Association for Information Systems

AIS Electronic Library (AISeL)

ICEB 2006 Proceedings

International Conference on Electronic Business (ICEB)

Fall 11-28-2006

Beyond V2C: Entrepreneur’s Risks and Returns in the Era of Networked and Global Business

Jukka Ala-Mutka

Hamid Etemad

Follow this and additional works at: https://aisel.aisnet.org/iceb2006

This material is brought to you by the International Conference on Electronic Business (ICEB) at AIS Electronic Library (AISeL). It has been accepted for inclusion in ICEB 2006 Proceedings by an authorized administrator of AIS Electronic Library (AISeL). For more information, please contact elibrary@aisnet.org.

Beyond V2C: Entrepreneur's Risks and Returns in the Era of Networked and Global Business

Jukka Ala-Mutka[1]; Hamid Etemad[2]
[1]*DSc, Helsinki School of Economics, Finland (jukka.ala-mutka@hse.fi)*
[2] *PhD, McGill University, Canada (hamid.etemad@mcgill.ca)*

***Abstract* — V2G model goes beyond V2C model and proposes an entrepreneur's personal view of the risks and returns as compared to that of the firm's risks-return trade-offs. At the growth stages, the partnership of co-entrepreneurs and VC or IPO also means risk sharing for the original entrepreneur or founder. Larger group of founders and early stage actors allow the entrepreneur to consider him or herself differently, even lower the "risk" of his or her job than the traditional entrepreneurs. V2G model combine the best parts of the roles as an entrepreneur (owner) and hired manager. Thus, in this case, it is not any more only "your" firm, but a rapidly-growing enterprise with the corresponding V2G mindset. This V2G mindset avoids negative effect of a single owner. The separation of the roles of the owner and manager will allow the entrepreneur-founder to adequately cope with them. In sum, V2G model points out three proposals: first, it examines risks and returns from entrepreneur's individual viewpoint; secondly it explores risks and ambitions between individual and enterprise; and finally it describes the importance of the ownership development of the enterprise and development of the value of the enterprise.**

***Keywords* — entrepreneurship, growth venture, ownership, governance, Venture-to-Capital, V2C**

I. INTRODUCTION

A. Growth Venturing

The rapid rate of globalization and quickening pace of technological innovation expose new venture activity to fresh challenges. It is no longer logical to maintain that firms aspiring to grow focus on domestic growth first and on incremental internationalization later on. The increasing velocity of change in knowledge-intensive societies and firms may have also intensified the need for, and the speed of, growth at home and international markets at the same time. Despite these changes in business and society, the discussion around entrepreneurship has remained associated with niche marketing, limited business outlook, ad-hoc and intuitive strategies, lack of resources and capabilities as well as over-reliance on the owner-manager's own initial competencies. The exceptions to these are the recent theoretical discussions and empirical findings regarding Born Globals and International New Ventures as well as V2C models (Venture-To-Capital) [among others e.g. 1, 2, 3]. This paper will build on the latter research and model-building tradition by proposing a framework for growth venturing (or Venture-To-Growth – simply V2G) that starts with V2C and focuses on influential issues that impact the rate and pattern of rapid growth. The V2G proposes four families of factors, the shortage of which adversely influence growth. We refer to each shortage as a "Gap" [4] and empirically examine eight in depth case-firms for their implications and insights.

B. The Entrepreneurial Choice

Historically, entrepreneurs have created jobs for themselves and family members, employment for others, and wealth for the family and their regions as a whole gradually. Creation and preservation of family wealth has been the primary objective over time. Etemad [5] suggests that most of the successful firms, which grew to become regional and international, were local family firms at the beginning. This traditional growth path goes back to the local artisans, merchants and traders on the famed Silk Road, dating to 500 to 1000 B.C., that dominated the Far East and Middle East before extending to the Greek and Roman empires.

The examples of successful family firms, such as Medici's, Farnese, Della Rovere' (started in current Italy), Rothschild's (current Germany), Armstrong's, Chippendales and Parsons (current England), Ford, Carnegies and Rockefellers (the US) started from humble beginnings at home and expanded to their respective continent and beyond. The initial patriarchs of these families, similar to a host of others, were entrepreneurs: they aspired to create jobs, income and wealth for themselves, family, and then for others. However, not all family firms go on to become large international companies.

There comes a time that the initial entrepreneurs face the entrepreneurial choice between status quo, maintaining a secure and accomplished family firm in a steady-state, growing even further, or even bowing out. Thus not all family firms become the instrument of growth. Nor do all entrepreneurs become empire builders. In the process of building a firm, family or otherwise, some entrepreneurs grow the family firm and become content with it. Others evolve to adopt entrepreneurship as a way of life or a life-time challenge and vocation. They go-on to become the builders of many new firms of their own choosing. They may even become serial or "professional" entrepreneurs and co-entrepreneurs at their own volition; and thereby

bring the much-needed wealth of knowledge, experience and social networks to a new start-up firm. In that process, they overcome many of the traditional shortcomings associated with the fresh and young entrepreneurial start-ups. Naturally, they bridge many gaps and chasms on the road to building growing companies at much faster pace, as they do not loose time to mistakes and set-backs.

On the other side of the coin, aspiring ventures also face the choice in the selection of their entrepreneurial team: e.g., between the team that aims for IPO as exist and the one that can help the firm to that rise beyond IPO and aims for V2G. This main objective of this research is to examine a range of such entrepreneurial choices, especially within the proposed V2G framework.

II. NEW CONCEPTUAL FRAMEWORK

A. Gap Reduction Approach

A fundamental assumption underlying the growth venturing (or venturing to growth or V2G) is that actors in, and around the growth venture, including the owner-managers, are committed to growth because of their belief that the growth objectives of the venture are more important than those of the entrepreneur [6]. However, without the entrepreneurial drive, dedication and commitment, which can be viewed analogous to a strong sense of ownership, a start-up would face even greater difficulties. The desire of some (traditional) entrepreneurs, mainly as a "lonely-rider" type or in family-owed and run firms, are to primarily secure personal or family wealth as opposed to growing the wealth of the venture. Thus, not all or majority of the new companies do want to grow fast. It is possible to argue that when there is one entrepreneur, or very few in the entrepreneurial team, both the entrepreneur(s) and the firm grow together. However, the presumed theoretical discordance between their respective objectives may eventually lead to diverging trajectories. Such discordance, if not divergence, in the extant literature suggests that there exists potential shortcoming(s) in both the mindset and the required qualities of the starting entrepreneurs in the beginning for the growth venturing to proceed. This suggests that there exists a combination of *Entrepreneurial-Managerial Gap*. However, the venture may face other shortcomings as well. The venture's ability to grow is undoubtedly dependent on its ability to add sufficient managerial capacity to manage the growth processes [among others e.g. 7, 8, 9]. This suggests that enterprise may face a problem in the delivery of adequate entrepreneurial and managerial services to the firm, both of which are crucial to a venture's sustained long-term growth. It is also assumed that a venture grows faster when it has enough capital resources and capabilities of its own to do so; or it takes steps acquire them in order to narrow its *Resource-Capability Gap*. Naturally, it grows even faster if it has enough information and knowledge [10] or systematically narrows its *Information-Knowledge Gap*.

Mason and Harrison [11] suggest that many ventures are unsuccessful in raising equity finance because they are not ready for receiving such investments. Similarly, Seppä and Näsi [3] state that "it is ironic that there is no shortage of capital now; but there is a shortage of small-enough doses of it", which point to the presence of the *Equity Gap*. When the company's stocks are intended for acquiring necessary resources and capabilities for further growth, this intention influences the ownership structure of the company. Stated differently, the founder-manager can utilize their entrepreneurial capital to access to incremental financial and knowledge resources; and thereby reduce both the resource-capability and knowledge-information gaps. Such injection and usage of equity helps the firm to develop quicker for becoming a publicly-traded company. However, the classical story of an entrepreneurial firm suggests that the entire authority over the venture is at the founder's command; or one person has all the authority and makes all the crucial decisions. In such cases, there is bound to be gaps between requirements of the new investors and the owner-entrepreneur. Therefore, the governance principles must be consistently developed to enable faster growth. This *Structure-Governance Gap* can be viewed in more reflective light as "a structure-conduct-governance" paradigm, where the changes in equity capital or ownership *structure* influence the *governance* principles of the enterprise. Ownership also tends to determine the balance of power between shareholders. Such balance reinforce the goals and risks of the shareholders, which in turn influences the nature of decisions and impacts firm's strategies and consequent growth rates [6].

B. Venture-To-Capital (V2C)

Seppä [12] illustrated "the VC spiral" that results in the growth in size of the average venture capitalist (VC) funds raised by a successful VC and in the consequent growth of the minimum amount of investment as well. Thus, the capital gap problem relates to the distance between a prospective venture and an investable venture. As stated earlier, Seppä and Näsi [3] observe that there is a shortage of small-enough doses of capital. Thus, family and personal savings remain the most important source of start-up funding, with venture capital playing a greater role in the early growth phase rather than in the start-up phase [13, 14]. Firms with a relative lack of tangible assets appear to be financed through less formal means, where non-bank financing (loans from individuals unrelated to business) plays a more important role in the capital structure of the start-ups. This emphasizes the importance of network resources in this type of ventures [15].

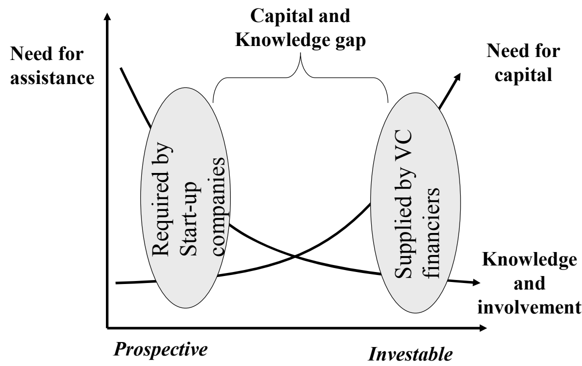

FIGURE 1: THE KNOWLEDGE AND INFORMATION GAP [16]

Rasila, Seppä and Hannula [16], and Rasila [17] introduced the equity gap that suggests the minimum investment limit is too high for young ventures. The reality of the equity gap (see Figure 1) can be seen as a negative phenomenon, as a shortage of adequate financing in the early stages of the life cycle. The equity gap is obvious and problematic for new ventures which seek rather small initial investment. As noted earlier, one strategic management implication of the Penrose effect [7] is that a fast-growing organization tends to stagnate due to managerial limitations (e.g., a part of the Entrepreneurial-Managerial gap). Thus, there is also a shortage of managerial competences, attention and time. This is called knowledge gap here (see Figure 1).

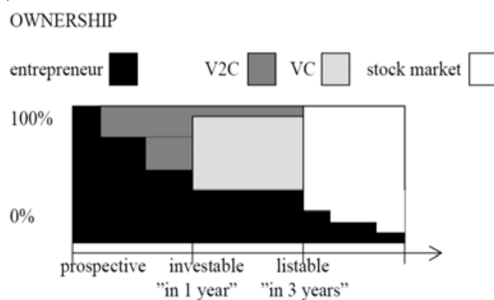

FIGURE 2: V2C MODEL [3]

Seppä and Näsi [3] described a V2C model which is distinguished from playing solo (where the lone entrepreneur owns all the shares) and pushed by VC models. This Venture-To-Capital (or simply V2C) model described the basic orientation of growth venturing, where distribution of ownership is faster than the other two models because ultimately the ownership is widespread anyway (e.g. IPO, MBO and LBO). On the other hand, the width of the "gaps" calls for efforts to create a new professional actor. Figure 2 provides an illustration of the space for V2C to fulfill in the process of accelerating ventures from idea to IPO [3].

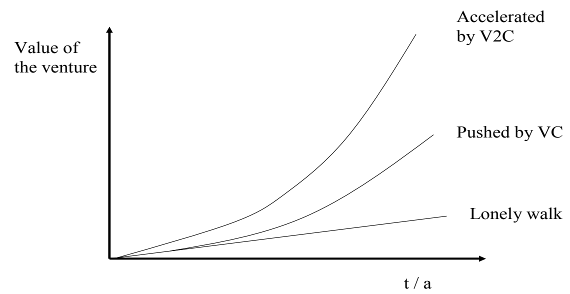

FIGURE 3: THE EXPECTED TRAJECTORIES OF VALUE OF THE FIRM OVER TIME [16]

The role of the entrepreneur is still vital but not as dominant as in the traditional view of growth venturing. In the context of growth venturing, it is assumed that a venture grows faster when it has enough capital of its own to do so. Naturally, the venture is not expected to grow rapidly without additional investments. Therefore, a venture grows even faster if it is also accelerated by V2C (Figure 3), which operates between the inception of a venture and the moment when it becomes attractive to formal venture capital financing. The V2C operative fills especially "the knowledge gap" or, as Penrose [7] called it, "the managerial limitations".

C. Different Entrepreneurial Risks and Mindsets

Growth venturing is risky business in which stakeholders invest time, knowledge and money. In addition, various players are involved in the venture with different goals and attitudes to risks. For this study, the most interesting actors are, first and foremost, entrepreneurs (including founders), co-entrepreneurs, business angels and venture capitalists. They are deeply involved in the venture investing time, money and knowledge. They also carry the risks, but they reap the anticipated benefits.

For other players, such as banks, there are different tools to manage risks and, therefore, they do not necessarily absorb large risks. For the entrepreneur, the risk means walking away from a secure job and a career path. Although in the modern world, there is no longer such a thing as a career path of secure jobs. In addition, starting up a firm could be the only way to get a job. Personal risk also means that an entrepreneur is taking her or himself and her or his family into an unfamiliar storm of stress and uncertainty. However, for other players, this is just a job or a hobby. For professional stakeholders, risk management is a part of their job and they have a set of tools at their disposal for managing it (e.g. investment criteria, continuous monitoring and portfolio management).

Risk and investment in the venture influence the mindset of the strategy makers. Indeed, non-owner managers need to show their position, which explains their tendency to favor riskier growth strategies than their non-managerial counterparts [18]. On the other hand, an entrepreneur might choose the best for the family and not the best for the venture. In general, investments can be considered as

investment of money and knowledge (time).

Traditionally, there have been main types of entrepreneurs, ranging from life-style entrepreneur to traditional entrepreneur and serial or professional entrepreneurs. As entrepreneurs evolve, they learn how to transfer a part of the undesired risks inherent in entrepreneurial venture to others. For example and as discussed earlier, the entrepreneur in a start-up situation has no choice to bear the entrepreneurial risk personally as the young firm has no capacity to absorb it. A traditional view of the entrepreneur represents this situation, which is depicted in the south east quadrant of Figure 4.

With growth, however, the firm can begin to absorb more risks and the entrepreneur can transfer a part of the entrepreneurial risk to the firm. Life-style firms, where the entrepreneur manages the firm in a stable and steady fashion, bear all the risks. They populate a part of the South-West quadrant in Figure 4. Naturally, growth exposes both the firm and the entrepreneur to additional risks. While professional and serial entrepreneurs mange risks in a comfortable zone (depicted at the centre of Figure 4) and possibly transfer their personal risk exposure to the firm (as in the North-West quadrant of Figure 4), the speculative-type growth may not be able to do so. Growth in this type firms exposes the entrepreneur to large risks (as depicted in the North-East quadrant of Figure 4). Stated differently, entrepreneurs face different family of choice and they conduct themselves differently, which results in placing their respective firms in different positions in Figure 4. We will use this framework to further explore risk-growth-entrepreneurial choice interactions later on.

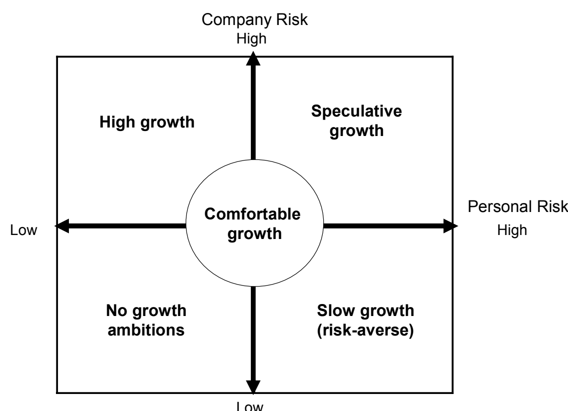

FIGURE 4: A SCHEMATIC REPRESENTATION OF FOUR POSSIBLE STATES OF PERSONAL-COMPANY RISK TRADE-OFFS BASED ON RANGE OF ENTREPRENEURIAL CHOICE.

III. EMPIRICAL RESEARCH AND FINDINGS

A. Methods

The empirical evidence of this research consists of eight in-dept and longitudinal case studies of rapidly growing and internationalizing young enterprises (RIEs) in Canada. These cases are selected from the six annual public lists of the Profit's "Top100 Fastest Growing Enterprises in Canada", spanning over the years 2000 to 2005. These lists are well-known and rank the growth of Canada's entrepreneurial companies annually, based on the growth in revenue over a five-year period to avoid temporary fluctuations. Firms included in this study have grown very rapidly by any standard. Their average five-year growth rate is over 9800% (or over 150% on annual basis) and median internationalization is over 80% of gross revenue. Although, the inclusion of only publicly-held companies in the study could be viewed as a limitation, we decided in favor of completeness and accuracy of publicly-held information (such as public securities documents and information filed by public companies and investment funds with the Canadian Securities Administrators (CSA) in The System for Electronic Document Analysis and Retrieval filing system) as it enables us to examine and better understand the role of the ownership in the resource-constrained start-ups. The methods include careful criteria for selection of diverse RIEs to ensure broader applicability of findings. The selected vital statistics of each case-firm, based on in-depth and longitudinal development of the cases from the inception, spanning between six to 12 years, are highlighted in Table 1.

TABLE 1
SELECTED CHARACTERISTICS OF THE CASE-FIRMS.

Company Name	Five year growth rate	Revenue 2005 Canadian $	Foundation (Pre-seed)	IPO or Listing
1.AirIQ Inc.	3,014%	$40 million	1997	2001
2.Carmanah Technologies Inc.	3,669%	$39 million	1997 (1994)	2001
3.DTI Dental Technology Inc.	2,570%	$35 million	1996	1999
4.Extreme CCTV Inc.	12,735%	$24 million	1994	2002
5.Garda World Security Inc.	9,452%	$259 million	1994	1999
6.Pethealth Inc.	8,306%	$14 million	1999	1999
7.TLC Vision Inc.	28,938%	$303 million	1993	1997
8.Western Financial Group Inc.	9,647%	$64 million	1996	1996

B. The Impact of Electronic business: E-Commerce is" business as usual" for RIEs

The empirical examination of case-firms reveals innovative, yet with theoretically consistent strategies, portraying patterns, which explain the entrepreneurial mindset in these younger rapidly growing firms. Consider the following selective examples. The central common business platform that supports AirIQ's telematic-related services on which the prevailing position of a mobile asset is stored, and from which, that position is reported (or further processed) is web-based or Internet-assisted. This allows mobile clients to access and transfer that information to their mobile devices easily and regardless of their location. Therefore, once the client has become part of the system, the Internet acts as the distribution channel for

machine-to-machine transfer of telematic information.. The Internet-Based Facilities (IBFs) and Technologies (IBTs) have enabled AirIQ to expand beyond the traditional channels for delivering its (telematic) services on real time and continuous basis practically everywhere. The extensive use of the IBFs and IBTs have allowed AirIQ to bridge the time and space that have traditionally acted as barriers, especially to smaller and younger firms for providing services on demand everywhere as such smaller younger firms cannot establish a physical presence earlier-on in their lives.

Pethealth's own IBFs and ITBs enable pet owners to conveniently subscribe to Pethealth services, pay their premiums and register a claim all on-line. Similarly, veterinary clinics can report pet's health status and place an expense claim online and avoid the paper work and waste of time conveniently. In fact, the Internet and customized IBFs and ITBs have at least complemented, and in some cases substituted for, some functions of the distribution channels with little regard for the timing and the location of the pet, pet owner, veterinary clinics and other buyers and suppliers. Pethealth services are available at all times where there is access to the Internet. In that process, they have bridged over time and distance and subsumed the mode of entry discussions by default. Pethealth's information databases that support all of its services can be viewed as its common business platform is also online.

Carmanah uses multiple and parallel channels for communication (e.g., interactive web-site, 1-800 number as well as local agents and distributors) from which a customer can choose depending on his preferences and needs. This is a typical pattern of information dissemination and distribution channel in rapidly-internationalizing firms. In light of e-commerce-enabled and interactive web-sites, the traditional concept of mode of entry has lost their conventional importance. Clients decide as to which channel to use and then the firms IBFs and IBTs assist and augment the process.

Although electronic commerce (E-Commerce) is central to AirIQ's and Pethealth's business models, their own customized IBFs and IBTs also play crucial and complementary roles in their respective E-Commerce platforms. In practically all RIEs in our samples, E-Commerce has become the "business as usual", especially when electronic business is integrated with the legacy systems, especially in the older industries such as guarding (e.g., in case of case-firm Garda). In fact, the role of E-Commerce is even more pronounced when it comes to knowledge-intensive businesses as well as services that can be delivered in digital formats. Once the firm meets the challenge of transforming its business to a digital format and deploys an E-Commerce platforms, it can offer them at all times and everywhere with the help of its own IBTs and IBfs that also enable further customization and adaptation to customer needs. Our in-depth case studies points to presence of E-Commerce platform augmented with each firms' own customized IBTs and IBFs in all of the RIEs in the study.

C. *Gap reduction findings*

All studied cases went public very early in their life cycle when the firms were relatively small (average revenue under $4 million and median $2,4 million). This finding suggests that publicly-raised equity were used to remedy the young firm's constrained resources, which has historically impeded these firms' growth. Consider, for example, that the publicly-raised funds could be used for acquiring productive resource early-on, which implies that the mindset and the governance structures of these companies had evolved beyond a single shareholder in favor of a smaller stake in a growing and larger company. This transformation has three immediate advantages:

i) the firm avails itself for relatively-inexpensive public funds earlier, which allows it to acquire the necessary resources and capabilities earlier and relatively cheaply and thus bridge its *Resource-Capability Gap* sooner and faster than relying on private sources of funds.

ii) The preparation for early IPO puts the firm on different footing regarding its management and governance structure as the entrepreneur or the initial entrepreneurial team prepares to become publicly accountable sooner with a profound positive impact on the firm's governance in the early stages for early listing. And,

iii), this re-orientation is bound to have positive effect on closing the *Structure-Governance Gap* as well. Another potential benefit of earlier listing is that it may influence the founders or co-entrepreneurs to bring experienced people on board earlier. Most of the entrepreneurs and co-entrepreneurs of our case-firms were highly-experienced and successful entrepreneurs and executives in their prior engagements. Most of them had founded their firm by harnessing the social capital of their social network in terms of acquisition of financing, attracting strategic partners and even in engaging key executives. Our Case-firms suggest that this earlier changes help to bridge the *Entrepreneurial-Managerial Gap* sooner and faster. Combined, the closure of the gaps could out the firm on a higher growth trajectory.

The growth path of our case-firms clearly deviates from the trajectory of young firms based the conventional principle of entrepreneurial independence and strongly gravitates towards interdependence, synergy and symbiosis [19]. Consistent with that practice, the case firms have also integrated newly-acquired competences (e.g., their senior owner-executives) with the existing internal capabilities of the firm and thus augmented their combined social capital, further enhanced theirs social network and the corresponding market knowledge and position as well as their customer base. It also appears that most of these RIEs combine multiple advantages and deploy a few dominant theoretically-sound growth patterns, which are highly information- and learning-intensive and customer-oriented, resulting in much faster reduction of the *Information-Knowledge Gap*. Their overall growth patterns, however, do not easily fit into the extant growth or internationalization theories.

D. *Findings #1: Personal view*

Our data of RIEs contains 10 primary founders or co-

entrepreneurs with have significant amount of shares and central influence in the development of the firm's rapid growth. Eight were CEO's and two in the executive position such as VP Operations and VP Sales.

The average compensation of Profit Listed companies were $288,231 in 2001 [20]. According to Statistics Canada, the average salary for senior management personnel in Canada was $100,950 per year in 2000. In UK the average salary of a director of a small company (up to £5m turnover) was £58 000 (about $133,000) in 2002 [21]. This information shows that the case companies' top executives (mainly CEO) earn more or less same (average $132,000 and median $91,000) than average SME executive in the year before IPO, but much more than managers in an average SMEs after the IPO (i.e., on average $286,000 vs. $101,000). Also, the median of salaries ($195,000) goes above average top executive's salary only one year after IPO. In the fifth year after IPO, or listing, the average annual salary and bonuses are about $350,000 with the median of $279,000.

The specific information from case-firms is more revealing. For example, the founder-director of TLC Vision Inc. average returns were about $850,000 (from year before IPO and for the next six years) versus the average annual income of $140,000 for typical doctors in most provinces as estimated by the Canadian Federation of Medical Students. Thus, his annual compensation was 5-6 times higher than the average doctor's annual income in Canada after graduation.

The average returns of another founder and CEO (of the TLC Vision inc. with a BBA Certificated Accountant) was about $450,000 vs. the average salary for CAs with approximately 10 years' experience of $103,500, according to the latest salary survey [22]. However, the salaried partner drew about $142,500 in Ontario in 2005 [22]. Hence, on average, the TLC Executive's annual salary and bonus was three times higher than those with his education level.

Consider Garda World Security, which issues new options every year. Ten per cent (10%) of the Common Shares of the capital stock of the Corporation that is outstanding from time to time is reserved for the issuance of stock options pursuant to the stock option plan of the Corporation. Garda's founder-CEO annual salary and bonuses were $135,000 in third year after listing and $883,000 in the sixth year. CEO's non-exercised options value at the end of the fiscal year 2005 was $4 million (300 000 shares). In addition, he still hold 4,9 million shares (19 %). At present his stock value is over $110 million (evaluated at $22.50, stock based on the Last Trade At 9/26/2006 3:55pm). The cumulative shareholder's value on $100 investment in the August 1999 in Garda's common shares was $3,500 at the end of 2005. These evidences from cases lead us to use the framework of risk-firm-entrepreneurial choice trade-offs of Figure 4 to propose the corresponding one pertaining to the personal view of risks and rewards in the V2G model (see Figure 5). The list of the significant states and their corresponding descriptions are as follows:

- A – Foundation of the growth venture 1 (nascent entrepreneur or serial entrepreneur)
- A' – Foundation of the growth venture 2 (serial entrepreneur)
- B – Comparison level as a director in SME (salary)
- C1 – Failure of the growth venture 1 before IPO
- D1 – Successful IPO of the growth venture 1
- A" – Foundation of the growth venture 3 (serial entrepreneur)
- C2 – Failure of the growth venture 1 after IPO
- D2 – Successful growth of the company's value (exercised options)
- D3 – Successful partial or full exit (sales all the shares)

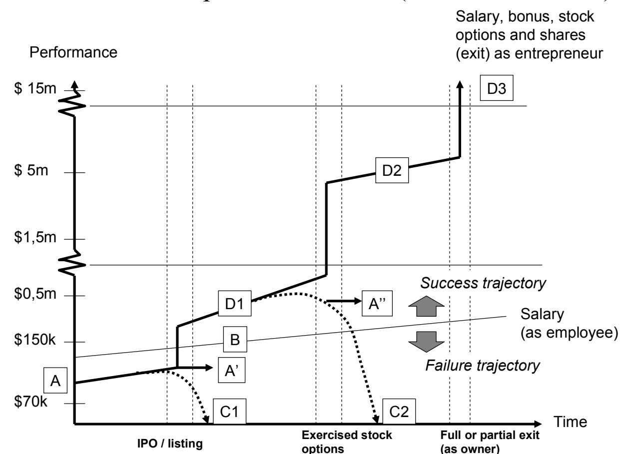

FIGURE 5: ENTREPRENEURS SUCCESS AND FAILURE TRAJECTORIES

E. *Findings #2 Risk of the entrepreneur and firm*

The highlights of case-firms' growth path can be summarized in the following observation (forming a highly realistic scenario, as follows):

i) The original founder's average ownership share declines from 35% (highest ownership stake is 45%) before listing to 21% in the year of IPO and to less than 14% in five years after IPO with the median of 10% (due the initial founders selling shares to co-entrepreneurs and investors or the corporation issues new shares over time).

ii) As a consequence and at the same time, they lowered their personal risks as well as company risks when they capitalize their "entrepreneurial capital" as venture capital injections helps firms to weather the storm and survive much better than otherwise.

iii) The firm had raised funds from VC or stock market via IPO and private placements as early as possible. VC's role, which was more important in the seed and start-up stages, became less important in the growth stage. At the high growth stage the ventures were able to raise funds from banks as the earlier success worked as collateral. Funds from banks were certainly cheaper than those from VC (for example, 6,5 % interest rate from Royal Bank of Canada than 12 % from VC in the case of AirIQ Inc.).

The important finding, based on the above evidence, is that the serial or "professional entrepreneurs" (e.g., Region A in Figure 6) are exposed to a higher risks, but they do not absorb personal risk. A typical traditional entrepreneur

(e.g., Region B in Figure 6) is assumed to be risk-averse and later raise its commitment. The "life-style entrepreneurs" (e.g., Region D in Figure 6), is practically bearing "no" personal risk as it is transferred to the firm. Consequently, the general presumption regarding an entrepreneur appears to have limited applicability in the context of the framework presented in Figure 4. The findings of this research and discussions supports the risk Trade-off framework presented in Figure 6, with a brief description of the significant states highlighted in the legends below.

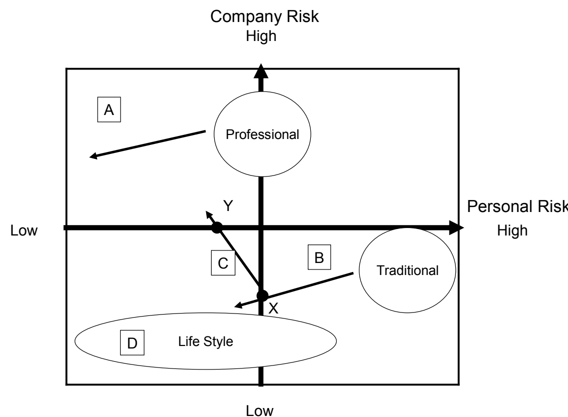

FIGURE 6: THE EXPECTED MOVEMENTS IN PERSONAL-COMPANY RISK TRADE-OFFS MATRIX.

Legends:

- A: Serial or Professional entrepreneur balancing the personal risks in order to involve with riskier growth businesses. Over time, the company risk reduces as along with that of the entrepreneur's.
- B: The risk-averse "traditional" entrepreneur's personal and company risks is decreased systematically and incrementally.
- X: The entrepreneur could get involved in riskier business (C), when the entrepreneur feels sufficiently secure or the trajectory B steadily continues toward position D.
- C: The sense of security could lead the entrepreneur to engage in more risky business (Y).
- D: The life-style entrepreneur is self-employed without high growth ambitions.

F. Findings #3 Towards V2G model

The empirical evidence suggests the rapidly-growing younger firms: (i) expand their ownership base earlier; (ii) they also go public early-on and; (iii) IPO is not the main exit route for entrepreneurs, V2C actors or even venture capitalists (VC). Thus, the shareholders' exits is realized mainly through holding stock that can be traded on the stock exchange incrementally, which run counters to the Solo, VC and V2C models proposed by Seppä & Näsi [3] and Rasila [17]. IPO and listing on stock exchanges seem to be a working mechanism for early stage financing, incremental and partial exit for all stakeholders, incentives for entrepreneurs and V2C actors and a measure of early, but not the ultimate, success. The V2G model of the ownership development of RIEs is illustrated in Figure 7.

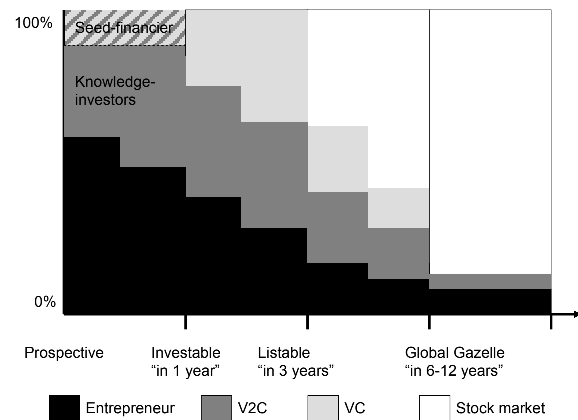

FIGURE 7: V2G MODEL

Our findings suggest that founders reduce their personal risks by exchanging part of their ownership stake for higher salaries (especially after the IPO), stock options and partial exits during the growth (as depicted in Figure 6). Consequently, founders will gradually face similar incentives to those of the co-entrepreneurs as well as the hired managers, which support long-term commitment and the separation of the key roles (manager, director and owner). This evolution is actually required by the formal and institutional investors and it resonates with good governance principles requested by stock exchanges. Thus, the Structure-Governance-Paradigm and the separation of the roles (manager, director and owner) are fundamental elements of the rapid growth ventures beyond V2C. This is the essence of the proposed "Venture-to-Growth", or V2G for short, based on the in-dept study of RIEs.

IV. DISCUSSION AND CONCLUSIONS

In sum, V2C model's focus is on early success of the new venture so that it can reinforce the continuous growth in the future. The V2C model is developed mainly from the investor's perspective. Overall, this perspective seems to neglect both the entrepreneurs' position and the purpose of the venture to become a real growth company. When V2C actors operate only between the seed stage and the formal venture capital industry, this could lead entrepreneurs, co-entrepreneurs and other stakeholders to attain a short term financial gains and become short term-oriented; with the prospects of longer term gains remaining uncertain. In order to avoid the short-term perspective and gains among the stakeholders, the grand exit should be avoided.

V2C model is probably applicable for most of the growth companies; but for true RIEs or "global gazelles", it is too narrowly defined as intermediate actors and intermediating stage. Similarly, the formal role of venture capitalist is not convincing in RIE cases, because the traditional exit routes (IPO or trade sale) are not the preferred exists any more as the actual growth can be financed by the financial institutions (e.g., bank loans). Thus, there is more room for

formal and institutional investors (e.g., Small Capital Investment Funds).

V2G model goes beyond V2C model and proposes an entrepreneur's personal view of the risks and returns as compared to that of the firm's risks-return trade-offs. At the growth stages, the partnership of co-entrepreneurs and VC or IPO also means risk sharing for the original entrepreneur or founder. Larger group of founders and early stage actors allow the entrepreneur to consider him or herself differently, even lower the "risk" of his or her job than the traditional entrepreneurs. V2G model combine the best parts of the roles as an entrepreneur (owner) and hired manager. Thus, in this case, it is not any more only "your" firm, but a rapidly-growing enterprise with the corresponding V2G mindset. This V2G mindset avoids negative effect of a single owner. The separation of the roles of the owner and manager will allow the entrepreneur-founder to adequately cope with them. In sum, V2G model points out three proposals: first, it examines risks and returns from entrepreneur's individual viewpoint; secondly it explores risks and ambitions between individual and enterprise; and finally it describes the importance of the ownership development of the enterprise and development of the value of the enterprise as depicted in Figure 7.

The public policy implication should not be lost on those who formulate growth-oriented policies or whose policies impact growth of younger and smaller enterprises. As an example of such policies, formal investors and private individuals should be encouraged to invest in earlier-on IPO than what is advocated by the VC community. Similarly, the environment must allow, if not cover, for early IPO as an instrument of raising public funds for growth as opposed to financial exit for the VC community.

Unfortunately, public policy authorities seem to lag behind what is actually needed and thus neither aspiring firms benefit from public-support program; nor can they leverage such support to create employment and wealth even faster than what they have already achieved. Naturally, the formulation of a family of conducive policies not only can help these V2G enterprises (that we call hasty gazelles). Their rapid growth may also stimulate other similar smaller firms to create employment, innovation and wealth even faster than their larger counterparts and with higher velocities than ever before. Simply stated, the preponderance of a policy environment capable of supporting rapid growth (i.e., an average 9800% in five years) versus normal growth (e.g., 5% to 10% annually to result in 20% to 45% in 5 years) should not be lost (see Figure 8). Similarly, there is strong need for understanding lessons from the pattern of the case firms' processes, practices and strategies [for more details see 5, 23, 24, 25, 26].

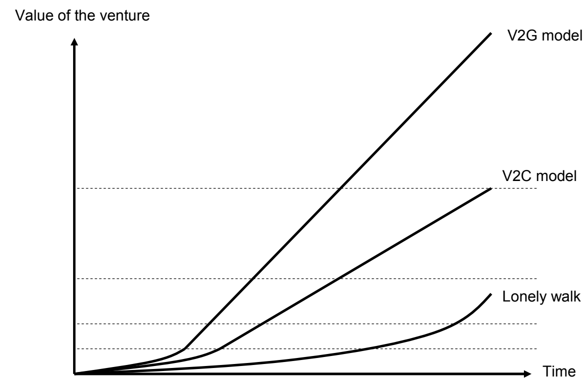

FIGURE 8: A COMPARATIVE TRAJECTORY OF GROWTH FOR V2C, V2G AND LONELY WALK.

ACKNOWLEDGEMENT

We express our gratitude to those institutions that have provided financial support for work, which are the Foundation for Economic Education or Liikesivistysrahasto and Tekes (Finnish Funding Agency of Technology and Innovation).

REFERENCES

[1] Rennie, M. W., Global Competitiveness: Born Global. The McKinsey Quarterly (4), 1993, pp. 45-52.
[2] Oviatt, B. & McDougall P. "Toward a Theory of International New Ventures," Journal of International Business Studies, 25, 1, 1994, 45-64.
[3] Seppä, M. & Näsi, J. "Playing with the Goose" - Pushing Entrepreneurs Across the Capital Gap - Who, Why, and How? IntEnt 2001 Conference Proceedings, South-Africa, 2001.
[4] Etemad, H. & Ala-Mutka, J. "From Seed to Born Globals: Towards a Theoretical Framework," ASAC Conference 2006a, Banff, Canada.
[5] Etemad, H. 'Marshalling relations: The enduring essence of international entrepreneurship', in L.P. Dana (ed), Handbook of International Entrepreneurship, Edward Elgar Publishing, 2003.
[6] Ala-Mutka, J. Strategic Management of High Growth Ventures - A Venture-to-Capital Framework for Professional Entrepreneurship, Tampere: Tampere University of Technology 2005
[7] Penrose, E.T. The Theory of the Growth of the Firm. New York: Wiley 1959.
[8] Covin, J.G., & Slevin, D.P. "High growth transitions: Theoretical perspectives," in Sexton, D.L. & Smilor, R.W. (eds.). Entrepreneurship 2000. Chicago: Upstart Publishing 1997.
[9] Kotter, J., & Sathe, V. "Problems of Human Resource Management in Rapidly Growing Companies," California Management Review, 21(2), (1978), 29–36.
[10] Rasila, T., Seppä, M. & Hannula, M. "V2C or Venture-to-Capital - New Model for Crossing the Chasm between Start-up Ventures and Venture Capital." EURAM Conference 2002, Stockholm.
[11] Mason, C.M. & Harrison, R.T. "Improving Access to Early Stage Venture Capital in Regional Economies: A New Approach to Investment Readiness." Local Economy, Vol. 19, Issue 2, March 2004, pp. 159-173.
[12] Seppä, M. 2000. Strategy Logic of the Venture Capitalist: Understanding venture capitalism - the business within - by exploring linkages between ownership and strategy of venture capital companies, over time, in America and Europe. Jyväskylä Studies of Business and Economics, 3. Jyväskylä: University of Jyväskylä.
[13] Bruno, A.V. & Tyebjee, T.T. 1985. The Entrepreneurs Search for Capital. Journal of Business Venturing, 1, pp. 61-74.
[14] Freear, J. & Wetzel Jr., W.E. 1990. Who bankrolls high-tech entrepreneurs? Journal of Business Venturing, 5 (2), pp. 77-89.
[15] Cassar, G. 2004. The financing of business start-ups. Journal of Business Venturing, 19, pp. 261-283

[16] Rasila, T., Seppä, M. & Hannula, M. 2002. V2C or Venture-to-Capital - New Model for Crossing the Chasm between Start-up Ventures and Venture Capital. EURAM Conference 2002, Stockholm.
[17] Rasila, T. 2004. Venture-to-Capital - A New Framework for Growth Venturing and Professional Ownership. Tampere: Tampere University of Technology 2004.
[18] Hay, M. & Kamshad, K. 1994. Small Firm Growth: Intentions, Implementation and Impediments. Business Strategy Review, Autumn, Vol. 5, No. 3
[19] Etemad, H, R. Wright and L. P., Dana, "Symbiotic Business Networks: Collaboration Between Small and Large firm", Thunderbird International Business Review, V. 43, No. 4, July-August 2001, pp. 481-500.
[20] www-page available at http://www.profitguide.com/profit100/2002 accessed March 25, 2006
[21] www-page available at http://www.hrmguide.co.uk/rewards/fat_cat.htm accessed March 22, 2006
[22] www-page available at http://www.icaa.ab.ca/become/why.shtml accessed March 29, 2006
[23] Ala-Mutka, J & Etemad, H. "The Strategies of Global Gazelles: A Theoretical Framework and Evidence from Rapidly Growing and Internationalizing Enterprises from Canada" in Irene Johansson (ed.), University of Press, Sweden. Forthcoming 2006. Submitted for publication.
[24] Etemad. H., "The E-Commerce and Network Practices of the Fastest Growing SMEs in Canada", in Gerlad Susman, (ed.), Small and Medium-Sized Enterprises and the Global Economy, Elgar Publishing, Forthcoming in 2006. Submitted for publication.
[25] Etemad, H. "The E-Commerce and Network Practices of the Fastest Growing SMEs in Canada" in Irene Johansson (ed.), Innovation and Entrepreneurship in Functional Regions, University of Sweden West Press, Uddevalla, Sweden. pp. 433-453.
[26] Etemad, H. "The Fastest Growing SMEs in Canada: Their Strategies, E-Commerce and Network Practices", in Irene Johansson (ed.), Uddevalla Symposium 2005, Uddevalla, Sweden, 2005.