

**VENTURE CAPITAL ORGANIZATION AS A “GUARANTEE”
FOR THE COLLABORATION BETWEEN SMES
AND UNIVERSITIES DESPITE ECONOMIC CRISIS**

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Abstract

The aim of this working paper is to present the valuable role of Venture Capital Organization which can be a “guarantee” for the collaboration between Small and Medium Enterprises (SMEs) and Universities. In case SMEs want to absorb university know-how so as to implement it in the real market with the aim to be self-sponsored, a Venture Capital Organization is absolutely necessary, given that the business and academic site have many different features, and as a result, serious problems arise many times in their collaboration. A questionnaire has been made and through personal interviews with businessmen and professors-researchers we may now present the data from 150 answered (108 from businessmen and 42 from professors-researchers). The main conclusion is that an organization Venture Capital is considered innovative and indispensable so as the collaboration between SMEs and Universities continues through the time without any problems.

Keywords: SMEs, University Research, Venture Capital, economic crisis

JEL Classification: G24, G01, M21, O03.

1. Introduction

Venture Capital is similar to risk capital in meaning but the latter refers to long term funds, which have been invested in businesses that include high risk, like small and new companies. Thus, Venture Capital can be characterized as the combination of provision of danger fund and company consultants (Shilson 1984). The big emphasis that is put on university research is proven by public sponsorship, as well

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as private, as enterprises hope that the exclusive implementation of know-how will bring up significant results for them in the real market (Almeida and Kogut 1995).

In this working paper, we examine the importance of the role of SMEs when they collaborate with universities and reach the level of self-sponsorship and self-development. But since the differences in the way of their operation that is why we suggest the operation of an organization Venture Capital under state supervision, so as to be able to bridge the gap that arises from their collaboration. Especially we present the characteristics and advantages of venture capital organization, the important role which have for the collaboration between SMEs-Universities, the methodology and data. Finally, the data which was collected from the research gave innovative conclusions to international literature.

2. The characteristics and advantages of Venture Capital Companies

Venture Capital Companies are able to sponsor businesses from which they expect satisfactory performance, regardless of their level of development. This means that financier of business participations accept the risk without being its supporters. Depending on the successive stages of development of an enterprise we can categorize 6 stages of sponsorship through Venture Capital (Sahlman 1990):

- Seed money stage: In the period, the business is before the stage of its creation and it needs a starting amount of fund to develop a product, including the highest investment risk.
- Start-up stage: Sponsorship is addressed to businesses that start to organize, or to those which were established during the recent year but have not still launched their products in the market.
- First-stage or first round: Sponsoring of the businesses that have used their first funds and they need more to start production and sales.
- Second-stage or second round: The enterprise sells its products with injurious operation and that is why it needs to be sponsored with additional funds.
- Third-stage or third round: Sponsorship of businesses that operate at least to the break-even-point and plan to expand their activities. This phase has more duration than a typical short-term borrowing and less permanent character than share fund.
- Fourth-stage or fourth round: Sponsorship of the businesses that are expected to introduce their shares in the Stock Market within 6 months or a year. This is also called connection sponsorship, as it bridges the gap that arises in the business sponsoring funds permanent sponsors.

The above mentioned stages of sponsorship usually last 5 to 10 years and

Venture Capital companies rarely sponsor them all. In each stage they grant the funds the new company needs to reach the next level and if its evolution is not satisfactory then the Venture Capital Company may refuse to further sponsor and then the new company will have to close down. As this solution is considered extreme, the most possible is to change administration or to give funds but on less favorable conditions. The most important reason of the common case of participation of enough fund business participations in the same company is due to the aspect that their collaboration leads to better choice of sponsored businesses (Lerner 2010).

Most fund companies of the business participations do not classify the recommended to them investment plans in the categories of risk, but the risk seems to be included in the total individually in each investment work and we do not take into account its influence in the total risk of the briefcase of the fund companies. For taking additional risk Venture Capital companies estimate the performance they demand from the investments, adding usually the rate of base and a reward of risk that is added in the rate of base. The reward of risk depends on many factors, of which the most important is the stage of development of the sponsored enterprise. It has been historically proven that the risk of failure is decreased when the new enterprise moves from the initial stages of development to its most developed stages. Thus, it is natural that companies Venture Capital demand higher payment of risk for sponsorships of enterprises that are in the first stages in relation to those which operate in more developed stages of development.

The investment performance of the Venture Capital Companies comes from two basic sources: The revenues from potential dividends or interests and those from the fund profits, coming from the shares sales of the sponsored businesses. These returns are usually expressed in the formation of an annual before the taxes internal grade of performance of the initial investment. In the expansion where this performance would be bigger than the cost of its opportunity, investments would become more attractive and as a result there would be direct inflow of funds. But, we should have to estimate the decrease of the briefcase risk of the owners of Venture Capital, through the method of its differentiation, as it can be achieved through investments to various enterprises in different stages of development. Also, Venture Capital companies are interested in decreasing their operational cost, through specialization per sector of activity, whilst this specialization helps the capitalists to gain valuable experience knowledge, information as well as, to be able to develop the skill of control and guidance of the sponsored enterprises.

It is proven that Venture Capital companies are choosy as far as the way of sponsoring of the new businesses is concerned, most particularly for SMEs. It

appears that they examine the recommended investment projects and only 2% seems that they will finally be sponsored. At the beginning of 1970s Venture Capital Investments were interested in investing to new businesses in the first stages of their evolution, taking at the same time the highest business risk, by demanding higher payment. In the course of time, this trend reversed. This means that they preferred to sponsor businesses in the intermediate stages, something that means smaller businesses risk but also smaller payment.

Venture Capital companies along with the passage of time, they entered a more mature phase of development in a more rational business frame and preferred to invest bigger amounts of money per investment than in the past. In order to avoid inappropriate sponsorship, the capitalists implemented methods according to particular selective targets. Specifically, the basic factors that defined their choices were the business team that would administrate the sponsored business and the business plan that would have eventually been followed.

Venture Capital companies used and continue to use various criteria as far as the rating and choice of investment plans is concerned. It was claimed that many companies of this kind used three basic characteristics, which are idea, administration and performance (Fried and Hisrich 1994). Other researchers suggested the choice of investments based on the criterion of the simple method of definition of the business value. According to this method, Venture Capital Company made an initial prediction in relation to the successful or not realisation of the long term targets that is about to sponsor. In case the opinion is positive, the capitalists estimated the potential final value the business would have after a limited period of time whilst the final value would be discounted in the present using a discount rate that ranged from 40-60% depending on the stage of sponsoring (Sahlman 1990).

We should point out that the institution of Venture Capital has specific advantages for SMEs in contrast to other types of sponsorship, according to the international literature:

They provide with long-term sponsorship, creating powerful fund base for the future, growth of the business. At the same time, they cover the future needs of sponsorship in the collaboration with other investors, since this is necessary for further development.

They become partners in the business, since they share not only the risks, but also the achievements.

They provide with counselling on topics of strategy, organization and financial administration of the businesses depending on the experience they have by similar businesses.

They have extended networks of contacts in various sectors, a fact that is particularly useful for a company that wants to attract customers, hire staff and seek for strategic allies and investors.

They give prestige to a business that seeks for funds, making access to traditional types of sponsoring easy.

They have valuable experience in the preparation of a company in order for it to enter the Stock Market, as well as in cases of acquisition and merger.

The owners of Venture Capital realize a significant intermediate operation. They collect funds from institutional investors, who grant them to other companies for a specific period of time, in exchange for their profitable returning (Amit, Brander, and Zott 1998). Another characteristic of theirs is that the owners of Venture Capital companies are not interested in permanent posts of work, as they liquidate their investments in regular periods of time (Cumming 2008). Also, the asymmetric information among the Venture Capital company owners and the companies they invest has many difficulties, especially when the latter activate in a different country. In this way, Venture Capital companies were characterized as purely local investments (Bengtsson and Ravid 2009; Cumming and Dai 2008; Gompers and Lerner 1998). Nevertheless, in the lack 1990s, such border investments, started to expand (Aizenman and Kendall 2008).

Many studies point out how important the role of globalization of Venture Capital is, such as Guller and Guillen (2010a; 2010b), who proved that the American companies increased the possibilities of their revenues when they activated in other countries. Also, they studied if the advantages of these enterprises could be transferred when activated out of the borders of their country and they found eventually that there was a positive association.

On the other hand, the common feature between Venture Capital and Foreign Direct Investments (FDI) is that they influence the administrative decisions within the company. But, whilst the FDI are usually guided by strategic rational and long-term administrative controls, the basic goal of Venture Capital is the production of funds for their investors (Groh and von Liechtenstein 2009). Moreover, Venture Capital investments are different from the traditional briefcase and the FDI, as far as, the characteristics of their businesses are concerned. Specifically, Venture Capital Sponsorship appears to be interesting for the enterprises whose performance could increase thanks to its productivity. Furthermore, Venture Capital Companies mostly invest on enterprises of high technology, such as biotechnology and pharmaceutical industry. Thus, the innovative potential of a country could have instant positive

impact on fund companies of business participations, because the specialized staff or patentees are likely to establish companies asking the sponsorship of their initial fund by Venture Capital Companies (Hirukawa and Ueda 2008). Most investment opportunities in a country not only attract Venture Capital companies but also expand their extroversion. The American companies traditionally invested quite often on countries with a high percentage on innovations (Aizenman and Kendall 2008).

In general, new businesses focused mostly on the exploitation of opportunities that appeared on the business arena through the development of their technology and other resources that are based on the development of knowledge. But in order for them to be successful they should in the first place delimit their goals, which mean that they either focus on some strategic methods or prefer a variety of strategies. Strategic simplicity can many times prove to be beneficial for the creation and achievement of the competitive advantage, as it directs the energy of new Venture Capital in the development of skills and abilities to make significant decisions quickly (Barney 1991; Hamel and Prahalad 1994). But, on the other hand, strategic simplicity may decrease the flexibility of a new Venture Capital company, causing organizational hurdles (Miller 1993). Diversity of strategic movements is on its own an attractive selection for the new Venture Capital companies that want to learn immediately the secrets of entrepreneurship, supplying their fund profits (Lumpkins and Dess 2006; Ferrier 2001; Miller and Chen 1996).

3. Growth through the collaboration of Universities – SMEs and the organization Venture Capital

Small and Medium Enterprises could, through the absorption of university know-how and its implementation in the real market, obtain significant advantages so as to survive and later self-develop, especially when there is financial crisis. On the other hand, the acquiring and virtually implementing the university know-how from the SMEs abroad is that many innovative ideas and practices in the real market came from the research of university scientists. As a result, the revenues of SMEs increased and later there was a corresponding sponsorship at the universities, a fact that made them viable and self-sponsored. The absorption of graduates from SMEs was a further cause of the development of the vertically integrated relationship between universities and SMEs (Bania, Calkins, and Dalenberg 1992).

SMEs as continuations of a big industrial development are an important part of global economy. But, their access to the production of knowledge was too limited and as a result they faced problem on competitiveness which is considered of vital importance (Karunakaran, Purao, and Cameron 2009). The above mention topic was

under a lot of discussion and literature references, especially in the big universities abroad which specialize in Business Administration. The continuous increasing percentage of scientists that are involved professional in search and entrepreneurship shows the fact that more and more businesses, especially those which belong to SMEs, depend on university research for their later development (Thursby and Thursby 2007).

As it was pointed out initially, the institution of Venture Capital is an alternative source of sponsorship, either for the development of existing SMEs or for the creation of new ones, taking part in their share capital in two possible ways, through its development or through a convertible bond loan. In this way, Venture Capital companies undertake equally part of the business risk of the enterprise they decide to invest, expecting at the same time high performance of their funds, similar to the one of the businessmen. Also, SME is supported in every way in the strategic designing, in marketing, sales, financial programming, control, transportation of know-how and introduction of modern methods of administration. The funds of Business Participations are provided in the initial stages of the foundation of enterprises that usually activate in fields of high innovation and relevant risk, such as new technologies, renewable sources of energy, biotechnology and so on.

Venture Capital companies are important for SMEs, as they are their basic sponsor factor, especially, in times of financial crisis. SMEs need help, not in the formation of temporary state sponsorship but of a long-term investment by another company that would offer its funds for their development. State sponsorship can turn out to be only harmful something that was obvious since many SMEs closed down during the financial crisis. Because the recent formation of state sponsorship (many times due to political motivations) weakens SMEs and at the same time prevents the really hopeful and innovative SMEs from progressing.

Thus, since we first examined thoroughly all the characteristics of Venture Capital companies, their advantages and disadvantages in their relation to SMEs, we can now conclude that they have bigger and more advantages in case they are a basic investor of the SMEs. Specifically, temporary state sponsorship without planning towards the SMEs, besides the fact that they did not help them at all, is estimated to have weakened their operation. As a result, they were politically dependent and many times were made because of them to close down or not operate properly. So, it is obvious that SMEs immediately need the creation of a competent organisation that will protect their interests, lead them to healthy development and promote rapidly only the best and innovative of them.

That is why we propose the creation of an intermediate non-profit organisation that would operate in the rationale of a Venture Capital company and would have either

state character, or would operate under state supervision, as it would be a significant solution to the problem of fund lack for the growth of SMEs. This means that the organisation would invest funds to those SMEs that would present innovative ideas or relevant activities and would also get paid in relation to the investment risk it would take. For the meritocratic operation of this organisation we also propose that the state be in charge, which will be controlled, as long as there is political will and healthy regular frame. In this way, the Venture Capital Organisation would evaluate the business plans of SMEs, it would judge how innovative and hopeful they would be, it would re-rate their investments horizon and would be categorized. Depending on the place it would have every SME would take the relevant sponsorship in the formation of direct investment. This is so, because the funds that would be granted by the intermediate non-profit organisation would have a retributive character which would be profitable enough, depending on the investment risk they would take.

Also, the role of the intermediate non-profit organisation would be double, as it could bridge the gap that exists between the academic and the business community. Particularly, university and technological research from the creation up to sales and its implementation in the real market needs to be re-evaluated up to the point that it will be absolutely applicable. The role of bridging the gap could be played by this particular organization provided that it operates to the full within a regular frame.

4. Methodology and Data

The research took place through survey data which were collected from 108 Greek companies and 42 researchers – professors whose scientific interests were relative to this research. The personal interviews were held exclusively with the owners or directors of the enterprises with the use of structured questionnaire, following the important criteria of validity and reliability. This method has the advantage that it makes it possible to reject in comprehensible questions from the interviewers which would lead to erroneous conclusions and results (Zikmund et al. 2000; Bryman and Bell 2007). The data collection was realized from March 2013 up to September 2013. Firstly, the data were coded in Excel and later imported into SPSS 22.00 for the descriptive analysis.

The non-random choice of the sample has the important advantage that the enterprises which were selected can give greater value to the results of the analysis of the survey data. Also, it was preferable the questionnaires to be completed by the owners or directors of enterprises, persons that are directly involved in the strategy planning so that we could have high quality data for further analysis.

5. Findings and Discussion

From the sample of 166 enterprises, 108 of them (or else 65.06%) answered correctly. Also, from the sample of 58 researchers – professors (whose scientific interests are relative to this research), 42 of them answered correctly (or else 72.4%). According to Hamilton (2003), this percentage is very successful, following the standards of high quality survey.

Table no 1 Respondent results from questionnaire survey

Hypothesis	Answer "YES" of companies	Answer "YES" of professors
SMEs are important in the national economy of any country	72	38
The university research is necessary for the development of SMEs	65	35
SMEs can be stronger if they apply the university research in the real market	64	33
Venture Capital Organization is a very good solution for the funding of SMEs	74	34
There are different characteristics between the enterprise and academic sector	75	34
From the collaboration between enterprises and universities problems arise	73	35
Venture Capital Organization, under State supervising, can guarantee the collaboration between SMEs and Universities	68	31

Table 1 above shows the responses of companies and academic researchers - professors from the questionnaire survey. In the question "if SMEs are important in the national economy of any country", 66.67 % of companies and 90.47% of researchers - professors answered "yes", since 60.1% of SMEs and 83.33% of researchers - professors believe that "The university research is necessary for the SMEs". In addition, 59.26% of the companies believe that "SMEs can be stronger if they apply the university research in the real market, while 78.57 of the researchers –

professors answered “yes”. From this data we can conclude that the SMEs are very important for any national economy, and the university research can increase their ability for the development and the self-funding of SMEs.

On the other hand, 68.5% of companies answered “yes” in the hypothesis “Venture Capital Organization is a very good solution for the funding of SMEs”, and 80.91% of academics agree with it. But both of these two sectors, businessmen (69.44%) and academics (80.95%), agree on the point that “there are different characteristics between enterprises and universities”.

Also, 67.59% of businessmen and 83.33% of academics believe that from their collaboration problems can arise. Finally, 62.9% of businessmen and 73.8% of academics agree on the hypothesis that, “Venture Capital Organization, under State supervising, can guarantee the collaboration between SMEs and Universities”.

Table no 2 Businessmen’s answers if Venture Capital Organization is a very good solution for the funding of SMEs

Venture Capital * SMEs' Funding Crosstabulation

		SMEs' Funding		Total
		NO	YES	
Venture Capital NO	Count	28	6	34
	% within Venture Capital	82.4%	17.6%	100.0%
	% within SMEs' Funding	82.4%	8.1%	31.5%
	% of Total	25.9%	5.6%	31.5%
YES	Count	6	68	74
	% within Venture Capital	8.1%	91.9%	100.0%
	% within SMEs' Funding	17.6%	91.9%	68.5%
	% of Total	5.6%	63.0%	68.5%
Total	Count	34	74	108
	% within Venture Capital	31.5%	68.5%	100.0%
	% within SMEs' Funding	100.0%	100.0%	100.0%
	% of Total	31.5%	68.5%	100.0%

After statistical analysis, as illustrated on Table 2 above, SMEs can be funded better by Venture Capital Organization according to 74/108 companies (68.5%). Also, Fisher’s exact test (0.000) showed that there is big association between the SMEs funding and Venture Capital Organization. In addition, the Pearson Chi-Square Test ($0.001 < 0.1$) implies that the funding of SMEs is not indifferent to the Venture Capital Organization.

Table no 3 Researchers – Professors’ answers if Venture Capital Organization is a very good solution for the funding of SMEs

Venture Capital * SMEs funding Crosstabulation

		SMEs funding		Total
		NO	YES	
Venture Capital NO	Count	5	3	8
	% within Venture Capital	62.5%	37.5%	100.0%
	% within SMEs funding	62.5%	8.8%	19.0%
	% of Total	11.9%	7.1%	19.0%
YES	Count	3	31	34
	% within Venture Capital	8.8%	91.2%	100.0%
	% within SMEs funding	37.5%	91.2%	81.0%
	% of Total	7.1%	73.8%	81.0%
Total	Count	8	34	42
	% within Venture Capital	19.0%	81.0%	100.0%
	% within SMEs funding	100.0%	100.0%	100.0%
	% of Total	19.0%	81.0%	100.0%

As we can see from Table 3 above, 34/42 researchers – professors (81%) believe that the Venture Capital Organization can be a very good solution for the problem of funding SMEs. Also, Fisher’s exact test (0.001) showed that there is big association between the SMEs’ funding and the Venture Capital Organization. On the other hand, the Pearson Chi-Square Test ($0.003 < 0.1$) implies that the funding of SMEs is not indifferent to the Venture Capital Organization.

Table no 4 Businessmen's answers if Venture Capital Organization can guarantee the collaboration SMEs - Universities

Venture Capital * Collaboration SMEs - Universities
Crosstabulation

			Collaboration SMEs - Universities		Total
			NO	YES	
Venture Capital	NO	Count	35	5	40
		% within Venture Capital	87.5%	12.5%	100.0%
		% within Collaboration SMEs - Universities	87.5%	7.4%	37.0%
		% of Total	32.4%	4.6%	37.0%
	YES	Count	5	63	68
		% within Venture Capital	7.4%	92.6%	100.0%
		% within Collaboration SMEs - Universities	12.5%	92.6%	63.0%
		% of Total	4.6%	58.3%	63.0%
Total	Count		40	68	108
	% within Venture Capital		37.0%	63.0%	100.0%
	% within Collaboration SMEs - Universities		100.0%	100.0%	100.0%
	% of Total		37.0%	63.0%	100.0%

As we can see from Table 4 above, 68/108 businessmen (63%) answered that the Venture Capital Organization, under State supervision, can guarantee the collaboration between SMEs and Universities. The Pearson Chi-Square Test ($p\text{-value } 0.001 < 0.1$) implies that the factor of Venture Capital is not indifferent to the factor of collaboration between SMEs and Universities. Also, Fisher's exact test (0.000) showed that there is a big association between the Venture Capital Organization and the collaboration between SMEs and Universities.

Table no 5 Professors-researchers' answers if Venture Capital Organization can guarantee the collaboration SMEs-Universities

Venture Capital * Collaboration SMEs - Universities
Crosstabulation

			Collaboration SMEs - Universities		Total
			NO	YES	
Venture Capital	NO	Count	7	4	11
		% within Venture Capital	63.6%	36.4%	100.0%
		% within Collaboration SMEs - Universities	63.6%	12.9%	26.2%
		% of Total	16.7%	9.5%	26.2%
	YES	Count	4	27	31
		% within Venture Capital	12.9%	87.1%	100.0%
		% within Collaboration SMEs - Universities	36.4%	87.1%	73.8%
		% of Total	9.5%	64.3%	73.8%
Total	Count		11	31	42
	% within Venture Capital		26.2%	73.8%	100.0%
	% within Collaboration SMEs - Universities		100.0%	100.0%	100.0%
	% of Total		26.2%	73.8%	100.0%

As illustrated on Table 5 above, Fisher Exact Test (0.003) implies that there is a strong association between Venture Capital Organization and the collaboration SMEs - Universities. Especially, 31/42 answers of academics (73.8%) show that the Venture Capital Organization under State supervising can guarantee the collaboration between SMEs and Universities. Also, the Pearson Chi-Square Test (p-value $0.001 < 0.1$) implies that the factor of Venture Capital is not indifferent to the factor of collaboration between SMEs and Universities.

6. Conclusion

The aim of this study was to suggest solutions to the problems that arise from the possible collaboration between SMEs and Universities. According to this notion, there has been relevant research through the method of personal interviews with a well-built questionnaire to businessmen and academic researchers-professors. We have chosen the method of personal interviews so as to avoid any potential error of a misunderstanding from the interviewees in relation to the questions, with the aim to collect quality data that will lead to useful conclusions.

We also chose personal interviews with the owners or directors of the businesses that are connected with the strategic policy of them, so as to analyze data and get quality conclusions in relation to the goal of the enterprises themselves. Moreover, we selected interviews with academic researchers – professors whose field of research and scientific interests are relevant to this research, so as to have a quality base in the data analysis.

From the statistical analysis in SPSS 22.00 we come to the conclusion that academics believe more than businessmen that an organizations in the way Venture Capital works, under state supervision, could be a guarantee, so that the collaboration of SMEs and Universities through the absorption of university research from these enterprises progress without any problems in depth of time. Before that, both researchers-professors and businessmen agreed that problems arise from the collaboration of businesses and universities and as a result, many times it fails to be efficient. Also, both academics and businessmen were of the opinion that a Venture Capital Organization may help significantly in the sponsorship of SMEs. The originality if this working paper is based on the fact that for the first time we detected and mentioned the specific problems in the collaboration of SMEs and Universities. Furthermore, the innovation and uniqueness of this research is the proposal of a specific way of tackling their collaboration problems, which is the operation of a Venture Capital Organisation, under state supervision, so as to be the connecting link and to bridge the gap that arises from their collaboration.

In this light, the results of the research coincided exactly with the original targets of the researchers, as both the academic and business fields agree on their collaboration, as well as on the avoidance of the creating problems due to the particular characteristics of both sides, through the operation of a Venture Capital Organisation. This study could be a significant base for further research as far as the collaboration of SMEs and Universities is concerned and to avoid of problems that arise.

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