THE EFFECTS OF RESOURCE DEPENDENCE ON PARTNERING STRATEGIES OF VENTURE CAPITAL FIRMS (SUMMARY)

Mikko Jääskeläinen  
*Helsinki University of Technology, Finland,* mikko.jaaskelainen@hut.fi  

Miguel Meuleman  
*Vlerick Leuven Gent Management School, Belgium*

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SUMMARY

THE EFFECTS OF RESOURCE DEPENDENCE ON PARTNERING STRATEGIES OF VENTURE CAPITAL FIRMS

Mikko Jääskeläinen, Helsinki University of Technology, Finland
Miguel Meuleman, Vlerick Leuven Gent Management School, Belgium

Principal Topic

We examine how venture capital (VC) firms use partnering strategies to address resource dependencies generated by using syndication invitations as a source of dealflow. While cooperation with other organizations allows access to resources, the reliance on these resources makes an organization dependent on the continuity of interfirm cooperation (Pfeffer & Salancik 1978; Singh 2005). VC firms, therefore, need to manage this dependency actively.

We hypothesize that the higher the dependence on external dealflow, the more VC firms invest on existing relationships to secure continued deal flow. We expect that the dependence is positively related to the level of reciprocity in the syndication invitations, concentration of invitations to a small set of partners, and to stability of partner portfolio. Furthermore, we expect that this relationship will be negatively moderated by the status of the focal VC firm and positively moderated by the intensity of competition.

Method

The empirical setting of this study is the US venture capital industry. We test our hypotheses on 544 US early stage venture capital firms over the period 1990 to 2007 using VentureXpert data. The main dependent variables employed are reciprocity in exchange behavior, concentration in exchange partners and turnover of partner portfolio. The main independent variables are measures that capture the dependence of a VC, its network position, and competition within its niche.

Results and Implications

Our results indicate that VC firms aim to manage their dependence by invoking reciprocity in their relationships. Furthermore, venture capitalists with higher dependence concentrate their efforts on small and stable set of partners. Status negatively moderates the effect of dependence on concentration. Our results indicate that in addition to the deal-specific benefits of syndication, the syndication activities are affected by the dependencies on deal flow generated through syndication. This suggests that syndication is partly shaped by firm-level strategies of VC, which are contingent on the structural positioning of the VC. Accordingly, in further research, we expect to confirm our initial observation that dependence has a negative effect on performance, mitigated by the use of partnering strategies and strong network position.

CONTACT: Mikko Jääskeläinen; mikko.jaaskelainen@hut.fi; (T): +358503415267; Helsinki University of Technology.