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DOES VENTURE CAPITAL PAY OFF? A META-ANALYSIS ON THE RELATIONSHIP BETWEEN VENTURE CAPITAL INVOLVEMENT AND FIRM PERFORMANCE (SUMMARY)

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SUMMARY

DOES VENTURE CAPITAL PAY OFF? A META-ANALYSIS ON THE RELATIONSHIP BETWEEN VENTURE CAPITAL INVOLVEMENT AND FIRM PERFORMANCE

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Principal Topic

Venture capital (VC) as an alternative to mainstream corporate finance (Wright and Robbie, 1998) has attracted a large amount of interest in academic research and among practitioners. One of the main questions is whether VC adds value to firms. Yet, empirical research results are highly inconsistent. Venture capitalists do not only provide capital and monitoring, but also actively assist firms with industry-specific knowledge and skills (MacMillan et al., 1989). Furthermore, they increase the legitimacy of entrepreneurial firms (Zimmerman & Zeitz, 2002). On the other hand, venture capitalists may pressure firms to an initial public offering (IPO) in a premature stage of their life cycle (Gompers, 1996). High costs associated with an IPO may, in turn, decrease profitability and even endanger the survival of firms.

Whether venture capital really pays off, thus, largely depends on contextual factors. The aim of this study is to provide a review and synthesis of existing empirical research on the relationship between VC and firm performance. Specifically, we intend to answer two research questions: (1) Does VC increase the performance of firms? (2) Which variables moderate this relationship?

Method

To locate studies we performed computerized keyword searches in databases and manual searches of relevant journals. The final sample includes 65 independent sub-samples (N=30,187). We used two meta-analytic techniques: a traditional bivariate approach suggested by Hunter & Schmidt (2004) and a meta-regression (Lipsey & Wilson, 2001).

Results and Implications

Our results indicate that VC has a positive, but small effect on firm performance. Several context-related factors moderate the relationship. Performance dimensions such as profitability, growth and stock market returns are affected differently by VC. Furthermore, we find that studies which control for industry show significantly lower effect sizes than work that does not control for industry. Our study contributes to the literature on VC in two ways. We synthesize previous research and give an estimate of the general performance effect of VC. In addition, we provide insights in the moderating influences of contextual variables. The latter findings offer important implications for future research as well as for practitioners.

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