Comments on
"Venture Capital in Europe: Euro-NM and the Financing of Innovative Firms"

by Laura Bottazi, Marco Da Rin

The paper by Laura Bottazi and Marco Da Rin will become a benchmark in the economic literature with respect to what we know about the recent development of venture capital in Europe and the Euro-NM. It is well written, very informative and covers a broad spectrum of questions related to the relationship between venture capital and European new equity markets. I will structure my comments by a brief presentation of what is venture capital followed by three questions raised by Laura Bottazi and Marco Da Rin and concluding remarks.

What is the difference between Europe and the U.S.A. with respect to venture capital? Venture Capital is an important mean of finance of innovative start-ups in the U.S.A. It provides funds, technical and financial expertise to innovative firms during several years. Then venture capitalists sell their shares to the equity market, preferably at a time when there is no market crash. A commonly held view is: « The low development of the equity market in Europe explains the small number of ventures in Europe ».

A first question raised is: did the recent development of Euro-NM markets challenged this commonly held view yet? The authors proposed a descriptive statistics answer: there is a development of Euro-NM market capitalisation and of venture capital in Europe from 1995 to 2000 but the gap increases with respect to the US case. One may wonder whether Europe and USA at two different stages of a diffusion curve of venture capital. Further research could provide econometric tests of the impact of development of Euro-NM on the development of Venture Capital.

A second question raised in the paper is : which companies are venture-backed at IPO? The authors did a probit estimation: A smaller size of sales before Venture is the only significant variable explaining venture. An interpretation is that small Firms, not yet able to sell, whose production takes time before being sold, are more likely to be venture backed.

A third question is: which are the Effects of Venture Capital on Initial Public Offerings? More precisely, does venture capital shortens time to listing? The answer is no. Does Venture Capital increases funds raised at I.P.O.? The answer is yes. Does Venture Capital increases the growth rate of innovative firms after I.P.O., with respect to non venture-backed I.P.O. ? The answer is no. The authors handled carefully statistical problems related to their data set, such as problems of the endogeneity of venture dummy, stratification, sample selection and missing data. They found that the effects of venture capital on IPO were not that large.

As a conclusion and proposal for further research, the authors suggest an Effect of Venture Capital at IPO which is the following: would have these firms started, survived and been able to go public without venture capital? To test this hypothesis, researchers need a reference group of firms not going public, to check whether venture enforces IPO decision (and not only time to listing), using e.g. probit estimation. Conversely, one could also check whether the number of ventures depends on the number of IPO and on the liquidity of the new markets. Another question is: how efficient were the incentive schemes organised by public authorities in France and in Germany to support venture capitalist in the last five years? This would lead to other research work related to pre-IPO effects of venture capital.

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