

HOW ENTREPRENEURS ACCESS TO VENTURE CAPITAL FINANCING IN MOROCCAN AND FRENCH NEW VENTURES? AN EMPIRICAL STUDY OF THE ROLE OF SIGNALING RESOURCES

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ABSTRACT

This paper underlines the new venture's ability to access to Venture Capital (i.e., VC) financing for understanding entrepreneurs who operate in a higher-technology industry; the principal background premise is that the three crucial capital affecting the entrepreneur when he is creating a new venture are his prior entrepreneurial and functional diversity experience (cultural capital), his reputation accumulated (strategic capital) and his stronger ties to the Venture Capitalists (social capital). Previous works on social capital have failed to study the interrelationships between new venture's other specific capitals or have proposed models with direct relationships with external (financial) resources acquisition. The core objective of this paper is to specify, therefore, a conceptual proposal, based on entrepreneurial networks model, evidencing that signaling intangible resources as social capital and cultural entrepreneurial capital are the critical levers for the new venture's ability in accessing VC financing in the Moroccan and French contexts. A variance-based structural equation modeling (Partial Least Squares) has been applied to a sample made up of 100 investment propositions. Moreover, mediation hypotheses posit how the social capital and strategic capital play a critical mediating role in the cultural capital – economic capital (VC funding) relationship. Our findings provide a useful example of how these critical capitals of entrepreneurs affect directly and indirectly the venture finance decisions. These findings have notable theoretical and practical implications, and provide directions for future research.

Keywords: Entrepreneurship; Venture Capitalists decision; Cultural/human capital; Social capital; Strategic capital.

1. Introduction

Equity financing is an important alternative source of capital for new ventures, especially those in technology-based industries, such as information technology or biotechnology (e.g., Fairchild 2011, Deventer and Mlambo 2009, Gompers and Lerner 2001) and critical to their success (e.g., Rubin 2010, Bottazzi et al. 2008, Zacharakis and Meyer 2000a). Compared to debit financing, it lowers the probability of leaking a valuable tangible asset (Planès et al. 2002), does not always allow banks to have necessary guarantees for the granting a loan (Jacquin 2003) and is usually not an option (Denis 2004). However, access to equity financing is a key determinant of a venture's ability to develop, operate, and expand. Therefore, to find funds for new venture, for emergence or expansion is the main problem faced by many entrepreneurs; it is still unclear exactly which critical intangible resources possessed by the new venture contribute to a positive venture capitalists' (i.e., VCs) funding decision.

There has been considerable interest in understanding how the team's past entrepreneurial experience affects their venture entrepreneurial process. While prior experience is viewed as contributing to the ability of entrepreneurs to spot new opportunities (e.g., Shane and Cable 2002) more recent research suggests that prior experience may have higher survival and growth rates (e.g., Delmar and Shane 2006) and have better access to external (financial) resources (e.g., Acedo and Jones 2007). Past research suggests that the key resources possessed by the new venture, such as cultural/human, strategic and social capital has proliferated over the last two decades in VCs context (see, e.g., Franke et al. 2008, Hisrich and Jankowitz 1990, MacMillan et al. 1989, Bruno and Tyebjee 1983, Hutt and Thomas 1985, MacMillan et al. 1985, Tyebjee and Bruno 1984a). Key resources, such as human capital and social capital, play the role of market signals (Rindova et al. 2005), which indicate a new venture's potential to provide high-quality outputs. For example, Shepherd and Zacharakis (1999) observe that the most consistent findings across studies is the importance that VCs place on the ability of the founding team, whether it is their managerial capabilities (Tyebjee and Bruno 1984b), track record (Hutt and Thomas 1985), staying power and familiarity with the market (MacMillan et al. 1987) or their general traits (Hisrich and Jankowitz 1990). Naturally, VCs tend to fund entrepreneurs that appear to have more past entrepreneurial experience; it is still unclear exactly why this is the case. Is this only because more experienced teams are better skilled or have more knowledge, or are there also other effects of prior entrepreneurial experience that contribute to a positive funding decision?

By interactions the effects of prior experience into multiple dimensions, the findings could have substantial practical implications as well. A more systematic understanding of the specific effects of prior experience in the VCs funding process will make entrepreneurial teams better able to manage these effects, which will increase the probability of getting funded. Related to this, when we know more precisely what VCs value in entrepreneurial teams, we will be better able to support and train entrepreneurial teams in applying for VC funding.

The remainder of this article is structured as follows. First, we develop our theory and introduce hypotheses on the link between entrepreneurial teams' specific types of capital and VCs' funding decisions. Based on entrepreneurial networks model and VC literature, we deduce several potential mediating effects between cultural capital with strategic capital and social capital on the VCs' funding decisions. Subsequently, we describe our data and research method before we present our results. We then discuss those results and how they expand existing work. Finally, we highlight limitations of this study and suggest avenues for future research.

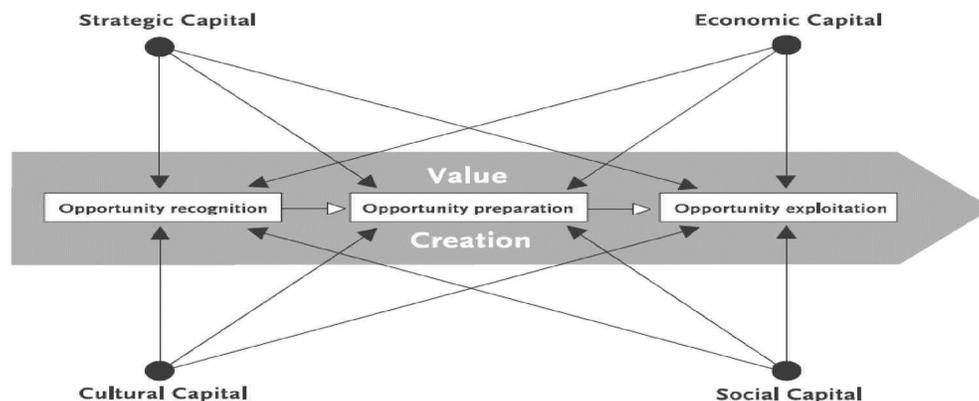
2. Theory and hypotheses

In this section, we present the review of literature and hypotheses concerning the relationship between the types of capital related-variables with the financial opportunities and the access VC. Based on the entrepreneurial networks model, we deduce several potential mediating effects between prior entrepreneurial and functional diversity experience on the VCs funding decision. Subsequently, we review the related literature to develop testable hypotheses.

2.1. Entrepreneurial process model: disentangling experiences into multiple dimensions

Before we elaborate on the more specific topic of this paper, we first explain the core model that is used in this paper in order to study entrepreneurial networks process model. Even though we do not explain this model in detail in this paper, it is important to note that based on this model. The entrepreneurial networks process includes multiple-actors and multiple-levels of aggregation, where actors interact and employ these four types of sufficient capital. One can use a multidimensional framework inspired by the work of Parsons on social systems theory (e.g., Groen et al. 2008, Groen 2005, 2002a, 2003, Parsons 1964, Parsons. 1977). A basic axiom is that entrepreneurs act purposeful in interaction with other actors. Originally, a social system was defined by Parsons as follows: "...a social system consists in a plurality of individual actors interacting with each other in a situation which has at least a physical or environmental aspect, actors who are motivated in terms of a tendency to the "optimization of gratification" and whose relation to their situations, including each other, is defined and mediated in terms of culturally structured and shared symbols" (Parsons 1964: pp. 5-6).

Figure 1. The Entrepreneurship in Networks Model



Four mechanisms are embedded in this definition: (1) interaction between actors; (2) striving for goal attainment; (3) optimization of processes; and (4) maintaining patterns of culturally structured and shared symbols. Each of these mechanisms produces its own type of processes, with its own specific type of capital needed. It described the economic and social foundations that affect the entrepreneur when he is going to open a new venture and it indirectly assumed that the intangible resources (as human capital and social capital) can give a more realistic view for understanding such process because within a network the entrepreneurship relies mainly on not material levers. The mechanisms of action for each of the dimensions are described in Table 1. Sources of *strategic capital* relate to power, authority and influence. Name, reputation and related strategic resources can be contributed to the relationship. Reputation is defined as information about an individual's past (Podolny 1994). Because the entrepreneur's reputation provides information performance about his or her ability to implement the venture, investors should be more likely to fund opportunities by entrepreneurs with positive reputations (Shane and Cable 2002). *Economic capital* consists of the efficient economic allocation of scarce resources leads to more efficient processes. *Cultural capital* consists of the resources: knowledge, skills, technology and experience. The content of these cultural resources varies for each distinct actor. *Social capital* relate to networks that provide connection to resource providers (Groen et al. 2008, Kraaijenbrink and Groen. 2008, Groen et al. 2002b). The central assumption of the entrepreneurial process models is that ventures will need sufficient 'capital' to be sustainable over time. This implies that entrepreneurial teams need to have or have access to sufficient strategic, economic, cultural and social capital to establish a viable venture.

Table 1. The mechanisms of action for each of the dimensions

Dimension	Relates to	Capital	Resources
Scope	Strategic goals	Strategic capital	Goal attainment processes using resources: - Strategy - Power, authority and influence
Scale	Economic optimization	Economic capital	Economic optimization and processes leading to efficiency using: - Capital
Skill and Value	Institutions and pattern maintenance	Cultural / human capital	Cultural structures and shared symbols, using: - Cultural norms and values - Human skills and knowledge
Social network	Interaction pattern / process	Social capital	Interaction pattern and process, using: - Social embeddedness - Network embeddedness

Adapted from Groen (2005)

As we described earlier in this paper, the entrepreneurial networks model can be divided into three major stages: (1) opportunity recognition, (2) opportunity preparation and (3) opportunity exploitation. In each of these stages entrepreneurs (to-be) may experience serious difficulties. Paradoxically, we contribute to VC literature since we focus on the various stages of the investment decision. The stages of VCs investment described in this paper are: (1) deal flow, (2) the first meeting with an entrepreneurial team and (3) the due diligence procedure. Therefore, we focus on the stages before due diligence procedure of the investment decision. When VCs selects the proposition before an investment is made for to make sure that information about the entrepreneur and deal are qualified (Sahlman 1990).

In terms of the entrepreneurial networks process model, we are interested, in this paper, in the question of how the entrepreneurial team's cultural capital (prior start-up, management, technical or industry and research experience; and functional diversity/complimentary experience) contributes to the acquisition of economic capital (VC funding). Based on the entrepreneurial networks process model, it can be deduced that the total effect of prior entrepreneurial experience at start-up could be mediated by a strategic capital and a social capital effect. For example it could be that VCs do not invest in experienced entrepreneurial teams only because of their knowledge and skills, but also because of their reputation (strategic capital) or because of their existing ties to the VCs (social capital).

2.2. Prior entrepreneurial experience and entrepreneurial networks model

The importance of the cultural capital is reflected in the numerous studies in the entrepreneurial process (e.g., Davidsson and Honig 2003). To date, the interest in human capital continues, and most authors conclude that entrepreneurs with certain endowments are in a better position to get attractive loans (Shane and Cable 2002). Some of these endowments are network related, while others are based on the previous experience and skills of the founder(s) (e.g., Zacharakis and Meyer 2000a) or excellent business plans (Foo et al. 2005). Moreover, researchers have focused on the role of prior experience on opportunity identification in spin-offs (Shane 2000). Subsequently, when experienced entrepreneurial teams start a new venture, researchers have found that they have a higher chance of survival. For example, entrepreneurial teams with a more extensive management, research, industry and start-up experience more often, they also have a higher chance of survival (e.g., Delmar and Shane 2006) and they are believed to be better skilled, to be more reputable and have wider networks in place when starting a business (e.g., Kim et al. 2006). Added to this, Kim et al. (2006) found that managerial experience is positively associated with entrepreneurial entry to a significant extent. These confirm the literature on industry, start-up and management experience has been found to have a positive effect on entrepreneurial entry.

Although the existing literature has focused primarily on which types of experience have the effects for entrepreneurial entry, survival, profits and growth. Therefore, we go one step further in this paper and research what it is exactly about experience that makes it so beneficial to the entrepreneurial process. Researchers often relate experience to some kind of performance measure without exactly specifying the effects of the experience that could

explain this relationship. In this paper, the focus is on the prior start-up, management, industry, and research experience of entrepreneurial teams and how these help their ability to raise VC financing at start-up.

We also research, using the entrepreneurial networks model, to what extent the relationship between these prior types of experience and acquisition of VC financing is mediated by a team's strategic capital (as measured by reputation) and a team's social capital (as measured by the ties between the entrepreneurial team and the VCs). We also take a clear team perspective in this paper. In the literature discussed above, no clear distinction is made between ventures that are started by individual entrepreneurs and ventures that are started by a team. However, since entrepreneurial teams are more relevant in the context of VC, as opposed to ventures started by individual entrepreneurs, we chose to take the entrepreneurial team as a unit of analysis. This is in line with previous studies that have dealt with compositional aspects of the entrepreneurial team as an important VC funding criterion (e.g., Kollmann and Kuckertz 2010, Franke et al. 2008, 2006, Zacharakis and Meyer 2000b, MacMillan et al. 1985). Therefore, in the hypotheses sub-section, we mainly build on the findings in VC literature that focus on the team level.

2.2.1. Prior entrepreneurial experience and economic capital acquisition

The first relationship we hypothesize is the direct relationship between prior entrepreneurial experience and the acquisition of VC financing. This relationship is often explained by the higher levels of skills and knowledge related to entrepreneurial teams. During the start-up process, the members of a team need to convince financiers, suppliers and customers of their abilities even though they lack a track record (Scholten. 2006). However, entrepreneurs that have experienced a start-up before are better able to predict the resources they will need and how to access them, which increases their chances of survival. Furthermore, the role and composition of the members in the team will change over time. Teams with experience in start-ups and growing firms will recognize that creating and building a new venture is a dynamic process and they will understand the context in which their emerging firm will operate (Cooper et al. 1994). Additionally, Kaplan and Strömberg (2004) suggest that the entrepreneurial team's start-up experience is important in guiding investment decision. They report that 60% of their sample mentioned start-up and management experience as a reason for investing.

The second relationship we hypothesize is the direct relationship between prior management experience and the acquisition of VC financing. This relationship is often explained by the higher levels of the methods of organizing business activities, such as marketing and logistics related to entrepreneurial teams. Management experience helped small firms to set up export activities (Westhead et al. 2001a), and to acquire early growth (Chandler and Jansen 1992). In practice, investors have traditionally attached a high importance to the experience of entrepreneurs in their evaluation of firm potential (Stuart and Abetti. 1990). In fact, management skills and experience are the most frequently used selection criteria of VCs (Zacharakis and Meyer 2000a). Therefore, researchers that focus on VCs decision-criteria also show how the prior start-up, management, research, industry and functional diversity

experience of entrepreneurial teams is an important decision-criterion on VCs funding decisions (e.g., Beckman et al. 2007, Hall and Hofer 1993a).

Another type of experience that is often mentioned as facilitating a start-up is prior knowledge of the technology and expertise in industry. Industry experience makes it easier to adapt to the habits of that industry (e.g., Chandler 1996, Fiet 1996). Entrepreneurial teams, who have expertise in the development of technologies on the same industry in which the venture will operate, have the benefit of knowing the competitive conditions and specific technologies in the industry (Kor 2003), find it easier to start a business (Shane 2000, 2004b) and facilitate venture in going public (Shane and Cable 2002). In a large survey of 1600 small firms and 105 large firms, Siegel et al. (1993) found that substantial industry experience was important for both high- and low-growth ventures to be profitable.

The fourth type of experience that contributes to the acquisition of VC financing is the extent of prior research experience among its entrepreneurial teams. Teams that have experience in the development of technologies find it easier to start a business (Shane 2000, 2004b). The importance of research experience is stressed by a number of studies. Scientists who are excellent in their field of research are in a better position to start a successful new venture. Their success is in part due to knowing the academic environment (Murray 2004), which allows them to access equipment and personnel more easily. Furthermore, the more experienced scientists run new venture that are more innovative, making the new venture more valuable (Corolleur et al. 2004). Finally, empirical self reports of VCs have instead shown that they attach great importance to functionally well-balanced teams (cf. MacMillan et al. 1985).

Based on the entrepreneurial networks model and the arguments stressed above. We therefore expect that the cultural capital, as measured by the four types of prior experiences, namely management-, industry-, research-, and start-up experience and functional diversity experience of the entrepreneurial team, can positively affect the team's ability to acquire VC funding. Therefore hypothesis 1a and 1b are as follows:

H1a. The more prior (1) start-up, (2) management and (3) research and (4) industry experience there is among the members of the entrepreneurial teams, will have a positive effect on the new venture getting VC funding.

H1b. The more prior functional diversity experience there is among the members of the entrepreneurial teams will have a positive effect on the new venture getting VC funding.

2.2.2. Strategic capital as a mediator factor

As already stated in the previous sub-section, the positive effects of previous experience are primarily explained by referring to the higher level of education, training and skills that increase the capabilities and knowledge accumulation of more experienced teams (e.g., Davidson and Honig 2003, Watson et al. 2003). As can be deduced from the entrepreneurial process model, it can be expected that the influence of knowledge, skills and capabilities effect (all characteristics that could be labeled as cultural capital) are not the only effects that

could explain the positive effects of prior experience to the entrepreneurial process. Strategic capital can be identified as a second explanation of the positive effect of experience. Strategic capital refers to a new venture's prominence, reputation and power position. Our expectation is that this strategic capital effect mediates the direct relations between prior experiences, namely management-, industry-, research-, start-up and functional diversity experience of the entrepreneurial team and the VCs funding decision.

Many studies show that reputations of individuals and/or organizations are quality signals (Podolny 1993) that can help stakeholders make resource allocation decisions for investing in these firms (Shane and Cable 2002), and are valuable in acquiring resources (e.g, Higgins and Gulati 2006, Stuart et al. 1999). For example, studies have documented the positive effect of reputation on a firm's financial performance (Roberts and Dowling 2002). Earlier studies show that the reputations of core organizational members, such as CEOs (D'Aveni 1990), top management teams (Cohen and Dean 2005, Higgins and Gulati 2006), other board members (Musteen et al. 2010, Certo 2003) or prestigious affiliates (Pollock et al. 2010) have an impact on a venture's ability to attract investment capital, particularly with respect to start-up teams of new ventures (Franke et al., 2006, 2008). Consequently, building reputation early on can increase a new venture's chances for survival and success by improving its ability to attract key stakeholders and to establish exchange relationships with them (Petkova 2006). Entrepreneurial teams often rely on their personal reputation when approaching potential stakeholders, because their ventures' reputations are not yet established (Larson 1992). Similarly, Shane and Cable (2002) found that VCs are more likely to invest in entrepreneurial teams that they perceive as having better reputation.

Several researchers have found that the entrepreneurs' prior experience can influence their reputation by signaling to financial providers that the process utilized by the venture is of substantially high quality. For example, Petkova (2006) studied 415 VC-backed information technology new ventures founded between 1997 and 2001 in the U.S and tested the key resources they possess jointly influence their early reputations. She found that new ventures started by entrepreneurial teams that have start-up experience have higher reputations. Consistent with this result, Westhead et al. (2005) found that the building of a reputation was the most important asset resulting from prior experience as perceived by serial entrepreneurs. Therefore, prior research has found that founders' prior start-up experience reduces VCs' uncertainty regarding the new venture and the need for interaction between the new venture's CEO and the VCs (Sapienza and Gupta 1994). Not only start-up experience seems to benefit reputation. Prior entrepreneurial experience such management, industry, and research experience provides evidence to financial providers that the entrepreneurial teams have already done this at least once, which is likely to alleviate their concerns regarding the prospects of the venture. For example, (Higgins and Gulati 2006) have confirmed these results and also show how prior working experience contributes to an increase in prominence and how this prominence affects investor decisions.

Therefore, we predict (1) that teams with more experiences accumulated prior to starting a focal venture are likely to have higher reputations. We also expect (2) that this reputation

effect in itself could also have a direct effect on a VCs funding decision. As a result, we hypothesize that (3) the information about the entrepreneur's reputation will mediate the effects of their prior entrepreneurial experience on VCs funding decision. Thus, our second series of hypotheses 2a, 2b and 2c are as follows:

H2a. The more prior (1) start-up, (2) management, (3) research and (4) industry experience there is among the members of the entrepreneurial teams will have higher positive effect on the new ventures' reputations.

H2a. The more prior functional diversity experience there is among the members of the entrepreneurial teams will have higher positive effect on the new ventures' reputations.

H2c. The greater and the more positive an entrepreneurial team's reputation is the higher its new venture probability getting VC funding.

2.2.3. Social capital as a mediator factor

The literature analysis concerning the concept of relational embeddedness reveals mainly to the tie strength between the ego and a single alter. Tie strength indicates the emotional intensity, mutual confidence and reciprocal services that characterize a relationship (Granovetter 1973). The importance of the entrepreneur's social capital in the process of founding a new venture is widely researched (see, e.g., Heuven and Groen (2012), Batjargal 2007, Batjargal and Liu 2004, Davidsson and Honig 2003, Shane and Cable 2002, Hansen 1995). For example, Chua et al. (2011), studied 1267 new ventures and proposed that family involvement increases a venture's ability to borrow family social capital for the purpose of obtaining debt financing. They found that family involvement is positively and significantly associated with the amount of new venture debt financing. In addition, Omri and Frikha (2012) found that strong ties between entrepreneurs and bank increase entrepreneurs' abilities to access to external financing. An interesting study in the VC context, Zhang (2007) found that entrepreneurial teams consisting of individuals that have started VC-backed ventures have better connections to VC firms and that these connections, in turn, are beneficial to the funding process. His results show that entrepreneurs that have these connections from previous ventures raise more VC financing and acquire it more quickly. In addition, Batjargal and Liu (2004) found that strong ties between entrepreneurs and VCs have significant effects on contractual covenants, investment delivery, and venture valuation. Batjargal (2007) focuses on the actual network 'tie strengths' that are most effective for the acquisition of VC. Using survey data on 202 seed-stage VCs, Shane and Cable (2002) show that an entrepreneur's ties to VCs indeed increase the chance of getting funded.

Further, past research suggests that experienced entrepreneurs have better chances of knowing some VCs or other investors, who would be more inclined to invest in a new venture if they already know its founder (Shane and Cable 2002). For example, prior experience also gives an entrepreneur a chance to know or work with a wide range of people, (such as bankers, VCs, and "angel" investors), professionals (such as accountants, consultants, lawyers, and human resource specialists), suppliers, and customers. These ideas are consistent with results

of Hsu (2007) who examines 149 early-stage start-up ventures and finds that previous entrepreneurial experience of entrepreneurs increases both the likelihood of receiving VC financing and the entrepreneur’s stock of social capital. Some of these connections, even if they are only weak or indirect ties, may become useful in the future when the entrepreneur starts another business (Shane and Cable 2002). Because entrepreneurs with prior entrepreneurial experience tend to have more cultural and social capital, they may have an edge over first time in the process of resources acquisition (e.g., Gompers et al. 2009, Batjargal 2007, Hsu 2007, Batjargal and Liu 2004, Shane and Cable 2002).

In this study, the focus is only on the dyadic tie between the entrepreneurial teams and the VCs. Based on these findings, we expect (1) that entrepreneurial teams with more prior entrepreneurial and functional diversity experience establish strong social connections to the VCs and that (2) the existence of these strong connections contributes positively to a VCs funding decision. Therefore, the hypotheses regarding the mediating effects of social capital are as follows:

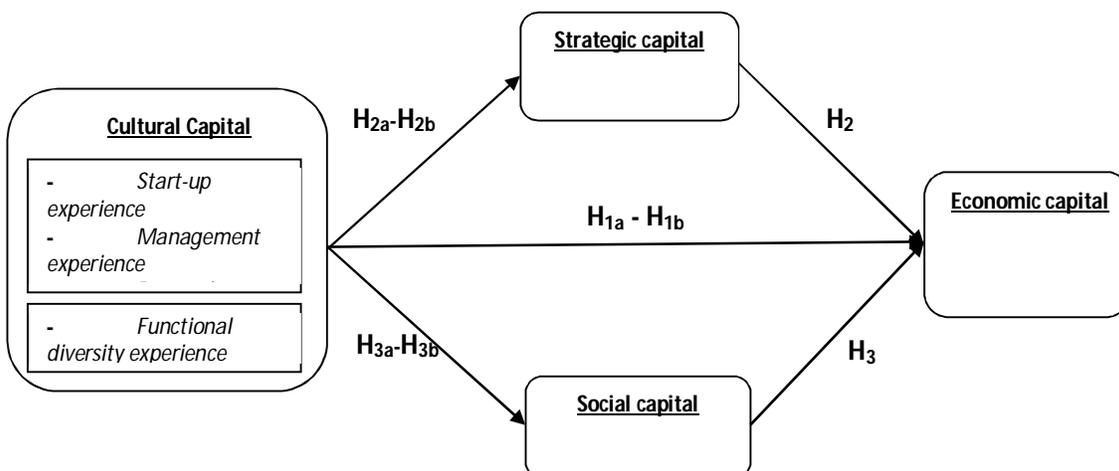
H3a. The more prior (1) start-up, (2) management, (3) research (3) industry experience there is among the members of the entrepreneurial teams will have stronger ties to VCs.

H3b. The more prior functional diversity experience there is among the members of the entrepreneurial teams will have stronger ties to VCs.

H3c. The stronger ties of entrepreneurial teams to VCs, the higher a probability of getting VC funding.

Figure 2 presents a detailed model of the hypothesized relationships. According to this model, social capital and strategic capital mediate the effects of prior entrepreneurial start-up, management, research and industry experience and functional diversity experience (Cultural capital).

Figure.2. A detailed research model and hypotheses



3. Methodology

3.1. Sample and data collection

Data used to test our hypotheses were obtained from a questionnaire sent by mailing to VCs firms in Morocco and France, and 100 responses were received. We addressed a questionnaire to French VCs firms, because Moroccan VCs firms (similar) have since the population of early-stage VCs and it was too small to reach sufficient response levels. These VCs were identified by constructing a database of VCs based on the information from the National Private Equity Associations of Morocco and France. We asked each investment manager that was responsible for the daily selection and screening of new deals to select the one last positive investment decision (firm decided to invest), or the last negative investment decision (firm decided not to invest) or the last investment decision under analysis (firm decided to ‘or not’ invest) in 2012. Following this method, 27 early stages were collected from Moroccan VCs firms and 73 stages financing were collected from French VCs firms. In total, we collected information on 100 investment decisions: 39 under analysis, 49 positives and 12 negatives.

3.2. Measures

A discussion of measurement constructs explained how the raw data were collected and translated into constructs.

The *dependent variable* is concerned with the *economic capital* effects of the VCs funding decision and was measured as an increment of 10 percent. Choice the last proposal in study was asked: “*what is the probability that you would decide to invest in this investment proposal*” (where 0% = definitely not invest and 100% = definitely invest)? This item was adapted from (Sitkin and Weingar 1995, Krieger 2001).

The *independent variables* are cultural capital, social capital and strategic capital. *Cultural capital* scale was indicated by two variables. Firstly, for prior entrepreneurial experience was comprised of four items. These items consisted of five-point Likert scales indicating the prior experience of the entrepreneurial team as a whole in, respectively: (1) “*At least one member of the entrepreneurial team had previous start-up experience*”; (2) “*At least one member of the entrepreneurial team had previous management experience*”; (3) “*At least one member of the entrepreneurial team had experience in the relevant industry*”; (4) “*At least one member of the entrepreneurial team had previous research experience*”. Secondly, for prior functional diversity experience was comprised of one item. This item consisted of five-point Likert scales “*The team members had greater functional diversity and complementary experience*”. *Social capital* was measured by three items: affinity and frequency of interaction and contact between the VCs and the entrepreneurial team. For affinity, the VCs were asked “*how well they knew the team members when they were contacted for the first time with the proposition*”. The answer to this question was scored in four boxes: (1) not at all, (2) very little, (3) somehow and (4) very well. For frequency of interaction the VCs were asked “*How close they are with at least one team member*”; the answer to this question was measured as

especially close (4), close (3), less than close (2), and distant (1). “*On average, how often do they talk with at least one team member*” Frequency of contact was measured through four boxes: (1) never spoken before (2) once a year (3) once a month, and (4) once a week. Subsequently, the scores on these items (0 - 3) were coded to create item ‘tie strength’ variable. These three items were adapted from (Granovetter 1973, Scholten 2006, Marsden 1990, Batjargal 2007) (Cronbach’s alpha is 0.76). The *strategic capital* of the venture was measured by reputation. The reputation scale was composed of three questions about the members of the venture team’s reputation as entrepreneurs. The items were: “*Someone on the venture team had a reputation for successfully building public companies*”; “*A third party I respected vouched for the team’s ability to start a successful company*”; “*At least one venture team member is viewed by other investors as giving the venture credibility*”. These three items were adapted from (Shane and Cable 2002) (Cronbach’s alpha = 0.76).

Control Variables. These include: (1) *Country* (Morocco and France). (2) *Venture industry* is a binary variable of one if the new venture is in the VC firm industry and zero otherwise. (3) *Venture capital financing* is composed by three variables and coded on three points (1-3), if the venture is on VC (1) *seed-stage*, (2) *start-up* and (3) *first-stage financing*. *State ownership* is a binary variable of one if the state is a shareholder and zero otherwise. (4) *Venture capitalist experience* is measured in years. (5) *Initial investment* sought is measured in Euro (€). Pre-revenue is a binary variable of one if the firm had no revenues and zero otherwise. Two final dimensions of ventures that past research suggested should be controlled for are investors’ perceptions of the technology (Haar et al. 1988, Roberts 1991). (6) Thus, we measured the perceived value of the technology with a scale composed of two items regarding the value of the venture’s technology (Cronbach’s alpha = 0.86). The items were: “*The technology employed by the venture would provide a significant competitive advantage*”; “*The venture’s technology had a strong proprietary position*”. (7) *Growth potential* scale was composed of two items: “*The venture is a potentially high-growth firm*”, “*The venture’s competitive strategy is superior than its competitors*” (Cronbach alpha’s is 0.64). The distribution value of these items was a 5-point Likert scale. These items were adapted from Shane and Cable (2002), Batjargal and Liu, 2004; Batjargal, 2007).

4. Results

We used SPSS.19 and SmartPLS 2.0 software to analyze the collected data. First, we performed an exploratory factor analysis (EFA) with SPSS of the constructs and sub-constructs with reflective measures. PLS simultaneously allows assessment of the reliability and validity of the measures of theoretical constructs (outer or measurement model) and the estimation of the relationships between these constructs (inner or structural model) (Barroso et al. 2010). PLS is primarily intended for causal-predictive analysis, where the problems explored are complex and prior theoretical knowledge is scarce (Wold 1985). Consequently, PLS is an appropriate technique to use in a theory development situation such as in this study (Chin 2010). SmartPLS package (Version 2.0, M3) was used to test both measurement and structural models (Ringle et al. 2005).

Table.2. Psychometric Properties: Factor Loadings, A.V.E, CR, Cronbach Alpha, and R-square

Constructs	Measures	Loadings	A.V.E	Composite Reliability	Variance explained	Cronbachs Alpha	T-statistics
Cultural capital	Start-upExp	0,858	0,589	0,843	--	0,742	16,816
	MgtExp	0,895					29,572
	RsChExp	0,497					2,495
	InduExp	0,815					11,562
	FuncDivExp	1,000					--
Social capital	Infinity	0,775	0,675	0,861	0,061	0,758	7,896
	Closer	0,779					7,538
	Frequency	0,904					10,429
Strategic Capital	Rep1	0,913	0,677	0,860	0,107	0,763	20,107
	Rep2	0,658					4,728
	Rep3	0,874					11,161
Economic Capital	VC-funding	1,000	--	--	0,368	--	--

4.1. Measurement model

In Table 2, we provide psychometric properties of the constructs with reflective measures, along with their corresponding cross-loadings and convergent validity criteria. Convergent validity requires three conditions that were confirmed: Cross-loadings are greater than 0.7 and at least equal to 0.5 (Hair et al. 2010). Composite reliability (ρ_c) (Werts et al. 1974) and reliability (Cronbach's alpha) exceeds the minimum threshold level of 0.7 (Nunnally and Bernstein 1994) and average variance explained (AVE) is at least equal to 0.5 (Hair et al. 2010). Therefore, we find support for convergent validity of the constructs in our model. Yet, although these low boundaries are accepted, the rule of thumb implies that the boundary of 0.5 for AVE, 0.7 for Composite reliability and Alpha Cronbach and 0.5 for cross loadings represent the strict minimum limit and that the higher the statistic metrics are, the better the items measure their respective constructs.

Discriminant validity (Table 3) indicates that the items actually measure their theoretical corresponding construct, not any other constructs (Fornell and Larcker 1981).

AVEs for each latent variable were greater than the squared bivariate correlations with all the other latent variables, indicating acceptable discriminant validity of the scales (Hulland 1999, Barclay et al. 1995). This is again confirmed through the observation of the cross loadings where items load significantly higher with their respective constructs than with the rest of constructs in the model. Taken together, these analyses suggest acceptability of the measurement model.

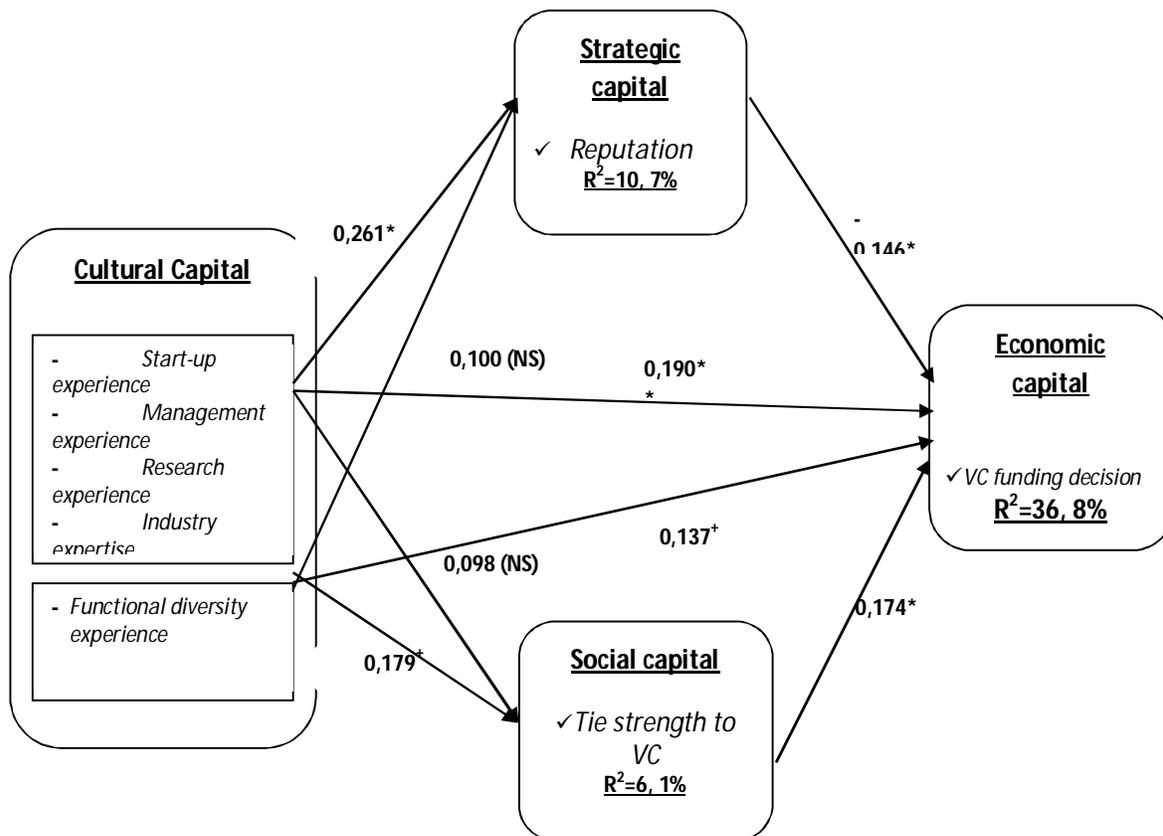
Table.3. Discriminant Validity

Constructs	Variable	1	2	3	4	5
Social capital	1 Tie strength to VC	0,823				
Economic capital	2 VC funding	0,365	1,000			
Strategic capital	3 Team reputation	-0,141	-0,017	0,823		
Cultural capital	4 Prior entrepreneurial experience	0,197	0,325	0,316	0,767	
	5 Functional diversity experience	0,233	0,383	0,243	0,550	1,000

4.2. Structural model

In figure 3, the path analysis using SmartPLS displays the effects of different constructs according to the interdependencies stated in our assumptions and along with their corresponding levels of significance (T-values). Bootstrapping resampling served to estimate the structural paths, the level of significance of the path coefficients (pc) and the variance accounted for in the dependent variables (R^2).

Figure 3. A Structural model and path coefficients



Before the individual parameters are discussed, we first assess the 'Goodness of Fit' of the PLS model as a whole. The PLS structural model is mainly evaluated by R^2 of endogenous latent variable (Chin 1998), effect size R^2 (Cohen 1988), Goodness of Fit index (GoF) (Tenenhaus et al. 2005), and by using the Stone-Geiser Q-square test for predictive relevance (Geisser 1975). According to Chin (1998), R^2 values of 0.67, 0.33, and 0.19 for endogenous latent variables are described as substantial, moderate and weak respectively.

The model explained between 6, 1% and 36, 8% of the variance in the variables. The variances explained in social capital ($R^2 = .061$) was small. Moderate amounts of variance were explained for strategic capital ($R^2 = .107$). For the economic capital variable a sufficient amount of variance was explained ($R^2 = .368$). The blindfolding results ($G = 30$ blocks) are presented in Table 4. We may notice that for this model all blocks had high values for *Cv-communality index* H^2 . These values were well above the threshold level of zero (Fornell and Cha 1994). However, regarding *Cv-redundancy index* F^2 , Economic, Social and Strategic capital had good values. Furthermore, the 0.65 value of GoF index was good. In sum, results indicated that model had an acceptable predictive relevance.

The results shown in Figure 2 support hypothesis 1a and 1b: The path analysis indicates that prior entrepreneurial experience (start-up, management, industry and research experience) significantly affect the VC funding decision ($\beta_{1a} = 0,19$; $p < 0.05$, $T = 1.95$). This means that those entrepreneurial teams that started ventures in the past have a significant higher probability of getting VC funding decision. Teams' functional diversity experience is just significant the probability of getting VC funding decision ($\beta_{1b} = 0,137$; $p < 0.15$, $T = 1.47$).

As predicted by *hypothesis 2a*, team members' prior entrepreneurial experience has a positive and significant effect on new venture's reputation ($\beta_{2a} = 0,261$; $p < 0.10$, $T = 1.76$), meaning that *Hypothesis 2a* is confirmed. In practical terms, one additional start-up, management, industry and research experience per founder increases a new venture reputation. The effects of team functional diversity experience is not statistically significant ($\beta_{2b} = 0,10$; $T = 0.821$). Therefore, *Hypothesis 2b is not supported*. When comparing the coefficients in the standardized solution between start-up experience and reputation and between other prior entrepreneurial experience and reputation, it can be concluded that start-up experience is a stronger predictor for reputation than other prior experience. Consistent with *hypothesis 2c*, entrepreneurial team' reputation has a negative and significant effect on the probability of getting VC funding decision ($\beta_{2c} = -0,146$; $p < 0.10$, $T = 1.85$), contrary to our predictions. Therefore, *Hypothesis 2c is supported*. However, the direction of the relation is in the opposite direction to *Hypothesis 2c*.

Based on the entrepreneurial process, we deduced that one additional dimension could play a mediating role in the relation between experience and the VC funding decision, namely the 'social capital' dimension. Figure 2 shows that the hypothesized relationship between team members' prior entrepreneurial experience and the stronger ties to the VCs is insignificant. Therefore *Hypothesis 3a is not supported*. Consistent with *hypothesis 3b*, team members' functional diversity experience has a positive and marginally significant effect on stronger ties to the VCs when they approach him for funding ($\beta_{3b} = 0,179$; $p < 0.15$, $T = 1.537$). The

relation between these variables is in the direction hypothesized and is quite significant ($p < .15$), so it can be concluded that *Hypothesis 3b is marginally confirmed* by the model. Finally, *hypothesis 3c* receives statistical support, entrepreneurial teams that have stronger ties to the VCs have a higher probability of receiving funding. The results show that the relationship that was hypothesized is again in the direction that was expected and highly significant ($\beta_3 = 0,174$; $p < 0.10$; $T = 1.713$). Therefore, we can conclude that Hypothesis 3c is confirmed.

To test mediating effect proposing that strategic capital and social capital mediates the effect of cultural capital (teams' prior entrepreneurial "PE" and functional diversity "FE" experience) on the ventures probability of getting VCs funding, two separate mediation analysis were conducted (one for each cultural capital) with case values of composite latent variables obtained in the PLS analysis. The bootstrapped confidence interval and the product of coefficient approach with second order Standard Error (SE) estimate (Preacher and Hayes 2004) were used to test the significance of indirect effects in both models.

Table.5. Bootstrap Results for Indirect Effects

Model	Path	Indirect effect	S.E	Sobel z	LL 95 CI	UL 95 CI
1	PE ->Rep -> VC funding	-0,038	0,030	-1,276 ⁺	0,101	0,202
2	FE ->Rep -> VC funding	-0,015	0,019	-0,753	0,226	0,452
3	PE ->ST -> VC funding	0,017	0,022	0,793	0,214	0,428
4	FE ->ST -> VC funding	0,031	0,022	1,143	0,126	0,253

Note: N = 100; Estimates represent 500 bootstrapping testing.

PE: Teams' prior entrepreneurial experience.

FE: Teams functional diversity experience.

Rep : Teams' reputation

TS: Stronger ties to the VCs

+p < .15

As can be seen in the Table 5, there is a weak significantly and negative indirect effect of the teams' prior entrepreneurial experience (indirect effect = -0,038, Sobel z = -1,276, $p < .15$, 95% CI: 0.10 - 0.20) but no significant indirect effect of the strategic capital (*rep*) on functional diversity experience on probability of getting VCs funding (indirect effect = -0,015, Sobel z = -0,753, 95% CI: 0.23 - 0.45) mediated by a marginal impact of strategic capital on their ventures probability of getting VCs funding. Additionally, the effect of cultural capital was no mediated by social capital (SC). Furthermore, the signs of the indirect effects were consistent with the interpretation that cultural capital increases strategic capital, but decreases social capital, which in turn influences the VCs funding decision.

Finally, it should be noted that all control variables included in the model (i.e., *Growth potential, Team size, Venture capitalist experience, Initial investment sought, State ownership and Venture capital funding: the most new ventures in start-up stage and have been in business less than three years*) are significant, with the exception of *country* and *technology* variable.

5. Discussion

The findings of this study suggest that cultural capital (both prior entrepreneurial and functional diversity experience) may have a direct positive effect on the VC funding decision. This suggests that entrepreneurial team with more start-up, management, industry experience and functional diversity in terms of experience and training/education will have higher probability of getting VC funding decision. This finding is consistent with previous research investigating the effect of prior entrepreneurial experience on the probability of getting external financial resources (e.g., Omri and Frikha 2012, Bhagavatula et al. 2010, Kim et al. 2006, Davidson and Honig 2003), in practically, VC funding decision (e.g., Gompers et al. 2009, Batjargal 2007, Higgins and Gulati 2006, Batjargal and Liu 2004, Shane and Cable 2002, Zacharakis and Meyer 2000a, MacMillan et al. 1985). In terms of second hypothesis (2c) strategic capital (entrepreneurial team's reputation) was negatively and significantly related to the venture probability of getting VC financing. This indicates that it might even have a negative impact on the funding decision when a team consists of members with high reputations; this suggests that the match between the type of reputation and the VC funding decision is not only important in a positive sense but also in a negative sense. This observation is not surprising, though, because prior research suggests that even for venture, members team consists with high reputations have a negative impact on the investment behavior of particular types of investors (e.g., Ebbers and Wijnberg 2012). In addition, our finding on the main effect of social capital also builds on and extends prior research on entrepreneurs' personal social capital (e.g., Anderson et al. 2003). Early entrepreneurial finance research established that entrepreneurs' social capital or, other people's social capital, have positive VCs funding decision effects (Batjargal 2007, Batjargal and Liu 2004, Shane and Cable 2002). Our findings on the main effect of entrepreneurs' social capital are also consistent with recent research on entrepreneurship in emerging economies. Subsequent our study show that social capital to categories of strength ties between entrepreneurs and VCs, such as affinity, contact frequency and interaction frequency, increases the venture's probability of getting VC financing (hypothesis 3c).

The results suggest that the teams' past entrepreneurial experience appears to increase a venture's reputation but do not have significantly strength ties to the VCs compared to teams that lack this experience. This strong effect of teams on a venture's reputation is consistent with past research on the role of teams for the formation and performance of new organizations (e.g., Petkova 2006). Further, functional diversity experience, the results are different. The team members' functional diversity experience had no significant effects on a venture's reputation but do have significantly strength ties to the VCs. However, the lack of significant effects of team members' functional diversity experience on their reputation appears to somehow contradict prior studies, which makes it difficult to compare the results. One possible explanation for this lack of a weak signaling value of team diversity may be that finance, accounting, marketing and other types of expertise that adds to a team's diversity, may appear less relevant so early in the venture's life. In sum, the two types of experience are not fully mediated by a strategic capital and social capital effect in different ways. While not all hypotheses were supported, the results show that all three hypothesized ways by which a

new venture might improve its access to VC funding, directly or indirectly, are enhanced by at least one form of strategic and social capital.

In summary, this study helps to clarify the role that two specific types of venture's capital, namely (1) a cultural capital as measured by prior entrepreneurial and functional diversity experience (2) a strategic capital as measured by the team's reputation, and (3) a social capital effect as measured by the team's ties to the venture capitalist increases the new venture's probability of getting VC financing. Additionally, the study show that a cultural capital helps establishes social connections, increasing the entrepreneur's stock of social capital and strategic capital. The specific implications that emerged from our results contribute to the theoretical literature of entrepreneurial finance in various ways.

6. Conclusion

The aim of the study presented in this paper was to investigate whether cultural capital (prior entrepreneurial and functional diversity experience), strategic capital (reputation) and social capital (tie strength to the VCs) among team's entrepreneurial members play an important role on the VCs funding decision. However, inspired on entrepreneurial networks model issue from a system theory, we provides clear evidence concept of the mediating effects of reputation (strategic capital) and tie strength to the VCs (social capital), the mediating effects differ for the two types of experience (cultural capital) that can improve a new venture's access to VC funding. We believe that several insights obtained from the analysis provide a contribution to the literature in entrepreneurship networks model (e.g., Groen et al. 2002a, Groen 2005, Groen et al. 2008) and in VC decision making (e.g., Beckman et al. 2007, Burton et al. 2002, Hall and Hofer 1993b, MacMillan et al. 1987). These relations are mainly studied without looking at mediating or moderating effects (except study, Shane and Cable 2002, Batjargal and Liu 2004). The results show that the benefits of prior entrepreneurial experience in the VCs funding process mainly lie in the cultural capital area (knowledge, skills). For 'prior functional diversity experience', the benefits are most prominent in cultural capital and social capital.

The present study recognizes a series of limitations in its results and conclusions which are common in this type of research. First, an initial limitation is related to the retrospective study about past investment decisions, and therefore, the extent to which respondents recall information accurately might be an issue (e.g., Shepherd and Zacharakis, 1999, Zacharakis and Meyer, 1998, Golden 1992). The sample size is small, and sampling is neither complete nor random. There is also an issue of the potential non independence of observations. However, Miller et al. (1997) found that retrospective reporting is a viable research methodology if the measures used to generate the reports are adequately reliable and valid. In this study, we demonstrated the reliability of our measures using confirmatory factor analysis, and we maximized the validity of our data by asking investors about the most recent funding decision that they made. Because our respondents make investment decisions on an ongoing basis, they were reporting about a decision that likely occurred no more than three months prior to answering our survey. This approach minimizes the risk of retrospective recall bias because the ventures they described should have changed very little after the investment

decision but before completing our survey (Shane and Cable 2002). Second, another limitation is determined by the technique used for the proposed model: structural equations, which assume a linearity of relationships between latent variables (Hair et al. 1998). Third, our study examined only seed-stage investments made by VCs in Morocco and French context. Consequently, we can generalize the effects of social capital on funding decisions only to those investments for which these sources of capital are used. Because French VCs generally invest in high-technology business than Moroccan VCs that are highly uncertain, one potential boundary condition for our findings is the uncertainty of the opportunity. Accordingly, future research should know if social capital is equally important to investment decisions about less uncertain opportunities in the same context.

From a theoretical perspective, understanding the link and the interaction between VCs' decisions funding and the four types of capital represents an important area of future research. Much more research is also needed to understand how, to what extent, and under what conditions entrepreneurial teams is both used their personnel social capital and other actors' social capital borrowed improve the likelihood of new venture their abilities in acquisition VC financing at early-stage in its development. In addition, future research is needed to investigate whether and how specific characteristics of actors' social capital might facilitate the borrowing of personal entrepreneurs' social capital to help new ventures acquire external (financial) resources. We also encourage research to help understand how new ventures without the benefits of personal social capital might overcome difficulties in borrowing social capital (Arregle et al. 2007). Finally, studies that can help new ventures secure VC financing by providing insights on the proper way to structure their governance systems and communicate with investors are needed (Steier 2003).

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