

The US has been wracked by social and political tension in the wake of the COVID-19 crisis and the events that led to the Black Lives Matter protests. But there is no doubt that the superpower still leads the world in many things. One is venture capital. China is racing up the VC rankings. Europe – with London as its most successful hub – produces some deep R&D and technological know-how. But the West Coast is still king when it comes to turning digital ideas, expertise and funding into high-growth companies.

Dr Keith Arundale's new book, *Venture Capital Performance: a comparative study of investment practices in Europe and the USA*, is based on PhD research he undertook at the Adam Smith Business School. Arundale, a long-standing ICAEW and Corporate Finance Faculty member, has taken a qualitative rather than data-led approach, interviewing members of 64 VC firms in the UK, continental Europe and the US, as well as LP investors, corporate venturers, entrepreneurs and advisers.

He argues that although the UK, for example, has plenty of start-up money, technological innovation and entrepreneurs, "there is a need for quite fundamental changes in both the practice of European investors and in the wider ecosystem".

DOUBLE DOWN

American VC funds have greater scale, which enables them to make bigger bets and follow their money in young, high-growth businesses to scale up quickly. Bigger funds make it easier for partners to double up on deals, and to share information, insights and expertise with each other. They can also employ external venture partners who bring even more specialist skills and knowledge.

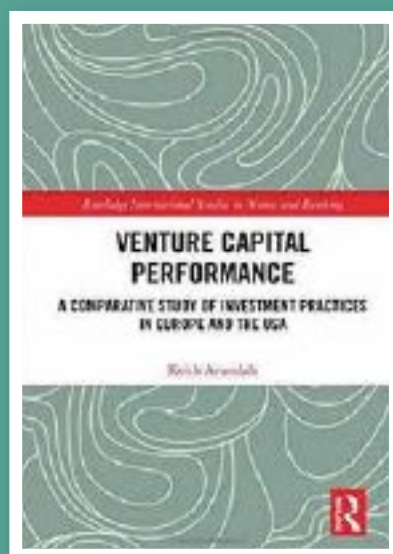
Top VCs recruit partners who themselves have impressive entrepreneurial and operational backgrounds and contacts. They can check out disruptive technologies and develop investment themes. This ensures that those partners see the best deals, carry out very effective due diligence and 'groom the investments to success'.

The one-in-10 strategy, of seeking at least one major success in a portfolio, is a well established approach in the US and generates most of a fund's return. At the centre of Arundale's research is

CALIFORNIA DREAMING

Is the US a world apart when it comes to backing early-stage high-tech companies?

Shaun Beane reviews *Venture Capital Performance* by Keith Arundale, which explains the country's success



the proposition that outlier performance by the very best US funds accounts for a lot of the difference with Europe when it comes to average investment returns.

Success breeds success. Well known VC brands attract top talent, the most lucrative ventures and influential limited partners to their funds. Big-name partners at VC firms can sometimes make big decisions without requiring the consensus of investment committees.

ECO-FRIENDLY

The American market's deep pools of capital encourage VCs to wait for an optimal exit – there's less pressure for premature trade sales that might generate lower returns.

Arundale highlights a VC-friendly culture and attitude to risk in the US: "Open networks encourage information sharing and hence better knowledge of new technology developments and markets, in contrast with a more closed and proprietary approach."

I'd add that luck plays a significant part in success, of course. And many VCs and the companies they back benefit from direct public subsidies in various forms across the world – as well as substantial tax breaks.

The book was published just as COVID-19 went global. The crisis could have a big effect on how different nations co-operate and compete.

Several US VCs have in recent years set up European offices from which to source new deals. But the talent drain the other way, to California, remains a big problem for Europe. Arundale quotes the lament by Herman Hauser, co-founder of chip designer ARM and of Amadeus Capital Partners, that "the story is that the best of Britain is going to the United States to scale up".

Therefore, points out Arundale, it's probably good news that UK venture firms founded in the past 10 years have adapted many of the characteristics of the best-performing US funds. ●

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