

≈ SUMMARY ≈

VENTURE CAPITALIST ENTREPRENEURIAL ORIENTATIONS IN
DEVELOPING ENVIRONMENTS

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Principal Topic

This exploratory research examines the entrepreneurial orientation (EO) – firm performance relationship of venture capitalists (VCs) in a developing country. VCs are professional investors that raise money primarily from financial institutions such as pension funds and insurance companies. They pool the monies they raise to create their own VC funds. The monies in these funds are then used for investing in growth oriented entrepreneurial firms that are assessed as having the potential to provide significant returns. By raising money from others to invest in entrepreneurial opportunities, VCs can be considered to act entrepreneurially.

EO has been the subject of a number of studies that have examined the underlying dimensions of the EO construct and its relationship with the performance of entrepreneurial firms. EO refers to the processes, practices, and decision-making activities employed by entrepreneurs that lead to new entry. EO is a determinant of performance contingent upon contextual variables such as environmental types (e.g. the volatility and dynamism of environments) and organizational types (e.g., organically versus simply structured firms).

This research builds upon prior EO research and extends this to VCs in a developing country. Limited VC EO research in developed countries has been undertaken (e.g., in Australia and Japan) where business environments tend to be relatively stable (when compared to developing countries). No research of this nature, however, has been undertaken of VCs operating in a developing country. The results of studies in developed countries, however, may not be generalizable to developing countries. In developing countries, environmental forces tend to be dynamic and, at times, unstable where information availability may be asymmetric and change and uncertainty are the business norms. These environmental types require firms that are highly entrepreneurial in nature.

Methodology/Key Propositions

Participants: Participants were identified using a VC directory as well as by accessing industry contacts to identify VC firms not in the directory. Firms were contacted and their permission sought for decision makers in these firms to participate in the study. Survey responses were received from 31 South African participants. This represented a 23% response rate. Although the sample may appear small, in terms of the South African VC population, this is considered adequate.

Measures: The questionnaire asked participants for demographic information including personal information and business-related activities. It contained several sections including measures for EO and firm performance. EO was measured in terms of proactiveness, risk taking, and innovativeness. The VC performance measure included IRR. IRR is a standard measure of VC performance.

Key Propositions: VCs already tend to operate in dynamic and changing environments where there is a degree of dynamism and uncertainty. This is due to their trying to identify successful, relatively early stage, investments that will be growth oriented and that will provide them with above normal returns. Developing country environments, however, are even more volatile, changing, and uncertain since laws, regulations, ways of doing business, and government policy are still “developing”. Dynamic and uncertain environments tend to necessitate organic firm structures where firm survival requires innovation and marketing differentiation. VCs tend to be organically structured. They lean toward being decentralized, relatively informal (knowledge is distributed to the key decision makers throughout the organizations more or less equally – open communication), and “flat” in that they emphasize lateral interaction among decision makers who comprise the relatively few members of the entrepreneurial team.

To adequately respond to the environment and be successful, VCs will need to be proactive, innovative, and engage in risk taking behaviour. Those that demonstrate a greater EO will perform better (contingent upon environmental and organisational contexts) with each dimension influencing performance independently. Environmental and organizational factors will influence the underlying strategies reflected in each dimension.

H1: VCs in developing countries will exhibit the EO dimension – proactiveness.

H2: VCs in developing countries will exhibit the EO dimension –innovativeness.

H3: VCs in developing countries will exhibit the EO dimension – risk taking.

H4: VCs in developing countries will exhibit an EO-performance relationship.

H5: VC EO dimensions will vary independently in influencing performance.

Results and Implications

The results provide support for the notion that VCs in developing countries demonstrate an EO, that an EO-performance relationship exists, and that EO dimensions vary independently of each other. Being entrepreneurial is essential for survival in a developing environment.

The research implications include contributing to, and expanding upon, the existing EO theory associated with VC firms. In this regard, we are developing a more holistic understanding of their entrepreneurial nature. From a practical perspective, the research is relevant to the development of training programs for novice VCs and for government departments and aid agencies that may wish to allocate funds to local VCs to stimulate and/or create localised VC markets.

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