COMMON VENTURE CAPITAL INVESTORS AND ACQUISITIONS OF ENTREPRENEURIAL VENTURES (INTERACTIVE PAPER)

Kip Kiefer
University of Colorado, kip.kiefer@colorado.edu
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Kip Kiefer, University of Colorado at Boulder, USA

Principal Topic
This paper examines how entrepreneurial ventures can overcome the problem of asymmetric information in selling their firms by leveraging their venture capital (VC) investors’ ties with their prior portfolio companies. Research suggests that a large amount of asymmetric information surrounds M&A in general, and that the problem of asymmetric information, plaguing both the acquiring firm and the firm being acquired, is particularly severe for acquisitions of entrepreneurial ventures (Capron & Shen, 2007). Having connections to the same VC gives the acquirers certain informational advantages, which can reduce the amount of information asymmetry between the acquirers and entrepreneurial ventures. This paper evaluates the characteristics of acquirer and target companies that help overcome information asymmetry during M&A transactions by leveraging their common VC tie.

Method
Data on acquisitions of venture capital-backed entrepreneurial ventures by public acquirers from 1995-2009 was collected from VentureXpert, the SDC M&A module, Compustat and Hoovers Online. The dependent variable is a dummy variable that equals one if the venture and the acquirer share a common VC investor and zero otherwise. I measure the age of the venture as the number of years since its funding, the venture’s intangible assets by its R&D intensity and database intangible asset designation, the geographic distance between ventures and their corresponding acquirers based on the zip codes, and the knowledge distance between ventures and their corresponding acquirers using database designed designations and the Occupation Employment Survey from the Bureau of Labor Statistics. I also include a number of theoretically driven control variables at various levels of analysis. I estimate logistic regressions to examine the effects of the independent variables on the likelihood of an acquisition being conducted between two companies that share a common VC investor.

Results and Implications
This proposal has important implications for two streams of research. First, we improve existing understanding of how entrepreneurial ventures can overcome problems of asymmetric information to sell their companies in the M&A market by utilizing their VC relationship. Second, this study suggests that researchers should explore the VC’s value-added role by going beyond the dyadic relationship between the VC and one particular portfolio company to a complete portfolio perspective and a consideration of previous investments.

CONTACT: Kip Kiefer; kip.kiefer@colorado.edu; (T): 310-892-5292; (F): 303-492-5962; Leeds School of Business, 419 UCB, University of Colorado, Boulder, CO 80309-0419.