

RISK MANAGEMENT AMONG VENTURE FUNDS

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The decrease in the funding of entrepreneurial ventures and the recently published low cumulative returns among venture funds have increased the need to analyze how risks are being managed in funds that invest in SMEs. In the long-term, inadequate or by venture capital firms to fund entrepreneurial ventures. This affects not only new investments in high-growth areas but also add-on investments in existing SMEs. Traditional investors such as pension funds and insurance companies may also make less funding available to venture firms. Government programs may be curtailed if research shows lower than expected rates of political return. In addition to protecting invested capital, returns may increase if venture firms explicitly manage risks. This is a new topic in entrepreneurship that has not received any attention in the literature.

From the entrepreneurs' and venture firms' perspectives, the results of this study is important since additional funding may be directed toward venture firms that develop proper risk management programs as a part of their overall investment strategy. In addition, increased goal congruence among the stakeholders in entrepreneurial activities may also result from being able to better understand the effectiveness of certain risk management techniques and procedures. This study may also allow policy makers to design improved entrepreneurship initiatives.

Our research focuses on analyzing how venture firms manage risks. Specifically, we analyze management of risk in new investments, management of risk in existing portfolio companies, portfolio risk and macro oriented risks. We analyze not only financial risks but also qualitative risks such as agency and corporate governance related risks. The sample consists of venture firms in Europe. The sample was selected from the European Venture Capital Association and the British Venture Capital Association databases. Data was collected using a survey instrument, publicly available data and from databases available from commercial data providers in the venture industry. Venture firms in Sweden, Denmark, Ireland, Luxembourg, Poland, Holland, Austria, Portugal, Greece, Italy, Spain, France, Switzerland, Germany, the UK and Turkey participated in the study. In the countries where the survey has been completed, a combined response rate of more than 50 percent has been achieved. We estimate regression parameters in analyzing the data. Dummy variables include fund performance, investment stage, sector focus, size, geographic location and investment focus.