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INFORMANTS AND EARLY STAGE VC DEAL FLOW: WHO DO VC'S RELY ON (INTERACTIVE PAPER)

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Principal Topic

Previous research shows that a new venture's network can be an important source to overcome the liability of newness (e.g. Deutsch, 2003; Khaire, 2005). For example in the context of financing it has been shown that board structures (Carmeli, 2004; Certo, 2003) and endorsements of prestigious underwriters, alliance partners and investors lead to better IPO valuations (e.g. Stuart, Hoang and Hybels, 1999). Although previous studies show how network partners are beneficial for the financing of new ventures, there is still a lack of understanding on the exact characteristics that make these network partners most influential. Therefore, in our paper, we test the characteristics that make new venture network parties important in the early stages of the financing process. We do this by studying the explicit referrals involved in arranging connections to VC funds. To model this mechanism we used the EiN model, a multidimensional framework based on the work of Parsons. In this framework we identify four key capitals of referrals that could play a role in their ability to successful help new ventures in connecting to VC's. These capitals are Strategic, Economic, Cultural and Social.

Method

To examine our research questions, we use a sample of 90 propositions that were offered to VC's by explicit referrals. This sample was created by conducting structured interviews with 57 VC firms in The Netherlands and Sweden. Data was collected by conducting structured interviews with VC fund managers. We used logit regression to identify those factors that make referrals successful or unsuccessful in arranging access to Venture Capital firms for new ventures.

Results and Implications

Our findings show that two factors contribute to the successfulness of a third party referral in VC deal flow. First of all, VC's prefer to rely on referrals of people with extensive business backgrounds (Cultural capital). Second, VC's prefer to rely on referrals of people they have strong ties to. Other factors we took into account (reputation, financial interest in the proposition and technology background of the referral) don't have significant effects on the successfulness of the referral.

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