벤처창업연구 제14권 제6호 (통권66호)
Asia-Pacific Journal of Business Venturing and Entrepreneurship Vol.14 No.6 pp.131-141

Market Position and Growth: Integration of Vertical and Horizontal Positions of Venture Capitalists

Jieun Kim (Korea University Business School Ph.D Candidate)*
Eonsoo Kim (Korea University Business School Professor)**
Young-Kyu Kim (Korea University Business School Professor)***

ABSTRACT

This paper investigates a relationship between a market position of a venture capitalist(i.e.,VC) and its subsequent performance. Although a VC firm may perform better if it occupies a narrow niche(e.g.,specialist), which allows the firm to attain deep insider knowledge and build an identity as an industry expert, a firm may perform better if it has a broader niche(e.g.,generalist), which gives the firm access to more diverse information and opportunities and to effectively spread out potential risks. Given that accesses to valuable information and chances are critical for success in venture capital industry, we hypothesize that venture capitalists with broad niche width are more likely to grow in the future and analyze 26-year data on US venture capital industry. We found that, in general, a firm can enjoy the advantage of having a broad niche. However, the return to having a broad niche varies depending on its status within the market: a return greater for low- status than high-status VC firms. Our finding suggests that explorative efforts may be more rewarding for low-status VC firms.

Keyword: Venture Capitalists, Firm Performance, Specialist, Niche-width, Status, Position

Ⅰ. Introduction

Market position is an important mechanism of both firm growth and survival in the fields of organizational theory and strategy. In the strategy literature, researchers have asserted the importance of positioning strategy in terms of firm performance and long-term survival. For example, firms can improve their performance by creating a competitive advantage via a distinctive market position, which consists of focus, differentiation, and a cost advantage(Porter, 2008). Resource based view also suggest that market position grants access to resources, which is crucial for a firm's survival(Barney, 2001).

Similarly, organizational theorists consider a market position an important mechanism that shapes the actions of an organization in the market. One line of research is based on organizational ecology, where the theories on niche position and niche width have been well developed(Carroll, 1985; Carroll & Hannan, 2000; Dobrev et al., 2001; Freeman & Hannan, 1983; Hannan et al., 2003). Ecologists have advanced our understanding of the effect of an organization's position in the niche on its life chances by linking the issue of a firm's role and identity with the firm's occupancy of a substantial niche (e.g. the generalist and specialist distinction in a resource partitioning model and audience sense-making of roles and identities of organizations within a population). The other line of research is based on status. Status is defined as "the prestige accorded firms because of the hierarchical positions which they occupy in a social structure(Gould, 2002). Status theorists view the vertically ordered position as a determinant of market opportunities and performance(Podolny, 1993) because these market positions not only bring tangible resources for better performance, but also constitute the criteria for audience reception, which further indicates legitimacy.

To understand market dynamics better, organizational theorists have recently attempted to reconcile these two perspectives (Jensen et al., 2011; Podolny, 2005; Rao et al., 2005;

* First Author, Ph.D Candidate, Korea University Business School, tbpoet@korea.ac.kr
** Corresponding Author, Professor, Korea University Business School, eskim@korea.ac.kr
*** Co-Author, Associate Professor, Korea University Business School, youngkyu_kim@korea.ac.kr
· 투고일: 2019-09-10 · 수정일: 2019-11-06 · 게재확정일: 2019-12-10

Zuckerman et al., 2003), both of which imply that a market position largely affects a firm's strategy and performance. As it is normal to observe a significant correlation between vertical(i.e.,status) and horizontal market position, it makes sense to consider status and identity simultaneously when studying positioning strategy in the market(Park & Podolny, 2000). This study investigates how market position affects a firm's performance, for both horizontal and vertical market position. Based on resource partitioning and status theories, we suggest that taking up a particular horizontal market position leads to the better performance of venture capital(VC) firms. More importantly, we demonstrate that the positive effects of horizontal position on a firm's performance depend on the vertical market position. That is, VCs with broader niche widths(generalists) achieve more growth in the number of liquidity event and The positive effect of broad niche width on growth is greater for low status than for high status VCs. We tested hypotheses in the US venture capital industry from 1980 to 2006. Based on our empirical analysis, we found that the VC with a broad niche width is likely to perform better than the VC with a narrow niche width, and that the positive effect of having broad niche declines with increasing organizational status. We think that our finding has implications for performance and organizational growth and can improve understandings of a firm's position in the market.

Ⅱ. Literature Review and Hypotheses Development

2.1 Effect of a Niche width on VC performance

Researchers have highlighted that the scope of a firm(i.e., **n**iche width) is an important mechanism that can explain the relationship between a positioning strategy and firm performance. In the strategy literature, diversification and focus strategy has been discussed as a means for a growth of performance in relation to determining the dispersion of activities across multiple market segments(Ansoff, 1957; Rumelt, 1982). Similarly, organization theory has developed the concept of niche width. Hannan & Freeman(1977) have defined an "ecological niche" as all combinations of resource types and levels in which a population can survive. Baum & Singh(1994) conceptualized niche width as n-dimensional rectangles in multidimensional space. In this resource space, organizations targeting a broad range of niche widths are "generalists" whereas organizations with focused regions in this environment are specialists.

Researchers have defined both terms in several ways. For example, Zuckerman(1999) measured specialization as the degree of an organization's belonging to a specialty by industry. Relative to a consideration of contextual distinctiveness, Swaminathan(2001) categorized specialist wineries as those produce small quantities of wine with a reputation for producing a high-quality product; mass producers are considered to be generalists. In the film industry, Hsu(2006) labeled firms either generalist or specialist based on niche width, which was measured as the total number of distinct genres under which each film was classified, according to a number of distinct taste positions. In the financial market, Podolny(2005) considered banks to be generalists if they underwrite the securities across broad industries in the US investment bank industry, and specialists if they underwrite across relatively few. In addition, niche width was determined by the size of the engine that each firm in the automobile industry produces(Dobrev et al., 2003). Taken together, generalists seem to survive on the resources from a broad range of environments, while specialists do so on a limited range of resources(Hsu, 2006).

These distinctions between generalists and specialists affect firms' performance levels. Whereas a generalist targets a broader niche width increasing the number of audiences, a specialist focuses on a narrow range of target. This difference in market position influences the ways in which actors leverage both their resources and their behavior in exploring(or exploiting) for survival(March, 1991) by creating trade-offs in outcomes.

Specialists are expected to out-compete generalists in regions that they both target. Specialists use their full capacity all the time; they are likely to gain expertise and efficiency in allocating resources(Sorenson et al., 2006) and help firms overcome the liabilities of newness by limiting the expenditure of scarce resources to the homogeneous marketplace and improving exchange relationships more reliably(Romanelli, 1989). Specialists also have more freedom to choose where to locate—in the center or toward either periphery(above and below the center)—while generalists face more constraints in terms of location choices, because a wide niche covers much of the market(Dobrev et al. 2003). Not only does specialist have expertise and capability in a sense of tangible resources, but also enjoys a positive evaluation by market audiences signaling authenticity(Hsu, 2006; Zuckerman, 1999). That is, intangible resources that refer to legitimacy derived from categorization(i.e.,whether one is perceived as a legitimate entity according to established social boundaries) affect the performance. Market identity enables audiences to evaluate claimants of particular identity(Zuckerman, 1999; Zuckerman,

2000) as modern society favors market actors that strive to be best at one function over those at a wide variety of functions(Ruef & Scott, 1998). And thus the organization's claim for specific and limited goals validates the audience's reception(Hsu & Hannan, 2005).

But the benefits of being a generalist might outweigh those of being a specialist in which generalists spread risks across multiple regions and divide their capacities across multiple segments, so they can operate fully when sudden, unanticipated fluctuations in the environment arise. In addition, generalists can be more flexible in interacting with external constituents(Padgett & Ansell, 1993), and this interaction sometimes leads to robustness(Bothner et al., 2010). Generalists can also perceive the economy of scope and cost advantages(Teece, 1982) and thus they can charge higher prices for products, which translate into larger market share(Sorenson et al., 2006) and appeal to a broader range of consumers. Baum & Oliver(1992) found that the survival rate is higher when organizations have a broad niche-width because generalists are less constrained in the pursuit of opportunity, and they spread risks across diverse portfolios. In sum, an organization with a diversified niche width will be likely to enhance its life chance in the long run.

From the point of view of market identity, generalists have been less clear in what they do and who they are, thus might be undervalued by audiences. Even though generalists can take advantage of economies of scale, there exists a trade-off: the more a firm stretches toward a number of audiences, the less appeal it will have(Hsu, 2006) and it will encounter problems in gaining clear category membership from audiences(Hsu & Hannan, 2005). However, unlike such predominant presumptions about audiences' evaluations based on category, recent studies have refined the contingent benefits of being either a generalist or specialist. The reception of audiences affects the relations between category and performance because it disciplines producers(Zuckerman, 1999; Zuckerman & Kim, 2003; Carroll & Swaminathan, 2000; Rao et al., 2005; Hsu, 2006). Even an illegitimate market identity can be recreated as a legitimate one, based on the mutual borrowing that weakens the sharpness and resonance of an opposed category(Rao et al., 2005); conversely, an identity can be adopted by high-status actors early in the proliferation of identity(Jensen, 2010).

By the same token, the advantages of being a specialist decline when there is a reduced contrast(i.e.,measured by the low average of niche widths) between a generalist and specialist(Negro et al., 2010). In addition, a lenient market identity could be perceived as robustness. For example, Pontikes(2012) found that an organization with an unfocused identity can benefit from multivocality, which in and of itself, can signal the robustness of hierarchy(Bothner et al., 2010; Padgett & Ansell, 1993), showing that VCs prefer attracting a broad range of customers as much as possible, as opposed to just being good at one task. Ruef & Scott(1998) also support this argument: Normative legitimacy is attracted by the scope of the market niche of an organization. These findings lead us to believe that being a generalist is indicative of robustness and high quality in a specific context. As the value of financial assets is inherently uncertain and indeterminate, the capability of VC's is largely an interpretive exercise(Zuckerman, 1999). It is therefore possible to assume that the capability of VC's depends not on specific, industry-related knowledge, but on the presence of extensive ties and considerable sums of financial capital(Podolny, 2001). In particular, accesses to valuable information and chances are critical for success in venture capital industry. If this line of a logic is correct, a VC with a broad niche width(i.e, generalist) is likely to perform better than a specialist. We suggest that the advantages of occupying a broad niche width might outweigh those of being a specialist in a VC context, where the categorical distinction is less clear—generalists are not associated with a lack of expertise and efficiency. This leads to hypothesis H1:

H1: VCs with broader niche widths(generalists) achieve more growth in the number of liquidity event

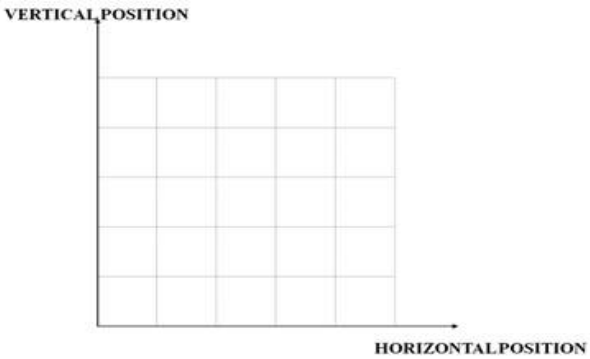
2.2 Status and Niche Width

We based our argument on one of the main research streams of market position: niche width. However, the other line of research has been developed based on status, which invokes the imagery of a pecking order. Pecking order refers to an informal social system in which each entity knows the importance of each others' social standing in a group. The order within a hierarchy is characterized by a rank of individuals or groups according to the amount of respect accorded by others(Podolny, 1993). Since status is socially constructed, it determines opportunities and constraints by shaping the audience's expectations and actions toward focal actors(Podolny, 2005). Similary, Gould(2002) defined status as "the prestige accorded firms because of the hierarchical positions which they occupy in a social structure" underlying sociological perspective of position.

Once actors are accorded respect, they are likely to enjoy benefits from its vertical order. High-status actors enjoy the advantages of limited access to a physical and financial capital(Podolny, 1993; Stuart et al., 1999; Bothner et al., 2012. For instance, high-status actors could increase revenue streams

and attractiveness to exchange partners(Jensen et al, 2011; Podolny, 1993). Especially when there is a high level of uncertainty, audiences are more willing to pay a higher price for status. The Matthew-Effect occurs, when audiences resolve ambiguity problems in the value of actions by assuming that the actions are of greater value when performed by a high-status actor(Merton, 1968). In addition, high-status actors can exert more control over market constituents. Gould(2002) defined the phenomenon as "high-status dominance" whereby high-status actors shape interpretation of their actions or hide unfavorable events from the audience's view(Phillips & Kim, 2009). In a similar vein, they gain "security in membership" which refers the license to an engagement in forbidden action(Phillips et al., 2013). While memberships of high status are not easily questioned or deprived by deviation, middle status actors tend to behave conservatively for fear for disenfranchisement(Phillips & Zuckerman, 2001). Based on various sources of advantage, high-status actors are expected to perform better than low-status actors.

Then, how do status and niche width affect performance when we take both into consideration? Although only a few studies have focused on the interactive relations between the two positions, literature on the market has suggested that there is a strong correlation between two positions; For example, White's view of the market reflects such a correlation between volume and quality(White, 1981), implying a negative correlation between status and niche width. Swaminathan(2001) also found that high-status wine makers are more likely to be specialists, while generalists, by comparison, are low-quality, mass producers. However, unlike manufacturing businesses, high-status organizations tend to be generalists that serve a broad range of clients in professional services such as consulting, law, or accounting firms(Podolny, 2005). In an attempt to reconcile status and identity theories, Jensen & Kim(2013) defined market identity as "categorical or schematic representations of its status or position in the social system," Jensen et al.(2011) developed an integrative view of market positions in a quadrant-like space(see Figure 1). Each actor is positioned at the intersection of the market space. For example, farm wineries occupy a narrow range of horizontal space when they are categorized as specialists; but, when they are categorized as being high-status producers, they are positioned horizontally in the upper space. Generalists are spanned horizontally across a broad space and vertically down the sides(Swaminathan, 2001). For a given market position, market actors face opportunities and constraints for future growth and survival.



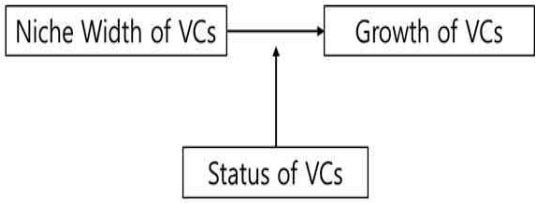
Source: Jensen et al, 2011

<Figure 1> Integrative Framework on Niche width and Status

A number of investigations suggest that the positive effect of having a broad niche will be greater for low-status firms. First, it is more likely to be harder for low-status firm to obtain good business opportunity(e.g., a good target company to invest in the VC industry) than high-status counterparts, thus, it has to put more efforts to explore to find a better one. Thus, low-status firms have to explore - search, create variations, take risks, do experiments, play, create flexibility, and discover(March, 1991)–to remain competitive. And as firms have more resources and opportunities by growing in status, they are able to balance exploration and exploitation(Abernathy, 1978), which includes refinement, choice, production, efficiency, selection, implementation, and execution(March, 1991). Thus, focusing on an industry may slow down performance growth of low- status firms rather than high-status firms. Sorenson et al.(2006) also showed that broad niche widths increased organizational survival chances although the process of niche expansion may have a detrimental effect on organizational life chance. Therefore, once low-status organizations manage to have a broad niche by explorative search for opportunities to grow, they will get rewarded more than high-status organizations.

In addition, by expanding its niche, low-status firms can benefit from diverse sources of information, which may not be accessible if they focus on a narrow niche. Such diverse information will provide more opportunities(Burt, 1992) – from investment opportunities to opportunities to be affiliated with high status investment partners – and enable less established firms to effectively mitigate uncertainties regarding the resource allocation and market opportunities(Podolny, 2001). Information and opportunities from such diverse networks may be more valuable to low-status organizations than high status organizations because status will lower the cost of getting resources(Podolny, 1993). It leads to Hypothesis 2.

H2: The positive effect of broad niche width on growth is greater for low status than for high status VCs.



<Figure 2> Research Model

Ⅲ. RESEARCH DESIGN

3.1 Empirical Setting

To investigate how market position affects life chance of venture capitalist, we will test hypotheses using multi-year panel data compiled by Thomson Financial from 1980 to 2006 in the US venture capital(VC) industry. The final sample consists of 20,044 observation, with 3,767 venture capitalists over 27 years in U.S. An average age of the VC firm is 5.77 year and a VC firms tend to invest in 6.55 firms a year, with the average fund number 1.6. VCs appear engage in various activities such as general business knowledge, discipline employment contracts, contacting potential vendors, evaluating product/market opportunities and marketing plans(Fried & Hisrich, 1995). As shown in correlation table, average niche width is 2.56 and generalists see more market growth than specialist.

The VC industry is a context where social relations shape the value of resource and behavior of market actors. Venture capitalists play an important role as brokers in the VC industry. VC activities comprise obtaining additional financing, strategic planning, management recruitment, operational planning, introduction to potential customers and suppliers, and resolving compensation issues(Gorman & Sahlman, 1989). The roles of VCs should be treated as more important determinants of performance if we recall the value of financial assets. As value is inherently uncertain and highly interpretive under social comparison(Zuckerman, 1999), the influences of social structures on VC firms' performance should also be great and might alleviate the lack of knowledge of firm quality(Feraud et al., 2019) or opportunistic behavior(monitoring/agency cost) of the firm. So in the VC industry, social interrelation greatly affects firm performance. For this reason, we believe that the VC industry is a good place to investigate the effect of market position on performance. In addition to these key features of VC industry as an ideal empirical test setting, more thorough analysis is made possible thanks to the comprehensive dataset that includes almost all the transactions during the last 30 years or so performed by VC firms in the US that record their investment start-ups.

3.2 Variables

3.2.1 Dependent Variable

We choose a growth rate of success as dependent variable (liquidnum). The success is determined in terms of liquidity events. For a VC firm, whether its investment has been successful can be assessed based on successful liquidity events such as IPO and M&A. A liquidity event is calculated by sum of the number of success events of IPO and M&A. For growth model, we took the natural log on the dependent variable.

3.2.2 Independent Variable

There are two main independent variables. To test H1, We defined niche width as the sum of industry in which VC firms have operated in the market at time t. The industry is categorized into 10 segments provided by VentureXpert data base: Biotechnology, Communications and Media, Computer Hardware, Computer Software and Services, consumer Related, Industrial/Energy, Internet Specific, Medical/Health, Other Products, Semiconductors/Other Elect. If a VC firm entered industry 'Computer Hardware' and 'Computer Software and Services' at time t, it has two niche widths in a given year. To test H2, we measured status of venture capitalists using Bonacich's eigenvector centrality(Bonacich, 1987). First, we use a constructed matrix based on joint investments of VCs. Specifically, we began by constructing a relationship matrix for firm i, jointly investing with firm j, at time t.

$$c(\alpha, \beta) = \alpha \sum_{k=0}^{\infty} \beta^k R^{k+1} 1$$

α is arbitrary scaling factor, β is a weighting factor and R is the relational matrix. 1 is a column vector in which vectors have a value of 1. In this specification, α is a function of status and number of VCs. According to Podolny(2001), the decision to use a symmetric relationship matrix is based on the concept of "mutual deference." He noted that "joint financing constitutes a symmetrical form of deference in which each venture capitalist acknowledges the standing of the others that are included in the deal"; thus status measure indicates the extent to VCs have partners who are in "play." In order to observe the moderating effect of status on niche width, we generated interaction variables nichewidth* status.

<Table 1> Descriptive Statistics

	Variables	Mean	SD	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1)	liquidnum	0.55	0.7	0	5.86	1						
(2)	Status	0.45	0.89	0	17.51	0.569***	1					
(3)	Niche width	2.56	2.01	1	10	0.537***	0.621***	1				
(4)	a lag of liquidnum	0.39	0.63	0	5.85	0.592***	0.563***	0.534***	1			
(5)	fundnum	1.6	1.12	1	17	0.490***	0.581***	0.595***	0.517***	1		
(6)	targnum	6.55	29.24	1	2066	0.565***	0.841***	0.744***	0.593***	0.675***	1	
(7)	Firm Age	5.77	6.08	0	26	0.405***	0.277***	0.296***	0.458***	0.391***	0.287***	1

N=20044, *** p < 0.001

<Table 2> Results of Market Position with OLS Fixed Effect

Variables	Model 1	Model 2	Model 3	Model 4
status			0.121*** (0.01)	0.221*** (0.01)
nichewidth		0.072*** (0.00)		0.054*** (0.00)
nichewidth * status				-0.018*** (0.00)
a lag of liquidnum	0.144*** (0.01)	0.113*** (0.01)	0.083*** (0.01)	0.073*** (0.01)
fundnum	0.067*** (0.00)	0.032*** (0.00)	0.030*** (0.00)	0.017*** (0.00)
targnum	0.003*** (0.00)	0.002*** (0.00)	0.007*** (0.00)	0.004*** (0.00)
Firm Age	0.025*** (0.00)	0.025*** (0.00)	0.025*** (0.00)	0.025*** (0.00)
Communications & Media	-0.001 (0.01)	-0.021 (0.01)	0.010 (0.01)	-0.007 (0.01)
Computer Hardware	-0.022 (0.01)	-0.054*** (0.01)	-0.028 (0.01)	-0.054*** (0.01)
Computer Software & Services	0.019 (0.01)	-0.011 (0.01)	0.025* (0.01)	0.003 (0.01)
Internet Specific	0.035** (0.01)	0.014 (0.01)	0.036** (0.01)	0.020 (0.01)
Semiconductors /Other Elect	-0.025 (0.01)	-0.043** (0.01)	-0.014 (0.01)	-0.031* (0.01)
Biotechnology	0.008 (0.02)	-0.004 (0.02)	0.020 (0.02)	0.005 (0.02)
Medical/Health	-0.001 (0.01)	-0.018 (0.01)	0.004 (0.01)	-0.012 (0.01)
Consumer Related	-0.024 (0.02)	-0.037* (0.02)	0.000 (0.02)	-0.014 (0.02)
Industrial/Energy	-0.005 (0.02)	-0.026 (0.02)	0.017 (0.02)	0.000 (0.02)
Other Products	-0.048*** (0.01)	-0.067*** (0.01)	-0.024 (0.01)	-0.039** (0.01)
Year Effect	Included	Included	Included	Included
Constant	0.172*** (0.02)	0.079*** (0.02)	0.149*** (0.02)	0.050* (0.02)
R-square	0.221	0.251	0.234	0.249
Observations	20044	19897	20044	19897

* p < 0.05, ** p < 0.01, *** p < 0.001, (Standard Error in Parentheses)

3.2.3 Control Variable

We included size and experience of VC firm as control variables. As a proxy for VC firm's size, we used the number of fund VC firms managed at time t. As Podolny(2001) has noted, the number of funds(fundnum) and number of targets(targnum) indicate the volume of activity, which refers to the size of a VC. For VC experience, we used two variables: liquidity event that went public at time t(liquidnum) and total years of experience of VC firms.

We also included year variable that ranges from 1980 to 2006 in order to control business cycle and the VC's focused industry, which is the VC's primary industry in its business portfolio. This variable can be expected to control a specific industry effect within the VC market.

3.3 Estimation

Hypotheses are constructed to observe how the market positions of VC firms affect their subsequent performance. We used the growth model(Stuart, 2000). Growth models typically focus on relative performance at time t and at time t+1(Podolny, 1994).

We observed the effect of niche width and status on firm performance, and its interaction term whether the effect of one is contingent upon the other's. This equation will be estimated with OLS regression. Estimation with OLS yields efficient and unbiased estimates under the standard linearity, homoscedasticity, and independence assumptions(Stuart, 2000). However, since our data consists of a 26-year pooled cross sectional time series, there can be autocorrelation and endogeneity problems caused by unobserved firm-specific characteristics. To resolve this concern, we used fixed effect estimation. We conducted Hausman test to confirm whether fixed effect provide better estimates in our panel data set. Hausman test rejects null hypotheses that coefficient in fixed effects is no different from that in random effect, therefore, we used fixed effects in the final regression model. Fixed effect of firms will control firm specific characteristics which might be correlated with firms' market position(explanatory variables). STATA 13 is employed to the estimation.

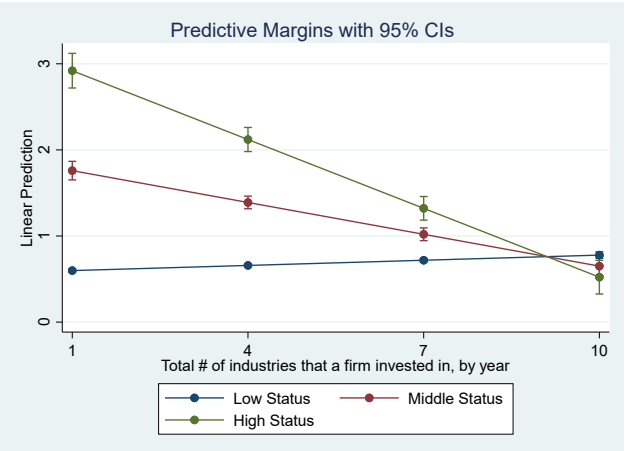
Ⅳ. Results

Table 2 presents the results of fixed effect OLS estimation of growth rate of a liquidity event. Model 1 is a baseline model that only includes control variables. As shown in column 1, they are overall significant. fundnum and targnum have a positive and significant effect on growth of success in subsequent years; liquidnum also contribute to performance growth.

In model 2, niche width is included to test Hypothesis 1. According to the result(ß=0.072, p<0.01), VCs spanning a broader niche width are more likely to grow in subsequent years. This confirms Hypothesis 1 that VC firms with multiple categories might benefit to a greater extent. Even though this simple result cannot verify whether the positive effect of a broad niche width comes from tangible or intangible resources, being a generalist does not seem to harm the viability of a firm by inducing sanctions from market audiences like middle status conformity arguments that middle-status actors show reluctance to broaden their category while high-status actors are more acceptable in their deviation from the market norm(Phillips & Zuckerman, 2001).

It implies that a categorical imperative is likely to be context-dependent. In addition, results are consistent with the positive effect of diversification on strategy management literature that diversification is generally effective when a firm's intention is growth(Rumelt, 1982). In Model 3, status is included. Status at previous year has positive effect on the performance growth(ß= 0.121, p<0.01). As predicted, high-status actors seem to perform better than low-status VCs. The finding supports the argument that vertical market position considerably affects the firm performances.

In Model 4, the we included the interaction term of niche width and status. The effects of interaction between status and niche width are statistically significant and negative(ß= -0.018, p<0.01). As seen in Figure 3, the positive effects of niche width depend on the status of the VC firms. That is, the positive effects of generalists are weaker as the status becomes higher, supporting Hypothesis 2.



<Figure 3> Interaction of Niche-width and Status

Ⅴ. Discussion and Conclusion

This paper investigates the relationship between market position and firm performance by reconciling status and niche theories. Using VC panel data compiled by Thompson, we found that the VC with a broad niche width sees performance growth. However, more importantly, we found that the effect of a horizontal market position on a firm's performance depends on the vertical market position. Our results show that low-status VCs benefit from having broad niche widths to a greater extent than high-status VCs.

As the results show in Table 2, a VC positioned as a low-status-specialist may increase either its niche width or its status or both for greater future return and growth. First, a VC may improve its status. An increase in status will provide various benefits(Podolny, 2005). For example, VCs with high reputation are more likely to be accepted for investment opportunity and acquire start-up equity at 10-14% discount(Hsu, 2004) while status helps ventures perform better in subsequent financing(Hochberg et al., 2007). Stuart et al.(1999) also found that the biotech venture endorsed by high-status VC firms went public faster and the value of liquidated events was estimated to have been relatively higher. Thus, firms are motivated to improve their status for future growth.

The other possible strategy is to expand its niche. A broad niche width helps firms allocate resource space for growth if audiences accept that spanning multiple categories will not harm market norms. Especially since distinctions among categories are rather lenient, and since being a generalist warrants attention as another indicator of quality, it might be the best strategy for low-status specialists to enter the center of the resource space by spanning multiple niche widths.

This paper has several theoretical implications. We empirically tested how orthogonal-looking market positions affect firm performance; more importantly, we found that market positions do not operate independently, but rather interact with each other. By investigating the VC industry with a firm fixed effect, we were able to observe the interactive effects of horizontal and vertical market positions after controlling VC characteristics. The results confirmed that social acceptance and the benefits of market position can be highly contextual. In addition, our findings close the gap between market positional strategy and its disparate outcomes. First of all, the results demonstrate that a positioning strategy should be based on market, where the sources of legitimacy and capacity differ from universal contexts. When market norms favor firms being generalists, approaches toward the core region of a vertical-horizontal market position can help them survive.

Practically, our study suggests that entrepreneurs who want to expand the scope of the business need to take the status of the firm into account when making decision. At each status level, firms may face conflicts between their vertical and horizontal market positions. For example, middle-status actors have conflicts (Philips & Zuckerman, 2001) with their economic and social motivations to increase their business opportunities (Kennedy & Fiss, 2009), because they are afraid of disenfranchisement resulting from deviate behavior. On the other hand, focusing on the existing industry for customer loyalty can be even more advantageous for high status firms.

Our study is not without limitation. First, we could not confirm whether the effects of broad niche width and status derive from intangible resources or tangible resources. We hope that future research to distinguish the source of advantage and study how intangible and tangible resources affect firm performance.

Second, there exists a concern on status variable. We assumed status, unlike experience, as distinctive social mechanism. However, the correlation between status and experience is quite high in the VC industry(Podolny, 2005). Therefore, it should be further elaborated to effectively partial out the effect of capability from status.

Third, it seems worth examining industry effects in more detail. Although our main question is about the effect of niche width on average, we want to note the industry effect on performance of generalists. Interestingly, our results show that a specific industry offers different positional advantages and disadvantages(Table 2); coefficients of growth rates in a focused industry between Computer Hardware and Internet Specific are in the opposite directions and the effects are statistically significant. When focusing on the Computer Hardware, growth is less likely to be gained, while focusing on the Internet Specific category provides a growth-friendly environment. This implies that a firm's strategic choice of being either a specialist or generalist should be based on industry- specific characteristics. Also, Sandberg(1987) found that the effectiveness of a VC's strategy was dependent on the stage of evolution of the industry it entered. Therefore, following market characteristics could be studied in greater detail: timing of the industry's evolution, fluctuations in resource flows, market concentrations, distributions of organizational size and age(Freeman & Hannan, 1983; Porter, 1980).

Finally, it will be fruitful to conduct experiments in other contexts, since certain features of the VC context generate findings that are difficult to apply universally(Guler & Guillen, 2010).

REFERENCE

Abernathy, W. J.(1978). T*he productivity dilemma: Roadblock to innovation in the industry,* Baltimore: Johns Hopkins University Press.

Ansoff, H. I.(1957). Strategies for diversification, *Harvard Business Review*, 35(5), 113-124.

Barney, J. B.(2001). Is the resource-based "view" a useful perspective for strategic management research? Yes, *Academy of Management Review*, 26(1), 41-56.

Baum, J. A., & Oliver, C.(1992). Institutional embeddedness and the dynamics of organizational populations, *American Sociological Review*, 540-559.

Baum, J. A., & Singh, J. V.(1994). Organizational niches and the dynamics of organizational founding, *Organization Science,* 5(4), 483-501.

Bonacich, P.(1987). Power and centrality: A family of measures, *American Journal of Sociology*, 92(5), 1170-1182.

Bothner, M. S., Kim, Y. K., & Smith, E. B.(2012). How does status affect performance? Status as an asset vs. status as a liability in the PGA and NASCAR, *Organization Science*, 23(2), 416-433.

Bothner, M. S., Smith, E. B., & White, H. C.(2010). A model of robust positions in social networks, *American Journal of Sociology*, 116(3), 943-992.

Burt, R. S.(1992). *Structural holes,* Cambridge, MA: Harvard University Press.

Carroll, G. R.(1985). Concentration and specialization: Dynamics of niche width in populations of organizations, *American Journal of Sociology,* 90(6), 1262-1283.

Carroll, G. R., & Hannan, M. T.(2000). *The demography of corporations and industries,* Princeton, NJ: Princeton University Press.

Carroll, G. R., & Swaminathan, A.(2000). Why the microbrewery movement? Organizational dynamics of resource partitioning in the US brewing industry, *American Journal of Sociology*, 106(3), 715-762.

Dobrev, S. D., Kim, T. Y., & Carroll, G. R.(2003). Shifting gears, shifting niches: Organizational inertia and change in the evolution of the US automobile industry, 1885–1981, *Organization Science*, 14(3), 264-282.

Dobrev, S. D., Kim, T. Y., & Hannan, M. T.(2001). Dynamics of niche width and resource partitioning, *American Journal of Sociology*, 106(5), 1299-1337.

Feraud, C., Kim, B., & Kim, E.(2019). Patenting Dilemma for Startups: Number of Applied Patents, Patent Imitability, and Level of VC Funding, *Asia-Pacific Journal of Business Venturing and Entrepreneurship*, 14(3), 169-183.

Freeman, J., & Hannan, M. T.(1983). Niche width and the dynamics of organizational populations, *American Journal of Sociology*, 88(6), 1116-1145.

Fried, V. H., & Hisrich, R. D.(1995). The venture capitalist: A relationship investor, *California Management Review*, 37(2), 101-113.

Gorman, M., & Sahlman, W. A.(1989). What do venture capitalists do?, *Journal of Business Venturing*, 4(4), 231-248.

Gould, R. V.(2002). The origins of status hierarchies: A formal theory and empirical test, *American journal of sociology*, 107(5), 1143-1178.

Guler, I., & Guillen, M. F.(2010). Home country networks and foreign expansion: Evidence from the venture capital industry, *Academy of Management Journal,* 53(2), 390-410.

Hannan, M. T., & Freeman, J.(1977). The population ecology of organizations, *American Journal of Sociology*, 82(5), 929-964.

Hannan, M. T., Carroll, G. R., & Pólos, L.(2003). The organizational niche, *Sociological Theory*, 21(4), 309-340.

Hochberg, Y. V., Ljungqvist, A., & Lu, Y.(2007). Whom you know matters: Venture capital networks and investment performance, *The Journal of Finance*, 62(1), 251-301.

Hsu, D. H.(2004). What do entrepreneurs pay for venture capital affiliation?, T*he Journal of Finance*, 59(4), 1805-1844.

Hsu, G.(2006). Jacks of all trades and masters of none: Audiences' reactions to spanning genres in feature film production, *Administrative Science Quarterly*, 51(3), 420-450.

Hsu, G., & Hannan, M. T.(2005). Identities, genres, and organizational forms, *Organization Science*, 16(5), 474-490.

Jensen, M.(2010). Legitimizing illegitimacy: How creating market identity legitimizes illegitimate products, *In Categories in markets: Origins and evolution,* Bingley: Emerald Group Publishing Limited.

Jensen, M., & Kim, B. K. (2013). Great, Madama Butterfly again! How robust market identity shapes opera repertoires, *Organization Science*, 25(1), 109-126.

Jensen, M., Kim, B. K., & Kim, H.(2011). The importance of status in markets: A market identity perspective*, Status in Management and Organizations*, 48(2), 87-117.

Kennedy, M. T., & Fiss, P. C.(2009). Institutionalization, framing, and diffusion: The logic of TQM adoption and implementation decisions among US hospitals, *Academy of Management Journal*, 52(5), 897-918.

March, J. G.(1991). Exploration and exploitation in organizational learning, *Organization Science*, 2(1), 71-87.

Merton, R. K.(1968). The Matthew effect in science: The reward and communication systems of science are considered, *Science*, 159(3810), 56-63.

Negro, G., Hannan, M. T., & Rao, H.(2010). Categorical contrast and audience appeal: Niche width and critical success in winemaking, *Industrial and Corporate Change*, 19(5), 1397-1425.

Padgett, J. F., & Ansell, C. K. (1993). Robust Action and the Rise of the Medici, 1400-1434, *American Journal of Sociology,* 98(6), 1259-1319.

Park, D. Y., & Podolny, J. M.(2000). The competitive dynamics of status and niche width: US investment

banking, 1920-1949, *Industrial and Corporate Change*, 9(3), 377-414.

Phillips, D. J., & Kim, Y. K.(2009). Why pseudonyms? Deception as identity preservation among jazz record companies, 1920–1929, *Organization Science*, 20(3), 481-499.

Phillips, D. J., & Zuckerman, E. W.(2001). Middle-status conformity: Theoretical restatement and empirical demonstration in two markets, *American Journal of Sociology*, 107(2), 379-429.

Phillips, D. J., Turco, C. J., & Zuckerman, E. W.(2013). Betrayal as market barrier: Identity-based limits to diversification among high-status corporate law firms, *American Journal of Sociology*, 118(4), 1023-1054.

Podolny, J. M.(1993). A status-based model of market competition, *American Journal of Sociology*, 98(4), 829-872.

Podolny, J. M.(1994). Market uncertainty and the social character of economic exchange, *Administrative Science Quarterly*, 458-483.

Podolny, J. M.(2001). Networks as the pipes and prisms of the market, *American Journal of Sociology*, 107(1), 33-60.

Podolny, J. M.(2005). *Status signals: A sociological study of market competition,* Princeton, NJ: Princeton University Press.

Pontikes, E. G.(2012). Two sides of the same coin: How ambiguous classification affects multiple audiences' evaluations, *Administrative Science Quarterly*, 57(1), 81-118.

Porter, M. E.(2008). *Competitive strategy: Techniques for analyzing industries and competitors,* New York City: Simon and Schuster.

Rao, H., Monin, P., & Durand, R.(2005). Border crossing: Bricolage and the erosion of categorical boundaries in French gastronomy, *American Sociological Review*, 70(6), 968-991.

Romanelli, E.(1989). Environments and strategies of organization start-up: Effects on Early Survival, *Administrative Science Quarterly*, 34(3).

Ruef, M., & Scott, W. R.(1998). A multidimensional model of organizational legitimacy: Hospital survival in changing institutional environments, *Administrative Science Quarterly*, 877-904.

Rumelt, R. P. (1982). Diversification strategy and profitability, *Strategic Management Journal*, 3(4), 359-369.

Sandberg, W. R., & Hofer, C. W.(1987). Improving new venture performance: The role of strategy, industry structure, and the entrepreneur, *Journal of Business Venturing*, 2(1), 5-28.

Sorenson, O., McEvily, S., Ren, C. R., & Roy, R.(2006). Niche width revisited: Organizational scope, behavior and performance, *Strategic Management Journal*, 27(10), 915-936.

Stuart, T. E. (2000). Interorganizational alliances and the performance of firms: a study of growth and innovation rates in a high-technology industry, *Strategic Management Journal*, 21(8), 791-811.

Stuart, T. E., Hoang, H., & Hybels, R. C.(1999). Interorganizational endorsements and the performance of entrepreneurial ventures, *Administrative Science Quarterly*, 44(2), 315-349.

Swaminathan, A.(2001). Resource partitioning and the evolution of specialist organizations: The role of location and identity in the US wine industry, *Academy of Management Journal*, 44(6), 1169-1185.

Teece, D. J.(1982). Towards an economic theory of the multiproduct firm, J*ournal of Economic Behavior & Organization*, 3(1), 39-63.

White, H. C.(1981). Where do markets come from?, *American Journal of Sociology*, 87(3), 517-547.

Zuckerman, E. W.(1999). The categorical imperative: Securities analysts and the illegitimacy discount, *American Journal of Sociology*, 104(5), 1398-1438.

Zuckerman, E. W.(2000). Focusing the corporate product: Securities analysts and de-diversification, *Administrative Science Quarterly*, 45(3), 591-619.

Zuckerman, E. W., & Kim, T. Y.(2003). The critical trade-off: identity assignment and box-office success in the feature film industry, *Industrial and Corporate Change*, 12(1), 27-67.

Zuckerman, E. W., Kim, T. Y., Ukanwa, K., & Von Rittmann, J.(2003). Robust identities or nonentities? Typecasting in the feature-film labor market, *American Journal of Sociology*, 108(5), 1018-1074.

벤처 캐피털리스트의 전략적 포지션과 성장: 수평적 포지션과 수직적 포지션의 통합적 고찰

김지은 (고려대학교 경영대학 박사수료)*
김언수 (고려대학교 경영대학 정교수)**
김영규 (고려대학교 경영대학 부교수)***

국 문 요 약

우리는 벤처 캐피털리스트의 전략적 포지션과 이에 따른 성과와의 관계를 연구하고자 한다. 벤처 캐피털리스트는 시장에서 좁은 니치에 집중할 때 풍부한 지식을 획득하고 스페셜리스트로서의 명확한 정체성을 유지할 수 있는 반면, 제너럴리스트로서 다양한 산업에 진출하여 더욱 많은 정보와 기회를 접하는 동시에 한 산업에 집중함으로써 발생하는 위험 요인을 분산시킬 때 좋은 성과를 얻을 수 있다. 본 논문은 정보와 기회에 대한 접근이 매우 중요한 벤처캐피탈의 특성상 제너럴리스트가 스페셜리스트에 비해 더욱 높은 성과를 보일 것이라는 가설을 세우고 미국 벤처캐피탈 산업의 26년간의 방대한 데이터를 기반으로 이를 검증하고자 하였다. 연구 결과 벤처 캐피털리스트들은 넓은 니치를 지니는 제너럴리스트일 때 성장할 가능성이 더욱 높은 것으로 나타났다. 또한, 수직적 위치로 일컬어지는 시장 지위가 낮을 때 이러한 제너럴리스트 전략이 더욱 성공적인 것으로 나타났다. 즉, 낮은 지위일수록 제너럴리스트로서 포지셔닝 하는 활용적 노력이 더욱 효과적으로 나타난다는 점을 시사한다.

핵심주제어: 벤처 캐피털리스트, 벤처 성과, 스페셜리스트, 니치, 지위, 포지션

* 주저자, 고려대학교 경영대학 박사수료, tbpoet@korea.ac.kr
** 교신저자, 고려대학교 경영대학 정교수, eskim@korea.ac.kr
*** 공동저자, 고려대학교 경영대학 부교수, youngkyu_kim@korea.ac.kr