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VENTURE CAPITALISTS’ EXIT STRATEGY: A DYNAMIC CAPABILITIES AND RESOURCE DEPENDENCE PERSPECTIVE

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ABSTRACT

Using a dynamic capabilities and resource dependence perspective, we argue that VCs adopt an exit strategy (initial public offering or acquisition) and then engage in resource base adjustments to prepare the firm for the respective exit. We develop hypotheses about the types of resource base adjustments associated with each exit type and then test our hypotheses on a sample of 141 ventures backed by French venture capital firms. Our results reveal distinct differences based on the exit strategy. Theoretical implications and directions for future research are subsequently discussed.

INTRODUCTION

Understanding VC firm involvement in their portfolio firms and the impact of this involvement has drawn the attention of many scholars over the last two decades (Sapienza and Korsgaard, 1996; Fiet et al., 1997). Prior research has examined what VCs specifically do (Rosenstein et al. 1988). For example, VCs are involved in such things as providing strategic advice, helping in establishing key contacts within an industry, providing counsel, and overseeing the CEO and TMT (Fried, Bruton, and Hisrich, 1998). Other research has revealed that VCs exhibit higher involvement in situations of high uncertainty (Sapienza, 1992) or when strategic reorganization is required (De Clercq et al., 2006) particularly when managers are replaced. A substantial portion of this prior literature has examined VC decision making (Shepherd, Zacharakis, and Baron, 2003; Shepherd, 1999; Shepherd and Zacharakis, 2002; Zacharakis and Meyer, 1998; and Zacharakis and Shepherd 2001) and has examined what information seems important to VCs’ decisions. This research has found that VCs often exhibit some level of expertise in decision making (Shepherd and Zacharakis, 2003) but they also suffer from typical biases (Franke, Gruber, Harhoff, and Henkel, 2006) and tend to rely on their tacit knowledge to make decisions particularly in a complex situation (Zacharakis and Shepherd, 2001).

While VCs’ involvement may appear situation-specific, it also appears that their involvement is influenced by the portfolio firm’s exit strategy. Because VCs must show returns to their own investors (in VC funds) and because these funds typically maintain a short lifespan (typically five to ten years), the exit strategy for VCs from their portfolio firms is one of the most important decisions they make. Kunze (1990) discusses how the role of VCs changes based on whether the venture is taken to IPO or to merger with another company. Writing from his own personal experience, Kunze argued that VCs can often tell how successful a new venture will be after just a round of funding. He intimated that VCs typically adopt a different strategy based on the potential success of the venture. Thus, at a particular point in time, VCs appear to adopt a certain frame of mind about a venture and then they use their repertoire of responses or heuristics based on this framing. Given the VCs’ use of these heuristics after the development of a frame, it appears that their decision making may be subject to greater intuition (over time) as they rely on prior
experience and cognitive cues (Zacharakis and Shepherd 2001) rather than extensive analysis of data.

Although there has been a substantial amount of research examining VC decision making as it relates to their decision making choices from a venture selection perspective as well as a fair amount of research examining decision making focused on specific issues such as venture funding and syndication, in this paper, we are interested in probing whether VCs adopt a repertoire of non-financial responses based on the portfolio’s exit strategy. For example, if VCs decide that an IPO is unlikely, and decide to pursue an acquisition; do the types of post-investment involvement activities, differ based on this decision frame? If VCs form a frame of reference concerning the venture and decide upon the exit strategy rather early in the process, then we should be able to discern and discriminate among these repertoires based on the exit strategy. Thus by examining the adjustments in the resource base of a group of VC-backed ventures, and then using these adjustments to predict exit strategy, we can begin to understand how heuristics and decision frames impact the development of dynamic capabilities in a new venture as it adjusts to attain a certain resource profile needed for its exit strategy.

Previous research on VC exit has identified different patterns in terms of timing to exit. For example, Giot and Schwienbacher (2007) showed that as the time passes the likelihood of exit through IPO first increases (up to four years) and then decreases sharply. An exit through a trade-sale or an M&A is less ambiguous as it is considered a more universal exit channel. Indeed, while VCs may view an acquisition as the preferred type of exit for a given venture, they may also adopt this exit strategy for those ventures that failed to become public (Giot and Schwienbacher, 2007). As a consequence, time that elapses between the initial VC’s exit strategy formulation and the real exit can be an important moderator of the resources and capabilities that VCs allocate to and activate within a venture. To be more precise, in order to start gaining a better understanding of the decision to pursue a given exit strategy by VCs and the resource-adjustments they make in their portfolio ventures, we need to distinguish between resource-adjustments when the path towards the exit is relatively short and clear compared to a longer path where meta-adjustments are undertaken to cope with changes in the exit strategy. Because VCs must show returns to their investors (in their VC funds) quickly, they aggressively seek to bring their investment in a new venture to fruition within five years (Sahlman, 1990). As such, in this paper we specifically focus on situations where the path to exit is clear and are interested in examining exits which occur in fewer than five years. The analyses of meta-adjustments and heuristics that lead to changes in initially chosen frames and the concomitant exit strategy by the VCs are therefore beyond the scope of this paper.

In this paper we argue that the actions of VCs can be framed through a resource dependence lens (Arthurs et al., 2009; Pfeffer and Salancik, 1978) because VCs are providing access to resources from the external environment as well as a dynamic capabilities lens (Arthurs and Busenitz, 2006; Augier and Teece, 2009) because VCs are making adjustments to the resource base of the venture. More specifically, we argue that (within the range of VCs’ resources) the activation of specific types of dynamic capabilities will depend on the potential exit strategy pursued by portfolio ventures. Because we are focused on the portfolio firm’s exit strategy and the resource base adjustments by VCs in connection to the given exit strategy, we develop hypotheses around two types of resource base adjustments – those involving the management team (both recruitment and replacement), and those involving non-management resources. Furthermore, in our analysis, we are discriminating between and seeking to predict the acquisition exit strategy versus the IPO exit strategy based on the actions of VCs.
The rest of the paper proceeds as follows. Drawing on the dynamic capabilities and resource
dependence literature, we develop hypotheses to predict the types of resource base adjustments
given the type of exit strategy. We test our hypotheses on a sample of French VC portfolio firms
and then discuss the results. Finally, we discuss our contributions to the dynamic capabilities
literature and discuss potential future research opportunities.

HYPOTHESES DEVELOPMENT

Prior research has demonstrated that entrepreneurial vision and capabilities are critical for
survival and growth of young ventures (Kor, 2003). In particular, when the original management
team members are preserved, goal congruence and team spirit enables successful achievement of
initial milestones (Kroll et al., 2007; Wasserman, 2003). Furthermore, many of the key
capabilities of the venture are derived from the founding entrepreneurs (Alvarez and Busenitz
2001) and since these capabilities have the ability to lead the venture to a competitive advantage
vis-à-vis other competitors, it is important for the new venture to retain this talent (Arthurs,
Busenitz, Hoskisson, Johnson, 2009). However, Hambrick and Crozier (1985) found that firms
that had successfully evolved from start-up ventures to established firms had replaced at least
some founders, whereas firms that had left their initial founding teams in place had much greater
difficulty managing the transition. Going public represents a critical transition event in the
venture’s life wherein an entrepreneurial management style needs to be replaced by a more
structured and “professional” management. Indeed, previous research showed that there is a U-
shaped relationship between the growth rate of an entrepreneurial venture and the likelihood of
team renewal through the founders’ departure (Boeker and Karichalil, 2002). Since a young
venture’s growth is one of the most critical indicators of successful development (Eisenhardt and
Schoonhoven, 1990), when the growth of the venture is far below expectations, this may signal to
VCs that the founding team does not have the necessary skills and capabilities to run the venture
and thus may result in founding team replacement (Finkelstein & Hambrick, 1996). While at
moderate levels of growth the likelihood of replacement within the management team is low, this
likelihood actually increases in ventures that exhibit very high growth rates (Boeker and
Karichalil, 2002; Wasserman, 2003). Indeed, when the venture grows very fast, it may need to
renew the management team faster, since the competences of the founding team members may
become obsolete and create rigidities for transitioning to a professionally managed firm.

Since going public requires a faster transition from entrepreneurial to professional management
and since publicly traded firms must carve out their own independence, we believe that VCs will
be prepared to replace members of the original management team particularly if they can no
longer add value to the firm in its transformation to a publicly-traded company. Furthermore,
when an entrepreneurial venture has too much ownership concentrated among the management
team, this may reduce the market’s willingness to purchase ownership in the company at the time
of the IPO since management entrenchment may become problematic (McConnell and Servaes,
1990) after the IPO. As such, VCs may actively pursue replacement of managers and the
concomitant dilution of managers’ ownership over time (through successive rounds of VC funding
wherein managers’ relative ownership of the firm declines). This will allow for more ownership
of the firm to be offered for sale at the time of the IPO and can lead to higher capitalization and
valuation (thereby resulting in a higher payoff to the VCs). On the other hand, when an M&A exit
is preferred, VCs will want to ensure that the existing resource base is not suddenly altered as this
could indicate a loss of key talent and the associated knowledge that acquirers may want.
Moreover, founding team re-adjustments can be done in the post-acquisition period by an
acquiring firm to eliminate redundancies in functional positions if that is necessary (Cannella and
Hambrick, 1993). Furthermore, when an acquirer acquires a new venture, the potential for
managerial entrenchment is no longer possible as the ownership of the new venture is subsumed after the acquisition. Accordingly, this leads to our first two hypotheses.

**H1:** There will be a positive relationship between resource base unbundling as it relates to management replacement and an IPO exit strategy.

**H2:** There will be a negative relationship between resource base unbundling as it relates to management replacement and an M&A exit strategy.

Meanwhile, as an entrepreneurial venture grows, it requires additional resources to meet new internal and external contingencies (Makadok, 2001). Research and practice show that when a venture is to become public, it creates a more structured organization (Hambrick and Crozier, 1985) and often hires new managers to perform specific functions thus decreasing the venture’s vulnerability and reliance on just a few team members. Moreover, those ventures that manage to have a more complete functional structure upon raising the initial financing round, are not only more successful at fund raising in general but also go public significantly faster than those ventures that start with a more narrow functional team (Beckman and Burton, 2008). As such, it is reasonable to expect that those early-stage ventures that become public already demonstrate an ability to sustain growth and maintain independence early on in their existence. Indeed, as Watson, Stewart and BarNir (2003) showed, when VCs observe effective interpersonal processes among the founders of the venture, their predictions of the venture’s growth will be highly positive. For this reason, we believe that VCs will exhibit restraint as it relates to hiring new managers to firms that are to go public.

On the other hand, while potentially attractive technology and a dedicated founding team may be seen as highly desired by potential corporate acquirers, VCs will have an incentive to ensure the venture’s technology has been proven before any acquisition takes place. As a result, we expect VCs to play an active role in re-bundling the management team of their portfolio ventures which are slated for acquisition, by hiring managers who would be able to fill any functional gaps in areas such as marketing, business development and other functions (Welbourne and Andrews 1996) that the founding team may be missing at the moment of initial fund raising. In this way, a more functionally complete management team will be able to create greater value before the trade sale. Thus:

**H3:** There will be a negative relationship between resource base re-bundling as it relates to management recruitment and an IPO exit strategy.

**H4:** There will be a positive relationship between resource base re-bundling as it relates to management recruitment and an M&A exit strategy.

Prior research has shown that although both VC’s sorting (i.e. investing in better companies) and involvement are important for increasing the likelihood for a VC-backed firm to go public, sorting is twice as important to explain the higher IPO rate among portfolio ventures of more experienced VCs (compared to less experienced VCs) (Sorensen, 2006). Equally, we expect that sorting also has higher explanatory power than value-adding for those VC-backed firms that manage to go public quickly. In other words, those ventures, that in the eyes of VCs exhibit a high likelihood of going public, will already possess the necessary human and social capital that will be the foundation for the VC’s positive frame. As a consequence, we expect ventures anticipating an IPO exit to be less reliant on the provision of VC resources (such as industry connections and advice) than M&A targets, since their initial resource and capability base will be more complete. Additionally, it might be essential for firms that have a trade sale exit strategy to develop multiple contacts with different potential industry acquirers in order to increase their
bargaining power when the negotiation process begins. These contacts can be increased through the VC’s involvement in their network of industry partners.

**H5:** *The relationship between VC resource provision and exit strategy will be stronger for the M&A exit strategy compared to the IPO exit strategy.*

**METHODOLOGY**

To test our hypotheses we collected data from early-stage French VC firms that invested in ventures between 1999 and 2006. The data is unique in that it represents survey responses from almost the entire population (75%) of VC firms in France during the time period investigated and encompasses data on every venture in the portfolios of these funds giving us an overall sample of 300 ventures. For this study we considered a sub-sample of 126 ventures which includes those that have already pursued an exit strategy (IPO, M&A or other exit excluding bankruptcy).

**Data and Sample**

The data on VC firms and their investments come from three sources: VC firm financial reports to their shareholders (limited partners), questionnaires, and interviews with fund managers (general partners). First, we collected data related to all early-stage VC firms that operated within France and had at least 10 million Euros under management. This criterion was recommended in our preliminary interviews with general partners. We used the semi-annual reports of the early-stage venture capital firms that they provided to their shareholders. From this source, we gathered VC firm and start-up characteristics such as their size, age, geographic location, amount of capital injected by early-stage VC firms and period of time that our focal VCs spent on the board of each of their ventures (or time to exit) and other.

Second, we collected information regarding VC firms’ managerial interventions in each venture. In our questionnaires we asked VC managers to provide information regarding the types of managerial resources and interventions that they provided to each start-up. To assure the accuracy of the information, we asked each general partner within each VC firm to respond regarding only those ventures they were responsible for. In particular, VC managers indicated: 1) areas in which they provided advice to ventures (e.g. in finance, strategy, marketing, human resource management, business plan preparation); 2) the types of external network ties they helped each start-up to establish (e.g. other investors, potential suppliers and customers, consultants); and 3) the extent to which they participated in team building by helping to replace or recruit managerial team members in each venture.

By October 2006 we received usable responses from 23 venture capital firms regarding 300 ventures, representing a response rate of 72%. Because the objective of our study was to uncover the resource base changes enacted by VCs vis-à-vis the exit strategy, we focused on those ventures from which the VC had exited. As a result of this study we considered a sub-sample of 141 ventures which have already pursued an exit strategy (IPO, M&A or other exit excluding bankruptcy). Two separate probit regressions predicting exit strategy (IPO or M&A) are used to test the independent variables which relate to each hypothesis. Because VCs seek to exit quickly (within five years) from their ventures in order to show returns to their fund investors, it is more likely that an initial frame would occur in those ventures which experienced a successful (and rapid) exit. As such, we tested our hypotheses by splitting the sample into two parts using the median time-to-exit as the dividing point. We further examined the full sample to see whether the results were robust regardless of the length of time to exit.
Dependent Variables

IPO Exit is a binary variable taking 1 if the focal venture exited via an initial public offering and zero otherwise. M&A Exit is also a binary variable taking 1 if the focal venture exited by being acquired and zero otherwise.

Independent Variables

VC Resource Provision reflects the number of areas in which a VC firm provided advice to a given start-up. All eleven areas in which a VC could be involved were coded using binary variables taking one if the VC was involved in a given activity and zero if not. These variables were summed to obtain an overall measure of the resource provision intensity that VCs provided their funded venture. VC Managers Replacement accounts for the number of top-managers that a VC replaced within a given start-up. This means that the VC participated in the process of replacing an existing manager and finding a new one to take the former manager’s place. VC Managers Recruitment shows the number of top-managers that a focal VC added to a given start-up. This variable captures new top-manager recruitment where replacement of an existing manager was not the intent.

Control Variables

We controlled for a number of venture capital firm and start-up characteristics identified in prior research that could have an impact on the results. We controlled for the size of the portfolio of the focal VC firm, since the time and attention devoted to ventures can vary as a function of the total number of ventures that a VC firm has under investment (VC Portfolio Size). We also controlled for the amount of capital that a focal VC firm invested in a given start-up (VC Invested Capital). Previous studies have shown that the financial commitment of the fund can drive the extent to which it will be a hands-on versus a hands-off investor. We introduced a variable that reflects a venture capital firm’s experience in number of years (VC Age). We also controlled for the geographic origin of the start-up firm using a binary variable that took the value of one if the start-up was created in France and zero otherwise (Start-up Geographic Origin). We also introduced a binary variable to control for the sector in which a start-up was operating (Start-up Sector), taking the value of one if the start-up was in IT and zero otherwise (i.e. biotech, service, or other).

RESULTS

Descriptive statistics and correlations are presented in Table 1. Multicollinearity was generally not a problem, with most correlation coefficients falling below .3. We identified only one moderate correlation (above .6) between two independent variables, VC Management Replacement, and VC Management Recruitment. We conducted robustness checks in our probit models by first entering only one of the variables at a time in the model and then the two variables in the same model. The results remain robust both in terms of the coefficients and their significance level, thus confirming that multicollinearity was not a problem in our analysis.

We first tested our hypotheses on the sample of 69 start-ups from which the focal VC firms had exited through a specific exit mode within a maximum of four years since the initial investment. We ran two separate probit regression analyses with IPO exit and M&A exit as the respective dependent variables. The results of these regressions are presented in Table 2. We find
support for our first and second hypothesis in that manager replacement is positively and significantly related to an exit via an IPO and negatively and significantly related to an exit via an M&A in the final model (including all variables). We also find support for the third and fourth hypothesis in that the recruitment of new managers into the venture was negatively related to exit via an IPO and positively related to an exit via an M&A. We found only partial support for the fifth hypothesis insofar that VCs’ resource provision was negatively and significantly related to ventures going public but was not significantly related to an exit via an M&A.

We conducted additional robustness checks to see if the same patterns of VCs’ actions vis-à-vis the exit strategy remained constant as the time to exit increased. As expected we found no support for the hypotheses if the time-to-exit was above the median or if we considered the full sample of 141 ventures without accounting for the time until exit (see the last four columns in Table 2 for the robustness checks). None of the independent variables had a predicted significant effect apart from VC Resource Provision that was significant and went in the predicted negative direction in relation to IPO.

**DISCUSSION**

As noted earlier, a new venture creates value in the product market by providing a product or service for which customers are willing to pay. On the other hand, a new venture can create value in the strategic factors market when other companies are able to see the potential rent generating ability of the assets possessed by the new venture. The importance here is that VCs obtain returns when they can sell their shares at a premium. But ultimately, their returns are affected by how well they can develop the venture to either compete in the product market or how well they can develop the assets of the venture (including the technology) so that other firms will want to acquire the new venture. Our fundamental assertion was that either exit strategy would require distinctly different decisions and actions by VCs and that if an exit strategy were formed first through the VCs cognitive frame, then we should observe differences in these activities based on the ultimate exit route. Our preliminary results indicate substantial differences in the activation of dynamic capabilities among ventures depending on the exit strategy. By viewing VCs’ involvement in the context of resource base adjustments, we extend dynamic capabilities theory to an interesting setting and seek to provide a stronger explanation for the relationship between VCs’ value-adding activities and venture performance.

Our results reveal that the likelihood of a shorter time to IPO is higher when VCs are involved in resource unbundling through founding team replacements but limit their re-bundling and resource provision involvement. Implicitly this result indicates that the VCs’ decision to bring the venture to IPO quickly is based on the venture’s strong resource and capability base. However, due to fast growth, some of the founders’ capabilities do not allow for steep learning and so some of the original management teams’ replacement is necessary. When an exit through acquisition is pursued, resource re-bundling by adding new managers increases the propensity of a rapid exit whereas replacements to the founding team may actually slow down the process or make the venture a less attractive target for potential acquirers. These results imply that when the functional base of the venture is incomplete, VCs will tend to consider an acquisition as the preferred exit strategy (as opposed to an IPO). Since a founding team inherits valuable knowledge and competences that can be seen as a source of competitive advantage, preserving the founding team (presumably for its knowledge) improves the chances for an acquisition.

We believe that our study makes several contributions. Our study is among the first to examine the role of dynamic capabilities as possible accelerators or hinderers for the firm to attain
its strategic objectives rather than as a reaction or anticipation of changes in the environment. Furthermore, by viewing the two different ways value can be created by new ventures, and tying the resource base adjustments to these paths to value, our paper proposes a new way to view dynamic capabilities – as applying not only to product market competitiveness but also to strategic factors market attractiveness. Finally, we also discuss the implications of our findings to venture capital specific research and provide additional evidence to help resolve the debate of whether VCs pick or create winners. We now discuss each of these contributions in more detail.

Dynamic Capabilities and Strategic Objective

To our knowledge this is the first study that establishes the link between different types of dynamic capabilities and the strategic objective of the firm. The underlying logic behind our study is that some types of dynamic capabilities may be more effective than others in the firm’s achievement of strategic objectives. However, considering that new ventures operate in very unstable and versatile environments that require frequent adaptation and re-assessment of strategic objectives, the time period that elapses between the activation of dynamic capabilities and achievement of strategic objective is an important mediator.

As a consequence, by deliberately restraining our sample to those cases where the path towards the strategic objective was decided early on and achieved relatively quickly, we show that specific dynamic capabilities add value when they are aligned with the strategic objectives. Thus, by examining the results among those ventures which attained an exit in less than five years, we are able to show that certain repertoires of actions associated with the exit decision are effectual. Dynamic capabilities in this sense are a function of the cognitive frame of VCs and then are delivered through the heuristics tied to the given frame. As such, an exit via an IPO demands different actions compared to that via an M&A event. Indeed, the choice of some dynamic capabilities versus others constitutes an important driver of success (or failure) to achieve a goal.

We also contribute to the existing literature by starting to integrate dynamic capabilities with the resource dependence perspective. Despite the recognition that organizations need to search beyond their boundaries for valuable resources, most studies have simply relied on RBV to explain the origination of dynamic capabilities. Our study shows that the source and origination of dynamic capabilities can come from outside the strict boundary of the organization. More specifically, it is an important stakeholder (venture capitalists) that can activate them.

Dynamic Capabilities and Competitive Advantage

The results of our study also advance the exciting debate on the extent to which dynamic capabilities are the paramount source of competitive advantage (Teece et al., 1997). The groundbreaking contribution of Teece and colleagues (1997) to the development of the dynamic capabilities concept led many scholars to the erroneous conclusion that the possession of dynamic capabilities would lead to the replicability of competitive advantage over the long-run. More recent conceptual analysis has led researchers to postulate that the extent to which dynamic capabilities will lead to a sustained competitive advantage may depend on the quality of resources that are to be reconfigured by the dynamic capabilities (Zahra et al., 2006) and the types of new resource configurations created (Eisenhardt and Martin, 2000). Moreover, Eisenhardt and Martin (2000: 1117) also postulated that “using dynamic capabilities sooner and more astutely...than the competition” can explain why the reliance on the same type or quality of dynamic capabilities can lead to competitive advantage for some firms but not for others. In the worst case scenario, Zahra
and colleagues (2006) admitted that dynamic capabilities can also damage a firm’s performance if used “when there is no need for them or wrong assumptions are made.”

By distinguishing between the two distinct strategic paths that VC-funded ventures pursue, M&A and IPO, we found that the successful reach of objectives and thus sustainability of the competitive advantage depend on the types and nature of the dynamic capabilities that are exercised and those that are not exercised given the strategic objective. Indeed, the VC’s activation of dynamic capabilities related to top management recruitment and replacement increases the likelihood of the projected outcome such as M&A and IPO respectively. However, if dynamic capabilities aimed at replacement of managers are activated within a start-up targeted for acquisition, this decreases the likelihood of the outcome. Similarly, VC’s involvement in resource provision and team building in those ventures that are on the way to IPO will decrease the likelihood of the outcome, at least in the short-term.

Whether VCs Pick Winners or Create Them

For the past several decades there has been an ongoing debate both among scholars and practitioners concerning whether the superior performance of VC-backed ventures versus non-VC-backed ones is due to the VCs’ sorting capabilities (Shepherd and Zacharakis, 2002) or due to managerial value-adding involvement (Hellman and Puri, 2000). Most empirical studies have analyzed the criteria that VCs use in their due diligence process as well as their post-investment involvement in ventures building, without being able to clarify which capability is more important: venture picking or venture building (Baum and Silverman, 2004).

The lack of understanding of this question is further exacerbated by the confusion of the relative importance of sorting criteria that VCs rely on when making their investment decision. In particular, recent studies have tried to understand whether VCs bet on the horse or on the jockey (Kaplan, Sensoy and Stromberg, 2009), meaning whether they bet on the management team or the business itself. In other words (using the expression attributed to the legendary Georges Doriot), is it better to invest in a grade-A man with a grade-B idea, or in a grade-B man with a grade-A idea? Until now the results of studies gave only fragmented answers to this question and called for more consistent analysis. For instance, Kaplan and colleagues (2009) found that choosing the right business is most important for a successful IPO exit, since most public ventures preserved the same business line over the years while the management team is subject to frequent changes. Similarly, Baum and Silverman (2004) found no link between the management team and the likelihood of survival of VC-backed ventures. However, when asked to rank sorting criteria, VCs indicated that both technology and the management team characteristics were important drivers of their investment decision.

We believe that one of the reasons for the confusing results of the previous studies comes from the fact that previous scholars approached the VC-related dynamic process of both sorting and value-adding with a static viewpoint assuming a choice between business and management. When sorting the ventures, VCs form predictions as for the appropriate exit mode that is influenced, as our study implicitly identified, by the completeness of the managerial resources and capabilities within the venture upon investment. In other words, if the venture is to become public very fast, the VC will bet on the “horse” (the business and the capabilities of the venture), and will assure subsequent independence (in the sense of operating as a separate company rather than becoming part of a larger conglomerate as it is the case with M&A) and sustainability of the venture by replacing some founders by more “professional” managers. In contrast, when a fast trade sale is pursued, the main sorting criterion is the jockey, whereby the role of the VC is to build a complete
and competent team all around. As a result, our findings show that the sorting criteria depend on
the envisaged exit strategy, provided this exit can be achieved relatively quickly. Consistent with
the findings of Kaplan and colleagues (2009), we find that in the case of an IPO, the VCs bet on
the “horse” whereas in the case of a trade sale – they bet on the “jockey”. The results of our study
also show that sorting is paramount to achieve a successful exit rate in the short to mid term.
When the sorting is done successfully, the VCs’ specific involvement will enable them to achieve
the given objective. However, when the sorting is done less successfully, the exits are delayed and
the role of VCs becomes less path-dependent and thus cloudier. This issue requires further
investigation and we look forward to probing it in subsequent research.

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<td>VC Managers Recruitment</td>
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<td>1.316</td>
<td>-0.002</td>
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<td>-0.091</td>
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<td>7.142</td>
<td>1.294</td>
<td>-0.022</td>
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Table 2: Results of the Probit Regressions Estimating the Relationship between Resource Base Adjustments and Portfolio Exit Strategy: When the Time-To-Exit is Below the Median, and Above the Median and for the Entire Sample

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<th>Baseline Model</th>
<th>H1</th>
<th>H2</th>
<th>H3</th>
<th>H4</th>
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<th>Robustness checks</th>
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<td>(0.019)</td>
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<td>(0.196)</td>
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<td>-0.0881</td>
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<td>(0.348)</td>
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<td>-0.212</td>
<td>-0.231+</td>
<td>-0.132</td>
<td>-0.256*</td>
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<td>(0.125)</td>
<td>(0.132)</td>
<td>(0.128)</td>
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<td>-0.540*</td>
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<td>-0.547*</td>
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<td>(0.146)</td>
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<td>(0.24)</td>
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<td>0.212+</td>
<td>-1.202*</td>
<td>0.228*</td>
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<td>(0.109)</td>
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