THE BEST OF BOTH WORLDS: THE BENEFITS OF SPECIALIZED-BROKERED AND DIVERSE-CLOSED SYNDICATION NETWORKS FOR NEW VENTURE SUCCESS (SUMMARY)

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The social capital literature has featured a long-lasting debate on whether brokerage or closure represent higher-value information advantages. We maintain that this tension cannot be fully resolved without recurring to explanations of actor diversity, arguing that brokerage is of most value in networks with high actor similarity, whilst closure is most beneficial in networks with high diversity. In the context of newly funded ventures attempting to attract additional funding, we argue that they are most likely to succeed if their first-round investors have either specialized-brokered or diverse-closed networks. These balanced representations of social capital allow the venture to simultaneously reap in-depth and broad information from their investors’ syndication networks. By contrast, advice emerging from diverse-brokered or specialized-closed syndication networks is of limited value to the venture, representing situations of overloading and overembeddedness respectively.

Our empirical setting is based on CrunchBase data that covers all venture capital investments in the US Information Technology Industry between 2005 and 2010. We use syndication information to construct a social network between all VCs active in this space. We estimate a survival model on the duration toward and likelihood of receiving a second round of funding. Our social network measures are constructed based on the social networks of the VCs that syndicated to invest into the venture in the first round. Furthermore, we try to control for alternative explanations by including, amongst other control variables, measures to capture the quality of the focal venture.

Our results indeed indicate a partially substitutive relationship between relational and structural attributes of VCs’ social networks. We find that ventures that are invested by specialized-brokered or diverse-closed networks indeed have a higher likelihood of receiving funding and doing so earlier. For the larger literature on social capital, we tie into an ongoing debate that attempts to bring together the seemingly opposing strands of arguments on brokerage and closure, and we extend the current notion of overembeddedness.