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THE GROWTH VALUE FROM CVC PORTFOLIO DIVERSIFICATION: INDUSTRY AND TECHNOLOGY (SUMMARY)

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SUMMARY

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Principal Topic

Recent research has documented that CVC investments could provide a corporate investor with the learning opportunities for new technologies, thereby stimulating technological innovation and creating growth value for the corporate investor (e.g., Chesbrough, 2002; Chesbrough & Tucci, 2003; Dushnitsky & Lenox, 2005a; Schildt, Maula, & Keil, 2005). The literature, to date, has tended to focus on the independent impact of individual investment. However, CVC investments almost always involve multiple investments in a certain period of time; namely there simultaneously exists more than one entrepreneurial company in the portfolio. It is quite possible that portfolio companies interact with each other, and that the portfolio companies as a whole may impact the corporate investor in a way different from their independent individual impacts. Thus, in this study we propose that sub-additivity in costs through resource sharing, and super-additivity in value because of complementarities (Tanriverdi & Venkatraman, 2005) would result in a curvilinear relation between portfolio diversification and growth value of its parent company. In addition, we also investigate the extent to which the structural characteristics of a CVC program such as autonomy and syndication influence its CVC managers’ investment decisions with regard to the two types of diversification.

Method

In order to examine the relationships between the structural characteristics, portfolio diversification, and the growth potential of corporate investors, we construct a panel of CVC programs affiliated with U.S. public companies from 1990 to 2004. In this study, we focus on how the CVC portfolio diversifies in both industry and technology. Specifically, industry diversification is measured based on the Venture Economy Industry Code, and technology diversification is measured using U.S. patent classification data. Tobin’s q is used to measure the growth potential of each corporate investor. Both autonomy and syndication data are collected from VentureXpert.

Results

The regression results demonstrate that autonomy is positively related to industry diversification among portfolio companies, while syndication is positively related to technology diversification. Contrary to our hypothesis, both industry and technology diversification among portfolio companies are related to the growth value of their corporate investor in a U-shaped relationship rather than an inverted U-shaped one.

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