4 Impact of Spatial Proximity throughout the Venture Capital Investment Process

The VC investment process is fairly complex, and the venture capitalist, entrepreneurial team, as well as supporting actors conduct various but also very different activities in the particular phases of the process. Furthermore, it became obvious in chapter 3 that various theories imply a high relevance of spatial proximity between the venture capitalist and the new venture in regard to specific aspects. Hence, it is not immediately obvious:

• whether spatial proximity between the venture capitalist and the new venture has an impact within particular phases of the investment process or not,
• what kind of impact spatial proximity potentially has in a particular phase,
• why the potential impact is in place, and
• for which kind of entrepreneurial teams, venture capitalists, and/or types of financing rounds the potential impact is particularly important.

In order to find answers to these questions, this chapter follows a process oriented approach. Based on the description of the VC investment process in section 2.1.4, relevant activities of involved actors as well as surrounding conditions are analyzed in regard to the impact of spatial proximity for each investment phase. In doing so, relevant theories which were identified and discussed in chapter 3 will be applied. This leads to the formulation of various propositions regarding the impact of spatial proximity in each phase of the investment process (sections 4.1 and 4.2). According to the research questions of this thesis, the focus of this discussion lies on the impact of spatial proximity on the likelihood of a potential VC financing relationship to successfully pass each phase of the investment process. Furthermore, it will be discussed for which kinds of ventures, venture capitalists, or financing rounds the impact of spatial proximity is particularly strong. This finally results in the likelihood of a VC financing relationship to occur and thus also influences the observed patterns in spatial proximity between venture capitalists and investees.

Finally, the propositions of the different investment phases will be condensed to testable hypotheses regarding the patterns in spatial proximity between venture capitalists and investees as well as the impact of spatial proximity on the likelihood of a specific VC financing relationship to occur (section 4.3). As a result, it will be possible to verify important parts of the elaborated theoretical framework empirically for German VC investments (chapter 5). Figure 4.1 illustrates the structure and role of this chapter throughout the thesis.

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Figure 4.1: Structure and role of chapter 4 throughout the thesis
Source: Own illustration.