A LOOK INSIDE THE BLACK BOX OF DYNAMIC CAPABILITIES: THE CASE OF THE VENTURE CAPITAL INDUSTRY (INTERACTIVE PAPER)

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Principal Topic

Venture capital firms are currently confronted with investment opportunities of which the inherent nature presents unprecedented challenges for their traditional functioning. The typical in-depth specialization of VC firms into one technology or industry is no longer sufficient to successfully evaluate these new opportunities. The capability literature suggests that the ability of a firm to enter a new industry depends on its dynamic capabilities. Despite the fact that the capability literature is informative about the impact of dynamic capabilities on company decisions and eventual company performance, it falls short in answering “how” these capabilities are developed. This paper aims at filling this gap by exploring how VC firms perceive a new domain as an opportunity, develop the willingness to enter the domain and reorganize their internal resources to implement the entry.

Method

We used a multiple case study design to develop clear hypotheses about how dynamic capabilities develop. We selected four venture capital firms that made an investment in the mobile health market during 2010. These are compared with four comparable VC firms, which did not enter the mHealth market. We analyzed secondary data about the history and structure of the fund and conducted in-depth interviews with the investment managers and general partners of the VC firm to map their dynamic capabilities.

Results and Implications

The results indicate that four different groups of VC firms can be distinguished: VCs that are (1) unable to spot emerging opportunities, (2) lacking the willingness to undertake changes, (3) unable to implement changes and (4) possessing all necessary capabilities to successfully enter the market. We highlight the importance of syndication and the recruitment of new expertise into the team for the identification of new opportunities. We demonstrate how the depth of experience of the LPs, represented in the board of directors of the VC firm, determines the willingness to enter into a novel and uncertain domain. Finally, we show how the implementation depends on the ability of the investment managers to convince syndication partners to participate in the deal.

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