WHAT ARE VENTURE CAPITALISTS’ STRATEGIC POSTURES? (SUMMARY)

Dmitry Khanin
Cal State, Fullerton, USA, dkhinin@fullerton.edu

Ofir Turel
Cal State, Fullerton, USA

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SUMMARY

WHAT ARE VENTURE CAPITALISTS’ STRATEGIC POSTURES?

Dmitry Khanin, Cal State, Fullerton, USA
Ofir Turel, Cal State, Fullerton, USA

Principal Topic

The existing literature on VC strategy is scarce. The reasons for such dearth of research on VC strategy are seemingly that while VCs may occasionally comment on strategic issues (Gupta, 2005) and a few researchers have examined the subject (Robinson, 1987; King, 2008), we do not actually have a theory (or even a suitable taxonomy) explaining the differences in VC strategizing. Furthermore, we do not know whether more generic classifications of strategic types, for instance, Snow and Mile’s (1968) identification of key strategic postures - prospectors, analyzers, defenders and reactors - or Porter’s (1980) distinction between cost leadership, differentiation and focus as the three generic strategies and his emphasis on consistency (similar to “reactors,” inconsistent firms tend to get “stuck in the middle”) are applicable to VCs’ strategizing.

Method

For the purposes of this study, we have analyzed over fifty VCs’ interviews. Some of the interviews we conducted ourselves. Others were found in books and journals. We have employed the following methods for scrutinizing VCs’ stories. First, we focused on VCs’ discussions of their firms’ investment philosophies and what makes them different from other VCs. Second, we examined VCs’ comments on VC firm’s internal governance and consensus building. Third, we investigated VCs’ methods of portfolio building. Fourth, we studied VCs’ approaches toward venture collaboration, that is, whether VCs induced portfolio company collaboration and mutual learning to achieve synergies through portfolio selection and venture networking or rather viewed each business as self-sufficient and did not urge venture collaboration.

Results and Implications

The suggested typology of VCs’ strategic types could be useful for both VCs as they make their strategic choices and for entrepreneurs trying to find a good fit with a VC firm. Thus, VCs may compare the costs and benefits, merits and shortcomings of each strategic position and possibly emphasize (deemphasize) some previously overlooked (overemphasized) orientations. Entrepreneurs may try to decide whether they want to work with a VC firm that will give them more individual attention or rather manage the process of mutual collaboration in its network of portfolio companies; whether they want help from a principal, collaborator or specialist, or alternatively, prefer to receive assistance from a VC firm balancing these three roles.

CONTACT: Dmitry Khanin; dkhanin@fullerton.edu; (T): 781-239-5014; Cal State Fullerton, Fullerton, CA 92831.