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INTERACTIVE PAPER SESSION

DIFFERENT FACES OF UNCERTAINTY: THE SYNDICATION OF VC INVESTMENTS IN NEW INDUSTRIES

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Principal Topic

In the current understanding of inter-firm alliances, firms form alliances when they need additional resources or when they have the opportunity to know and attract potential partners. Existing studies tend to focus on the general likelihood or rate of alliance formation of particular firms without regard for the particular projects for which alliances are formed. In this regard, there is a set of unexplored aspects of alliance formation for which existing theory cannot provide sufficient explanation. How do needs and opportunities for alliances emerge and interplay in the context of specific actions undertaken by firms? To address this question, we distinguish two types of uncertainty – project and actor – and argue that whereas project uncertainty increases the firm’s need to form alliances, actor uncertainty reduces its opportunity to do so. In addition, we distinguish between two types of quality signals – status and reputation – and argue that these matter differently in relation to project and actor uncertainty. We discuss the formation of syndication alliances in the VC industry and develop specific hypotheses for the interaction of uncertainty and quality signals in the context of VC syndication.

Method

We used VentureXpert data on first-round venture capital investments. Our dependent variable indicated whether, from the perspective of a particular focal VC firm, an investment was made solo or involved co-investors. To measure project and actor uncertainty, we used the number of investments made previously by all VC firms and the focal VC firm in the industry of the venture. We measured firm reputation by its number of previously achieved IPOs and status by the firm’s network power centrality. We estimated the likelihood of syndicating an investment using a random-effects Logit model.

Results and Implications

We find significant and diverging interactions of status and reputation with project and actor uncertainty. Our study contributes to the alliance literature a hereto lacking understanding of the interplay between need and opportunity in alliance formation. Our findings also contribute to the entrepreneurial finance literature an enhanced understanding of the role of VC syndication in the context of emerging industries as well as an emphasis on the critical role of firm status and reputation in such context.

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