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RUNNING WITH THE BIG DOGS: THE INFLUENCE OF A HIGH-REPUTATION VENTURE CAPITAL INVESTOR ON THE DECISION TO INVEST IN A NEW INDUSTRY (SUMMARY)

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SUMMARY

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Principal Topic

The impact of venture capital and its capacity to initiate and shape innovative activity has generated a substantial and thriving stream of cross-disciplinary research. Within this literature, the decision processes and investment criteria employed by venture capitalists have been the subject of sustained scholarly interest for over three decades (Tyebjee & Bruno, 1984; MacMillan et al., 1985, 1987; Sahlman, 1990; Roberts, 1991; Fried & Hisrich, 1994; Zacharakis & Meyer, 2000; Petty & Gruber, 2009). Previous work has provided us with rich insight into the investment criteria employed by venture capitalists during deal screening and evaluation (Hall & Hofer, 1993; Knight, 1994; MacMillan & Zemann, 1987), and has also provided evidence of a divergence between idealized and in-use decision-making policies (Zacharakis & Meyer, 1998; Shepherd, 1999). More recently, scholars have turned their attention to the influence of systematic behavioral and cognitive biases on investment decision-making (Zacharakis & Shepherd, 2001; Zacharakis et al., 2007; Franke et al., 2006, 2008).

Method

An unintended consequence of a narrow focus on the individual investment decision is that relatively little scholarly attention has been paid to other salient aspects of the decision-making process, for example the influence of institutions and other actors, as noted by Petty & Gruber (2009). As a result, entrepreneurship scholars know relatively little about the role that contextual factors play in shaping perceptions of opportunity, risk, and reward (Baron, 2006, 2007; Hsieh, Nickerson & Zenger, 2007) or their impact on startup financing and venture capital fund performance (Bruton & Ahlstrom, 2003; Ahlstrom & Bruton, 2006, Wright et al., 2005).

Results and Implications

This study builds on and extends recent work focusing on the influence of factors “beyond the business plan” on investment decision-making. Our central argument is that the actions of other venture capitalists—and in particular the investment activities of well-known venture capital firms—influence investment decisions. While scholars have previously examined the transmission of information in venture capital networks, that work has focused on how information travels between collections of direct relationships, e.g. through investment syndicates (Sorenson & Stuart, 2001; Lerner, 1994; Guler & Guillen, 2009), far less is known about the ability of a venture capital firm to shape perceptions of investment opportunities "at a distance". This study tests for these effects using a conjoint experiment in which we employ methodological approaches common in the marketing literature to measure brand influence. Completing a conjoint experiment with 150 professional venture capital investors illuminates the impact that the investment community has on investment decision-making, the willingness to take risks on promising technologies in familiar investment territory, and the decision to invest in new firms in unfamiliar industries.

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