
An Essay On Venture Capital: Article Review

In the introduction of the paper the authors recognize that there have been studies relating to the benefits mature firms receive when having venture capitalist on their boards. (Hassan et al. 2018, p.125). So instead Hassan et al. decided to ask the question “Do venture capital firms benefit from a presence on boards of directors of mature public companies?” (2018, p.125) in their research paper, however as they go into more detail more questions are asked. They particularly analyse two potential benefits which are improvements to venture capitalist fundraising and to venture capitalist investment performance.

The way in which the two benefits venture capital firms may receive are analysed is what differentiates this paper from previous studies. Previous studies relating to venture capitalist fundraising have found that “reputation increases venture capitalist’s firm’s ability to raise capital and, reputation is achieved quickly by taking companies public” (Hassan et al. 2018, p.126). The authors contend that another way in which reputation is enhanced in a venture capitalist firm is through holding directorships. They provide firms with “visibility, credibility, and enhanced networks” (Hassan et al. 2018, p.126). As for the second benefit of improvements to venture capitalist investment performance, previous studies found that venture capitalist investors can give valuable information to entrepreneurs to advance innovation. Hassan et. al decided to take a different approach instead questioning if venture capitalists can apply knowledge received from holding directorships in mature public companies to their small non-public portfolio companies (2018, p. 126).

The authors used a sample of U.S. companies from 1998 to 2011 and identified 1359 venture capitalist directors working in 700 different venture capitalist firms. Several resources were used including RiskMetrics and the VentureXpert database (Hassan et al. 2018, p.127). The authors went into comprehensive detail to ensure that only venture capitalists who had the appropriate skills and networks were included, giving their outcome more credibility and accuracy. Furthermore, “the VentureXpert database is the official database used by the National Venture Capitalist Association” (Hassan et al. 2018, p.127), which would lead the reader to believe that the venture capitalists included in the data are in fact venture capitalists and not just self-proclaimed. Other criteria were used to determine a potential venture capitalist when using the RiskMetrics database. Hassan et al. searched for key words that could define a venture capitalist firm under four categories. “Primary company name, employment category, other employment title, and type of services for each director” (Hassan et al. 2018, p.127).

Using the data that was collated, the authors conducted univariate and multivariate analysis to evaluate the improvements to venture capitalist fundraising and venture capitalist investment performance. They initially outline all the dependant variables they used and display their summary statistics in a table, which are both important to a reader’s understanding of the analysis that is about to be presented. The first univariate analysis looked at how venture capitalist fundraising performs with and without directorships as well as before and after the implementation of directorships. The mean fund size shows that firms with directorships is much higher than those who don’t have directorships and the same applies to pre-directorships vs post-directorships. A multivariate analysis using the Heckman two-stage model was then used to determine the probability of a venture capitalist firm reaching its desired target size for

fundraising under several variables.

References:

1. Hasan, I. et al., 2018. Do venture capital firms benefit from a presence on boards of directors of mature public companies? *Journal of Corporate Finance*, 49, pp.125–140.