DRIVERS OF SPATIAL PROXIMITY IN VENTURE CAPITAL FINANCE (SUMMARY)

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SUMMARY

DRIVERS OF SPATIAL PROXIMITY IN VENTURE CAPITAL FINANCE

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Principal Topic

The aim of our paper is to extend the understanding of patterns in spatial proximity in venture capital finance. We investigate how the likelihood of spatial proximity relates to different characteristics of the new venture, the venture capitalist and the financing round.

Method

We use a dataset of 944 dyads of German new ventures and venture capitalists which have closed a financing round between January 2002 and March 2007. We use ordinal logit regressions to depict patterns in the geographic dispersion of these dyads. It is the first study to use the minimum travel time including travel by car and/or plane to realistically estimate spatial proximity.

Results and Implications

An important finding of our study is that consecutive rounds of financing in our sample show significantly closer spatial proximity than first rounds of financing. This gives a hint that spatial proximity may play an important role in the decision to realize a follow-up financing round. Other key findings are that younger ventures, ventures with lower amounts raised in a round as well as ventures in knowledge-intensive industries are likely to be located closer to their venture capitalist. This is in line with principal agency theory as these characteristics are an indicator for the level of informational problems. Furthermore, we find in line with social exchange theory that larger venture capitalists seem to have a larger network from which to benefit as they are found to realize more geographically dispersed deals.

Overall, our results indicate that spatial proximity in venture capital finance is shaped by a broad combination of characteristics of the new venture, the venture capitalist and the financing round. Our study leads to important implications for entrepreneurial teams, venture capitalists and policy makers as the results give indications for what type of venture capital deals spatial proximity seems to be particularly relevant and, hence, a vital, locally established venture capital market appears to be more important.

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