VENTURE CAPITAL INVESTMENT AND FIRM PERFORMANCE: A SPATIALLY INFORMED SOCIAL NETWORK APPROACH (SUMMARY)

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VENTURE CAPITAL INVESTMENT AND FIRM PERFORMANCE: A SPATIALLY INFORMED SOCIAL NETWORK APPROACH

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Principal Topic

Relational ties and network status, in contrast to arm’s length transactions, are central to many financial activities. In this study we bring together social network theory and a resource-based view on firm performance by investigating if structural as well as spatial differentiations of venture capital [VC] investors in syndication networks imprint on early growth prospects of their portfolio firms.

Method

The effect of VC investors’ network status and geographical network position on the early growth performance of ventures is tested using longitudinal data on Belgian portfolio firms (N=64) that received funding between 2001 and 2008 and their domestic as well as international VC providers. Data has been retrieved from the Zephyr database (Bureau van Dijk). Financial statement data provided by the National Bank of Belgium were consulted for information on target firm performance. To construct and analyze structural and spatial features of VC co-investment networks, graph theory is applied. Networks are based on dynamic adjacency matrices. Hypotheses on the relation between network attributes and portfolio firm performance were consequently analyzed employing multilevel models of change.

Results and Implications

The study departs from a customary neoclassical understanding of finance and provides a sociological as well as geographically-informed understanding of VC activity. Applying a multilevel framework on longitudinal growth data of Belgian VC investors and their syndication partners, we find that both VC investors’ local and cross-border network embeddedness impacts venture performance. The results of the study suggest that inter-firm relational ties and, particularly, cross-border linkages (1) are important channels for the transfer of information and knowledge and (2) expand the resource-base of portfolio firms. Despite distance-constraints with respect to the transmission of tacit knowledge resources, particularly international relational ties are found to be beneficial for headcount growth which is associated with their role as crucial sources of non-redundant information and innovation-triggering knowledge.

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