



**FINANCING WITH VENTURE CAPITAL:
ADVANCES IN KNOWLEDGE OVER THE
LAST TEN YEARS AND RESEARCH AVENUES**

**Research Report Presented to
Industry Canada**

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**INSTITUT DE RECHERCHE SUR LES PME
April 25, 2003**

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1. Introduction and Objectives

The mandate for the research, conducted for Industry Canada, aims to meet the following objectives:

- to index and classify academic and professional research, in French and English, as well as public programs and policies that relate to financing by venture capital;
to identify the primary researchers and centres of expertise on venture capital in Canada and elsewhere;
to contribute to the definition of a specific research agenda on the venture capital market for SME.

Some explanations must be given on meeting these objectives.

- Only the main programs of foreign governments directly related to a share interest by the government will be inventoried. All Canadian federal and provincial government programs will be omitted from this research.
The informal venture capital market, represented by "love money" and "business angels", will be specifically excluded from this report unless studies or documents include both types of markets, namely formal and informal.
Moreover, because the financing tools used by venture capital companies are not always identified in the studies or public documents, apart from direct participation in equity, our listing could also take into account other sources of financing usually used in the industry such as debentures (either convertible or not), preferred shares (convertible or not), warrants and other types of loans, whether guaranteed or not.
Last, because we primarily used the Internet and electronic periodicals to identify relevant information, our research should not be seen as exhaustive. It is possible that certain information might not have been identified because it was not in electronic form in the appropriate places.

Our mandate being not a synthesis of the literature but rather a compilation of what has been done, the results of our research will sometimes be presented as a compilation of statistics. Sometimes, in view of our experience and knowledge of the field, as well as our access to more complete documents, we reviewed the written material to guide future work.

The following section presents the methodology used, Section 3 provides and comments on the main research topics that were inventoried and Section 4 deals with professional events.

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2. Methodology

2.1 Scientific writing, scientific events and identification of experts and centres of expertise in venture capital

To identify the documents that are pertinent to the review of literature on venture capital, we consulted various sources of information:

- databases of the customary periodicals, namely ABI-INFORM, EMERALD, SOURCE and JSTOR;
• sites of international bodies that are responsible for scientific congresses on SME such as ICSB (International Council of Small Business), Babson and CIFPME (Congrès International Francophone de la PME);
• university centres or public bodies that are likely to produce related research reports such as the INRPME (Institut de recherche sur la PME), Industry Canada (Strategis), Federal Reserve Bank of Atlanta, OECD, SBA (Small Business Administration of the United States), the Bank of Canada, Statistics Canada, the Canadian Department of Finance.
• Moreover, the reading of certain documents and the consultation of sources that were initially planned led to other pertinent sources, the largest of which is the SSRN (Social Science Research Network), which is an inventory of the research conducted in the fields of finance, accounting, economics, law, marketing and negotiation.

In spite of rigorous data collection, it is obvious that our research cannot be exhaustive since all these documents, and especially those that are not distributed to the public, are not easy to identify or to locate, and several important Internet sites are not updated regularly.

The following key words were used in the academic research: venture capital, capital de risque, financement, private equity, portfolio investment, development stages enterprises, venture capital companies, investors, trends, non-profit organizations, community development, funds, investment policy, financial performance, organization development, processus décisionnel, exit, convertible securities, IPO, start-up, valeur ajoutée, disbursements, fundraising, performance and entrepreneurs.

Other than specific information that allowed the classification of documents by subject, author and year, the abstracts were read to extract the following information: type of study (empirical [with hypotheses], descriptive, theoretical or professional [with statistics without hypotheses]), period covered by the study, provenance of the sample (case, survey, interview, panel), sectors covered by the sample, method used to collect the information (questionnaire, database, public documents such as prospectuses), the primary hypotheses or research objectives and last, the main results.

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When we had access to documents, we read a little more in depth to complete our list of information. On the other hand, this could not be done for a large number of references. The missing information is related more to the sample and research methodology. In all cases, we were able to compile the hypotheses or research objectives and the main results. Lastly, reading this information allowed us to classify one text under several research subjects, which explains that the number of times a subject is raised, which we have called an “occurrence”, is greater than the number of documents that were consulted. Thus, the 313 documents that were noted represent 564 occurrences, an average of two subjects per document.

Given the amount of literature available, we limited ourselves to the last ten years of scientific writing and to seven years for events of the same type.

2.2 Professional information, professional events and industry trends

Apart from inventorying scientific and professional writings, we have compiled information on professional associations and events (conferences, fora, etc.). To do this, we conducted the research by Internet using the following main search engines: *Google.com, Yahoo.com, Lycos.com, Altavista.com, Excite.com, GO.com, WebCrawler.com, NorthernLight.com, Dogpile.com, Metacrawler.com, voila.fr* and *help-finance.com*.

In addition, the following key words were used for:

associations: *association of venture capital, association of the investors, association of joint venture, associations de capital de risque, associations des investisseurs;*

conferences: *venture capital investment, conférence sur le capital de risque, colloque sur le capital de risque, congrès sur l'industrie du capital de risque, annual symposium of venture capital, forum for private equity, annual private equity, private equity financing, annual conference, venture capital conferences, symposium sur le capital de risque, investment capital conference, venture fair, conférences sur le financement, annual venture capital conference, venture capital financing, financement par capital de risque, sources of financing, financement privé, international venture capital summit, financing forum, conference on investment capital, investors conference, meeting of venture capital, venture capital annual forum.*

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3. Venture Capital: Academic Research

To allow for a broad survey of the literature, we identified six research topics that are pertinent to venture capital. These topics were then subdivided into 18 research topics to facilitate synthesis. Table 1 shows these topics and subjects as well as the frequency of their occurrences (summaries of these studies, as well as the authors, are given in Appendix 1). Our survey shows greater interest in research on financing supply (the role of venture capital [Topic 1] and market operations [Topic 2]) than for those that deal more specifically with demand (which would be the entrepreneurs' point of view [Topics 3 and 4]). This finding will be repeated several times in the report as well as in our conclusions.

Table 1: List of research topics used to inventory and classify scientific and professional writing¹

Research Topics and Subjects	Occurrences
1. The role of venture capital in economic development, legal structures and the provenance of investors	
1.1. Impact on the economy, job creation, innovation and performance	39
1.2. The structure of capital supply (including private and public markets, the influence and control of governments on venture capital supply)	138
1.3. Legal structures: VCC objectives and mission	34
1.4. The balance between venture capital (VC) supply and demand	31
2. The functioning of the venture capital market: financing decisions, risk measurement, contractual aspects	
2.1. The VCC criteria for investment and the decision-making process	66
2.2. Risk evaluation (identification, estimate and mitigation)	7
2.3. Contractual aspects of VC and their repercussions on SME	55
2.4. The deciding factors of involving a VCC in the SME	21
2.5. Control mechanisms (investment control from the point of view of the VCC)	36
2.6. Investing in an SME as a component of a securities portfolio	14
3. Comparison of businesses that were financed with venture capital and those that were not (performance, sales, job creation, rate of innovation, etc.)	19
4. The impact of a venture capital company on the business that is financed	
4.1. The 'professionalization' of SME after VC (introduction of business practices and procedures)	9
4.2. VCC involvement and support	13
5. Impact and rate of survival of businesses that are financed with VC after divestiture by the VCC	
5.1. Exit strategies	19
5.2. The initial public offering	24
5.3. The performance of financed companies	11
6. New trends	
6.1. Technological investment	21
6.2. The future of the stock market for rapidly growing SME	7

There has been an explosion of academic research in the last few years, in light of the increase in the number of qualified researchers throughout the world and, as a result, the rise of new, high-standard, scientific periodicals. The volume of annual research, therefore, varies greatly, as shown

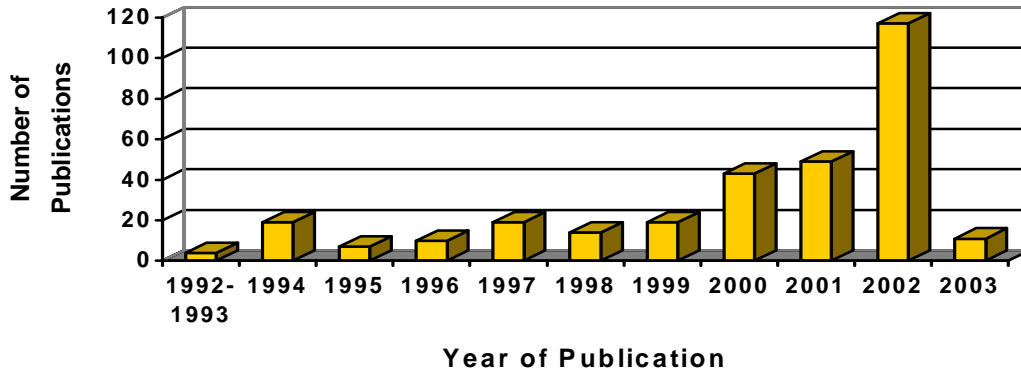
¹ In presenting the results, the abbreviations VC and VCC will stand for 'venture capital' and 'venture capital company'.

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in Figure 1, where there is evidence of greater activity since 2000. Of the 302 documents published before 2003, 39% were published in 2002 and 69% since 2000.

Figure 1: Annual Distribution of Inventoried Documents (313 documents)



Figures 2a and 2b show that the increase in the number of publications did not change the orientation of the research from that of before 2000, topics related to capital supply (Topic 1) and market structure (Topic 2) drawing most of the researchers' attention (see Table 1 to identify research topics). We will discuss these aspects in greater detail in subsequent sections.

Figure 2a: Distribution of the Literature Before 2000 (171 occurrences)

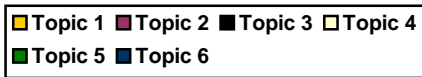
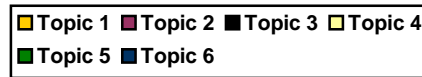
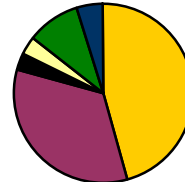


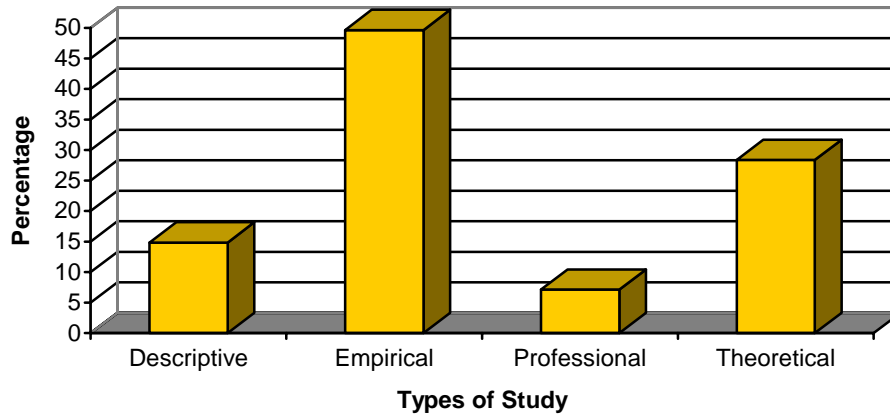
Figure 2b: Distribution of the Literature Since 2000 (393 occurrences)



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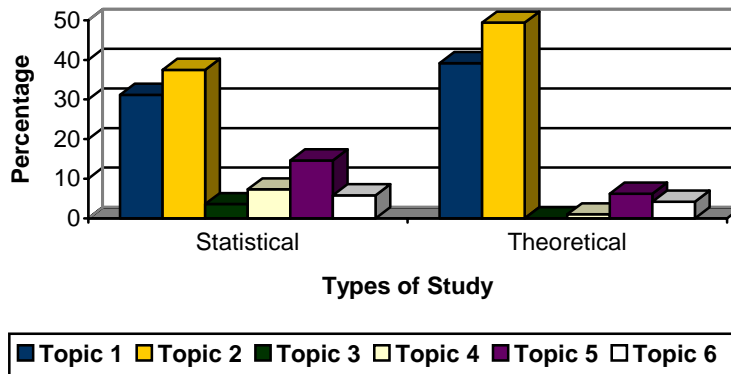
As shown in Figure 3, empirical research represents the largest part of the literature on venture capital.

**Figure 3: Type of Research Selected by the Authors
(313 documents)**



To compare their contents to that of theoretical research, we have merged the empirical and professional research, both of which are based on statistical data. This information is shown in Figure 4, where we see that statistical research encompasses more research topics, as opposed to theoretical research, 90% of which is concentrated on the role and functioning of the venture capital market (Topics 1 and 2).

**Figure 4: Distribution of Topics by the Types of Research
(564 occurrences)**



The inventory allowed us to identify the scientific periodicals that are more likely to publish articles on venture capital as well as on the public organizations that are most active in this field. As venture capital deals especially with SME, it is in this area that one finds the largest volume of research. The journals that specialize in finance and economics rarely publish texts on these subjects whereas there is one periodical that is dedicated entirely to this research area, namely: *Venture Capital: An International Journal of Entrepreneurial Finance*, in existence since 1999.

Table 2 lists the periodicals that have published two or more articles on venture capital in the last ten years as well as the total number of articles inventoried. One must remember that this research emanates from references found on the Internet and is not a systematic analysis of these

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journals for the purpose of making an exhaustive listing of pertinent publications. Therefore, it is possible that a certain number of articles have not been included here.

Table 2: List of Periodicals and of Official Bodies that have Contributed to the Development of Knowledge on Venture Capital (1992-2002)

Periodicals	Number of References
Journals specializing in SME	16
<i>Entrepreneurship Theory and Practice</i>	
<i>Journal of Business Venturing</i>	
<i>Journal of Small Business & Entrepreneurship</i>	
<i>Journal of Small Business Management</i>	
<i>Revue Internationale PME</i>	
<i>Venture Capital Journal</i>	
<i>Venture Capital: An International Journal of Entrepreneurial Finance</i> (published since 1999)	51
Journals that specialize in finance or in applied economics	33
<i>Economic Review, Financial Management</i>	
<i>Journal of Banking and Finance</i>	
<i>Journal of Corporate Finance</i>	
<i>Journal of Economics and Management Strategy</i>	
<i>Journal of Finance, Journal of Financial Economics Journal of Money, Rand</i>	
<i>Journal of Economics</i>	
<i>Stanford Law and Economics</i>	
Public Bodies	Number of Documents
OECD	7
Industry Canada and Statistics Canada	10
National Bureau of Economic Research	9

Some centres of expertise have produced a certain number of works and have conducted a certain number of activities on venture capital. This is true of the *Center for Economic Studies and Ifo Institute for Economic Research* (CESifo – Germany), the *Center for Economic Public Research* (CEPR – England), the *National Bureau for Economic Research* (NBER – Boston) and the *Center for Europe and Economic Research* (ZEW – Germany).

Lastly, some authors have influenced the development of knowledge more than others. They can be considered as experts because their name appears on three or more documents (regardless of their standing in the listing of authors) in our reference list at the end of this report. This list of experts is presented in Table 3, with the number of times they have been cited as author or co-author, as well as the organization to which they belong. It should be mentioned that the classification does not take into account the rank of the author, which could be very important. For example, although Lerner is at the top of the list, his name appears first seven times out of 14, compared to Cumming, whose name appears first 12 times out of 12.

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Table 3: List of Principal Authors in the Last Ten Years

Author	#	University or Body
Lerner, J.	14	Harvard University and National Bureau of Economic Research
Cumming, D.	12	University of Alberta
Gompers, P.	11	Harvard Business School and National Bureau of Economic Research
Wright, M.	8	University of Nottingham
Keuschnigg, C.	7	University of St. Gallen and Center for Economic Studies & Ifo Institute for Economic Research
Sapienza, H.	7	University of South Carolina
Manigart, S.	6	University of Ghent and De Vlerick School voor Management
Baygan, G.	5	Organisation for Economic Co-operation and Development
Fiet, J.	5	University of Louisville
MacIntosh, J. G.	5	Faculty of Law, University of Toronto
Bascha, A.	4	University of Tübingen
Hellmann, T.	4	Stanford University Graduate School of Business
Lockett, A.	4	Nottingham University Business School
Robbie, K.	4	University of Nottingham
Anand B. N.	3	Harvard Business School
Brush, C. G.	3	Boston University
Carter, N.	3	St. Thomas University
Darby, M. R.	3	University of California, Los Angeles - Anderson School of Management
Galetovic, A.	3	Universidad de Chile
Gilson, R. J.	3	Stanford Law School
Greene, P.	3	University of Missouri - Kansas City
Hart, M.M.	3	Harvard University
Kaplan, S. N.	3	University of Chicago
Marti, J.	3	University of Madrid
Moesel, D.	3	University of Missouri - Columbia
Nielsen, S. B.	3	Copenhagen Business School
Robinson, D. T.	3	Columbia University and Columbia Business School
Schertler, A.	3	Kiel Institute for World Economics
Schwiebacher, A.	3	University of Namur
Shepherd, D.	3	Lally School of Management and Technology, University of Colorado
Smith, R. L.	3	Claremont Graduate University
Smith, D. G.	3	University of Wisconsin at Madison - Law School
Strömberg, P.	3	University of Chicago
Zucker, L. G.	3	University of California at Los Angeles

This list of writings will be presented as follows: we will first mention the number of times that a particular topic is dealt with; which research subjects of a more specific nature were broached and certain key expressions that are frequently found; the conclusions that can be drawn from these studies; and, last, certain avenues of research that should be dealt with in greater depth.

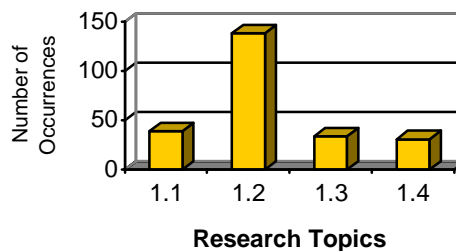
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3.1 The role of venture capital in economic development, legal structures and the provenance of investors (242 occurrences)

It is important to have the “lay of the land” of the venture capital market to be able to understand and review the mechanisms of its operations and to identify the factors likely to impede its efficiency or to prevent it from meeting its objectives. One would also like to measure the extent of the impact that it can have on job creation, on the rate of innovation and on the maintenance or growth of successful businesses.

Of the 564 occurrences identified, 43% dealt with this topic of research. The distribution of research subjects by occurrence is presented in Figure 5.

Figure 5: Count of Studies on Topic 1



As found earlier, one will note the abundant literature on aspects that deal more directly with the structure of the market and on its impact on the economy in general (subjects 1.2 and 1.1 respectively).

These research subjects are presented in greater detail in the following paragraphs.

3.1.1 The impact on the economy, on job creation, on innovation and on performance

The various aspects of the impact of venture capital on the economy that were studied are:

- the venture capital industry in the economy: role of catalyst responsible for economic growth, contribution to job creation, etc.;
- regulatory and governmental aspects: support that the government should provide in the venture capital industry, etc.;
- the role of VC in innovation: involvement of VC beyond financing and in different phases of innovation projects, access to the stock market for innovative businesses, etc.

In summary, the role of VC in economic development and job creation is significant and seems corroborated in several countries in which the industry is relatively mature. VC also has a significant effect on the rate of innovation of businesses (measured in various ways) and even on the development of innovations that come out of university research centres. The role of VC is felt as much on access to the stock market for major funding as on the marketing of inventions.

An aspect that seems to have been studied less involves the stages of development of innovation and the role of VCC. Does the latter change according to the degree of maturity of the innovation? According to whether the innovation is radical or incremental? What about financing problems in the first phases of development? Several studies show that VC has an influence on job creation and favours business start-ups. But we know less about the start of innovative businesses and even less when a project comes out of a university or government laboratory.

We know that VC plays a major role in the financing of innovative projects but for what proportion of the projects? What is the rate of refusal of requests for financing for innovative projects and is

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this different from the rate of refusal for traditional projects? Is the role of VC complementary to that of the other players in the capital market or is it a substitute? How could governments play a greater role in the demand for financing and try to make VC more accessible and acceptable to entrepreneurs?

Few authors have dealt with the risk of innovation projects and the excessive consequences that they can have on innovative businesses. How are innovation projects evaluated and what financing conditions are offered to the businesses that are financed? Can financing by VC in these sectors reduce entrepreneurship on account of the replacement of executives of creative and innovative businesses? What are the consequences for innovation in a longitudinal perspective?

Finally, innovative businesses present challenges that are different from those of traditional businesses, and the evaluation of non-material assets poses research problems that need to be analysed. There is a link to be made here with the approaches to evaluation, a research field that is fairly well developed but exploited little within the context of VC, which poses different challenges.

3.1.2. The structure of capital supply (including private and public markets, the influence and control of governments on the supply of venture capital)

The structure of supply is the subject of research that has been documented most in the literature (138 occurrences). Access to quantitative information is certainly a factor that explains this, as does the interest of certain government or international bodies concerned with economic development. Among the research subjects that were studied were:

- the factors that are favourable to the growth of VC supply: regulatory aspects, taxation, government programs, etc.;
- competition on the venture capital market: competition among the VCC, competition between the VCC and business angels, competition between VC and the other means of financing, etc.;
- features of the markets: segmentation, maturity, unionization, etc.;
- complementarity: between public and private markets, to favour innovation and the start-up of businesses, to ensure the sharing of risk, etc.;
- globalization and internationalization: consequences for the industry, effects on the businesses, use of the Internet, etc.

The structure of VC supply has been studied widely and several international comparisons exist. Among the factors that influence the evolution of VC supply, we will mention the influence of public authorities, which can take various forms: the taxation system, various laws and regulations (including investor protection and international barriers to capital flow). Another significant factor is the size and level of development of the stock markets and opportunities for reserved fundraising available to rapidly-growing businesses. The American economy, which prefers a market based on stock markets and private businesses, has a more dynamic VC than those of economies based on financial institutions (Germany, Japan), or that of Canada, which is characterized by the strong presence of governments. The situation of the American market is explained by, among other things, its high level of maturity (compared with other economies) characterized by large sums available for investment that allow for the specialization of certain VCC and the presence of "VC funds of funds". This maturity of the market is also reflected in the knowledge and expertise that one finds in the VCC and which can ensure better investments. Also, large VCC work mostly alone whereas the small VCC, either in the United States or elsewhere, tend to unionize or to create various associations among themselves or with the governments. However, there are few studies

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that suggest an optimal structure of the market. A lack of consensus on the measures of success or of performance, and difficulties in international comparisons, are probable reasons for the lack of writing on this subject.

As for the actual structure of the VC market, the competition among VCC, between the VCC and financial angels and between the VCC and the banks has also been analysed. Certain authors suggest a segmentation of the markets whereas others come to the conclusion of a possible complementarity of these means of financing. Segmentation, if that is the case, could lead to disadvantageous conditions for SME and a need for intervention on the part of the government.

We also find several studies that discuss the role of public authorities in the financing of innovation, a role that can be complementary to that of VCC. Given the new trends in the economy, other studies will be required to better understand the synergy that two complementary partners can create in the financing of promising projects, the importance of their intervention and the impact on public finances.

What seems to have been dealt with less in the literature is the place of venture capital as an "alternative" source of financing for entrepreneurs.

3.1.3 Legal structures: VCC objectives and mission

The financial interventions of risk capital companies vary according to their mission and their legal structure. Some want to promote the creation or preservation of jobs, others regional development, and one group will only be interested in financial returns. Their mission influences the interventions by these companies as well as the overall return of their portfolio. This situation can be better understood by also looking at how the markets of other countries are organized and who dominates them, as some companies' financial return problems are directly transferred to the requesting businesses that hold out the most promise and, in their financing contracts, that have to take on the burden of businesses that are most likely to fail. One can then understand why venture capital is seen by many entrepreneurs as the capital of last resort and that very few thriving companies go that route to finance certain expansion, innovation or export projects. Such an understanding will also allow us to better situate the public financing institutions and the role of the State in this field.

The subjects dealt with include:

- relations between VC, governments and financial areas: concentration of the market and competition, government support, financial incentives, etc.;
- the behaviour of VCC according to their legal structure: the choice of investment, exit methods, rates of return; financing contracts, etc.

Some studies examined the scope of workers' funds and their particularities, namely their choice of investment. Several studies have compared VCC that are said to be "independent" to other forms of VCC (subsidiaries of financial institutions, of companies, etc.). A frequent conclusion is that the legal structure of the VCC has a real effect on the types of projects that are chosen, the rates of return that are required, exit methods, etc. This fundamental aspect of the venture capital market deserves to be the subject of a synthesis to allow the identification of gaps in this market and to focus on the possible actions of public authorities. It is also in this context that the role of pension funds in the VC industry should be analysed. It would also be desirable to have international studies to compare the efficiency of the Canadian market which, because of the size of workers' funds, could possibly identify anomalies that could hinder its development. The social role of these funds can prevent them from financing certain projects that other companies, whose aim in terms of return is strictly financial, would accept.

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3.1.4 The balance between supply and demand in venture capital

Examining the balance between the demand for financing and supply is necessary to identify ways the market could be improved so that investors and businesses can both benefit from their relationship. Venture capital is accused of not playing its role in the financing of innovation projects, and in several industrialized countries, but it is not clear why. Is the problem on the demand side or is it just that the supply is poorly formulated and not adapted to the needs of the companies concerned? One could equally review and question the role of a public market (stock market) for the financing of small entrepreneur-led companies. This goes against the philosophy of entrepreneurs, which could explain why this means of financing is not used very much.

These elements have been dealt with in a number of documents and the following emerges:

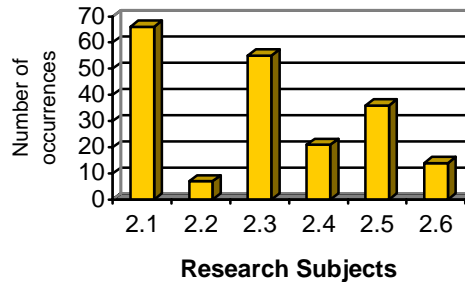
- the evolution and structure of supply financing: the use of various securities, the optimum financing combination, the influence of the maturity of the market, etc.;
- the demand for financing: business start-ups, access to the market by more mature businesses, etc.;
- balance between supply and demand: excessive supply, the influence of economic growth, the influence of the domestic market and the provenance of investors (domestic or foreign), etc.

Discussions on venture capital supply are more numerous than those on demand and the needs of entrepreneurs (some consultants' statistical reports but few scientific studies). It is, therefore, not possible for now to affirm that supply and demand are perfectly harmonized, which should be a major line of research.

3.2 The functioning of the venture capital market: financing decisions, risk measurement, contractual aspects (199 occurrences)

According to our survey, the functioning of the market is the second-most-developed topic in academic literature. The venture capital market is an important component of financial markets which has shown strong growth in the last few years. On the other hand, its degree of maturity is very variable, depending on the country, and the United States is considered by many as the model to be copied. One finds several international comparisons of various countries that often include the American market.

Figure 6: Summary of Topic 2 Studies



3.2.1 The criteria for investment and the investment decision-making process for VCC

The decision-making process has been amply studied, as shown by the literature. The less-developed aspects concern the criteria used by investors to justify their financing decisions. The primary subjects dealt with are:

- types of investment: stage of development, sectors, gender of the entrepreneur, need for monitoring depending on the maturity of the business that is financed, segmentation of markets, influence on the type of VCC, VCC risk depending on the projects financed, etc.;

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- selection criteria: experience of the entrepreneur and of the senior executive team, type of products, market potential, nature of the assets (tangible or not), adaptation of criteria depending on the stage of development of the financed project, variation of criteria depending on the country, etc.;
- the decision-making process of the VCC and their behaviour: influence of the VCC's mission, unionization, evaluation and modelling of the risk, variation depending on the country, etc.

Several factual studies looked at VC interventions in business start-ups whereas few studies can pinpoint the reasons justifying the lack of intervention of VCC at this critical stage in the development of new companies. It would be interesting to look more in depth at the risk factors of projects at this particular stage to identify the mitigating elements or efficient strategies to be implemented to ease this stage in the development of companies. There are few studies on the phenomenon of public/private partnerships to finance business start-ups, which could deal with sharing the risk.

Among the selection criteria, one finds little discussion on the models of evaluation, of measurement and risk management. In the same way, what are the relationships between the level of risk measured using evaluation criteria and components of the financing contract?

In summary, we find many studies on the industry, financing supply, types of VCC and their behaviour but few studies on the demand side. Investment criteria, for example, are frequently broached from the VCC point of view.

3.2.2. The evaluation of risk (identification, estimate and mitigation)

The estimate of risk is a crucial element in finance and allows one to explain the returns expected by the investors. This relationship cannot be contested in itself. However, measurement of the **real risk** of the projects to be financed, specifically in the case of SME or private companies, is a topic that is less well developed. This evaluation of risk is the basis for defining financing contracts and of the concept of VC itself. There is a field of basic research here to be developed to contribute to a supply of more efficient financing and which would allow the businesses that are financed to take on financing conditions that reflect more their real risk and not the risk perceived by the valuers.

Despite the interest that such a research subject offers in the literature on venture capital, one finds very few works. The primary subjects dealt with are:

- Identification and description of risks: alteration of the evaluation criteria depending on the stage of development, differences in behaviour between business angels and VCC, subjectivity in the valuation of businesses with rapid growth, specific intervention depending on whether the risk is internal or external to the business.

Obviously, the subject is not a simple one. But inasmuch as risk valuation is at the centre of the relation and conditions for financing, a more in-depth look at the valuation tools and of their relevance to the companies financed, as well as an examination of the "new risks" with which VCC are increasingly confronted, constitute a pertinent research direction.

3.2.3 Contractual aspects of VC and their repercussions on SME

Certain contracts that tie the moneylender to the business have few constraints and leave a lot of latitude to the business' senior executives. Others, on the other hand, limit the freedom of the executives and go as far as to apply the brakes on the growth of the businesses. What is the



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structure of these financing contracts and what repercussions do they have on the financial health and vulnerability of the beneficiaries? The topics that are developed are:

- financing tools: combination of securities, convertible securities, quality of information and choice of financing tools, moral hazard and the problem of asymmetric information, etc.;
- types of contract: opportunistic contracts and behaviour, exit strategy, agency problems, etc.;
- content of contracts: control of the business financed, rights to cash flow, departure of the founders, management of the business, international comparisons, etc.

There is heavy borrowing from the agency theory to explain the drafting of financing contracts between VCC and business. Opportunistic behaviour of entrepreneurs, the need for monitoring, the problems of moral hazard or of asymmetric information have all been studied in different contexts to allow for the drafting of contracts that are judged to be "optimal" for the VCC. Are these contracts equally optimal from the entrepreneur's point of view? Very little is said about this. Also, there is little discussion, and the little there is often theoretical in nature, concerning the means of measuring agency problems, opportunistic behaviour, or moral hazard and asymmetric information; and yet, these elements are at the centre of contract definition and of the establishment of conditions for financing. That which is arbitrary, or elements of perception, seem to be more the rule in the preparation of financing contracts, especially for innovation projects. Better knowledge is needed of the ways in which the VC market really works. Are there "typical" contracts that are more often associated with successful investments? Can the flexibility of a contract be a factor in the success of the SME?

Convertible securities and combinations of securities seem to be the financing strategies with the most "payback". Their use depends on information conditions, on the climate of confidence and on the maturity and risk of the business that is financed. Along the same lines, these strategies protect the rights of VCC. There is much said about the rights of VCC but little about those of the business that is financed. This needs to be looked into, as it might explain why only a very small number of businesses are turning to VC to finance their projects.

Some texts deal with the dismissal of the founder by the VCC after numerous rounds of financing, but they do not discuss the consequences from the standpoint of the development of the business and its capacity for growth and for future innovation. Finally, the literature says nothing on the specific traits of entrepreneurs and the importance of their investment in the business to facilitate the financing of their projects and to bring the relationship between the business and the VCC closer to that of a collaboration and a partnership.

3.2.4 The deciding factors in the involvement of VCC in the SME

This subject is not well developed, but the following aspects are dealt with:

- the involvement by the VCC in, and commitment to, the business that is financed: reputation of the VCC, asymmetry of information and agency problems, confidence, uncertainty, business risk, board of directors, etc.

Overall, the elements that refer to confidence, to uncertainty and to risk are those that will determine the degree and the shape of the involvement of the VCC in the SME to protect its investment.

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3.2.5 Control mechanisms (control of the investment from the VCC’s perspective)

As moneylender, the VCC can use various mechanisms to protect its investment, which will take various forms depending on the specifics of the business that is financed. There were references to the following elements in the literature:

- the board of directors and management of the business: reputation of the VCC, type of company, etc.;
- the contracts: need for monitoring, replacement of the senior executive, agency problems, voting rights and rights to cash flow, confidence, etc.;
- type of financing: contracts with a combination of securities, convertible securities, financing rounds, financing term, etc.;
- syndication: protection of the reputation, risk sharing, access to more resources, etc.

The primary control mechanisms used by VCC are contracts and financing tools. Contractual clauses will be defined by the extent of agency problems, the moral hazard or the asymmetric information that are anticipated between the VCC and the business that is financed. Moreover, a climate of confidence will make the contract much less cumbersome (aspects studied by some authors but which should be confirmed in other contexts). There are no links made between the costs of financing and the satisfaction of the entrepreneur. The use of boards of directors has not been studied very much in the literature as a control and monitoring mechanism in the business that is financed. Inasmuch as this can contribute to the increase in the quality of the business’ management by ‘professionalizing’ certain activities and by developing the network of contacts, it would be beneficial to study this phenomenon more.

Convertible securities or contracts that use a mixed approach (shares and bonds) have been studied at length and the tendency for mixed contracts to the detriment of shares (privileged or ordinary) seems to have had more success than an approach with only one type of financing (even if there are possibilities for conversion). This can be interesting insofar as these forms of tools allow the parties involved to establish mutual trust by learning to know each other better.

Some studies deal with financing in stages (rounds of financing) when the investments are large or the entrepreneur displays opportunistic behaviour. It is also considered as a solution where there is uncertainty or incomplete information.

Finally, the sharing of risk and access to more financial resources can be done by syndication. Few studies have been made on this type of organization with regard to the greater risk of technological investments or assets that are strongly immaterial.

3.2.6 Investment in an SME as a component of a securities portfolio

This area of research has raised little interest. However, it could allow for a better knowledge of the strategies used by VCC and can suggest tools for the overall management of risk of VCC, as is the case in the field of insurance.

- The portfolio strategy: consistency between investments and the portfolio strategy of VCC, optimum size, influence on the type of fund (specialized or not), etc.

There are factual studies on the strategies for reducing risk to the portfolio, but few conclusions on the mechanisms of protection as such. There are some texts on geographic diversification and diversification depending on the maturity of the projects, but this is still embryonic. There is an important dilemma that faces all VCC, namely that of financing risky projects and surviving.

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Public/private partnerships, syndication, personalized management of investments: how to combine all these possibilities to make this market more efficient and to promote its development while reducing losses? The legal structure of a VCC has an influence on the size of its portfolio and, therefore, on its means of diversification. This avenue has not been explored much.

3.3 Comparison of businesses that were financed by venture capital and those that were not (performance, sales, job creation, rate of innovation, etc.) (19 occurrences)

To better understand the venture capital market and appreciate its role in the economic development of a country, it is necessary to analyse the businesses that have benefited from this type of financing and to compare them to those that have chosen other sources. The difficulty in accessing quality information certainly explains in large part the limited number of studies that were found, which dealt with the following subjects:

- the characteristics of businesses financed by VC: value of tangible assets, expected growth, market potential, etc.;
- growth and performance: sales and jobs, higher performance, initial under-valuation, 'professionalization', technological businesses, etc.

The superior performance of businesses that have had VC financing must not be linked directly to intervention by VCC. The strictness of selection criteria used by VCC must also be analysed. It would be important to have a greater number of studies that measure causal relationships between the intervention of VCC and the performance of financed businesses, which would lead to better knowledge of the functioning and efficiency of this segment of the financial market. A study of the behaviour of businesses that have succeeded but that were refused by VCC would make it possible to assess or critique the criteria used by VCC.

The impact after an initial public offering is the subject that is dealt with most frequently. This is surely related to the fact that information is more easily available from public than from private companies.

The main difficulty in doing studies in this field is the access to pertinent information, which we will raise in our conclusions.

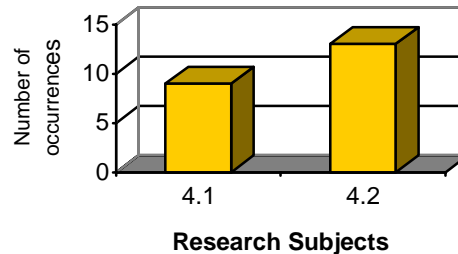
3.4 The impact of the venture capital company on the business that is financed (22 occurrences)

By its nature as investor and as middle- or long-term partner, the provider of venture capital can influence significantly the development of the business in which it has invested. Beyond financing, SME can thus benefit from the venture capitalist's network of contacts, experience and advice, allowing some of them to increase their degree of professionalism as well as their competitiveness on national and international markets.

3.4.1 The "professionalization" of SME after VC (introduction of business practices and procedures)

SME are known for their lack of various resources (something that hinders their ability to get organized like big businesses) and, hence, for the fact that they often operate more intuitively than professionally. That, in fact, is their main characteristic. The arrival of an outside shareholder can

Figure 7: Summary of Topic 4 Studies



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change this because of the latter’s more frequent information needs. Some studies have dealt with this research topic, focussing on such subjects as:

- the board of directors: influence of the VCC’s reputation, increase in the number of outside administrators, expected role of the board of directors, etc.;
- formalization: decision-making process, development of information systems, ‘professionalization’ of the executive team, formalization of certain management activities, etc.

Boards of directors are the favourite tools of moneylenders and investors to “monitor” their investments. How do the senior executives react to the insertion of a board of directors? One must note that the board of directors is often larger when the founding director is replaced by a “manager”. Is there a loss of efficiency or of vision associated with this departure? Is the “professionalized” board more efficient than the executive team managed by the founder? Very few studies have been done on the “effects” of VCC on the development of SME. And yet, this type of study is important as it would permit a greater understanding of the needs of SME beyond the need for financial resources and show that a “more professional and formalized” management can be associated with a reduction in the vulnerability of the businesses that are financed.

3.4.2 The involvement and support of VCC

A venture capital provider’s commitment to a business is rarely only financial. The increased risk of businesses that solicit this financing involves keeping track of the investment, something that cannot be done simply by putting out periodical financial reports. Thus, there are other types of involvement, which have been dealt with as follows:

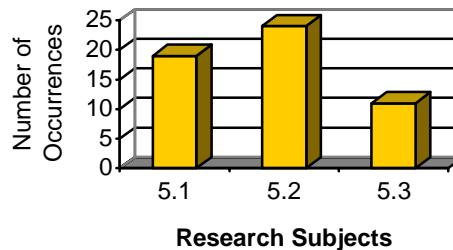
- The management team and managerial support: replacement of the primary senior executive (frequently the founder), decentralization of management, independence of the board of directors, regional differences (international studies), etc.;
- Strategic involvement: financial and business advice, sharing and transfer of knowledge, the influence of uncertainty on the type and extent of the involvement, etc.

The business often being the extension of the entrepreneur, it would be interesting to analyse the relationship between the rates of replacement of the main executive when a VCC acquires an interest as opposed to a group of similar businesses that are not financed by VC. What are the consequences on the value of the business? Would such control of the financed business be desirable in the long run inasmuch as the VCC is committed for a limited period of time?

3.5 The impact and rate of survival of businesses financed by VC after divestiture (54 occurrences)

The intervention of the venture capital investor occurs at three levels. First, at the time of injection of funds for the purpose for which they were requested (increase production capacity, develop new markets, market an innovation, etc.), then by the implementation of more formal management procedures (referred

Figure 8: Summary of Topic 5 Studies



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to above as 'professionalization'), which usually enhances the SME and, finally, at the time of divestiture. This last impact is sometimes dramatic for a certain number of businesses as the choice of exit strategy can change the organization and its financial health in a major way.

3.5.1 Exit strategies

A divestiture through an initial public offering significantly changes the management structure, objectives and financial situation of the SME. This is because of the new regulations to which the company must conform, the disclosure policies, etc. A buyback of the shares held by the venture capital company also has significant impact as much on the financial health of the SME as on that of the entrepreneur (especially if the latter must borrow to make this purchase). The literature tells us of these various strategies and the costs that they can generate for the business, but we know less about the economic impact and the rate of survival of the businesses that are financed once the investor has withdrawn. The subjects that are dealt with are:

- the initial public offering (IPO): synchronization with the evolution of stock markets, influence of the stage of development of the business at the time of the initial financing, influence of the industrial sector, international comparisons where structural differences between countries explain different financial behaviour, etc.;
- the entrepreneurs: cultural differences between countries which explain the various attitudes of the entrepreneurs, the financing contract and anticipated exit, etc.;
- the organization: use of convertible securities, size of the markets and type of exit, cultural differences between countries, rights to cash flow and to the control and type of exit, etc.

A number of authors have studied the IPO, which is the most cost-effective exit means for VCC, but the studies do not seem conclusive. The size of the capital market and its liquidity, as well as regulations, influence the probability of using the IPO and partial exits. It would be interesting to look at exit strategies according to type of business. Are IPO appropriate exits for certain types of investment (technological sectors, very rapid potential growth, ...)? The more the VCC has invested, the more the IPO will be the optimum form of exit given the advanced stage of development of the SME and its size. What about smaller businesses? What are the best types of exits when the stock market is not receptive? And what are the post-investment consequences on the financed businesses after the exit, depending on the different strategies?

3.5.2 The Initial Public Offering

What are the effects of an IPO on the financed businesses? What is the rate of success of this strategy but, especially, what are the variables that influence its failure? How does the SME survive such a situation and how much time does it need to regain a certain balance? The literature reports many success stories but we know little of the failures. Analysing these failures would allow us to help identify possible improvements in this market. The subjects dealt with are:

- the synchronization of going public: experience of VCC, etc.;
- the type of business: industrial sector, etc.;
- comparisons: performance, independence from the VCC and from underwriters, total or partial exit, influence of the type of financial market, management of the business, etc.

Several authors have demonstrated the positive effect that VCC could have on businesses that proceed with an IPO. The reputation effect is mentioned by some authors but, beyond that, does the VCC contribute significantly to "preparing" the private business to going public? How many businesses financed by VC go on to an IPO? What of the rate of failure, which is studied very little,

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and what are the medium- and long-term consequences on the businesses that are financed? What proportion of small businesses remain listed on the stock exchange after the VCC has withdrawn? The post-IPO period has not been studied much, while the stock market collapse of the last few years should worry VCC as well as SME, which need substantial funds that they could not get anywhere but in the public market. Could financing consortia between VCC, government or financial institutions be substitutes for the stock market to meet the substantial needs of certain businesses? There is also talk about the influence of structural factors, such as the size and liquidity of the capital market, in terms of improving the public financing of small companies. The case of the United States is more of an exception than a rule because of the size of available capital and of the volume of transactions. Is it reasonable to assume that the IPO would be a solution for the financing of Canadian SME?

3.5.3 The performance of financed companies

The influence of venture capital on the companies that are financed can take various forms depending on the quality of the intervention and the potential of the business. A small number of works have dealt with the following points:

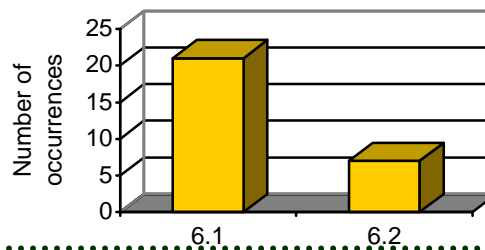
- growth: volume of activity and influence of VCC, etc.;
- performance: financial performance, evolution of stock market prices, monitoring, relations between underwriters and VCC, reputation of VCC, etc.;
- entrepreneurs: skills and expertise, etc.

Much remains to be done to better understand the effects of an intervention by VCC on the businesses that are financed. Comparative studies are necessary. Longitudinal studies and event studies should afford a better understanding of the effectiveness of VC in helping businesses move ahead. Beyond the simple aspects of performance, we must see how VCC have managed the risk associated with their investments. Did it diminish after their entry into the business? If yes, under what conditions? And at what cost? – major sacrifices on the part of the business including the withdrawal of the senior executive? On the other hand, none of these studies alludes to the behaviour of the entrepreneurs or to their satisfaction as to the financing that they obtained, the conditions under which they worked with this particular partner, the concessions they had to make, etc. Is VC complementary to other sources of financing that we find on the market, as it should be, or does it take the place of other moneylenders with fewer resources? Is good performance not simply attributable to the fact that VCC have very restrictive criteria for selection and that businesses that are financed would have had a good performance with or without the VCC?

3.6 New trends (28 occurrences)

The globalization of markets and the trend toward a knowledge economy alter considerably the economic environment in which businesses of all sizes, in all sectors and of all ages evolve. No one escapes it. However, this has consequences for moneylenders who must adjust by changing their modus operandi as the structure of demand changes. Businesses with a large percentage of invisible assets or a very specialized technological content have specific needs that must be met in a manner different from that of traditional businesses. With the collapse of stock markets in the last few years, it would be surprising if these businesses resorted to public

Figure 9: Summary of Topic 6 Studies



Financing With Venture Capital: Advances in Knowledge over the Last Ten Years in Research Avenues

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financing to ensure their development. Because we are dealing here with trends and relatively recent phenomena, the paucity of literature on these subjects comes as no surprise.

3.6.1 Technological investment

Some documents were found on this research subject, focussing on the following aspects.

- Selection criteria: experience and interpersonal qualities of the entrepreneur, stage of development, rate of growth, etc.
- The organization of the market: the influence of the type of market and of the countries, complementary intervention of public authorities, the role of big businesses, the type of funds, risk sharing between public and private organizations, etc.

Sectors with a large number of intangible or invisible assets, the knowledge industry, the biotechnologies, etc. are characterized by risks that go beyond that which is generally seen. These risks are variable because uncertainty changes as the project evolves, but it remains difficult for VCC alone to assume them. Thus, the role of the state as an important actor in complementing the supply of financing has been the topic of several studies in various countries. The conclusions are fairly unanimous on the relevance of this role. What is less known is the form of the state's intervention and, in a dynamic aspect, what role it plays in the various stages of development of innovation projects or according to the various types and levels of risk that are at issue. There are few studies on partnerships between governments, VCC and private enterprises, which would be relevant within the context of business networks.

3.6.2 The future of stock markets for rapidly-growing SME

For a variety of reasons, stock markets have been fairly knocked about in the last two years. Lower returns for new-economy businesses on the public market have made this means of financing almost inaccessible to most small but rapidly-growing businesses whose capital requirements are beyond the financial capacities of individual institutions and companies. Investors have lost large sums of money, as have brokerage firms, financing institutions, etc. Will the traditional public market, or even the Canadian Venture Exchange, remain a possible source of financing for small, growing Canadian companies? The subjects that the literature deals with are:

- SME in a network: involvement of large businesses in financing, the form of the financial participation, etc.;
- the future of stock markets for growing SME: liquidity of the market, size of the domestic market, regulation, accessibility, efficiency, etc.

Few studies have bothered to measure the financial preferences of entrepreneurs and the options that they would choose to finance the growth of their business. Is the stock market a reasonable option? Probably not for most entrepreneurs. It is, therefore, hard to imagine that there are large volumes of activity that will allow the market to be liquid. What about SME pool issues through a consortium, or debt securities that take more account of the financial preferences of entrepreneurs? Could the government play a role to allow a greater number of SME to obtain public financing in various forms, in partnership with the private sector? Would a specialized stock market, exclusively for SME, be a solution?

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3.7 Conclusions: state of knowledge and avenues of research

The presentation of the preceding works and their classification by identified research topics show that greater importance is given to the supply of venture capital, the functioning of markets and the initial public offering.

We have melded the subjects that deal directly with venture capital supply (1.1, 1.2, 1.3, 2.1, 2.2, 2.3, 2.4, 2.5, 2.6 and 5.1), those that focus more on the balance between supply and demand or on the point of view of VCC and SME (1.4, 3, 5.2) and, finally, those in which the point of view of SME is more dominant (4.1, 4.2, 5.3, 6.1, 6.2) to show the volume of research in each of them.

Figure 10: Distribution of Studies by their Area of Interest

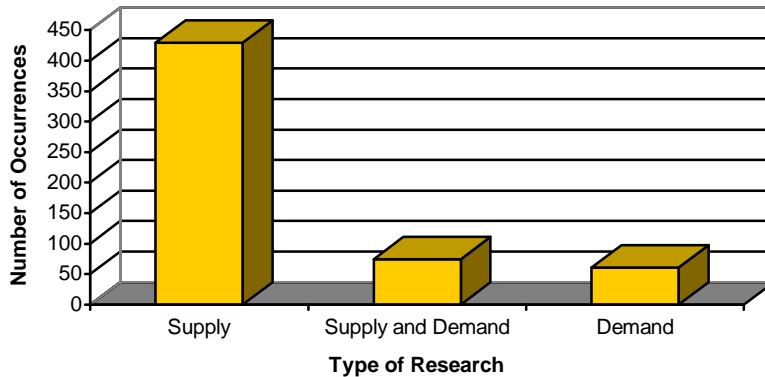


Figure 10 confirms the paucity of works specifically on demand, which makes any conclusion on the balance between supply and demand of venture capital dangerous. As mentioned before, access to quantitative data and to market actors is certainly an important explanatory factor. This is a major problem in the development of knowledge for the purpose of conducting an evaluation of the market so that adjustments can be made.

Given our experience, and in light of the survey conducted, we think it is important to dedicate a certain number of works to the following aspects in order to increase our understanding of the venture capital market.

- ❖ The attitude of entrepreneurs toward venture capital: knowledge, use, receptivity, willingness to share control, experiences, etc.
- ❖ The needs of SME in terms of financing: types of businesses, level of risk, stage of development, alternatives to financing, potential for development (exporting, expansion, innovation), etc.
- ❖ Methods for evaluating the risk of financed projects and the intervention of VCC: contracts, restrictive clauses, costs of financing, monitoring of the investment, etc.
- ❖ The relevance of a stock market for rapidly-growing SME: financial preferences of entrepreneurs, volume of activity, possible substitutes, facing reality, costs and operations of such a structure in relation to economic benefits, etc.
- ❖ The role of the state in the venture capital market: forms of participation, complementarity with current institutions, intervention with businesses that are risky but that have strong potential (innovation, start-up ...), etc.

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- ❖ The special features of innovation projects and of businesses with a high number of invisible assets: stages of development, risk, contract, rate of success, etc.

Surveys of businesses that had accepted venture capital financing, of others that had refused, of some that had had difficulties and others that had been successful would be necessary to get a more objective picture of the situation. We know that the academic and professional research published deals much more with success stories than with failures – hence the importance of the comments we made on the subject.

Moreover, empirical research on a large number of works should be carried out in academic contexts where fundamental questions can be the object of hypotheses to be verified. This form of research is usually done in all objectivity and provides an impartial view on the true functioning of markets, which would be desirable given the current state of knowledge.



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4. Structure of the Venture Capital Market: Professional Associations and Events

This section presents information on the main professional associations and major events (conferences, symposia, fora, etc.) related to venture capital around the world.

4.1 Professional associations

We have identified 61 professional associations around the world, the majority of which are in the United States and Europe; none could be found on the African continent. The absence of associations in Africa does not preclude conferences being held on that continent (see Table 5) under the aegis of a professional body. This distribution is presented in Table 4, below.

Table 4: Geographic Distribution of the Main Professional Associations Related to Venture Capital

Continents	Number of Associations
America:	25
Brazil	1
Canada	2
United States	22
Asia (10 countries)	12
Europe (19 countries)	22
Australia/Oceania (2 countries)	2
Total	61

The appended computer file (tab – Associations) contains the list of 61 associations with the following information, when it was available:

- ❖ the name of the association;
- ❖ the mission;
- ❖ country of origin;
- ❖ key contact person (often the chairperson of the association);
- ❖ Internet address; and
- ❖ additional comments that were judged to be relevant.

The description of the mission of each association, as found on the Internet sites, allowed us to demonstrate their diversity and the main roles that they play, namely:

- ❖ to represent the members before the appropriate bodies, be they local, national or international;
- ❖ to promote the venture capital industry in the country, the state or the continent, as the case may be;
- ❖ to facilitate access to financing for businesses seeking capital;
- ❖ to collect data, often in the form of surveys, and to compile them and distribute them to the members and other interested persons;

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- ❖ to organize conferences and various events to inform the members of new national or international trends in the industry, or simply to allow members to meet and to exchange information (see section 4.2);
- ❖ to offer support to members by allowing them to benefit from the expertise of certain specialists; and
- ❖ to implement and ensure compliance with a code of business ethics.

The “comments” column of the file specifies information compiled by these associations and accessible by Internet.

The association identified in Poland seems involved mainly in investment activities and would not act in the same capacity as the associations that were inventoried in the other countries. In addition, depending on the country’s economic development and the size of its industry, certain associations also concern themselves with problems of entrepreneurship (Hawaii) or with financial markets (France and the Czech Republic).

The major concerns of these associations include the future of the industry and the various legal and taxation constraints that could slow the development of venture capital (that is particularly the case of Germany).

Their specialization or areas of interest based on their missions are rather general. The associations target start-up businesses, especially fast-growing ones, in all the sectors. Others are more specifically interested in technology (*Western Association of Venture Capitalists [United States], Michigan Venture Capital Association [United States], Taiwan Venture Capital Association and Hawaii Venture Capital Association [United States]*) and in biotechnology (*Western Association of Venture Capitalists [United States]*). As for the *Community Development Venture Capital Alliance*, it is more concerned with social development.

4.2 Professional events

World-wide, 84 conferences, symposia, fora or other events of this type have been found on the Internet. The appended computer file (tab – Conferences) presents these events as well as the following information on each one:

- ❖ official name of the event;
- ❖ annual frequency;
- ❖ main subjects dealt with in the last two or three years;
- ❖ number of years that the organization responsible has been in existence (when available);
- ❖ information on the responsible body including its name, the name of the contact person, the organization’s country of origin and its Internet address; and
- ❖ additional comments that are relevant to our study have been added, on occasion.

In several cases, the Web sites do not keep information on conferences of previous years. This explains why some information is missing. When the information was available, limiting ourselves to the last 2-3 years provided a general idea of the industry’s recent interests.

Table 5 below presents the distribution of these events by continent.



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Table 5: Geographic Distribution of Main Professional Events on Venture Capital Held Recently

Continents		Number of Events
Africa		1
America		56
Canada	9	
United States	47	
Asia		6
Europe		19
Australia/Oceania		2
Total		84

It is no surprise that, once again, the United States is in front: 47 of the 84 events that were inventoried took place in America.

Some of these events are relatively recent. Russia is a case in point, and the recent economic changes there are certainly part of the reason. On the other hand, certain events have been held for several years. Among them, the Canadian Venture Capital Association has existed for 28 years and the *Colorado Venture Capital Association* and *The European Private Equity & Venture Capital Association* have existed for 20 years.

The subjects dealt with at these events are varied and sometimes specific to the country, state or the region to which the responsible body belongs. The following subjects were identified for the year 2002:

- ❖ the operation of venture capital financing (supply, investment criteria, sources of financing) and the advantages it provides;
- ❖ the role of venture capital, exit strategies, opportunities for investment, formal and informal venture capital and strategic alliances;
- ❖ trends and the evolution of the national and international venture capital industries;
- ❖ the financing of businesses and, more specifically, start-ups, rapid-growth businesses or innovative ones;
- ❖ the development of the industry in certain specific sectors (see Table 6);
- ❖ the creation of value (Australia) and the value-added of venture capital (Europe).

When they were available, we identified conference themes of the two previous years to see if there were new trends. This information reveals no significant trends. Per year and over the last three years, "financing aspects" is the subject that crops up most often at these events. The second most-discussed subject is the advantages and features of venture capital financing itself. This is not surprising, as the primary objective of these events is to provide information on the industry.

These events could also be grouped according to two main objectives. The first is to inform and to create a place for the exchange of information and the sharing of experiences. The second main objective is to bring together entrepreneurs in search of financing and present their projects to moneylenders willing to finance business opportunities. We have noted the existence of such meetings, especially in the United States and Europe, but on a much smaller scale in Canada and in Asia.

The industrial sectors that were the subject of specific discussions at these events in the last two or three years are varied. Table 6 presents the primary sectors divided into four regions. There is a

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focus, of course, on the industry's interest in the health sciences and biotechnology sectors, as well the media sector. That does not preclude interventions in other industrial sectors where the investments sought will have to show a strong potential for innovation or growth. The year 2001 was especially associated with venture capital financing in the technology sector.

Table 6: Main sectors that were the subject of conferences in the last two or three years (by region chosen)

Region	Sectors
Canada	Biotechnology and health sciences, communication, new economy
United States	Media (including Internet and telecommunications), pharmacy, biotechnology, technological and innovative companies, fast-growing technological businesses
Asia	High-technology, biotechnology
Europe	Innovative technology, biotechnology, energy

The inventory of events and professional bodies underscores once again the major accent placed on supply: description, statistics and features, whereas the needs of SME are dealt with to a lesser extent. Certain events, however, provide a balance between supply and demand by offering entrepreneurs the possibility of presenting their projects to potential moneylenders. It would be interesting to examine this aspect in greater depth by looking at how entrepreneurs go about presenting their projects, what knowledge they have of moneylenders' requirements and what factors lead moneylenders to help finance the projects presented.

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