

6-7-2008

VENTURE CAPITAL FUNDING FOR HIGH-TECH NEW VENTURES: DISENTANGLING THE EFFECTS OF AN ENTREPRENEUR'S FUNCTIONAL EXPERIENCE (INTERACTIVE PAPER)

Joris Heuven

University of Twente/ Nikos, The Netherlands, j.m.j.heuven@utwente.nl

Recommended Citation

Heuven, Joris (2008) "VENTURE CAPITAL FUNDING FOR HIGH-TECH NEW VENTURES: DISENTANGLING THE EFFECTS OF AN ENTREPRENEUR'S FUNCTIONAL EXPERIENCE (INTERACTIVE PAPER)," *Frontiers of Entrepreneurship Research*: Vol. 28: Iss. 3, Article 16.

Available at: <http://digitalknowledge.babson.edu/fer/vol28/iss3/16>

This Interactive Paper is brought to you for free and open access by the Entrepreneurship at Babson at Digital Knowledge at Babson. It has been accepted for inclusion in Frontiers of Entrepreneurship Research by an authorized administrator of Digital Knowledge at Babson. For more information, please contact digitalknowledge@babson.edu.

INTERACTIVE PAPER

**VENTURE CAPITAL FUNDING FOR HIGH-TECH NEW VENTURES:
DISENTANGLING THE EFFECTS OF AN ENTREPRENEUR'S FUNCTIONAL
EXPERIENCE**

Joris Heuven, University of Twente/Nikos, The Netherlands

Principal Topic

Many studies show how the prior experience of the entrepreneur (ial team) positively impacts the entrepreneurial process. In our paper we specifically focus on the benefits of team experience when high-tech new ventures want to acquire financial resources. The claim that experienced entrepreneurs will be better able to acquire VC funding is evident (i.e. Campbell, 1992; Shepherd et al., 2000); however in our paper we go one step further. Our aim is to disentangle the effects of team experience in the VC funding process, which allows us to be more precise on the benefits that experience brings to the table when applying for VC funding. In current research multiple types of experience are researched. The variables applied frequently are “years of industry experience” and “number of ventures started before”. However, in our research we focus on the functional background of the team members, as suggested by Delmar and Shane (2006).

Method

In our study we researched (1) whether the entrepreneurial team's functional business experience contributes to the ability of acquiring VC funding and (2) whether this direct effect is mediated by a reputation effect or a social network effect. In order to answer our research questions, data is collected by conducting 57 interviews with venture capital firms in The Netherlands and Sweden. This lead to in depth information on 138 propositions considered for funding. The interviews were structured and data was checked with publicly available sources. Our data were analyzed by structural equations modeling. We applied LISREL in order to be able to disentangle the multiple effects of experience in getting VC funding.

Results and Implications

Our findings show that entrepreneurial teams with more functional business experience have indeed a higher probability of getting VC funding. Regarding or second research question, our results show that more experienced entrepreneurial have as well higher reputations and more often have existing ties to VC firms. However, both the reputation of the team and the existing tie to the VC do not mediate the relation between a team's functional business experience and a positive funding decision.

CONTACT: Joris Heuven; j.m.j.heuven@utwente.nl; (T): +3153 4895355; (F): +3153 4892159; University of Twente/ Nikos, Capitool 15, PO Box 217, 7500 AE Enschede, The Netherlands.