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Governmental and independent venture capital investments in

Europe: A firm-level performance analysis

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a b s t r a c t

This paper examines the impact of government versus private independent venture capital (VC)

backing on the exit performance of entrepreneurial firms. Our analyses are based on the VICO

dataset, which avoids the coding problems of VC type in the Thompson Financial SDC dataset.

The data indicate that private independent VC-backed companies have better exit performance

than government-backed companies. Mixed-syndicates of private-independent and governmental

VC investors give rise to a higher (but not statistically different) likelihood of positive exits than

that of IVC-backing. Our findings are not influenced by the composition of the syndicate in terms

of size and institutional heterogeneity. Our results remain stable after controlling for endogeneity

concerns, selection bias, omitted variable bias, legal and institutional differences across countries

and over time through several econometric techniques. Moreover, our results are not driven by:

i) the holding period of the different types of VC investors; ii) the potential signaling effect of

GVC towards IVC investors; iii) the firm's financial structure and net cash-flow ratio; iv) the

investment stage; and v) the distance between the VC investor and the target company.

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7. Concluding remarks

Prior research indicates that different types of VC investors have a different impact on the performance of their portfolio companies.

Despite the high presence of GVC funds in Europe, there is a dearth of contributions evaluating the performance of this specific type of investor. In this work, using a large representative sample of European VC-backed and non-VC backed companies observed from 1991 to 2010, we have compared the exit performance of GVC investors with the one of IVC funds and mixed IVC–GVC syndicates, controlling for the yearly size and institutional heterogeneity of the syndicates.

Our econometric results showthat IVC-backed companies have a higher likelihood to reach a positive exit (IPO or trade-sale) than GVC-backed ones. More interestingly, mixed IVC–GVC syndicated investments lead to a higher (but not statistically different) likelihood of a positive exit than that of IVC-backing. This positive impact of IVC–GVC syndicates is not found to be influenced by the composition of the syndicate in terms of size and institutional heterogeneity. Our findings are robust to several robustness checks– controlling for endogeneity concerns, selection bias, omitted variable bias, legal and institutional differences across countries and over time through several econometric techniques – and alternative explanations.

These results have important policy implications. First, our analysis sheds a negative light on the “go it alone” strategy of the European GVC funds. In doing so, our study defines precise boundaries on the role of the State as active venture capitalist. In fact, there is a positive economically and statistically relevant effect on the exit performance of young high-tech companies when governmental bodies syndicate with IVCs, whichever the size and the composition of the syndicate. Fortunately, recent European policy initiatives (e.g., the EU framework programme “Horizon 2020”) seem to go exactly this way through the pursuit of public–private partnerships. Our findings totally support this view.

However, our findings also contain a warning for the set-up of this typology of partnerships. In fact, echoing Chahine et al. (2012), our results indicate that the increase of the institutional heterogeneity in VC syndicates may increase the odds of portfolio companies' liquidation. This is consistent with the fact that heterogeneous investors have different objectives which may lead to principal–principal conflicts (Colombo et al., 2014). Therefore, if IVC–GVC syndicates are found to be beneficial on the one side (i.e., favoring an exit through an IPO or a trade sale), the government and the independent venture capital investor should always remind to keep the institutional heterogeneity of the syndicate at a manageable level in order to limit negative side-effects.

To conclude, thiswork aimed at offering a general assessment on the performance of GVCs and IVCs and their syndicated activities in the European VCmarket. Of course,much remains to be investigated and several research directions might be undertaken. For example, future research could deepen the diversity amongVC syndicatemembers, exploring different dimensions than the institutional one investigated here. An interesting element to bring into the analysis could be the reputation of VC syndicate members. Furthermore, the heterogeneity of the GVC funds across European countries could be explored in terms of sources of financing, internal organization, objectives and selection of portfolio companies. This way, it would be possible to further understand the conditions under which GVCs play an important role for the development of the VC market.