Frontiers of Entrepreneurship Research

Volume 28 | Issue 19
CHAPTER XIX. CORPORATE ENTREPRENEURSHIP

Article 13

6-7-2008

LEARNING TO TAKE RISKS: CORPORATE VENTURE CAPITAL INVESTMENT AS AN ACQUIRED ORGANIZATIONAL PRACTICE (SUMMARY)

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Recommended Citation
Noyes, Erik; Smith-Doerr, Laurel; and Hatten, Kenneth (2008) "LEARNING TO TAKE RISKS: CORPORATE VENTURE CAPITAL INVESTMENT AS AN ACQUIRED ORGANIZATIONAL PRACTICE (SUMMARY)," *Frontiers of Entrepreneurship Research*: Vol. 28: Iss. 19, Article 13.
Available at: http://digitalknowledge.babson.edu/fer/vol28/iss19/13

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SUMMARY

LEARNING TO TAKE RISKS: CORPORATE VENTURE CAPITAL INVESTMENT AS AN ACQUIRED ORGANIZATIONAL PRACTICE

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Principal Topic

Applying Resource Dependency Theory (Pfeffer and Salancik, 1978) and its offshoot, the Embeddedness Perspective (Granovetter, 1985), this empirical study explores new explanations for why companies make corporate venture capital (CVC) investments. The research objective is to extend existing *diffusion research*, which has already demonstrated that information about new practices and organizational forms tends to diffuse through interlocking boards[1] (Davis, 1991; Haunschild, 1993; Palmer, Jennings and Zhou, 1993; Mizruchi, 1996). In particular, the paper examines the relationship between a company's CVC investments and its connection to other entrepreneurial firms via interlocking boards of directors. It asks whether CVC information—i.e., information about the activities and requirements of CVC investment—is transmitted from one firm to another through the linkages of interlocking boards, thereby affecting the likelihood of CVC investment.

Method

The study examines data on interlocking boards and CVC investments for S&P500 companies for the years 1996–2006. Exploiting a newly created data set, the analysis investigates approximately 40,000 firm-year observations and 120,000 director-year observations which underlie the structure of interlocking boards. *Director data* come from the Investor Responsibility Research Center/Wharton Research Data Services and consider all companies in the S&P500 between 1996 and 2003. *CVC investment data* come from Venture One/Venture Xpert—the most exhaustive and most widely studied database of CVC investment—and capture CVC investment between 1996–2006.

Results and Implications

As RDT anticipates, the results show that CVC is not randomly distributed across interlocking board networks. Oppositely, the persistence of CVC investment by firms depends on their proximity to CVC information through interlocking boards. The analysis revealed that between 1996 and 2006, S&P500 companies that made more CVC investments were disproportionately connected to other firms that had made CVC investments, even when considering a wide array of controls. Overall, the results strongly suggest that CE behavior is shaped by a firm's access to scarce, path-enabling information about CE practices and, so, that it is shaped by firms' ties to other firms.

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