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EMBRACING THE IRON CAGE: THE EFFECTS OF PERCEIVED CONTROL ON VENTURE CAPITALIST INVESTMENT DECISIONS (SUMMARY)

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≈ SUMMARY ≈

**EMBRACING THE IRON CAGE: THE EFFECTS OF PERCEIVED
CONTROL ON VENTURE CAPITALIST INVESTMENT DECISIONS**

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Principal Topic

Venture Capitalists (VCs) are an important cog in the wheel of entrepreneurship as they strive to ensure that capital is put to its first and best use. In this regard, researchers continue to develop a deeper understanding of how VCs evaluate the potential of investment opportunities (e.g., Petty & Gruber, 2011). However, a number of important aspects of VC decision-making remain understudied (Payne et al., 2009). One area that has received limited attention is the role of VC control. Specifically, prior research indicates that VCs are heavily involved in the ventures they invest in and thus closely consider the degree to which they will be able to control the entrepreneur (Cable & Shane, 1997) - yet most founding entrepreneurs have a proclivity to resist such control (Wasserman, 2008). Given these competing interests, we draw on agency and configurations theories to model the effects of perceived control, alongside the prestige of the entrepreneur and attractiveness of the opportunity, to determine the direct effect of control and the combination of factors that maximize the likelihood of VC investment.

Method

We test our model using conjoint analysis data of 552 decisions made by 69 VCs who specialize in early stage funding deals. We presented participants with a series of investment profiles (2 control x 2 prestige x 2 attractiveness). Our dependent variable was the sum of the VC's willingness to invest, amount of investment, and terms of investment.

Results and Implications

Results showed that perceived control effects willingness to invest, such that as control increases, willingness to invest also increases. We also found that different configurations of control, entrepreneur prestige, and opportunity attractiveness result in different outcomes. For example, we observed a trade-off between control and entrepreneurial prestige in the presence of an attractive opportunity, and that the highest likelihood of investing comes when control, prestige and attractiveness are all high. Our findings support a configurational perspective of VC investment decision-making and one practical implication of our research is that entrepreneurs seeking VC funding should recognize that the degree to which they are willing to accept control mechanisms will influence the likelihood of VC investment in their projects.

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