VENTURE CAPITAL CROSS-INVESTMENT NETWORK COMMUNITY MOVEMENT AND INVESTMENT PERFORMANCE

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dx.doi.org/10.18374/JIFE-23-3.4

ABSTRACT

In this paper, we investigate the impact of cross-network-community movement on venture capital investment performance in China. We mainly focus on two research questions: (1) what is the relationship between the agglomeration of investment network communities and the venture capital companies' investment performance? Specifically, we tested our hypothesize that whether information redundancy caused by excessive agglomeration inhibits the venture capital companies' performance; 2) In order to obtain new resources, venture capital companies commonly do cross-community movements, and we are trying to find out what is the impact of agglomeration movements on investment performance. Using the sample of the early joint investment events of venture capital institutions in China from 2003 to 2018, our research shows that: (1) there is an inverted U-shaped relationship between the agglomeration of investment networks and investment performance; (2) there is a significant positive correlation between cross-investment network community mobility and investment performance of venture capital institutions. However, when the number of movements reaches a certain level, then there is a significant negative correlation between the number of movements and investment performance. We argue that frequent movements across networks will increase the cost of forming relationships, thus will weaken the investment performance of the venture capital companies.

***Keywords**: Venture capital, Network Theory, Network Community, Dynamic Perspective, Investment Performance*

1. INTRODUCTION

China's venture capital industry started from 1980s and has grown significantly afterwards. According to data from private equity database, the number of venture capital institutions has increased from a dozen at 1990 to more than 30,000 as of 2018, including private equity (PE), venture capital (VC) and other different types.

At the same time, VC is an industry with high uncertainty and high risks with signifiant informaiton assymetry. To reduce the invesmtent risk, VC companies often form syndicaiton, in which two or more VC instituons invest in the same project. From database of "Private Placement", there were 7,569 VC investments from 2003 to 2013, and among them 29% are synicated investment cases with a number of 2,189.

What motivates the VC companies to cooperate in the syndication invesmtent is what we called the active "investment circle" in the VC industry. Depending on many factors such as funding sources, investment industry, geography, and alumni group etc, VC institutions usually particiate in various "circles", and through which, they can quickly access resources, build credibility and gain market trust. In Beijing, Shanghai, Shenzhen and other places in China , there are many "investment circles" with different specializatons, such as in the technology, biomedical and other industries.

The investment networks are not evenly distributed. Based on geographical, industrial, experienrial or