TOWARD A PROCESS MODEL OF VENTURE CAPITAL EMERGENCE: THE ROLE OF DIFFUSION (INTERACTIVE PAPER)

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INTERACTIVE PAPER

TOWARD A PROCESS MODEL OF VENTURE CAPITAL EMERGENCE: THE ROLE OF DIFFUSION

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Principal Topic

We consider how venture capital (VC) industries emerge in limited access orders (LAOs; North, Wallis, and Weingast, 2009), focusing on the role of diffusion. Rumelt (1987) suggested that VC emerges when entrepreneurial firms require low levels of asset cospecialization and where expected returns occurs in the near future. This imperative for near-term returns is complicated in LAOs, where the first members of a VC population must act as institutional entrepreneurs in a context inimical to innovation and its challenge to elites’ economic rents, and requires rapid institutionalization. Diffusion—“the process in which an innovation is communicated through certain channels over time among the members of a social system” (Rogers, 2003)—plays a central role in the success of this process, which is based on force or domination mechanisms (Lawrence, Winn, and Jennings, 2001). In an LAO setting larger players are more likely to be successful institutional entrepreneurs (Greenwood, Suddaby, and Hinings, 2002), in part because they have the resources to exercise force or domination. In addition, both geographical proximity and efficacy increases the likelihood that corporate VC diffuses to new populations (Gaba and Meyer, 2008).

We suggest that 1) VC emergence is an institutionalization process in which diffusion plays a central role, 2) rapid diffusion requires institutional entrepreneurs in this setting to acquire power in the presence of dominant elite coalitions, and 3) proximity and efficacy of other VC populations can facilitate this process.

Method

We developed case studies of Botswana and South African VC emergence, based on semi-structured interviews, archival research, direct observation, and a literature review. Data was gathered during the period June 2007-October 2008 and analyzed based on both inductive and deductive coding. The comparison of South Africa and Botswana was suggested by the desire to contrast two English legal origin economies, one in which VC emerged but where diffusion played a limited role (South Africa), and the other where VC was emergent but diffusion was evident.

Results and Implications

We develop a multi-stage process model of VC emergence, consisting of four sequential subprocesses: simultaneity, coproduction, diffusion, and replication. Simultaneity enables diffusion of VC models and related institutions, resulting in cooperation between government investors and private fund managers to fill the equity gap.

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