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CLOSING THE 'EQUITY GAP' IN STARTUP/ SEED INVESTMENT FOR ICT VENTURES: THE ISRAELI EXPERIENCE (INTERACTIVE PAPER)

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INTERACTIVE PAPER SESSION

**CLOSING THE 'EQUITY GAP' IN STARTUP/SEED INVESTMENT FOR ICT VENTURES:
THE ISRAELI EXPERIENCE**

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Principal Topic

Entrepreneur/Executive in Residence programs address the VCs' need to better predict – through the variegated experience of individual entrepreneurs – the *how, why, when* and *where* of successful venture formation. Venture capital executives assert that ventures associated with an EIR program will sell for a higher price (Jacobius, 2004) when it comes time for the VC to exit the deal. Much has been written about how VC partners evaluate entrepreneurial ventures before they invest (Cable and Shane, 1997; Hoffman and Blakely, 1987; Amit et. al., 1990; Bruton et. al, 1997; etc.) and how they forecast new venture performance (Brush and Vanderwerf, 1992; Cooper et al, 1994, etc.). However, there is a dearth of literature concerned with the ability of VCs to reduce the level of risk they include in the forecast of future ROI or to influence performance itself at the nascent stage of startups. Our study addresses both. Perceived costs forecast by VC partners when calculating the potential return on investment in a venture have been seen to relate to certain links between *trust, control* and *risk* (Giudici and Paleari, 2000; Shepherd, D. 1999, Cope, Cave and Eccles, 2004).

Method

Based on qualitative interviews (16 long interviews) conducted with VC executives and entrepreneurs in the ICT industry who participated in EIR programs, the research demonstrates how Israeli VCs use EIR programs to clear the equity gap obstacle. Specifically, we looked at how trust and control combine to shape the perceived transaction and monitoring costs that comprise the equity gap, thus influencing a VC's decision to invest in a startup ICT venture.

Results and Implications

Our findings demonstrate how VCs use EIR programs to buffer the asynchronous stages of deal creation, identifying mechanisms used to select, manage and maximize the performance of startup/ pre-seed ICT ventures. The study has implications for a relatively new phenomenon: the tendency of VC firms in the United States and the European Union to concentrate on increasingly larger deals and to concomitantly eschew support for early-stage ventures – a trend that, unchecked, threatens to derail ICT entrepreneurship.

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