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An International Journal of Entrepreneurial Finance

Volume 10, 2008 - Issue 1


1,813 65

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Original Article

Venture capitalists' non-financial value-added: an evaluation of the evidence and implications for research

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Pages 21-53 | Accepted 22 May 2007, Published online: 07 Dec 2007

 Cite this article  <https://doi.org/10.1080/13691060701605488>

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Abstract

Much research has focused on the financial value added by venture capitalists (VCs) to the companies they invest in. However, there is growing interest in understanding the non-financial value added by VCs. This paper explores the non-financial value added by VCs to the companies they invest in. It examines the evidence on the non-financial value added by VCs and discusses the implications for research on VC NFVA. The paper also discusses the importance of understanding the non-financial value added by VCs for the success of the companies they invest in. The paper concludes that VCs add significant non-financial value to the companies they invest in, and that this value is often overlooked. The paper also discusses the importance of understanding the non-financial value added by VCs for the success of the companies they invest in. The paper concludes that VCs add significant non-financial value to the companies they invest in, and that this value is often overlooked.

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accommodates the findings in the literature. Two categories of the typology (legitimation and outreach) have an external orientation and six categories (recruiting, mandating, strategizing, mentoring, consulting and operating) have an internal orientation. The empirical evidence to date suggests that operating, outreach, consulting, mentoring and recruiting may be the most influential categories, but the evidence is far from definitive. We argue that future studies should examine ‘VC exit success’ as a high-impact dependent variable, and place greater emphasis on the measurement of directly observable events for both value-adding inputs and value-added outcomes.

Keywords: venture capital non-financial value-added NFVA non-financial contributions new venture success VC exit success

Acknowledgements

The authors are indebted to several colleagues who provided helpful comments and suggestions on early drafts of this manuscript, particularly Hanan Anis, Scott Ensign, Judith Madill, Linda Manning and Allan Riding. We also acknowledge the insightful and progressive contributions to later drafts by three anonymous reviewers and the editor Dr Colin Mason. Finally, we thank the University of Ottawa Telfer School of Management for providing seed funding.

Notes

1. This question is addressed in the literature on growth Asset Management. For example, see the discussion on the VenGrow website, [http://www.vengrow.com/vengrow/InvestmentBanking.asp?id=130](#), and the discussion on the relationship between the VC and the entrepreneur (Gomez-Mejia et al., 1998; Flynn and Porman, 2001), the level of VC involvement (MacMillan et

al., [1989](#); Ehrlich et al., [1994](#)), and the fit between the approach of the VC and the strengths and expectations of the management team (Perry, [1988](#); Sweeting and Wong, [1997](#)). We argue that research on moderating factors is a promising and potentially high impact area of inquiry. At present however, there are little empirical data available. Thus, moderating factors, though important, are largely absent from this survey.

3. Preliminary results of the stage one literature review are surveyed in Muegge et al. ([2005](#)). The methods and results of that Working Paper were enfolded into this study, with the following changes. Step 3 (keyword search) was expanded to include additional keywords. Step 5 (manual scan of abstracts from selected journals and proceedings) was extended from an end-date of December 2004 to an end-date of December 2005. The scope of Muegge et al. ([2005](#)) was broader, and its analysis was largely qualitative. The present study focuses exclusively on VC NFVA; its scope is both narrower and deeper, and its methods are largely quantitative.

4. The seven journals are as follows: American Economic Review, Academy of Management Executive, California Management Review, Entrepreneurship Theory and Practice, Irish Marketing Review, Journal of Developmental Entrepreneurship and Journal of High Technology Management Research.

5. We do not intend this remark as criticism of the research methods of these studies. For example, several studies defined their research question such that the value-added outcome was outside the scope of their investigation.

6. For the purposes of this survey, Sapienza ([1992](#)) and Sapienza and Timmons ([1989](#)) are grouped together.

7. Theorizing about the relationship between VCs and entrepreneurs is a topic that Sapienza and Timmons (1989) and Sapienza and Timmons (1992) address.

8. Ehrlich et al. (1994) and Sapienza and Timmons (1989) use a typology of VCs with



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