COMPLEMENTARITIES BETWEEN CANADIAN VENTURE CAPITAL FIRMS AND BUSINESS ANGELS (SUMMARY)

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SUMMARY

COMPLEMENTARITIES BETWEEN CANADIAN VENTURE CAPITAL FIRMS
AND BUSINESS ANGELS

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Principal Topic

This study seeks to identify complementarities and conflicts among business angels, founders and VCs.

A key element of economic growth is the commercialization of innovation-oriented ventures. However, commercialization is often contingent on access to finance. Informal (especially business angels) and formal (venture capital, VC) equity are two key sources of early stage financing and considerable research has been conducted on each. While, Mason and Harrison (2000) identified complementarities between angels and VCs, little has been documented about the relationships and interactions among founders, angels and VCs. Informal and institutional investors rely on one another to create an efficient market that supports the development of growing businesses and which enhances regional competitiveness. However, previous research appears mute with respect to the degree of cooperation and collegiality among three sets of stakeholders.

Anecdotal evidence suggests that some VC investors perceive business angels as problematic and disruptive - particularly regarding setting valuations - while others perceive angels as partners and colleagues. Likewise, anecdotal evidence suggests that some angels see VCs in a predatory light, while others welcome angel investors. The literature does not as yet appear to have documented potential conflicts or areas of cooperation between business angels and VCs. This paper will provide a broader analysis of the extent and nature of complementary relationships and conflicts among founders, angels and VCs.

Method

Qualitative data analysis is employed, drawing on case studies involving enterprises in the wireless sector. For each case, interviews were conducted with the founders, VCs and angels associated with the firms. These case studies are supplemented by additional interviews with angels and VCs who were not associated with the particular cases. N’Vivo software is used to code and analyze the qualitative data, providing insights on the frequency and types of interactions.

Results and Implications

The work contributes to our understanding of the relationships among business angels, founders and VCs in two ways. First, it presents empirical evidence about complementarities and conflicts. Second, it provides insights on how to facilitate constructive relationships among the investors and founders in order to create a more efficient means of commercializing early stage innovations.

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