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THE ROLE OF VENTURE CAPITAL FIRMS IN THE BUSINESS MODEL CHANGE (INTERACTIVE PAPER)

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INTERACTIVE PAPER

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Principal Topic

The study of organizational change has a long tradition in organizational research (e.g., Boeker, 1997; Greve, 1999; Beck, Bruderl and Woywode, 2008). Yet, a business model (BM) change as a distinct type of organizational change (Amit and Zott, 2001, 2007) has received scarce attention. BM change has special relevance to entrepreneurial ventures as they often go through dramatic changes in their routines as they search for the appropriate market niche (Wiersema and Bantel, 1993), or seek to acquire new knowledge for the repositioning of their products (Carroll, Dobrev and Swaminathan, 2002). The underline premise of our study is that interfirm relationships may be instrumental in how entrepreneurs implement business model change. We use a knowledge-based perspective (Cohen and Levinthal, 1990; Grant, 1996) to examine the impact of VCF’s experience with the business model change and the direct and moderating effect of the addition of top managers to PFC on the performance for ventures going through the business model change.

Method

We employ a rich dataset that comes from annual investment reports, survey responses and personal interviews and encompasses complete portfolios of 23 VCFs headquartered in France, capturing virtually the entire population of early stage VCFs in that country in 2006. In this study, we focus only on those 156 PFCs that went through a business model change. By using OLS regression, we tested the separate and combined effects of VCF’s experience and addition of new managers on the performance of ventures.

Results and Implications

Our analyses provide support for our all three hypotheses. Interestingly, our results indicate that entrepreneurs’ use of externally obtained knowledge, including the experience from venture capitalists and newly grafted venture team members, appears useful to performance for ventures that go through business model change. At the same time, the results appear to suggest that it is possible for them to get too much of a good thing from overly confident VCFs. Our findings thus point to both opportunities and challenges in how venture capitalists can better assist entrepreneurs whose ventures undergo such change.

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