

Venture capital and firm performance over the long-run: Evidence from high-tech IPOs in the United States

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Abstract:

Despite widespread interest in the key role that venture capital plays in financing young, high-tech firms, little is known about the relative performance of venture-backed firms over the long-run. Using data from the U.S. high-tech sector, this paper examines the performance and financing of venture- and non-venture-backed firms during the decade following their IPO. Venture-backed firms survive longer, grow faster, are more R&D intensive, have generally superior operating performance, raise more external equity, and have a greater cumulative impact on the U.S. high-tech sector. These findings suggest that the true legacy of venture capital finance extends well beyond the IPO.

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IP O. Despite widespread interest in the key role that venture capital plays in financing young, high-tech firms, little is known about the relative performance of venture-backed firms over the long-run. Using data from the U.S. high-tech sector, this paper examines the performance and financing of venture- and non-venture-backed firms during the decade following their IPO. "As a venture capital firm, we are not in the business of funding inventors or inventions, we are in the business of funding fast-growing companies," Rosenbloom said. Considering the first three years as initial investments, a company could only have seven years to "make it." So they reprioritize raising capital over building a valuable product or service and usually end up asking for too much money too soon which ends up in a failed fundraising attempt or a raise on bad terms for the entrepreneur," said Hrach Simonian, a principal at Canaan Partners. As I mentioned in a previous article, knowing how much money you need can make all the difference in your venture capital experience. Venture capital gives you potential—the potential for major success and the potential to fail spectacularly. Venture capital first started in the United States around the time of World War II. Before then, wealthy families such as the Rockefellers, Warburgs, and Vanderbilts were the most popular investors in emerging companies. The first-ever venture capital firm, the American Research and Development Corporation (ARDC), was created in 1946, unique in providing funding from other sources apart from wealthy families. George Doriot, ARDC'S founder, is regarded as the father of venture capitalism for starting the first ever publicly-owned venture capital firm. Before setting up ARDC, Doriot moved from F... The company's value increased to over \$355 million during its initial public offering in 1968, representing an annual return of 101%. The long-run underperformance of initial public offerings (IPOs) is a well documented anomaly. Recent research has shown that venture-backed IPOs, generally defined, marginally outperform non venture-backed IPOs and posits that venture capitalists (VCs) may add value through a variety of methods. Our results suggest that the long-run underperformance of IPOs may be driven in part by those firms with none or low degrees of VC involvement. Do you want to read the rest of this article? Request full-text. VC-backed firms experience higher underpricing as the investors in the second market are over-optimistic about the prospect of the VC-backed firms but not lower pricing in the primary market. Venture Capital is money, technical, or managerial expertise provided by investors to startup firms with long-term growth potential. Although it was mainly funded by banks located in the Northeast, venture capital became concentrated on the West Coast after the growth of the tech ecosystem. Fairchild Semiconductor, which was started by the traitorous eight from William Shockley's lab, is generally considered the first technology company to receive VC funding. It was funded by east coast industrialist Sherman Fairchild of Fairchild Camera & Instrument Corp. Arthur Rock, an investment banker at Hayden, Stone & Co. in New York City, helped facilitate that deal and subsequently started one of the first VC firms in Silicon Valley.