INVESTMENT STRATEGIES AND HUMAN CAPITAL IN VENTURE CAPITAL FIRMS (SUMMARY)

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SUMMARY

INVESTMENT STRATEGIES AND HUMAN CAPITAL IN VENTURE CAPITAL FIRMS

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Principal Topic

Drawing on human capital theory, we derive hypotheses which link the investment strategy of venture capital firms (VCFs) to the human capital (type of education and experience) of its top management team. In line with existing literature, we distinguish VCFs that are early-stage specialists vs. non-early stage specialists, VCFs that invest with a narrow vs. a broad geographic scope, and VCFs investing with high or low industry diversity.

Method

Our data were collected for the European VC market from two sources. First, we used the 2005 annual yearbook of the European Venture Capital Association (EVCA) to gather information on the VCFs’ investment strategies. Second, we collected information on the education and experiences of VC managers from the VCFs’ web pages. Of the 342 independent European VCFs listed in the EVCA yearbook, we were able to acquire complete data sets on 136 firms. Independent variables were regressed against the dependent variables using binary logit, multinomial logit, and ordinary least square regression techniques.

Results and Implications

Our results show that management teams of VCFs pursuing different investment strategies indeed differ as predicted by human capital theory. Specifically, we find that early stage specialist VCFs contain a higher portion of team members with science/engineering background as well as related industry and entrepreneurial experience than non-early stage specialist VCFs. Moreover, teams of VCFs that invest with a broader geographic scope have a larger portion of members who collected international experience. Finally, the broader the industry diversity the VCFs invest in, the larger the portion of management team members with business education and the smaller the portion of members with related industry experience.

Our results add to the sparse literature on human capital in the VC industry by establishing the link between the VCFs’ human capital and their investment strategies. This suggests that going forward scholars analyzing VCFs’ human capital and performance should integrate the investment strategy as a contingency variable.

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