DO I HAVE A SAY IN IT? THE FOUNDERS’ ROLE IN VENTURE CAPITAL SYNDICATE FORMATION (SUMMARY)

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SUMMARY

DO I HAVE A SAY IN IT? THE FOUNDERS’ ROLE IN VENTURE CAPITAL SYNDICATE FORMATION

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Principal Topic

Venture capital (VC) firms often syndicate to reduce risk, improve screening and monitoring of ventures, and enhance the chance of successful exits, etc. Research on VC syndicate formation, consistent with the current literature on network formation in general, has largely been focused on partnership formation from the perspective of partners. Despite being the ones who solicit VC funding, the founders’ influence on VC syndicate formation has been neglected in the current literature. This paper fills this gap by comparing serial and novice entrepreneurs. It adds value to entrepreneurship literature by examining how founders may have an influence on the composition and attributes of VC syndicates. Unlike previous research in entrepreneurship that often assumes a passive role of startup companies in VC financing, this paper demonstrates that the founders’ influence on financing is more than just signaling; indeed, founders may actively exert influence on the composition of VC syndicates.

Method

This paper examines U.S.-based startup companies in the industry segment of “Internet Specific” that received investments from VC syndicates during 1995–2008. Based on a choice-based sampling approach, we construct hypothetical syndicates and test our hypotheses using conditional logit model.

Results and Implications

We find that a syndicate with lower prior tie density is more likely to be formed by serial entrepreneurs. However, this effect only holds when collaboration challenges are less of an issue. In the case of multi-VC syndicates, serial entrepreneurs are more likely to form a syndicate with lower tie strength dispersion to ensure a supportive syndicate. This paper informs a dilemma constantly faced by entrepreneurs. On the one hand, entrepreneurs want to hold more control by creating a division in the syndicate. On the other hand, entrepreneurs want a well-functioning syndicate in order to make sure that it provides the best assistance to the startup company. The analysis in this paper suggests that the first priority of entrepreneurs is still to have a supporting VC syndicate that can help develop the startup company. When collaboration challenges are smaller and the functioning of a VC syndicate is not jeopardized, serial entrepreneurs will then try to keep more control of the company.

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