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Imprinting the economy: The structural power of venture capital

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journals.sagepub.com/home/epn**Franziska Cooiman** 

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Abstract

This article analytically links asset management and the digital economy by analyzing the structural power of venture capital (VC) investors. Therefore, I propose the notion of *imprinting*, which describes how financial actors, enabled by their structural position, shape businesses according to their specific logic. Concretely, I argue that VCs' *logic* is one of assetization, whereby VCs turn startups into assets for themselves and their capital providers. To do so, VCs seek *hyper-growth*, selecting only companies with the potential to grow fast and large and decouple financial value from business fundamentals. Instead of the threat of exit, VCs establish direct and indirect channels of control: legally, via preferred shareholder rights, board seats, and payout conditionality; and as *participatory capital*, offering operational advice and access to their network. The article contributes to a nuanced understanding of financial sector power in contemporary capitalism.

Keywords

Structural power, venture capital, assetization, asset manager capitalism

Introduction

Over the last few decades, we have observed a profound restructuring of capitalism, whereby finance has taken an ever more prominent role. Some argue that this transformation is productively understood as centering around rentiers and the asset form (Adkins et al., 2021; Braun, 2021; Christophers, 2020). Consequently, asset managers, who control increasingly large sums of global capital, have become central actors, benefitting from as much as contributing to the restructuring of capitalism.

At the same time, platform companies have entered and championed ever more sectors of the economy (Kenney et al., 2021). These two core transformations, centering around the digital economy and asset managers, are, with few exceptions, discussed in separate literature. In this

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article, I analytically link these two loci of transformation by studying the structural power of venture capital (VC) investors, the asset managers, which underpin the rise of the digital economy. While in terms of volumes with 2% of global institutional assets under management (Economist, 2021a) VC is comparatively small, judged by the structure of the global economy, VC stands out: of the 10 largest corporations by market capitalization globally, seven have received VC financing (Cooiman, 2021).

To link the digital economy to its financiers, I propose the term *imprinting*, which is based on an—as I argue, so far underexploited—aspect of structural power, namely the *power to structure*. Imprinting describes how based on their role as capital's gatekeepers, financial actors shape businesses according to their logic, manifesting in, amongst others, the business model, valuation, organization, or choice of technology of a company. Importantly, I argue that financial actors follow specific logic, with the logic of a bank differing from a private equity firm, etc., breaking up the often overly simplistic view of profit maximization as driving logic in capitalism and allowing for *agency* in thinking about structural power. Concretely, in this article, I point to venture capitalists' role as gatekeepers for high-growth startup companies and argue that this position allows them to imprint startups with their logic, which I contend is a logic of assetization, accommodating the high risk of the field of startup investing. The run for unicorns, that is private companies with a valuation of more than one billion USD, is not merely a cultural or technological development but structurally linked to the VC logic. To make up for uncertainty, startups have to have the potential for hypergrowth, and thus address large markets, be easily scalable, and have limited technological risk.

Importantly, my analysis points to the crucial nuances at work in finance. Venture capitalists, as financial actors, follow the *capitalist logic* of profit maximization by implementing a logic of *assetization* tailored to startups. Taking the specificity of financial actors and their logic seriously provides an important angle to understanding capitalist development. I argue that recent macro phenomena, such as digitization, the rise of platforms, the spread of gig labor, or the rise of inequality, can be linked not only to technological advances, economic dynamics, or political decisions, but also, crucially, to available forms of financing—a perspective, which a unified view of financial actors and their logic curtails. My analysis is necessarily limited, making just one step toward such a link. This article focuses on the micro level to dissect the VC's logic and its imprint on investees. It is a task for future research to lift these findings to the meso- and macro-level, analyzing, for instance, valuation levels, market concentration, or labor relations in sectors with a large share of VC funding.

With this approach, I build on previous work from political economy and the social studies of finance (SSF), which tie businesses and their strategy to the underlying financing.

In political economy, that is the work of Rahman and Thelen (2019), which systematically links the lead firms in historical phases of capitalism to the type of financing available, providing a case in point for the power of financial intermediaries *to structure*—without naming it such. The authors' argument centers on the patience of financial intermediaries, tying the midcentury industrial firm with its generous wages to patient banks, the 1990s network of contracts to short-term oriented equity financing, and today's big tech firms to VC firms, which are “in it for the long haul” (p. 180). Whether or not VC indeed qualifies as patient capital is the subject of debate (Deeg et al., 2016; Knafo and Dutta, 2016). Klingler-Vidra (2016) argued that the patience of VC depends on the investment stage, with early stage “seed” funding exhibiting the highest degree of patience. While I agree that patience is an important qualifier for financing, I propose working with *imprinting* and *logic* instead to draw a more dimensional picture. In VC investing, the exit is a structural feature of the investment strategy, but no meaningful threat to underperforming businesses. Hence, investors may be patient by default (Harrison et al., 2016: 5), restricted by the lack of exit opportunities, but act pushy, via control mechanisms, at the same time.

Within the social studies of finance, VC is tied to the asset form to explain platform companies' tendency toward monopolistic business models (Balzam and Yuran, 2022) and exit-oriented innovation landscapes (Birch, 2017). Generally, the asset form is understood as a legal construct, which comes with "distinct modes of ownership and control" and involves rentiership (Birch, 2017: 469 f.; Birch and Muniesa, 2020: 5 f.). Asset values are shaped by future expectations, in other words, adhere to a speculative logic and are subject to the actions of the owners and other social actors, making value temporal and dynamic (Birch, 2017: 469 f.; Birch and Muniesa, 2020: 5 f.). Rent, which is crucial in understanding the logic of VC, is a "payment to an economic actor (the rentier) who receives that rent—and this is the key factor—purely by virtue of controlling something valuable" (Christophers, 2020: xvi).

Empirically this article is mainly based on content analysis of interviews (semi-structured and informal) with venture capitalists and VC-funded entrepreneurs based in Europe (see Appendix A). Interviewing elites comes with distinct challenges, especially limited accessibility (Mikecz, 2012; Stephens, 2007). Therefore, I rely on snowball introductions while aiming toward a diverse sample regarding investor type and interviewee role. Following the financial economics literature, I distinguish between independent, corporate, and governmental VC firms (Bertoni et al., 2015; Rin et al., 2013: 604). Since corporate VCs, captive to one company, and governmental VCs, where a majority of the capital is provided by governmental agencies, may follow distinct strategies, I focus on independent VCs (IVC). IVCs account for three-quarters of VC investors in Europe (Bertoni et al., 2019: 236). In terms of the region, with one exception, all interviewees' firms are active across Europe, which mirrors the pan-European activity of the VC sector. My aim is to trace logics that span the VC class of asset managers. I indicate in the text if the empirical material suggests significant differences. I analyze the material following an inductive category development strategy (Mayring, 2000: 4). To strengthen my argument, I triangulate my findings with several other sources: practitioners' conferences, guidebooks, and podcasts benefitting from the virtuality of my fieldwork period (Lobe et al., 2020). In addition, I corroborate my own material with financial economics scholarship on VC.

I focus on Europe for one general and two specific reasons. Generally, the specificity of political-economic backgrounds constituting global capitalism requires a separate analysis of different regions. I specifically focus on Europe because it arguably is the region with the most momentum in VC globally (Economist, 2021b), making dynamics potentially at work in more established, less vibrant markets particularly visible. Second, Europe's massively state-funded VC market (Cooiman, 2021) increases the political skin in the game and thus makes for a particularly relevant case. I focus on one region instead of comparing several due to the explorative nature of my research.

This article proceeds in three steps. First, I develop the notion of imprinting. Second, I present the structural position of VC, that is, their role in investment chains and their value model. Third, I empirically derive and discuss the central logic and principles of VC investing, which imprint on startups. The last section concludes.

Rethinking structural power

Structural power has a rich conceptual history. It first flourished amongst Marxist thinkers and political scientists in the 1970s, such as Fred Block and Charles Lindblom. At the time, the concept highlighted the privileged position of capital in capitalism (Culpepper, 2015: 391). In light of their control over capital, businesses can (threaten to) cause economic disruption, detrimental for political actors in a system judged by its capacity to produce economic growth (Gill and Law, 1989; Lindblom, 1977; Marsh, 1983). Political actors may hence act in anticipatory obedience.

Structural power serves as a counterpart to instrumental power, which describes “business actors’ deliberate political engagement” (Fairfield, 2015: 412), such as lobbying.

A renaissance of the term followed four decades later when the global financial crisis drew attention to financial sector power (Baker and Wigan, 2017; Culpepper, 2015; Epstein, 2020; Petry, 2020; Soener and Nau, 2019; Young, 2015). Mainly, the banking sector took center stage, along with the realization of its “too big to fail” dimensions. The global economy depended on the bail-out of large banks, forcing policymakers to act according to these banks’ interests.

While the debates around structural power have developed over time, most discussions share three characteristics in their understanding of structural power. First and crucially, structural power is understood as a form of power that is based on the structural position of capital, in other words, the “role of the capital holder in the economy” (Culpepper and Reinke, 2014: 6) and linked to the ability of capital holders to (threaten to) exit (Hirschman, 1970), in other words, their ability to withdraw capital or invest elsewhere. Second, and relatedly, structural power operates indirectly and is not based on active efforts of capital holders, such as “investment in lobbying offices or trade associations” (Hirschman, 1970). Third, structural power is exercised vis-a-vis policymakers, who please businesses or financial actors to avoid economic turbulence (Fairfield, 2015: 420).

Imprinting is based on structural power but shifts the conceptual emphasis in several aspects, which I elaborate on below. Imprinting describes the power of financial actors, based on their role as capital’s gatekeepers, to shape businesses according to their logic.

In line with most accounts of structural power, the ability to imprint is based on the structural position of actors in the political economy. However, as suggested by Culpepper (2015: 406) and Marsh et al. (2015: 585), imprinting takes into account the very specific role of actors. To analyze the structural position of financial actors I borrow the notion of the investment chain from the social studies of finance. The investment chain situates financial intermediaries in complex and dense networks of capital flows (Arjaliès et al., 2017: 4). While originating in a Latourian tradition, the concept helps to bridge structural and actor-centric perspectives. Financial intermediaries serve as translators in a processual-material practice within the investment chain. At the same time, the investment chain describes the *structure* in which the financial intermediary operates.

With this focus on the agents of structural power, *imprinting* directs attention to the microlevel and to the *power to structure*, or the “power to define the structure, to choose the game as well as set the rules under which it is to be played” (Strange, 2015: 42). I work with the term *logic* to unpack imprinting as a power to structure. Agents of structural power follow specific logics, which derive from but are not determined by their structural position. In a Bourdieusian tradition, with logic, I refer to patterns or principles found in concrete practices (Bourdieu, 1990: 11).¹ This move toward concrete logics is crucial to account for agency and historical dynamics. Instead of reducing the guiding logic of structural power to profit maximization (see, e.g. Fairfield, 2015: 412), imprinting requires specific *logics*, hence incorporating what concrete actors actually do on the micro level, and doing justice to the increasing variety of financial actors in present times. A sector dominated by, for instance, private equity investors (see, e.g. Appelbaum and Batt, 2014), will have a different stance toward innovation or labor as one primarily financed by institutional investors (see, e.g. Braun, 2022). Understanding the specific patterns and practices of financial actors thus provides an important piece to the puzzle of capitalist development.

Second, imprinting centers the relationship between financial actors and businesses. In contrast to some existing accounts (Fairfield, 2015: 420), I understand any group of actors in capitalism to be able to hold structural power. Although the structure of capitalism favors financial and business actors, “mutual dependencies” (Culpepper, 2015: 398) exist between all sorts of structural agents: between businesses and states (Bulfone et al., 2022; Fairfield, 2015; Przeworski and

Wallerstein, 1988), between labor and businesses (Silver, 2003: 13), investors and investees (Feher, 2018), states and finance (Braun, 2020); and most relevant for my work here, between finance and businesses (Harmes, 1998; Petry, 2020).

Finally, this shift from the capital–state relationship to finance–business entails a direct foundation of structural power. Instead of a triangular relationship, whereby policymakers act in the favor of capital out of the fear that capital holders make investment decisions that directly affect businesses and indirectly affect the national economy or their political careers, in the finance–business nexus, businesses act in the favor of capital because they depend on it.

In summary, conceptualizing the structural power of financial actors as imprinting shifts the focus to actors, and their concrete structural positions. It enables an analysis of the relationship between financial actors and businesses and its effects.

The political economy of VC

This section establishes the structural position of VC in the contemporary political economy as an analytical foundation for the following sections' analysis of the imprinting of VC on startups. Specifically, I outline the investment chain surrounding VC and present its value model.

VC firms act as intermediaries between capital providers and startups in the *investment chain*. They collect capital from other investors, their “capital providers.” In Europe, the largest capital providers are government agencies, corporates, private individuals, pension funds, insurance companies, funds-of-funds, and family offices (Alemany and Andreoli, 2018: 107). The legal form the cooperation between venture capitalists and capital providers takes is a limited partnership, documented in the “limited partnership agreement” (LPA). VC investors act as general partners (GPs) and capital providers as limited partners (LPs) in that partnership (Rin et al., 2013: 575). The latter's liability is limited to their paid-in capital, while VCs theoretically are fully liable—in practice, they often circumvent this by appointing a limited liability corporation as GP (Soener and Nau, 2019). The terms of the LPA pertain to the funds' volume, its duration, amount of capital contributed by GPs (“GP exposure”), fees, and distribution of the returns between GPs and LPs (Rin et al., 2013: 575). In my empirical analysis, I focus on the VC–investee relationship to allow for sufficient depth, leaving the link between capital providers and VCs for future research.

VC firms employ a synthesized value model (Christophers, 2015; Cooiman, 2021). On the one hand, venture capitalists, like most other asset managers, receive an annual management fee as a percentage of the fund's volume, typically around 2% (Kupor, 2019: 72). This fee-based value model is the least risky value model from the investor's perspective (Christophers, 2015: 7). It does not require paid-in capital and promises steady, calculable and significant returns. On the other hand, VC firms participate in the capital gains value model (Christophers, 2015: 9). Here, investors advance a certain amount of capital, hoping for a greater amount after a certain time. In the VC case, however, investors participate in the capital gains-based returns of capital providers via the so-called “carried interest,” that is, the share in profits attributed to VCs. This makes for an interesting and—from the VC's perspective—attractive overall value model. VCs have the upside potential of 20% of all capital gains while typically only risking 1% of committed capital (Gompers and Lerner, 1999; Rin et al., 2013: 576)—sweetened by the reliable yearly management fee. In contrast, capital providers pay that fee and have the full capital gains risk while only receiving 80% of potential returns. This value model counters the stereotype of venture capitalists as brave risk-takers (see, e.g. Mallaby, 2022: 9). VC as an asset class has a higher risk than other assets, such as listed companies, but this risk is arguably carried to a large degree by the capital providers.

VCs pool all this capital and invest it into startups. This intermediary position makes them *gatekeepers*, guarding the flow of capital between capital providers and startups. To make them

investable for capital providers, VCs turn startups into *assets*. Within the investment chain, this process of assetization is *layered* (Golka, 2021: 92), both vertically and horizontally, that is, in terms of the actors involved and the temporal sequence. VC firms set up a fund, which serves as an *asset* to them and their capital providers. The fund provides *rents* to both the venture capitalists and their capital providers when startups are successfully sold. Startups may, for instance, *assetize data* by creating and selling software-as-a-service (Birch et al., 2021). At the same time, startups receive financing via several investment rounds and typically from more than one investor, from early seed financing to series A, B, C, etc., gradually giving up more and more ownership stakes in return for capital. The later stages are called growth financing. Over time and after several investment rounds, the ownership structure is complex, with individual VCs rarely owning more than 50% (Feld and Mendelson, 2017: 2). Consequently, also the asset structure is complex, with many investors using the same startup as a foundation for their asset, which then provides rents to their many capital providers.

VCS delineate the legal terms of investment in the term sheet (TS) and investment agreement (IA) (Alemany and Andreoli, 2018: 258 f.). This way, venture capitalists construe the shape of the asset (Birch and Muniesa, 2020: 6). In these documents, VCs and startups agree on the investment amount, payout conditions, board seats, and shareholder rights (Alemany and Andreoli, 2018: 258 f.). Different VC firms focus on different investment stages, as these come with distinct challenges and risk profiles (Feld and Mendelson, 2017: 215; Klingler-Vidra, 2016) and take different investment strategies. Large established VCs often take the role of lead investors, who agree on the terms of investments with the startups and are more active in the management of the startup (Kupor, 2019: 140). Others limit themselves to merely co-investing. The overall aim of VC investing is the exit: investors seek to sell the startup/asset after growing it sufficiently either to large corporates or via an initial public offering (IPO) (Bottazzi and Da Rin, 2002: 6). The structural incorporation of the exit into the value model of VCs distinguishes startups-as-assets from other prominent asset forms, such as patents or data, which can be sold but are not primarily intended for sale. This specificity is enabled by the dual value model, which allows capital providers to participate financially in the growth of startups, which they otherwise would not be able to. For the broader field of assetization studies, this exemplifies how financial forms such as assets are not fixed, but contingent and constantly made, re-made, and coded into law (Pistor, 2019) to serve the needs of specific constellations of actors.

Imprinting the economy

This section seeks to expose the central logic of VC investing, in other words, to derive the contours of the stamp that VCs imprint on startups. Next to my own empirical material, I draw on financial economics studies and practitioners' media. I trace the ways in which VCs exercise structural power throughout central practices, that is, the selection of startups, their valuation, and the growth phase.

Selection: Slaves to the economics

VC's intermediary position guarding the flow of capital in the investment chain grants them structural power and allows them to imprint on startups. As *gatekeepers*, venture capitalists can decide which companies will receive funding and which won't. There is no alternative way to obtain comparable amounts of capital. While the odds of securing VC funding are low, the economic impact is substantial. A recent analysis finds that in the US, only around 0.5% of all new companies receive VC funding—but those few disproportionately become large corporations. Among all companies that went public between 1995 and 2019, 47% have received VC, representing 76.2% of the total market capitalization (Gompers et al., 2020). Next to this direct gatekeeping, startups

anticipate VC's selection criteria. Internet forums, blogs, and whole books are dedicated to the question of how to score VC funding, such as VC investor Scott Kupor's book "Secrets of Sand Hill Road: venture capital and how to get it" (2019) or the recent bestseller "Amp it up: Leading for Hypergrowth by Raising Expectations, Increasing Urgency, and Elevating Intensity" (Slootman, 2022). So, what is it that VC investors look for? Despite often being narrated as instinctive decisions (Mallaby, 2022: 309), the structuring that VCs enforce follows distinct principles, which are tightly connected to their asset logic. In the words of Strange, VCs define the rules of the game (Strange, 2015: 42).

Most importantly, that is the *hypergrowth principle*. VCs look for startups that have the potential to be worth billions within the timeframe of the fund, that is, companies whose value grows exponentially. Peter Thiel, the infamous investor and PayPal founder, terms this the golden rule of VC: "only invest in startups that have the potential to return your entire fund" (Thiel, 2014: 86). This principle follows the logic of assetization. To successfully create an asset, investors have to deliver high returns, that is, rents, to capital providers. The rent VCs offer stems from the profitable sale of their investees, startups. The inherent uncertainty of the future makes a startup's success unlikely: over half of all investments fail and only a few companies make the majority of the returns of the fund (Lerner and Nanda, 2020: 255). Return, in the case of VC, is often measured as a multiple of return over paid-in capital (Feld and Mendelson, 2017: 47). Capital providers, in line with modern portfolio theory, want to be compensated for the high risk they take, so an adequate return on investment would be 2 to 3× paid-in capital.

Success means you return more than double, maybe ideally more than three times of the capital that you got from the investors back to them. (Additional material #1)

Effectively, every startup should have the *potential* to become a billion-euro company—naturally, only a few companies will deliver on that potential. At an internal conference, a partner of a VC firm argues: "we are slaves to the economics."

Often, we pass on companies not because we don't believe that they will be great companies, just because we don't believe that they'll be companies that will meet a threshold that we require them to get to. [...] Remember, we will always ask ourselves, is your business able to be a billion-euro company? (Additional material #1)

Vcs implement this *hypergrowth principle* by analyzing the technology, founding team, business model, and market (see also Gompers et al., 2020: 5)—and in all four areas, the VC logic leaves an imprint. The choice of technologies to be invested in is narrowed by the need to grow substantially within the timeframe of the fund. Consequently, VC investors tend to favor proven technologies over more uncertain and long-term oriented "deeptech" approaches (Lerner and Nanda, 2020: 245). The dominance of software-based startups amongst VC investments can be understood as a reduction of the technology risk guided by the *hypergrowth principle*. Similarly, the choice of business models and markets is shaped by VC logic. To grow sufficiently within a period of three to seven years, which is the typical holding period for early stages (Klingler-Vidra, 2016: 5), business models have to be scalable and the addressable markets sufficiently large, hence, the preference for digital business models and large winner takes all markets. Digital and especially platform business models tend to exhibit decreasing marginal costs and benefit from network effects (Rahman and Thelen, 2019: 180). To select a management team that will do anything for the success of the startup, investors rely, amongst others, on their networks (see also Gompers et al., 2020: 5). Startups that end up getting an investment tend to be referrals from the VC firms' network.

Companies emailing us just saying, hey, we are a company like this, we are attaching a PDF. [...] We receive an immense amount of those every year. And I don't think we have ever invested in an email that was just being sent to us because it's just a sign of adverse selection. The good founders will always be able to get an introduction to us. We have a big network. You always probably know one or two people who can help you at least to get some kind of introduction. (Additional material #1)

In effect, local “tribes” (Additional material #6) surrounding the likes of Rocket Internet in Berlin, Spotify in Stockholm, or Revolut in London have emerged that reinvest their gains as founders, angel investors, or by setting up their own funds. They create exclusive networks that push each other's investments and exclude outsiders. The dynamics surrounding these tribes ask for further scholarly scrutiny.

In summary, following a thrust similar to Rahman and Thelen's (2019), one can link today's startups to the logic of VC investing. This logic goes beyond mere profit maximization. It also contrasts with the logic of large asset managers, maximizing the variable fee income (Braun, 2022: 20). Instead, venture capitalists seek to maximize the growth of their investees within their investment period to ensure a highly profitable exit and thus, successfully turn startups into assets. The imprint of VC directly manifests in the startups that get funded, which tend to be those whose business model, market, founding team, and technology carry the potential for hypergrowth.

VC's logic essentially is an *asset logic*, however, a specific asset logic, carrying the structural dispositions of VC investing—particularly their synthesized value model and the inherent uncertainty of their field of investment. Investors can exercise this structural power due to their position as gatekeepers in investment chains. In contrast, in a world where capital to new organizations was allocated through different channels, startups would follow a different logic and might, for instance, focus on smaller markets with less growth but social or ecological rewards.

Valuation: Decoupling of financial value and economic performance

If growing (the value of) a startup is a core principle of VC investing, how the value of startups comes about, too, becomes a crucial question. Technically, the value of a startup is the product of negotiations between founders, and previous and new investors and is laid out in the IA. The valuation becomes important whenever a startup raises a new round of capital, typically every one to two years. Again, venture capitalists' position as gatekeepers in investment chains gives them power over valuations. As with the selection of companies, the valuation follows the asset logic of VC. At the time of exit, the asset's value needs to be high enough to offer rent to capital providers. This translates into two principles that structure VC valuation practices.

First, investors aim to imprint the *hypergrowth principle* on the sequence of valuations. In other words, VCs try to create an exponential growth curve in valuations to signal that their startup is on track to become a successful asset so that other investors will want to participate and at the time of exit, buyers will be interested. In a way, VCs aim to *make* an investable future. In contrast, a so-called down-round, a lower valuation than the previous investment round, is considered negative signaling and may constitute the end of a startup's management team, if not the whole startup. To build momentum, investors may start a round with a low valuation, which is increased by the high demand and inspires fear of missing out (FOMO). The frequent mentioning of FOMO, a phenomenon that surfaced in the context of millennial social media consumption, speaks to the dynamic nature of the valuation process (see also Birch and Muniesa, 2020: 6).

Um, another thing is don't start too high in negotiations. [...] it's much better to start relatively low, and then the market presses you up, and you go back saying, hey, thanks for the offer, but I have a better one than you get a positive dynamic going. And that is very great, because then suddenly the FOMO kicks in

when there's a deal where we think, OK, everybody's looking at the deal, everybody's looking at a company, we probably need to pay higher. This is when people are actually adding large amounts of valuation on top of companies. (Additional material #1)

Second, to keep founders incentivized, investors manage the ownership structure.

If a company needs a lot of money to continue its business, the valuation has to be very high, because according to the logic from before, you always have to make sure that the founders still have shares in some form, otherwise the engine is missing. (Interview #16)

The ownership structure after a new investment round derives from the amount of money needed, the previous ownership structure, the valuation, and the resulting dilution.

At the end of the day, you try not to get above 25 percent dilution per round. [...] and that's how you come up with a valuation. (Interview #11)

The following case exemplifies this relationship. A founding team owns 20% of a company that is valued at €2 million. Thus, the team's stake is worth €400k. If the company raises new capital, for instance, €2.5 million at a €7.5 million pre-money/€10 million post-money valuation, the founding team's stake gets diluted by 25%. They own 20% of the pre-money valuation, so only 15% of the post-money company. That smaller share is now worth more than triple than before. What matters here is the relation between pre-money valuation and capital raised. If, instead, the startup was to raise €5 million at the same pre-money valuation, the founders' shares would dilute by 40%, a scenario not ideal even in the eyes of investors. Investors themselves typically have the right to co-invest in the new round so that they can counter the dilution of their own shares (Kupor, 2019: 165). As a consequence of this dilution dynamic, when startups need a large amount of capital, for instance, to enter new regional markets, the valuation automatically becomes very high, irrespective of the underlying business fundamentals.

The new mega players that have entered VC markets over the last decade, such as Softbank or Tiger Global Management, the hedge-fund-turned-VC, further propel valuation levels. As they operate with typical tickets of several hundred million, an investment from them will almost automatically lead to unicorn status considering dilution and ownership structure.

Softbank puts money in somewhere and the valuation automatically goes to Unicorn status, most of the time. Because if Softbank invests an order of magnitude of 300 million [...] Yeah, how many shares are you going to take for that? You get 30 percent for the 300 million, but most VCs probably don't get a majority either. (Interview #16)

Overall, valuations are, to a large degree, shaped by these VC principles of growth trajectories and ownership structure. A startup's value is the product of the deliberate actions of investors, who try to inspire affective reactions of financial actors and manage incentives. Consequently, the asset form VCs impose on startups implies an *effective decoupling of financial value and long-term economic performance*. Instead of reflecting an inherent quality, startups-as-assets' value is dynamic and temporal, construed by social actors (Birch and Muniesa, 2020: 6). The two patterns analyzed above are not the sole drivers of VC valuations, neither can the above section discuss VC valuation practices in all its complexities (for a detailed discussion of VC valuation, see Feld and Mendelson, 2017: 43 f.). Instead, I show how also in valuations, the asset logic specific to VC imprints on startups. VCs imprint high valuations on startups, fostered by their asset logic around growth trajectories, ownership,

and dilution. These high valuations are carried into public markets and feed into their instability, as exemplified by the frequent failure of VC-funded IPOs, such as WeWork, or the relative underperformance of tech stocks in times of rising interest rates. An in-depth study linking microlevel imprinting and macroeconomic phenomena could provide further empirical insights into this relationship.

Growth: Participatory capital

Following the selection of investees and their valuation, VCs aim to put the growth potential of their investees into practice by involving themselves substantially in the operations of their investees. This distinguishes them from other asset managers, who might leverage their shareholder rights in resolutions (Braun, 2022), but whose influence typically does not extend beyond a minority vote on these issues. Instead, VCs establish forms of direct and indirect control that go beyond the typical engagement of equity shareholders. As gatekeepers in the investment chain, VCs are able to control startups to make them follow their asset logic, once again imprinting on them.

Via the IA, VCs seek direct control over their investees. This form of coding control is dynamic and complex. In the following, I describe three key forms of direct control agreed upon in the TS. First, *preferred shareholder rights* grant VCs special rights pertaining to payout (“liquidity preferences”) and voting, which the common stock held by founders and employees of a startup does not grant (Kupor, 2019: 141). Preferred shares can effectively grant venture capitalists majority control of a startup, despite holding <50% of the shares. This dynamic is supported by the vesting of founders’ and employees’ shares, which will only materialize if founders/employees stay for a predefined period at the company (Kupor, 2019: 95).

Second, *board seats* allow for supervision and control. Though originally an American corporate governance model, European startups have taken up the same structure, allowing board members to decide on the management and the long-term business strategy (Kupor, 2019: 202). The board consists of representatives of common and preferred shareholders (Kupor, 2019: 202) and can become dominated by venture capitalists over time.

Third, the IA often defines payout criteria. The capital that is raised in a given investment round is not paid out to the startup directly but only piecemeal, contingent on certain milestones, such as revenues or customer figures. Investors can use these conditions to pressure investees to act according to their preferences.

VC’s control is contested. Cheap money granted startups leverage over VCs, as promising startups became scarce relative to the abundant supply of capital. The below quote exemplifies how the loss of control of founders had been taken for granted—founders were welcome to set up a business, but as it matured should leave the professional-business-making to investors and their preferred management teams—and how this was challenged in some cases.

There’s been a shift in the balance of power to founders. They have much, much more leverage in negotiations now than at any point in time in history. [...] But there are issues that come when you’re choosing someone likened to a spouse in a matter of hours to days. One is corporate governance. So over time, because founders have so much more power, they’ve been able to choose board members who are favorable to them and structure shares, so they don’t have to give up power as firms mature. As a result, there’s been this emergence of what may be called a founder CEO. People like Adam Neumann of WeWork or Travis Kalanick of Uber, who stay in power long past their welcome because of the new world. (Additional material #6)

Not all investors are equally involved in developing a startup. Typically, the lead investor takes the most active role, thus concentrating structural power in the hands of a few investors.

We want to take a relatively active role. So, we are Board Member and Board Observer, so we go in as a team of two people. One investment professional as board observer and one partner as board member. And the strategic team in terms of hiring and networking. Those are the main blocks, I would say, where we support. (Interview #9)

When just considering these forms of direct control, venture capitalists' degree of control is medium relative to that of other asset managers. Large asset managers of listed equities, such as BlackRock, arguably hold less control over individual firms, as their shares are smaller and their shareholdings diversified (Braun, 2022). Private equity firms, as majority owners of companies, are in full control of their investees. However, VCs have established novel channels of control: operational support via own staff and their network.

One interviewee described VC as “participatory capital” (Interview #17), referring to the *participation* of VC investors in managing and developing a company. More and more VC firms act as operational VCs to gain control and achieve a competitive advantage vis-a-vis other investors. Successful European VC firms, such as Atomico, or Project A, employ hundreds of people who function as experts in various operational fields, such as marketing, human resources, or finance. They help startups build their operations and hire personnel for them. With this *participation*, the borders between company and shareholder increasingly blur.

We can set up all the infrastructure, we can set up the best practices, keeping in mind that most of our team works with startups exclusively, startups and nobody else, so they can set those things up for the founders. [...] So, I think that's actually the more practical offerings we have for our founders, despite the sort of the marketing. (Additional material #4)

Besides employing their own staff for the operations of startups, VCs also provide startups with access to their network, particularly their capital providers and their tools/software, network, and operational expertise. VCs may set up expert calls with experienced management from large corporates or provide startups with cheaper or free services, such as logistics and marketing, or help expand to new markets. Concretely, this may mean direct access to, for instance, Peter Thiel, the VC guru with shares in numerous European VC funds, or e-commerce giant Otto Group. Access to capital providers also often implies a potential exit route: capital providers keep an eye out for strategic or financial acquisitions, implying a win–win–win situation between capital providers, investors, and investees. In anticipation, startups may form their business so that it becomes attractive to potential acquirers.

Despite not directly controlling startups, these forms of “support” allow VCs to shape the development of the business, imprinting the use of software in all sorts of departments, extensive marketing efforts, and network affinity into the DNA of a startup.

Overall, these forms of control present an alternative to the threat of exit, predominant in earlier forms of shareholder power. Exiting an investment is not feasible, on the one hand, because there is no market for shares in underperforming startups, and on the other hand, because of the negative signaling effects bad investments have on capital providers. Thus, investors tend to keep startups in their portfolios as so-called zombies, keeping investment at a bare minimum. Being a zombie is not attractive to startups, and together with the other forms of control, investors can hence build their structural power.

Conclusion

In this paper, I analytically link asset manager capitalism and the digital economy by examining the structural power of VC investors. Therefore, I develop the notion of imprinting, analyzing how financial actors shape businesses according to their logic.

Concretely, I show how VCs turn startups—via the fund structure—into assets for themselves and their capital providers. To make up for the uncertain nature of startup investing, startups have to have the potential for hypergrowth, for instance, by employing proven technology, and scalable digital business models. After the selection, this “hypergrowth principle” is imprinted into startups via the valuation trajectory and direct and indirect channels of control of the business development.

My work also speaks to the patience of VC. While VCs are “patient by default” (Harrison et al., 2016: 5) when it comes to withdrawing their investment, they act pushy in making sure that their interests prevail via different channels of control, in particular, acting as *participatory capital*. This *participation* in the development and management of a startup points to a blurring of the division between manager and shareholder, which is fundamental to corporate governance, asking for further scholarly thought.

This agential perspective on the structural power of finance provides timely insights into a world, which after decades of financialization is shaped by a variety of specialized financial actors. As gatekeepers of capital, financial actors tend to occupy crucial positions in the economy, while following distinct logics. Whether a large asset manager tries to maximize their variable fee income in small equity holdings, a private equity firm the exit proceeds of whole companies levered by debt, or a VC firm to create a lucrative asset of startup shares despite the inherent high risk of early stage investing matters. Financial intermediaries are never neutral but shape the businesses they interact with. VC, due to their focus on startups, which still have to become fully fledged companies, and the different channels of control that they have established may have a particularly pronounced impact, but any financial actor will leave an imprint. In other words, the concept opens up room to think about how financial actors in capitalism, through their very position in this order, are able to leave their mark on the way things are done. Conversely, a systematic understanding of the relationship between financiers and their investees can contribute to alternative conceptions of finance, developing logic whose imprint, for instance, may advance social or ecological goals.

The research presented above is exploratory and opens several avenues for future research. First, future research could shift focus up or down the investment chain, to capital providers, and their relationship with VCs or startups, tracing the VC imprint in their practices and business development. In a similar vein, an analysis of VC-funded sectors of the economy, such as fintech, might yield insights into VC’s macroeconomic imprint, for instance, on economic concentration. Conversely, the effects of the changing macroeconomic environment, particularly rising interest rates, on VC power dynamics ask for scrutiny. Comparative research analyzing differences between types of VC investors (strategic vs. financial vs. governmental; lead vs. co-investors) promises a deeper understanding of the power dynamics at work in VC. Previous research suggests substantial differences in returns and power between investors. Though a differentiation went beyond the scope of this article, it might point to even more power in the hand of a few investors. Going beyond VC to analyze other financial intermediaries and their imprint contributes to further unpacking financial sector power in the age of asset manager capitalism.

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Note

1. I work with *logic* instead of *ideas* as it best serves my empirical interest. While I acknowledge the crucial role of ideas in shaping structural power (for a detailed discussion of ideas in structural power, see: Marsh et al., 2015), my empirical interest first and foremost lies in dissecting the specific structure and structuring at work. Unpacking their ideology asks for dedicated research, as has been conducted by thinkers such as Shapin (2010) and Daub (2020).

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Appendix A: Empirical material

See Tables 1 and 2.

Table 1. Interview overview.

#	Type	Active in	Lead	Role	Interview type	Date
1	Corporate VC	Global	No	Principal	Semi-structured	28 Jan 20
2	Independent VC	Global	No	Principal	Informal	24 Apr 20
3	Independent VC	Europe	Yes	Investment Manager	Informal	22 Oct 20
4	Independent VC	Europe	Yes	Head of IR	Informal	16 Nov 20
5	Governmental LP	Europe	N/A	Senior management	Semi-structured	28 Jan 21
6	Governmental LP	Europe	N/A	Senior management	Semi-structured	3 Feb 21
7	Independent VC	US, Europe	Yes	Partner, Head of Germany	Semi-structured	27 May 21
8	Independent VC	Europe	Yes	Associate	Informal	2 Jun 21
9	Angel investor	Europe	Yes	Angel	Informal	16 Jun 21
10	Independent VC	Europe	Yes	Head of IR	Semi-structured	17 Jun 21
11	Governmental VC	Europe	No	Partner	Semi-structured	23 Jun 21
12	Startup	US, Germany	N/A	CEO	Semi-structured	14 Aug 21
13	Governmental VC	Germany, Europe	Yes	Partner, Founder	Semi-structured	8 Sep 21
14	Governmental LP	Germany, Europe	N/A	Investment Manager	Semi-structured	11 Oct 21
15	Independent VC	Europe	Yes	Partner, Founder	Semi-structured	1 Nov 21
16	Independent VC	Germany, Europe	Yes	Partner	Semi-structured	5 Nov 21
17	Governmental VC	Germany	No	Investment Manager	Semi-structured	15 Dec 21

VC: venture capital; LP: limited partner.

Table 2. Additional material: Podcasts and conferences.

#	Title	Firm/Host	Date	Link	Last accessed
1	The ugly truth about venture capital @ Knowledge Conference 2019	Project A	27 Sep 2019	https://www.youtube.com/watch?v=F9S5RbseNP4	26 May 2021
2	Knowledge Conference 2020	Project A	30 Oct 2020	https://www.facebook.com/projectaberlin/videos/3749155701785704/	26 Aug 2021
3	BTS: from first contact to term sheet at Project A PAP#110	Project A	14 May 2021	https://soundcloud.com/projectaberlin/bts-from-first-contact-to-term	14 Feb 2022
4	Welcoming Jack to Project A and doubling down on European seed PAP#112	Project A	31 May 2021	https://soundcloud.com/projectaberlin/welcoming-jack-to-project-a	14 Feb 2022
5	Knowledge Conference 2021	Project A	8 Oct 2021	https://knowledge-conference.project-a.com/talks	16 Dec 2021
6	Veni, vidi, VC—the new age of venture capital	Economist	24 Nov 2021	https://www.economist.com/podcasts/2021/11/24/veni-vidi-vc-the-new-age-of-venture-capital	11 Feb 2022