6-6-2009

THE ROLE OF AGENCY IN THE VC FIRMS' INVESTMENT DECISION MAKING (SUMMARY)

Oksana Koryak
IE Business School, Spain, oksana.koryak@ie.edu

Julio de Castro
Babson College, USA

Laura Nuñez
IE Business School, Spain

Recommended Citation
Koryak, Oksana; de Castro, Julio; and Nuñez, Laura (2009) "THE ROLE OF AGENCY IN THE VC FIRMS' INVESTMENT DECISION MAKING (SUMMARY)," Frontiers of Entrepreneurship Research: Vol. 29: Iss. 12, Article 3.
Available at: http://digitalknowledge.babson.edu/fer/vol29/iss12/3

This Summary 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.
SUMMARY

THE ROLE OF AGENCY IN THE VC FIRMS’ INVESTMENT DECISION MAKING

Oksana Koryak, IE Business School, Spain
Julio de Castro, Babson College, USA
Laura Nuñez, IE Business School, Spain

Principal Topic
Agency theory, commonly used to explain the relationships embedded in the VC process (Arthurs & Busenitz, 2003; Sahlman, 1990; Sapienza & Gupta, 1994) assumes that agents have stable risk preferences and that agents are either risk-averse or neutral. Organizational risk taking literature, rooted in behavioral decision making research, lifts these restrictions and introduces the possibility of risk seeking behavior. However, agency-related variables continue to influence VCs’ preference and as such play a role in VC’s decision making.

In this paper, we propose and test a behavioral agency model of VC’ risk taking in the context of VC firms’ investment decision making. We contribute to the VC decision making literature as well as to organizational risk taking research by introducing new, theory-driven “framing” mechanisms of decision making - external governance (fundraising) and signaling (status among peers). In particular, we seek to answer the following set of questions: What is the relationship between a VC firm’s past performance and their subsequent risk taking? Does the subsequent fundraising influence the riskiness of a VC firm’s strategic choices? Does social status influence a VC firm’s risk taking in light of its past performance?

Method
In order to examine the relationship between VC firms’ investment decision making and a set of relevant contextual factors outlined above, we compile a comprehensive proprietary dataset which draws on three secondary databases (Capital IQ, Orbis and Private Equity Intelligence). This dataset bears on VC firm’s performance, its fundraising and investment activity, its portfolio composition as well as key portfolio companies data. The final dataset will comprises 202 investment decisions done by 34 VC firms during 2004-2006.

We conceptualize our dependent variable - the risk taking as a multi-dimensional construct, measured by two variables – target’s industry beta and the volatility of target’s financial performance prior to the investment decision.

Results and Implications
The paper makes two important contributions. First, it specifies the circumstances under which some VCs make riskier investment decisions. Second, it attempts to resolve some of the theoretical controversy surrounding the relationship between performance and risk taking, namely whether good or bad performance leads to riskier or less risky investment decisions, respectively. Our preliminary results support prospect theory’s predictions as to the negative relationship between performance and risk taking. Fundraising appears to accentuate this negative relationship. Social status, however, does not seem to play a role in risk taking.

CONTACT: Oksana Koryak; Oksana.koryak@ie.edu; (T): 3491-568-9733; Maria de Molina 12 bajo, 28006 Madrid, Spain.