5-12-2010

CONDITIONAL EFFECTS OF CVC FUNDING FROM THE START-UP PERSPECTIVE (SUMMARY)

Sharon F. Matusik  
University of Colorado-Boulder, sharon.matusik@colorado.edu

Michael B. Heeley  
Colorado School of Mines

Markus Fitza  
University of Colorado - Boulder

Recommended Citation
Matusik, Sharon F.; Heeley, Michael B.; and Fitza, Markus (2010) "CONDITIONAL EFFECTS OF CVC FUNDING FROM THE START-UP PERSPECTIVE (SUMMARY)," Frontiers of Entrepreneurship Research: Vol. 30: Iss. 3, Article 5.
Available at: http://digitalknowledge.babson.edu/fer/vol30/iss3/5

This Summary is brought to you for free and open access by the Entrepreneurship at Babson at Digital Knowledge at Babson. It has been accepted for inclusion in Frontiers of Entrepreneurship Research by an authorized administrator of Digital Knowledge at Babson. For more information, please contact digitalknowledge@babson.edu.
SUMMARY

CONDITIONAL EFFECTS OF CVC FUNDING FROM THE START-UP PERSPECTIVE

Sharon F. Matusik, University of Colorado - Boulder, USA
Michael B. Heeley, Colorado School of Mines, USA
Markus Fitza, University of Colorado - Boulder, USA

Principal Topic

Obtaining and developing resources is central to the success and survival of young firms. One avenue for procuring resources in young firms is through interorganizational relationships with established firms (e.g., Katila et al., 2008; Stuart et al., 1999). For example, firms may seek funding from corporate venture capital (CVC) firms to procure financial resources, gain legitimacy, or gain access to complementary resources that may be difficult or time consuming to develop internally (Gans and Stern, 2003; Katila et al., 2008; Stuart et al., 1999). Interestingly, though, much research from the perspective of the investing firms, the CVCs, suggests that their investments are most effective when the associated motives are strategic in nature, rather than purely financial (Dushnitsky and Lenox, 2006). This begs the question of, if the CVC firm benefits the most from having strategic motives associated with the start-ups it invests in, what does this mean to the start-up firm? In this study, we address this question. Specifically, we examine start-ups’ performance in the IPO market. Our main premise is that CVC investments create information asymmetries because the average investor does not have enough information with which to evaluate the relationship between the CVC and the start-ups it invests in.

Method

Specifically, we hypothesize that CVC investments will be associated with greater underpricing for start-ups that receive these investments (Hypothesis 1). We also investigate whether the ability of the CVCs to appropriate value and learn from the companies they invest in varies based on the competitive context in which these investments take place. We hypothesize that weak IP protection regimes (Hypothesis 2), industry dynamism (Hypothesis 3), and industry concentration (Hypothesis 4) will increase underpricing in the presence of CVC investment because they contribute to greater information asymmetries.

Results and Implications

Based on data from IPOs conducted from 1990-2006, we find support for Hypotheses 1-2 and 4. CVC investments are positively associated with underpricing. The competitive context also affects this relationship. In contexts that further obscure whether the start-up will be able to appropriate value from its efforts, underpricing is more pronounced.

This research contributes to knowledge about how firms should evaluate access to resources via interfirm relationships such as those provided by a CVC. While such investments can provide quick access to financial resources, legitimacy, and complementary assets, there are also significant costs associated with such investments, especially at the point of an IPO.

CONTACT: Sharon Matusik; Sharon.Matusik@Colorado.edu; (T): 303 735 5113; University of Colorado at Boulder, Leeds School of Business, Boulder, CO 80309-0419 United States.