ABSTRACT

High Technology New Ventures (HTNV) usually operate in a dynamic environment and with high levels of uncertainty. These firms operate in rapidly changing markets and are typically funded by Venture Capital (VC) investors. This paper addresses the cultural differences among VC through their approach to radical changes in strategy by comparing Israeli and non-Israeli investor groups. Following previous research cultural differentiation should be expected, however our findings indicate limited cross-country differences between VCs, suggesting that VC perspectives toward HTNV are quite similar within developed countries. Findings can be explained by the comparatively small VC community and globalization of the high technology venture markets.

INTRODUCTION

High Technology New Ventures (HTNV) are unique within the world of entrepreneurial ventures. They usually operate in a dynamic environment and with high levels of uncertainty resulting from the newness of technology, markets and products involved. HTNV are commonly expected to have high growth rates which are associated with handling various crises (Hanks et al 1993) sometime to a level that “… in such settings, it is difficult to know how to organize a firm” (Alvarez and Barney 2005:777). These firms operate in markets that change very rapidly (Gompers and Lerner 2001) and are typically funded by Venture Capital (VC) investors.

Radical Strategic Change (RSC) is a common event in HTNV, representing a conflict between the proposed new opportunity and the risk of departing from the planned and approved strategy. Due to the rapidity of change in emergent industries, and especially in high
technology, new venture strategies require changes in order to survive (Shepherd, Douglas and Shanley, 2000). The successful execution of a recommended strategic change is a rare achievement; hence a strategic change can have a crucial impact on organizations (Beaver, 2003). Since venture capitalists are an important funding source for HTNV, and hence involved in the strategy process of their portfolio companies (Sapienza and De Clerq 2000), their perspective is crucial in exploring causes of RSC in HTNV.

While the high technology industry adopts a global orientation, with technologies designed in one country made to fit users in many others; venture capital finance appears to follow the globalization trend traditionally dominated by US firms and currently increasingly by European and Asian firms as well. However, the Global Entrepreneurship Monitor (GEM) Report (Bosma and Levie 2009) asserted that early-stage entrepreneurial activity varies across countries. High-income countries including the US, Israel, Iceland and Canada were found by GEM to exhibit the highest adult-population prevalence rates of high-growth expectation entrepreneurship. The identification of country-specific entrepreneurship concepts can be useful for the research of international entrepreneurship as well as practitioners operating in different countries (Gupta and Fernandez 2009).

VCs’ decision patterns as well as cultural effects on organizational behavior were explored in different counties (Bruton and Ahlstrom 2003; Manigart et.al. 2002; Sapienza et.al. 1996). Cultural aspects of venture capital were usually observed while focusing on a specific country, outlining significant differences in investment activity between countries and between local and foreign VCs.

Radical changes in strategy involve increased risk and are commonly a friction point between investors and investees. In consideration of cultural aspects the question is whether cross-country cultural differences would be reflected on venture capital perspectives of RSC. Israel is country well known for its HTNV industry as well as high entrepreneurship levels (Senor and Singer 2009) yet Israel is a small homogeneous culturally district compared within the developed countries. Based on previous research, this study explores differences in perspectives toward RSC between private investors in Israeli and non-Israeli investors.

This paper addresses the cultural biases of high technology investors by looking at their perspective regarding causes of RSC in their portfolio companies. It contributes to the under-explored field of VCs’ perspectives toward strategic changes in different cultures. Surprisingly, findings show only limited significant differences between the reports of Israeli investors when compared with a group of non-Israeli investors.
LITERATURE REVIEW

Venture Capital investors

The foundations of the venture capital industry as of its current format are believed to be set in 1946 when United States General, George Doriot, recognized the need for risk capital and created a firm named ARD (American Research and Development Corporation) to supply it. The development of venture capital industry in the United States was encouraged by the passage of the Small Business Investment Act of 1958. The 1958 Act officially allowed the United States Small Business Administration (SBA) to license private ‘Small Business Investment Companies’ (SBICs) to help the financing and management of the small entrepreneurial businesses in the United States. The public successes of the venture capital industry in the 1970s encouraged the proliferation of venture capital investment firms. During the 1980s the number of venture capital firms operating in the United States surged to over 650.

American firms have traditionally been the largest participants in venture deals. In 1996 the United States venture capital pool was about three times larger than the total venture capital pool in the 21 other countries where it existed. Moreover, about 70% of the venture capital in the rest of the world was concentrated in three countries with strong ties to the United States economy: Israel, Canada, and the Netherlands. It may be argued that countries with strong bank financing system like Germany and Japan there is a lesser need for venture capital, yet recent research has demonstrated the inherent differences between venture capital investments and bank finance (Mason and Stark, 2004). In recent years increasingly non United States venture investment is growing and the number and size of non United States venture capitalists have been expanding. Apparently, the European venture capital industry is following the United States actions (source: European Private Equity and Venture Capital Association. Industry statistics), with rapidly growing awareness and increasing amounts of funds invested and exits (MacMillan et.al., 2008). A similar phenomenon can be noted in Asian countries such as Singapore, Taiwan & China. Also following the United States example many policy makers believe that venture capital should be encouraged since it has much to do with rising leadership in high technology industries and should be credited for some portion of national economic growth (Timmons and Spinell, 2009).

Cultural aspects in new ventures

The Global Entrepreneurship Monitor (GEM) Report asserted that early-stage entrepreneurial activity varies across countries (Bosma et. al., 2008). In addition, change in early-stage entrepreneurial activity may differ over time between middle-and low-income as compared to high-income countries. High-income countries including the US, Israel, Iceland
and Canada were found by GEM to exhibit the highest adult-population prevalence rates of high-growth expectation entrepreneurship.

Researchers were attracted to explore patterns in VC decision making in different counties. While culture as affecting organizational behavior was extensively studied by Hofstede (1991), cultural aspects of venture capital were usually observed while focusing on a specific country. Paruthi, Wright and Lockmet (2003) compared India-based VCs with foreign VCs, outlining major differences in investment activity between the two groups. These findings confirms the work of Lockett et al. (2002) who compared investment approaches of VCs in USA, Hong Kong, India and Singapore. Mayer Schoors and Yafeh (2004) concluded that neither financial systems nor sources of finance are the main explanations for the pronounced differences in VCs’ activities. On the other hand, cultural aspects are dominant in the entrepreneurial process (Baughen and Neupert, 2003; Bosma et al 2008). In a general business context, organizational behavior is expected to vary between countries due to different national cultures (Hofstede, 1991; Ronen, 2007). Based on previous research, differences are expected when comparing private investors’ perspectives toward strategic events in their portfolio companies as related to their country of operation.

**Strategy in high technology new ventures**

Business Strategy is one of the major factors affecting new venture performance (Vesper, 1990; Gartner, 1999; Chrisman, Bauerschmidt and Hofer, 1998; Baum, Lock and Smith, 2001). High technology new ventures face a broad span of strategic technological alternatives. Since technology markets play a role in strategy formation, this process appears to be more complicated (Arora et al. 2001, Mathewes, 2003). Venture Capitalists (VCs) have also been found to take strategy as a major investment criterion. Focusing on strategy aspects, Shepherd, Ettenson and Crouch (2000) had found that the most important strategy-related criterion which VCs utilize in their assessment of new venture profitability is founders’ industry-related competence, then educational capability (i.e. resources and skills available to overcome market ignorance through education), competitive rivalry, and timing.

While other factors such as the entrepreneurial team and industry structure are fixed at a given time, the strategy of a new venture is subject to changes. The founders of a new venture provide an initial strategic direction which puts a constraint on subsequent change in strategy (Boeker, 1989). The entrepreneurial-strategy formation process can be regarded either as a "planned strategy" or as an "emergent strategy" (Harries, Forbes and Fletcher, 2000).

In cases where small incremental changes are not sufficient, the founding team may decide to conduct a RSC and re-establish the new ventures’ business strategic approach. Several definitions were used to distinguish Radical change from an Incremental one. Changes in business orientation were classified by magnitude, as Incremental vs. Dramatic
(Miller and Friesen 1984:203) or as Incremental vs. Radical (Ginsberg and Abrahamson 1991), where radical changes involve business state and pattern. Strategic change was defined by Rajagopalan and Spreitzer (1996:49) as “a difference in the form, quality, or state over time in an organization’s alignment with its external environment, the fundamental pattern of present and planned resource deployments and environmental interactions that indicates how the organization will achieve its objectives.” Hopkins (1987) defined a strategic change as ‘Radical’ rather than ‘Ordinary’ if it combines three well distinguished factors: (1) departing significantly from the organization's former way of doing business; (2) having far-reaching effects; (3) creating uncertainty and insecurity among organizational members.

Nevertheless, researchers agree that a radical changes strategy is an outstanding event in a venture, deserving a specific scholarly focus. In analyzing the process of evolution and change in high technology new ventures, where both resources levels and expertise are constrained, Ambos and Birkinshaw (2007) chose to use the concept of 'Business Charter', defined as the shared understanding of the elements of business for which the venture leaders assume responsibility. They concluded that changing charters is broadly a healthy event for a venture, since whenever a venture changed its charter, the change is beneficial in refocusing on a neglected aspect or pushing the venture to think more ambitiously than it had done previously. According to Ambos and Birkinshaw, RSC may be a common and favorable event jointly with a change in the venture's charter.

Substantial theoretical and empirical work was conducted regarding strategy changes in mature organizations (e.g. Gioia and Chittipeddi, 1991; Stacey, 1995; Rajagopalan and Spreitzer, 1996). However there is an uncovered area in research of strategy change in new ventures (Nicholls-Nixon, Cooper and Woo, 2000; Ambos and Birkinshaw, 2007).

**Venture Capitalists and RSC**

The successful execution of a recommended strategic change is a rare achievement; hence a strategic change can have a crucial impact on organizations (Beaver, 2003). VCs’ assessment policies of a new venture's survival such as competitive rivalry are predominately consistent with those arising from the strategy literature (Shepherd, 1999). Investors are expected to dislike RSC as “risky” to organizations (Hannan and Freeman, 1984; Hopkins 1987) or may feel attrition and leave after they had been initially attracted to the organization (Schneider, 1987).

Due to the rapidity of change in emergent industries, and especially in high tech, new venture strategies require changes in order to survive, as suggested by Shepherd, Douglas and Shanley (2000:399): “Venture capitalists can assess a venture’s strategy and projected environment via a business plan, but this only provides the strategic intentions behind the venture. Plans almost certainly will not turn out as predicted, and the environment faced by a venture will not be as anticipated and may change frequently. Performance will deteriorate if
changes in the environment are not detected by the entrepreneur(s), if strategies are not reassessed, and if new strategies are not formulated and implemented.”

Research has shown that better understanding is needed regarding investors’ assessment of new venture strategy (Shepherd, Ettenson, and Crouch, 2000). Thus, the post-investment activities of VCs in their portfolio companies are a fertile area for research (Tyebjee and Bruno 1984:1054). Investors’ attitude towards RSC can be explored through the information and decision making prior to execution of the RSC, and/or the RSC execution process itself. While focusing on the “content” of strategic change rather than on the “process” of its implementation (Rajagopalan and Spreitzer 1996), this research is looking at the investors' perspective, including reasons which cause a high tech new-venture to take a radical change in business-strategy, and their views regarding those major strategic changes. To capture a wide view of the investors’ perspective, additional aspects were explored: the importance investors attribute to venture strategy, the likelihood of RSC and the events causing it.

Causes of strategic changes

While environmental changes may require strategic changes, the firm’s resources affect the likelihood and the magnitude of the upcoming strategic change. Ecology and strategy researchers have historically maintained different emphasis on the phenomenon of strategic change (Zajak et al. 2000:450): “ecologists have stressed that change should be rare, because organizations find it very difficult and unworthy to change; on the other hand, strategists have discussed how change should be more common and beneficial because organizations can and should adapt (not without difficulties) to their changing organizational and environmental conditions.” The events causing RSC are commonly referred to as "environmental changes" (e.g. Bhide, 1994; Rajagopalan and Spreitzer, 1996; Kraatz and Zajac, 2001). They can also be viewed as “changes in the strategic ‘recipes’ or ‘formulate’ that managers use to construe their environment”, which are advocated internally by new members of the top management team or externally by management consultants (Ginsberg and Abrahamson 1991:174). Based on differences in environmental forces and organization resources, Zajak, Kraatz and Bresser (2000) found that the timing, direction, and magnitude of successful strategic changes can be logically predicted. In order to understand the magnitude of this conflict within investors in the high tech industry, an assessment is needed as to whether they find RSC to be a rare event in their portfolio companies.

Miller and Friesen (1984: 28) asserted that organizations "reinforce or extend their past structures and strategy-making practices, adhering to previous directions of evolution". This momentum also applies repeating changes experienced in the past. In other words, organizations continue to extrapolate past trends in the face of environmental changes. Nicholls-Nixon, Cooper and Woo (2000), proposed that the level of perceived environmental hostility affects the level of strategic changes undertaken in new ventures. Nevertheless, the
causes for these changes might be internal (the company) or external (the environment). This might influence the investors' attitude towards RSC. Hence, the perceptions of investors in HTNV of different countries were sought for the causes for RSC in their portfolio companies.

**METHODOLOGY**

In order to explore investors’ view of strategy changes in new ventures, a survey was conducted, which enables “to understand and represent the experiences and actions of people as they encounter, engage, and live through situations” (Elliott, Fischer and Rennie, 1999:216). Investors’ perspective of RSC was explored using interviews with practitioners including analysis of texts and qualitative data provided by the interviewees. This approach is especially recommended for research in the field of entrepreneurship when seeking "…concepts that enhance the understanding of social phenomena in natural setting, with the emphasis on the meanings, experiences and views of all participants" (Neergaard and Ulhoi, 2007:4).

In order to compare cultural attributes of HTNV investors, the following sample was chosen: 8 investors who operate in Israel and 8 investors who operate in other 6 countries: USA, United Kingdom, Norway, Singapore, Korea and Taiwan. All selected investors operate in countries of developed economies in order to control for national growth (following the GEM report by Bosma et. al. 2008). The selected investors operated in different high technology sectors such as software, medical devices, and digital signal processing. Out of the 16 interviewees, 5 were business angels and 11 were VCs. All the selected investors had to be engaged in early-stage high-technology investments for at least two years prior to the interview, reporting an aggregate of 82 early stage investments out of 89 investments made during the last 2 years.

Data were collected from the investors through a methodology of semi-structured interviews. The interviews were taped and subsequently transcribed, and tabulated for comparing responses across all respondents, as recommended by Myles and Huberman (1994). Patterns were sought in the data by looking for consistencies and inconsistencies in the explanations given by the VCs before and after the presentation of results. The interviews were analyzed using Nvivo software (Richards, 1999) by marking and cross referencing statements made throughout the interviews.

The questions were designed to provide the perspectives of investors in respect to RSC, including patterns regarding the importance of strategy as an investment criterion (Tyebjee and Bruno, 1984; Sandberg et al., 1988; Fried and Hisrich, 1994; Shepherd, 1999). Interviewees were also asked to refer to perceived causes for RSC and rarity of occurrence in their portfolio companies. First open-ended questions were used to ask about the reasons for
strategic change and attitudes toward this phenomenon. Further on, findings of previous research were presented, and the VCs were asked for their introspection and relating views.

RESULTS

The data analysis started by checking whether investors report RSC as rare event. Within the 16 interviews that were conducted, 32 RSC events were noted out of 82 early stage investment cases (see Table 1). Out of these interviewees, only one indicated not encountering any RSC in his portfolio companies. Findings further indicate that regarding the number of RSCs encountered in reference to early stage investments, the figure ranged from 0 (one instance) to 100% (two instances) of the events, with an average number of about 40% of investments and mode of 50% of investments having an RSC.

<table>
<thead>
<tr>
<th>Code</th>
<th>Type</th>
<th>Country</th>
<th>Number of early stage investments</th>
<th>Number of RSC events</th>
<th>Investment Field</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>BA</td>
<td>United Kingdom</td>
<td>3</td>
<td>2</td>
<td>Optical</td>
</tr>
<tr>
<td>A2</td>
<td>BA</td>
<td>USA, Israel</td>
<td>4</td>
<td>2</td>
<td>Diverse portfolio</td>
</tr>
<tr>
<td>A3</td>
<td>BA</td>
<td>Singapore</td>
<td>1</td>
<td>1</td>
<td>Industrial High Tech</td>
</tr>
<tr>
<td>A4</td>
<td>BA</td>
<td>USA</td>
<td>10</td>
<td>5</td>
<td>Medical Devices, Medical Services</td>
</tr>
<tr>
<td>A5</td>
<td>BA</td>
<td>Israel</td>
<td>1</td>
<td>1</td>
<td>Bio Technology, Digital Signal Processing.</td>
</tr>
<tr>
<td>VC1</td>
<td>VC</td>
<td>Israel</td>
<td>6</td>
<td>3</td>
<td>Industrial High Tech</td>
</tr>
<tr>
<td>VC2</td>
<td>VC</td>
<td>Israel</td>
<td>2</td>
<td>3</td>
<td>Software</td>
</tr>
<tr>
<td>VC3</td>
<td>VC</td>
<td>Europe, USA</td>
<td>5</td>
<td>1</td>
<td>Bio Technology, Clean Technology</td>
</tr>
<tr>
<td>VC4</td>
<td>VC</td>
<td>Korea</td>
<td>2</td>
<td>0</td>
<td>Information Technology, Bio Technology Information and Communication Technology</td>
</tr>
<tr>
<td>VC5</td>
<td>VC</td>
<td>Israel</td>
<td>4</td>
<td>3</td>
<td>Diverse portfolio, Software, Semi Conductors, Medical Devices</td>
</tr>
<tr>
<td>VC6</td>
<td>VC</td>
<td>Israel</td>
<td>10</td>
<td>1</td>
<td>Diverse portfolio, Software, Semi Conductors, Medical Devices</td>
</tr>
<tr>
<td>VC7</td>
<td>VC</td>
<td>Israel, Taiwan</td>
<td>5</td>
<td>3</td>
<td>Information Technology, Software.</td>
</tr>
<tr>
<td>VC8</td>
<td>VC</td>
<td>Israel</td>
<td>5</td>
<td>1</td>
<td>Internet, New Media</td>
</tr>
<tr>
<td>VC9</td>
<td>VC</td>
<td>Israel</td>
<td>7</td>
<td>2</td>
<td>ICT, Clean Tech,</td>
</tr>
<tr>
<td>VC10</td>
<td>VC</td>
<td>Israel</td>
<td>11</td>
<td>3</td>
<td>Diverse portfolio</td>
</tr>
<tr>
<td>VC11</td>
<td>VC</td>
<td>Norway</td>
<td>3</td>
<td>1</td>
<td>Diverse portfolio</td>
</tr>
</tbody>
</table>
Checking for cultural biases was performed by comparing the data of Israeli investors with the non-Israeli investors. Data revealed no significant difference between the two groups. The number of RSCs’ encountered by interviewees vs. the number of early stage investments they had made, was in the range of 40%. The non-Israeli reported about 45% of RSC events while the Israeli group reported about 35% RSCs in their portfolio companies. A two tail z test indicated there is no significant difference between the groups.

<table>
<thead>
<tr>
<th>Investors sub sample by country.</th>
<th>Number of early stage investments</th>
<th>Total Number of RSC events</th>
<th>Mean Number of RSC events</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Israeli (n=8)</td>
<td>33</td>
<td>15</td>
<td>1.875</td>
<td>1.553</td>
</tr>
<tr>
<td>Israeli (n=8)</td>
<td>49</td>
<td>17</td>
<td>2.569</td>
<td>0.981</td>
</tr>
<tr>
<td>Total:</td>
<td>82</td>
<td>32</td>
<td>2.200</td>
<td>1.643</td>
</tr>
</tbody>
</table>

Correlating this finding with the place of strategy in the investors’ investment criteria showed that it did not take a high priority in the decision making. When asked to rank 6 investment criteria, "business strategy” was ranked as a low investment criterion: between the 4th and 5th place (see Table 3). Only one Business Angel and one VC had placed it as second in importance investment criteria. A small difference was found regarding investment criteria: The Israeli investors gave higher importance to business strategy as an investment criterion compared with the non-Israeli investors. The difference is not significant due to the small sample size.

<table>
<thead>
<tr>
<th>Table 3: Strategy as an investment criterion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean:</td>
</tr>
<tr>
<td>---------------------------------------------</td>
</tr>
<tr>
<td>4.5</td>
</tr>
<tr>
<td>1.62</td>
</tr>
<tr>
<td>6.0</td>
</tr>
<tr>
<td>7</td>
</tr>
<tr>
<td>2</td>
</tr>
</tbody>
</table>

Exploring investors' views on the causes for RSC, 59 phrases were marked along all the 16 interviews (see table 4), described as follows: partially internal to the venture (such as poor technological delivery) and partially external (such as change in regulation); either negative causes (such as key personnel leaving the company) or positive causes (such as a market opportunity). Analysis of the causes mentioned revealed that there were far more negative events igniting RSC than positive ones (45 vs. 14), while comparing internal vs. external causes yielded more external driven events than internal ones (22 vs. 37). A two tailed z
analysis indicates that most RSC significantly follow events with negative influences on the venture, rather than positive ones emanating from unexpected opportunities. It further indicates that internal factors are marginally significant as causes for RSC.

Table 4: Examples of causes of RSC in high technology new ventures.

<table>
<thead>
<tr>
<th>Cause Type</th>
<th>Internal (37)</th>
<th>External (22)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Favorable</td>
<td>“Identifying alternative or additional sources of revenues”</td>
<td>“Government policy easing regulations”</td>
</tr>
<tr>
<td></td>
<td>“Key personnel change position”</td>
<td>“Accessible sources of funds”</td>
</tr>
<tr>
<td>Unfavorable</td>
<td>“The technology was not adequate”</td>
<td>“New competitors entered the target market”</td>
</tr>
<tr>
<td></td>
<td>“Wrong assumptions about market trends”</td>
<td>“Declining market needs”</td>
</tr>
</tbody>
</table>

When comparing the causes for RSC no difference was found between the Israeli investors and the non-Israeli investors regarding unfavorable events being a stronger driver for RSC compared with favorable ones. Yet, internal causes were significantly more influential on RSC events as reported by Israeli investors, compared with non-Israeli investors, who had no statistical bias towards internal or external causes (see table 5).

Table 5: Causes of RSC: Israeli Vs. Non-Israeli Investors

<table>
<thead>
<tr>
<th>Cause Type</th>
<th>Non -ISR</th>
<th>ISR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Positive</td>
<td>Negative</td>
</tr>
<tr>
<td>Internal</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>External</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>20</td>
</tr>
</tbody>
</table>

DISCUSSION

This study found similar attitudes toward RSC attributed by VCs and business angels. This finding is in line with the work of Mason and Stark (2004) stating that business angles and venture capitalists act in a similar manner.

Most investors believe that RSCs are likely to occur, but they do not find them to be a favourable event. Virtually all investors expect a planned strategy to be outlined early, and they do expect it to change, even though market information is not fully available. Findings of this research show that RSC is caused primarily by negative events rather than by positive ones. Hence the occurrence of RSC is a reaction of the team to an unexpected negative event. This is to say that investors should expect "bad news" and trust the management to react to it by modifying the strategy accordingly. This finding supports Shepherd (1999:629) who showed that: "...VCs assessment policies are predominantly consistent with those proposed by strategy scholars", and the work of Tyebjee and Bruno (1984) who claimed that the team is the most important factor in VC investment criteria.
Cultural differences between Israeli and non-Israeli investors were found only in regard to one of four issues: internal causes were significantly more influential on RSC events as reported by Israeli investors, compared with non-Israeli investors, who had no statistical bias towards internal or external causes. However no significant differences were found in regard to the other three tested issues: (a) The non-Israeli reported more (about 45%) of RSC events in their portfolio companies than the Israeli group (which reported about 35% RSCs), but no significant difference was found between the two groups. (b) The Israeli investors laid higher importance to business strategy as an investment criterion compared with the non-Israeli investors, but the difference was not found significant due to the small sample size. (c) Comparing the causes for RSC no difference was found between the Israeli investors and the non-Israeli investors regarding unfavorable events being a stronger driver for RSC compared with favorable ones.

The finding that Israeli VCs encounter fewer events of RSCs (though insignificantly less) when compared to US, Europe, Singapore, Korea and Taiwan VCs may be due to Israeli investors' attitude toward radical changes. Although the interview specified “Radical Strategic Change” to be a major change, some Israeli VCs were more tolerant regarding the changes made in their portfolio ventures regarding them as a "normal" event. This explanation fits the expected national cultural differences (Hofstede 1991; Ronen 2007) between Israeli and non-Israeli management people. The reason for this may be the Israeli’s expectation for higher uncertainty, since their start-ups are far from their target markets in America, Europe and the Far East.

The apparent limited sensitivity to culture of investors during RSC may be due to the focus on technological ventures, which to some extent has global characteristics. However there are still some cultural differences indicating the world of venture capital investors has not turned as of yet completely flat.

A practical implication for practitioners of these findings is that regardless of cultural differences investors should be ready for an RSC in their high technology new ventures. The findings support recent research indicating that RSC is not a rare event in new ventures (Ambosh and Birkinshaw, 2007). Furthermore, the finding that high technology early stage investors find RSC to be a highly common event, contradicts the claim by Hannann and Freeman (1984). The findings also indicate that on top of RSC being a more common event, it is also not as risky or costly as claimed by Hannann and Freeman (1984), since in this study only about half of the cases required additional funding. In reference to the wide agreement among interviewees about the positive impact RSC had on the venture, it looks as if the additional investment of funds was justified. The awareness toward RSC can be explained by the dynamic nature of new technologies and their impact on high technology new ventures.
which are well-known to stakeholders in this industry. This is in line with Schneider’s (1987) ASA (attraction-selection-attrition) framework that suggested organizations are not capable of changing unless they contain people with appropriate inclinations.

The major limitation of this research is its sample size where the qualitative analysis is based on merely 16 interviews. Though the investors come from 7 different nations in order to control for the effect of culture, the sampling was not random. A larger sample of investors is needed to validate the findings of this study through a quantitative analysis. Another limitation is the investors’ espoused criteria, which may differ from the actual in-use criteria (Zacharakis and Meyer, 1998; Shepherd, 1999b), which limits investors’ introspection about their own decision prospects. Further research is required for studying the under-explored field of RSC in new ventures. More comparative studies of multi-cultural views might reveal differences as well as similarities in investors’ perspectives.

REFERENCES


