources and tying these to the firm.

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