DIPARTIMENTO DI SCIENZE ECONOMICHE E AZIENDALI "MARCO FANNO"
DEPARTMENT OF ECONOMICS AND MANAGEMENT "MARCO FANNO"

UNIVERSITÀ DEGLI STUDI DI PADOVA

Venture Capital and Knowledge Transfer

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Martedì 26 Maggio 2015, ore 12.00, Aula della Scuola di Dottorato, Palazzo Cà Borin, Via del Santo 22, Padova

This paper explores a new role for venture capitalists, as knowledge intermediaries. A venture capital investor can communicate valuable knowledge to an entrepreneur, facilitating innovation. The venture capitalist can also communicate the entrepreneur's innovative knowledge to other portfolio companies. We study the costs and benefits of these two forms of knowledge transfer, and their implications for investment, innovation, and product market competition. The model also sheds light on the choice between venture capital and other forms of finance, and the determinants of the decision to seek patent protection for innovations. Our analysis provides a rationale for the use of contingencies (specifically, patent approval) in VC contracts documented by Kaplan and Stromberg (2003), and for recent evidence on patterns of syndication among venture capitalists.