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Windows versus waves of opportunity: How reputation alters venture capital firms' resource mobilization

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Abstract

Research Summary: This paper investigates how reputation affects firm responses to resource mobilization opportunities. We theorize that lower-reputation firms are likely to be particularly responsive to resource mobilization opportunities because they are otherwise constrained. By contrast, higher-reputation firms have access to greater resource supply and may self-restrain demand. We test these arguments in the context of venture capital (VC) firms raising investment funds. We indeed find that lower-reputation VCs are more responsive to opportunities presented by recent successes. Unexpectedly, we find that high-reputation VCs are more responsive to market-wide heat. Through multi-method follow-on analyses, we propose that while recent successes constitute "windows of opportunity" upon which firms act with individual discretion, hot market conditions serve as "waves of opportunity," exerting a push on the resource mobilization of all firms and influencing their propensity toward scaling up.

Managerial Summary: We explore how low- and high-reputation venture capital (VC) firms respond to fundraising opportunities such as recent successes or

hot market conditions. We show that low-reputation VCs are more likely to fundraise from limited partners in response to firm-specific "windows of opportunity" (such as after a portfolio company IPO) because it is a rare chance to attract resource provider attention. By contrast, high-reputation firms are more likely to fundraise at their own pace, regardless of short-term successes. However, we unexpectedly find that high-reputation firms are more likely than low-reputation ones to take advantage of market-wide "waves of opportunity" (i.e., hot markets), likely because they benefit from increased fundraising process efficiency. Our study illustrates how hot market periods may be unusually advantageous fundraising opportunities for high-reputation firms and may be a key driver of when such firms scale up.

1 | INTRODUCTION

Research has long highlighted a positive relationship between firm reputation and resource mobilization (Clough et al., 2019; Gao et al., 2017; Hallen et al., 2020). A firm's reputation is the extent to which there is broad public recognition that it produces high-quality outputs (Rindova et al., 2005). Because a firm's reputation is developed and reinforced through the track record of the firm (Agarwal et al., 2009), reputation provides a reliable signal of future quality and makes the firm more visible to key resource providers and other stakeholders (Fombrun & Shanley, 1990; Hallen & Pahnke, 2016; Shapiro, 1983). High reputation also indicates a tendency toward appropriate behavior (Atanasov et al., 2012; Pahnke et al., 2015; Pfarrer et al., 2010). Consistent with these mechanisms, research has found that high-reputation firms have more access to attractive opportunities (Washington & Zajac, 2005) at lower costs (Hsu, 2004), command higher price premiums (Rindova et al., 2005), attract more and higher-status partners (Stern et al., 2014), and receive more and higher-quality job applicants (Turban & Cable, 2003).

All of this suggests that a greater *supply of resources* will be available to higher-reputation firms. But economic activity often depends on the interplay of *supply* and *demand* (Marshall, 1890). Accordingly, in this paper, we seek a *more balanced* perspective on how a firm's reputation may alter its resource mobilization across different opportunities, considering how resource supply and demand jointly influence when and the extent to which firms scale up. We argue that lower-reputation firms will generally be more constrained by the supply of resources available to them and less likely to have the opportunity for levels of resource

mobilization that raise internal scaling challenges. In contrast, we argue that while a higher reputation may amplify the supply of resources available to a firm, it may result in situations where higher-reputation firms self-restrain their demand for resources out of concern for the scaling challenges that aggressive resource mobilization introduces. We, therefore, theorize that lower-reputation firms' resource mobilization is likely to be particularly responsive to opportunities where resources are more abundant, including hot markets and following recent firm-level successes. Conversely, we expect the resource mobilization of higher-reputation firms will be less responsive to these opportunities due to the greater supply of resources available to them and their demand for resources being more self-restrained.

We empirically examine these arguments in the context of venture capital (VC) firms raising investment funds from institutional investors (Vanacker et al., 2020; Zhelyazkov, 2018). Often referred to as "limited partners" (LPs), such institutional investors include endowments, pension funds, family offices, and wealthy individuals. VCs seek to provide LPs with above-average rates of return by attracting, selecting, and aiding in the development of high-quality start-ups (Wasserman, 2008). The context of VCs mobilizing resources from LPs is well-suited for examining our theory as increasing such resource mobilization involves a tension between greater near-term profits (as part of VC partnerships' pay is a percentage of assets under management) versus the organizational challenges of managing a greater scale of resources (as this means VCs must make more or larger investments, possibly by adding more investment staff, while trying to preserve quality) (Chung et al., 2012; Ewens & Rhodes-Kropf, 2015; Metrick & Yasuda, 2010). In addition, the context offers an established and validated measure of firm reputation (Hallen & Pahnke, 2016; Lee et al., 2011; Pollock et al., 2015).

Unexpectedly, our results reveal a sharp distinction in how reputation alters the resource mobilization responsiveness of firms to firm-specific successes vs. market-wide heat. As anticipated, we find that high-reputation VCs are less responsive to firm-specific resource mobilization opportunities presented by their own recent successes in the form of initial public offerings (IPOs). Yet counter to our expectations, higher-reputation firms are even more responsive than lower-reputation firms to conditions of market-wide heat, taking on greater scale, and such situations *amplify differences* in resource mobilization between high- and lower-reputation firms. We seek to understand where our original arguments may have been incomplete using post hoc quantitative analyses involving additional data collection and follow-on interviews with VCs and institutional investors.

Both quantitatively and qualitatively, our post hoc analyses support many of our original assumptions—including reputation having effects through both supply and demand factors—though with some unexpected nuances. Yet, these post hoc analyses also uncovered patterns that we believe may collectively drive our unexpected findings. Informant VCs reported amplifying their resource mobilization in hot markets because the *resource mobilization process was more efficient* and consumed less time in hot markets—a factor absent from our original arguments and that has generally received less attention in the literature on resource mobilization (cf. Hallen & Eisenhardt, 2012, who explore how factors other than market heat relate to efficient resource mobilization). In addition, we quantitatively see evidence for such efficiency mechanisms as high-reputation VCs are especially likely to fundraise from their existing LPs in hot markets. Paired together, these observations suggest that elevated resource mobilization efficiency for high-reputation firms during hot periods appears to be the most parsimonious explanation for our unexpected findings.

Based on these insights, we revise our theory to distinguish between two types of resource mobilization opportunities that have differential effects on scaling propensity: "windows of

opportunity" generated by firm-specific successes that are most beneficial to lower-reputation firms versus "waves of opportunity" generated by market-wide heat that create a greater push on the resource mobilization of all firms. Overall, we contribute to the intersection of the literatures on resource mobilization, firm reputation, and scaling. A core takeaway is that hot markets are unusually advantageous resource mobilization opportunities for high-reputation firms and may be a key driver of when such firms scale. In contrast, we observe greater equifinality between market heat and firm-level successes in their effects on the resource mobilization of lower-reputation firms. In this way, we show that both market heat and firm reputation may have a broader range of effects on firms than previously recognized. More broadly, our revised theory and findings show how reputation impacts resource mobilization by altering both the supply of resources available to a firm and its demand for those resources. We conclude by considering implications for managers on how to synchronize resource mobilization around these windows and waves of opportunity.

2 | THEORETICAL ARGUMENTS

Firm reputation has a long history in a variety of social science literatures. Perhaps not surprisingly, a variety of definitions have been introduced (Lange et al., 2011; Rindova & Martins, 2012), with the management literature broadly coalescing around reputation as stakeholders' collective perception of a firm based on the quality of its track record (Chandler et al., 2013; Pfarrer et al., 2010). While conceptualized as fundamentally a perceptual construct, reputation has been theorized and empirically found to be closely related to firms' objective track records (Fombrun & Shanley, 1990; Hallen & Pahnke, 2016; Rindova et al., 2005). Given the challenges of collecting perceptual data over time, many longitudinal studies have primarily measured reputation using a firm's objective track record (Lee et al., 2011; Washington & Zajac, 2005). The assumption in this literature is that a stronger objective track record not only reflects a firm's demonstrated capabilities but also is likely to drive awareness among and prominence in the minds of stakeholders (Lee et al., 2011; Rindova et al., 2005). The literature has distinguished firm reputation from related constructs, including firm celebrity (Pfarrer et al., 2010), status (Pollock et al., 2015; Stern et al., 2014), and legitimacy (Deephouse & Carter, 2005). We focus on firm reputation as it most closely relates to objective past performance, whereas other constructs exhibit greater social construction; given the sophistication of many critical resource providers, we expect reputation to be especially key in their decision to provide resources to a firm.

In this paper, we consider the relationship between firm reputation and resource mobilization. By resource mobilization, we refer to firms assembling tangible and intangible assets for better pursuing focal opportunities (Clough et al., 2019). While resources are sometimes mobilized through spot transactions involving resources for cash, resource mobilization often involves long-term interdependencies such that the returns to the resource provider may not occur for some time and may be uncertain due to dependence on the future performance of the mobilizing firm (Eisenhardt & Schoonhoven, 1996; Zott & Huy, 2007). Resource mobilization thus often depends on expectations of mutual value creation for both mobilizers and providers, as well as expectations that such value creation may exceed reasonable alternatives for both parties (Mindruta et al., 2016).

The literature suggests that higher reputations make it easier for firms to mobilize resources when they seek to do so because higher reputations provide credible signals of quality and

future behavior, which will alter the supply of resources available to a firm. This mechanism rests on the concept of information signals from economics (Shapiro, 1983; Spence, 1973; Weigelt & Camerer, 1988). From this perspective, reputation is a credible signal of quality because it is highly correlated with otherwise unobservable attributes (quality and reliability of future behavior) and is costly or difficult to fake for firms lacking these attributes. Supporting this logic, firms with stronger track records have been found to be better able to sustain superior performance, a pattern seen both in public companies (Roberts & Dowling, 2002) and private equity and VC firms (Kaplan & Schoar, 2005). Likewise, higher-reputation VC firms are less likely to have been litigated by counterparties (Atanasov et al., 2012) and are less likely to leak information when they coinvest in start-ups in the same industry (Pahnke et al., 2015).

Collectively, these mechanisms suggest higher-reputation firms will have a greater supply of resources available because they will be perceived as more likely to create value and comply with agreements around sharing captured value. Supporting this, many studies have found a positive relationship between firm reputation and resource mobilization (for a review, see Clough et al., 2019). Higher-reputation firms, as measured by various magazine rankings, were found to receive more applications from students at two business schools and to receive higher-quality applicants (Turban & Cable, 2003). Biotechnology ventures that applied for or were granted more patents raised more capital in a given year (Baum & Silverman, 2004), and internet security ventures releasing more products early on attracted higher-status investors (Hallen, 2008).

Yet, this work to date has generally emphasized how reputation alters the *supply* of resources available to a firm. In this paper, we seek a more *balanced* perspective, theorizing that reputation may also affect a firm's demand for resources and willingness to operate at a greater scale. While a firm's demand for resources is often not directly observable or publicly disclosed (as is the case in our context), we theorize that this demand-side logic will, in certain circumstances, dominate the resource mobilization of higher-reputation firms. We thus expect reputation to moderate how a firm responds to situations of resource abundance.

We focus on two forms of resource mobilization opportunities emphasized by prior literature: opportunities created by market-wide heat (Sorenson & Stuart, 2008; Zhelyazkov & Tatarynowicz, 2021) and by a firm's recent successes (Hallen, 2008; Pollock et al., 2015). We argue there are strong supply-related reasons to anticipate that lower-reputation firms should be particularly responsive to such situations. In contrast, we broadly expect higher-reputation firms' resource mobilization to change less across these situations due to a combination of supply and demand factors. Our logic for why we expect these patterns to occur differs somewhat across hot markets and recent firm-level successes, though, and we thus theorize about them separately.

2.1 | How firm reputation will moderate responsiveness to market heat

Market heat is the extent of increased market activity relative to recent history, generally driven by an influx of interest from resource providers (Gulati & Higgins, 2003; Sorenson & Stuart, 2008). It is thus an increase in the *supply* of resources available in the broad market. It is often triggered by exemplary successes that capture the interest of potential resource providers and signal opportunities in the market (Bermiss et al., 2017). It can also arise from resource providers and gatekeepers attending to common information cues as to what is on the horizon.

Fashion buyers make similar purchasing decisions for the next season without communicating with one another (Blumer, 1969), and VC firms react to industry trends and the press in a way that makes certain sectors particularly active (Gompers & Lerner, 2000). Moreover, an early rise in market heat often gives rise to herding behavior, both due to resource providers taking others' actions as credible signals of attractive opportunities (Banerjee, 1992) and psychological biases toward relying on social proof (Cialdini, 1993; Rao et al., 2001).

Hot markets do not last forever, though. In cooler markets, resource providers may become concerned that the terms of exchange or opportunities in a market have diminished and pull back their participation. This may particularly be the case for what some VCs call "tourist capital," or LPs that only foray into the VC investment arena during frothy market conditions. Herding behavior and social proof may then work in the opposite direction, with reduced support for a market spreading between resource providers. The transition to cold markets where resources are scarce, however, is often sudden and hard to forecast (Malkiel, 2003).

2.1.1 | The impact of market heat on lower-reputation firms

We expect lower-reputation firms' resource mobilization to have a strong positive relationship with market heat. In cold markets, resource providers are often particularly risk-averse. Not only may the aggregate supply of resources be reduced in cold markets, but resource providers may be especially hesitant to supply resources to lower-reputation firms that are perceived as riskier. For instance, public market investors exhibit a greater preference in cold markets for blue-chip investments relative to speculative investments in young or unprofitable companies (Baker & Wurgler, 2006). Similarly, VC firms in cold markets exhibit risk aversion in their partnerships, avoiding status-heterophilous relationships (Zhelyazkov & Tatarynowicz, 2021). We, therefore, expect lower-reputation firms to be particularly constrained by supply factors in their ability to mobilize resources in cold markets, as resource providers exhibit a greater preference for higher-reputation firms.

As market heat increases, however, we expect resource providers to be more willing to supply resources to lower-reputation firms that might otherwise be perceived as too risky. In part, this is because, in hot markets, there are simply more resources to go around. Moreover, and for reasons we detail shortly, we expect higher-reputation firms to self-restrain their demand for resource mobilization in hot markets—making more of the inbound resources in hot markets available to lower-reputation firms. Beyond this, the social herding and competition in hot markets may shift evaluative mindsets and lead resource providers to engage in greater risk-taking. In line with these arguments, investors have been found to rush into riskier categories in hot markets, such as the stocks of young and unprofitable companies (Baker & Wurgler, 2006, 2007). Similarly, VCs are more likely to establish riskier relationships with distant and unfamiliar others during hot periods when "optimism...overcomes prudence" (Sorenson & Stuart, 2008, p. 271). These dynamics suggest that in hot markets, the supply of resources available to lower-reputation firms will increase and that lower-reputation firms will elevate their resource mobilization accordingly.

2.1.2 | The impact of market heat on higher-reputation firms

In contrast, we expect the relationship between market heat and resource mobilization to be more dampened for higher-reputation firms. First, the greater risk aversion of resource

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providers in colder markets will mean that higher-reputation firms will find it easier than lower-reputation firms to mobilize resources. That is, resource providers may engage in a "flight to quality," with an increased preference for higher-reputation firms (Baker & Wurgler, 2006, 2007). While the overall supply of resources in the market may contract in cold markets, we theorize this will affect the supply of resources available to higher-reputation firms to a lesser extent.

Second, and perhaps more critically, we also expect that higher-reputation firms may be more likely to *self-restrain their demand* for resources in hot markets. While a high reputation reduces the extent to which a firm is penalized for negative performance in the short term (Love & Kraatz, 2009; Pfarrer et al., 2010), a reputation must also be constantly replenished. Over time, large or persistent drops in performance are likely to lead to reputational declines (Pollock et al., 2015; Rhee & Haunschild, 2006). Given that a high reputation often takes many years to establish (Lange et al., 2011; Pollock et al., 2015), high-reputation firms have strong incentives to avoid endangering this asset. This argument is further supported by loss aversion, which suggests individuals may especially act to avoid potential losses (Kahneman & Tversky, 1979). Illustrating these dynamics, higher-reputation VC firms have been found to have been less likely to have been involved in lawsuits (Atanasov et al., 2012) and less likely to leak information between competing investments (Pahnke et al., 2015).

We thus theorize that higher-reputation firms may be especially concerned about aggressive resource mobilization that may facilitate growth but also risks a firm's quality and reputation. Here, high-reputation firms may be concerned about various scaling challenges, including growth sustainability (Tidhar et al., 2023), refining and replicating processes (McDonald & Eisenhardt, 2020), recruiting additional human talent (Boeker & Wiltbank, 2005), and expanding management systems (DeSantola et al., 2023). Accordingly, higher-reputation firms may be especially likely to seek to pace their resource mobilization and growth. While lower-reputation firms may also be concerned about such challenges, we theorize that they will generally be more supply-constrained and generally not able (even in hot markets) to mobilize resources at the level that they would self-restrain their demand.

Bringing these arguments together, we expect lower-reputation firms to be primarily supply-constrained and thus highly responsive to market heat in their resource mobilization. In contrast, we expect higher-reputation firms to be relatively less supply-constrained and more demand-constrained in their resource mobilization. We expect them to grow at a more steady pace across both cold and hot markets, though this may still be faster on average than the pace of growth of lower-reputation firms in hot markets.[1] Therefore:

> **Hypothesis 1.** A higher firm reputation will dampen the otherwise positive relationship between market heat and a firm's resource mobilization.

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[1]These arguments have a few boundary conditions. We assume that there are no strong advantages to aggressive resource mobilization in hot markets that outweigh the corresponding risks. In our context, for instance, we assume that the quality of ventures and venture investment deals is not better on average than in cold markets (cf. Gompers & Lerner, 2000). Another boundary condition is the assumption that higher-reputation firms may be more likely to be operating near their capacity constraints and are thus more concerned with self-restraining resource mobilization and scaling.

2.2 | How firm reputation will moderate responsiveness to firm successes

The second form of resource mobilization opportunity we consider is when firms have experienced recent successes. In contrast to market heat, recent successes represent firm-level resource mobilization opportunities. Here, we also expect lower-reputation firms' resource mobilization to be particularly responsive to these opportunities, but for this relationship to be dampened for higher-reputation firms due to a combination of supply and demand factors (though for somewhat different reasons than in the case of market heat).

Similar to reputation, recent successes that distinguish firms from competitors are also often interpreted as a credible signal of a firm's potential (Spence, 1973; Zott & Huy, 2007). For instance, releasing more products than competitors or securing more patents can be helpful for start-ups in obtaining higher-status investors or higher valuations (Hallen, 2008; Hsu & Ziedonis, 2013). In the VC context, having investments result in an IPO may be an especially strong signal, both reflecting the strong performance that a VC firm achieved in its current deal and also that a VC is likely to attract increasingly higher-quality start-ups in the near future (Gompers, 1996; Pollock et al., 2015).

2.2.1 | The impact of recent successes on lower-reputation firms

Whereas our arguments for the moderated effects around market heat relied on market-wide shifts in resource providers' preference for quality, our argument for firm successes is that the value of the resulting signal is most pronounced for lower-reputation firms. For these firms, a distinguishing success provides relatively novel information indicating a lower-reputation firm is on an upward trajectory and has experienced a shift in its long-term potential. Thus, for a lower-reputation firm that has previously had limited interest from resource providers, a recent success is likely to increase the supply of resources that the firm can potentially mobilize.

2.2.2 | The impact of recent successes on higher-reputation firms

For higher-reputation firms, however, the information signaled by a recent success may be less novel. Such successes reinforce and show the persistence of a higher-reputation firm's existing track record (Hsu & Ziedonis, 2013; Ozmel et al., 2013). A lack of recent success may also be given less weight for high-reputation firms, as reputations are more resilient in the short term to contradicting negative information[2] (Pfarrer et al., 2010; Pollock et al., 2015). Together, this suggests that recent successes may exert less of an influence on the supply of resources available to higher-reputation firms and their resource mobilization activity. At the same time, we also expect higher-reputation firms to continue to self-restrain their demand for resources, holding

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[2]This argument that high-reputation firms are buffered in the short term against negative information deserves some explicit reconciliation with our prior argument that high-reputation firms will also be more risk-averse and reliable in their behavior. Key is that the buffering is about how *audiences* may react in the short term to negative information about a high-reputation firm. In contrast, the reduced risk-taking and reliability is an argument about the behavior of the high-reputation firm itself and its desire to avoid such negative information out of a long-term desire to preserve its reputation. See Pfarrer et al. (2010) and Pollock et al. (2015) for further elaboration and empirical support.

back from very aggressive mobilization for the reasons outlined around market heat. Overall, we expect that:

> **Hypothesis 2.** A higher firm reputation will dampen the otherwise positive relationship between a firm's recent successes and its resource mobilization.

3 | DATA AND METHODS

3.1 | Empirical context

We study how resource mobilization varies with market heat and firm successes in the context of US VC firms raising investment funds from LPs (Vanacker et al., 2020; Zhelyazkov, 2018). VCs then invest on behalf of LPs in the equity of private ventures that they believe have the potential for substantial growth and an eventual "liquidity event" in the form of an IPO or acquisition. Because of the rapid growth experienced by some ventures and power asymmetries in the venture finance market, VCs investing even a fraction of their portfolio in the right ventures can earn returns for LPs well above the returns of the public market (Metrick & Yasuda, 2010). VC firms earn revenues from a combination of management fees (typically 2% annually of assets under management or deployed capital) and a share of investment profits (typically 20% for profits above some hurdle rate) (Bermiss et al., 2017).

Almost universally, VCs operate "closed-end" funds that have a fixed timeline of about 10 years. Once a VC firm secures sufficient capital commitments from its institutional investors (i.e., LPs), it launches the fund and draws on investors' capital as the investment opportunities present themselves. Typically, in the first few years of the life of a fund, the VC firm identifies new portfolio companies to invest in; as the fund matures, the VCs switch to using that fund primarily to support the more successful portfolio companies with follow-on rounds. One consequence of this rhythm is that VC firms typically raise a new fund approximately every 3 years to continue investing in new, early-stage portfolio companies. Raising new funds is thus a high-stakes activity for VCs and is certainly treated as such.

The context of VCs raising new funds is well-suited for our research question. A primary advantage of this context is that it has a measure of VC reputation that has been validated in both studies of entrepreneur perceptions and VC performance: The Lee et al. (2011) LPJ index (Hallen & Pahnke, 2016; Pahnke et al., 2015). It is important to note that while recent research suggests that skill in venture investing within VC firms may reside at the level of individual partners (Ewens & Rhodes-Kropf, 2015), reputation in the context has traditionally been conceptualized as a firm-level construct. We believe such a firm-level construct is appropriate for our research question since funds from LPs are raised at the firm level, and many partners from the firm are collectively responsible for investing each fund (and sharing in its gains). Moreover, entrepreneurs themselves also highlight when they have taken investments from particularly marquis VC firms—for example, Sequoia or Andreessen Horowitz. The importance of partner skill, however, supports our assumption that scaling a VC firm is likely to be challenging, as it depends on bringing on the right new partners.

An ideal experiment would allow us to randomly assign the chief moderator (VC firm reputation) as well as the key independent variables (firm successes, market heat). Out of these three potential levers, one (market heat) is reasonably exogenous to the model (i.e., firms can neither affect it nor predict it accurately far in advance). Conversely, reputation is the most

challenging variable to randomly assign, even in a laboratory experiment. Reputation is built through long-term exposure rather than snap transactions; moreover, our theorized dynamics depend on reputation affecting the behavior of both resource mobilizers and resource providers. Thus, even a vignette experiment would be unlikely to fully capture the theorized social dynamics. At the same time, we are unfortunately not aware of valid instruments in our context that would have causal influences on firm reputation or recent successes but would otherwise not have a direct causal influence on firm resource mobilization. Thus, while our data provide high external validity, we have chosen to rely on both qualitative and quantitative post hoc analyses to further examine underlying mechanisms.

3.2 | Data sources and sample

Our data sample is a longitudinal dataset constructed at the level of the VC firm-year. Our primary data are collected from Thomson ONE's VentureXpert, a reference source for information on VC fundraising, investing, syndication, and exits that has been used extensively in strategy and entrepreneurship research (Makarevich, 2018; Zhelyazkov & Gulati, 2016). As detailed in our robustness checks section, we also gathered data on internal rate of return (IRR) where available from Private Equity Intelligence (Preqin) (e.g., Hochberg & Rauh, 2013).

We focused exclusively on dedicated VC firms. We excluded other entities, such as corporate VC arms, incubator programs, and angel investment groups, who mobilize their investment capital from other sources. To enhance comparability across firms, we restricted our sample to US-based VC firms and filtered out investments in portfolio companies made outside of the United States. Since earlier years in the VentureXpert dataset have been considered unreliable (Podolny, 2001), we restricted our sample to VC fundraising during the time period of 1990–2016. Given our focus on firm reputation as a key predictor, we restricted our sample to VCs that had already raised at least one fund. VCs enter the sample the year after they raised their first fund. As dates of dissolutions are not captured in VentureXpert, we assume a VC firm ceased operation in the year after its last investment if it had been classified as "inactive" or "defunct" by VentureXpert as of the end of the data collection in 2017. In total, our data consist of 27,168 firm-year observations drawn from 2321 VCs.

3.3 | Dependent variables

Our research question focuses on VC resource mobilization. Given the closed-fund nature of the typical VC fund, resource mobilization encompasses two distinct elements: (1) whether a VC raises a new fund in a particular year and (2) the amount fundraised. While our theory predicts similar dynamics for each, we examine them separately to explore whether this is indeed the case.

Raises a new fund. This binary dependent variable captures whether a VC firm raises one or more new funds in a particular year (Gompers & Lerner, 1998). A value of one indicates that a VC both sought to raise a fund and completed raising it ("closed" it) in that year.

Amount raised. Our second dependent variable is a continuous measure of the total capital raised in a given year for a VC's investment funds, measured in millions of dollars. Given our use of a zero-inflated negative binomial (ZINB) estimation approach (discussed shortly), this measure was rounded to the nearest whole number in millions and assigned a value of zero in

years that a VC firm did not raise any new capital for its funds. We note that 18 fundraising events were for amounts less than 500k and were consequently rounded down to zero. These were not included in the second-stage ZINB regression analysis, bringing the number of fundraising events analyzed in those models down to 4067 from 4085.

3.4 | Independent variables

Firm reputation. We define a firm's reputation as the extent to which there is broad public recognition that it produces high-quality outputs (Rindova et al., 2005). As widely held public perceptions are generally difficult to measure directly, we follow prior reputation literature and measure reputation using VC firms' observable track records across a number of dimensions that are likely to drive and reflect such perceptions. Specifically, we use the lagged VC reputation index proposed by Lee et al. (2011) and widely used and validated in subsequent research (e.g., Hallen & Pahnke, 2016; Pollock et al., 2015; Zhelyazkov, 2018). We constructed the composite index using the six components previously identified by Lee et al. (2011, p. 41) and calculated over a 5-year rolling window. These are "*the total number of portfolio companies a VC invested in; the total funds invested in portfolio firms; the average dollar amount of the total funds under management; the average number (count) of individual funds raised; the number of portfolio firms taken public; and VC age in the focal year*" (Lee et al., 2012, p. 201). Lee et al. (2011) selected these components based on past literature and to capture the prominence and quality of output dimensions of reputation (Rindova et al., 2005). In line with prior practice, each of those variables was z-score standardized before all the variables were added together. Finally, we scaled the resulting index so that the maximum value was equal to 100.0 and the minimum value was equal to 0.01 in any given year. As discussed later, we also examined robustness to another measure, IRR, in a post hoc exploratory analysis.

Market heat. For Hypothesis 1, we measure market heat based on the number of VC funds raised from LPs. Because market heat is a relative construct, we use a lagged ratio of the number of VC funds raised each year at the industry level among US VC firms to the average number of VC funds raised in the antecedent 3 years:

$$\text{Market heat}_t = \ln\left(\frac{\text{VC funds raised}_t \times 3}{\sum_{k=t-3}^{t-1} \text{VC funds raised}_k}\right).$$

Taking the natural log of the ratio is helpful for purposes of symmetry and to ease understanding, as values above zero represent a "hot" market while values below zero represent a "cold" market.

Recent IPOs. For Hypothesis 2, we measure a VC's recent successes by the number of portfolio companies that have gone public (had an IPO) in the last year. Often, a single IPO by a portfolio company is enough to make the entire fund profitable. IPOs are considered highly visible events at the industry level and have been shown to be a key driver of changes in how a VC firm is perceived (Pollock et al., 2015) and to prompt the entry of new VC firms (Bermiss et al., 2017). We chose to use IPOs over acquisitions, the other key liquidity event for private ventures, as research has found there is a heavy left tail of unprofitable exits via acquisitions

(Cochrane, 2005), and their correlation with fund performance is lower than it is for IPOs (Smith et al., 2011). As our theory aims to separate recent successes from the longer-term track record that underlies reputation (and, in our robustness tests, IRRs of past funds), we followed prior research and focused on IPOs in the 1-year window immediately preceding the focal year (Gompers & Lerner, 1998). We take the natural log of one plus all IPOs to correct for skewness. We explore the results' sensitivity to this operationalization in our robustness tests.

3.5 | Control variables

Focal firm's status. A VC firm's status—captured by eigenvector centrality in the VC syndication network—has long been considered an important measure of the firm's stature in the industry (e.g., Podolny, 2001). It is conceptually and empirically distinct from the VC firm's reputation in that status reflects a firm's perceived ranking in a social hierarchy and is strongly influenced by observable patterns of connections (Lee et al., 2011). We calculated the yearly eigenvector centrality of each firm within the VC investment network using the igraph package in R based on the network of dyadic-level coinvestments in the preceding 5 years. We z-score the eigenvector centrality output within each year to facilitate cross-year comparison; scaling within every year so that the maximum is one and the minimum zero yielded nearly identical results.

VC industry and stage focus. We also controlled for the firm's industry specialization. We used a Herfindahl index of the distribution of its investments in the preceding 5 years over the 10 industry categories identified by VentureXpert. In order to further capture any persistent effects of the industry sectors, we also incorporate measures for the percent of portfolio company investments made in each of these 10 industry sectors in the preceding 5 years. To capture investment stage focus, we created an additional control variable indicating the percent of investments made in early-stage companies in the preceding 5 years.[3]

VC firm performance: shutdowns and acquisitions. We include controls for the number of portfolio company shutdowns and acquisitions in the prior year to holistically account for a firm's most recent performance signals. We based our list of shutdowns on companies whose status was marked as "defunct" in VentureXpert. Based on discussions with industry informants, we assumed that shutdowns occurred 2 years after the portfolio companies last received VC financing (for robustness, we also explored 1 and 3 years). We identified acquisitions using VentureXpert. To correct for skewness, we take the natural log of one plus all shutdown and acquisition numbers.

VC firm geographic location. We include binary control variables for the three most common *headquarter states* of US VC firms—CA, NY, and MA—that together represent 52.9% of observations. This is to account for the fact that firms concentrated in the hotbeds of VC activity in the United States may be more salient and find it easier to attract institutional investors.[4]

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[3]In 371 of the 27,168 observations in the main dataset, VCs had not made any investments in the prior 5 years despite going on to continue to fundraise from institutional investors subsequently. We imputed industry and stage specialization measures for these observations based on the most recent historical year for which these measures could be calculated. We use a dummy variable to indicate imputed observations.

[4]We also evaluated models that include fixed effects for all states. However, including state fixed effects results in failure to estimate Wald chi-squared statistics in logistic regression models and failure to achieve convergence in the ZINB models. We do note that apart from the failure to calculate the Wald chi-squared statistics, the point estimates and *p* values we later report in logistic regression models appear materially unaltered.

New venture funding demand. Given that venture-side demand for VC may fluctuate from year to year and as ventures may be limited in their desire for external financing, we control for lagged demand for VC funding based on the natural log of the total number of new ventures listed in VentureXpert as receiving a *first round* of VC financing in the United States in the prior calendar year.

Fundraising record. To account for the "dry powder" left in previous funds, we control for *years since the firm last fundraised*; after a VC firm has fundraised, it typically need not do so again for another 2–3 years. To capture potential nonlinearities (with most VCs seeking to raise new funds every 3–4 years), we include dummies for each year between one to nine since the last fundraising (reference category is for firms that are 10+ years after their last fundraising). To account for a VC firm's past scale, we control for the natural log of the *amount fundraised* during the most recent year that a firm did any fundraising. Finally, because VC fundraising prospects become more stable after raising a second or third fund (Vanacker et al., 2020), we also include *fund number* controls, specifically whether the VC is seeking to raise its second, third, or fourth-plus fund.

3.6 | Analytic procedures

We model each firm's binary decision of whether or not to fundraise in a particular year using discrete-time logistic regression models with robust standard errors clustered by VC. Observations in the models are at the VC firm-year level of analysis. Discrete-time logistic regression models are common in management research when observation time windows are not continuous and failures are tied, therefore rendering continuous hazard models, such as the Cox proportional hazard model, less efficient (Bermiss & McDonald, 2018).

We modeled VC firms' fundraising amounts using ZINB models. Such models can effectively handle both an overdispersion of the dependent variable and the overrepresentation of structural zeroes, that is, the years when a VC firm was highly unlikely to raise a fund due to either not seeking funds or not being sufficiently attractive to investors (Bermiss et al., 2017, p. 555; Whittington et al., 2009, p. 108). In effect, the estimation proceeds in the two stages that underlie the fundraising outcome: (1) the binary outcome of whether or not fundraising is likely to occur at all and (2) the amount fundraised in millions, after accounting for those firms that were likely not fundraising at all. The first stage of the approach estimates a logit inflation model whose coefficients and standard errors are highly similar to the described discrete-time logistic regression model, except that signs of variable coefficients are inverted because the models predict "zero" events rather than completed events. For clarity, we present discrete-time logistic regression models examining whether a VC firm raises a new fund in a given year and the second-stage ZINB models to examine the amount fundraised.

4 | INITIAL QUANTITATIVE RESULTS

Table 1 reports the univariate descriptive statistics and correlations across the 27,168 observations in the final dataset. The descriptive statistics show a good balance between hot and cold years in the sample, with mean market heat at 0.0 (i.e., neither hot nor cold) and about 43% of observations occurring in colder periods. Fundraising from LPs was completed in about 15%

of the firm-year observations. None of the variance inflation factors for any of the variables exceeded 5, indicating multicollinearity is unlikely to be a problem (Kutner et al., 2004).

Table 2 presents the results of the first-stage logistic regression models examining the likelihood of a VC firm fundraising in a given year. Model 1 presents the direct effects, Models 2 and 3 separately add the interactions theorized in Hypotheses 1 and 2, and Model 4 adds both interactions simultaneously. Table 3 reports the results of the second stage of the ZINB models estimating the amount of capital raised by VC firms that were likely to raise a new fund in a given year (we do not report the first-stage negative binomial models as they are substantively equivalent to the discrete-time logit models). Table 3 models follow a parallel structure to Table 2.

Market heat and reputation. Hypothesis 1 predicted that a higher reputation would dampen the positive relationship between market heat and a firm's resource mobilization. Unexpectedly, the interaction between reputation and market heat is *positive* in the logit estimates of the likelihood of a VC firm raising new funds in Table 2 when modeled separately in Model 2 ($\beta = 0.01$; $p = .011$) and in the full Model 4 ($\beta = 0.02$; $p = .000$). Regarding the amount of capital raised, the second-stage ZINB estimates in Table 3 show weak evidence of a negative interaction between firm reputation and market heat when modeled separately in Model 2 ($\beta = -0.01$; $p = .074$) and no evidence in the full Model 4 ($\beta = -0.00$; $p = .620$). Thus, counter to Hypothesis 1, our data indicate that higher-reputation firms unexpectedly are *more* likely to fundraise during hot markets, and we find no consistent support for the idea that higher-reputation makes VCs more or less sensitive to market heat in how much they raise.

Because of the nonlinear nature of our interaction models, we also present our findings graphically across a range of values to ensure correct interpretation (Hoetker, 2007). Figure 1 presents the predicted likelihood of a VC firm raising in a given year at different levels of reputation and market heat, as predicted by Model 4 in Table 2. Here, we again see that counter to our original theory, high-reputation firms are especially likely to amplify their likelihood of fundraising as market heat rises. For a low (5th percentile) reputation firm, moving from 25th to 75th percentile market heat (e.g., from a cold to hot market) raises the predicted probability of fundraising from 9.5% to 12.7%, or a difference of 3.2%; this pattern is closely tracked by a mean reputation firm, which experiences a rise from 12.2% to 16.7%, or a difference of 4.5%. By contrast, for a high (95th percentile) reputation firm, moving from the 25th to 75th percentile market heat raises the predicted probability of fundraising from 23.4% to 32.7%, or a difference of 9.3%. Figure 2 plots the predicted amount of funds raised at different levels of reputation and market heat using the full Model 4 from the ZINB estimates in Table 3. For a low-reputation firm, moving from 25th to 75th percentile market heat results in an increase in the predicted amount fundraised from \$34.5M to \$50.6M; for a mean reputation firm, this increase is from \$51.3M to \$76.3M. By contrast, for a high-reputation firm, this increase is from \$151.7M to \$225.2M.

Paired together, our regression estimates in Tables 2 and 3 and Figures 1 and 2 indicate that the fundraising of high-reputation firms is more impacted by market heat than the fundraising of lower-reputation firms and that this is primarily linked to the more frequent fundraising behavior of higher-reputation firms. As detailed shortly, our initial robustness analyses indicated that these unexpected findings held across alternative empirical specifications. Accordingly, we undertook additional qualitative and quantitative data gathering to explore where our original arguments may have been incomplete; we detail our findings in the next section and revise our theoretical arguments accordingly.

IPOs and reputation. Hypothesis 2 predicted that a higher firm reputation would dampen the positive relationship between a firm's recent successes and its resource mobilization.

TABLE 1　Descriptive statistics and correlations.

	Variable	Mean	SD	Min	Max	Obs	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1.	Amount fundraised (M)	90.19	609.44	0.00	23174.00	27,168	1.0																
2.	Fundraise (1 = yes)	0.15		0.00	1.00	27,168	0.4	1.0															
3.	Reputation	7.51	10.07	0.01	100.00	27,168	0.2	0.2	1.0														
4.	Market heat	−0.00	0.36	−0.76	0.64	27,168	0.0	0.1	0.2	1.0													
5.	Num. IPOs (ln)	0.15	0.39	0.00	3.09	27,168	0.1	0.2	0.6	0.2	1.0												
6.	Prior fund IRR	12.88	26.26	−71.80	514.33	5657	0.0	0.1	0.2	0.1	0.1	1.0											
7.	Firm status	0.17	1.19	−0.75	8.97	27,168	0.1	0.1	0.6	0.0	0.5	0.0	1.0										
8.	Specialization (industry Herfindahl)	0.48	0.27	0.11	1.00	27,168	−0.1	−0.1	−0.3	0.0	−0.2	−0.0	−0.4	1.0									
9.	Per. early-stage	0.46	0.35	0.00	1.00	27,168	−0.1	0.0	0.1	0.0	0.1	0.0	0.3	−0.1	1.0								
10.	No invest. period (1 = yes)	0.01		0.00	1.00	27,168	0.0	0.0	−0.0	0.0	−0.0	0.0	−0.1	0.2	−0.0	1.0							
11.	Num. shutdowns (ln)	0.14	0.38	0.00	3.47	27,168	0.0	0.1	0.5	−0.0	0.3	0.0	0.4	−0.3	0.2	−0.0	1.0						
12.	Num acquisitions (ln)	0.42	0.58	0.00	3.09	27,168	0.1	0.1	0.4	0.0	0.3	0.0	0.6	−0.4	0.0	−0.1	0.2	1.0					
13.	California	0.26		0.00	1.00	27,168	−0.0	0.0	0.1	−0.0	0.1	0.0	0.3	−0.1	0.2	−0.0	0.1	0.1	1.0				
14.	New York	0.17		0.00	1.00	27,168	0.1	0.0	−0.0	−0.0	−0.1	−0.0	−0.1	0.1	−0.2	0.0	−0.1	−0.1	−0.3	1.0			
15.	Massachusetts	0.10		0.00	1.00	27,168	0.0	0.0	0.1	0.0	0.1	0.0	0.1	−0.1	0.0	−0.0	0.1	0.1	−0.2	−0.1	1.0		
16.	Last fundraise Amt (ln)	4.47	1.62	0.02	10.05	27,168	0.2	0.1	0.3	−0.0	0.1	0.0	0.2	−0.2	−0.3	−0.0	0.1	0.3	0.0	0.2	0.0	1.0	
17.	Funding demand (ln)	7.24	0.41	5.71	7.99	27,168	0.0	0.0	−0.3	−0.0	−0.1	−0.1	−0.0	0.1	−0.1	−0.0	−0.3	0.1	−0.0	0.0	−0.0	0.1	1.0

TABLE 2 Logistic regression predicting probability of fundraising.

	Model 1		Model 2		Model 3		Model 4	
	b/robust SE	p Value	b/robust SE	p Value	b/robust SE	p Value	b/robust SE	p Value
Market heat	1.05 (0.05)	[.00]	0.95 (0.07)	[.00]	1.04 (0.05)	[.00]	0.84 (0.07)	[.00]
Reputation	0.03 (0.00)	[.00]	0.03 (0.00)	[.00]	0.05 (0.00)	[.00]	0.05 (0.00)	[.00]
Num. IPOs (ln)	0.22 (0.06)	[.00]	0.20 (0.06)	[.00]	0.49 (0.06)	[.00]	0.50 (0.07)	[.00]
Reputation × Market heat			0.01 (0.00)	[.01]			0.02 (0.00)	[.00]
Reputation × Num. IPOs					−0.01 (0.00)	[.00]	−0.02 (0.00)	[.00]
Firm status	0.01 (0.03)	[.58]	0.02 (0.03)	[.55]	0.01 (0.03)	[.84]	0.01 (0.03)	[.82]
Specialization (industry Herfindahl)	−0.36 (0.10)	[.00]	−0.35 (0.10)	[.00]	−0.31 (0.10)	[.00]	−0.29 (0.10)	[.00]
Per. early-stage investments	0.01 (0.08)	[.86]	0.02 (0.08)	[.81]	−0.02 (0.08)	[.82]	−0.01 (0.08)	[.86]
No investment period (1 = yes)	0.37 (0.18)	[.04]	0.37 (0.18)	[.04]	0.39 (0.18)	[.03]	0.39 (0.18)	[.03]
Num. shutdowns (ln)	−0.31 (0.06)	[.00]	−0.30 (0.06)	[.00]	−0.33 (0.06)	[.00]	−0.32 (0.06)	[.00]
Num. acquisitions (ln)	0.11 (0.04)	[.01]	0.11 (0.04)	[.02]	0.11 (0.04)	[.01]	0.11 (0.04)	[.01]
California[a]	0.12 (0.06)	[.03]	0.12 (0.06)	[.04]	0.13 (0.06)	[.02]	0.13 (0.06)	[.02]
New York	0.03 (0.07)	[.68]	0.03 (0.07)	[.69]	0.03 (0.07)	[.70]	0.02 (0.07)	[.73]
Massachusetts	0.14 (0.07)	[.05]	0.14 (0.07)	[.05]	0.14 (0.07)	[.06]	0.13 (0.07)	[.07]
Last fundraise amount (ln)	0.07 (0.02)	[.00]	0.08 (0.02)	[.00]	0.06 (0.02)	[.00]	0.06 (0.02)	[.00]
Funding demand (ln)	0.36 (0.05)	[.00]	0.37 (0.05)	[.00]	0.42 (0.05)	[.00]	0.44 (0.05)	[.00]
Constant	−6.32 (0.42)	[.00]	−6.38 (0.42)	[.00]	−6.77 (0.42)	[.00]	−6.98 (0.42)	[.00]
n-size firm-years (firms)	27,168	(2321)	27,168	(2321)	27,168	(2321)	27,168	(2321)
% Investments in each industry	Y		Y		Y		Y	
Fund number dummies	Y		Y		Y		Y	
Years since fundraised dummies	Y		Y		Y		Y	
df	34		35		35		36	
Pseudo R^2	0.10		0.10		0.10		0.11	
Wald chi-squared	1577.98		1585.01		1685.18		1717.05	

Note: p Values in brackets. Robust standard errors clustered by VC in parentheses.
[a]Reference category: Other United States.

Consistent with this prediction, the coefficient in Table 2 of the interaction between reputation and the number of recent IPOs in the logistic estimates of the likelihood of a VC raising a new fund are negative both when modeled separately ($\beta = -0.01$; $p = .000$ in Model 3) and in the full model ($\beta = -0.02$; $p = .000$ in Model 4). Likewise, there is a negative coefficient for this interaction in the estimates of the amount raised in Table 3, both when modeled separately ($\beta = -0.01$; $p = .000$ in Model 3) and in the full model ($\beta = -0.01$; $p = .000$ in Model 4).

We again plot these estimates to aid our interpretation. In Figure 3, we plot the predicted likelihood of fundraising at different levels of firm reputation and different numbers of recent IPOs using the full Model 4 from Table 2. Figure 3 illustrates that absent a recent track record of IPOs, mean and low-reputation VCs are less likely to fundraise than top VC firms. For a low-reputation firm, moving from zero to one portfolio company IPOs raises the predicted likelihood of fundraising from 10.3% to 13.8%, or a 3.4% increase in probability; for a mean reputation firm, the predicted likelihood of funding grows from 13.7% to 17.0%, a 3.3% increase. For a high reputation (95th percentile) firm, moving from zero to one portfolio company IPOs raises the predicted likelihood of fundraising from 27.9% to 29.1%, a substantively smaller 1.2% increase in probability. Thus, consistent with our original arguments in Hypothesis 2, these estimates indicate that recent IPOs have less of an effect on how much higher-reputation VCs alter their fundraising.

A similar pattern emerges in Figure 4, which illustrates the predicted amount of funds raised at different levels of firm reputation and numbers of recent IPOs using the full Model 4 from Table 3. Again, we see that, relative to lower-reputation firms, higher-reputation firms' fundraising changes less with recent successes. To illustrate, for a low (5th percentile) reputation firm, moving from zero to one IPO increases the predicted amount fundraised from $35.9M to $56.5M (a 57.2% relative increase), while for a mean reputation firm, moving from zero to one IPO increases the predicted amount fundraised $56.6M to $79.4M (a 40.3% relative increase). For a high (95th percentile) reputation firm, the associated increase is from $183.3M to $192.7M (a much lower 5.1% relative increase). This again supports our arguments for Hypothesis 2. Taking a step back, we believe these results unexpectedly indicate that hot market-wide conditions may represent a qualitatively different type of resource mobilization opportunity from firm-specific resource mobilization opportunities.

4.1 | Initial supplementary analyses and robustness tests

One concern we had was that, while the Lee et al. (2011) index has been validated in the form of entrepreneur perceptions (Hallen & Pahnke, 2016), LPs might primarily focus on VCs' track records in the form of investment returns. Accordingly, we also ran our analyses using the IRR of a VC firm's most recent fund for which data are available.[5] Following prior literature (e.g., Hochberg & Rauh, 2013; Vanacker et al., 2020), we gathered IRR data, where available, from Preqin. Appendix S1 presents the corresponding models using IRRs in place of reputation; these estimates yielded results highly consistent with those from the reputation index. Appendix S1 also presents post hoc analyses quantitative analyses of mechanisms (Section II), summarized below, as well as further robust checks, including alternative

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[5]IRRs are often kept confidential by many VCs, and thus, these data are only available for a subset of firms. We also chose to use IRRs in supplemental (vs. primary) analyses as they exhibit greater time lags, with strong IRRs driven by investment decisions typically made 7+ years prior.

TABLE 3 Zero-inflated negative binomial regression models of amount fundraised.

	Model 1		Model 2		Model 3		Model 4	
	b/robust SE	p Value	b/robust SE	p Value	b/robust SE	p Value	b/robust SE	p Value
Market heat	0.26 (0.05)	[.00]	0.38 (0.07)	[.00]	0.24 (0.05)	[.00]	0.27 (0.07)	[.00]
Reputation	0.02 (0.00)	[.00]	0.02 (0.00)	[.00]	0.03 (0.00)	[.00]	0.03 (0.00)	[.00]
Num. IPOs (ln)	0.04 (0.04)	[.36]	0.05 (0.05)	[.25]	0.27 (0.05)	[.00]	0.26 (0.05)	[.00]
Reputation × Market heat			−0.01 (0.00)	[.07]			−0.00 (0.00)	[.62]
Reputation × Num. IPOs					−0.01 (0.00)	[.00]	−0.01 (0.00)	[.00]
Firm status	−0.06 (0.02)	[.00]	−0.06 (0.02)	[.00]	−0.07 (0.02)	[.00]	−0.07 (0.02)	[.00]
Specialization (industry Herfindahl)	0.05 (0.11)	[.69]	0.04 (0.11)	[.74]	0.10 (0.11)	[.38]	0.09 (0.11)	[.40]
Per. early-stage investments	−0.65 (0.10)	[.00]	−0.65 (0.10)	[.00]	−0.66 (0.10)	[.00]	−0.66 (0.10)	[.00]
No investment period (1 = yes)	0.38 (0.17)	[.03]	0.39 (0.17)	[.02]	0.41 (0.17)	[.02]	0.41 (0.17)	[.02]
Num. shutdowns (ln)	−0.12 (0.04)	[.01]	−0.12 (0.04)	[.01]	−0.11 (0.04)	[.01]	−0.11 (0.04)	[.01]
Num. acquisitions (ln)	0.18 (0.03)	[.00]	0.18 (0.03)	[.00]	0.18 (0.03)	[.00]	0.18 (0.03)	[.00]
California[a]	0.16 (0.06)	[.01]	0.17 (0.06)	[.01]	0.18 (0.06)	[.00]	0.18 (0.06)	[.00]
New York	0.35 (0.06)	[.00]	0.36 (0.06)	[.00]	0.36 (0.06)	[.00]	0.36 (0.06)	[.00]
Massachusetts	0.14 (0.07)	[.04]	0.15 (0.07)	[.03]	0.14 (0.07)	[.04]	0.14 (0.07)	[.04]
Last fundraise amount (ln)	0.50 (0.02)	[.00]	0.50 (0.02)	[.00]	0.49 (0.02)	[.00]	0.49 (0.02)	[.00]
Funding demand (ln)	0.30 (0.05)	[.00]	0.30 (0.05)	[.00]	0.34 (0.05)	[.00]	0.34 (0.05)	[.00]
Constant	1.03 (0.38)	[.01]	1.04 (0.39)	[.01]	0.59 (0.40)	[.14]	0.61 (0.39)	[.12]
n-size firm-years (firms)	27,168	(2321)	27,168	(2321)	27,168	(2321)	27,168	(2321)
% Investments in each industry	Y		Y		Y		Y	
Fund number dummies	Y		Y		Y		Y	
Years since fundraised dummies	Y		Y		Y		Y	
Non-zero firm-years	4067		4067		4067		4067	
ln(alpha)	−0.13 (0.04)	[.00]	−0.13 (0.04)	[.00]	−0.14 (0.04)	[.00]	−0.13 (0.04)	[.00]
df	34		35		35		36	
Log pseudolikelihood	−37,247.82		−37,240.57		−37,199.15		−37,189.43	
Wald chi-squared	4596.18		4678.70		4443.47		4846.84	

Note: p Values in brackets. Robust standard errors clustered by VC in parentheses.
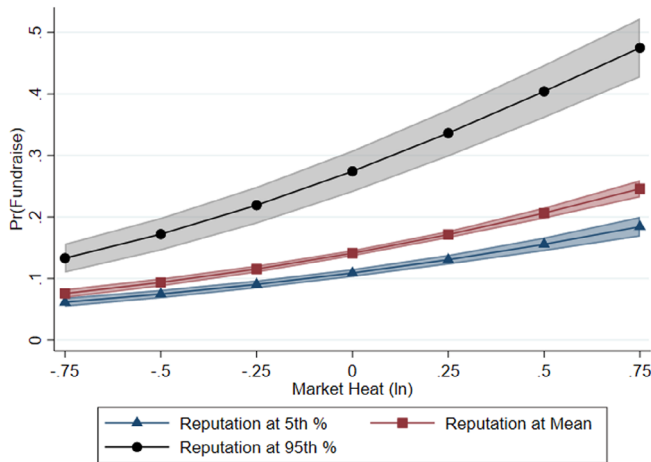[a]Reference category: Other United States.

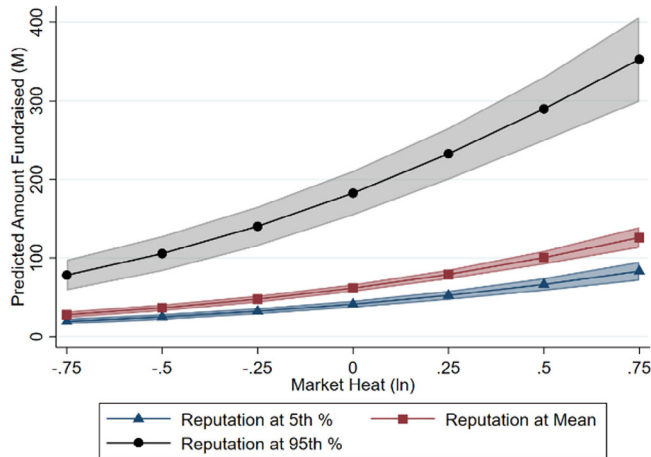**FIGURE 1**   Likelihood of fundraising by firm reputation and market heat.

FIGURE 2   Amount fundraised by firm reputation and market heat.

independent, dependent, and control variable definitions (Section III); introducing additional controls (Section IV); and alternative functional specifications (Section V).

5 | POST HOC ANALYSES USING ADDITIONAL DATA

Overall, our initial analyses revealed that counter to our arguments in Hypothesis 1, higher reputation *increased* the positive relationship between market heat and resource mobilization. Moreover, these results appear robust to various empirical choices. Accordingly, we undertook two forms of additional data collection to explore where our original arguments may have been incomplete or our original assumptions may not have held—starting with exploratory interviews and then gathering additional data on the capacity constraints (number of partners) of VC firms.
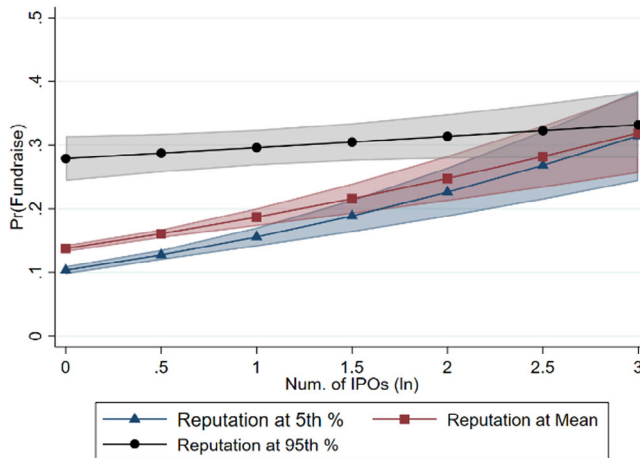
FIGURE 3 Likelihood of fundraising by firm reputation and number of recent IPOs.
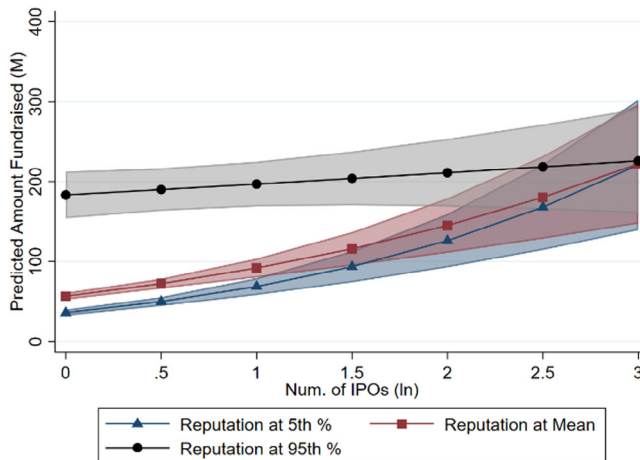
FIGURE 4 Amount fundraised by firm reputation and number of recent IPOs.

5.1 | Post hoc analyses using follow-on interviews

We began our supplemental data gathering with semi-structured interviews. Using qualitative interviews to complement quantitative analyses allows rich exploration of otherwise unobservable behaviors and motivations (Edmondson & McManus, 2007; Kaplan, 2016). We conducted seven semi-structured interviews: three with partners at VC firms who had been actively involved in fundraising, two with institutional investors, and two with VCs whose firms also act as LPs in other VC firms and where the interviewed individual was responsible for both types of investing. Informants were from multiple entrepreneurial regions, including Silicon Valley. We explained our initial research aims and showed the informants (Figures 1–4), asking whether the observed patterns were what they expected and what their explanations for the observed patterns were. We then asked a series of follow-on questions aimed at addressing a variety of potential explanations we were considering based on relevant literature. In addition

to these semi-structured interviews, we presented the quantitative findings and solicited feedback from the entire investment team of a high-reputation VC firm, including five managing directors. Together, these interviews validated in many ways both our quantitative findings and our original arguments while also offering insight into how our original arguments may have been incomplete.

5.1.1 | Were high-reputation VCs self-restraining their resource mobilization demand?

A core assumption underlying our original Hypothesis 1 was that high-reputation firms would restrain themselves when presented with resource mobilization opportunities, marshaling fewer resources than might be available out of concern for their capacity to scale while preserving quality. Our interviews suggested that such self-restraint in demand was indeed strongly present among high-reputation VCs—though with some key nuances. Illustrating such restraint, one VC noted that there is a limit to the number of investments that an individual VC can effectively handle:

> "*I mean, sometimes we talk to these top-tier general partners at funds, and they're on 14 boards, which is just insane. How can you truly be a good fiduciary if you're on 14 boards, I don't know; maybe if you're Bill Gurley, you can manage it, but it feels like for the average top-tier VC that's a very tough thing to do.*"

Complementing these constraints on the number of deals that an individual could handle was the (often implicit) assumption that it would be difficult for a VC firm to quickly add high-quality partners (which is consistent with Ewens and Rhodes-Kropf's (2015) finding that capabilities in VC firms often reside at the individual level).

As a result of such self-restraint in demand, we repeatedly heard that once a VC had a strong track record, it was very hard for LPs to invest with the VC unless they had invested in their prior funds. For example, an investor with a large endowment who acted as both a VC and an LP said: "For the top, top funds, it's really more about, 'Can you even get an invite?'... Those funds are locked up...I mean, those funds are turning away demand as much as they can." This also helped explain why recent successes helped amplify the fundraising of lower-reputation VCs. As one VC told us, LPs are particularly interested in "the next great thing" (i.e., VCs with recent IPOs) because it is "going to be much easier for me [the LP] to get into this now than it will be later. ...because later I'm not going to have much of a shot."

Yet despite such reports of self-restraint in demand by both VCs and LPs, our initial quantitative results also clearly showed that high-reputation firms increased their resource mobilization just as much or more as lower-reputation firms in hot markets. And supporting these findings, our informants said VCs of all reputations often accelerated resource mobilization in hot markets. For instance, one informant who was part of the investment arm of a large endowment and had responsibilities for investing as an LP said:

> *And we've seen funds accelerate through that because the market was hot. If I'm out here and I'm raising funds, but I know not only that the market is hot but that the LP interest is really high because the market is hot, I need to get in front of my LPs today.*

I can't wait for my investment period [in my last fund] to be over, or for me to have the permission to raise [the next fund].

We believe reconciling this self-restraint in demand with the observed acceleration of fundraising in hot markets is that the reported high-reputation firms' self-restraint in resource mobilization is *relative*. That is, while high-reputation firms are, on average, mobilizing more resources in hot markets than they do in cold markets, *they are also mobilizing fewer resources in hot markets than they could* (or at least less than they believe they could).

5.1.2 | Why were high-reputation firms mobilizing more in hot markets?

Our interviews suggest a key motivator of high-reputation VCs deciding to mobilize more in hot markets was the *efficiency* of raising new and larger funds due to greater resource supply. A VC who had been a partner at a major firm and then cofounded her own firm nicely summarized this thinking:

I have always found that in times of particularly very high market heat, more [VCs] decide now's a really good time to raise a fund. Maybe our initial investment period was one we anticipated to be three to three and a half years, but we're only two years into this vintage, and it might make sense for us to strike while the iron's hot and the numbers [of interested LPs] look pretty good. That's happened, by the way, a lot this year.

Another interviewee noted that:

"*When the market is hot, the LPs themselves... may be going out to either their existing funds, their existing managers [VCs] and saying, 'Hey, I want to, I want to make sure [to let you know that] I'm on board to re-up my commitment. In fact, I want to go from, you know, my 10 million commitment to a 20 million commitment this year.*"

So a high-reputation VC in a cold market might have to spend considerable time actively soliciting potential LPs only to find that many were not interested; in contrast, in a hot market, such a VC would benefit from an *increased supply* of inbound interest that allows fundraising to be completed quickly and saves time that can then be devoted to other activities such as venture investing.

The interviews also supported our original arguments for Hypothesis 2 in that LPs viewed recent successes as providing less added information about high-reputation VCs and thus did not materially increase the supply of resources available to them. As one LP said:

If you're a top track record VC, I certainly assume that there will be IPOs in your portfolio, that's not something you would then turn around and tout to your LPs. If you're an average track record ... [you] mention that IPO every single chance you get, that has been your thing.

This, in turn, helped explain why hot markets helped increase the efficiency of resource mobilization for high-reputation VCs, while firm successes did not have a similar effect.

5.1.3 | Summarizing insights from interviews and considering alternative mechanisms

We believe the efficiency of resource mobilization for high-reputation firms in hot markets is a compelling explanation for our unexpected findings and why high-reputation firms may be willing to accept the scaling-related challenges that may arise. We see this finding contributing to the resource mobilization literature because *efficiency* has received less attention in that literature relative to outcomes like whether a firm is able to mobilize resources at all or how many resources are mobilized (Clough et al., 2019). One notable exception is Hallen and Eisenhardt (2012), who used a multi-case qualitative study to identify strategies by which entrepreneurs could more efficiently raise funds. Yet they focused on the specific strategies that executives (entrepreneurs in their case) could use to accelerate the efficiency of resource mobilization. In contrast, our findings here suggest that the environmental factor of *market heat* also exerts a substantial influence on the efficiency of resource mobilization for higher-reputation firms. Our logic from our interviews is that, in hot markets, a firm's existing resource providers are more interested in providing additional resources, and there is a greater market-wide influx of new resource providers. High-reputation firms are especially likely to have more supply of inbound interest from resource providers, and resource mobilization will take less time and effort. This acceleration of resource mobilization by high-reputation firms in hot markets is also consistent with expectancy theory, which argues individuals are much more likely to undertake actions to achieve those goals when the perceived effort of those actions is lower (Vroom, 1964). We expand on how this finding revises our original logic following our post hoc quantitative analyses.

We also used these interviews to explore alternative mechanisms, including whether high-reputation VCs' responsiveness to hot markets might be driven by competitive concerns or the ability to get more attractive terms. Our interviews, though, offered less support for these other mechanisms. For instance, one VC told us: "We know about [what other firms are doing], we hear about it, we love to know what other stories are being told out there, but it has not impacted a decision on timing for us, at least not with what the landscape looks like today here." We also speculated that perhaps hot markets were attractive to VCs that had not planned to raise additional funds as this might allow them more attractive terms. We heard some indications that this had been happening for very top firms and among very early-stage seed funds, but this appeared to be a very recent phenomenon that began after the period captured in our quantitative data.

5.2 | Post hoc analyses using quantitative data

Following our interviews, we also embarked on a post hoc quantitative investigation using supplemental data to further validate the emergent efficiency mechanism—the presence of high-reputation VCs' self-restraint—and to more fully account for managerial capacity constraints.

Shift to prior LPs. The first focus of our post hoc quantitative analyses was on exploring whether high-reputation VCs were more likely in hot markets to primarily raise funds from LPs that they had worked with before. If so, then this offers further support for our qualitative efficiency findings (assuming mobilizing from past LPs is more efficient) and demand self-restraint findings (assuming high-reputation VCs in hot markets could mobilize from new LPs if they so choose). To explore this, we obtained data from Preqin on the count of *new LPs* that a VC has

in a given year, conditional upon fundraising in that year and controlling for the total number of LPs that the firm has. We present this analysis in the Appendix S1 for the matched Preqin-VentureXpert sample of 1325 fundraising observations (531 firms). As discussed in the appendix, we find a negative slope on the interaction between reputation and market heat, indicating the higher-reputation firms take on proportionally fewer new LPs during hot market periods than lower-reputation firms (we also inspected the proportions visually). Overall, this is consistent with our post hoc interviews and our revised logic of both efficiency and self-restraint dynamics of high-reputation firms in hot markets.

Managerial capacity constraints. We also used additional quantitative data to examine our assumptions around managerial capacity constraints in the form of VC firms being constrained by their number of individuals at the partner level. We did not include controls for this in our original analyses due to data availability issues. In these supplemental analyses, though, we gathered these data, where available, from two sources: the VCPro Database (Grilli & Murtinu, 2014) and Galante's Venture Capital and Private Equity Directory (Rider, 2012). As further described in Appendix S1, Tables A2a-d, we used these data to run two sets of analyses exploring the robustness of our results to controlling for managerial capacity constraints within firms. First, we controlled for the number of partners at each VC firm; the results were not materially changed from our main analyses. Second, we also explored the robustness to controlling for assets under management per partner; again, we found the results are highly similar to our main analyses.

Finally, we used these data to examine our original assumption that higher-reputation firms are more likely to be operating nearer their managerial capacity constraints, a key assumption in our argument for high-reputation VCs self-restraining their resource mobilization. We again measured this as *the amount of assets they managed per partner* (see Appendix S1 for details). We graphed the relationship using a locally weighted scatterplot smoothing (i.e., lowess). This allowed us to better explore for nonlinearities (we also did not log assets under management to better visualize those nonlinearities). The results of that analysis are displayed in Figure 5. The relationship between reputation and assets under management appears relatively flat (slightly up-sloped) at the lower to middle portions of the reputation scale. Yet, there is a sharp change in slope for higher-reputation firms (about 55 or higher)—a pattern supporting our original assumption.

Overall, our post hoc quantitative analyses offer further support for high-reputation firms accelerating their resource mobilization in hot markets for efficiency reasons, suggest these results are robust to accounting for each VCs' managerial capacity, and support our original assumption of higher-reputation firms being nearer their managerial capacity constraints.

5.3 | Revisiting original theory: Windows versus waves of opportunity

Whereas we originally theorized that both hot markets and firm-level successes were likely to exert less influence on the resource mobilization of high-reputation firms, this was not the case. Collectively, our original findings and post hoc analyses lead us to a revised theory: that while recent successes create firm-specific "*windows of opportunity*," hot markets function as market-wide "*waves of opportunity*." Although a "window" presents a unique opportunity that a firm may seize upon if they so choose, climbing through the window (mobilizing additional resources) still takes effort and initiative from that firm. Moreover, higher-reputation firms already have other windows open to them (mobilizing on the basis of their reputation) and are thus likely to be less responsive to firm-level successes.
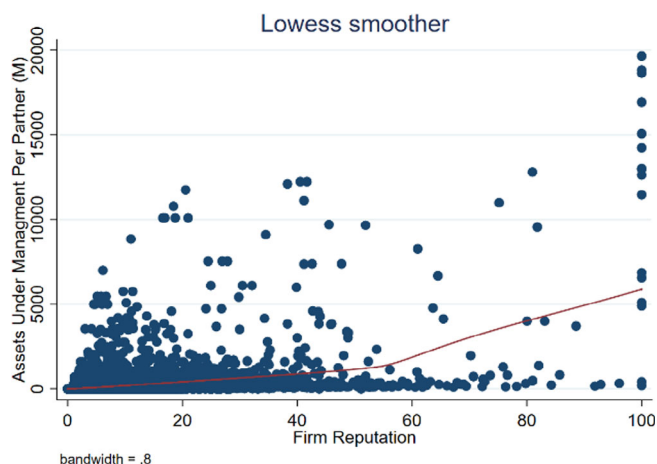
FIGURE 5   Lowess of firm reputation and assets under management per partner.

In contrast, waves of opportunity in the form of hot markets or other market-wide phenomena are more likely to sweep up all firms, and high-reputation firms appear particularly apt to surf these waves to their advantage. While a high-reputation firm could still mobilize resources in a colder market (paddle to shore on its own when the water is still), a wave makes the journey much more efficient. Here, our revised logic is that in hot markets, herding behavior (Banerjee, 1992), social proof (Cialdini, 1993; Rao et al., 2001), and emotions and sentiments (Baker & Wurgler, 2007; Cohn et al., 2015) are likely to lead to more optimistic, less critical, and accelerated evaluations by resource providers (Banerjee, 1992). Thus, hot markets represent relatively unique opportunities for higher-reputation firms to mobilize resources *more efficiently*, making higher-reputation firms especially responsive to market heat and more likely to scale during such periods (Table 4).

6 | DISCUSSION AND CONCLUSION

Our core contribution is in offering a refined view of the relationship between firm reputation and resource mobilization. Past literature has highlighted that high-reputation firms find it easier to mobilize resources when they seek them, thanks to being perceived as higher-quality, more capable, and more reliable (Clough et al., 2019; Lange et al., 2011; Rindova et al., 2005). We extend this line of inquiry by showing how reputation sharply alters how firms respond to different types of resource mobilization opportunities. We find that a higher reputation dampens the resource mobilization responsiveness of firms to recent successes. This supports our argument that successes offer more redundant information for high-reputation firms. Thus, recent successes are *windows of opportunity*, primarily leveraged by lower-reputation firms that have few alternative paths to resource mobilization. In contrast, we unexpectedly find hot markets act as *waves of opportunity* that high-reputation firms are especially likely to leverage. Our interviews suggest that a key driver of this dynamic is that hot markets offer especially *efficient* resource mobilization for high-reputation firms, a mechanism further supported in our post hoc quantitative analyses.

TABLE 4   Theoretical summary of windows versus waves of opportunity.

	Windows of opportunities	Waves of opportunity
Driver of Opportunity	• Firm-specific • Example: Recent successes by the focal firm	• Market-wide • Example: Hot markets—an influx of interest by resource providers in the broader market environment
Impact on resource mobilization	• Lower-reputation firms especially likely to mobilize additional resources • Less of an effect on higher-reputation firms' resource mobilization • Narrows the resource mobilization gap between high- and lower-reputation firms	• Higher- and lower-reputation firms both engage in greater resource mobilization • Higher-reputation firms are even more responsive to waves of opportunities • Widens resource mobilization gap between high- and low-reputation firms
Mechanisms	• Signal that lower-reputation firms have improved in quality and ability • Signal viewed as as less informative for high-reputation firms • Lower-reputation firms are especially likely to amplify resource mobilization as otherwise more resource-constrained • Higher-reputation firms less likely to alter resource mobilization as reputation already provides strong signal	• Social dynamics of social proof, herd behavior, and shifts in emotions and sentiments make resource providers more optimistic and less critical in hot markets • Where possible, resource providers seek out higher-reputation firms • Balancing an ability to mobilize resources more efficiently with concerns about scaling, higher-reputation firms mobilize more resources than they would otherwise—but also decline many offers of resource providers • As higher-reputation firms self-restrain their demand for resources, this creates opportunities for lower-reputation firms to mobilize more than they would otherwise (but still generally less than higher-reputation firms)

6.1 | Contributions to literatures on resource mobilization, firm reputation, and scaling

We first contribute to the literature on resource mobilization and firm reputation. Core to this literature is the recognition that a reputation is a particularly reliable signal of future quality, encapsulating a firm's capabilities and reliability (Clough et al., 2019; Pfarrer et al., 2010; Pollock et al., 2015). Here, we contribute by considering and empirically showing that firm reputation fosters strikingly divergent relationships between opportunity type and firm resource mobilization. We find recent successes function as "windows of opportunity" that are more impactful for and likely to be utilized by lower-reputation firms, closing resource mobilization gaps vis-à-vis higher-reputation firms. In contrast, hot markets function as "waves of opportunity" that, while utilized by all firms, elevate certain advantages of high-reputation firms, thus reinforcing and amplifying resource mobilization differences. Building on post hoc exploratory interviews, we theorize that underlying such divergent effects is that recent successes function primarily as signals and thus play more of a substitute role for firm reputation – a dynamic

consistent with the firm reputation being (in part) historically grounded in the economics literature in signaling (Weigelt & Camerer, 1988). In contrast, we theorize market heat is more likely to influence resource mobilization through the bounded rationality and psychological biases of resource providers (Banerjee, 1992; Cialdini, 1993; Rao et al., 2001). In this way, market heat may exert a more complementary (vs. substitutive) effect that amplifies the importance of firm reputation on resource mobilization.

We also contribute to renewed scholarly conversations on scaling and growth, considering how scaling concerns may result in a degree of self-restraint in firms' resource mobilization. Here, we build off the literature highlighting the many challenges that firms face in scaling and utilizing slack resources, as well as the perils of unmanaged growth (DeSantola & Gulati, 2017; Tidhar et al., 2023; Wasserman, 2008). Thus, whereas much of the reputation and resource mobilization literatures presupposes that firms are seeking resources (Gao et al., 2017; Hallen et al., 2020), we theorized that high-reputation firms may be particularly self-restraining their demand for resources out of concern for the internal challenges that scaling poses in maintaining quality. While we unexpectedly found that high-reputation VCs amplified their resource mobilization in hot markets even more so than lower-reputation VCs, this self-restraint was reaffirmed in our post hoc interviews. Here, high-reputation VCs reported mobilizing far fewer resources than were available in such situations. Likewise, in our post hoc quantitative analyses, we found higher-reputation firms were more likely in hot markets to primarily mobilize resources from their existing LPs, likely indicating they were turning down many offers of resources from LPs if they had not worked with them before. These findings collectively suggest future literature on resource mobilization should not automatically assume that the potential availability of resources would necessarily equate with the willingness to tap them or even the ability to absorb them (cf. Clough et al., 2019).

6.2 | Contributions to scholarship and practice of entrepreneurial finance

Finally, we contribute to the literature on entrepreneurial finance, an area where our findings also offer managerial implications for both LPs and VCs. A key theme of this literature is that VC is an asset class that, when invested with the highest-reputation VC firms and during the right time periods, may offer returns that both exceed those of the public markets and where VC firm performance may persist across funds (Kaplan & Schoar, 2005). Here, we contribute by offering insights into how LPs may come to invest in high-reputation VCs. Specifically, we offer the insight that high-reputation VCs may have limited willingness to take on new LPs, especially in hot markets. Thus, if LPs wish to increase their work with high-reputation VCs, it may depend on identifying up-and-coming stars, such as those that have recently had an IPO. While a topic for deeper exploration in future work, this suggests there are Matthew effect dynamics in LP investing and that LPs who have already invested in top-performing VCs are likely to continue to enjoy greater returns going forward by being able to reinvest in the new funds of those firms. It also suggests that LPs new to the asset class may struggle to secure access to high-reputation firms, being compelled to try to identify rising stars among VC firms when their prospects are less certain.

Our insights also offer strategic guidance to the VC firms themselves. A key takeaway is that hot markets appear to be relatively unique opportunities for efficient fundraising and that, because of this, many high-reputation firms are likely to greatly accelerate their fundraising in

such markets. For VCs, our findings thus offer insight into how their competitors are likely to adjust their fundraising as market heat rises and how market heat is likely to reconfigure the competitive landscape. Our findings also indicate that hot markets amplify differences in resource endowments between low- and high-reputation firms. This was counter to our expectations, and we believe it may also be counter to the expectations of many VCs. This has especially important implications for lower-reputation VC firms. Even though a lower-reputation firm may find it easier to mobilize resources than it might otherwise, a hot market will not improve resource positioning relative to higher-reputation firms. So, lower-reputation firms should leverage hot markets to expand resource mobilization, but some other strategy will be needed to improve competitive positioning—or even to preserve competitive standing relative to higher-reputation firms.

6.3 | Future research

A key limitation of our research is that it is not causal in nature: while market heat is exogenous from the perspective of the firms, reputation is built over long-term path-dependent processes that are difficult to instrument for in archival data or manipulate in experimental settings. Another limitation of the present paper that future research can explore is to empirically disentangle intentions to fundraise from its completion. We only observe the completion of fundraising. Within our context, any formal steps by VC firms to raise funds are preceded by numerous informal steps in exploring the interest of prospective LPs and informal negotiations; as a result, there are no archival data of which we are aware that can help distinguish the supply and demand constraints on resource mobilization. We have also assumed that the incentive structures of VC firms are relatively homogenous. Future research could further explore this assumption and its implications. Likewise, future work could explore to what extent our theory and results might be sensitive to different forms of firm structure, including whether or not the firm is organized as a partnership (Hansmann, 1996; Levin & Tadelis, 2005). More fundamentally, firms' scaling intentions and objectives are also not observable with archival data. Our approach to resolving this issue has focused on a combination of interviews to better reveal such intentions, as well as mechanism tests such as our exploration of shifts to existing LPs by higher-reputation VCs in hot markets. Future researchers might better address this by embedding themselves in the fundraising process of a smaller but theoretically representative set of VCs or by using larger-scale surveys of VC intentions to develop a dataset linking intentions and behavior (e.g., Eckhardt et al., 2006).

7 | CONCLUSION

Our core takeaway is that not all resource mobilization opportunities are created equally. We find that those arising from signals of firm-specific performance function primarily as windows of opportunity most likely to be leveraged by average- and lower-reputation firms, while those arising from market-wide heat act as waves of opportunity leveraged by all firms but in a way that amplifies differences between high-reputation firms and others. We hope that our study will lead to a more nuanced discourse at the intersection of resource mobilization, firm reputation, and scaling and provide a foundation that other scholars can further develop and extend.

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DATA AVAILABILITY STATEMENT

VentureXpert data may be obtained from Refinitiv Thomson ONE. Preqin data may be obtained from Preqin Holding Limited. Other data in this study are proprietary and were obtained under confidential agreements with interview informants and other third parties.

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SUPPORTING INFORMATION

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