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Early stage venture capital investing: comparing California and Scandinavia

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While venture capital has become a global phenomenon, our knowledge about regional differences in venture capitalist (VC) behavior is quite poor. Most cross-regional comparisons have been quantitative replications of US based studies, which has made it difficult to discern qualitative differences. To help remedy this situation, we conducted semi-structured interviews with altogether 12 early stage VCs in California and Scandinavia. The results, which are presented in some detail, reveal substantial differences in VC activities and priorities during deal flow generation, investment, post-investment involvement, and exit. Taking a cue from these specific findings, we conclude by suggesting that VCs can be conceived of as fulfilling three ideal typical roles as investors, coaches and partners. Since they imply quite different modes of engaging with portfolio companies, it is also suggested that these roles – while based on a limited sample – may be useful for discriminating between VCs also in other settings.

Keywords: venture capital; cross-regional comparison; interviews; California; Scandinavia

Introduction

Innovative technology based startups are important for regional growth and industrial renewal. At the same time, they are liable to fail because the products and services they offer are based on unproven technologies and often target poorly defined markets (Stinchcombe 1965; Thomke 2003). As a result, most financiers cannot make informed investment decisions. This has spawned firms with specialized venture capitalists (VCs) whose expertise allows them to invest in risky ventures on behalf of financiers (Gompers and Lerner 1999).

While the venture capital industry emerged in the US, it is today a global phenomenon that exhibits many regional variations (cf. Wright et al. 2004). Indeed, recent decades have seen venture capital become increasingly important to most advanced economies' innovation systems, as well as to a growing number of emerging economies (Bruton, Fried, and Manigart 2005; Ahlstrom and Bruton 2006). Venture capital backing is especially important in high technology sectors, where uncertainties are great and ventures often require substantial financial support before being able to sustain themselves on internally generated revenues. Numerous

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investigations, both in Scandinavia (e.g. Isaksson 1999) and in the US (e.g. Global Insight 2004), also show that venture capital backed firms typically fare better in terms of job creation and revenue growth than do comparable firms without venture capital support. While these and many other studies point to the general benefits of venture capital (cf. Kortum and Lerner 2000; Hellman and Puri 2002), less is known about how VCs actually interact with their portfolio companies – including their behaviors, priorities and the kinds of roles they assume *vis-à-vis* their portfolio companies – and how this relates to their value added (Baum and Silverman 2004).

One factor limiting our understanding of early stage VC behavior is the general lack of attention given to regional differences in venture capital research (cf. Mason 2007). This may be especially apparent in cross-regional comparisons of actual VC behavior, where studies are usually quantitative and consist of: 'a replication of US studies followed by an aggregate level comparison of findings with US studies' (Wright, Pruthi, and Lockett 2005, 153). This means that empirical investigations of cross-regional differences in VC behavior are largely based on a US-centric, and thereby potentially limited and biased, understanding of what VCs do. Such replication studies typically find many striking similarities across regions, but they also point to a number of differences, for instance regarding the relative amount of time spent on top performing ventures (Sapienza, Amason, and Manigart 1994; Sapienza, Manigart, and Vermeir 1996), the number of investment criteria used to screen deals (Ray 1991), and the reliance on external expertise for investment appraisal (Wright, Pruthi, and Lockett 2005).

Unfortunately, quantitative studies can only speculate about the underlying reasons for such regional differences. In addition, the few qualitative cross-regional comparisons that do exist tend to contrast US VC practices with VC practices in regions that are culturally and institutionally quite different, such as the emerging economies of East Asia (Bruton and Ahlstrom 2003; Wright, Pruthi, and Lockett 2005; Ahlstrom and Bruton 2006). The results of these studies indicate that large cultural and institutional differences can have large effects on both the roles VCs assume and the activities they perform. Some even go so far as to suggest that the value of principal-agency theory, for understanding relations in the venture capital industry, is culturally bound (Wright, Pruthi, and Lockett 2005). While such comparisons suggest that US centric understandings of what VCs do have limited generality, almost no qualitative studies have systematically compared the behaviors of US VCs with VCs in other western regions, i.e. regions which, on the surface, are institutionally and culturally similar (cf. however Bryman et al. 2003). Differences revealed in such a comparison can potentially be used to improve our understanding of VC behavior in general and of the nuances of VC behavior in the west in particular.

Consequently, this paper uses altogether 12 interviews in an effort to explore early stage investing behavior among Scandinavian and Californian VCs. The primary goal is to conduct an in-depth exploration and comparison of the VC investment process – i.e. deal flow generation, investment, post-investment involvement, and exit – in these two groups. The secondary goal is to build on the specific differences identified in order to make some more general, albeit tentative, inferences regarding the roles VCs in the two regions assume in relation to their portfolio companies. To foreshadow the conclusions, VCs appear to fulfill three roles *vis-à-vis* their portfolio companies. Besides acting as *investors* and *coaches* (cf. Hellman 2000; Baum and Silverman 2004), VCs were also found to serve as *partners* to the entrepreneurs. Notably, the partner role identity dominated among the Californian VCs, whereas their Scandinavian counterparts tended to identify with and also behave more like investors. Finally, these differences are used to speculate about how institutional theory can be used to explain regional differences in individual VC behavior.

Literature review

The venture capital investment process

Over the years, numerous empirical studies have described the venture capital investment process in terms of distinct stages. In an influential paper that synthesized and extended many early contributions, Tyebjee and Bruno (1984) divided the process into deal origination, screening, evaluation, deal structuring and post-investment activities (which includes exiting). In between raising a venture fund and finally returning capital to investors, Gompers and Lerner's (1999) comprehensive description of the whole venture capital cycle comprises investing, monitoring and adding value, and exiting. While the terms used differ somewhat, the venture capital investment process can generally be said to comprise four broad phases: *deal flow generation, investment, post-investment involvement*, and *exit* (cf. also Hall and Hofer 1993; Fried and Hisrich 1994).

What venture capitalists know

The venture capital industry can be seen as part of the increasing division of labor and specialization that characterizes most economic development. Similarly, venture capital firms tend to develop industry-specific expertise within certain technological fields, markets and even geographical areas (Anderson 1999; Chen et al. 2009). In addition to such specialized expertise, experienced VCs will also develop more general venture development expertise (Dimov and Shepherd 2005; Berglund, Hellström, and Sjölander 2007).

Industry-specific VC expertise can take many forms. In terms of market expertise, VCs can help identify and develop appropriate business models, identify relevant markets and help guide marketing activities (Sjögren and Zackrisson 2005). VCs can also leverage their often extensive industry networks to provide access to unique market information, candidates for employment and specialized service providers (Fried and Hisrich 1995). VCs also help ventures promote themselves and get in contact with financiers, thereby increasing their likelihood of securing additional funding (Gomez-Mejia, Balkin, and Welbourne 1990). Knowledgeable VCs are also relevant for strategy formulation and implementation, which may be particularly important if strategies hinge on unique offers and differentiation rather than on cost efficiency. This is because such strategies require knowledge of the needs of suppliers and buyers, of potential substitutes and of competing offers – knowledge that specialized VCs are more likely to possess (Sapienza 1992).

The other main selling proposition of VCs is their hard earned and generalizable expertise in terms of venture development, which may be even more valuable especially to inexperienced entrepreneurs. VCs who have been involved in a range of ventures have learned which strategies and tactics typically work and when, and will bring their experiences to bear on subsequent decisions and activities (Busenitz, Moesel, and Fiet 2004). This can take the form of VCs aiding entrepreneurial learning efforts, for instance by helping entrepreneurs formulate, test and evaluate venture relevant hypotheses (Berglund, Hellström, and Sjölander 2007). VCs have also learned the importance of staying on course and, as a result, try their best to pressure entrepreneurs to perform in accordance with jointly established objectives, when it is relevant to do so. If such managerial discipline is not maintained, VCs may sometimes replace the CEO (Fried and Hisrich 1995). VCs also know from experience how to handle complex interdependent organizational issues such as hiring and firing personnel, managing internal conflicts, and providing overall structure to emerging organizations.

How venture capitalists add value

Venture capital firms are specialized intermediaries who are trusted with making venture investments on behalf of financiers. While firms that receive venture capital on average do better than comparable firms without such support (Isaksson 1999; Global Insight 2004), there is substantial disagreement regarding the role VCs assume in the relation with portfolio companies and how this translates into value added (Baum and Silverman 2004; De Clercq and Manigart 2007). Some view VCs as mere investors, or 'scouts', in an evolutionary framework wherein entrepreneurs provide variation and VCs provide an independent, albeit vicarious, selection mechanism[1] (cf. Anderson 1999). On this view, VCs primarily add value to society and to their venture funds, by investing in good ventures, rather than to the specific ventures themselves. Others argue that VCs are active 'coaches' (Hellman 2000) or 'trainers' (Sapienza, Amason, and Manigart 1994) who not only select which entrepreneurs 'get to play [but who also] train and motivate them, and who try to create the most favorable conditions for them to succeed' (Hellman 2000, 277). These two perspectives point to quite different roles for the VC. The VC as investor is quite hands-off and mainly seeks to identify good ventures, negotiate favorable investment terms, monitor the portfolio of ventures, and finally negotiate profitable exits. The VC as coach is instead more hands-on, focusing on building strong venture teams and continuously guiding and pushing entrepreneurs to develop their ventures.

While the metaphor of VC as scout may make sense for late stage investments and buy-outs, the VC as coach seems more relevant in early stage technology investing (Sapienza 1992; Fredriksen, Olofsson, and Wahlbin 1997). Early stage technology ventures operate under conditions of great uncertainty, where the venture's activities often help shape the product categories, business models and standards that will define future markets (Sarasvathy 2001; Berglund 2007). Under such uncertain conditions, it is not reasonable to define the VCs' role solely in terms of a proxy for future markets; one must also examine how VCs help develop their portfolio companies in the face of this uncertainty.

While these two general perspectives dominate scholarly understanding of VC roles and value added, some researchers have offered more nuanced depictions of how US VCs act, not least in their capacity as 'coach'. MacMillan, Kulow, and Khoylian (1989) used factor analysis on their questionnaire results and identified four broad patterns of VC activities: hands-on involvement in the *development and operations* of the venture, which included developing products and services, soliciting customers, as well as formulating and testing marketing plans; *management team selection*, which included searching for candidates, interviewing and selecting these, and also negotiating employment terms; *personnel management*, which included personnel motivation, serving as a sounding board, and managing crises and problems; and *financial participation*, which included obtaining equity and debt financing, and also monitoring financial performance. Sapienza and colleagues (Sapienza, Amason, and Manigart 1994; Sapienza, Manigart, and Vermeir 1996) suggested that VCs assume three coaching roles: a *strategic* role as sounding board and consultant, an *operational/networking* role as provider of contacts with customers and recruits, and an *interpersonal* role as friend, mentor and confidant. The above suggestions have also been tested in cross-regional quantitative analyses of VCs (Sapienza, Amason, and Manigart 1994; Sapienza, Manigart, and Vermeir 1996). In general, the results indicate broad similarities. However, it is interesting to note that US and UK VCs report spending much more time with their portfolio companies, and even more so with high performing companies, compared to VCs from France and the Netherlands. The authors suggest that this may be related to the banking backgrounds of many continental European VCs (Sapienza, Manigart, and Vermeir 1996).

In general, quantitative studies correlate amounts and frequencies of different VC activities with a set of venture performance measures. Such studies have clear limitations, partly because many studies do not examine the activities in sufficient detail (Gomez-Mejia, Balkin, and Welbourne 1990; MacMillan, Kulow, and Khoylian 1989; Wright, Pruthi, and Lockett 2005). Fredriksen, Olofsson, and Wahlbin (1997) found that some VCs act as 'firefighters' and spend more time with underperforming, rather than high performing, companies. Moreover, studies that investigate venture involvement in terms of pre-defined activities (MacMillan, Kulow, and Khoylian 1989) or VC roles (Sapienza, Amason, and Manigart 1994) are unable to discern whether different VCs attribute different meanings to such activities or roles. To 'be deeply involved', 'act as a sounding board' or 'monitor operating performance' in a venture may mean very different things to VCs depending on the context in which they are situated as well as on the styles and experiences of the VCs themselves. To understand such qualitative differences in interpretation is especially important when making cross-regional comparisons.

How institutions influence VC behaviors

Institutional theory argues that a broad range of regulative, normative and cognitive institutions – spanning from formal laws and professional norms to social conventions and taken-for-granted beliefs – influence the behavior of organizations and individuals (DiMaggio and Powell 1983; Scott 1995). Many venture capital researchers have used the institutional perspective to explore regional differences in VCs' activities, often with focus on comparing the US or California to emerging or transitional economies (Wright, Pruthi, and Lockett 2005). Such research has produced many interesting insights. For instance, different legal systems, e.g. based in common or civil law, are significantly associated with different methods of company valuation (Wright et al. 2004). Similarly, differences in law quality and accounting standards have significant impact on the use of certain governance mechanisms (Cumming, Schmidt, and Walz 2010). The legal system has also been linked to different ways of sourcing information (cf. Bruton and Ahlstom 2003), whereas cultural factors appear to better explain the relative importance VCs place on different information sources, e.g. information from the entrepreneurs themselves or from external sources (Wright et al. 2004). Some authors have suggested that, in emerging economies, informal institutions and networks can act to supplement or replace weak formal institutions (Ahlstrom and Bruton 2006). Also, since emerging markets typically lack well-developed networks of intermediaries and consultants, VCs in these regions have been found to rely more on the internal expertise of the venture capital firm when appraising investments (Wright, Pruthi, and Lockett 2005). On a less formal level, cultural factors such as *minzi* (face) in countries like China clearly affect the abilities of VCs to influence venture activities, not least since directions and advice must be provided in a highly diplomatic manner (Bruton and Ahlstrom 2003). In contrast, comparisons of the venture capital industries in Europe and the US often focus on similarities (Manigart 1994; Bruton, Fried, and Manigart 2005). The early European venture capital industry was greatly inspired by the US and many European VCs were trained in the US. Moreover, European venture capital firms were often set up by individuals with experience from the US and some early funds were even affiliates of US venture capital firms (Manigart 1994). In light of this 'clear and largely deliberate attempt to found the European industry based on the normative institutions of the U.S. industry … it can be expected that there are similarities in behavior of U.S. and European VC firms' (Bruton, Fried, and Manigart 2005, 739).

Method

The overwhelming majority of early VC research focused primarily on describing in detail 'what exactly venture capitalists do' (Sapienza and Villanueva 2007, 68) and was overwhelmingly conducted in the US. Since these early descriptions formed a critical empirical basis on which subsequent theory was developed, the scholarly understanding of VCs' behaviors was and still is heavily US oriented (Landström 2007). In light of this imbalance, the purpose of this study is to improve our understanding of early stage VC behavior, by conducting an in-depth exploration and comparison of VC behavior in Scandinavia and California. Since such detailed regional comparisons of VC behavior are rare, an exploratory interview study based on a purposive sampling strategy was deemed suitable (Berg 2001).

Regional focus

As indicated above, only a few qualitative studies have contrasted the dominant US based understanding of VC behavior with the behaviors of VCs in other regions. The results also indicate substantial differences that challenge the generality of the received US centric view of what VCs do (Bruton and Ahlstrom 2003; Ahlstrom and Bruton 2006). To date, such comparisons have tended to compare the US to regions that are culturally and institutionally very different. Instead of seeking such maximum variation, this study contrasts early stage VC behavior in two regions that are ostensibly quite similar both culturally and institutionally: California (Palo Alto, San Jose and San Francisco) and Scandinavia (Göteborg, Oslo and Stockholm).[2]

Both regions are very mature and stable market-oriented economies[3] with similar scores on Hofstede's work-related values scale (1980). The specific metropolitan areas in the two regions also rank at the very top of regional creativity and innovativeness indexes, which typically measure a combination of: a high proportion of talented, skilled and well-educated individuals; a high concentration of innovation and high technology industries; and a widespread tolerance for diverse lifestyles (cf. Florida and Tinagli 2004). In light of these and other similarities, Scandinavia is sometimes referred to as a 'young Silicon Valley' (e.g. Bresnahan and Gambardella 2004; Bresnahan, Gambardella, and Saxenian 2001). It should however be noted that the venture capital industry is substantially older in the US than in Scandinavia (cf. Bruton, Fried, and Manigart 2005).

By contrasting California with a region that, on the surface, appears to be quite similar, the present study is in a good position to make a number of contributions. First, should group differences in VC behavior surface, this can help us reveal more precisely the limited generality of US based models of VC behavior. Second, and related, by focusing on such differences, it may also be possible to add nuance to existing theoretical models of VC behavior in ways that enable a more nuanced understanding of regional differences in general.

Sample selection

Altogether 12 interviews were conducted with VCs from different early stage firms, six each from Silicon Valley and Scandinavia. Since the goal was not to generalize results statistically, but to learn in a deep and contextually sensitive way about early stage VC behavior in the two regions, the study utilized a purposive sampling method (Berg 2001). By targeting particularly information rich cases, purposively selected samples – in contrast to random selections – increase the likelihood that the variability of the social phenomenon under study (i.e. VC behavior) is represented in the sample, even when the sample is small.

Consequently, inclusion criteria were set up and used to select subjects from each region. These criteria were that the VCs should be experienced, working for well-reputed firms, and recommended by peers. Through discussions with fund-of-fund investors and VCs in both regions, two lists of potential firms and individuals were identified. In Scandinavia, the list was relatively short and we were able to secure interviews with all identified individuals. In California, the list of potential candidates was substantially longer and some of the individuals initially approached were not available. Nevertheless, the individuals we interviewed all fulfilled our inclusion criteria.

Two Californian VCs and one Scandinavian VC also had some experience from working in both regions. Their inclusion followed an expert case sampling logic, in the sense that these individuals were expected to have uniquely good insights into the particularities of and differences between VC behavior in the two regions (Berg 2001).

Interview procedure

The interviews were conducted on location at the different VC firms and lasted between one and two hours each. The interviews were structured around four general stages commonly used to describe the VC investment process: *deal flow generation*, *investment*, *post-investment involvement*, and *exit*. While all four stages were thoroughly discussed, no specific interview guide was used and the tone of the interviews was very open and informal. This approach relaxed the respondents and afforded them an opportunity to speak freely, which in turn allowed the researchers to follow respondents' leads into novel and unexpected areas.

Analysis procedure and synthesis

The interviews were recorded and transcribed verbatim. Thereafter, the individual transcripts were analyzed line by line and broken down into individual chunks of text or 'meaning units' (Giorgi 1985). Each meaning unit is a coherent expression of meaning and can consist of a single sentence, part of a sentence or many connected sentences. When each transcript had been broken down in this way, the meaning units were systematically compared and inductively grouped in thematic categories, first on an individual basis and later as a group. This procedure was repeated for both the Scandinavian and Californian VCs. Since the results for the individuals in each regional group were found to be quite homogeneous – especially when compared to results of the other group – the merging of individual thematic categories was quite unproblematic.

The result of this procedure was two sets of thematic categories, one for each group of VCs. These sets were then systematically compared with an eye to identifying similarities and differences. Naturally, some categories were quite similar in the two groups, e.g. regarding common sources of deal flow, methods of company valuation and alternative exit routes. Since these similarities were more or less unsurprising and also covered by traditional descriptions of VC activities (Wright, Pruthi, and Lockett 2005), they will not be discussed here. Instead, and in line with the stated purpose, the presentation and discussion of the results focus on differences rather than similarities.

Limitations

Since the results are based on interviews that were not accompanied by naturalistic observations, there may be unnoticed discrepancies between what people said in the interviews and what they actually do in real life. Such differences may also have been exacerbated by cultural differences between the two regions, with respect to styles of speaking and self-presentation. To counter such tendencies, vague statements were typically followed up with requests for concrete examples and a more general strategy of asking questions in ways that embedded statements in concrete situations. At times, the interviewers also provided concrete interpretations of the respondents' general statements in an effort to prompt more specific examples and elaborations (Kvale 1996).

The purposive sampling strategy and small number of interviews also preclude too far-reaching generalizations. However, the purpose of the present study is not to generalize based on statistical representativeness. Instead, the ambition is to generalize in a theoretical sense by uncovering new insights about how VC behavior differs in the two regions (Yin 2009). These results can then form the basis for future studies aiming for statistical generalizability.

Results and analysis

The goal of this paper is to improve our knowledge of early stage VC investing by contrasting and comparing VCs in California and Scandinavia. Consequently, the results presentation will only briefly mention similarities between the two groups, before turning to interesting differences. The results are captured in 13 categories that are organized under the same four stages used to structure the interviews (see

Table 1). Representative quotes from the interviews are used to provide richer illustrations of the results categories.

Some of the results categories point to differences of a fairly general character, e.g. concerning the typically higher level of technical expertise and operational experience of Californian VCs, and the advantages enjoyed by Californian VCs due to their proximity to a large domestic market, including large companies as potential buyers of ventures. However, instead of treating these issues in isolation, we discuss them in relation to the stages and specific activities where they came across as being most critical. Since the empirical results presented in the four stages are quite rich, each such section ends with a brief analysis (Boxes 1–4). These four analyses are also summarized at the end of the results chapter (Table 2). This, then, allows the concluding discussion section to raise the level of abstraction and discuss the roles that VCs take on *vis-à-vis* their portfolio companies in more general terms.

Deal flow generation

There are many similarities in the way new deals are identified in California and Scandinavia. Both groups actively seek out interesting projects at universities, research labs and other places. Both groups are also approached directly by entrepreneurs, often on recommendation by people who have received funding before. There are also some striking differences, most of which relate to the technical expertise, startup experience and networks of the two groups.

Table 1. Results categories organized under the four stages of the VC investment process.

Deal flow generation	Selection	Post-investment involvement	Exit
Top level networks	Bonding with the team	Operational experience	Creating or positioning
Technological expertise	Selection as experimentation	Close interaction	Relation to buyers
Quality of entrepreneurs	Outsourced due diligence	Team complementing	
	Importance of focus	Structured development	

Top level networks

The level of technical expertise was much higher among the Californian VCs interviewed. As a result of their high level technical background, the Californian VCs often have very good connections with research labs and technical universities. This is illustrated by one VC, who had previously funded technology programs for the Defense Advanced Research Projects Agency (DARPA) and also worked as the director of the National Institute of Standards and Technology:

> I was thinking about starting a seed stage fund and tap the university community I knew from my DARPA days, and I ended up talking with people here and so the initial idea was 'jeez, why don't you come to [VC firm] and do that with us, within the context of [VC firm]'.

The networks also extend into highly placed technology officers in large firms:

> We have a relationship with most of the Fortune 500 companies at the CTO or CIO level. So we sort of know what they're up to.

The Scandinavian VCs have less technical expertise. As a result, even though the Scandinavian VCs do have good connections at universities, companies and government agencies, these are typically not on the same technical or managerial levels as is the case with their Californian counterparts:

> When we started out, in the mid-eighties, deal flow generation was mostly about running around visiting universities and colleges, and we were talking to accountants . . .
>
> [Interviewer:] Accountants?
>
> Heck yes! All companies have an accountant and this was also a way of letting people know that we existed.

Some Scandinavian investors also mention contacts at government agencies, including entrepreneurship promotion programs and seed funding agencies, as an important source of deals:

> And we attended a lot of seminars at NUTEK [government start-up support agency]. This was a given source of this type of stuff. And we were at ALMI [government start-up funding and support agency] and everywhere really.

Technological expertise

The Californian VCs we interviewed generally had higher levels of technical education and work experience than their Scandinavian colleagues, with some holding PhDs and boasting impressive scientific track records:

> I started as a research engineer at NASA Ames. I did software design and managed a team of 8 people doing stochastic modeling and robotics type stuff. Then I was at Stanford getting my PhD and got a postgraduate degree. Later I went to Carnegie Mellon for an MBA.

The level of technological sophistication among Californian VCs also means that they are not afraid to invest in ventures based on very advanced technology:

> The other characteristic [of our firm] is a lot of technical . . . we've got way too many PhDs, but then there's no technical area we are scared of.
>
> [Interviewer:] Can you get too many of them?
>
> Yeah, I think we can if you're a technologist in that sense. I don't think we do that, but I do think that there are many businesses that have technologies that you better understand so you know what risks you're getting into, and I think we're utterly un-intimidated by those.

Scandinavian VCs also invest in firms based on highly sophisticated technology, but, in addition to such truly original deals, they sometimes also search actively for deals in areas that they have seen take off in other regions – particularly in the US:

> With many of the investments we have done, that have done really well, we have had a hypothesis that an area is attractive. [. . .] We see, for instance, in the US that a company has done really well and then we make a targeted search effort to see if there is something similar here.

Quality of entrepreneurs

This category does not directly reflect differences among VCs. Nevertheless, it is included because it is so pervasive in the respondents' discussions of deal flow generation. All Scandinavian VCs complained about the poor quality of deals, and especially the lack of quality of the management teams.

> Often we work with people who are skilled technicians, but who are not so strong on the commercial side. You try to compensate for this by recruiting that type of people. These entrepreneurs are typically also the CEOs of the companies and very often you end up having to remove that person. Sometimes they have been so poor that there is really no discussion. When you tell them that it is time to step down as CEO – you let them know they have not delivered at all what we agreed on – they often know it, and just say 'OK'.

Poor management teams are of course an issue in California as well. However, the overall quality of entrepreneurs and teams seems to be substantially higher in California. Entrepreneurship is in a sense part of the social fabric of California, a fact that influences both native Californians and immigrants:

> It's really interesting, two Koreans, one got a PhD at Stanford and one at Berkley. One stayed in the US, the other one went back to Korea and then they hooked up to do this company. One had been living in Silicon Valley and drinking the water and had the world view of what a Silicon Valley company was. The other one had a Korean view and it was like ... we just made a CEO change there and that was the culmination of years of struggling ...

Another Californian VC had a similar take on the quality and attitudes of people in Silicon Valley, arguing that people actively relocate there to become entrepreneurs:

> People actually come here to start companies. They may have been educated in Chicago or New York or wherever, in Russia or India and they end up in Silicon Valley. It's not because it's a cheap place to do business, and I don't think the tax structure has anything to do with this. We have an extraordinary tax on companies, extraordinary. And the cost of living here is extraordinary, the cost of everything here is extraordinary, but people come here to build companies. And they don't do it because it's the cheapest place to do it. They do it because of this ecosystem that exists here, of venture guys, of lawyers and the whole bunch.

Box 1. Analysis of the deal flow generation phase.

Because of their high level of technical expertise, Californian VCs have access to very sophisticated technologies. This is both because their technology networks are larger, and because the number of top level university and corporate research labs is higher in California than in Scandinavia. As a result Californian VCs are exposed to more and better technologies.

The VCs' technical skill level may also influence how they evaluate the type of deals they see. If technical expertise is lacking, VCs may not be as capable of appreciating the potential in a given technology. In addition, Scandinavian VCs sometimes look to imitate successful ideas or business models from other regions (cf. Ray 1991). Since the US and California are often the originals, this strategy is naturally less common there. This may have introduced a slight, but potentially important, difference in focus. Scandinavian VCs are not exclusively focusing on original deals, which is typically the case with their Californian counterparts.

Another difference concerns entrepreneurial capabilities. California not only has technically skilled people. The entrepreneurial qualities are typically higher as well. This is both because of the local culture and because entrepreneurially inclined people move there to develop their businesses. Taken together, the differences in technical and entrepreneurial skills lead to a substantial difference in the overall quality of deals VCs get to see.

Selection

Both Californian and Scandinavian VCs emphasize a combination of technology, markets and people when making investment decisions. Both groups also seek to say no to poor deals as quickly as possible, to avoid wasting their time. Both groups also prefer to take their time when evaluating investments with high potential. There are, however, some interesting differences regarding how this time is spent – differences that mainly relate to the perceived importance of bonding with the team, to whether VCs viewed venture selection as a form of experimentation, and to what parts of the due diligence was performed in-house.

Bonding with the team

Getting to know the team is seen as essential in both groups. Californian VCs, however, stress the issue more and tend to view bonding with the team as a central issue during all parts of the due diligence process. The goal is to find out what it might be like working closely with the team:

> We go through a pretty rigorous process with them – getting to know the company and getting to know the technology, getting to know their customers, getting to know their marketing plans and by doing all that you really get to . . . but that is just a Trojan horse, quite frankly, for getting to know how the team works, how we are going to work, how they work under stress. I mean those are all just mechanisms to really get a sense of how you're going to interact with those folks, and it's mutual.

This emphasis on working relations means that even if the technology, market and business model are exceptional, poor chemistry may still kill a deal.

> I just looked at a wireless deal that was fascinating. I've been working on it for a year, and one of the reasons I didn't do the deal was the gentleman who was the CEO. You could not work with him long-term and we told him that. He was a little too slick! We talk about team hygiene. Our view is your moral and ethical compass has to be set the right away, and we just got a bad vibe, so we checked out on the guy, not that he was an evil person, but just not . . . we insist on transparency, that when you have a communication with the CEO, you need to be told what you need to know, and they need to be transparent with you. And this gentleman, we just felt very uncomfortable that we were going to get there. Having said that, it was probably one of the most interesting ideas I've seen in a number of years, and we were all frustrated with the fact that he was the guy with the great idea. But he's been running around the Valley now for six or nine months, no funding. Somebody will fund him, but my bet is it will be a catastrophic funding.

As mentioned, Scandinavian VCs also emphasize trust and the importance of connecting with the entrepreneur. However, the underlying purpose is not primarily to establish a good working relationship:

> It is really important to have a very good . . . to be open, when you discuss these issues. The deals can look very complicated and especially now when contracts include preferential rights and things that make it a bit hard to understand. 'Why should you get your money back three times before I get anything?' And then it is also very important that they have good advisors, so they feel that they get represented.

Generally, Scandinavian VCs emphasized the importance of good chemistry in the context of being able to exert influence and have the entrepreneur conform to suggestions:

> but your personal relation to the entrepreneur or the team is very important for the company's future possibilities. I mean, if the chemistry isn't there you have an uphill struggle. Since we are in a minority position, our ability to influence the company from a minority position – unless they are in extreme need for capital – is by convincing through experience.

Selection as experimentation

Californian VCs seem to have a more proactive and constructive view of evaluation and selection. They often experiment with the business model and try to develop the venture's business idea as part of the selection process:

> Both before and after the investment we go in there and work on a product roadmap, on what the product strategy is, on pricing and distribution, on channels and all that. Because we think we can add value.

Because of this process entrepreneurs are likely to leave the process encouraged and enlightened, even if they do not get funded. This is illustrated by the following quote:

> We bonded really well with the team because we spent a lot of time with them technically to understand what they were doing, and how they were doing it. We reported back to them: 'here is what we found when we did our code review' which was really helpful to them. Nobody else did that. So there was a value added.

Scandinavian VCs, in comparison, are not as proactive during the selection phase. In the interviews they typically listed given selection criteria rather than describing how they worked with the venture ideas:

> It's a combination. Usually we read the business plan, arrange a meeting and then we make a subjective assessment: 'Is this interesting? Does the market look interesting? What is the level of inventiveness? Is it well positioned in relation to competitors?'

This does not preclude experimentation as part of the process. But as the following quote illustrates, the Scandinavian selection process seems to prioritize formal evaluation over creative experimentation:

> Once you have a deal flow, the first thing you do is of course to compare any potential investment against your profile, your search profile. There are many that fall through on that. Then when you take them further you say: 'this fits, this may be interesting'. So you have a conversation, you exchange some documents and you do a mutual presentation of who you are, and then you may come to a phase where both parties really want to get in deeper. And then you start with these more formal things, document governed; you may do a term sheet, get some exclusivity, start looking at a formal due diligence, legal, financial…

Outsourced due diligence

In Scandinavia, much of the due diligence is outsourced to external consultants:

> It is done by outside people. Financial due diligence, going through income statements and balance sheets. Legal, looking at deals and legal aspects of IPR and things like that. Also the technical, you try to get some external consultant to confirm the uniqueness of the product. And then, of course, you do – and this you typically do yourself – you call customers, references and things like that.

Californian VCs also let other people do much of the formal due diligence, with the exception of calls to references and customers. Instead, the important difference is that these tasks are typically performed by in-house staff. Especially technological due diligence was often seen as critical and something to be performed in-house. In the words of a Californian VC:

> We actually go into code reviews on companies and it's not that you care necessarily how the code was written, but you do care about the discipline in which it was written. And it tells you a lot. We have a couple of guys here that we go in and go through that process with. We're not trying to critique the way they wrote the code, we just want to understand the organization. There's a wide variance between people that do it right and people that do it wrong, and our view is if you don't start the right way, it's really difficult to fix it.

Due diligence can also be useful in other ways, e.g. as a source for new deals and as a way to market other ventures in the VCs' portfolio. Therefore, the Californian VCs were very careful to do the more critical parts of the due diligence personally:

> It's been a great deal flow source. When I'm doing references I'm always asking them, it might be a CTO I am talking to – what are you seeing, what's going on, what interesting companies have you seen, and that's been an incredible deal flow for us. And I use it as a marketing mechanism as much as references. If you're going to get the CTO Morgan Stanley on the phone for an hour or half hour, I want to talk about what we're doing, I want to hear what he's doing and reference is part of that discussion so . . .
>
> [Interviewer:] Have you actually had teams that you've invested in that you found in that way?
>
> Oh yeah! [Company name] was one, you know, it was one of the guys at Wells Fargo I was doing a reference on, and he told me that he had been down at Stanford, knows this guy NN and, you know, the whole thing came together. I had probably one or two others that we've gotten that way that we funded. We've probably gotten, I don't know, 50 companies that we've looked at, but haven't funded that way.

Importance of focus

VCs in the two regions also differ in the level of focus during the selection phase. Californian VCs are often highly focused, both geographically and industrially, which means that they are careful to select ventures where they know they can add value:

> Focus on deals, meaning what stage deals. Also focus on what kind of industry or product because I don't believe at all that you can be all things for all people. I'll give you an example, anecdotally. I went down and did what we call a Gong show at Stanford where you have 5 or 6 companies come up, and there's 4 or 5 venture guys and if they're no good you Gong, hit the bell and away. Anyway it's fun, it's done in a nice way. I get down there, everything to do with biotech, I think is so interesting, because I'm not a biotech guy. The guy who's sitting next to me is a biotech guy. He sees telecom software and goes: 'oh my God! This is so interesting.'
>
> [Interviewer:] Interesting story.
>
> And it's relevant because what it says is I see the next cancer cure, and go 'we have to invest in that'. Well, guess what there are 50 of those. He sees a database company, and gets really excited, or a mobile company or whatever, and gets really excited. I've already seen 50 of those, so that's why you need to be focused and those firms that are not I think get themselves in huge trouble, huge trouble.

Industry-specific focus was also mentioned by Scandinavian VCs, even if they do not emphasize this aspect of the selection process nearly as much as their Californian counterparts. Said one Scandinavian VC:

> In the last fund we did, we said IT and communications, which is of course very broad. We have also preferred to invest in companies that are early in the value chain and we have worked a lot with infrastructure deals.

Generally speaking, the large number of interesting deals in California allows VCs to be much more selective, even within a given industrial focus area:

> There is a huge number of great ideas and a small fraction of those have commercial opportunities, and only a fraction of those are actually something you can start a business around, right. Because a lot of things that are commercially very beneficial are going to go to bigger companies, they don't express themselves well in a start up.

Box 2. Analysis of the selection phase.

Californian VCs generally have a more explicit technology focus. This, in combination with greater resources, leads them to retain core competences, such as technology due diligence, in-house (cf. Wright et al. 2005). As opposed to their Scandinavian counterparts, Californian VCs saw technological due diligence as important to evaluating the team and its work processes.

While important to both groups, good relations with the team were seen as absolutely essential to Californian VCs. This was not merely to evaluate their qualities as entrepreneurs and business people. Even more important was to get a feel for what future working relationships might be like. Such evaluation was also seen as an important part of all other interactions and forms of due diligence.

Scandinavian VCs also stressed the importance of trust and chemistry, but placed little emphasis on a dynamic working relationship. Instead focus was on specific issues such as reassuring the entrepreneur that contracts and term sheet conditions were fair. Similarly, good relationships were said to make CEO replacements easier. This difference may relate to the quality of deals and entrepreneurs, but it also suggests a significant difference in focus – Scandinavian VCs seek to ensure influence over entrepreneurs, whereas Californian VCs seek to establish a working relationship with entrepreneurs (more on this under post-investment involvement).

A related issue is the overall view of selection. It appears that Californian VCs primarily evaluate not what they get, but what they can do with what they get (Sarasvathy 2001). During the selection process the deal may be changed, so that what finally gets funded is quite different from what was originally offered. Scandinavian VCs seem more static in this sense. They do of course also try to identify the greatest potential in a deal, but this seems to relate more to potential exits (more on this under exit).

Both groups strongly emphasized the importance of focus. However, since Scandinavian VCs see fewer quality deals they need to have a broader scope: both in terms of targeting a specific industry and in terms of geographical distribution. As we will see next, this relates to the closeness of interaction VCs can have with their portfolio companies.

Post investment involvement

On the surface, the two groups of VCs are quite similar in their post-investment involvement. Both seek to closely monitor and influence the development of their ventures. Moreover, while not always explicitly recognized, both groups also seek to work systematically with the venture development process, identifying critical tasks, setting milestones, following up performance, etc. Despite these ostensible similarities, there are a lot of differences regarding the VCs mode of engagement with ventures and entrepreneurs, and in terms of how specific tasks are actually carried out.

Operational experience

The Californian VCs have much more operational experience than their Scandinavian colleagues. As indicated above, such hands-on experience affects both deal flow generation and also selection priorities. It is also very important to a range of differences when it comes to post-investment involvement. The value placed on a strong operational background was also reflected in recruitment practices, as described by one Californian VC:

> Here's another, I think, interesting fact. Before coming here, I was getting funded by Kleiner, Sequoia, NEA and everybody, and I'm friends with all of those guys. But we have two former public company CEOs here who were funded by this firm, NN and myself, who came here to [VC firm]. I don't know any other firm that has that. You see a lot of CEOs that go to firms, but they weren't always funded by that firm. So that tells you the kind of experience I had working with the people here.

All of the Californian VCs interviewed also stressed that a lack of operational experience is likely to affect the outlook and success in early stage investing:

> I think this business falls apart quite frankly when, and I am biased, so I'll state my biased case. I think operating guys do well in the venture business, if they were entrepreneurs. I think venture guys who have been in the venture business for a long time like NN, he's been in this for 18 years, he knows every deal structure there is. They do incredibly well those types of folks. Investment bankers fail in this business and should fail!

Similarly, speaking about investment bankers turned VCs:

> First of all their deal structure is different. When we sign a term sheet, when we execute a term and close on a company, we know we've got a long period of time before we're going to see liquidity, or at least that's the way we think about it. When an investment banker gets in this business, they ring the bell when they sign the term sheet. They think they have a deal, and that's it. So they think they're doing it just like they used to as an investment banker. This is a long-term business, whereas an investment banker is deal oriented, transaction oriented...

Close interaction

Given their extensive operational experience, Californian VCs are often willing to take a very active role, when they find that it is needed. It was interesting to note that this included not only strategic issues but also more mundane tasks:

> I spent a lot of time with those guys, but that's early, we're building a team, that's sort of guerrilla, guerrilla intervention if you will. And they are great, they're a really a good team and very responsive.
>
> [Interviewer:] Can you elaborate on what you mean by guerrilla intervention and what you do in that type of firm?

> Well, once a week NN and I, who is the associate, are with them. We don't just talk on the phone with them, we're at the company going through their marketing plan, new customers, processes, hiring, all of that. We're actively engaged in that company because it's so early that they have some things that just need to get done. I mean as an example we negotiated their real estate lease so they didn't have to worry about it.

Such hands-on work is not always the norm in California. When it occurs, it is for a limited time and typically during very early phases. Scandinavian VCs also work closely with their firms. They are, however, very careful not to get too involved:

> You try to be with them at trade fairs and sometimes meet customers. But our function is also to give the firm credibility, both through us as individuals but also through the capital we put in. So we are there in many such situations, where our presence may be good for the company, but we are absolutely not operative in that sense.

Californian VCs meet with their portfolio companies more frequently and generally interact with them on a more continuous basis. Board meetings every month seem to be the standard and a Californian VC, who had also worked in Europe for many years, had the following to say on the issue:

> We meet with the company at board meetings, every month, every month. And when I was in Europe my investors were saying, 'why do we have to meet every 30 days? How about every 2 or 3 months?' I said, 'Guys! It changes a lot every 30 days!' I mean, even 30 days is too long for us. I'm on the phone with every CEO once a week minimum. Some of them I meet with once a week depending on what they go through. So, in my observation, Europe is very hands-off and has a very laissez faire attitude.

Many Scandinavian VCs emphasize their role as very active investors, but they seem to have a somewhat different kind of involvement in mind.

> We are perhaps more than any other early stage investor taking a very active role. Sometimes a dominating role, and especially in those situations, as I mentioned, where we think the idea is very good but where there is not really a broad enough team or a good enough plan. Then we are very involved.
>
> [Interviewer:] When you are dominating, how do you mean?
>
> It can be that the entrepreneur or the team agree with us that they do not want to be in charge or that they want to step down after a certain time period for instance.

It appears that when Californian VCs speak of active involvement they mean going on location to help build the venture in close cooperation with the entrepreneur. Scandinavian VCs are typically active in more arm's length ways, e.g. by replacing the CEO or monitoring the development of the venture, often from their positions on the board:

> We follow up through board work only. We also have in our organization a controller function that looks more at … I mean, every quarter we make a report. In it we look at all the company's parameters with balance, cash flow, future projections and we look at budget outcomes and things like that. When we make an investment we try to look at: What value drivers are important to focus on? Is it profitability or is it market expansion? Is it technology development? Is it a company that is in a fast growing segment so we are in a hurry to come to an exit? Can we wait any longer? Do we have to buy anything to get to a critical mass? A bunch of stuff like that, that we look at and follow up. That is really what good board work should be all about.

Team complementing

Californian and Scandinavian VCs also differ in how they go about expanding their ventures' management teams. Scandinavian VCs generally speak a lot about CEO changes and team complementing, which may be due to the typically poorer quality of deals and entrepreneurs they have to start with:

> I think that, what has been extremely important – and that is something we have already when evaluating a deal – is that we talk a great deal about teams and team complementing. Typically in the board work, a lot is about recruiting complementing competencies. Typically it is in economics, which is often of poor quality in early stage tech ventures.

The need to change the team is of course common in California as well. But where Scandinavian VCs often struggle to find high quality people, especially in the area of business development, Californian VCs have rich networks of former entrepreneurs and other sources from which to recruit:

> Oh gosh, we have a lot of people. Bringing people on board isn't really a big deal. I mean between the four of us, we have been in the Valley collectively since ... NN has been here since 1960. We have worked at Oracle, SGI, Sun, Silicon Valley Bank, Electronic Arts and the Liberty and a bunch of other places. So we really have a pretty good network. I mean that's part of our job.

Despite the good personal networks, using head hunters is fairly common in California:

> We have a CEO search right now and we're down to two finalists. They both happen to be people I introduced to the process, but I still think it was very valuable, and frankly sometimes you need to see that broader array of candidates just for comparison, so you know what you have got.

Structured development

Both groups of VCs seek to instill a disciplined approach to venture development. Under their guidance, entrepreneurs are encouraged to identify and test things that are critical to the venture. This type of methodical approach was found in both groups. In the words of a Scandinavian VC:

> Typically it is like this, either it is a technology development risk, or you pass that and start talking getting certain sales volumes and a certain profitability, or that you should get certain specific orders.

And similarly:

> I think that if you ask the entrepreneur what we contribute, it is getting them to focus on the most important parameters, and especially follow up and seek success along those parameters. That is important.
>
> [Interviewer:] What are those parameters?
>
> It could be critical customer processes ... Let's say we have a pilot with a large customer, then we follow up on that pilot: what is the status, who is involved. And perhaps we suggest some solutions.

Californian VCs were even more structured and even spoke explicitly about venture development as a process of identifying and testing out critical assumptions, in order of importance:

> We're all milestone based, and it changes as well. In [company name] we said that one of the keys we want to see is does the system scale? So we set a goal of 2000 calls a day, and we had that out maybe three months from when we funded it. They did that in the second week so ...
>
> [Interviewer:] That tells you something ...
>
> That does tell us something. Then we changed. Well, we proved that out, now let's see if we can get advertisers, national brand advertisers, to come on the system. We originally thought that was going to take months, but they got them earlier. So now we're more into scale, metrics and models and those kinds of things. We're not trying to set a condition they can't meet. We want them to win, but we also want to make sure.

Box 3. Analysis of the post-investment involvement phase.

It is abundantly clear that Californian VC forms have more operational experience and that this influences priorities and activities during the post-investment phase (cf. Busenitz, Moesel, and Fiet 2004).

Scandinavian VCs are often actively involved, sometimes taking a dominating role in their ventures. However, this involvement still remains at arm's length and typically concerns discrete interventions, such as hiring people and replacing CEOs, which take place during bi- or trimonthly board meetings (cf. Bryman et al. 2003). Californian VCs meet more often and seem to work more intimately together with their portfolio companies. Referring to their rich operational experience, this is also described as a very natural role for them to assume.

This indicates a difference between the two groups. Scandinavian VCs seek influence over their portfolio companies, and mention chemistry in the context of having the entrepreneurs accept their advice and suggestions. Californian VCs instead seek to establish a working relationship with the entrepreneurs (cf. MacMillan, Kulow, and Khoylian 1989). The combination of close operational involvement and frequent interaction lead Californian VCs to establish an almost collegial relationship with their firms.

Both groups described their involvement as relatively structured with critical issues and milestones that were followed up (Berglund, Hellström, and Sjölander 2007). However, the Californian VCs were even clearer about the importance of a rigorous approach. Given the closer interaction, they also tended to set up more milestone goals and also test them in shorter increments. Again, both the quality and frequency of VC involvement seems related to their operational experience (Busenitz, Moesel, and Fiet 2004).

Exit

Both Scandinavian and Californian VCs emphasize the importance of the exit phase when it came to ensuring high returns. The different exit routes are largely the same, with focus on trade sales and IPOs. Both groups also speak of the importance of industry cycles and of cutting one's losses in ventures that do not perform. The cyclical nature of the exit market as such is also seen as very important, and both groups illustrated this with reference to the boom and bust of the IPO market at the turn of the century. There are, however, also some critical differences.

Creating or positioning

The main difference has to do with the extent to which the venture is developed with specific exits in mind. While building a solid operation is an important part of this, positioning investments for exits is critical to Scandinavian investors:

> The person responsible for the investment must tell us how he believes the exit will happen and what kind of value it would deliver: 'what is it that will drive the value'. You always must have an idea like that.
>
> [Interviewer:] You should be able to describe the process up until exit?
>
> Yes! You should make the judgment that this and that company ought to be interested in buying the company. Given that you can develop it in a certain way.
>
> [Interviewer:] So when you make an investment you always ...
>
> Always, always!

This differs quite dramatically from the outlook of Californian VCs. Of course exits are viewed as important in California as well, but not as explicitly and not during the earliest stages. Instead, focus is more on development and building value in the company. Exits become a priority later on:

> We talked about how we maximize value at the exit but then we're deep into tactics, because the only thing you can really do at an early stage is to build the value in the company and see where it goes.

Another Californian VC similarly emphasized the importance of building independent companies with momentum and revenues:

> What we say around here is companies are not sold they're bought. And it's true. Anything I've ever been involved in that you thought you were going to sell in 18 months, or take public in a certain period of time ... it's absolutely the wrong way to look at a business. So, when entrepreneurs come in and pitch us, and they put up a slide that says exits or potential exits, we ask them to remove it! We don't even want to see it, because if we could figure that out, why the heck would we need anybody, right. If we knew in 18 months the market was going to look like this and Oracle was going to go buy this why would we need anyone.

Relation to buyers

The top Californian VCs have very good connections with the industrial buyer community and know more or less instinctively how ventures should be developed to be attractive. Scandinavian VCs, on the other hand, come across as more isolated and often rely on investment bankers to help them identify potential buyers:

> The absolutely key thing is to have good advisors. To have an investment banker with good connections to buyers. There are many who can handle the process, but few who can really get out there and get to the potential buyers. Someone who can think outside the box and not just bring in the obvious buyers, the ones we also know who they are.

Both Scandinavian and Californian VCs use investment bankers, but where Scandinavian VCs call on them to identify buyers, Californian VCs typically use them to make sure that they have not missed anything:

That's completely dependent on the company, but often you are approached with an offer for something and either you'll love it and you just do the deal. But more frequently we do use bankers just to try to make sure we understand what the options are.

Box 4. Analysis of the exit phase.

Many things are similar when it comes to the modes and tactics of exiting a firm. One important difference seems to be that Californian VCs, with their extensive industry networks, often have a personal relationship with potential buyers, and know intuitively what the available options are (cf. Zacharakis and Shepherd 2001). Scandinavian VCs are often limited by their geographical location, since many important industry buyers are located in other countries, especially the US. Therefore they depend more on investment bankers and overseas partners.

This relates to another interesting difference between the two groups, namely, the perceived importance of the exit phase and at what stage in the process exits become an issue. Scandinavian VCs seem to have a more investment-oriented view of their firms; aiming for one or a few potential exits is always a key issue when developing a venture. Californian VCs appeared to think less about specific exits. This may be because they know the exit options intuitively and see no reason to spend time pondering potential exits. However, besides talking less about exits during the interviews, the Californian VCs were quite adamant that entrepreneurs should not develop ventures with specific exits in mind. This difference is more interesting, as it harks back to their operational backgrounds and explicit acknowledgement of uncertainty. Given that it is very difficult to predict the future, especially in fast moving technology industries, a focus on specific exit routes may put blinders on the team, which may in turn prevent them from identifying alternative options that emerge along the way (Sarasvathy 2001).

Discussion and conclusion

The results show that there are many similarities, but also a number of important differences, concerning how VCs in California and Scandinavia view themselves and relate to their portfolio companies. Building on these specific differences, we can now raise the level of abstraction and revisit the questions of how VCs should be conceived and how they add value.

As mentioned in the literature review, it is common to distinguish between two generic roles for VCs: one that sees them as scouts or investors who identify, invest in and monitor promising ventures, and another that sees them as coaches who assemble and position a strong team (Hellman 2000; Baum and Silverman 2004). However, many detailed empirical investigations of VC behavior (e.g. MacMillan, Kulow, and Khoylian 1989; Sapienza, Manigart, and Vermeir 1996) show that many activities do not fit neatly into either of these two traditional roles. The same very much holds true for the present investigation. But here, the differences between VCs in the two regions also suggest that the existing role typology should be complemented by adding a third role: the VC as partner.

More specifically, this addition is motivated by the capacity of the partner role to discriminate very clearly between the two groups, most notably during post-investment involvement. Californian VCs repeatedly spoke of themselves as partners or co-entrepreneurs, something which also showed in the types of activities they engaged in, e.g. 'they have some things that just need to get done. I mean as an example we renegotiated their real estate lease so they didn't have to worry about it'. Nordic entrepreneurs, in contrast, were keen to keep their distance in terms both of identity and of activities performed, e.g. 'our function is also to give the firm credibility, both through us as individuals but also through the capital we put in. So we are there in many such situations, where our presence may be good for the company, but we are absolutely not operative in that sense'. This leaves us with generic roles that can be assumed by VCs: the investor, the coach, and the partner. All three illustrate distinct and complementary roles that the VC can take on, which also entail different modes of engaging with entrepreneurs and ventures.

Table 2. Summary of main conclusions from the analyses.

Deal flow generation	• *Quality of entrepreneurs and deals* – Prospective entrepreneurs in Scandinavia were relatively less business oriented. As a result, while the ventures' technology bases were often solid, neither the venture teams nor the business deals Scandinavian VCs got to see were up to par with their Californian counterparts. • *Quality of networks and technical expertise* – Scandinavian VCs had less technical expertise and the Scandinavian VC firms also had less technological capabilities in-house. Partly because of this, they did not have networks on the same technical level, e.g. in universities and research labs, as their Californian counterparts.
Selection	• *Outsourcing of due diligence* – Scandinavian VCs outsourced many parts of the due diligence process, including the financial, legal and, notably, technological parts. In California, technology due diligence was done in-house, in part because it was seen as a good opportunity to evaluate both the deal and the team itself. • *Investing in what is or what may be* – In California, the VCs worked closely with the teams and experimented extensively with the deals, in order to gauge their potential. Scandinavian VCs seemed much more focused on evaluating the deals as they were presented.
Post-investment involvement	• *Level of operational experience* – In general, the Californian VCs interviewed, and their colleagues in the firm, had a lot of operational experience. Many of them had themselves headed several technology based start-ups. This type of experience was typically lacking among the Scandinavian firms. • *Ensuring influence or establishing a working relationship* – Perhaps because of their operational experience, Californian VCs always sought a good working relationship with their venture teams. This was also a key priority when choosing to invest. Scandinavian VCs were more interested in ensuring influence, i.e. that their advice would be heeded. • *Frequency and intimacy of interaction* – In addition to having a closer and more operational working relationship, Californian VCs typically met more frequently with their venture teams. In comparison, Scandinavian VCs had less frequent meetings that focused on issues of more critical and strategic importance.
Exit	• *Fixed or open-ended view of exits* – Scandinavian VCs stressed the importance of the exit phase, and often urged entrepreneurs to develop their ventures with a certain buyer in mind. Californian VCs, on the other hand, were adamant that entrepreneurs should not think of specific exits, but instead aim to build an attractive stand-alone company. • *Access to potential buyers* – The Californian VCs had intimate knowledge of the relevant exit markets, including very good relations with potential industrial buyers. Scandinavian VCs often had to rely on investment bankers or overseas partners to identify potential buyers.

VC as investor

The VC as investor means that VCs are mainly concerned with developing their portfolio companies *qua* investment objects (Anderson 1999). This is a necessary role and one that is most salient when making investments, e.g. in terms of negotiating good terms and during the exit phase. The VC may also step in as an investor in case there is a crisis in the venture. If this is the case the VC may need to make critical decisions that serve to protect the value of the investment.

The main priority for the VC as investor is to ensure high returns and the company is mainly viewed as an investment. Issues of portfolio management and timing are highly relevant as venture-specific decisions are often framed in the context of the overall performance and life span of the fund.

To summarize, VCs as investors distance themselves from any specific venture's operations and instead focus on getting their venture fund to yield good returns. The relationship can be described as dominating. The role is that of an owner or investment banker and interactions with the company often take the form of a distanced: '*they* should . . .'.

VC as coach

The VC as coach is focused on issues like complementing the team, recruiting a suitable CEO, and generally getting a good mix of individuals in place and motivating them to pull in the same direction (Hellman 2000).

The unit of analysis is the team rather than the investment as such. Focus is consequently not as much on getting good returns as it is on creating and building a great team. The ambition is of course still to develop a profitable venture, but this is not the immediate focus of attention. The VC as coach also helps the company more directly by sharing industry-specific expertise, making introductions to key customers and in other ways making sure that the company is in a good position to succeed (Fried and Hisrich 1995).

To summarize, the VC as coach interacts closely with their teams and tries to pave the way for the team to succeed. The relationship can be described as paternal. The role is that of an executive or sports coach and interactions often take the form of an encouraging: '*you* should . . .'.

VC as partner

The VC as partner is even more intimate than that of a coach. Here the VC goes beyond giving advice and making introductions; the VC also takes an active role and, by being present in day-to-day operations, is in a position to contribute actively to everything from developing marketing plans and closing sales to more mundane activities.

The goal is not only to develop and manage a good team but to serve as an active contributor to the team's ongoing activities. Here the VC must be careful not to take over ownership of the process, in the sense that VCs become so engaged that they themselves assume important managerial responsibilities.

To summarize, the VC as partner is intimately involved with a given company and participates in many of its core activities. The relationship can be described as collegial. The role is that of a respected peer and interactions often take the form of a collegial: '*we* should ...'.

Table 3. Roles and priorities of Scandinavian and Californian VCs.

Region/Priority	1	2	3
Californian	Partner	Coach	Investor
Scandinavian	Investor	Coach	Partner

These three roles of investor, coach and partner are of course ideal types that do not describe any individual VC in full. Nevertheless, these three ideal types may be used to highlight typical qualities that are more or less prominent in specific VCs or groups of VCs. Table 3 describes the relative salience that these different roles come across as having in the two groups.

Owing to their extensive operational background, Californian VCs tend to identify themselves, and also act, primarily as partners who contribute to the buildup of great companies. They seek a good working relationship with the team and without being operatively in charge they participate actively in the development of the venture. Since the partner role is very time consuming, it is typically limited to the ventures' earliest stages or to critical junctures. Once the business model is in place and revenues start accumulating, the partner role appears to be deemphasized drastically. At this point Californian VCs act mainly as coaches. The involvement is still quite intensive with meetings at least once a month. While timing and exit tactics were clearly acknowledged as critical for the internal rate of return, Californian VCs did not emphasize their roles as investors nearly as much compared to those of partners or coaches.

Perhaps because they often have limited operational experience, Scandinavian investors seem to prioritize their roles as investors. When asked, they often describe themselves as being deeply involved and value adding investors, but, judging from our interviews, this does not always reflect their true priorities. In many ways, Scandinavian VCs think like investment managers and a lot of effort goes into identifying deals in promising markets, negotiating good term sheets and then timing and positioning the ventures for profitable exits. This appears to be the main priority. Only secondly do they enter into a coaching role. The role as partner, which was clearly the one that Californian VCs identified with the most, almost did not seem to exist in the Scandinavian group. Instead they sought to maintain their distance and were generally very careful not to get too directly involved in operations.

The differences in role identities also hint at some interesting avenues for using institutional theory to explain individual VC behavior. According to institutional theory, organizations and individuals within an organizational field often behave alike. The reasons for this can vary, but one commonly cited cause is the pressure to act in accord with professional norms, which can be brought about by shared educational backgrounds, shared professional networks and inter-firm hiring (e.g. DiMaggio and Powell 1983). As mentioned, VCs in Scandinavia tend to identify more with the investment role than do their Californian counterparts who highlight their operational credentials and often explicitly view themselves as partners to the entrepreneurs. These findings cohere with Sapienza, Manigart, and Vermeir (1996) who suggested that the banking backgrounds of many European VCs might explain why they spend less time with portfolio companies than US VCs. At the same time, it adds some nuance to Bruton, Fried, and Manigart's (2005) expectation that the normative institutions are similar in Europe and the US and that the beliefs and standards of action of US VCs have largely carried over to Europe. Instead, it appears that even though VC firms in the two regions are generally quite similar in their organizational set-ups and basic activities, the specific behaviors and role identities of Californian and Scandinavian VCs will instead differ quite substantially as a result of different normative institutional pressures. This insight also points to the importance of conducting qualitative cross-regional research in order to understand how institutional differences influence VC behavior around the world (cf. Bruton, Fried, and Manigart 2005).

Just as with the investor and coach roles (Sapienza 1992; Sapienza, Manigart, and Vermeir 1996; Fredriksen, Olofsson, and Wahlbin 1997), the partner role appears to be more pronounced during certain phases of the VC investment process. Since the present study has focused primarily on general differences between the two groups of VCs, it is left for future studies to investigate at what stages of the investment process the three roles are most salient.

In conclusion, this paper has illustrated how qualitative cross-regional comparisons of VCs can provide important insights that may add to our theoretical understanding of VCs and their activities. More specifically, we have argued that previous studies – partly due to a reliance on quantitative methods and a lack of cross-regional comparisons – have failed to highlight the specific role of VC as partner. Drawing on the present investigation, which showed how the partner role could make sense of important differences between the Scandinavian and Californian VCs, it was argued that the partner role may be important in terms of making sense of VC roles and activities more generally. It was also suggested that institutional theory might provide a fruitful theoretical perspective for explaining regional differences in role identities and behaviors. Given the explorative nature of this work, the validity and limits of these results and assertions need to be established in future studies.

Notes

1. Vicarious or pre-selection mechanisms are indirect proxies for real selection mechanisms. As such they provide faster selection processes that lead in approximately the same direction as the real mechanism (Campbell 1965). In the present context the VC is seen as a proxy for 'the market'.
2. There may be substantial variation also within the US. However, focus is on California since this is arguably the center of the US VC community.
3. http://www.heritage.org/index/ranking.

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