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The Venture Capital firms' control rights impact on the selection of exit outcome

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Cheers!

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Abstract

This thesis empirically considers Venture Capital (VC) firms' preferences of control rights and their relationship with preferences to selection of exit outcomes. The thesis is based on Cumming (2008) and has quantitative approach performed on 43 VC firms that are active on the Swedish market. The aim of the thesis is to describe the VC firms' preferences of control rights and the selection of exit outcome, and explain their relationship. This research also considers the VC firms' preferences of investment characteristic impact on selection of exit outcome. The result indicates that the VC firms on the Swedish market prefer acquisition as exit outcome rather than IPO and the most preferable control right is veto right. We found a positive relationship between the right to replace the founder CEO and acquisition. The research also suggests that several investment characteristics have a relationship with IPO and acquisition.

Key concepts: Venture Capital, exit, and control rights.

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1. Introduction

The chapter begins with an introduction on Venture Capital and follows up with problem discussion regarding VC exit and control rights. This leads to our research question and the aim of our research. The chapter ends with important key concepts.

1.1 Problem background

Schwienbacher (2007) argues that entrepreneurs can obtain capital by two different alternative financial decisions. The entrepreneurs could raise money by themselves to finance a project or they can achieve capital by an outside investor (ibid.). The author argues that Venture Capital (VC) could be such an investor. A VC firm is a type of investor that contributes with risk equity finance in entrepreneur firms (Wright & Robbie, 1998). They are professional investors that invest in risky and high technology industries (ibid.). It is also common that the VC firms invest in different stages (Cumming & MacIntosh, 2000). The VC firm's primary goal is to gain capital from an investment (Wright & Robbie, 1998)

Isaksson (2010) describes that VC is investments in firms that are not listed on a public list. The majority of VC investments, in general, consist of equity but there are intermediate forms between equity and debt capital, such as convertibles and bonds (ibid.). A VC investment implies that the investor becomes or has possibility to become a shareholder in the firm (ibid.) A VC investment is more than a capital investment, it is common that the VC firm operates actively in the entrepreneur firm, such as representation in the firm's board (Isaksson, 2010).

VC has a major impact on the economy in the last 20 years and has, for instance, helped firms such as Compaq, Oracle, and Microsoft to massive growth (Jeng & Wells, 2000). According to The European Private Equity and Venture Capital association (EVCA) the involvement of VC is a long-term support, which helps companies to reach sustainability (EVCA, 2002). With the support of VC, companies have been able to grow faster than they otherwise would have (ibid.). EVCA (2005) calls the VC industry as the heart of European economy, because of the actively investment and supporting of companies, which helps to create sustainable growth.

The support of innovation and crucially contributes to new jobs across Europe. According to the Swedish Private Equity and Venture Capital Association (SVCA), in 2011, 429 VC investments were performed on the Swedish market and the total amount of the investments was 1990 million SEK (SVCA, 2011).

Wüstenhagen and Teppo (2006) argue that VC firms have an important role in the development of new industries by providing capital and knowledge. The knowledge implies that the VC firms are adding value through network, experience, and strategic services (Casson & Martin, 2007). When the desired development of the entrepreneur firm is reached or when the VC firm can no longer add value, they realize their investment (Cumming & MacIntosh, 2000). The VC investment is time limited and it is common that the VC firms' target is five to seven years (Isaksson, 2010). The realization of the investment is called exit and it is the last stage of VC firms' investment process (Klonowski, 2007; Isaksson, 2010).

One of the first completed researches that included benefits and disadvantages with a VC exits was the work by Cumming and MacIntosh (2003a). The authors introduce the five most common types of exit outcomes; IPO, acquisition, buyback, secondary sale, and write-off. IPO means that the entrepreneur firm will be listed on public market (ibid.). When VC firm is doing an exit through an acquisition, the entire entrepreneur firm will be sold to a third party. Buyback implies that the entrepreneur or other shareholders buy back the shares from the VC firm. According to the authors, a secondary sale means that it is only the VC firm's shares of the entrepreneur firm that sell to a third party. Write-off is an undesirable exit outcome and it usually ends up with bankruptcy for the entrepreneur firm (Isaksson, 2006). It is common for the VC firm to do a complete exit, but they can also choose to do a partial exit, which means they can only dispose a part of their ownership (Cumming & MacIntosh, 2003b).

The exit decision for the VC firm is one of the most important parts of an investment (Bascha & Walz, 2001). Black and Gilson (1998) argue that it is fundamental for the VC business that VC firms provide successful exit and investments, both in the case of relationship between the VC fund and the entrepreneur firm, as the capital providers in the fund. The investors in the VC fund require a measurement that shows the VC firms' ability to manage their capital in an optimal way. A successful VC exit could be a good measure for the investors (ibid.). Thus, it implicates that the exit outcome is a vital part of VC firms' activities. Another explanation why the exit is so vital for the VC firms could be that VC investments ordinarily gain no dividend

during the investment period; all the return is obtained from the exit (Cumming, Fleming & Schwienbacher, 2006). According to the authors, a potential exit outcome usually has a major impact on the decision to invest in a firm. Isaksson (2006) argues that the research regarding VC exit is quite wide, but given its importance it is relatively unexplored. The research on the Swedish market is even more unexplored (ibid.). According to the author, one of the few researches is Isaksson's own work from 1997. In that research, Isaksson (1997) describes the exit behaviour of VC firms on the Swedish market (ibid.).

1.2 Problem discussion

In order to achieve a profitable exit for the VC firm and entrepreneur, the relationship between them is of high concern (Bienz & Walz, 2010). The characteristics of the VC firm and the entrepreneur are important in the allocation of exit rights (Ibid.). Hence, conflicts can arise when both parties act in their own interest. Kaplan and Strömberg (2004) argue that VC investments are exposed for principal agency and hold up problem. This would lead to asymmetric information between the VC firm and the entrepreneur. When problems like this occur, it is important to consider the contract design and the monitoring process (ibid.). Sahlman (1990) has similar arguments, uncertainty and asymmetric information affects the parties in a VC investment, which could create agency problem between the VC firm and the entrepreneur. A VC firm can strategically oppose this with well-designed contract (ibid.). A well-designed contract could increase the VC firm's control in the entrepreneur firm. On other hand, Gompers (1995) argues that contracts could sometimes create an agency problem, because they could be directed to some party's advantage. The contract between the VC firm and the entrepreneur can be regarded as a basis for future co- operation (Isaksson, Cornelius, Landström & Junghagen, 2004). As an external investor they have to assess and monitor the risks they undertake, but also add value to entrepreneur firm (ibid.).

In general, the contract between the VC firm and entrepreneur will give the VC firm different types of control rights (Kaplan & Strömberg, 2003). High-performing entrepreneur firms are usually associated with a lower degree of control rights from the VC firms, while a low-performing entrepreneur firms are associated with a higher degree of control rights (ibid.). Entrepreneurs that are in control of an investment tend to try to maximize their own private benefits (Aghion & Bolton, 1992). In contrast to the investor who has the incitement to

maximize monetary benefits (ibid.). The authors argue that this will lead to conflict of interest between the parties in the investment. When the agency problem between the parties in a VC investment increases, the deal will be more sensitive for entrepreneur's performance. Therefore, a higher degree of control in the entrepreneur firm is required from the VC firm (Kaplan & Strömberg, 2004).

Hellmann (2006) conducted research regarding VC investment and how the exit decision was made. A central part of the research was the VC contracting and control rights that VC firm obtained. The author argues that the VC firm's control rights are vital for an efficient exit. If the VC firm has strong control rights, the probability that an exit will occur by an acquisition is likely rather than by an IPO. Cumming (2008) investigated the relationship between VC contract and exit decision on the European market. He found that strong control rights by the VC firm in an investment have a positive correlation with the exit outcome acquisition. On the other hand, weak control rights will increase the probability that the exit will be conducted by an IPO. Cumming (2008) examined several variables that were related to strong control rights; the right to replace the founder CEO, majority voting, majority boards, veto rights, redemption rights, anti-dilution rights, and drag-along rights.

By studying the previous research regarding VC exits and control rights, and their relationship with each other, we saw that this was relatively unexplored considering its importance. Even more unexplored was research on the Swedish market. The VC exit and the control rights impotency are illustrated by several researches. The exit is one of the most important decisions in a VC investment and it is vital for the VC firms to provide a successful exit for a sustainable VC business (Black & Gilson, 1998; Bascha & Walz, 2001). In a VC investment it is common that the VC firm and the entrepreneur act in their own interest (Bienz & Walz, 2010), which will lead to agency problems and asymmetric information between the parties (Kaplan & Strömberg, 2004). The relationship between the VC firm and the entrepreneur is important to achieve a successful exit (Bienz & Walz, 2010). The opposition of the problems between the parties in the investment will affect the VC firm's control in the entrepreneur firm, which is of high concern (Sahlman, 1990; Kaplan & Strömberg, 2004). With that in mind, we have identified that control rights are important for VC firms to provide successful exits.

Our thesis examines the VC firms' preferences of control rights and its relationship with the preferences to the selection of exit outcome. The focus will give us the opportunity to

contribute an increased understanding of VC firms' incentives to act on the Swedish market and how it conforms to previous research like Cumming (2008). In contrast to Cumming (2008) who investigated actual data of control rights and exits, our research can through focus on preferences give an explanation of which control rights the VC firms' prefer and how they affect the preferences to the selection of exit outcome.

1.3 Research questions

1. Which control right and exit outcome are the most preferable among the VC firms that are active on the Swedish market?
2. Which control rights have a relationship with the VC firms' preferences to the selection of the exit outcome on the Swedish market?

1.4 Aim of the research

The aim of the thesis:

The aim of the thesis is to describe the VC firms' preferences of the control rights and the selection of exit outcome on the Swedish market, and explain their relationship with each other.

1.5 Key concepts

Venture Capital (VC): It is investments in firms that are not listed on public list (Isaksson, 2010).

Exit: It is the realization of the investment (Isaksson, 2010).

Control rights: Specific rights that the VC firm obtains by the contract (Cumming & Johan, 2008).

2. Literature review

In the literature review, we discussed previous researches regarding the VC firms' investment characteristic impact on selection of exit. Further, we develop our hypotheses based upon the research by Cumming (2008).

2.1 The VC firms' investment characteristic impact on the selection of exit

Cumming (2008) argues that the characteristics of the VC and the entrepreneur firm have an impact on the selection of exit. Several researchers have found that the VC firms' investment characteristic has a relationship with the exit outcome (Sahlman, 1990; Norton & Tenenbaum, 1993; Cumming & MacIntosh, 2000; Cumming & MacIntoch, 2003a; Giot & Schwienbacher, 2007; Cumming & Dai, 2010).

Cumming (2008) explains that VC firms add value through different roles in an investment. The VC firms can be active and add value to their investments by human capital, which can be implemented by monitoring, networking and strategic concerns (Casson & Martin, 2007; Cumming, 2008). Another option is to certify the new owners' quality of the entrepreneurial firm, by lowering the information asymmetry between them (Cumming & MacIntosh, 2003a). In the adding value case, acquisition will dominate IPO as selection of exit outcome (ibid.). The reason is that the acquirer obtains majority of the equity, which leads to better monitoring of management and often it is the acquirer in the same or similar industry as the entrepreneur firm. Therefore, they understand the industry and have ability to evaluate the firm, which enables to resolve information asymmetries. But if the VC firms are of high quality and more reputable, IPO is preferred as exit in both cases (Cumming, 2008).

Syndication investment has an impact outcome of exit (Giot & Schwienbacher, 2007; Cumming & Dai, 2010). Cumming and Dai (2010) showed that the syndication's distance had an important influence on the optimal exit. The proximity between the VC firms of the syndication and the entrepreneur firm are associated with a greater likelihood that the exit will occur via IPO or acquisition (ibid.). The authors show that the closeness between the VC firms and the entrepreneur firm benefits both parties because it is easier to monitor each other and there is less asymmetric information. Giot and Schwienbacher (2007) found out that the syndication's composition and size have a relationship with the exit outcome. Large syndicate size has positive relationship with IPO and acquisition, where the greatest connection was with

IPO (ibid.). According to the authors, an explanation of this could be that the VC firms that participate in syndication complement each other. Due to the increase in performance of the investment it would be more likely that the exit will be successful.

The VC firm can specialize by investment in different stages of the entrepreneur firms' development (Sahlman, 1990; Cumming & MacIntosh, 2000). The stage of the entrepreneur firm matters when the VC firm decides to realize their investment (Gompers & Lerner, 2004). Firms that are in early stages of development are not ready to perform an IPO (Bygrave, Hay & Peeters, 1994). Therefore, acquisition is a better choice because the firms are in need of resource, which an acquisition can provide for future expansion (ibid.). Giot and Schwienbascher (2007) found evidence that an exit through IPO was quicker if the investment was in a later stage rather than an early stage. But successful firms that could not go public sufficiently and quickly have to select other exit options, such as acquisition.

By specialization, the VC firms can invest within a particularly industry (Gompers, Kovner, Lerner and Scharfstein, 2009). Gompers et al. (2009) found that specialization by VC firms leads to greater expertise and better investment within an industry. The authors' results were a positive relationship with IPO, and they explain that performance of specialized firms appear to be better in general. According to Giot and Schwienbascher (2007) the type of industry has an impact on VC firm if they select IPO as an exit. They explain that biotech and Internet firms have the fastest IPO exit (ibid.). The fastest exit regarding acquisition is computer, communication, and Internet firms.

Knill (2009) argues that diversification has a delaying effect on the VC firms' exit outcome. The author investigated four types of diversification, which were industry, stage, domestic geographic location, and international geographic location. All types of diversification strategies had a negative relationship with IPO and acquisition, where the greatest effect was on IPO (ibid.). The author explains that the level of the VC's expertise has an impact on the exit when a diversification strategy is used. In the case of geographically spread investment, the distance between the VC firms and the entrepreneur firms contribute to the VC firms are less able to spend time with individual firms.

The geographic distance in a VC investment has an impact on the exit. Cumming and Dai (2010) noticed a negative relationship with the distance between the VC firm and the

entrepreneur firm and its performance. Local investment is more likely to end up successful via an IPO or acquisition (ibid.). Due to the VC firms' reputation and quality control the business of the entrepreneur firm would benefit from their performance. Giot and Schwienbacher (2007) showed also that geographic location had influence on outcome of exit. Acquisitions revealed to have a positive relationship with the entrepreneur firms' geographic location, especially, in locations where the entrepreneurship is high (ibid.). The authors argue that it is common that VC firms are located in areas like that, which could explain why acquisition is an occurring phenomena. However, the geographic location and regional proximity had no impact on the selection of IPO (ibid.).

According to Bascha and Walz (2001), the VC investments ultimately lead to an exit, therefore, the VC firms have a time horizon for their investments. However, the duration of the VC investment is affected by market condition and asymmetric information between the VC firm and the entrepreneur (Cumming & Johan 2010). As the time flows, it is an increased likelihood of exit to an IPO (Giot & Schwienbacher, 2007). At a certain time it will change and investments that have not yet exited will have fewer possibilities of IPO exits as time increases (ibid.). Therefore, the option for a longer duration of investment is exit through an acquisition.

2.2 Research hypotheses

Cumming (2008) studied the relationship between a VC firms' contract and the exit outcomes, where focus was on the control rights in the contract. The study was conducted on VC firms in eleven European countries (Sweden was not included). The author's hypotheses were that VC firms' control rights to have a relationship with the selection of exit outcome. He predicted a positive relationship between VC firms' control rights and acquisition. Cumming also predicted that weak VC control rights have a greater likelihood with IPO.

Cumming (2008) found support for both of his predictions. The VC firms' control rights had a positive relationship with acquisition, while weak control rights from the VC firms were associated with a greater likelihood with IPO (ibid.). Control rights such as drag-along rights, redemption rights, anti-dilution rights, majority board, majority voting, veto rights, and the right to replace the founder CEO had positive relationship with the exit outcome of acquisition. The greatest relationships were found with the right to replace the founder CEO and drag-along

rights (ibid.). Investments where the VC firm has the right to replace the CEO are more often related with acquisition rather than IPOs (Ibid.). The author argues that convertible securities are associated with greater control rights and veto rights. Therefore, acquisition is more likely to occur when VC firms use convertible securities.

Cumming (2008) proved that weak VC control rights are associated with greater likelihood to an IPO, where the control rights had a negative relationship with IPO. For instance, drag-along rights reduce the probability of an IPO. The author found out that if the ability to replace the founding entrepreneur as CEO is weak, there is a greater probability of IPO as an exit outcome. Cumming (2008) argues that common equity is associated with weak control because control rights and veto rights are not commonly used when VC firms practice common equity. Therefore, an exit by an IPO is more likely to occur when VC firms use common equity.

By Cumming's (2008) research, we have identified that VC firms' control rights have a relationship with the selection of exit outcome. Control rights have a positive relationship with acquisition, while control rights have a negative relationship with IPO. With support by Cumming (2008), we believe that VC firms' preferences of control rights have a relationship with their preferences to the selection of the exit outcome on the Swedish market. We accordingly imposes the following hypotheses:

Hypothesis 1: *VC firms' preferences of control rights¹ have a relationship with their preference to the selection of IPO.*

Hypothesis 2: *VC firms' preferences of control rights¹ have a relationship with their preference to the selection of acquisition.*

¹ *Control rights involve the right to replace the founder CEO, majority voting, majority boards, veto rights, redemption rights, anti-dilution rights, and drag-along rights.*

3. Research Method

The chapter begins with an introduction of the research design and a description of the sample. Further, we explain how we conducted the questionnaire and the operationalization, where we describe the VC firms' control rights, exit outcomes, and investment characteristics. The chapter ends with the reliability and validity of the research.

3.1 Research design

The aim of our thesis is to explain the VC firms' preferences of control rights' relationship with their preferences to the selection of the exit outcome. Our purpose is to conduct a generalized survey on the Swedish market. We used a quantitative approach in our research. Quantitative approach is an applicable research method where the purpose is to generalize (Eliasson, 2006). It is also useful for the investigation of relationships and attitudes within a population (ibid.).

The thesis is based on a deductive approach, where the research goes from theory to empirical (Jacobsen, 2009). By choosing an approach like this the researcher builds up expectation about how the world appears and then examines whether it reflects the reality or not (ibid.). Our research is based on well-known research from all around the world regarding VC and their control rights, exit outcomes, and investment characteristics. This is then tested on VC firms that are active on the Swedish market to determine if it corresponds with the previous research.

The quantitative data collocation was conducted by a questionnaire, which was sent directly to the Swedish VC firms. This questionnaire was designed so that we can measure the VC firms' preferences of control rights and exit outcomes. According to Eliasson (2006), questionnaire is a common and effective method to collect quantitative data. Since the questionnaire was sent directly the respondent; the data in the research is primary data. The use of primary data increases the reliability of the research (Jacobsen, 2009). The outcome of the research can only be stated for the specific period when data were collected. Due to this, we measured preferences, which are changing over time.

Further, we examined the collected data with the statistic software IBM SPSS and used different statistical tests, which we display in next chapter. We described and analysed the

statistical result and, thus we can answer our hypotheses. In the final chapter we draw our conclusions from the results.

3.1.1 Research limitation

We apply a similar study like that of Cumming (2008), but on the Swedish VC market. Cumming's (2008) research was based on real contracts and actual exit outcomes. The exit outcomes that he investigated were acquisition, IPO, buyback, and write-off (ibid.). In our case, it would not be possible to get such informative data as Cumming (2008) used in his research, due to the sensitivity of the data, the VC firms will not likely issue information like that. Therefore, our focus will be on the VC firm's preferences of control rights and their preferences to the selection of exit outcome. In contrast to Cumming (2008), our research express casual relationship by studying the VC firms' preferences. Through investigate which types of control rights and exit outcomes the VC firms prefer, we can test and explain their relationship. Thereby, we can express if the VC firm prefer a specific type of control right they also prefer a specific type of exit outcome.

The control rights in our research will be in accordance with those Cumming (2008) used. Our research will differ from Cumming's (2008) research in the case of the exit outcomes. Since, we will focus on the VC firms' preferences to the selection of exit, our research will only consider acquisition and IPO. Giot and Schwienbacher (2007) argue that IPO and acquisition are the most important exit choice for VC firms. The reason why we exclude buyback and write-off is that those would be irreverent, because they are considered as less desirable exit outcomes. This is supported by Laine and Torstila (2005), which mean that write-off is the least desirable exit for a VC firm, as well from Tyebjee and Bruno (1984) who argue that buyback will only occur when a VC firm is forced to sell back their parts of the shares to the entrepreneur. Secondary sale is ignored, as Cumming (2008) did not involve this in his research.

3.2 Description of sample

According to Jacobsen (2009), problems arise when it is not possible to examine the entire population. The sample needs to be adjusted to reflect the entire population (ibid.). This kind of sample is called a representative sample (Trost, 2001). From the homepage of Swedish Private

Equity and Venture Capital Association (SVCA) we obtained their register of membership. According to SVCA, they represent the Swedish VC industry and there are 77 active members in the association. In order to select our sample, a complete list is required over the population that we intend to examine (Jacobsen, 2009). Register of membership is often complete and of good quality, but sometimes they may have limitations. With this in mind, we base the sample on SVCA's register of membership, because we believe it is credible.

The theoretical population is the target population that we intend to express our opinion on (Jacobsen, 2009). In this research, the target populations are all VC firms that are active and invest on the Swedish market. The target population we have identified using SVCA's search filter. We contacted the VC firms by email at the end of April 2012. The email addresses were identified on their homepage. The respondents we contacted were generally CEO or investment managers, but in some cases partners. After the first emailing round, six firms were not in our target population and were excluded. Therefore our target population decreased from 77 to 71 VC firms. Further, two firms did not wish to participate. We carried out two additional email rounds, the final sample was 43 VC firms. The response frequency of survey was 60.6 percentage, and according to Jacobsen (2009) this seems as good rate of frequency in this type of survey. The remaining 26 firms in the survey did not reply. The total drop was therefore 39.4 percentage. The VC firms that did not participate differed in the size of the firm and had different investment foci. Thus, their characteristics are similar to the VC firms that participated, and we believe their drop will have no impact on our research.

The standard letter and the reminder letter that were sent out to the respondents can be found in *appendix 1* and *2*.

3.3 Description of statistical tests

The collected data from our questionnaire survey are consolidated in the statistic software IBM SPSS. Through IBM SPSS, we created frequency tables on the preferences of the VC firms' investment characteristic, exit outcomes, control rights (*table 1*, *table 2*, and *table 3*). Further, we created tables of mean, median, mode, minimum, and maximum values of the survey's responses (*table 4*). We also combined the items of the concepts the right to replace the founder CEO and veto rights by performing a reliability test (*appendix 4*).

Before we began with our analysis, we examined the collected data. The issues that we considered were normal distribution and heteroscedasticity. In order to examine the normal distribution, we performed Kolomogorov-Smirnov and Shapiro-Wilk test. Those tests are formal statistic tests for examine normal distribution (Shapiro & Wilk, 1972; Hair et al., 2010). The Kolomogorov-Smirnov and Shapiro-Wilk test showed that all of our concepts of control rights and exit outcomes were non-parametric as well as the VC firms' investment characteristic (*Appendix 5*). We did not do any statistic test regarding heteroscedasticity. The reason is that our data proved to be non-parametric and than heteroscedasticity cannot occur, which is supported supported by Hair et al. (2010). Our sample has 43 observations, which can be an explanation why the data are non-parametric. Hair, Black, Babin and Andersson (2010) argue that a sample of less than 50 observations is more sensitive.

In order to answer our hypotheses and research question, we need to test the relationship between the exit outcomes and control rights. In our case, we examine the relationship between exit outcomes and control rights by using the non-parametric test Spearman's correlation. Spearman's correlation test measures if there is positive or negative relationship (Brace, Kemp & Sneglar, 2006).

3.4 Operationalization

We need to make the concepts exit outcomes, control rights, and investment characteristics measurable in order to be able to carry out our survey (Eliasson, 2006). This process is called operationalization (*ibid.*). According to Jacobsen (2009) we need to concretize and categorize our concepts to measure what we intend to measure.

Eliasson (2006) explains that the concepts need to be identified from the theory, which can be linked with the research question. They need to be clearly defined in order to be measurable (*ibid.*). As mentioned earlier we examine preferences. It is problematic to measure abstract concepts. Therefore, we made them measurable in accordance to Jacobsen (2009) by concretizing the concepts with definitions.

3.4.1 Design of questionnaire

In the development of the questionnaire, we use given responses. According to Wårneryd (1990), given responses imply that the respondent's choice is limited to a certain number of responses. These types of responses are common in surveys and it is a good way to directly describe a phenomenon (ibid.). In our case, given responses is a good approach to answer our aim, as we have a descriptive aim.

It is important that a questionnaire is well structured and clear (Eliasson, 2006). Additional explanation of the responses could be a good way to avoid a misunderstanding by the respondent. The author argues length of the questions is a key, short questions usually gives the best response (ibid.). In the design of questions, it is fundamental that a question only answers one question and not more (Trost, 2001; Eliasson, 2006). According to Eliasson (2006), the range of the questions also has an importance. Simple questions and fact question should be positioned in the beginning of the questionnaire, while more complex questions should be positioned at the end (ibid.). Questions concerning the same issue should placed together. The issue regarding the design of questionnaires that we have just mentioned is something we took into account when we created our questionnaire.

The purpose of this research is to measure the VC firms' preferences regarding control rights and exit outcome. Trost (2001) mentions two different ways to measure attitude questions, either with statement questions or questions with a positive or negative response. In our research, we use statement questions to measure the concepts. Our statement questions in the questionnaire are constructed so that the respondent should consider to which degree the statement conforms or not with their firm. According to Trost (2001), this is a common approach to create statement questions. The scale in the research is in accordance with Trost (2001), where the scale is from 1 to 5, 1 is strongly disagree, while 5 is strongly agree.

In order to measure the exit outcomes and control rights we used metric responses. Metric responses' intention is to get numbers of the responses (Jacobsen, 2009). By using metric responses we got values of the statement questions. As mention before, the scale is from 1 to 5. These values can be ranked and is called ordinal (Körner & Wahlgren, 2005). The beginning of the questionnaire starts with a several background questions regarding the VC firms' investment characteristic. The purpose is to get more information of the VC firms and get a

better understanding of the selection of exit outcome. The questionnaire ends with a ranking question, where the respondent chooses which control rights that are most important in association to an exit.

The questionnaire is created in Google Docs. It is a web questionnaire software where you can create your own questionnaire. The respondents are Swedish VC firms. Thus, the questionnaire will be in Swedish instead of English (*Appendix 3*).

3.4.2 Background questions

According to Jacobsen (2009) a questionnaire should begin with a series of simple questions. We want to capture some additional information of the respondent. Our purpose with background questions is to capture the VC firms' investment characteristic impact on the selection of exit outcome. The statements regarding the VC firms' investment characteristic are conducted so that we measure their preferences. Thus, we can collect more information of every single firm and find more explanations for the exit outcome.

Value adding

VC firms usually take on two different roles in an investment (Cumming, 2008). They could either take an active role and add value to the entrepreneur firm or a passive role and rely on the entrepreneur's qualities (ibid.).

In order to measure the VC firms' role in entrepreneur firms, we issue following statement:

- *You prefer an active role in the entrepreneur firm*

Syndication

Syndication investment is a common strategy used by VC firms (Brander, Amit & Antweiler, 2002). The benefits with syndication are that the VC firm can spread the risk in the investment and coordinate knowledge (ibid.).

In order to measure the VC firms' preferences to syndication investments, we issue following statement:

- *You prefer syndication investments*

Specialization and diversification

The VC firms tend to specialize their investments in different industries and technologies. The VC firms can also specialize in a certain stage or geographical location. According to Norton and Tenenbaun (1993) the VC firms can also use a diversified strategy by investment in different industries and stages. Griffith, Subramanian and Yam (2007) argue that the VC firms will invest in companies regardless of the geographic location if the firm is attractive enough. We intend to measure if the VC firms prefer to use a diversified or specialized strategy and to see which one they prefer most. Therefore, we will issue the following statements:

Specialized:

- *You prefer to investment in a specific industry*
- *You prefer to investment in a specific geographic region*
- *You prefer to investment in a specific firm stage*

Diversified:

- *You prefer to invest in several industries*
- *You prefer to invest in several regions in Sweden*
- *You prefer to invest in several firm stages*

Stage

The VC firms tend to select investment in different stage of development of the entrepreneur firm (Sahlman, 1990; Cumming & MacIntosh, 2000; Isaksson, 2010). By previous research we identified seed, start-up, early stage, expansion, buyout, and turn-around. At the stage of seed the VC firm provides the entrepreneur firm with a small part of capital, which only has a concept or idea (Cumming & MacIntosh, 2000). Investment in the stage of start-up involves entrepreneur firms that are younger than one year and need capital for product development and product commercially (ibid.). If the VC firm invests in the early stage of an entrepreneur firm, the financing is provided for a full commercial expansion. If the entrepreneur firm is in the expansion stage, they seek external capital in order to finance the sale of a fully developed product in commercial quantities (ibid.). The capital is used to expand the production, marketing and expansion (ibid.). According to Cumming and MacIntosh (2000) buyout and turn-around are involved in the later stage of the entrepreneur firm. The purpose of buyout

financing is to provide capital so the operating management acquire control of a product line, a division, or a firm (ibid.). Turn-around financing involves firms in financial distress (ibid.).

There is a small difference between the stages. In order to avoid confusion we will create three stages. The first stage is called early stage, which contains seed and start-up. The expansion stage is based up on early stage and expansion. Buyout and turn-around involve the firm in later stage of development. Therefore, we call it later stage.

In order to measure which stage the VC firm prefer to invest in the most, we issue following statements:

- *You prefer to invest in early stage*
- *You prefer to invest in expansion stage*
- *You prefer to invest in later stage*

Common equity and convertible securities

VC investments could be financed by different securities (Kaplan & Strömberg, 2003).

According to Isaksson (2010), a VC investment ordinarily consists of convertible securities or equity. In a research by Kaplan and Strömberg (2003), they found out that the VC firms used several different types of convertible securities, where convertible preferred stocks were the most common way to issue securities, but not the only way. Some VC firms use common equity and some use a combination of convertible securities and common equity (ibid.).

Cumming (2008) found that common equity is related to weaker control rights for the VC firms rather than convertible securities like convertible- debt and preferred equity. Convertible securities are associated with greater control rights and veto rights (Cumming, 2008). The author argues that VC firms that practice common equity usually do not apply control rights and veto rights.

In order to measure the VC firms' preferences to common equity and convertible securities, we issue following statements:

- *You prefer to use convertible securities in an investment*
- *You prefer to use common equity in an investment*

Duration of investment

VC firms have ordinarily a clear time horizon when the exit of their investments will be implemented (Isaksson, 2010). Bascha and Walz (2001), and argue as well, that VC firms have a time horizon of their investment. However, the duration of the investment affects by the market condition and asymmetric information between the parties (ibid.). Several researchers have made arguments regarding what is a common duration of the VC investments. Tyebjee and Bruno (1984) argue that VC investments have ordinarily duration between five to ten years. Further, Isaksson (2010) also shows that VC firms usually have investment duration between five to seven years before they implement an exit. Cumming and MacIntosh (2000) showed in their research that the average duration of a VC investment in the United States was 4.75 years, while the average duration in Canada was 5.5 years. Cumming and Johan (2010) found that the average duration of an investment that was implemented by an IPO was 2.95 years in the United States, while in Canada, the average duration was 2.45 years. In the case of acquisition, the average duration in the United States was 3.16 years (ibid.). In Canada was it 4.11 years. With this in mind, we create an interval that will measure different durations of VC investment. Thus, the VC firm can take a stand on which time duration they prefer on an investment.

In order to measure the VC firms' preferences to the duration of an investment and to see which one they prefer most, we issue following statements:

- *You prefer an investment duration between 0-4 years*
- *You prefer an investment duration between 5-8 years*
- *You prefer an investment duration over 9 years*

3.4.3 Exit outcomes and control rights

The research's concepts are the VC firms' control rights and exit outcomes. The exit outcomes are acquisition and IPO. These are tested against the control rights. Our purpose is to measure VC firms' preferences of control rights and their relationship to the selection of the exit outcome on the Swedish market.

The control rights are related to the contract between the VC firm and the entrepreneur firm. We identified them from Cumming's (2008) research, where he examined the relationship

between control rights and the selection of exit. Cumming (2008) investigated several control rights, which were the right to replace the founder CEO, majority voting, majority boards, veto rights, redemption rights, anti-dilution rights, and drag-along rights.

Exit outcomes

1. IPO
2. Acquisition

Control rights

1. The right to replace the founder CEO
2. Majority voting
3. Majority boards
4. Veto rights
5. Redemption rights
6. Anti-dilution rights
7. Drag-along rights

3.4.3.1 Exit outcomes

IPO

According to Cumming and MacIntosh (2003a), IPO is a common exit outcome and it is the most preferable selection of exit for the VC firm. IPO is the type of exit that is most liquid for the VC firm (ibid.). In an IPO, the VC firm sells of its shares to public investors, but the VC firm do not need to sell off all of its shares into the market at the date when the public offering occur. Cumming and MacIntosh (2003a) explain that securities are sold into the market over a period of months or even years. Whether a VC sells at the time of IPO or later, it denominates IPO as a form exit because it enables the VC's exit (Ibid). According to Ritter and Welch (2002), the reason for an entrepreneur firm to be listed on a public market is the availability of capital, but there is also a possibility for the VC firm convert their wealth into cash (Ibid).

Cumming and MacIntosh (2003a) explain that the advantage of IPO is the unparalleled ability of public markets to supply capital on a scale enough to provide high growth firms, while at the same time spreading risk efficiently among the firm's owners. The IPO firms are unlikely to be characterized by inefficient capital structure because of lowered debt/equity ratio and less concentration in shareholdings (Ibid.). For the VC firms an IPO will increase their reputation maximally, but also result in a public profile that facilitates sale of a firm's product and assists in future capital raising efforts (Cumming & MacIntosh, 2003a). An IPO protects against forms

of opportunistic behaviour that is a result from pursuit or expectation of disparate forms of exit (Ibid.). If the VC firms have the ability to affect the timing of an IPO so that it maximizes the proceeds of sale into public market, it is suggested that they may also have the ability to capture windows of opportunity that allow unmarketable firms to be brought into the public market (Ibid.).

Cumming and MacIntosh (2003a) explain that transaction synergies are a factor that has a major impact on buyer willingness to pay for an entrepreneur firm. The authors assert that IPO is inferior to acquisition in that they do not create instant transaction synergies. Another disadvantage of IPO is the collective inability of public buyers to resolve asymmetric information and value the firm at the time of sales (Ibid.). Compared to the other types of exit outcomes, the asymmetric information is higher and the buyer ability to value the firm is lower (Ibid.). An IPO may also lead to comparative inability of the public market buyers to monitor and discipline managers post-IPO (Ibid.). Collective action and free rider problems are not fully mitigated by an IPO contract that is made by investment bankers and lawyers, as a result other forms of exit appear to be a better solution. The transaction costs that are affecting the exit are at a disadvantage for an IPO compared to the other forms of exit (Cumming & MacIntosh, 2003a).

IPO occurs frequently in the research of VC and is a well-known term in the VC industry. Nevertheless, to avoid a misunderstanding and confusion we will formulate a definition in the survey. In order to measure VC firms' preferences to the selection of IPO, we issue following statement:

- *At an exit on the Swedish market, to what degree do you prefer an IPO*

Acquisition

Acquisition means that a third party purchases the entire entrepreneur firm, including the VC firm's part (Cumming & MacIntosh, 2003a). The shape of an acquisition could look different; it could be a merger, a sell of the shares, and sale of the firm's assets (ibid.). According to Cumming and MacIntosh (2003b), is it also possible that the acquired firm becomes a subsidiary to the acquirer. The purchasing party in an acquisition is ordinarily a strategic investor (Cumming & MacIntosh, 2003a). That could mean the acquirer is a competitor, supplier, costumer, or operates in a similar business as the acquired firm. In the process of an

acquisition, it is common that the purchaser receive information from the VC firm regarding the entrepreneur firm in an early stage (ibid.). Hence, over a long period, the purchaser can investigate and evaluate the firm's operation, market and business opportunities. Under certain circumstances, the VC firms can sometimes go through with an acquisition as a partial exit (Cumming & MacIntosh, 2003b). It means that the VC firm only disposes some of its shares in the entrepreneur firm.

Acquisition is one of the most important and common types of exit outcome for the VC firms (Cumming & MacIntosh, 2003a; Schwienbacher, 2002). Further, Cumming and MacIntosh (2003a) argue that this type of exit outcome is usually associated with high returns. In a study on the Swedish market in 1997 by Isaksson, acquisition was the most frequently used exit performed by VC firms (Isaksson, 2006). According to Cumming and MacIntosh (2003a), both the VC and entrepreneur firms prefer, in general, acquisition hand in hand with IPO as an exit. Hence, IPO is usually preferred because it generates higher returns to both parties. However, a disadvantage is that the timing is very important of an IPO (ibid.). Therefore, the authors state that an acquisition could be a better option for some VC firms.

Acquisition occurs frequently in the research of VC and is a well-known term in the VC industry. But to avoid misunderstanding and confusion we will formulate a definition in the survey. In order to measure VC firms' preferences to the selection of acquisition, we issue following statement:

- *At an exit on the Swedish market, to what degree do you prefer an acquisition*

3.4.3.2 Control rights

The right to replace the founder CEO

According to Hellmann (1998) replacement of the founder CEO is a common phenomenon. The author asserts that when the VC firm has the control, they provide great effort in finding professional managers who will increase the value of the firm. It is a controversial question whether the entrepreneur who is the founder of the firm should leave the position as the CEO. From the VC perspective professional top management adds value to the firm, while the founders are prone to act in their own personal interest and not for the firm's interest. When the entrepreneurs are wealth-constrained, they may relinquish control. This can be done even if the choice hurts the entrepreneur more than it benefits the VC firm (ibid.).

Cumming (2008) explains that the right to replace the founder CEO is almost never a specific contractual clause between the VC firm and the entrepreneur. When the CEO is replaced it is a decision based on voting power of the VC firm with respect to board seats and ownership interest in the firm (ibid.). Cumming and Johan (2008) assert that VC firms have the right to replace the found entrepreneur as CEO when they have majority of the voting rights or the majority of board seats. But it is only effective in the event of non-performance by the entrepreneur (Cumming, 2008). This is supported by a research among Swedish VC firms, which explains that it is uncommon that VC has power to replace the CEO written in the contract (Isaksson et al., 2004).

By the previous research, we believe the VC firms prefer to have the opportunity to replace the founder CEO. We created two statements regarding the right to replace the founder CEO, to increase the reliability of the concept. In order to measure VC firms' preferences of the right to replace the founder CEO, we issue following statements:

- *You prefer to recruit professional management as CEO*
- *You prefer to replace the founder CEO*

Majority voting

Cumming (2008) used majority voting as a variable in his research, where he examined if the VC firm had majority voting rights in the entrepreneur firm. According to Kaplan and Strömberg (2003) voting control right is a common feature in contracts. In general, voting rights are allocated to the VC firm when the entrepreneur firm performance is poor. By voting rights, the controlling party has the right to decide on actions that is not pre-specified in the initial contract (Ibid.). Such rights are valuable when it is not feasible or credible to specify all possible actions and contingencies in a contract (ibid.). According to Kaplan and Strömberg (2003) the voting control varies across different VC firms.

When VC firm finance the entrepreneur, they are using different types of securities (Kaplan & Strömberg, 2003). Kaplan and Strömberg (2003) explain that the VC firm receive different classes of common stock than the founder. The difference is that the VC firm's class of common stocks have voting rights. In a research by Kaplan and Strömberg (2003), they found that voting control has a positive relationship with industries with higher volatility and more

fixed assets. The explanation is that companies are less reliant on the intangible human capital of the original founder, making intervention by the VC more efficient (ibid.).

By the previous research, we believe the VC firms prefer to have majority voting rights in the entrepreneur firm. In order to measure VC firms' preferences of voting rights, we issue following statement:

- *You prefer majority voting rights in the entrepreneur firm*

Majority boards

According to Kaplan and Strömberg (2003), the right to control is provided in board rights and voting rights. Board rights and voting rights can be different from each other (ibid.). The difference can be achieved in a number of ways, such as unvested stock options, non-voting stock, and in the contract (ibid.). Board rights can be separated from voting rights through explicit agreements on the election of directors (ibid.). Different securities can have different rights to elect directors (ibid.). Cumming (2008) examined in his research if the VC firm had a majority of the board seats in the entrepreneur firm.

Cumming (2008) found that when the VC firms that invest in industries with high market ratios, they are expected to have majority in the board, while when they invested in early stage firms they were less likely to have majority board seats. By majority in the board, the VC firm are able to take action that is not specified in the original contract (Kaplan & Strömberg, 2003).

By the previous research, we believe the VC firms prefer to have majority board seats in the entrepreneur firm. In order to measure VC firms' preferences of majority boards, we issue following statement:

- *You prefer majority of board seats in the entrepreneur firm*

Veto rights

Cumming (2008) examined veto rights in his research. Veto rights are passive rights, and according to Cumming and Johan (2008) can be used to prevent certain actions taken by a board of directors and put it to shareholders for a vote. In other words, the holder can avoid the board from raising any specific issue or decision at the shareholder level.

Veto rights normally cover issues such as asset sales, asset purchases, changes in control, and issuances of equity (Cumming & Johan, 2008). It can also include issues such as hiring key personnel, external consultants, legal and accounting advisors, releasing information to the public, or other decisions. Veto rights could influence the exit outcome, because it could be used as a threat point in negotiations and is associated with pre-planned acquisition (ibid.).

By the previous research, we believe the VC firms prefer to have veto rights in the entrepreneur firm. We create two statements regarding veto rights to increase the reliability of the concept.

In order to measure VC firms' preferences of veto rights, we issue following statements:

- *You prefer contractual clauses that give rights to prevent asset sales*
- *You prefer contractual clauses that give rights to prevent change in control*

Redemption rights

In the research by Cumming (2008), redemption rights were included as a control rights' variable. Redemption rights give the VC firm the right at some period of time to sell back their parts of the interest in the entrepreneur firm (Kaplan & Strömberg, 2003). The sell back price is typically the liquidation value or a fair market value. Kaplan and Strömberg (2004) noticed that the usage of redemption rights was more frequent when the VC firms' investments were facing external risk, but they found no association with internal risk.

An entrepreneur firm has no right to demand the VC firm to exercise the redemption right (Kaplan & Strömberg, 2004). On the other hand, VC firms can use the redemption right to force an exit (Cumming, 2008). If the entrepreneur has no financial right to release the VC firm's shares, redemption right could be an efficient way for the VC firm to enforce an exit through acquisition (Cumming & Johan, 2008). Redemption rights are typically obtained by preferred equity (Hellmann, 2006). Sahlman (1990) argues that many agreements between the VC firm and the entrepreneur give the VC firm the right to claim redemption of preferred stock to realize liquidity.

By the previous research, we believe the VC firms prefer redemption rights in an investment. In order to measure the VC firms' preferences of redemption rights, we issue following statement:

- *You prefer to have contractual clauses that give rights to sell back your part of the shares in the entrepreneur firm*

Anti-dilution rights

VC contracts commonly include anti-dilution rights (Kaplan & Strömberg, 2003). According to Cumming (2008), anti-dilution rights will give the VC firm more negotiating power in future financing rounds. Anti-dilution rights imply a protection for the VC firm against future financing round to a lower price than the current price (Kaplan & Strömberg, 2003). The purpose of anti-dilution right for the VC firm is to maintain the same percentage of ownership in the entrepreneur firm after another financing round (Cumming, 2008).

Future financing rounds could mean that the entrepreneur firm issues new shares (Kaplan & Strömberg, 2003). By using an anti-dilution right, the VC firm could be protected as they require additional of shares at the reduced the price. This type of anti-dilution right is called full ratchet protection (ibid). Weighted averages ratchet is another type of anti-dilution right (ibid.). It means that the new conversion price will be adjusted to the existing shares. Hence, the VC firm's shares will be protected.

By the previous research, we believe the VC firms prefer anti-dilution rights in an investment. To avoid misunderstanding with the statement, we will inform the respondent that the statement regards future financing rounds. In order to measure the VC firms' preferences of anti-dilution rights, we issue following statement:

- *You prefer to have contractual clauses that protect your shares in entrepreneur firm*

Drag-along rights

Contracts between VC firms and entrepreneurs ordinarily include options that govern the exit decision (Bienz & Walz, 2010). An example of an option like this is drag-along right (ibid.). Drag-along rights give the VC firm the right to force the entrepreneur to sell shares to a third party (Cumming, 2008). According to Bienz and Walz (2010), the holder of the drag-along right obtains the opportunity to force other shareholders to sell their part of the shares in the firm to an outside investor. It anticipates on same condition as when the holder sells their part of the shares, in other words, at same sell price.

Through drag-along rights, the VC firms can impose an exit (Cumming, 2008). Bienz and Walz (2010) argue that drag-along rights are a good strategy to avoid an exit that will be stopped or

delayed as consequence that one party is unwilling sell. On the other hand, a drag-along right could create problems between the VC firm and the entrepreneur, where the VC firm could try to sell the entrepreneur firm at a lower price (ibid.). The VC firm would then gain from the deal, because they would obtain compensation from the outside buyer. The authors mean that VC firms with more experience more frequently use drag-along rights rather than VC firms with less experience.

By the previous research, we believe the VC firms prefer drag-along rights in an investment. In order to measure the VC firms' preferences of drag-along rights, we issue following statement:

- *You prefer to have contractual clauses that give the right to force the entrepreneur to sell their part of shares*

3.5 Reliability and validity

According to Trost (2001) the terms reliability and validity are relevant in a quantitative research. Reliability means that the research is trustworthy and it is possible to rely on the results. The term also implies that a research can be conducted repeatedly with the same results as conclusion (Eliasson, 2006). From a scientific point of view it is important for other people to be able to control what the research conclusion is based on. Our research is based upon previous theories. Therefore, it is easier for other people to carry out a similar research.

Trost (2001) asserts that congruency is of importance when a questionnaire is used. The author explains that often there are questions in a questionnaire designed to measure the same thing, which we had in mind when the questionnaire was created. An issue with our research is what Trost (2001) calls constancy. Constancy takes time into account, which means that phenomena do not change over time. In our research we measure preferences, but there is a risk that the preferences of the VC firms will change over time, which we cannot influence. It is possible to increase the reliability by making several statements (Eliasson, 2006). Several statements will also increase the internal validity of the research.

Some statements were so obvious that they actually measured the concept, but in certain cases we created several. The statements can be found earlier in this chapter. Eliasson (2006) explains that the research should has high validity, if the research measures what it intends to measure. To obtain valid research it also requires that it has high reliability.

4. Empirical result

This chapter starts with a short explanation of the different parts' content, which begins with the descriptive analysis. This follows by the hypotheses testing and the VC firms' investment characteristic impact on the selection of exit outcome.

4.1 Summary statistics

This chapter begins with a presentation of frequency on the preferences of the VC firms' investment characteristic, exit outcomes, control rights (*table 1, table 2, and table 3*). Further, we present mean, median, mode, minimum, and maximum values of the survey's responses (*table 4*). In order to answer our hypotheses and research question, we used Spearman's correlation test. The Spearman correlation test is presented in *table 6*. Further, we analysis the preferences of the VC firms' investment characteristic impact on the selection of exit outcome.

4.2 Descriptive analysis

4.2.1 Frequency of investment characteristic

Cumming (2008) explains that VC firms use adding value as an investment strategy and from *table 1* we can confirm that this is most preferred. Notable is that 62.8 percentage of the participants strongly prefer it. When it comes to syndication, none of the VC firms selected option strongly disagrees. The majority just preferred it. The VC firms prefer stage and geographic location as specialization strategy. Notable is that the distribution shows 60.5 percentage selected agree as option stage. The VC firms tend to prefer diversification of industry and geographic location. In comparison between specialization and diversification, geographic specialization has a higher frequency of strongly agree and the option agree. The majority of the VC firms answered strongly disagree to invest in early and later firm stages. It is most preferable to invest in firms that are in the stage of expansion. Common equity and convertible securities have a high frequency on the option neither/or, however, common equity tends to be more preferable than convertible securities. In the case of investment duration over

nine years, 51.2 percentage of the VC firms selected the option strongly disagree and the result indicates that 0-4 years and 5-8 years is more preferable.

Table 1

Frequency table

This table presents the frequency survey responses on preferences of the VC firms' investment characteristic. Total number of respondents that participated were 43, and all participants completed the survey.

	1	2	3	4	5
<i>Investment characteristic</i>					
Value adding	2.3	4.7	4.6	25.6	62.8
Syndication	0	18.6	23.3	34.8	23.3
<i>Specialization</i>					
Industry	23.3	25.6	7	23.3	20.9
Geographic location	9.3	18.6	7	25.6	39.5
Stage	4.7	9.3	9.3	60.5	16.3
<i>Diversification</i>					
Industry	7	18.6	7	23.3	44.2
Geographic location	18.6	14	16.3	14	37.2
Stage	7	25.6	27.9	27.9	11.6
<i>Stage</i>					
Early	34.9	18.6	2.3	23.3	20.9
Expansion	9.3	11.6	11.6	37.2	30.2
Later	30.2	20.9	14	18.6	16.3
<i>Common equity and convertible securities</i>					
Common equity	4.7	7	30.2	34.9	23.3
Convertible securities	14	25.6	46.5	11.6	2.3
<i>Duration</i>					
0 – 4 years	14	23.3	20.9	30.2	11.6
5 – 8 years	4.7	14	25.6	32.6	23.3
Over 9 years	51.2	20.9	16.3	11.6	0

1 = Strongly disagree, 2 = Disagree, 3 = Neither/or, 4 = Agree, 5 = Strongly agree

4.2.2 Frequency of exit selection and control rights

The VC firms prefer acquisition rather than IPO on the Swedish market, 20.9 percentages of the respondents strongly prefer an acquisition and 51.2 percentage prefer. It is only 4.7 percentage that do not prefer this type of exit outcome. In the case of IPO, it is just 7 percentages of the VC firms that prefer and 44.2 percentage do not. Out of these 44.2 percentages, 11.6 percentage selected strongly disagree IPO as an exit outcome on the Swedish market. This result conforms to Isaksson (2006), who argues that acquisition is the most frequently exit outcome on the Swedish market. The two statements regarding the right to replace the founder CEO have similar result, where the number of VC firms that prefer it is greater than the number that do not prefer. Regarding majority voting and board, over 50

percentage of the VC firms do not prefer these types of control rights. Notable is that the majority of the VC firms prefer veto rights, 51.2 percentage strongly prefer the veto rights that

Table 2

Frequency table

This table presents the frequency survey responses on preferences of the VC firms' exit selection and control rights. The total number of respondents that participated were 43, and all participants completed the survey.

	1	2	3	4	5
<i>Exit outcomes</i>					
IPO	11.6	32.6	48.8	7	0
Acquisition	0	4.7	23.3	51.2	20.9
<i>Control rights</i>					
Replace the founder CEO					
Recruit ¹	7	9.3	41.9	25.6	16.3
Replace ²	9.3	16.3	32.6	30.2	11.6
Majority voting	37.2	18.6	25.6	16.3	2.3
Majority board	32.6	27.9	23.3	9.3	7
Veto rights					
Asset sales ³	2.3	2.3	9.3	34.9	51.2
Change in control ⁴	0	2.3	14	41.9	41.9
Redemption rights	27.9	14	37.2	14	7
Anti-dilution rights	9.3	4.7	30.2	30.2	25.6
Drag-along rights	4.7	16.3	25.6	27.9	25.6

1 = Strongly disagree, 2 = Disagree, 3 = Neither/or, 4 = Agree, 5 = Strongly agree

¹ You prefer to recruit professional management as CEO, which is a statement regarding the control right the right to replace the founder CEO

² You prefer to replace the founder CEO, which is a statement regarding the control right the right to replace the founder CEO

³ You prefer contractual clauses that give rights to prevent asset sales, which is a statement regarding the control right veto rights

⁴ You prefer contractual clauses that give rights to prevent change in control, which is a statement regarding the variable veto rights

concern prevent asset sales and 41.9 percentage strongly prefer the one that concern prevent change in control. Redemption right is not a preferable control right, 27.9 percentage selected strongly disagree and 14 percentage disagree. However, anti-dilution rights and drag-along rights are more preferable. The majority of the VC firms prefer these two control rights.

4.2.3 Frequency of which control rights that the VC firms prefer most in association of an exit

In table 3, drag-long right appears to be the most preferred control rights in association of an exit. Drag-along right got 24 votes from the VC firms, which represent 27.59 percentage of all votes. The second most preferred control rights is veto rights with 20.69 percentage, followed

by the right to replace the founder CEO with 19.54 percentage. The less preferred control rights in association of an exit is majority board with only 3.45 percentage of all votes.

Table 3

Frequency table of control rights

This table presents the frequency survey responses on which control rights they prefer when they perform an exit. The total numbers of respondents that participated were 43, and all participants completed the survey.

	Number of Votes	Percentage
The right to replace the founder CEO	17	19.54
Majority Voting	8	9.20
Majority board	3	3.45
Veto rights	18	20.69
Redemption rights	6	6.90
Anti-dilution rights	11	12.64
Drag-along rights	24	27.59
Total	87	100

The questions used can be found in appendix 3. The respondents had the possibility to choose between more than one options. This table presents which control right the VC firms prefer most in association with exit.

4.2.4 Statistic of investment characteristic, exit selection, and control rights

Notable regarding investment characteristic, value adding is the most preferred with a mean value of 4.4 and mode value of 5. The mean value of syndication is 3.6 and the minimum value is 2. When it comes to specialization regarding geographic location and stage, they have the same means, but the medians are different. The mean value of industry specialization is 2.9 and the mode value is 2. These indicate that the majority of the VC firms on the Swedish market do not prefer to invest in a specific industry. All mean values of diversification are over 3, which imply that the VC firms prefer to diversify their investments. The most preferred is industry that has a mean of 3.8. In the case of common equity and convertible securities, the first mentioned is preferred in the opposite of the second one. The most desirable investment duration is 5-8 years, while over 9 years indicate it is not preferable.

Acquisition has a mean value of 3.9 and median of 4, in comparison to IPO that has a mean value of 2.6 and a median of 3. With this in mind we can conclude that the VC firms prefer acquisition rather than IPO. Notable is that acquisition has a minimum value of 2. The results present that all control rights except majority voting, majority board, and redemption right are preferable. The most preferred control right, in consideration of mean value and mode value is veto rights with a value of 4.3 respective 5. In consideration of majority voting and board, the

results indicate that they are less preferable. They have the same mean, mode and median value, which is the lowest value of all control rights.

Table 4

Statistic table

This table presents mean, median, mode, minimum, and maximum values of the survey's responses on preferences of the VC firms' investment characteristic, as well as exit selection and control rights. The total number of respondents that participated were 43, and all participants completed the survey.

	Mean	Median	Mode	Min	Max
<i>Investment characteristic</i>					
Value adding	4.4	5	5	1	5
Syndication	3.6	4	4	2	5
Specialization					
Industry	2.9	3	2	1	5
Geographic location	3.7	5	5	1	5
Stage	3.7	4	4	1	5
Diversification					
Industry	3.8	4	5	1	5
Geographic location	3.4	4	5	1	5
Stage	3.1	3	3	1	5
Stage					
Early	2.8	2	1	1	5
Expansion	3.7	4	4	1	5
Later	2.7	2	1	1	5
<i>Common equity and convertible securities</i>					
Common equity	3.7	4	4	1	5
Convertible securities	2.6	3	3	1	5
<i>Duration</i>					
0 – 4 years	3	3	4	1	5
5 – 8 years	3.6	4	4	1	5
Over 9 years	1.9	1	1	1	4
<i>Exit outcomes</i>					
IPO	2.6	3	3	1	5
Acquisition	3.9	4	4	2	5
<i>Control rights</i>					
Replace the founder CEO ¹	3.3	3	3	1	5
Recruit ^{1,1}	3.3	3	3	1	5
Replace ^{1,2}	3.2	3	3	1	5
Majority voting	2.3	2	1	1	5
Majority board	2.3	2	1	1	5
Veto rights ²	4.3	4	5	2	5
Asset sales ^{2,1}	4.3	5	5	1	5
Change in control ^{2,2}	4.2	4	4	2	5
Redemption Rights	2.6	3	3	1	5
Anti-dilution Rights	3.6	4	3	1	5
Drag-along rights	3.5	4	4	1	5

¹ The combined control right *the right to replace the founder CEO*

^{1,1} *You prefer to recruit professional management as CEO, which is a statement regarding the control right the right to replace the founder CEO.*

^{1,2} *You prefer to replace the founder CEO, which is a statement regarding the control right the right to replace the founder CEO*

² The combined control right *veto rights*

^{2,1} *You prefer contractual clauses that give rights to prevent asset sales, which is a statement regarding the control right veto rights*

^{2,2} *You prefer contractual clauses that give rights to prevent change in control, which is a statement regarding the control right veto rights*

*The reliability test that explains the combined control rights can be found in appendix 4.

4.3 Hypotheses testing and analysis

The result is based on Spearman's correlation test across exit outcomes and control rights, which can be found in this part of the chapter (*table 5*). It is also based on the Spearman's correlation test across of all items regarding investment characteristic, exit outcomes and control rights (*Appendix 6*).

4.3.1 Exit outcomes and control rights

Here, we answer the hypotheses we earlier created. The hypotheses were:

***Hypothesis 1:** VC firms' preferences of control rights have a relationship with their preference to the selection of IPO.*

***Hypothesis 2:** VC firms' preferences of control rights have a relationship with their preference to the selection of acquisition.*

The result proves that IPO has a negative correlation with acquisition. This relationship is strongly significant, which indicates that if the VC firms prefer IPO, they do not prefer acquisition. The right to replace the founder CEO has a weak negative correlation with IPO. This implies that if the VC firm prefer this type of control right, they do not prefer IPO as exit outcome. Due to, it is not significant and therefore it does not support our hypothesis. Notable is the relationship indicates to be in same direction as Cumming (2008) presented, but we cannot make any conclusion of this relationship.

Cumming's (2008) result proved that if the ability to replace the founder CEO was weak, there was a higher probability of an IPO. Aghion and Bolton (1992), argue if the VC firm's control rights are weak, the entrepreneur will try to maximize his own benefits. We found evidence that the right to replace the CEO has a significant positive relationship with drag-along rights. This implies if the VC firms prefer the right to replace the founder CEO, they also prefer drag-along rights. With these types of control rights the VC firms can have a strong degree of control in the entrepreneur firm.

The result presents that acquisition is positive significant correlated with the right to replace the founder CEO. The correlation is 0.262 and is significant on the weak level of 0.1. Therefore, this supports our hypothesis; the right to replace the founder CEO has a relationship with their preferences to the selection of acquisition. Our result implies that the VC firms prefer to have the right to replace the founder CEO when they prefer acquisition as exit outcome. The result is in accordance with Cumming (2008) who found a strong positive relationship between the right to replace the founder CEO and acquisition. Cumming (2008) argues this control right is almost never specified in the contract. The decision regarding the replacement of the founder CEO is common to be governed by board and voting rights. Our result tends to support this, thus we found a strong positive relationship with the right to replace the founder CEO and majority board, as well as majority voting.

The control rights majority voting and board have no significant relationship with IPO or acquisition. Hence, we cannot support our hypotheses and make any conclusions. The results indicate that there is a weak positive correlation between both control rights and acquisition, which is in same direction with Cumming's (2008) results. But our results differ regarding IPO, because it indicate a weak positive relationship with majority voting and board. The explanation can be in accordance with Kaplan and Strömberg (2003); Cumming (2008) who argue that usage of majority board and voting depend on the characteristics of the investee. We found that majority board has weak significant negative relationship with preferences of investment in early firm stage, which is in accordance with Cumming (2008). Cumming (2008) argues that the VC firms are expected to be in the board of investment with high market ratios. That could be an explanation to the strong significant positive relationship between majority board and preferences of investment in later firm stage. We can also confirm that majority voting follow the same pattern as majority board regarding early stage and later stage.

Our results present that veto rights has no significant relationship with IPO or acquisition, but it has a positive correlation with both exit outcomes. According to Cumming (2008), veto rights has a negative relationship with IPO and a positive relationship with acquisition. With this in mind we cannot accept our hypotheses and make any conclusions. Notable is that we found a positive significant relationship between veto rights and diversification in several firm stages. But since we have not found any previous research regarding this relationship we cannot explain this.

Table 5

Correlation matrix

This table presents correlation coefficients across exit and control rights. The total number of respondents that participated were 43, and all participants completed the survey.

Spearman's correlation test

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) IPO	Corr 1								
(2) Acquisition	Sig -0.445***	Corr 1							
(3) Replace CEO ¹	Corr 0.003	Sig 0.262*	Corr 1						
(4) Majority voting	Sig -0.192	Corr 0.09	Sig 1	Corr 0.461***					
(5) Majority board	Corr 0.217	Sig 0.052	Corr 0.144	Sig 0.002	Corr 1				
(6) Veto rights ²	Sig 0.738	Corr 0.355	Sig 0.738	Sig 0.364**	Sig 0.914***	Corr 0			
(7) Redemption	Corr 0.136	Sig 0.385	Corr 0.421	Sig 0.016	Corr 0	Sig -0.027	Corr 1		
(8) Anti-dilution	Sig 0.402	Corr 0.131	Sig 0.162	Corr 0.041	Sig -0.031	Corr 0.865	Sig 1		
(9) Drag-along	Corr -0.118	Sig 0.45	Corr 0.125	Sig -0.079	Corr 0.845	Sig 0.178	Corr 0.027	Corr 1	
	Sig 0.207	Corr 0.182	Sig 0.425	Sig 0.615	Corr 0.231	Sig 0.253	Sig 0.862	Sig 0.295	Corr 1
	Corr -0.042	Sig 0.182	Corr 0.242	Sig 0.72	Corr 0.495	Sig 0.458	Sig 0.397***	Corr 0.008	Sig 0.055
	Sig 0.789	Corr 0.142	Sig 0.363	Sig 0.331**	Corr 0.147	Sig 0.17	Sig 0.333**	Corr -0.153	Sig 0.319**
		Sig 0.363		Sig 0.03	Corr 0.347	Sig 0.276	Sig 0.029	Corr 0.326	Sig 0.037

* P<0.10 (2-tailed). ** P<0.05 (2-tailed). *** P<0.01 (2-tailed).

¹ The combined control right *the right to replace the founder CEO*

² The combined control right *veto rights*

* The reliability test that explains the combined control rights can be found in appendix 4.

In the case of redemption rights and drag-along rights we can confirm that the correlation is in accordance with Cumming (2008). It is negative with IPO and positive with acquisition. The p-value of both control rights is greater than the significance level, hence we cannot support our hypotheses and make any conclusions. The same goes for anti-dilution, but in this case the correlation is reversed. Notable is that we found other significant relationships regarding anti-dilution rights, redemption rights, and drag-along rights. There is a strong positive significant relationship between anti-dilution rights and veto-rights. Cumming and Johan (2008); Kaplan and Strömberg (2003) argue that this types of control rights give more negotiation power to the VC firm of future financial decisions. Drag-along rights have significant relationships with veto rights and anti-dilution rights. The correlations are positive, which mean that if the VC firm prefer drag-along rights, they also prefer veto rights or anti-dilution rights.

Table 6

Summary of hypotheses

This table presents the correlation across the exit outcomes and control rights.

	IPO	Acquisition
The right to replace the founder CEO	Negative	Positive*
Majority voting	Positive	Positive
Majority board	Positive	Positive
Veto rights	Positive	Positive
Redemption rights	Negative	Positive
Anti-dilution rights	Positive	Negative
Drag-along rights	Negative	Positive

* Hypothesis 2: *VC firms' preferences of control rights have a relationship with their preferences to the selection of acquisition.* This hypothesis is supported regarding the right to replace the founder CEO and has a positive significant relationship (P<0.10 (2-tailed)).

We did not find any support regarding the exit outcomes and the other control rights.

4.3.2 The investment characteristic's impact on the selection of exit outcome and other implications

Here we present significant relationships between the VC firms' investment characteristic and the exit outcome. We also discuss other interesting implications from our data, which involves relationships between control rights and investment characteristics (*Appendix 6*).

Our result presents that investment duration of 0-4 years has a positive significant correlation with acquisition. This is in accordance with Cumming and Johan (2010), who found that the average duration of an investment in USA is 3.16 years in the case of acquisition.

Adding value has a weak positive significant relationship with the exit outcome acquisition. This indicates that if the VC firm prefer to add value to entrepreneur firm, they prefer acquisition as an exit outcome. The relationship supports by Cumming and MacIntosh (2003a). Adding value has also a strong positive significant correlation with majority voting and board, and is positive significant correlation with the replace the founder CEO. An explanation of the result can be that these types of strategies are nearly linked to each other. Hellmann (1998) argues that from the VC firms' perspective, they can add value to the entrepreneur firm by recruiting professional management. The reason is that the founder CEO acts in his own interest and not in the firm's interest. Majority board and voting give the VC firm more influence than they can obtain from the contract. The VC firm has also the possibility to increase the monitoring process and impact on the decision-making in the firm (Casson & Martin, 2007; Cumming, 2008).

Diversification in several geographic locations has a relationship with IPO. The correlation is positive significant, which goes in opposite directions of Knill's (2009) result. Knill (2009) argues that IPO has a negative relationship with geographic diversification. Acquisition is weak positive significant correlated with investment in a specific firm stage and weak negative significant correlated with diversification in several firm stages. The result suggests that if the VC firms prefer to specialize their investment in a certain firm stage, they prefer acquisition. Investment in a specific firm stage is weak positive correlated with investment in later firm stage. It indicates that they prefer to specialize their investment in later stage. If the VC firms prefer diversification in several firm stages, they do not prefer acquisition, which is in accordance with Knill (2009).

In the case of IPO, it has a weak positive significant relationship with diversification in several firm stages. This goes in opposite of Knill's (2009) result. The result regarding investments in later firm stage is positively significantly correlated with IPO. The VC firms that prefer to invest in later firm stage, the selection of exit outcome is more likely to end up as IPO rather than acquisition. This relationship is supported by Bygrave et al. (1994).

We found notable significant relationships regarding the VC firms' preferences of control rights and their investment characteristic. Regarding majority voting and board there are a strong negative significant correlation with syndication and investment in several industries, and a positive significant correlation with investment in specific industry. When the VC firms

prefer to invest in several industries they do not prefer to replace the founder CEO, since they have a weak negative significant correlation. Majority voting and investment in a specific geographic location is negative significant correlated, which means that they do not prefer majority voting when they invest in a geographic specific location.

When the VC firms prefer the control right redemption rights they also prefer convertible equity, since they have a positive significant correlation. Drag-along rights has a positive significant correlation with investment in a specific firm stage and a weak negative significant correlation with investment duration of 5 to 8 years. Regarding investment duration over 9 years, it has a positive significant relationship with majority board and a weak positive significant relationship with veto and anti-dilution rights.

5. Conclusion

In this chapter we discuss the empirical result of the research with reflections related to the purpose and the research question. The chapter ends with implications and suggestions for further research.

5.1 Conclusion

We examined the VC firms' preferences of control rights and the selection of exit outcome. Our research was based on Cumming (2008) and investigated 43 VC firms that are active on the Swedish market. The purpose with the thesis is to describe VC firms' preferences of control rights and exit outcome, and explain their relationship.

Among the VC firms in our research, acquisition is more preferable as exit outcome rather than IPO. The general theory asserts that IPO is the most preferable selection of exit for the VC firms. However, previous research on the Swedish market proved that acquisition was the most frequently, which can be an explanation of our result. In the case of control rights, veto rights were the most preferred and the least preferred were majority voting and board. Notable when the VC firms associate to perform an exit, drag-along rights is the most preferred.

We found support regarding the control right, the right to replace the founder CEO has a positive relationship with acquisition. This implies if the VC firms prefer to replace the founder CEO, they prefer acquisition as a selection of exit outcome. The result conforms to previous research by Cumming (2008). Regarding the other control rights in our research, we did not found any statistically relationships with the exit outcomes, but we can see that a several of the control rights' correlations with the exit outcomes follow same pattern as previous research.

We also consider factors regarding the VC firms' investment characteristic that previous theories have found relationship with the selection of the exit outcome. The empirical result presented interesting evidence. It implies that IPO has a significant positive relationship with diversification in several geographic locations and several firm stages, and investment in later firm stage. The investment characteristic regarding diversification goes in the opposite direction of previous research, while investment in later firm stage conforms.

Our result implies that acquisition has a significant positive relationship with adding value, specialization in a certain firm stage, and an investment duration of 0 to 4 years. Acquisition has also a negative relationship with diversification in several firm stages. Regarding specialization in a certain firm stage, we have not identified any previous theory that supports this relationship. This evidence indicates if the VC firm prefer to specialize their investment in a certain firm stage, they prefer acquisition. The other relationships we found conform to previous theory.

5.2 Critique

We have only considered the control rights and the exit outcomes as Cumming (2008) did in his research. Therefore, our research is limited, which could mean that other potential control rights have been excluded. In the case of exit outcomes, we excluded buyback, secondary sale, and write-off.

Our result can only support one significant relationship between the control rights and the exit outcomes, this is less than we expected. We believe our sample can be a reason for the outcome. Our sample includes only 43 observations, with a larger sample the possibility is greater to find more significant relationships. However, the number of VC firms on the Swedish market is limited.

We can imagine the distribution of the data could be factor that affected the outcome. As mentioned earlier, our sample is limited which means that each respondent's answer has a great impact on the spread. Our sample is concentrated to all VC firms that are active on the Swedish market. Hence, the VC firms' characteristics differ from each other, for example concerning their investment strategy and size. We believe a more homogenous sample would give us less spread of the data. Due to our sample, we had to perform a non-parametric test, which is less reliably than a parametric test.

The availability to actual data is limited. Therefore, our research was based on the VC firms' preferences regarding control rights and exit outcome. Preferences are something that changes

over time, which means that the result today may not look the same tomorrow. We imagine the economic climate has an impact on preferences and especially for IPOs.

5.3 Implications

As mentioned earlier, the research regarding the VC exits are relatively unexplored given its importance, as well as the research on the Swedish market. Our result contributes to an increased understanding of the VC firms' incentives to act on the Swedish market. We implicate that the VC firms on the Swedish market prefer acquisition as exit outcome rather than IPO. Regarding the control rights the most preferable is veto rights among the VC firms. In contrast to Cumming (2008) who examined actual data, we examined the VC firms' preferences and our result suggests that when the VC firms prefer the right to replace the founder CEO they prefer acquisition as exit outcome. With our research we want to motivate more research concerning VC on the Swedish market, as well as more research regarding control rights and exit outcomes.

The VC investments are usually risky, the VC firm can reduce the possibility for unsuccessful investment by increasing the control. With our research we want to give the VC firms understanding of which control rights to apply to reach a preferred exit. From the entrepreneur point of view our result could give them insight about the VC firms' incentives to act on the Swedish market.

5.4 Further research

We investigated preferences which may change over time. For further research it would be interesting to perform a similar research in the future. It would be interesting to see how the result differs in comparison to our result. Especially, since we believe that economic climate would have a major impact on the preferences.

If it is possible to get access to actual data regarding exit and control rights on the Swedish market, it would be interesting if the results conform with previous research. A study with

actual data could also be compared with our research, to distinguish preferences from how the VC firms actually act.

It would also be interesting to do a similar research but from the entrepreneurs' point of view. Our research only considers the VC firms perspective. By conducting a research from the entrepreneurs' point of view, it is possible to capture incentives and how they act in association to control rights and exit outcome.

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Appendix

Appendix 1 - Standard letter

Hej,

Vi heter Emil och Mikael och studerar på Handelshögskolan i Göteborg på magisterprogrammet Industrial and Financial Management. För tillfället skriver vi magisteruppsats med fördjupning inom Venture Capital.

Vi avser att undersöka VC företags karaktär och preferenser till strategier och exit. Er medverkan är helt konfidentiell, vilket innebär att vi garanterar anonymitet. Ert företag har valts ut eftersom ni är registrerade på SVCA:s medlemsregister som aktivt VC företag.

Vår undersökning kommer skapa ökad förståelse om hur VC företag agerar för att uppnå optimala investeringar på den svenska marknaden. Vi är övertygade om att vårt resultat kommer vara intressant och användbart, därför ser vi ER som en viktig respondent i vårt arbete.

Vi beräknar med att undersökningen tar ca 5 minuter av er tid. Vi kommer ställa en rad påstående kring VC företagets karaktär och era preferenser. Ni skall besvara i vilken grad ert VC bolag överensstämmer med varje enskilt påstående. Undersökning genomförs från den bifogade länken där ni kryssar för det alternativ som stämmer överens med era preferenser.

<https://docs.google.com/a/student.gu.se/spreadsheet/viewform?formkey=dHJOeGJac3piYUhwYlpqeGFyVWpMcGc6MQ>

Om ni inte känner att ni är rätt person på företaget för att besvara denna undersökning, skulle vi vara ytterst tacksamma om ni skulle vilja bifoga detta email till någon som är mer lämpad. Uppstår det några oklarheter eller om ni har ytterligare frågor går det bra att kontakta oss antingen via telefon eller email.

Vi tackar för er medverkan!

Mvh,

Emil och Mikael

Emil Stribrand	<i>(Telefon)</i>
	<i>(Email)</i>
Mikael Rydert	<i>(Telefon)</i>
	<i>(Email)</i>

Appendix 2 - Reminder letter

Hej,

Vi skickade för några dagar sen ett email till er, gällande enkätundersökning angående VC företags karaktär och preferenser till strategier och exit. Undersökningen bidrar till en ökad förståelse om hur VC företag agerar för att uppnå optimala investeringar på den svenska marknaden.

Detta är en påminnelse, då vi ser ER som en viktig respondent i vårt arbete är det fortfarande möjligt att besvara enkäten. Detta genom att klicka på den bifogade länken nedan. Er medverkan är helt konfidentiell, vilket innebär att vi garanterar anonymitet.

<https://docs.google.com/a/student.gu.se/spreadsheet/viewform?formkey=dHJOeGJac3piYUhwYlpqeGFyVWpMcGc6MQ>

Vi tackar för er medverkan!

Mvh,
Emil och Mikael

Emil Stribrand	<i>(Telefon)</i>
	<i>(Email)</i>
Mikael Rydert	<i>(Telefon)</i>
	<i>(Email)</i>

Appendix 3 - Questionnaire

Undersökning Venture Capital på den svenska marknaden

Undersökningen handlar om VC företagens karaktär, preferenser till strategier och exit. Svaren ska vara besvarade utifrån företagets perspektiv. Er medverkan är helt konfidentiell, vilket också innebär att vi garanterar anonymitet.

Svarsalternativ

- 1. Instämmer inte alls*
 - 2. Instämmer inte*
 - 3. Varken/eller*
 - 4. Instämmer delvis*
 - 5. Instämmer helt*
-

Företag: _____

Befattning: _____

Email: _____

Ni föredrar en aktiv roll i entreprenörföretaget.

- 1. Instämmer inte alls 2. Instämmer inte 3. Varken/eller 4. Instämmer delvis 5. Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar att använda er av syndikeringsinvestering.

- 1. Instämmer inte alls 2. Instämmer inte 3. Varken/eller 4. Instämmer delvis 5. Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar att investera i en specifik bransch.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar att investera i en specifik region.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar att investera i en specifik fas.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar att investera i flera branscher.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar att investera i flera regioner i Sverige.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar att investera i flera faser.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar att investera i företag som befinner sig i en tidig fas.

Tidig fas: *Entreprenören har endast en idé vid investering eller är i behov av kapital för att utveckla och kommersialisera sin produkt. Företaget är yngre är oftast yngre än 1 år*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar att investera i företag som befinner sig i expansions fas.

Expansions fas: *Entreprenörföretaget behöver kapital för full kommersiell expansion. Deras produkt är oftast redan fullt utvecklad. Kapitalet går till t.ex. expansion och marknadsföring.*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar att investera i företag som befinner sig i en senare fas.

Senare fas: *Tillhandhålla med kapital för att ledningen ska få kontroll över en produktlinje, division eller företaget. Det kan också involvera företag i finansiella svårigheter.*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar att använda er av konvertibler vid en investering.

Konvertibler: *Ett värdepapper som kan konverteras till ett annat värdepapper, t.ex. till preferens aktier eller gemensamt eget kapital. En konvertibel är en skuldförbindelse, där innehavare kan ha rätten till att byta ut denna förbindelse mot aktier i företaget.*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar att använda er av gemensamt eget kapital vid en investering.

1. Instämmer inte alls 2. Instämmer inte 3. Varken/eller 4. Instämmer delvis 5. Instämmer helt

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar en investeringshorisont mellan 0-4 år.

1. Instämmer inte alls 2. Instämmer inte 3. Varken/eller 4. Instämmer delvis 5. Instämmer helt

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar en investeringshorisont mellan 5-8 år.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar en investeringshorisont över 9 år.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar att rekrytera professionell management som VD.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar möjligheten att byta ut entreprenören som VD.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar majoritet i rösträtt i entreprenörföretaget.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar majoritet i styrelsen i entreprenörföretaget.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar kontraktsevenliga klausuler som ger rätten att förhindra försäljning av tillgångar.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar kontraktsevenliga klausuler som ger rätten att förhindra förändring av kontroll.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar kontraktsevenliga klausuler som ger möjlighet att sälja tillbaka era aktier i entreprenörföretaget.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar kontraktsevenliga klausuler som skyddar er andel i entreprenörföretaget.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Ni föredrar kontraktsevenliga klausuler som ger rätten att tvinga entreprenören att sälja sin andel i företaget till en tredje part.

1. *Instämmer inte alls* 2. *Instämmer inte* 3. *Varken/eller* 4. *Instämmer delvis* 5. *Instämmer helt*

1 2 3 4 5

Instämmer inte alls Instämmer helt

Vid en exit på den svenska marknaden, till vilken grad föredrar ni en börsintroduktion.

Med börsintroduktion menar vi att portföljföretaget introduceras på en publik marknad.

1 2 3 4 5

Instämmer inte alls Instämmer helt

Vid en exit på den svenska marknaden, till vilken grad föredrar ni en industriell försäljning.

Med industriell försäljning menar vi att majoriteten av andelarna i portföljbolaget säljs till en tredje part.

1 2 3 4 5

Instämmer inte alls Instämmer helt

Följande påståande är relaterade till kontrollrättigheter. Vilket eller vilka påståande har betydelse vid exit. *Kryssa i ett eller flera av alternativen*

- Möjligheten att byta ut entreprenören som VD
- Majoritet i rösträtt i entreprenörföretaget
- Majoritet i styrelsen i entreprenörföretaget
- Kontraktsenliga klausuler som ger rätten att förhindra förändring av kontroll
- Kontraktsenliga klausuler som ger möjlighet att sälja tillbaka era aktier i entreprenörföretaget
- Kontraktsmässiga klausuler som skyddar er andel i entreprenörföretaget
- Kontraktsmässiga klausuler som ger rätten att tvinga entreprenören att sälja sin andel i företaget till en tredje part.

Vill du ta del av uppsatsen? *För att kunna ta del av uppsatsen måste email vara ifylld på fråga 2*

- Ja
- Nej

Appendix 4 – Reliability test

In order to measure the control rights, the right to replace the founder CEO and veto rights, we conducted two statements for each concept to increase the reliability. According to Hair et al. (2010), high reliability implies that precision of the statements measures what it intend. These statements were later on combined into two control rights. To avoid measuring errors in combining process, we performed a reliability test of the statements and thereby obtained Cronbach alpha values for those statements that we intended to combine. Cronbach alpha has a value between 0 and 1, where an acceptable value is between 0.6 and 0.7 (Hair et al., 2010). A greater value implies for a higher reliability of the variables (ibid.).

Table 7

Reliability test

This table presents the reliability test of the items regarding the control rights the right to replace the founder CEO and veto rights.

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach Alpha
<i>The right to replace the founder CEO</i>				0.858*
You prefer to recruit professional management as CEO	3.186	1.298	0.753	
You prefer to replace the founder CEO	3.3488	1.185	0.753	
<i>Veto rights</i>				0.769*
You prefer contractual clauses that give rights to prevent asset sales	4.2326	0.611	0.632	
You prefer contractual clauses that give rights to prevent change in control	4.3023	0.835	0.632	

* Cronbach alpha value of the statements is 0.858 and 0.769, which are greater than the acceptable level. Therefore, we can be sure that our statements measure what it intend to do and we combined them.

Appendix 5 - Examination of data

Before we began with our analysis, we examined the collected data. The examination was conducted by statistic tests. The issues that we considered were normal distribution and heteroscedasticity.

The first step was to examine the normal distribution of the exit outcomes, control rights, and investment characteristics. This was performed by Kolomogorov-Smirnov and Shapiro-Wilk test. Those tests are formal statistic tests for examine normal distribution (Shapiro & Wilk, 1972; Hair et al., 2010). Significant level of Kolomogorov-Smirnov and Shapiro-Wilk test is 0.05 (Shapiro & Wilk, 1972; Gail & Green, 1976). The tests imply the observation is normal distributed if the observed value is greater than the significant level. The Kolomogorov-Smirnov and Shapiro-Wilk test showed that the exit outcomes and the control rights were non-parametric as well as the VC firms' investment characteristics. Both tests are shown in *table 8*.

We did not do any statistic test regarding heteroscedasticity. The reason is that our data proved to be non-parametric and heteroscedasticity cannot occur when the data are non-parametric. This is supported by Hair et al. (2010), which assert that heteroscedasticity can only occur when the data is parametric.

Table 8

Tests of normality

This table presents the normality of investment characteristic, exit outcomes, and control rights. These were performed by formal statistic tests called Kolmogorov-Smirnov and Shapiro-Wilk.

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
<i>Investment characteristic</i>						
Value adding	0.356	43	0	0.655	43	0
Syndication	0.22	43	0	0.869	43	0
Specialization						
Industry	0.218	43	0	0.855	43	0
Geographic location	0.243	43	0	0.816	43	0
Stage	0.368	43	0	0.777	43	0
Diversification						
Industry	0.253	43	0	0.798	43	0
Geographic location	0.224	43	0	0.833	43	0
Stage	0.177	43	0.002	0.916	43	0.004
Stage						
Early stage	0.217	43	0	0.81	43	0
Expansion stage	0.274	43	0	0.839	43	0
Later stage	0.192	43	0	0.86	43	0
Common equity and convertible securities						
Convertible securities	0.257	43	0	0.888	43	0.001
Common equity	0.21	43	0	0.884	43	0
Duration						
0-4 years	0.199	43	0	0.906	43	0.002
5-8 years	0.209	43	0	0.897	43	0.001
Over 9 years	0.306	43	0	0.77	43	0
<i>Exit outcomes</i>						
IPO	0.261	43	0	0.828	43	0
Acquisition	0.279	43	0	0.85	43	0
<i>Control rights</i>						
Replace the founder CEO ¹	0.166	43	0.004	0.944	43	0.036
Majority voting	0.229	43	0	0.854	43	0
Majority boards	0.202	43	0	0.866	43	0
Veto rights ²	0.226	43	0	0.832	43	0
Redemption rights	0.214	43	0	0.882	43	0
Anti-dilution rights	0.195	43	0	0.87	43	0
Drag-along rights	0.188	43	0.001	0.896	43	0.001

¹ The control right replace the founder the CEO is combined by the items mentioned in the Cronbach alpha test.

² The control right veto rights is combined by the items mentioned in the Cronbach alpha test.

Appendix 6 – Spearman’s correlation test of items

Table 9

Correlation matrix
 This table presents correlation coefficients across of all items regarding investment characteristic, exit outcomes and control rights. The control rights replace the founder CEO and veto rights are also included. The total number of respondents that participated were 43, and all participants completed the survey.

Spearman’s correlation test of items across exit outcomes, control rights, and investment characteristic

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 Adding Value	Corr 1													
	Sig													
2 Syndication	Corr -0.227	1												
	Sig 0.143													
3 Specific industry	Corr 0.301*	-0.08	1											
	Sig 0.05	0.611												
4 Specific location	Corr -0.353**	0.124	-0.491***	1										
	Sig 0.02	0.427	0.001											
5 Specific firm stage	Corr -0.051	-0.101	0.078	0.239	1									
	Sig 0.747	0.519	0.62	0.123										
6 Several industries	Corr -0.211	0.286*	-0.613***	0.422***	0.089	1								
	Sig 0.174	0.063	0	0.005	0.571									
7 Several location	Corr 0.137	-0.142	0.384**	-0.477***	-0.227	-0.106	1							
	Sig 0.38	0.364	0.011	0.001	0.143	0.498								
8 Several firm stages	Corr -0.027	0.17	-0.049	-0.053	-0.447***	0.027	0.387**	1						
	Sig 0.865	0.275	0.756	0.737	0.003	0.863	0.01							
9 Early stage	Corr -0.164	0.186	-0.102	0.16	0.132	0.077	-0.331**	-0.187	1					
	Sig 0.293	0.232	0.516	0.305	0.4	0.624	0.03	0.23						
10 Expansion stage	Corr -0.168	0.15	-0.031	0.036	-0.071	0.086	0.11	0.232	-0.530***	1				
	Sig 0.281	0.337	0.842	0.816	0.649	0.585	0.481	0.134	0					
11 Later stage	Corr 0.177	-0.274*	0.117	-0.18	-0.153	-0.257*	0.306**	0.27*	-0.581***	0.408***	1			
	Sig 0.256	0.076	0.455	0.249	0.328	0.096	0.046	0.08	0	0.007				

12	Common equity	Corr	-0.046	0.136	0.06	0.074	0.221	0.209	0.013	-0.114	0.128	0.061	-0.217	1
		Sig	0.77	0.383	0.702	0.639	0.155	0.179	0.936	0.468	0.412	0.697	0.161	
13	Convertible securities	Corr	0.028	0.228	0.054	-0.113	-0.072	0.074	-0.05	0.11	0.25	0.059	-0.055	-0.003
		Sig	0.859	0.141	0.731	0.471	0.645	0.637	0.75	0.483	0.106	0.705	0.724	0.985
14	0-4 years	Corr	-0.075	-0.065	-0.061	0.113	0.137	-0.007	0.15	0.013	-0.182	0.048	0.083	0.11
		Sig	0.633	0.678	0.699	0.472	0.38	0.964	0.336	0.934	0.243	0.762	0.597	0.483
15	5-8 years	Corr	0.118	0.155	0.138	-0.053	-0.11	0.02	-0.173	-0.002	0.249	-0.135	-0.086	0.079
		Sig	0.45	0.321	0.379	0.734	0.482	0.899	0.267	0.99	0.108	0.386	0.583	0.612
16	Over 9 years	Corr	0.305**	-0.179	0.071	-0.019	0.172	-0.132	-0.022	-0.008	0.091	0.04	0.224	-0.064
		Sig	0.047	0.25	0.649	0.904	0.271	0.4	0.889	0.958	0.563	0.801	0.149	0.686
17	IPO	Corr	-0.088	-0.141	-0.002	-0.01	-0.134	0.14	0.360**	0.284*	-0.085	-0.033	0.384**	-0.178
		Sig	0.576	0.367	0.988	0.948	0.391	0.369	0.018	0.065	0.587	0.833	0.011	0.253
18	Acquisition	Corr	0.29*	0.072	0.119	-0.063	0.274*	-0.11	-0.093	-0.26*	-0.102	-0.128	-0.121	0.101
		Sig	0.059	0.645	0.448	0.686	0.076	0.481	0.555	0.092	0.515	0.413	0.44	0.519
19	Replace CEO ¹	Corr	0.360**	0.237	0.227	-0.248	-0.103	-0.278*	-0.004	0.024	-0.059	0.076	0.206	0.032
		Sig	0.018	0.126	0.143	0.108	0.509	0.071	0.981	0.877	0.706	0.629	0.186	0.84
20	Recruit ¹¹	Corr	0.305**	0.367**	0.303**	-0.172	-0.002	-0.248	-0.066	-0.069	-0.028	0.024	0.092	-0.001
		Sig	0.046	0.015	0.049	0.271	0.988	0.108	0.673	0.66	0.856	0.881	0.556	0.995
21	Replace ¹²	Corr	0.319**	0.115	0.103	-0.255*	-0.108	-0.215	-0.006	0.058	-0.094	0.123	0.278*	0.03
		Sig	0.037	0.462	0.509	0.098	0.492	0.166	0.969	0.711	0.548	0.431	0.071	0.848
22	Majority voting	Corr	0.468***	-0.407***	0.391**	-0.303**	-0.065	-0.495***	0.243	0.146	-0.310**	0.086	0.568***	-0.088
		Sig	0.002	0.007	0.01	0.048	0.679	0.001	0.117	0.35	0.043	0.584	0	0.573
23	Majority boards	Corr	0.525***	-0.505***	0.265*	-0.238	0.059	-0.395***	0.143	0.047	-0.283*	-0.017	0.506***	-0.17
		Sig	0	0.001	0.085	0.124	0.708	0.009	0.359	0.766	0.065	0.913	0.001	0.275
24	Veto rights ²	Corr	0.239	0.186	0.012	0.029	-0.157	0.1	0.072	0.313**	-0.045	0.08	0.11	0.106
		Sig	0.123	0.232	0.937	0.852	0.313	0.522	0.646	0.041	0.776	0.61	0.482	0.498
25	Asset sales ²¹	Corr	0.279*	0.149	0.098	-0.018	-0.227	0.03	0.047	0.235	-0.05	0.023	0.022	-0.044
		Sig	0.07	0.341	0.53	0.91	0.144	0.848	0.763	0.129	0.75	0.884	0.888	0.78
26	Change in control ²²	Corr	0.206	0.219	-0.025	0.019	-0.14	0.132	0.054	0.322**	-0.032	0.078	0.131	0.197
		Sig	0.184	0.159	0.875	0.904	0.37	0.397	0.731	0.035	0.838	0.62	0.402	0.206

27	Redemption rights	Corr	0.173	-0.081	-0.095	0.053	0.016	0.134	-0.114	-0.052	0.082	0.052	0.11	0.183	0.373**	-0.014
		Sig	0.267	0.604	0.544	0.738	0.921	0.391	0.467	0.74	0.6	0.741	0.481	0.24	0.014	0.929
28	Anti-dilution rights	Corr	0.089	0.134	-0.107	0.203	-0.084	0.146	-0.023	0.031	-0.053	0.193	0.184	0.098	0.238	-0.036
		Sig	0.571	0.391	0.496	0.191	0.592	0.349	0.882	0.841	0.735	0.215	0.238	0.53	0.124	0.82
29	Drag-along rights	Corr	0.166	0.146	-0.055	0.018	-0.189	-0.004	0.115	0.350**	-0.146	0.12	0.023	-0.163	0.028	0.248
		Sig	0.286	0.351	0.724	0.909	0.224	0.981	0.464	0.021	0.352	0.444	0.881	0.297	0.858	0.108

Table 9 Continue

15	5-8 years	Corr	1													
		Sig														
16	Over 9 years	Corr	0.152	1												
		Sig	0.33													
17	IPO	Corr	-0.027	0.133	1											
		Sig	0.863	0.397												
18	Acquisition	Corr	-0.169	-0.151	-0.445***	1										
		Sig	0.279	0.335	0.003											
19	Replace CEO ¹	Corr	0.079	0.023	-0.192	0.262*	1									
		Sig	0.613	0.885	0.217	0.09										
20	Recruit	Corr	0.035	0.062	-0.226	0.283*	0.899***	1								
		Sig	0.826	0.693	0.145	0.066	0									
21	Replace	Corr	0.084	-0.038	-0.149	0.237	0.929***	0.694***	1							
		Sig	0.591	0.808	0.339	0.125	0	0								
22	Majority voting	Corr	-0.236	0.229	0.052	0.144	0.461***	0.376**	0.458***	1						
		Sig	0.127	0.14	0.738	0.355	0.002	0.013	0.002							
23	Majority boards	Corr	-0.24	0.316**	0.136	0.126	0.364**	0.316**	0.369**	0.914***	1					
		Sig	0.121	0.039	0.385	0.421	0.016	0.039	0.015	0						

24	Veto rights ¹	Corr	0.185	0.275**	0.131	0.162	0.041	0.052	-0.013	-0.031	-0.027	1							
		Sig	0.235	0.074	0.402	0.298	0.796	0.741	0.934	0.845	0.865								
25	Asset sales	Corr	0.159	0.185	0.083	0.222	0.006	0.047	-0.095	-0.1	-0.081	0.877***	1						
		Sig	0.309	0.234	0.598	0.152	0.97	0.765	0.545	0.524	0.608	0							
26	Change in control	Corr	0.24	0.284**	0.11	0.116	0.111	0.104	0.085	0.021	0.014	0.949***	0.704***	1					
		Sig	0.122	0.065	0.483	0.459	0.479	0.508	0.587	0.894	0.931	0	0						
27	Redemption rights	Corr	0.083	0.242	-0.118	0.125	-0.079	-0.208	0.057	0.231	0.178	0.027	-0.134	0.128	1				
		Sig	0.597	0.119	0.45	0.425	0.615	0.181	0.715	0.136	0.253	0.862	0.392	0.414					
28	Anti-dilution rights	Corr	0.063	0.262**	0.207	-0.182	0.056	0.001	0.067	-0.107	-0.116	0.397***	0.311**	0.387**	0.295*	1			
		Sig	0.688	0.089	0.182	0.242	0.72	0.994	0.668	0.495	0.458	0.008	0.042	0.01	0.055				
29	Drag-along rights	Corr	-0.276*	-0.129	-0.042	0.142	0.331**	0.296*	0.285*	0.147	0.17	0.333**	0.443***	0.245	-0.153	0.319**	1		
		Sig	0.074	0.409	0.789	0.363	0.03	0.054	0.064	0.347	0.276	0.029	0.003	0.113	0.326	0.037			

* P<0.10 (2-tailed), ** P<0.05 (2-tailed), *** P<0.01 (2-tailed).

¹ The combined control right to replace the founder CEO.

^{1.1} You prefer to recruit professional management as CEO, which is a statement regarding the control right to replace the founder CEO.

^{1.2} You prefer to replace the founder CEO, which is a statement regarding the control right to replace the founder CEO.

² The combined control right veto rights

^{2.1} You prefer contractual clauses that give rights to prevent asset sales, which is a statement regarding the control right veto rights

^{2.2} You prefer contractual clauses that give rights to prevent change in control, which is a statement regarding the control right veto rights

* The reliability test that explains the combined control rights can be found in appendix 4.