ABSTRACT
Radical Strategic Change (RSC) is not a rare event in high technology new ventures, due to their rapidly changing environment. This research explores investors' perspective regarding RSC in their portfolio companies, using a qualitative study by interviewing a variety of 13 financial investors from 7 countries. Findings present three approaches taken by investors: Avoidance, Readiness and Passive. Since the success of RSC is critical to ventures performance, it is suggested that inventors adopt the readiness approach, optimized also through the prisoners' dilemma as reflecting the investor-investee relationship. Further research is needed to validate findings of this study.

INTRODUCTION
Business Strategy is one of the major factors affecting new venture performance (Vesper, 1980; Gartner, 1998; Chrisman, Bauerschmidt and Hofer, 1998; Baum, Lock, Smith, 2001). High technology new ventures, having a larger span of strategic technological alternatives, find strategy formation process even more complicated by having technology markets play a role in this formation (Arora et al. 2001, Mathewes, 2003). Strategy and industry structure are “context” variables (Sandberg 1986; Herron and Robinson 1993) that interdependently interact with entrepreneurs’ characteristics to influence new venture performance. Focusing on strategy aspects, Shepherd, Ettenson and Crouch (2000) found that the most important strategy criterion 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.

According to Seddon and Lewis (2004) "Business Strategy" and "Business Model" are similar concepts with nuances of difference. They asserted that a business model outlines the essential details of a firm’s value proposition for its stakeholders and the system the firm uses to create and deliver value to its customers. Unlike strategy, business models do not deal with the firm’s competitive positioning. On the other hand, Shafer, Smith and Linder (2005) argued that these two terms differ largely. They define a business model as a representation of a firm’s underlying core logic and strategic choices for creating and capturing value within a value network. With this definition they argue that a business model is not itself a strategy, though it does facilitate analysis, testing, and validation of a firm’s strategic choices.

While other factors such as the entrepreneurial team and industry structure are fixed at a given time, 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). Some researchers (Cooper 1993; Brush, Green, and Hart, 2001) argued that although strategic decisions influence performance, they are dependent on the entrepreneur, who is the primary resource. Business strategy can be controlled by the entrepreneurial team, far more then all other factors (Shepherd, Douglas, Shanley 2000).
The two main approaches marked in the entrepreneurial-strategy formation process are "planned strategy" and "emergent strategy" (Harries, Forbes, Fletcher 2000). Most entrepreneurial texts indicate that planned strategies should take place prior to launching new businesses (e.g. Timmons and Spinelli 2004; Delmar and Shane 2003), but that the value of planning for venture survival is context-dependent (Castrogiovanni 1996). "Planned strategies" were found to be positively related to growth in firms with a mechanistic approach and operating in hostile environment whereas "emergent strategies" were found to be more positively related to growth in firms with organic structures and operating in benign environments (Slevin and Covin, 1997). While large firms respond to perceptions of increasing environmental turbulence with increased planning (Lindsay and Rue 1980), small firm with limited resources (in terms of managerial time as well as financial resources) make such a response less likely (Patterson 1986). Matthews and Scott (1995) found an inverse relationship between environmental uncertainty and level of planning sophistication in entrepreneurial firms, and claim that as environmental uncertainty increases, sophistication of planning decreases. They further argue that since successful entrepreneurs are extremely sensitive to the perishable nature of the opportunities emerging in a rapidly changing environment, taking the time to plan under conditions of high uncertainty may result in the loss of the opportunity (Bhide 1994).

In the cases where small incremental changes may not be sufficient, the founding team may decide to conduct a Radical Strategic Change (RSC) and re-establish the new ventures’ business strategic approach. Changes in business orientation can be classified by magnitude as incremental vs. dramatic (Miller and Friesen 1984:203) or, alternatively, as incremental vs. radical (Ginsberg and Abrahamson 1991), where radical changes involve business state and pattern. Following previous research, strategic change can be defined (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, (where this alignment is) the fundamental pattern of present and planned resource deployments and environmental interactions that indicates how organization will achieve its objectives.” Hopkins (1987) defined a strategic change in an organization to be ‘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.

In analyzing the process of evolution and change in high technology new ventures, where both resources levels and expertise are constrained, Ambosh and Birkinshaw (2007) chose to use the concept of 'Business Charter', defined as the shared understanding of the elements of business of which the venture leaders assume responsibility. Charters include three key elements: (a) products and markets targeted, (b) venture capabilities, and (c) the future state of the venture's scope as communicated to external stakeholders. Using multiple case study design in four technological new ventures, Ambosh and Birkinshaw concluded that changing charters is broadly a healthy event for a venture, since whenever a venture changed its charter, the change was beneficial in terms of 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 common and favorable event jointly with a change in the venture's charter.

It is common view that organizations are constrained in their ability to adapt. Therefore, their general tendency is to preserve strategy rather than to perform a radical change (Quinn 1980; Miller and Friesen 1984). Porter (1980) identified mobility barriers in industries which inhibit movements of firms from one strategic position to another. In coherence with these researchers, Boeker (1989) found that semiconductor firms, who had adopted a dominant strategy at the founding stage, maintained this strategy over time. Boeker (1989:492) asserted that “the extent to which consensus develops around a strategy at founding, may make the strategy more open to subsequent questioning or redirection by organizational participants.” In addition to founding imprints, the need for significant investments may limit the organization’s ability to change its strategy (Freeman and Boeker 1984). Strategic change can have a crucial impact on organizations, since the successful execution of a recommended strategic change is a rare achievement (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, 1999a). In light of previous organizational
research (e.g. Hannan and Freeman, 1984; Hopkins 1987), RSC is perceived as "risky," and therefore disliked by investors.

Due to the rapidity of change in emergent industries, and especially in high technology industries, strategy change is required in new ventures to sustain survival, as stated 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.”

Several research questions related to investors’ perspective to RSC are presented:

**What is the investors’ attitude towards RSC? Are they RSC averts?**

When RSC occurs in a ventures it requires substantial thought, courage, flexibility as well as personal ability on behalf of the entrepreneur. This event represents high risk in the life of a new venture. Yet, it may be the turning point that will save the venture and place it on a growth track. While there has been substantial theoretical and empirical work done regarding strategy changes in mature organizations (e.g. Gioia and Chittipeddi, 1991; Stacey, 1995; Rajagopalan and Spreitzer 1996); there is an uncovered area in research regarding strategy change in new ventures (Nicholls-Nixon, Cooper, and Woo, 2000; Ambosh and Birkinshaw 2007).

Better understanding is needed of investors’ assessment of new venture strategy (Shepherd, Ettenson, and Crouch, 2000). Hence, the post-investment activities of VCs in their portfolio companies are a fertile area of research (Tyejee and Bruno 1984:1054). Investors’ attitude to RSC can be explored through the information and decision making prior to execution of the RSC, and/or the RSC execution process itself. While we focus on the “content” of strategic change rather than on the “process” of its implementation (Rajagopalan and Spreitzer 1996), our study looks for the investors' point of view, including reasons which cause a high technology new-venture to take a radical change of business-strategy, and their different views regarding those major strategic changes.

**Do investors in high technology new ventures find RSC to be a rare event?**

While environmental changes may require strategic changes, the firm’s resources affect the likelihood and the magnitude of the upcoming strategic change. According to the inertia theory, structural inertia varies with organizational age and size. The probability of failure increases while changing the core organizational features, due to organizational disruption (Hannan and Freeman, 1984: 157-160). This means that changing core features in well established organizations maybe hazardous: "Although organizations sometimes manage to change positions on these dimensions [core features], such changes are both rare and costly and seem to subject an organization to greatly increased risks of death" (Hannan and Freeman 1984: 156). As of rare frequency, Miller and Friesen (1984:204) argued that dramatic changes may be more common than many theorists indicate, though they are not predominant events. Indeed, ecology and strategy researchers have historically maintained different emphasis on the phenomenon of strategic change (Zajac 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.”

**What are the causes for RSC in investor’s perception? Are environmental causes dominant?**

Miller and Friesen asserted (1984: 28) that organizations "reinforce or extend their past structures and strategy-making practices, adhering to previous directions of evolution." This momentum also applies to repeating changes experienced in their past life. In other words, organizations continue to
extrapolate past trends in the face of environmental changes. Since uncertainty accompanies every entrepreneurial venture, (Mathews and Scott, 1995) the need to modify and alter the business strategy is evident, explaining the usage of an ‘emergent strategy’ by many of the entrepreneurs. An ‘emergent strategy’ indicates that the venture's strategy is being incrementally modified and altered ‘on-the-fly’, as the entrepreneur gains more knowledge of the new-venture's practical business aspects. Changes along dimensions of strategy are a normal part of the process by which entrepreneurs seek to position their business (Nicholls-Nixon, Cooper, and Woo 2000). These researchers proposed that the level of perceived environmental hostility affects the level of strategic changes undertaken in new ventures.

The events which may cause 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 et al. (2000) found that the timing, direction, and magnitude of successful strategic changes can be logically predicted.

How does investor-investee relationship affect RSC? Does it play a major role in the acceptance of a RSC in a new venture?

RSC highlights the relationship between investors and investees. The potential to create or destroy value, strongly appears in high-technology sectors, particularly at the earliest stages of venture development (Sapienza and de Clercq 2000). The content and the process of RSC are affected by the investor-investee relationship. Several theories can be used to describe this relationship, of which the "Agency Theory" (Barney et al., 1989; Sahlman, 1990) focuses on action made by investors protecting their assets held by the entrepreneur (agent), and the "Stewardship Theory" (Davis et al., 1997) that deals with goal alignment between the VC and the entrepreneur (steward). However, Arthurs and Busenitz (2003) stated the limitations of these theories by misjudging the entrepreneur's attachment to the venture after the investment. An alternative approach was suggested by Cable and Shane (1997) where the "Prisoner's Dilemma" is applied indicating the bottom-line benefits of the mutual trust and cooperation between investors and investees. Mutual trust was found to be a vital element (Sweeting and Wong 1997) in successful ‘hands-off’ (i.e. minimal involvement) post investment relationship.

How important is strategy within investors’ investment criteria and to what extent do they affect strategy?

Investors’ view regarding strategic change is crucial since they are the fund providers. Moreover, they are also board members who have an important influence on the firm's destiny. Westphal and Fredrickson (2001) found in their study of large and medium sized U.S. firms that what appears to be "Executive Effects" on corporate strategy, may actually indicate "Board Effects" and that the board preferences influence both executive selection and strategic change. Board members tend to use their personal experience as a reference point in formulating and evaluating strategic alternatives. They suggested (2001:1130) that directors would be most likely to advocate strategic change when their home company strategies are different from the strategy in the "focal firm" in which they serve as directors. In that case, investors may be more likely to reach consensus about the need for strategic change at the "focal firm."

We assume that the same effects hold for directors and investors of new ventures who may advocate strategic change in light of their own experience and their home company strategies. The importance of strategy criteria in investors’ evaluation of new venture were found to range from quite high (Tyebjee and Bruno 1984; Sandberg et al. 1988; Fried and Hisrich 1994; Shepherd 1999a) to low importance (Hall and Hofer 1993; Feeney et al. 1999).

METHODOLOGY
To provide investors’ view for the empirical phenomenon of strategy changes in new ventures, we applied a qualitative study in order “to understand and represent the experiences and actions of people as they encounter, engage, and live through situations” (Elliott, Fischer and Rennie 1999:216). In order to explore investors’ perspective of RSC, we opted for an inductive research design of a multiple case method (Eisenhardt 1989; Fried and Hisrich 1995; Yin 2003). We believe that in our research, the case study method fits well in order “to explain the presumed causal links in real-life interventions that are too complex for the survey or experimental strategies” (Yin 2003:15).

We chose to adopt a multiple case design which is preferred over a single-case design for more robust generalization, due to “the substantial analytic benefits from having two or more cases” (Yin 2003:53). Replications should alter one or two experimental conditions to see whether the findings could still be duplicated. The strategy we chose for the selection of the cases was that of maximum variation cases, which allows “to obtain information about the significance of various circumstances for case process and outcome (e.g. three to four cases that are very different on one dimension)” (Flyvbjerg, 2006:230). The generation of multiple case studies enabled us to follow replication logic of 13 cases altered by 3 different experimental conditions: investor type (VC or business angel), country where operated (Israel, Korea, Taiwan, United States, United Kingdom, Singapore, Western Europe) and industry sector (Bio Technology, Clean Technology, Diverse portfolio, Digital Signal Processing, Information and Communication Technology, Industrial High Tech, Information Technology, Medical Devices, Medical Services, Optical, Semi Conductors, Software). The characteristics of the different investors interviewed for this study are presented in Table 1.

![Table 1](image1.png)

Data was collected from the investors through a methodology of semi-structured interviews. The interviews were taped and subsequently transcribed. We then sought for patterns in the data by looking for consistencies and inconsistencies in the explanations given by the VCs before and after the presentation of our results, by tabulating data and comparing responses across all respondents, as recommended by Myles and Huberman for cross-case displays (1994).

We first used open-ended questions to ask what reasons they consider for strategic change and their attitude toward this phenomenon. Further on, findings of previous research were presented, and the VCs were asked for their introspection and relating views.

The initial interviewee selection criteria were: Business Angle or a Venture Capital Investor, who was engaged in early-stage high-technology investments during the last 2 years. In order to reduce biases resulting from specific investment items, a diverse case study group was selected. The diversity attributes where: country of investment; type of investor (business angel vs. venture capitalist); number of investments per year; and investment filed. Out of 20 potential prospects, 14 interviews were made with investors of the high-technology investment filed. Only 13 out of the 14 interviews qualified to the terms, described in Table 1. The interviews were analyzed using the Nvivo software (Richards 1999).

**RESULTS**

We started by checking whether investors consider RSC as a rare event. Within the 13 interviews that were conducted, 22 references were marked regarding the rareness of RSC as presented in Table 2. Out of these references, 14 indicated that RSC is NOT a rare event in early stage ventures, 4 indicated that RSC is actually a rare event and 4 were conditioned or ambivalent about the rareness of RSC. Hence, findings indicate that the investors are familiar with RSCs in new ventures, and do not find it to be a rare event.

![Table 2](image2.png)

In regard to how many of the investors had encountered RSC and how often did they encounter RSC during their investment activity, finding show that most of them did. When exploring the number of RSCs encountered in reference to early stage investments, the figure was about 60-100% of the
events. This is with one exception of a VC firm (VC8) which specially emphasized their strict objection to RSC. Hence, findings indicate that investors’ belief of RSC being a common event, is coherent with its prevalent existence in their early stage portfolio.

Being aware of the fact that this analysis is qualitative, it was important to verify for possible biases. Checking for cultural biases reveals that there is no specific difference in the feedbacks from the different countries, except for one Korean interviewee. The number of RSCs encountered by interviewees vs. the number of early stage investments they had made was in the magnitude of 50-80% in all 6 countries except for Korea. This supports the notation that the perception of the rareness of RSC is not deeply influenced by country, yet this notion should be explored in a wider scale quantitative analysis.

A search for biases towards RSC by the nature of investor: i.e. Business Angle vs. Venture Capital firms revealed that VCs had encountered somewhat less RSCs than business angels (73% vs. 52%). Again, these figures should be re-evaluated in a larger scale quantitative research. Yet, both business angels and VCs had encountered RSCs in a high percentage of their portfolio investments.

All investors agree that “Planned” as well as “Emerged” strategies should both exist in new ventures. Yet, it is mentioned in most cases that an emergent strategy evolves right away, since the planned strategy is rarely sufficient for the new venture. Investors state in 13 references that the planned strategy is a must. However, in additional 14 references they indicate that it has to be adapted and modified, as quoted by VC7: “Yes, all start ups we work with have a planned strategy and in all cases it is modified.” Hence, we assume that investors expect new ventures to have a planned strategy. However, they do expect it to change at the early stages of the venture.

Ranking strategy in relation to other investment criteria yields that it does not take a high priority in the investors’ decision making. When asked to rank 6 investment criteria, “business strategy” was ordered as a low investment criterion, between the 4th and 5th place (Table 3). Only one business angel and one VC had placed it as his second important investment criteria.

[Insert table 3 about here]

Being aware of the need to change the new-venture’s strategy, does not necessarily imply that investors expect a radical change to occur. As VC7 mentioned: “I can hardly think of a successful company who did not change its strategy. It must be a necessity for success.” Yet, this expectancy was not as high as the expectancy for an ordinary strategic change to occur. It is important to mention that a minority of them was actually against RSC to occur.

Yet, analyzing their reaction to RSC yielded a mixed attitude. This dissonance reflects a discomfort associated with changing a decision made in the past, as VC1 stated: “In general, RSC indicates that something has been done wrong, we don’t like this feeling” and an acknowledgment of the need for flexibility as stated by VC3: “From my experience, I know that flexibility is the best strategy. As long as share value creation is maintained, we will be open to it.” The mixed emotions rising when RSC is proposed might even harm the investor-investee relationship as stated by (VC2): “Personally, I feel a conflict: I know there is a problem, yet I had bought (invested) in a concept that I am captured in. Furthermore: if the management comes to me with a new concept, why should I ‘buy’ on it again? There is a mixture of disappointment, recognition in failure, and a crack in the trust and confidence in the management team.”

Two VCs had clearly stated that, although they are aware of RSC events, they try to avoid RSCs in their portfolio companies. One of them does it to the extent of withdrawing his involvement in the venture. Both would allocate substantial resources to develop and “emerge” the strategy in the very early days of the venture in order to minimize the chance for RSC occurring later down the track, as VC8 and VC6 said: “The pre-seed investments diminish uncertainties regarding the entrepreneurs and the target market. In other words, it eliminates the event of Radical Strategic Change.” (VC8) and: “I believe that VCs would not like to see RSC in their ventures. They would go for it only if it is inevitable. VCs would decline investments in case RSC is expected in the candidate venture.” (VC6)
Being a turbulent event, RSC presents a risk in consuming more cash and resources than available, a factor that might influence investors' attitude towards the proposed RSC. Investors indicated their concerns regarding cash and personnel requirements, as well as the increase in risk. Surprisingly, the data reveals that many of RSCs required even less cash, or sometimes re-allocation of existing cash reserves. However, the increase in risk was the issue investors where more worried about, as VC6 indicated: "RSC has great chances to fail, since it requires substantial changes in the main business ingredients of the venture, such as venture's culture and capabilities, which the founders may not possess."

Looking at the cases in which the RSC was reported to be managed in a constructive manner, for both investors and entrepreneurs, it was indicated that open communication between the investors and the management simplified the acceptance of the RSC, as stated by a few investors such as VC5: "Being a Technological Incubator, means that we work in very close relationship with our ventures, so there were no surprises. Hence the changes were accepted in a positive manner." The open communication and daily involvement in the venture seems to be a major factor in the acceptance of the need for RSC, not only in the very early stages (incubation stage) as stated by VC3: Normally, it does not come as a surprise to us, because we are quite involved with our companies, as active board members, and are aware of problems even before they are mentioned to us.

Exploring investors' view on the causes for RSC, marked about 50 references regarding the causes. The causes mentioned where partially internal to the venture (poor technological delivery, for example) and partially external (such as change in regulation). Negative Causes (such as key personnel leaving the company) or Positive Causes (such as a market opportunity). Sorting the mentioned causes yields that there are far more negative events igniting RSC than positive ones (40 Vs. 13) while comparing internal vs. external causes yields about he same magnitude of events (23 vs. 30). This clearly indicates that most RSC follow events with negative influence on the venture, rather than positive ones emanating from unexpected opportunities.

Investors' attitude towards RSC might be influenced by the venture's need for additional funds to support the change, or the allocation of funds already existing in the venture. Hence, the investors where asked for their experience in funding the RSC. Surprisingly, out of the 19 references regarding the 5 mentioned RSC requiring less or re-allocation of existing cash, 4 references called for additional cash, but of small amounts, and 10 RSC events are mentioned by investors to require substantial amount of cash. This indicated that from the investors' point of view, about half of RSC events called for additional investments.

One of the practical questions arising from this research is: Once RSC was performed, do investors find it to be a successful move for the venture? Our findings show 20 references indicating positive effect of the RSC on the ventures, and additional 6 references indicating that the RSC was crucial for the venture. "Crucial" was referred by investors to RSC as being an alternative to venture shutdown. On the other hand, there were only 3 indications that RSC did not have a positive effect. The terms success and positive are obviously relative to the venture's position and to the investor's perspective and do not indicate a quantitative, measurable indicator. Furthermore, in a few cases the investors had mentioned that the RSC has stopped the venture from being shut down, but this still does not secure its future as BA5 indicated: "...nowadays (after 3 years) this venture is not a "star," though it survived well and it is profitable"

**DISCUSSION**

This study findings support prior research (Ambosh and Birkinshaw 2007) that RSC is not a rare event in new ventures. Furthermore, we found that high technology early stage investors find RSC to be a highly common event, contradicting the claim by Hannan and Freeman (1984) of RSC being a rare event. This contradiction might be explained by the dynamic nature of new technologies and their impact on new high technology ventures. The finding did not reveal biases towards investment type (VC vs. Business Angles) or by culture (country of operation), which is coherent with the work
The insensitivity to culture was more surprising. Yet, this can be explained by the focus on technological ventures, which maybe of a global nature. Furthermore, our findings indicate that in addition to RSC not being a rare event, it is also not as costly as claimed by Hannann and Freeman (1984): 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.

Although most investors find RSC to be an expected event, they do not find it to be a favourable one. Virtually, all of them expect a planned strategy to be outlined in the early days, and they do expect it to change, as market information was not fully available. Still, a Radical Strategy Change causes them major inconvenience. The research has unfolded 3 main approaches investors use in handling the occurrence of RSC: The "Avoidance" method, the "Readiness" method and the "Passive" method.

Investors adopting the "Avoidance" approach, try to minimize the odds of the occurrence of RSC by performing a more thorough and deep analysis of the proposed strategy. This can be done by a smaller scale investment, made prior to the full investment round. Once this thorough analysis is completed, the business strategy will be formed and investment will take place, allowing only Ordinary Strategic Change to occur and strictly prohibiting RSCs, to the level of withdrawing their support in the venture if RSC occurs.

The investors holding the "Readiness" approach have high expectancy for RSC to occur. Hence, they maintain a deeper and more open communication channel with their portfolio companies, playing an active role in the processing of the new data inflows to the venture. Investors acting according to this approach seem to be more open and cooperative when the need for RSC is presented. In some cases, they are the ones to even suggest the RSC to the entrepreneurs.

Investors not adopting one of the above options are de facto adopting by the "Passive" approach, which actually means taking no pre-emptive measures at all. Holding the "Passive" approach, the investor sees his part done in placing the funds, as he waits to harvest on it. When other investors are involved, the "Passive" investor will follow the leading partner. This approach was being mentioned by investors to be close to the one of investment bankers, as put in the words of VC7: "One of the co-investors acted as an investment bank and was reluctant with the change."

Another interesting outcome is the notion that there where far more negative events causing RSC than positive ones. Our research connects this finding to the finding of Shepherd (1999:629) who has shown that: "...VCs assessment policies are predominantly consistent with those proposed by strategy scholars", and to the work of Tyebjee and Bruno (1984) who claimed that the team is the most important factor in VC investment criteria. The occurrence of RSC in the venture is an outcome of unexpected negative events. We, therefore, suggest that VCs make their survivability analysis based on the strategy, but invest primarily according to the team. The team is the performer of the strategy and of the change in strategy.

It is evident that handling RSC event is strongly related to the investor-investee relationship since it calls both sides to the table in order to resolve a problem. The above findings support the claims of Arthurs and Busenitz (2003) regarding the limitations of the "Agency Theory" (Barney et al., 1989; Sahlman, 1990) and "Stewardship Theory" (Davis et al., 1997) as representing the investor – investee relationship.

Furthermore, our findings are coherent with the work of Cable and Shane (1997) presenting the investor-investee relationship during RSC in a "Prisoner's Dilemma Approach," since every party can either "co-operate" or "defect" on his partner. This is to say that the investor or the management can defect by not supporting the RSC, causing a possible shut-down of the venture with both sides loosing its potential fruits.

Looking at RSC through the Prisoner's Dilemma, we assert that by cooperation and keeping open communication between the investor and the investees, the RSC has a better chance to maximize
benefits from the event. This is also coherent with the work of Shepherd and Zacharakis (2001:146): 
"Open and frequent communication acts as a catalyst for the other trust building mechanisms". Or, as 
stated by VC7: “When working close together with the company, both sides feel comfortable with the 
change”.

We suggest that investors better take the "Readiness" approach. This means that although thorough 
scrutiny of the planned strategy should be performed prior to investment, an open channel of 
transparent and on line communication should be maintained between the venture management and 
the investors. This channel will enable both sides to better handle the need for RSC which most 
probably will rise sooner or later.

The major limitation of this research is the absence of quantitative analysis, as it is based on 13 
interviews only. Though the investors come from 7 different nations in order to control for cultures, 
actual sampling was not random. A larger sample of investors is needed to validate the findings of 
this study. Another limitation is the investors’ espoused criteria, which may differ from the actual in-
use criteria, since VCs are not good in introspecting about their own decision prospects (Zacharakis 
and Meyer 1998; Shepherd 1999b).

Further research is required for studying this under-explored field of RSC in new ventures. We 
suggest linking the decision making patterns of VCs in new ventures to other investor-investee 
relations such as investors’ attitude to RSC in well-established firms. It would be interesting to 
complement investors’ attitude toward RSC with decision making patterns of investors regarding 
other events occurring in new ventures, as well as to try and evaluate the relative importance of RSC 
in VCs decisions to close their ventures. Also it should be noted that this research deals merely with 
the content of RSC in new ventures (Rajagopalan and Spreitzer 1996). Further research is needed to 
explore the process of RSC in new ventures. For example, to contrast a case of a successful RSC in a 
given company together with one that failed in same company.
REFERENCES


Brush, Candida G., Patricia G. Greene, and Myra M. Hart. (2001) "From initial idea to unique advantage: The entrepreneurial challenge of constructing a resource base." The Academy of Management Executive, 15, 1, pp.64-78.


Flyvbjerg, B., (2006). "Five misunderstandings about case study research". Qualitative Inquiry, 12, 2, pp.219-245.


<table>
<thead>
<tr>
<th>Code</th>
<th>BA1</th>
<th>BA2</th>
<th>BA3</th>
<th>BA4</th>
<th>BA5</th>
<th>VC1</th>
<th>VC2</th>
<th>VC3</th>
<th>VC4</th>
<th>VC5</th>
<th>VC6</th>
<th>VC7</th>
<th>VC8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td>BA</td>
<td>BA</td>
<td>BA</td>
<td>BA</td>
<td>BA</td>
<td>VC</td>
<td>VC</td>
<td>VC</td>
<td>VC</td>
<td>VC</td>
<td>VC</td>
<td>VC</td>
<td>VC</td>
</tr>
<tr>
<td>Country</td>
<td>UK</td>
<td>US + IL</td>
<td>SI</td>
<td>US</td>
<td>IL</td>
<td>IL</td>
<td>IL</td>
<td>WE + US</td>
<td>KO</td>
<td>IL</td>
<td>IL</td>
<td>IL + TW</td>
<td>IL</td>
</tr>
<tr>
<td>Investment stage</td>
<td>ES</td>
<td>ES</td>
<td>ES</td>
<td>ES</td>
<td>ES</td>
<td>ES</td>
<td>ES</td>
<td>ES</td>
<td>ES</td>
<td>ES</td>
<td>ES</td>
<td>ES</td>
<td>ES</td>
</tr>
<tr>
<td>Number of investments</td>
<td>3</td>
<td>4</td>
<td>10</td>
<td>10</td>
<td>4</td>
<td>9</td>
<td>4</td>
<td>5</td>
<td>14</td>
<td>4</td>
<td>15</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Number of ES investments</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>10</td>
<td>1</td>
<td>6</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>10</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Investment Field</td>
<td>OP</td>
<td>DIV</td>
<td>IND</td>
<td>MD</td>
<td>MS</td>
<td>BT</td>
<td>DSP</td>
<td>IND</td>
<td>SW</td>
<td>BT</td>
<td>CT</td>
<td>IT</td>
<td>BT</td>
</tr>
</tbody>
</table>

**Abbreviations:**
BA - Business Angel; BT – Bio Technology; CT – Clean Technology; DIV – Diverse portfolio; DSP – Digital Signal Processing; ES – Early Stage; ICT – Information and Communication Technology; IL – Israel; IND – Industrial High Tech; IT – Information Technology; KO – Korea; DM – Medical Devices; MS – Medical Services; OP-Optical; SC – Semi Conductors; SW – Software; TW – Taiwan; US – United States; UK – United Kingdom; SI – Singapore; VC – Venture capital firm; WE – Western Europe.
### Table 2: Interviewees’ encountering RSC

<table>
<thead>
<tr>
<th>Code</th>
<th>A1</th>
<th>A2</th>
<th>A3</th>
<th>A4</th>
<th>A5</th>
<th>VC1</th>
<th>VC2</th>
<th>VC3</th>
<th>VC4</th>
<th>VC5</th>
<th>VC6</th>
<th>VC7</th>
<th>VC8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td>BA</td>
<td>BA</td>
<td>BA</td>
<td>BA</td>
<td>BA</td>
<td>VC</td>
<td>VC</td>
<td>VC</td>
<td>VC</td>
<td>VC</td>
<td>VC</td>
<td>VC</td>
<td>VC</td>
</tr>
<tr>
<td>Country</td>
<td>UK</td>
<td>US + IL</td>
<td>SI</td>
<td>US</td>
<td>IL</td>
<td>IL</td>
<td>WE + US</td>
<td>KO</td>
<td>IL</td>
<td>IL</td>
<td>IL + TW</td>
<td>IL</td>
<td></td>
</tr>
<tr>
<td>Number of RSC</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>7</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>RSC events / ES investments</td>
<td>2/3</td>
<td>2/4</td>
<td>1/1</td>
<td>5/10</td>
<td>1/1</td>
<td>3/6</td>
<td>3/2</td>
<td>7/3</td>
<td>0/2</td>
<td>3/4</td>
<td>1/10</td>
<td>3/5</td>
<td>1/5</td>
</tr>
</tbody>
</table>

**Abbreviations:**
- BA - Business Angel
- ES – Early Stage
- IL – Israel
- KO – Korea
- TW – Taiwan
- US – United States
- UK – United Kingdom
- SI – Singapore
- VC – Venture capital firm
- WE – Western Europe

### Table 3: Ranking Business Strategy as an investment criteria

<table>
<thead>
<tr>
<th>Code</th>
<th>A1</th>
<th>A2</th>
<th>A3</th>
<th>A4</th>
<th>A5</th>
<th>VC1</th>
<th>VC2</th>
<th>VC3</th>
<th>VC4</th>
<th>VC5</th>
<th>VC6</th>
<th>VC7</th>
<th>VC8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team</td>
<td>1-2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>1-2</td>
</tr>
<tr>
<td>ROI</td>
<td>4</td>
<td>3</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>3-4</td>
<td></td>
</tr>
<tr>
<td>Business Strategy</td>
<td>5</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>3</td>
<td>7</td>
<td>4</td>
<td>2</td>
<td>6</td>
<td>5</td>
<td>3</td>
<td>3-4</td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>3</td>
<td>6</td>
<td>5</td>
<td>7</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>7</td>
<td>4</td>
<td>7</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Market</td>
<td>1-2</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>1-2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>investment fit</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>6</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Other is:**
- Liquida
tion terms
- Exit issues
- Techno
logy depth
- Product