ANTECEDENTS AND CONSEQUENCES OF VENTURE CAPITAL SYNDICATION (SUMMARY)

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Summary

Antecedents and Consequences of Venture Capital Syndication

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Principal Topic

Over the past decade, the venture capitalists’ (VCs’) syndication (Wilson, 1968) has attracted an increasing interest on behalf of scholars. Although existing research provides us with a large panorama of different pros and cons of syndication, it fails to show how syndication actually affects the VCs’ performance. The main reason is the lack of data on individual VC firms’ performance (Hochberg et al., 2003). Our data enables us to fill in this gap.

To begin with, we examine the propensity of ventures to get syndicated. In line with the obtained results we examine how syndication strategy influences VCs’ performance. Drawing on the portfolio diversification argument, we will first examine a direct link between the frequency of syndication and the VC’s performance. Secondly, we test the value-added versus coordination cost arguments by examining a concave relationship between the degree of syndication and the VCs’ performance. Thirdly, to test the adverse selection phenomenon we will examine if the syndication in the early-stage will have a positive impact on the VC’s performance. We will analyse a link between the late-stage syndication and the VC’s performance, to test the added-value versus the “window dressing” motive.

Method

To analyse the hypotheses we have outlined above, we are going to draw on a sample of more than 58,000 VCs’ investments that took place in more than 70 different countries between 1980 and 2002. One of the measures of the VCs’ performance is the internal rate of return (IRR) of each VC fund, the key performance measure that previous studies were unable to use.

Results and Implications

As hypothesised, we found supportive evidence that the higher frequency of syndication will lead to a higher fund’s performance. However we found no support for the expected concave relationship between the degree of syndication and the fund’s performance. Finally, we find support for the view that late-stage syndication will lead to a greater performance for early-stage funds, supporting the value-adding hypothesis. Although the “window dressing” argument went in the predicted negative direction, the result was not statistically significant.

We believe that our study makes an important step towards building the theoretical background for the VCs’ syndication strategy. It is also of practical importance as it provides some guidance on how VCs shall construct their syndication strategy to take the most benefit out of it.

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