

CEOs' appraisals of venture capitalists' external and internal support: a transaction cost economics perspective

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Abstract

Previous research has established that, in addition to provision of financing, venture capitalists (VCs) may add value to new ventures via different types of management support. In this paper, we propose that transaction cost economics (TCE) may complement other theoretical frameworks (e.g., agency theory, the resource-based view, knowledge-based theory, and resource dependence perspective) in explaining CEOs' polar and ambivalent appraisals of the benefits and costs of different types of VC support and the overall value of VC assistance. Following TCE, we approach VC-funded new ventures as hybrids of markets and hierarchies. Hence, we assume that VCs help their portfolio companies both to externalize, or learn to better operate under the market mode of governance, and internalize, or learn to better operate under the hierarchy mode of governance. We propose that VCs use external support to facilitate venture externalization and use internal support to facilitate venture internalization. Based on structural equation modeling (SEM) analysis of data from an online survey that generated 104 valid responses from CEOs of VC-funded new ventures, we establish that CEOs associate VCs' external support positively with the perceived benefits of VC assistance and negatively with the perceived costs of VC assistance. In contrast, CEOs associate VCs' internal support positively both with the perceived benefits and costs of VC assistance. We also demonstrate that CEOs' assessments of the perceived benefits and costs of VC assistance are, respectively, associated positively and negatively with their appraisals of the overall value of VC assistance. Finally, we ascertain that CEO experience is related negatively to CEOs' appraisals of the overall value of VC assistance. Implications of these findings for research and practice are discussed.

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