

# Researchers find venture capitalists do better investing in start-ups run by entrepreneurs of the same ethnicity

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NYU Stern School of Business professor Deepak Hegde and the University of Munich's Justin Tumlinson have developed a formal model to understand the "selection" and "influence" effects of social proximity between business partners.

They found that U.S. venture capitalists (VCs) are more likely to select start-ups with coethnic executives (start-up executives with the same ethnic background as the VCs) for investment, particularly when the probability of the start-ups' success is low.

Coethnic investments perform better, that is, have a higher probability of successful exit through acquisitions and [initial public offerings](#) (IPO), resulting in start-ups with higher market capitalization and net income after IPO.

Two-stage regression estimates suggest that these positive performance outcomes are largely due to influence—that is, superior communication and coordination between coethnic VCs and start-up executives after the investment.

The researchers found that to the extent that VCs expect to work better with co-ethnic start-ups, they invest in coethnic ventures that are of lower observable quality than non-coethnic ventures.

These findings suggest that discrimination toward socially similar others in partnerships can arise from strategic anticipation of superior coordination benefits from socially proximate partners.

**More information:** The research paper is available online:  
[papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1939587](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1939587)

Provided by New York University

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