Social capital of venture capitalists and start-up funding

Abstract: How does the social capital of venture capitalists (VCs) affect the funding of start-ups? By building on the rich social capital literature, we hypothesize a positive effect of VCs' social capital, derived from past syndication, on the amount of money that start-ups receive. Specifically, we argue that both structural and relational aspects of VCs' social networks provide VCs with superior access to information about current investment objects and opportunities to leverage them in the future, increasing their willingness to invest in these firms. Our empirical results, derived from a novel dataset containing more than 1,500 first funding rounds in the Internet and IT sector, strongly confirm our hypotheses. We discuss the implications of our findings for theories of venture capital and entrepreneurship, showing that the role and effect of VCs' social capital on start-up firms may be more complex than previously argued in the literature.

Stichworte: Business and Economics

Intellectual Contribution: Discipline-based Research

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Jahr: