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Families in venture capital

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Abstract

Research Summary: This exploratory paper introduces a new type of family business by studying the investment strategies of family-managed venture capital funds ("Family VCs") across a multi-country setting. It shows that Family VCs are more likely to invest in (syndicate with) geographically proximate startups (investors), indicating a preference for local investments. This tendency is stronger when the VC is named after the family and the family is closely involved in the decision-making process of the fund. I provide suggestive evidence that this pattern reflects both superior local knowledge (rational response) and home bias (non-rational response), with the latter becoming more pronounced when performance pressure is lower.

Managerial Summary: Family-managed VC funds (Family VCs), managing roughly $29 billion, represent an important segment of the venture capital industry. I show that family control shapes both the selection of startups and syndicate partners. Family VCs are indeed more likely to support ventures and partner with investors from their communities, particularly when family members are highly involved in investment decisions and the fund is named after the family. I provide suggestive evidence that this local preference stems from both rational factors, like superior local knowledge and networks, and a non-rational preference for local

investments. Their local focus becomes relatively less pronounced when families must demonstrate strong financial performance, such as when a follow-on fund has not yet been raised and during competitive market conditions.

KEYWORDS

entrepreneurship, family firms, local investments, performance pressures, venture capital

1 | INTRODUCTION

In 1997, newlyweds Miriam Rivera and Clint Korver co-founded Outcomes Software. When prospective investors refused to fund a husband-and-wife team, Miriam Rivera left the company, and the startup was soon dissolved. In 2008, the couple reunited to co-found a new firm, with their daughter, Serena Rivera-Korver, joining the business afterward. Given the global prevalence of family firms (La Porta et al., 1999), both businesses might initially appear to be typical family firms. However, the couple's second firm, ULU Ventures, differs from the typical configuration of a family business in traditional industries. It distinguishes itself as a family-managed VC—a type of organization that the extant literature has so far neglected. At the outset, the couple faced substantial difficulties in raising money from limited partners ("LPs"), as "institutional investors weren't yet ready for a married investment team."[1] Eventually, they demonstrated that family-managed VCs could work by raising four funds ranging from $3.5 to $208 million. While scholars have already shown that families take part in the VC industry via family offices (Block et al., 2019) and CVC arms of family firms (Amore et al., 2025), the role of families as managers of VC funds has not yet been examined. This paper fills this gap in the literature.

Even if financial theories suggest investing when the net present value is positive (Brealey & Myers, 1996), the massive uncertainty of startups (Stinchcombe, 1965) makes pure financial techniques less useful in VC. As a result, scholars have increasingly examined how soft factors influence investment decisions (e.g., Claes & Vissa, 2020). Among these, investors' social capital, shaping deal flow and reducing information asymmetries, affects the selection of startups (Balachandran & Hernandez, 2021; Batjargal & Liu, 2004) and syndicate partners (Chung et al., 2000; Sorenson & Stuart, 2001). Scholars in the field of family business have long recognized that the latter have a unique social capital (e.g., Arregle et al., 2007) rooted in kinship-based social ties within local communities (Peng 2004; Berrone et al. 2010), which profoundly embed the family into their community (Bird & Wennberg, 2014). Such local ties can be leveraged by family businesses to pursue not only economic goals, but also socioemotional wealth (Gómez-Mejía et al., 2007)—the non-financial aspects that the family values (Gómez-Mejia et al., 2001; Zellweger et al. 2012). Building upon these arguments, I suggest that given their superior local embeddedness, Family VCs will be more likely to invest in local startups and syndicate with local investors, with this tendency being amplified when the family is significantly involved in the decision-making process of the fund, and the latter is eponymously named.

[1]See https://uluventures.com/why-a-vc-marriage-is-not-like-a-unicorn/.

I argue that both rational and non-rational factors make Family VCs more likely to engage in local deals. On the rational side, Family VCs' local embeddedness may provide them with better information about (and connections with) local players (Cooke, 2007; Nell & Ambos, 2013), such as promising startups in the territory and geographically proximate investors. On the non-rational side, home bias—which I define as the tendency to disproportionately provide capital to startups (or syndicate with partners) based in their "home" region due to non-rational factors such as social obligations and nepotism—is triggered by the family's desire to maintain strong ties with their community and local stakeholders (Lester & Cannella, 2006; Zellweger et al. 2012) and to contribute to the economic development of their territory (Lumpkin & Bacq, 2022; Smulowitz et al., 2020). Importantly, I also suggest that the strength of Family VCs' home bias is influenced by the severity of performance pressures. When performance pressures are low, the necessity for strictly economic decision-making diminishes, making family members prioritize socioemotional considerations, with home bias coming to the fore. Conversely, when performance pressures are high, Family VCs should limit their propensity to invest locally for non-rational reasons.

This paper contributes to the VC literature in several ways. First, it introduces family governance as a novel dimension of investor heterogeneity. Several works in this field have analyzed how VCs' investment strategies are shaped by the characteristics of the firm and of its managers (e.g., Claes & Vissa, 2020; Matusik et al., 2008). Building on this literature, I explore how family control of VC funds—a hitherto neglected aspect—affects their conduct. Second, it uncovers significant heterogeneities within domestic VCs by showing that Family VCs are embedded at the hyper-local level (rather than at a more geographically dispersed national level). Prior work has shown that domestic VCs tend to have both more knowledge of the national entrepreneurial ecosystem (Liu & Maula, 2016) and also exhibit stronger biases, such as escalation of commitment (Devigne et al., 2016). This paper shows that Family VCs' hyper-local embeddedness intensifies both effects. Third, this paper contributes to the literature on venture capitalists' biases (e.g., Guler, 2007) by showing how performance pressures can counteract investors' irrational behaviors. This paper also contributes to the family business literature in two significant ways. First, this research broadens the literature on family firms by uncovering the existence of family-managed venture capital funds (which supported 7.6% of the startups in my dataset). Furthermore, this study contributes to the existing knowledge of family firms by empirically demonstrating that their local embeddedness and networks influence their strategies, showing how performance pressures can mitigate over-embeddedness (Uzzi, 1997).

2 | BACKGROUND AND THEORETICAL ARGUMENTS

2.1 | The Family VC

Venture capital funds are "independent, professionally managed, dedicated pools of capital that focus on equity or equity-linked investments in privately held, high growth companies" (Gompers & Lerner, 2001). They are generally closed-end limited partnerships with a finite lifespan (of generally 10 + 2 years) that operate as a "blind pool" (Lerner & Leamon, 2023) in which critical decisions are delegated to the fund's management team. By investigating the composition of this team, this paper introduces a previously overlooked entity: the family-managed VC fund ("Family VC"), which I define as a distinct category of venture-capital funds, characterized by the significant involvement of family members in management.

Crucially, Family VCs differ from both family offices (Block et al., 2019) and traditional family businesses that complete CVC investments (Amore et al., 2025). Family VCs operate as traditional VC funds. While family involvement affects their conduct, they stick to the institutional logic of VC partnerships. This includes LP-GP dynamics, a finite lifetime, a mandate specifying scope and objective, and the necessity to distribute returns to LPs. In contrast, family offices offer financial planning, investment management, tax and legal services, and estate planning, and while they are gradually moving into the VC industry, their primary purpose lies elsewhere. Rather than soliciting funds from third parties, they invest the family's money directly to protect, grow, and pass on their wealth. Similarly, corporations do not need to solicit funds from third parties, as they typically invest the company's money. Additionally, when completing CVC investments, (family) firms generally give precedence to strategic goals over financial ones. Finally, while Family VCs are by definition family-managed, VC investments completed by family offices and traditional family businesses are commonly delegated to professionals. The key differences between Family VCs, family offices, and family firms' CVC initiatives are summarized in Table 1.

As family-controlled entities, Family VCs pursue non-economic goals. At the same time, their status as VC funds creates a countervailing pressure toward financial performance. The need to satisfy LPs' expectations to raise follow-on funds may temper their inclination to act on biases and pursue non-economic goals. The coexistence of family governance and accountability toward external investors places Family VCs under a constant tension between socioemotional and financial considerations. In this respect, Family VCs exemplify what management scholars (e.g., Battilana & Lee, 2014) define as hybrid organizations—entities that combine elements from different institutional logics and must continuously balance such conflicting logics. Thus, Family VCs are not merely VC funds with family ties in the management team. Rather, they are a distinct hybrid organizational form in which the interplay of family considerations and investor accountability generates distinctive incentive systems and strategic logics, distinguishing Family VCs from other organizational forms within the VC industry.

TABLE 1 Family VCs, family offices, and CVC arms of family firms.

	Family VCs	Family offices	CVC arms of family firms
Capital source	External (LPs)	Internal (family's wealth)	Internal (company's liquidity)
Primary investment motivation	Financial returns	Wealth preservation and growth Pursuit of family values	Strategic (to benefit the parent company)
Pressures to generate financial returns	Very high (LPs demand high returns) Generally higher when performance pressures are higher	Moderate	Moderate, mostly strategic goals
Investment horizon	Defined 10 + 2 years	Long-term	Long-term
Family involvement in VC operations	Yes, by definition	Often delegated to professionals	Generally delegated to professionals

Note: This table briefly summarizes the key differences between Family VCs, family offices, and CVC arms of family businesses across five relevant dimensions.

TABLE 2 Comparing Family VCs, Home-Based Non-Family VCs, and Foreign Non-Family VCs.

	Family VCs	Home-Based Non-Family VCs	Foreign Non-Family VCs
Governance and control	Family-managed and controlled	Professionally managed by domestic teams	Professionally managed by local teams overseen by foreign headquarter
Goals	Financial returns and socioemotional wealth preservation	Financial returns	Financial returns and geographic expansion
Social capital and networks	Hyper-local, relationship-based networks	Broad national professional networks	Geographically dispersed, multi-country network

Note: This table briefly summarizes the key differences between Family VCs, domestic VCs, home-based Non-Family VCs and Foreign Non-Family VCs across three relevant dimensions.

2.2 | Conceptualizing VC types: Family, home-based, and foreign fund

Conceptually, a family-run business differs from both professionally managed domestic businesses and local units of a multinational corporation. In the VC setting, these distinctions allow the identification of three organizational forms: Family VCs, Home-Based Non-Family VCs (i.e., professionally managed VC funds based in the same country as the entity that raised them), and Foreign Non-Family VCs (i.e., professionally managed VC funds based abroad). These organizational forms differ in three important respects. First, they differ in terms of their governance and control structures. While Family VCs are by definition family-managed, both Home-Based and Foreign VCs are professionally managed. However, while the former are primarily managed by domestic teams, the latter employ local employees in the host country who are overseen by the corporate headquarters abroad. Second, they differ with respect to their goals and incentive systems. While Family VCs pursue both financial and socioemotional goals, Home-Based VCs prioritize financial returns. Foreign VCs also prioritize financial goals, but these are coupled with strategic priorities like expanding the geographical presence and deal flow access of their parent companies. Third, they differ in their social capital and network structures. While Family VCs are embedded at the hyper-local level, Home-Based VCs have broader national networks. Conversely, as both Foreign VCs' activities and employees span multiple countries, their networks are more geographically dispersed. Table 2 summarizes the main differences.

2.3 | Theory and hypotheses

Venture capitalists' networks shape critical decisions, such as the selection of startups and syndicate partners (Balachandran & Hernandez, 2021; Hsu, 2007).[2] While networks are essential in

[2]The importance of social capital in VC has also been stressed by practitioners. For example, Mr. Mason, GP of Episode 1, claimed "Venture capital is almost entirely people-driven... If you look at the investments we've made at Episode1, the majority come from personal referrals. This is no coincidence. People who know us well, know what we like and therefore pass us pre-vetted (by them) deals which they think we should look at." https://mason-hfb.medium.com/why-and-how-to-build-a-network-in-venture-capital-dd179e28db4f.

the VC industry, they are predominantly local (Sorenson & Stuart, 2001, 2008). Even so, venture capitalists lack a uniform level of embeddedness within their territories, with organizational forms constituting a key source of this heterogeneity. Scholars have long noticed the unique social capital of family businesses (Arregle et al., 2007), their superior ties to their local communities (Bird & Wennberg, 2014; Zellweger et al., 2013), and their profound embeddedness within their local networks (e.g., Baù et al., 2019; Berrone et al., 2010). Such heightened local embeddedness distinguishes Family VCs from both Home-Based and Foreign Non-Family VCs. While Home-Based Non-Family VCs' connections are predominantly domestic, their management teams lack the deep community ties of Family VCs. Rather, their networks span across the national entrepreneurial ecosystem, without the deep hyper-local connections of Family VCs. Foreign Non-Family VCs with their transnational teams and with geographic expansion goals are expected to be the least embedded in their territory.

Family VCs' superior local embeddedness is expected to influence their investment strategy in two complementary ways. First, as local embeddedness gives access to localized knowledge (Baù et al., 2019), and enhances relationships with key local stakeholders (Cooke, 2007; Nell & Ambos, 2013), Family VCs should be better positioned to access more and higher-quality non-public information about local startups, thus ameliorating the information asymmetries that frequently deter VC investments (Amit et al., 1990). Home-Based Non-Family VCs, while possessing national-level informational advantages, lack the hyper-local advantage in information access that Family VCs are expected to have. Foreign VCs, because of their geographically dispersed networks, are expected to have even greater informational disadvantage vis-à-vis Family VCs in local information access. Second, as family firms also pursue socioemotional goals (Gómez-Mejía et al., 2007; Leitterstorf & Rau, 2014), their local embeddedness engenders a commitment to generating wealth for that community (Lumpkin & Bacq, 2022; Smulowitz et al., 2020) as well as a desire to maintain positive relationships with their community and local stakeholders (Lester & Cannella, 2006; Zellweger et al. 2012). Consequently, as family firms view themselves not just as economic entities but as stewards of their territory, Family VCs might consider not only financial returns but also the positive impact that their investments might have on their community and the ability to maintain positive relationships with local stakeholders through their investments. Conversely, being professionally managed, both Home-Based and Foreign Non-Family VCs' decisions should not be swayed by socio-emotional considerations. To summarize, Family VCs' local embeddedness is expected to act as a dual catalyst. On the one hand, it allows Family VCs to obtain more information on local startups; on the other hand, it ignites a desire to contribute to the economic development of their territory through their investments. Thus, I posit:

> **Hypothesis (H1a).** Family VCs are more likely than Home-Based and Foreign Non-Family VCs to invest in local startups.

The selection of syndicate partners is also a critical choice (Manigart et al., 2006) as they not only share the risk associated with the investment but also pool their managerial and financial resources (Brander et al., 2002). Building on the above theoretical framework, we should anticipate Family VCs' local embeddedness to also affect the selection of syndicate partners. First, Family VCs should possess intimate knowledge of fellow local investors. This should reduce information asymmetries and the associated risk of adverse selection (Meuleman et al., 2010), thus favoring the formation of partnerships. The probability of forming partnerships with geographically proximate partners may also be heightened by Family VCs' extensive local ties.

Indeed, as shown in prior research, investors are more likely to syndicate with partners with whom they are relationally embedded, as such embedding promotes trust and hence mitigates the risk and uncertainty inherent in interorganizational exchanges (Meuleman et al., 2010; Sorenson & Stuart, 2008). Conversely, Home-Based Non-Family VCs may syndicate at the national level through their professional networks, but lack the depth of Family VCs' hyper-local relationships, while Foreign Non-Family VCs' geographically dispersed networks should further limit their propensity to forge local partnerships. Second, the expectations and obligations built into strong local ties might constrain the choices of Family VCs, potentially making them feel compelled to join investments completed by local investors or invite them to join their own deals even if those local investors lack the complementary skills to support the startup, purely to maintain ties with their community and local stakeholders (Lester & Cannella, 2006; Zellweger et al. 2012). Such socioemotional considerations that should make Family VCs more likely to syndicate locally to preserve local ties should be absent in both Home-Based and Foreign Non-Family VCs which lack community obligations. Consequently, it is possible to posit:

> **Hypothesis (H1b).** Family VCs are more likely than Home-Based and Foreign Non-Family VCs to syndicate with local investors.

Family VCs as hybrid organizations must constantly balance competing logics: a family logic that prioritizes socioemotional considerations, and an investor logic demanding financial returns. Family VCs' strategic choices are the outcomes of such ongoing negotiations between the two competing interests. Thus, the question is not which of the two logics is pursued by Family VCs, but rather under which conditions a specific logic takes precedence over the other.

Gomez-Mejia et al. (2011) showed that family businesses exhibit significant heterogeneity in their strategic choices compared to non-family firms. Indeed, while financial performance is important, many decisions in family businesses are apparently non-rational (Chrisman et al., 2012; Zellweger et al. 2012) as they are not linked to pure economic considerations, but rather aim to protect socioemotional wealth (Gómez-Mejía et al., 2007), leading to greater heterogeneity in their behavior. An important element shaping family firms' decisions is their heightened level of local embeddedness (Bird & Wennberg, 2014). This embeddedness might make them take certain actions, such as supporting their local community (Cennamo et al., 2012) or reducing toxic emissions in their territory (Berrone et al., 2010), to protect their socioemotional wealth by enhancing their reputation and relationships within the community (Zellweger & Nason, 2008). While local embeddedness is particularly valuable in forging beneficial connections with key local stakeholders (Cooke, 2007; Nell & Ambos, 2013), such intense local involvement can lead to the paradox of over-embeddedness (Uzzi, 1997), where the family's strong local ties may limit its ability to make objective, rational investment decisions.

Building on these insights, we might expect Family VCs' local investments to be driven by two possible mechanisms reflecting their dual logics. First, it might be driven by a rational effort to leverage Family VCs' superior knowledge of the local entrepreneurial ecosystem and access to a higher-quality deal flow—a manifestation of the investor logic. Second, it might be driven by Family VCs' home bias (a non-rational preference for local investments), which is likely to lower the quality threshold for these deals—a manifestation of the family logic. I argue that both channels are at play, and that both make Family VCs more likely to pursue local investments. However, I also suggest that varying circumstances can affect the extent to which Family VCs exhibit home bias. In particular, I argue that the extent to which Family VCs prioritize rational strategies over socioemotional considerations is influenced by the severity of

performance pressures faced by fund managers, with increasing pressures progressively shifting decision-making from the family logic's socioemotional considerations toward the investor logic's rational strategies.

Unlike traditional businesses, due to the finite lifetime of VC funds, their managers must be able to continually raise follow-on funds from LPs to survive (Walske & Zacharakis, 2009). Even though socioemotional considerations can influence decisions in family businesses, leading to seemingly irrational actions, survival remains the key priority (Wilson et al., 2013). When performance shortfalls jeopardize the survival of the family business, rational decision-making takes priority over socioemotional considerations (Morgan & Gómez-Mejia, 2014). Consequently, I posit that performance pressures that might threaten the survival of the family business may lead family managers to prioritize financial considerations and limit home bias. I examine two distinct but related performance pressures: heightened pressure from harsher market conditions and from a strong necessity to fundraise. The former source of performance pressure depends on the state of the venture capital market (DeSantola et al., 2023; Zhelyazkov & Tatarynowicz, 2021). Increased market activity compared to recent history, known as "market heat," typically originates from resource providers' increased interest (Gulati & Higgins, 2003). During hot markets, LPs—the primary resource providers in venture capital (Zhelyazkov & Tatarynowicz, 2021)—provide more resources, increasing the chances of fundraising for all VCs (DeSantola et al., 2023). This abundance of resources in the market reduces performance pressures on fund managers by making fundraising more feasible. As a result, the necessity to adhere to economically rational decisions diminishes, making home bias more prevalent and thus increasing Family VCs' propensity to invest locally. Conversely, as home bias should be absent in both Home-Based and Foreign Non-Family VCs, their propensity to invest locally should not be affected by market heat. Consequently, it is possible to posit:

> **Hypothesis (H2a).** Family VCs are more likely to invest in local startups when market heat is greater.

> **Hypothesis (H2b).** Family VCs are more likely to syndicate with local investors when market heat is greater.

The second source of performance pressure relates to the necessity to fundraise. VCs typically operate via funds with a limited lifetime of approximately 10 years, which makes their ability to raise subsequent funds a central concern (Kaplan & Schoar, 2005). As a result, performance pressures intensify when the firm is seeking to raise investment for a new fund (Chakraborty & Ewens, 2018). I suggest that this pressure is particularly strong for firms that have not yet raised a follow-on fund. In such contexts, fund managers are exposed to significant performance pressures, as they wish to prove their value to LPs from whom the firm seeks to raise its next fund (Balachandran et al., 2024; Gompers, 1996). Such performance pressure stemming from the heightened necessity to fundraise should limit home bias, making Family VCs pursue local investments only when they can leverage their superior local information access. Conversely, when the necessity to fundraise is less pronounced performance pressures ease, allowing socioemotional considerations to play a more prominent role, with Family VCs more likely to exhibit home bias. Thus, I posit:

> **Hypothesis (H3a).** Family VCs are more likely to invest in local startups when their necessity to fund-raise is lower.

Hypothesis (H3b). Family VCs are more likely to syndicate with local investors when their necessity to fund-raise is lower.

3 | DATA

3.1 | Selection of VC funds

To test the hypotheses, I used Pitchbook, a widely recognized database in the field of entrepreneurial finance that is regularly used by practitioners and academics (e.g., Gompers et al., 2021; Yao & O'Neill, 2022). As noted by prior researchers who have already leveraged the granular VC fund-level data provided by Pitchbook (Block et al., 2019; Yimfor & Garfinkel, 2023), it offers a unique advantage over other databases, which do not provide information at the fund level. The first step of the data-collection process required identifying venture capital funds. I followed Yimfor and Garfinkel (2023) and retained funds categorized as "Venture—General," "Venture Capital—Early Stage," and "Venture Capital—Late Stage." As Yimfor and Garfinkel's (2023) paper aimed to compare the returns of VC and buyout funds, they also retained funds categorized as "Buyout" and "Growth/Expansion." As this paper focuses on VC funds, I decided to exclude these two types of funds. All analyses presented in the paper are robust to the inclusion of buyout funds.[3]

3.2 | Identification of Family VCs

The identification of Family VCs represented the key empirical challenge of the paper. In Section 2.1, Family VCs were defined as a distinct category of venture-capital funds, characterized by the significant involvement of family members in management. Two complementary criteria were employed to empirically operationalize this definition. First, a VC fund was considered a Family VC if a founder's relative actively participated in the fund's management. Alternatively, a VC fund was classified as a Family VC if family members account for at least 25% of the management team. Given the subjectivity of the 25% threshold, the robustness of the findings was assessed using different thresholds. Following established practices in the literature (e.g., Amore et al., 2014; Belenzon et al., 2016), family connections were determined based on surname affinity.

As surname-based identification might generate false positives, particularly in countries where a small number of surnames are shared by many individuals, I dropped funds based in China, Hong Kong, Korea, India, Singapore, and Taiwan.[4] Additionally, I identified the 50 most common Asian surnames reported in Pitchbook.[5] When a VC fund was categorized as a Family

[3]Since VC funds typically have a 10(+2)-year lifespan (Barrot, 2017), I assessed funds' maturity at the time of the deals to ensure they were not finalized by funds older than 10 (12) years. Reassuringly, 99.5% (99.7%) of the deals included in the dataset were completed by funds that were younger than 10 (12) years.

[4]For instance, in China, five surnames (Wang, Li, Zhang, Liu, and Chen) are collectively held by over 430 million people, constituting 30% of China's population. Furthermore, nearly 86% of the Chinese population shares just 100 surnames. In untabulated analyses, I checked the robustness of the findings upon the inclusion of funds based in these countries. The main findings remain robust and qualitatively similar if these countries are included.

[5]In addition to the five most common Chinese surnames mentioned above (Wang, Li, Zhang, Liu, and Chen), the list also includes other Asian surnames such as Kim, Wu, Singh, Gupta, Kumar, Aggarwal, and Huang. Robustness tests were performed by excluding the top 100 surnames, and the results remained consistent with this alternative specification.

VC solely due to one of those surnames, the specific VC fund was also excluded from the analysis. Funds for which Pitchbook does not report information on the management team, or where only one manager was reported, were excluded, since in these cases there was insufficient information available to determine whether a VC qualified as a Family VC. Although surname-based identification may fail to capture all family relationships, any remaining misclassification would make me underestimate the magnitude of the Family VC phenomenon and introduce a slight attenuation bias in my analyses, leading to more conservative estimations. However, since I am focusing on a relatively rare phenomenon, limiting measurement errors is particularly valuable. Consequently, I automated Google searches to extract and analyze website content to identify additional family connections. When a potential match was reported, I looked into the websites provided by these Google searches to manually verify whether the connection was genuine. This step is described in detail in the Appendix. The results are robust when relying solely on the surname criterion.

Although the approach used in this paper is consistent with recent papers that have examined familial relationships among firms' managers (e.g., Parise, 2023), most prior research has relied upon family ownership as a primary criterion to identify family firms (Bennedsen et al., 2021). While this approach holds merit when studying traditional corporations, it becomes less suitable in the context of VC funds, which exhibit distinct ownership and capital structures. Indeed, VC funds generally do not have shareholders like traditional corporations. While LPs provide financial capital to VC funds, they merely participate as passive investors. In contrast to shareholders of traditional corporations, LPs are purely financial investors, and cannot get involved in the day-to-day operation or management of the fund or its investee companies without running the risk of forfeiting their limited liability rights. The fund-management team is in charge of evaluating potential investment opportunities, conducting due diligence, and providing advisory services to the startups in the fund's portfolio. Overall, the analysis of fund management is deemed more appropriate than LP consideration in the context of VC funds. However, since Family VCs may raise capital from different LPs, in the regression analyses I will control for this heterogeneity to ensure that the results do not stem from different types of LPs backing the funds.

3.3 | Dataset construction

The step-by-step procedure used to construct the final dataset is explained in Table A1. Each VC fund was linked to the corresponding VC deals completed between January 2000 and December 2022. Following the methodology adopted in previous studies (e.g., Liu & Maula, 2016; Nahata, 2008), I utilized the investment made by a focal VC fund in a startup (i.e., the VC fund-startup dyad) as the unit of observation. Specifically, when a VC fund invested multiple times in the same startup, I retained only the first investment. Deals lacking information related to critical variables, such as geographical location (of either fund or startup), investment year, or fund size, were excluded. The final sample includes 148,785 VC deals completed by 7091 unique VC funds. Table A2 reports the distribution of Family, Foreign, and Home-Based Non-Family VCs (and their respective number of deals completed) across the 10 largest countries. The sample includes investments received by 62,456 distinct startups (7.6% of which have received support from at least one Family VC). Additionally, Family VCs took part in VC deals cumulatively amounting to $124 billion.[6]

[6]This figure pertains to deals for which Pitchbook provides information on the deal size. Given that this information is not consistently available, the reported figure represents a lower bound.

3.4 | Dependent variables

The paper aims to understand whether Family VCs are more likely to complete local investments. To capture this, I use two distinct dependent variables.

Local Startup. This binary dependent variable takes a value of 1 if the VC fund's headquarters is located within 25 kilometers (15.5 miles) of the startup.

N. Local Syndicate Partners. This variable represents the count of syndicate partners located within 25 kilometers of the VC fund.

3.5 | Main independent variables

To test the hypotheses presented above, I employ three main independent variables.

Family VC. This binary variable takes a value of 1 if family members make up at least 25% of the fund managers or a relative of the founder serves as a fund manager.

Foreign Non-Family VC. This binary variable takes a value of 1 if the fund is not family-managed and the VC fund is not based in the same country as the entity that raised it.

Home-Based Non-Family VC. This binary variable takes a value of 1 if the fund is not family-managed and the VC fund is based in the same country as the entity that raised it.

Finally, I use two variables to capture factors that amplify or limit Family VCs' home bias:

Market Heat. To construct this variable, I follow DeSantola et al. (2023) and use the natural logarithm of the ratio between the total number of VC funds raised in the year in the country where the VC fund is based (multiplied by 3) and the total number of VC funds raised in the previous 3 years in the same country. While DeSantola et al. (2023) focused on a single country (the United States), I account for cross-country heterogeneity by computing the ratios within each country.

$$Market\ Heat_{c,t} = Ln\left(\frac{VC\ Funds\ raised y_{c,t} \times 3}{\sum_{k=t-3}^{t=-1} VC\ Funds\ raised y_{k,c}}\right)$$

Follow-On Fund Raised. This variable takes a value of 1 if the entity that raised the VC fund completing the deal had raised a follow-on VC fund (i.e., a fund raised after the focal one in the same country) by the year in which the VC fund completed the focal deal.

3.6 | Summary statistics

Table 3 presents summary statistics. Variables are described in Table A3 in the Appendix. As reported, 3.7% of deals were completed by Family VCs. While Family VCs are relatively rare, they collectively raised and managed a total of $28.7 billion, making them an important and economically meaningful segment of the VC industry.[7] Home-Based (Foreign)

[7]The $28.7 billion figure is a conservative estimation of the actual importance of Family VCs in the venture capital industry. Indeed, large countries such as India and China are not considered. Additionally, that figure considers only VC funds for which information on fund size is available in Pitchbook records and funds established before December 2022.

TABLE 3 Summary statistics.

	Obs.	Mean	SD	Median
Family VC	148,785	0.037	0.189	0
Family VC—High Involvement	147,923	0.028	0.166	0
Family VC—Low Involvement	147,923	0.009	0.096	0
Family VC—Eponymous	148,785	0.006	0.078	0
Family VC—Non-Eponymous	148,785	0.031	0.174	0
Foreign Non-Family VC	148,785	0.030	0.172	0
Home-Based Non-Family VC	148,785	0.932	0.251	1
Local Startup	148,785	0.262	0.440	0
N. Local Syndicate Partners	148,785	0.926	1.599	0
Market Heat	148,785	0.169	0.354	0.229
Follow-On Fund Raised	148,785	0.366	0.482	0
Fund Maturity	148,785	2.099	2.084	2
Fund Size	148,785	359.142	2883.263	100
Fund Team Experience	148,785	52.917	90.454	17

Note: This table presents summary statistics. Variables are described in Table A3.

Non-Family VCs completed 93.2% (3%) of the deals. Roughly 26% of deals targeted local startups, and deals were syndicated with 0.9 local partners on average. Table B1 (Online Appendix) presents the results of *t*-tests summarizing the main differences between Family, Foreign, and Home-Based Non-Family VCs at the fund level. Family VCs are roughly 330% more likely to be eponymously named vis-à-vis Home-Based Non-Family VCs. However, when considering other important characteristics of the fund, such as its size and the VC experience of the management team, no meaningful differences emerge. Additionally, Family VCs do not appear to be based in more entrepreneurial areas relative to Home-Based Non-Family VCs.[8] Similarly, when examining the composition of the funds' LPs, only marginal differences emerge, with Family VCs being more (less) likely than Home-Based Non-Family VCs to have family offices (governmental entities) as their LPs. Overall, the evidence suggests that while Family VCs are disproportionately more likely to be eponymously named, they are not significantly different from their non-family counterparts when considering other relevant characteristics such as their size, location, management-team experience, and the source of the capital they manage.

[8]To measure entrepreneurial intensity of the area where the VC funds are headquartered, I developed a metric (described in more detail in the Appendix) based on the number of VC financing rounds raised in the 3 years preceding the fund's vintage year by startups within 25 km of the VC fund. The fact that Family VCs are not based in more entrepreneurial areas alleviates the possible concern that Family VCs might be more likely to complete local investments purely because they are based in areas with a larger supply of startups.

TABLE 4 Local investments.

	Local startup		N. Local syndicate partners	
Dependent variable	**(1)**	**(2)**	**(3)**	**(4)**
Family VC	0.062	0.063	0.375	0.279
	(0.018)	(0.015)	(0.084)	(0.052)
Foreign Non-Family VC	−0.129	−0.190	−0.750	−0.715
	(0.016)	(0.018)	(0.111)	(0.104)
Fund Maturity		−0.001		−0.001
		(0.001)		(0.005)
Fund Size		−0.019		−0.025
		(0.003)		(0.009)
Fund Team Experience		−0.001		0.018
		(0.002)		(0.010)
Observations	148,785	148,785	148,785	148,785
N. Unique FVC	216	216	216	216
N. Unique Foreign Non-FVC	229	229	229	229
N. Unique Home-Based Non-FVC	6646	6646	6646	6646
Investment Year Dummies	Yes	Yes	Yes	Yes
Startup Industry Dummies	Yes	Yes	Yes	Yes
Fund City Dummies	No	Yes	No	Yes
LP Types Dummies	No	Yes	No	Yes

Note: This table reports the results of OLS (Columns 1 and 2) and Poisson (Columns 3 and 4) regressions. Variables are described in Table A3. All columns include investment year, and startup industry fixed effects. Columns 2 and 4 also include fund city and LP types fixed effects. To control for the presence of various LPs I introduced the set of dummies presented in Table B1. Funds with missing info on their LPs are grouped into a missing LP dummy. Robust standard errors clustered at the VC fund level are reported in parentheses.

4 | RESULTS

To test Hypothesis 1, I employ the two dependent variables described in Section 3.4. Table 4 presents OLS (Columns 1 and 2) and Poisson (Columns 3 and 4) regressions.[9] By including the Family VC and the Foreign Non-Family VC dummies in the regression analyses, I employ Home-Based Non-Family VCs as a reference category. All specifications in Table 4 include control variables for the investment year and the industry of the startup. In Columns 2 and 4, I further introduce controls to account for characteristics of the VC fund that might shape its

[9]While the binary nature of the outcome variables in Columns 1 and 2, 5, and 6 might make a nonlinear estimation method preferable, the inclusion of high-dimensional fixed effects generates the potential for bias in such models via the incidental parameter problem (Allison, 2009). Additionally, interpreting coefficients when using such nonlinear methods is much more complex, particularly when using interactions (Ai & Norton, 2003; Hoetker, 2007) that will be used to test most of the following analyses. Consequently, in the interests of consistency and interpretability, I employ OLS regressions to test all hypotheses. In the Appendix, I show that the results are robust to the use of a nonlinear estimation method (i.e., a Probit model).

propensity to invest locally. First, as the fund's priorities evolve as it matures (Barrot, 2017), I control for its maturity at the time of the investment round. Second, as larger VCs possess more resources, making it easier for them to evaluate and invest in more distant startups (Amore et al., 2023), I control for their fund size. Third, as more experienced managers have a broader knowledge base (Cumming & Dai, 2010), which improves their ability to evaluate opportunities in more distant areas characterized by higher information asymmetries (Hsu, 2004), I control for the VC experience of the fund management team. Fourth, as the locations of VC funds can profoundly shape their propensity to invest locally, I introduce fund-city fixed effects. By holding the city where funds are based constant, such control ensures that variations in investment behaviors are not due to their heterogeneous geographical distribution. Fifth, I control for the composition of the fund's LPs by including the LP dummies reported in Table B1. Robust standard errors are clustered at the fund level. From Column 2, we can infer that Family VCs are 24% (97%) more likely to invest in geographically proximate startups than Home-Based (Foreign) Non-Family VCs. Similarly, from Column 4, we can conclude that Family VCs' syndicate partnerships include 32% (170%) more local partners than those of Home-Based (Foreign) Non-Family VCs. Consequently, the documented effects reported in Columns 2 and 4 are economically meaningful, providing strong support for both hypotheses 1a and 1b.

I test the robustness of the findings in multiple ways. First, given the dichotomous nature of the dependent variables employed in Columns 1 and 2, I replicate those analyses employing a Probit model in Table B2. Additionally, given the arbitrariness of the criteria used to identify Family VCs, in Tables B3 and B4, I replicate Columns 2 and 4, respectively, using different thresholds to identify Family VCs as well as a continuous variable. Furthermore, given the arbitrariness of the 25 km threshold, in Table B5, I replicate Columns 2 and 4 of Table 5 employing different distance thresholds to identify geographically proximate startups and syndicate partners. The analyses above yield findings consistent with those presented in the paper. One might wonder if Family VCs are just domestic VCs (Devigne et al., 2016; Mäkelä & Maula, 2006)—that is, VCs investing in startups based in the same country. To explore this in Column 1 of Table B6, I employ a dummy with a value of one if the VC fund and the startup are based in the same country as a dependent variable. The results seem to suggest that Family VCs are 1.4 percentage points more likely to act as domestic VCs than Home-Based Non-Family VCs. However, their slight superior propensity to invest in domestic ventures disappears when investments in hyper-local ventures (i.e., those located within a 25 km radius) are dropped from the analysis (with the sign of the estimated coefficient on the Family VC dummy turning negative). Similar results emerge from Columns 3 and 4 of Table B6. Indeed, while Column 3, by showing that Family VCs tend to invest in startups that are on average 46% closer to them than those backed by Home-Based Non-Family VCs, might at first suggest that Family VCs tend to favor nearby startups, it is important to stress that mere geographical proximity is not the main driver of Family VCs' decisions. This becomes evident when the analysis is replicated following the exclusion of startups within 25 km (Column 4 of Table B6): as shown, the estimated coefficient on the Family VC variable becomes economically negligible. Collectively, this evidence suggests that Family VCs are not simply domestic investors. Rather, they constitute a distinct organizational form whose hyper-localism is shaped by motivations that are qualitatively different from those of domestic VCs. One might be concerned that the results could stem from the different geographical locations of Family and Non-Family VCs. To address this concern, Table B1 showed that Family VCs are not based in more entrepreneurial cities than Home-Based Non-Family VCs. Additionally, I included fund-city fixed effects to control for unobservable city-specific characteristics that might influence investment decisions. However,

TABLE 5 Family involvement, eponymy, and local investments.

	Local startup		N. Local syndicate partners	
Dependent variable	**(1)**	**(2)**	**(3)**	**(4)**
Family VC—High Involvement	0.078		0.323	
	(0.017)		(0.055)	
Family VC—Low Involvement	0.019		0.084	
	(0.026)		(0.115)	
Family VC—Eponymous		0.165		0.439
		(0.036)		(0.071)
Family VC—Non-Eponymous		0.042		0.236
		(0.015)		(0.064)
Foreign Non-Family VC	−0.190	−0.191	−0.724	−0.716
	(0.019)	(0.018)	(0.105)	(0.104)
Fund Maturity	−0.001	−0.001	−0.000	−0.001
	(0.001)	(0.001)	(0.005)	(0.005)
Fund Size	−0.019	−0.019	−0.025	−0.025
	(0.003)	(0.003)	(0.010)	(0.009)
Fund Team Experience	−0.001	−0.002	0.021	0.017
	(0.002)	(0.002)	(0.010)	(0.011)
Observations	147,923	148,785	147,923	148,785
N. Unique FVC—High Involvement	159		159	
N. Unique FVC—Low Involvement	53		53	
N. Unique FVC—Eponymous		26		26
N. Unique FVC—Non-Eponymous		190		190
N. Unique Foreign Non-FVC	229	229	229	229
N. Unique Home-Based Non-FVC	6646	6646	6646	6646
Investment Year Dummies	Yes	Yes	Yes	Yes
Startup Industry Dummies	Yes	Yes	Yes	Yes
Fund City Dummies	Yes	Yes	Yes	Yes
LP Types Dummies	Yes	Yes	Yes	Yes

Note: This table reports the results of OLS (Columns 1 and 2) and Poisson (Columns 3 and 4) regressions. Variables are described in Table A3. All specifications include investment year, startup industry, fund city, and LP types fixed effects. To control for the presence of various LPs I introduced the set of dummies presented in Table B1. Funds with missing info on their LPs are grouped into a missing LP dummy. Robust standard errors clustered at the VC fund level are reported in parentheses.

even if fund-city fixed effects can account for cities' time-invariant characteristics, they still do not capture their evolution. As entrepreneurial intensity can fluctuate not only between cities but also within cities over time, I replicate Columns 2 and 4 of Table 4 in Table B7, replacing fund city fixed effects with fund country fixed effects while adding the control for the entrepreneurial intensity of the area where the VC funds are based at the time of the deal. Results are

robust under this specification. To further ease concerns, in Table B8, I constructed a matched sample of deals completed by Family and Foreign Non-Family VCs (Panel A) and Home-Based Non-Family VCs (Panel B) based on the entrepreneurial intensity of the area where the VC fund is based at the time of the deal. This matching technique effectively equates the entrepreneurial intensity of the regions where Family and Non-Family VCs are based. Even after this matching procedure, the results reported in Table B8 reinforce the findings of Table 4. To account for the nested nature of the data, it is also important to consider that cities and regions are embedded within nation-states, whose legal and institutional structures vary significantly. These differences can influence the types of VCs that might form as well as how they operate. Consequently, Table B9 (B10) replicates Column 2 (4) of Table 4 by running separate regressions for each of the five largest countries (as reported in Table A2). In both Tables B9 and B10, the estimated coefficients on the *Family VC* dummy are always positive (and generally economically meaningful), suggesting that the tendency to invest locally is common among Family VCs across different countries.

4.1 | The influence of family involvement in decision-making and eponymy

Hypothesis 1 posits that Family VCs are more likely to invest locally. If this tendency is driven by family influence, it should be stronger when family members play a more active role in decision-making. While prior research examined how family involvement shapes family business strategies (e.g., Chua et al., 1999; Zahra, 2003), when studying traditional corporations, it is quite challenging to determine the level of family involvement in decision-making. The venture capital landscape represents a unique setting for evaluating this as Pitchbook data provides information not only on the deals completed by VC funds but also on the identity of the lead partners responsible for their completion. Using this data, I distinguish Family VCs with limited family involvement in decision-making and those where the family assumes a more prominent role. Specifically, a Family VC is classified as having high family involvement when family members collectively led a higher number of investments as lead partners than any non-family member. Columns 1 and 3 of Table 5 replicate the analyses presented in Columns 2 and 4 of Table 4 but replace the *Family VC* variable with two variables: *Family VC—High Involvement* and *Family VC—Low Involvement*. As shown, Family VCs with passive familial involvement behave similarly to Home-Based Non-Family VCs, while Family VCs with active family leadership are 29.8% more likely to invest in local startups and have 38.1% more local partners, than Home-Based Non-Family VCs. These findings corroborate the argument that it is the family's active leadership within the Family VC, rather than their mere presence, that drives local investments.

Next, in Columns 2 and 4 of Table 5, I explore the impact of eponymy. Naming the firm is an important and visible decision that can affect firm behavior and success (Belenzon et al., 2017, 2020). In the VC context, an eponymous name may strengthen ties to local communities, enhance reputation and trust, and, by making the family more readily identifiable, amplify the non-monetary benefits of being recognized as stewards of the territory through their local investments. Consequently, we might anticipate that eponymy will accentuate Family VCs' propensity to engage in local deals. To test this, I distinguish between eponymous and non-eponymous Family VCs. The analyses presented in Columns 2 and 4 of Table 5 show that

while both eponymous and non-eponymous Family VCs are more likely to engage in local deals, such a tendency is amplified for the former. Indeed, eponymously named Family VCs are 63% more likely to invest in local startups and have 55.1% more local syndicate partners than Home-Based Non-Family VCs. Table B11 replicates the findings presented in Columns 1 and 2 of Table 5 using a Probit model, showing consistent results. To ease the interpretability of the main findings, Figure 1 plots the coefficients estimated on the Family VC variables employed thus far.

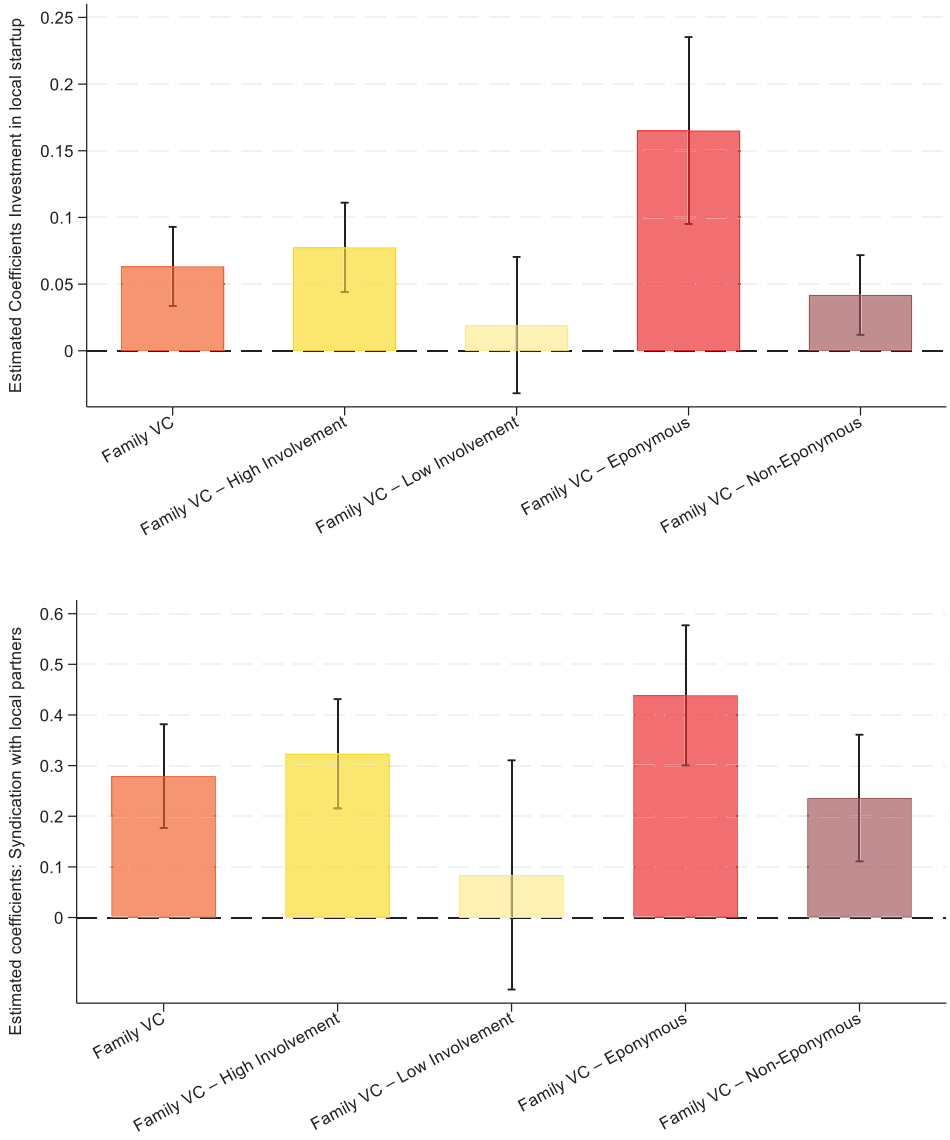

FIGURE 1 This figure visually represents the estimated coefficients on the main explanatory variables from various specifications assessing Family VCs' propensity to invest in local startups (a) and syndicate with local investors (b). The reference category is represented by Home-Based Non-Family VCs. Confidence intervals at the 95% level are reported in brackets.

TABLE 6 Performance pressures and local investments.

Dependent variable	Local startup (1)	N. Local syndicate partners (2)	Local startup (3)	N. Local syndicate partners (4)
Family VC	0.052	0.223	0.045	0.156
	(0.015)	(0.047)	(0.015)	(0.057)
Foreign Non-Family VC (Foreign)	−0.191	−0.714	−0.185	−0.672
	(0.019)	(0.113)	(0.019)	(0.098)
Market Heat	−0.008	0.015		
	(0.006)	(0.027)		
Family VC × Market Heat	0.059	0.247		
	(0.024)	(0.117)		
Foreign × Market Heat	0.005	−0.000		
	(0.019)	(0.154)		
Follow-On Fund Raised			−0.013	0.017
			(0.005)	(0.020)
Family VC × Follow-On Fund Raised			0.049	0.280
			(0.023)	(0.075)
Foreign × Follow-On Fund Raised			−0.021	−0.145
			(0.037)	(0.254)
Fund Maturity	−0.001	−0.001	0.000	−0.005
	(0.001)	(0.005)	(0.001)	(0.005)
Fund Size	−0.019	−0.025	−0.020	−0.024
	(0.003)	(0.009)	(0.003)	(0.009)
Fund Team Experience	−0.001	0.018	−0.001	0.015
	(0.002)	(0.010)	(0.002)	(0.011)
Observations	148,785	148,785	148,785	148,785
N. Unique FVC	216	216	216	216
N. Unique Foreign Non-FVC	229	229	229	229
N. Unique Home-Based Non-FVC	6646	6646	6646	6646
Investment Year Dummies	Yes	Yes	Yes	Yes
Startup Industry Dummies	Yes	Yes	Yes	Yes
Fund City Dummies	Yes	Yes	Yes	Yes
LP Types Dummies	Yes	Yes	Yes	Yes

Note: This table reports the results of OLS (Columns 1 and 3) and Poisson (Columns 2 and 4) regressions. Variables are described in Table A3. All specifications include investment year, startup industry, fund city, and LP types fixed effects. To control for the presence of various LPs I introduced the set of dummies presented in Table B1. Funds with missing info on their LPs are grouped into a missing LP dummy. Robust standard errors clustered at the VC fund level are reported in parentheses.

4.2 | The moderating impact of performance pressures

I test hypotheses 2a and 2b in Columns 1 and 2 of Table 6, respectively. In those columns, I replicate the full specifications of Table 4 and interact the *Family VC* and *Foreign Non-Family VC* dummies with *Market Heat*. Consistent with expectations, while Family VCs are always more likely to invest in local startups and syndicate with local investors, such inclination grows stronger as the market heats up. Conversely, *Market Heat* does not increase Foreign and Home-Based Non-Family VCs' engagement in local deals. To ease the interpretation of the coefficients estimated in Columns 1 and 2 of Table 6, Figure 2 presents the findings graphically. Dotted vertical lines represent the 10th, 50th, and 90th percentiles of *Market Heat*. Figure 2a shows that Family VCs are 3.5 percentage points more likely to invest in local startups at the 10th percentile of *Market Heat*, while they are 8.2 percentage points more likely to do so at the 90th percentile of *Market Heat*. Similarly, Figure 2b shows that Family VCs syndicate with 16.4% more local syndicate partners than Home-Based Non-Family VCs at the 10th percentile of

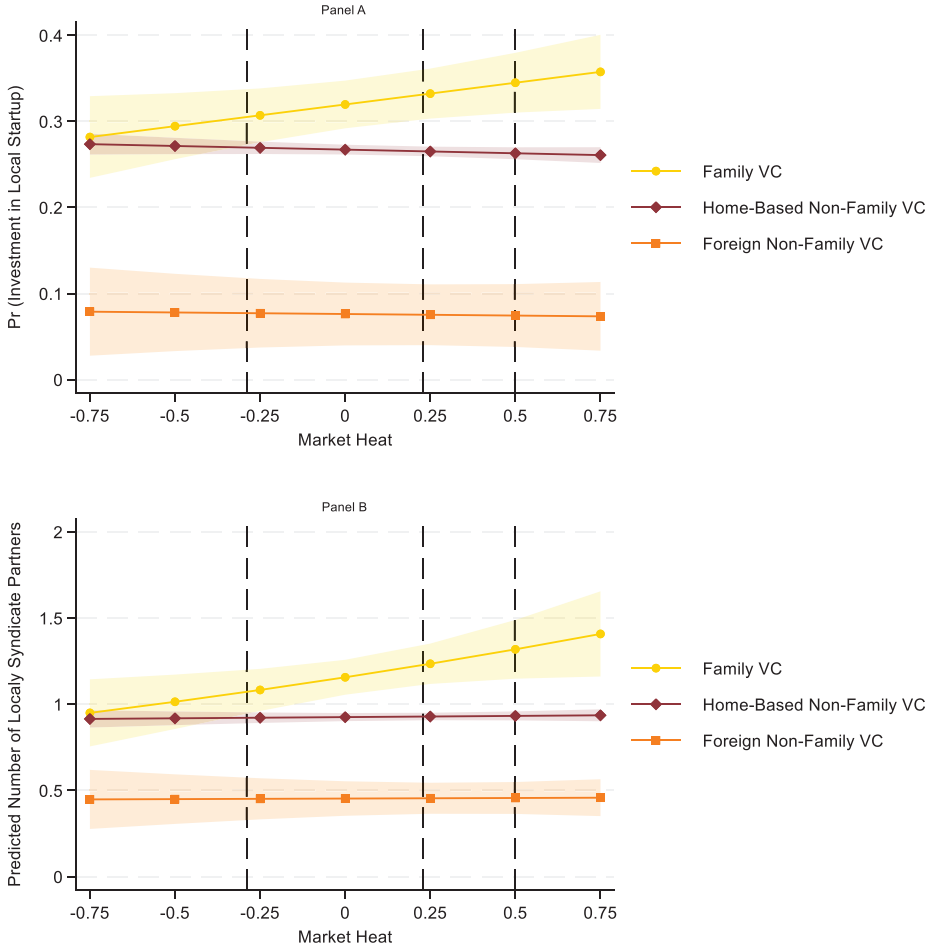

FIGURE 2 This figure depicts the relationship between *Market Heat* and the propensity to invest in local startups (a) and syndicate with local investors (b), plotting the results estimated from Columns 1 and 2, respectively, of Table 6. The shaded area reports 95% confidence intervals.

Market Heat, while they syndicate with 41.3% more local syndicate partners than Home-Based Non-Family VCs at the 90th percentile of *Market Heat*. Similar patterns emerge relative to Foreign Non-Family VCs. Collectively, these results provide support for hypotheses 2a and 2b.

I test hypotheses 3a and 3b in Columns 3 and 4 of Table 6. In those columns, I replicate the full specifications of Table 4 and interact the *Family VC* and *Foreign Non-Family VC* dummies with *Follow-On Fund Raised*. As suggested by hypotheses 3a and 3b, Family VCs are always more likely to invest in local startups and syndicate with local partners, but their propensity to do so further increases if a follow-on fund has been raised. In particular, they are 4.5 percentage points more likely to invest in local startups than Home-Based Non-Family VCs when a follow-on fund has not been raised, while they are 9.4 percentage points more likely to do so if a follow-on fund has been raised. Similarly, Family VCs syndicate with 16.9% more local syndicate partners than Home-Based Non-Family VCs if a follow-on fund has not been raised, while they syndicate with 54.7% more local syndicate partners than Home-Based Non-Family VCs if a follow-on fund has been raised. Thus, results provide support for hypotheses 3a and 3b. To ease

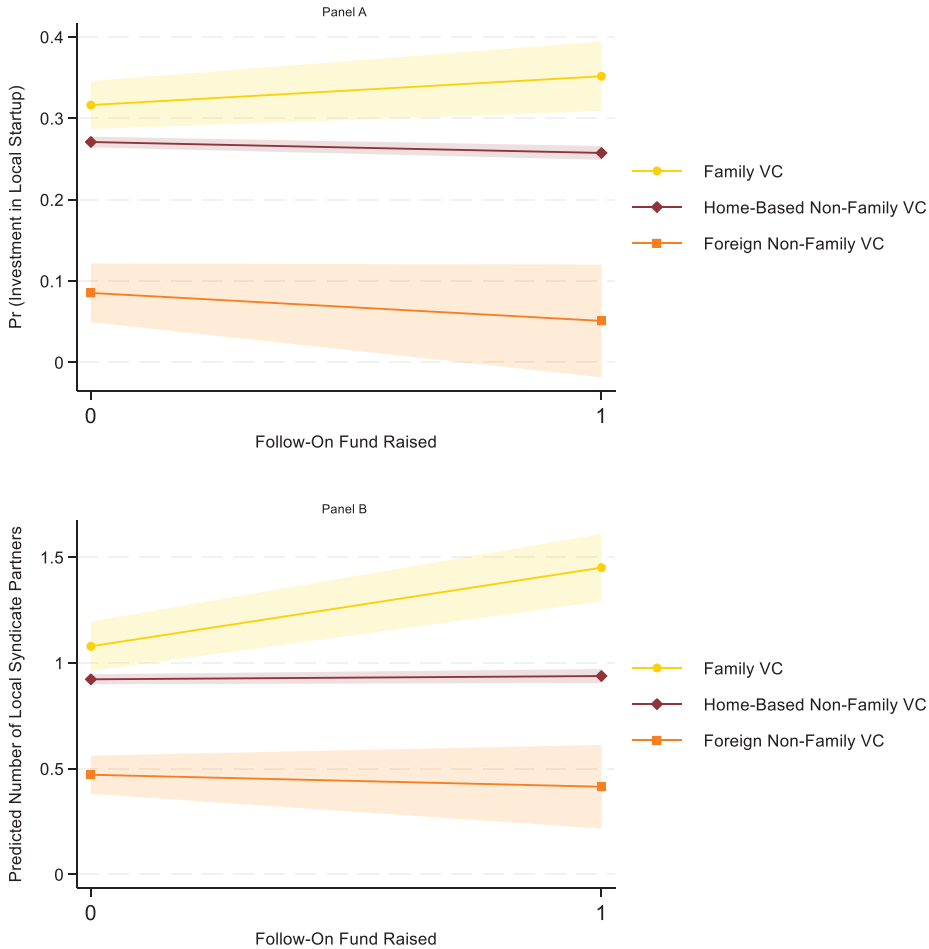

FIGURE 3 This figure depicts the relationship between *Follow-On Fund Raised* and the propensity to invest in local startups (a) and syndicate with local investors (b), plotting the results estimated from Columns 3 and 4, respectively, of Table 6. The shaded area reports 95% confidence intervals.

the interpretation of results, estimated coefficients from Columns 3 and 4 of Table 6 are presented in Figure 3. Table B12 (Online Appendix B) replicates the findings presented in Columns 1 and 3 of Table 6 using a Probit model, showing consistent results.

5 | DISCUSSION AND CONCLUSION

Family firms are traditionally associated with traditional industries. However, the emergence of family-managed VCs such as ULU Ventures goes against the conventional view of family firms. This exploratory paper bridges the literatures on family businesses and venture capital, showing that families make contributions to the VC industry beyond those made through their family offices (Block et al., 2019) and the CVC arms of their family firms (Amore et al., 2025). It reveals that their role extends to a distinctive category of VC funds, which I label Family VCs. In this paper, I abductively develop a parsimonious conceptual model (Bamberger & Ang, 2016), which has been empirically tested under the constraints of observational data, to explore how family control shapes VC funds' conduct. Focusing on fund-level organizational forms, the analyses presented in this paper show suggestive evidence of systematic differences in investment and syndication behavior between Family VCs, Home-Based, and Foreign Non-Family VCs. While the data do not allow for direct measurement of home bias or investor cognitions, the observed patterns provide suggestive evidence that non-rational home bias might be at play among Family VCs.

This paper argues that Family VCs represent a distinctive organizational form that combines family governance with accountability to institutional investors. Such duality generates a unique strategic logic. On the one hand, family governance introduces socioemotional considerations, local embeddedness, and non-rational preferences such as home bias. On the other hand, LP oversight and accountability impose financial discipline and performance pressures. This duality challenges the longstanding assumption that venture capitalists are profit-maximizing rational investors. Kaplan and Strömberg (2001) argue that VCs "*have strong incentives to maximize value but, at the same time, receive few or no private benefits of control.*" In contrast, Family VCs can derive socioemotional and reputational utility, forms of benefits of control, from their investments. The result is a unique strategic logic that cannot be reduced to being merely a "domestic VC". Rather, Family VCs represent a unique hybrid organizational form that helps us understand how organizations reconcile multiple and sometimes conflicting goals, a central theme in management research (e.g., Cyert & March, 1963; Smulowitz et al., 2020). Family VCs show that goal reconciliation is not static, but rather contingent on external conditions, such as market cycles and institutional pressures, that shape which objectives take precedence.

Using a multi-country sample from PitchBook data, I show that Family VCs, although relatively rare, play a non-trivial role in the VC industry, having participated in deals cumulatively valued at $124 billion. Family VCs have a unique tendency to invest in exceptionally local startups and syndicate with fellow local investors. Importantly, Family VCs differ from domestic VCs, which typically invest in startups operating in the same country (e.g., Devigne et al., 2016; Liu & Maula, 2016; Mäkelä & Maula, 2006). Instead, Family VCs exhibit a more sophisticated inclination toward exceptionally local startups and syndicate partners. This paper also shows that the extent to which Family VCs engage in local deals varies with contextual conditions, such as market heat and the necessity to raise follow-on funds. The observed patterns are consistent with the idea that the expression of non-rational home-bias among Family VCs depends on the severity of performance pressures faced by fund managers. Importantly,

such conditional effects are observed for Family VCs, but are absent in both Home-Based and Foreign Non-Family VCs.

5.1 | Future research

This paper, by introducing a new hybrid organizational form at the intersection between VC funds and family businesses, opens avenues to future research in several areas. First, the Family VCs setting represents a unique laboratory to refine key theories about family businesses, as it enables researchers to study family businesses operating under different conditions vis-à-vis the traditional family business. For example, prior literature concluded that as the family's wealth is concentrated in a single asset (the family business), the latter will be more risk-averse. The Family VC disrupts the causal link because even if VC partners have "skin in the game," they primarily manage third parties' (LPs) money rather than the family's wealth. Additionally, such a feature is typical of all VC funds, not only Family VCs. Consequently, the main assumption behind the well-documented risk aversion of family businesses does not hold in the Family VCs context. This would enable scholars to separate the effect of family control from that of undiversified wealth, enabling a cleaner test of the intrinsic risk aversion of family members.

Additionally, by considering the TMT of VC funds, this paper answers to recent calls for microfoundations-based theorizing in family business research (Kinger-Hans et al., 2024) and to move beyond the prevalent ownership-based classification (Parise, 2023). Such an upper-echelons lens creates an opportunity for cross-pollination with the family business groups literature, which has traditionally relied on structural ownership and institutional voids perspectives. By showing how the presence of family members in the management team-and even more importantly, their active involvement in the decision-making process-shapes investment strategies of VC funds, this paper highlights a potential mechanism—family participation in decision-making—that could also explain heterogeneous behaviors across various family business groups, particularly in emerging economies where institutional voids are poised to make family governance particularly salient. Consequently, this paper might serve as a springboard for future research that integrates the family business and family business group streams of literature by exploring the role of family participation in decision-making across different institutional settings. Such focus on TMTs could also prove relevant to study other family-managed vehicles in entrepreneurship that have so far been neglected, such as family-led startups (e.g., Seven Bro7hers Brewing, a UK-based company managed by the McAvoy brothers that raised $3.3 million in external financing) or accelerators (e.g., Pax Momentum, led by the Hanson family).

This paper also opens avenues for research in emerging economies. As suggested by Foo et al. (2020), entrepreneurial resource mobilization processes in emerging economies differ from market logics and formal governance structures typical of mature economies. In emerging economies, it tends to be governed by nonmarket logics (such as kinship ties and community considerations). In such contexts, Family VCs (which already combine socioemotional and financial considerations in developed economies) might behave in even more distinctive ways. Family VCs (as well as other family-run investment vehicles such as family offices or CVC units of family businesses) may operate with stronger nonmarket logics, aligning relatively more with Cells 3 and 4 reported in Foo et al. (2020)'s framework. Future research might consider exploring cross-country comparisons to explore these possibilities, as well as the impact of institutional voids, on family-run investment vehicles' strategies.

Finally, future research might explore the role of hyper-local VCs as a distinct subset within the broader category of domestic VCs. While the extant literature has classified domestic VCs as those investing within national boundaries, this research documents the existence of investors, like Family VCs, whose embeddedness operates at the hyper-local (rather than national) level. These hyper-local VCs might offer distinctive capabilities that are currently overlooked by the literature. For example, their local knowledge and connections with key local stakeholders might make them the ideal syndicate partners for foreign investors that typically face the liability of foreignness and seek local syndicate partners to overcome it (Liu & Maula, 2016).

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DATA AVAILABILITY STATEMENT

Data comes from the Pitchbook database, accessed in 2022 at Bocconi University.

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SUPPORTING INFORMATION

Additional supporting information can be found online in the Supporting Information section at the end of this article.

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