Editorial: Public policy and private equity

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Venture capital firms not only fund, but also proactively support the development of high-potential companies in the early stages of their development and growth, often creating highly skilled employment in new innovative areas where other sources of finance are hard to access. For private equity and venture capital to contribute to sustained economic growth, competitiveness and innovation policy makers must ensure coherent, inclusive policies, which will enable the industry to continue to provide a continuous financing cycle for start-ups, spin-offs, company transition and buyout investments. The further development of fiscal, legal and regulatory frameworks that are more conductive to entrepreneurship, innovation and investment are central to economic health and competitiveness. For countries to remain competitive, policy makers should support regulations that encourage investments, improve tax and legal measures to develop a truly favourable environment, and ease the raising and deployment of private equity and venture capital funds to drive a high growth entrepreneurial economy. The patenting activity is also conductive to the creation of global competitive advantage through intellectual property rights. Those rights are the key to supporting and financing innovation, as no one would allocate resources in new technologies without the perspective of securing return on investment.

Many young firms with great growth potential have a difficult time getting started because they cannot find capital. Banks do not usually gamble on technology ventures, public markets handle larger companies and government programmes are rarely sufficient on their own. So for many companies, venture capital is the best solution. Venture capital has emerged as an important intermediary in financial markets, providing capital to firms that might otherwise have difficulty in attracting external funding. It is the dominant form of equity financing in the USA for privately held high technology businesses. Venture capitalists provide the money and support necessary to help these young firms grow. The success stories of companies like Microsoft, Genetech, and Dell Computer highlighted the role of private equity investment in fuelling explosive growth and the role such ventures played in generating future productivity gains.

Venture capitalists are commonly recognised as experts in identifying high potential new ventures start-up. Thus, the venture capitalist decision-making process has received tremendous attention within the entrepreneurship literature. But, little empirical research has been done on the importance of macroeconomic and public institutions as determinants of venture capital investments across the world. In addition, only few papers has examined the empirical evidence on economic impacts of venture capital in order to provide empirical examination of the real effect of venture capital investments on public

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performance and real economy (growth, employment, IPO, mergers and acquisitions, productivity and other indicators of economic performance).

The present issue of the *International Journal of Public Sector Performance Management (IJPSPM)* contains six insightful contributions to very different aspects of the venture capital and private equity industry.

The study of Faras Batnini and Khalfallah Moez highlights the importance of audit firms' reputation during the IPOs of venture capital funded firms. The literature review reveals that venture capital firms must achieve a successful IPO in order to increase their returns, rather than sell their shares to a private firm. However, the financial market penalises these IPOs systematically through a depreciation of price, which is linked to an important information asymmetry. Thus, venture capital investors try to strengthen their reputation through calling in other investors (i.e., syndication) or very reputed auditors.

In his contribution, Michael Peneder examines the empirical evidence on economic impacts of venture capital and especially his contribution to modern systems of innovation. A critical literature review reveals that while most studies offer empirical proof of such a positive contribution, only few of them explicitly explain the suspected transmission mechanisms. The key to understanding these impacts lies in a specifically high uncertainty about the returns and costs of a project, as well as the related problems of asymmetric information.

In his paper, Moses Mulengani examined the public value created by privatisation process in developing countries. The author explored the privatisation reform and the impact of privatisation on the quality of service delivery in Uganda as a case study from 1992 until 2004. The findings showed little progress on the socio-economic welfare of the majority of Ugandans, with benefits being achieved by a few rich people, foreigners and managers of the process. It was also observed that though privatisation improved the efficiency and profitability of individual enterprises, there were no benefits realised by communities.

In their paper, Mondher Cherif and Kaouthar Gazdar explore the importance of public institutions as determinants of venture capital investment. The use an empirical model which includes a wide variety of institutional variables collected from different sources and many of the determinants already tested in previous studies. Using a cross-section and a panel data analysis, they find that early stage investments and funds raised are differently affected by the public institutions. Thus, while the public institutions appear relevant for early stage investment, the funds raised is not affected by the institutional indicators. These results are robust to different estimations methods and institutional variables.

Mondher Cherif and Jean-Louis Paré analyse the public policies that have been set up in France since 1997, to promote venture capital. After having studied the academic literature on the topic, they present a detailed analysis of all the French fiscal and regulatory tools (fiscal transparency of investment vehicles, tax exemptions for individuals, financial support for creation and innovation, direct public contribution to financing, etc.). The reader will then be able to realise that France now offers a comprehensive system for financing companies at every stage of their development.

Finally, in their contribution, Nada Kobeissi ad Haizhi Wang using a panel data models show that while there is a growing sense among academic researchers that the US economy especially benefits from a strong and prosperous venture capital industry, empirical evidence, however, of such benefits are still scant. Their paper, therefore, provides empirical examination of the real effect of venture capital investments. It finds

supportive and robust evidence of significant effect of such investments on US regional economic development.

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