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Fall 11-28-2006

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# V2C-apparatus – a shared context for professionals

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**Abstract**—The role of venture capital finance is significant when ideas, or ventures, are developed to new companies. To make ventures and venture capital meet there is also niche for venture-to-capital (V2C) operative. The network of mutual and organisational relationships consisting of (i) entrepreneurs or venturers, (ii) V2C operatives or venture knowledgists, and (iii) venture capital operatives or venture capitalists form an activity system based on social capital and mutual trust. These three groups are the key stakeholders of the growth company process. Ventures, venturers and knowledgist form a community of practice that is based on notion of mutual benefit from working together. It could be stated that venturer holds expertise on practice, venture capitalist on finance, and V2C operative holds expertise on relationships.

In the context of the growth company process, social capital should be taken in account as the sum of mutual acquaintance and recognition or network of social exchanges between operatives or the actors engaging in transactions. Moreover the three dimensions of social capital affecting any actor in that process are (i) structural, i.e. presence or absence of interaction, (ii) dimensional, i.e. mutual trust and trustworthiness, and (iii) cognitive, i.e. shared understanding of common goals and proper ways to act.

At least partial role of V2C is to enable learning, i.e. transfer of explicit and tacit knowledge. The activity theory approach emphasises such process based on interaction. Moreover, most operatives in V2C are professionals in their fields, thus there is presupposed leverage effect if the activity system is functional.

The aim of the paper is to elaborate theory of V2C by examining knowledge and expertise in V2C context and by approaching V2C-apparatus as a knowledge transferring community of practice. The empirical part of the paper consists of interviews and participant observation of different operatives or actors in V2C-process in Finland and Russia. Along the conceptual analysis, the research problem set is approached by describing the knowledge transferring processes, analysing different types of knowledge transferred in the process, and finally analysing the system as a

professional community of practice or an activity system.

**Keywords**—Venture Capital, Human Capital, Community of Practice, Activity Theory

## I. INTRODUCTION

A contemporary notion of post-modern business environment suggests failure in two vast governance experiments, partial failure of corporate capitalism and total failure of state socialism. Moreover, there is tendency to go back to basics, i.e. back to entrepreneurial structures. The reason for that is not the lack of ideas, but difficulties to motivate, incentivise and monitor individuals in rigid corporate reality. Therefore, the role of venture capitalists is significant when ideas, or ventures, are developed to new companies. Moreover, to make ventures and venture capital meet there is also niche for venture-to-capital (V2C) operative e.g. [1]. The network of mutual and organisational relationships consisting of (i) entrepreneurs or venturers, (ii) V2C operatives or venture knowledgists, and (iii) venture capital operatives or venture capitalists form an activity system based on social capital and mutual trust. These three groups are the key stakeholders of the growth company process.

In the context of the growth company process, social capital should be taken in account as sum of more or less institutionalised relationships of mutual acquaintance and recognition or network of social exchanges between operatives or actors engaging in transactions. Moreover the three dimensions of social capital affecting any actor in that process are structural, i.e. presence or absence of interaction, dimensional, i.e. mutual trust and trustworthiness, and cognitive, i.e. shared understanding of common goals and proper ways to act [2], [3], [4], [5].

Earlier studies on venture capital [6] and venture-to-capital [7], [8], have taken the issue of social capital in account, but there is a lack of research. In general earlier studies on social capital in growth venture context have been fragmented and usually based on single case studies or studies of certain group of individuals e.g. [9], [10], [11]. In some studies, e.g. [12], there has been more general approach, yet the results have been very impressive in statistical sense, but lacking details on behaviour.

## II. THE CONCEPT OF VENTURE-TO-CAPITAL

Traditionally incubators, business angels and various kinds of advisors – operating in so-called informal venture capital market – have played a key role in growth and development of fledgling companies. A key objective in their work is to provide ventures with financial and managerial support, thereby assisting them to cross the gap and eventually become ‘investable’ in the eyes of the formal venture capital players. Herein, the informal VC players refer to Venture-to-Capital (V2C) players. They, however, also have limitations in their work and cannot fully address the capital and knowledge gap problems [12]. To bridge these gaps a new breed of professional V2C players is emerging.

An essential common nominator in newly emerged V2C operating models is that the operative acquires equity in the target company. The purpose on the bottom of this is to create long-term commitment for making the co-operation successful. Naturally, sharing the potential success means a sacrifice for the entrepreneur, but in many cases the benefits surpass the drawbacks. Examples of new V2C operating models will be examined in following section. Of course not all the ventures, V2C players nor venture capitalists are similar. They all have their own ways of acting, individual goals and earning logic i.e. a different strategy logic. Anyhow, there are some similarities within all of these groups, and therefore some archetypes should be taken under consideration.

There are several V2C players that can be easily recognised (see [8], [7]). As the normative strategy logic for venture capitalist is interim-owner, the normative strategy logic for V2C player should serve interim-owners. So ideal V2C player has to think, what it is that interim-owners want and need. The goal for V2C player is to find prospective companies and assist them in becoming ‘investable’.

Anyhow the V2C field is highly diverse at the moment. It includes at least *business angels*, who are hobbyists in certain ways; *incubators*, who are mainly public sector based and therefore under the public eye with limited risk taking abilities and little space for making mistakes; *advisors*, who are mainly focused on their own short-term gains; and *corporate venture capitalists*, that are not usually seeking direct financial gains rather than indirect strategic gains such like technology development. Still another form of V2C is *corporate venturing*.

The basic assumption is that all of these V2C players mentioned above (excluding corporate venturing) concentrate on making prospective ventures ‘investable’ in the eyes of venture capitalists i.e. they help ventures to cross the capital gap. It also seems that their main customer is entrepreneur. Furthermore, those V2C players are not interested in what happens after the venture has got a venture capital financing: after that it’s venture capitalist’s task to push the venture ‘listable’.

As mentioned before, none of the above seems to be established for serving venture capitalists (and even less interim owners) but entrepreneurs. So there is a need to sketch some kind of ideal V2C player and his or her strategy logic to serve the both ends of the value chain.

Operational logic of a V2C player should be approached from two perspectives. Firstly, what is the value to entrepreneur i.e. what are the “actions” perceived by the ventures? Secondly, how does a V2C player provide better and more ‘investable’ ventures to capitalists? V2C player adds value to venture by knowledge on certain operational or strategic issues, which usually are not the core competence of entrepreneur. Also by acting as an advisor V2C player gains insight of a venture, thus accumulates information and knowledge for the capitalists. As V2C player operates as a medium between two different actors, the match making is critical process. By exposing ventures to capital new businesses can be created.

Ventures, which want to get financed and guided by venture capitalists or V2C players, have to accept the rules set by venture capitalists, which originally derive those rules from stock market [13], [14]. The normative venture capitalist, interim-owner, requires ownership in the company and a board seat, so that its financial gains and control are secured. The ultimate goal of interim-owner is successful exit. The task of V2C player is to select and guide ventures that are willing to accept these conditions. In this process ventures are seen as raw material and venture capitalists as customers. The process described above is considered to be an ideal V2C process.

However V2C player’s role is more than just translating the conditions and rules set by venture capitalists. They have to prepare those prospective ventures to survive in dynamic business environments by providing at least businessman wisdom, growth management skills, managerial advices and entries to networks.

## III. SOCIAL DYNAMICS OF VENTURE-TO-CAPITAL ACTIVITY

Social capital theory proposes that networks of relationships are a valuable resource for both individuals and organizations. According to Arenius [16] those networks are for interaction and for gaining access to assets required. Nahapiet & Ghoshal [17] have observed that the value of the social capital is in its ability to make possible the achievements, which would be impossible without it or would be very costly, thus the value of social capital relies on its usability. Social capital is invisible, ubiquitous, and hard to pin down, so it is usually studied in terms of its manifestations and effects [16]. Social capital can operate at the level of an individual, a team, an organization, an industry, a community, a nation, or an entire economy. In the context of V2C the individual, organizational and communal levels are the key to observe social capital, as the focus is on the key stakeholders of a growing company.

According to Arenius [16] the social capital theory suggests that players are able to gain access to various kinds of resources that accrue to them by virtue of their engagement in various kinds of relationships. Resources are available through the contacts or the connections that networks bring. As well as conveying resources, social capital is a means of enforcing norms of behaviour among individuals or corporate actors, and thus acts as a constraint. In the context of V2C-process resources refer to knowledge and financial capital that is required to boost growth of a business venture.

One perspective to V2C is that it is primarily issue of transferring knowledge, i.e. human capital, and only secondarily issue of transferring financial capital. In inter-organizational relationships, social capital facilitates learning because it offers access to knowledge and enables knowledge transfer [17]. More social capital, i.e. interaction between the different actors, trust and mutual understanding there is, the more efficient is the process of transferring explicit, and especially tacit knowledge. Gaining capital, both human and financial, is one of the most important meta-processes in a growth process of a company.

In the context of the growth company process, social capital should be taken in account as sum of more or less institutionalised relationships of mutual acquaintance and recognition or network of social exchanges between operatives or actors engaging in transactions (e.g. [1], [11],[9]). Moreover the three dimensions of social capital affecting any actor in that process are structural, i.e. presence or absence of interaction, dimensional, i.e. mutual trust and trustworthiness, and cognitive, i.e. shared understanding of common goals and proper ways to act [2], [3], [4], [4]

In the context of V2C -activity, i.e. process of learning and transferring intellectual capital, the three key stakeholder groups have different needs and perspectives. By taking the dimensions of social capital and actors together a delineation of expected gains as described in table 1 can be made.

TABLE 1  
GAINS OF THE THREE DIMENSIONS OF SOCIAL CAPITAL TO V2C ACTORS.

Stakeholder	Structural	Dimensional	Cognitive
Venturer	access to capital and access to knowledge on managerial etc. issues	ensures contract	ensures a single goal, i.e. contract on what is desirable
Knowledgegist	entry to network as a legitimate actor	ensures that the network will hold	knowledge on legitimate moves, how to act
Venture Capitalist	access to ventures and possibility to reduce risk	ensures contract	ensures a single goal, i.e. contract on what is desirable

Structural dimension of social capital is often emphasized when V2C is considered as relationships of mutual acquaintance that forms a basis for active value creating process. From the perspective of a venturer gains are twofold as recognition and knowing different V2C operative knowledge on managerial and strategic issues are available. Moreover, knowing venture capitalist a possibility to get funded is established. The perspective of venture capitalist is analogical to perspective of venturer, as social capital serves venture capitalists in seeking for investable companies. For the knowledgegist structural social capital offers access to the field. Without relationships of acquaintance the mission of knowledgegist cannot be fulfilled. One might even claim that structural social capital is the source of the first move in the growth process.

Dimensional aspect of social capital is most important in early stage growth process. Venturer must be sure that any information she or he submits to knowledgegist or venture capitalist will be kept confidential. Moreover, as it is not possible to make covering juridical contracts in this phase, trust helps the process going on. From the perspective of venture capitalist dimensional social capital is the issue of trustworthiness, i.e. if a venture is funded, the venturer will share the mutual interest. It is the issue of commitment to the decided goal. Because knowledgegist acts between other two actors dimensional social capital is both issue of trust and trustworthiness. Other actors must trust knowledgegist as his or her effort is required in facilitating the growth process. On the other hand knowledgegist is interested in commitment of the other two, as the network based on structural social capital cannot hold if there is commitment to other goals than the explicitly agreed.

Cognitive dimension of social capital consist of the social exchanges between actors engaging in the process. It is the issue of understanding on “where we are now, and where we are going”. Cognitive dimension is shared understanding on what is the primary goal. Between venturer and venture capitalist it is recognition of meaning or rationale for their interaction. Usually the rationale is to enable both to create value to their assets, idea and capital. From the perspective of knowledgist cognitive dimension is the recognition of mutual goal and knowledge of legitimate ways to achieve the goal. It is more or less issue of what can and should be done. Moreover, it is also knowledge on who to know, i.e. how the network should be build for successful growth process. The cognitive dimension can be considered supportive to other two dimensions, as it contains the shared norms. Having knowledge on how one can and should behave in certain situation is important, because without that knowledge networks can be ruined and trust lost.

#### IV. ACTIVITY THEORETICAL APPROACH TO V2C

Engeström [15] states in general that community of practice or community of people, is a model of conception of activities, hence *activity theory*. Blackler [17] states that any knowledge creating and transferring activities form such *activity system* described by Engeström and predecessors. As main point in V2C activity is to transfer relevant knowledge on business, finance and technology, which put together constitute a firm, the V2C activity can therefore be examined from activity theoretical perspective.

There is also rationality to see action, i.e. making conscious or unconscious acts according to intellectual capital, as ultimate expression of knowledge. Blackler [17] gives attributes to active intellectual capital. Knowing is mediated, situated, provisional, pragmatic and contested. Blackler (ibid.) also suggests equivalent categories for knowledge, which could be attached to forms of intellectual capital. Embrained knowledge is knowledge about, i.e. know-what. Embodied knowledge is knowledge how. Encultured knowledge is shared understanding, thus it refers to both know-how and know-why. Embedded knowledge is systemic attribute, hence it is attached to recognition of structures and action according to them, i.e. know-why and know-who. Encoded knowledge is information attached to signs and symbols, i.e. know-what. Embrained and encoded knowledge have the nature of human capital, yet knowing what is not sufficient. Hence human capital also requires embodied knowledge. Social capital is encultured knowledge. The role of embedded knowledge lies between social and structural capital as it is attached to persons and structures. Quinn et al [19] approach intellect of a knowledge worker from the same perspective. Intellect is cognitive knowledge (know-what), advanced skills (know-how), systems understanding

(know-why) and self-motivated creativity (care-why). In some sense knowledge work can be considered successful if knowledge worker causes action by possessed and acquired knowledge.

As stated above, in V2C activity the process of growth can also be considered as an activity system. It consists of subject, object and community. In addition there are rules, instruments and division of labour. The rationale of the activity system in V2C is to transfers competence in addition to capital. Taking the classification by Blackler [17] following categorisation can be made. Embodied knowledge is related to action and is only partly in explicit form, i.e. businessman wisdom. Encultured knowledge is shared understanding. In V2C context it refers to shared goal and shared understanding on the proper ways to act. Embedded knowledge is the action in the system, how people behave, and what the desirable way of acting is. Encoded knowledge is information mediated by symbols, i.e. formal instructions and procedures.

Subject in the system is V2C operative, as they act as medium between the driving forces of growth venture, i.e. idea and capital. Object in the system is the venture as it is the entity to be affected. Community consist of investors and surrounding society. In addition there are rules, instruments and division of labour. Rules consist of formal legislation, contract between different actors and informal customs or acknowledged ways to act. The instruments are different models of growing firms. Division of labour or roles is established to maintain the functionality of the system, as each stakeholder provides scarce resource to the system.

The activity system helps to transfer financial capital and intellectual capital. The financial capital transferring functions are somewhat easier to comprehend, thus they are not the issue in this paper. The transfer of intellectual capital is more complex phenomenon as there are three very different set of intellectual assets transferred: social capital, knowledge, and skills. Especially from professional perspective the transfer of intellectual capital is essential.

The role of social capital is to make the division of labour transparent as one of the primary goals is to maintain the functionality. Transferring it is one of key functions of V2C activity as social capital plays important role as discussed above. Each actor in the process should have clear idea of one's role in the process, and more important to have clear idea of one's contribution. The transfer of skills is almost as difficult as the transfer of social capital. Skills, especially so called businessman wisdom, are the motor in the embryonic phase of a firm. The transfer of skills usually requires close interaction between the stakeholders. It even requires active dialogue between all three. The activity system is in central role in dialogue as it acts as a dialogue rising apparatus.

In the V2C activity knowledge is a true issue as it is a scarce asset. The activity system plays significant role

when codified knowledge is transferred to the venture (i.e. the object in the system). Transfer of knowledge decreases friction in the process and prevents unnecessary work. Transfer of knowledge can be considered as a learning process that benefits both object and the source of knowledge (cf. the concept of double-loop –learning introduced by Argyris and Schön). In addition to joint learning, the activity system makes learning more economical as the sources of knowledge have prior knowledge of what is relevant to the process.

According to informants a typology considering the nature of knowledge transferred can be established as follows. The two axes are formal – informal and explicit knowledge – tacit knowledge. According to that the value of activity system can be described and evaluated. As the most important aim is to create value, only relevant embodied knowledge counts. However, there are lots of sort of ‘residual’ knowledge, that lies below the surface. Therefore, the activity system transfers also knowledge that is useful in other context and in different setting. In figure 1 a typology is introduced. To delineate the scope of this study a brief introduction of results of interviews is made according to informants.

FIGURE 1  
TYPOLOGY OF KNOWLEDGE TRANSFERRED IN V2C  
PROCESS

	explicit	tacit
formal	Knowledge on how	Knowledge on who, how and why
informal	Knowledge on who and what	Knowledge on who and how

At least to some extend the typology above can be explained as follows. Knowledge on how considers information on the legislation or other official ways of acting. Therefore it is important to act according to that knowledge, yet it only sort of restraints the actions. Tacit and formal knowledge considers business wisdom, i.e. it is the most important piece of knowledge transferred. It is knowledge on who are the most important persons for the success of the venture, or how to develop the venture, or sort of insight on why the venture is worth of developing. Formal and tacit knowledge is the essence of gaining success. Explicit and informal knowledge is common

knowledge for everyone in the business, yet it considers, at least to some extend, important notion on the position of a prospective venture.

There might be a bias in that kind of knowledge, but it helps venturer in positioning oneself. Informal and tacit knowledge is the most important piece of knowledge to be transferred, but it is also most incomprehensible one. According to informants, the key to success is to know right people and act according to their desires. The notion might be somewhat in contradiction with the idea of V2C, and therefore the logic of knowledge transfer does not fully go along the logic of social capital. Explicitly the transfer of knowledge should diminish serendipity and make the growth process more controllable. Implicitly asymmetry in information makes others better off than others, therefore someone will eventually gain more success to ones venture. As a community of practice V2C-apparatus is a means for professional learning along the incubation of new firms. The process is facilitated by mutual interest, yet strong interdependency between the actors.

## V. CONCLUSIONS AND DISCUSSION

Activity theoretical approach emphasises transformation of knowledge in practical situation, i.e. learning by doing or learning by cooperation. Cooperation can be considered true manifestation of social capital, as it requires recognition and willingness to maintain the relationship. However, in V2C-apparatus the situation is not as complicated as there is also rewarding scheme present. Social capital, as the main driving force, can be used to explain moves of different actors in growth company process as it was stated above: facilitating growth of a company is more issue of good contacts and trustworthy alliances than capital. The logic of the beholders of social capital in new, emerging businesses should be identified in order to better utilise the potential of social capital as a vehicle to gain access to other resources.

The description above took functional approach to growth company process and it did not pay attention to dysfunctions of inclusion and exclusion in rather wretched field of venture capital, as acceptance or rejection is often an issue of acquaintance. Possible dysfunctions may also consider lack of trust or difficulties to agree on goals or desired ways to act. Moreover, there might be dysfunctions caused by different points of view by the actors in V2C-process. Venturer does not always speak or understand economics or capitalist does not understand technical finesses. The role of V2C-actor is to bring those two worlds closer to each others.

As presented above the idea of the logic of social capital is easily comprehended, yet it requires more analysis to gain normative results. The notion of existence of social capital is sufficient if the scope and motivation to activity does not require management of social capital or the system based

on it. On the other hand, the functionality of the activity system is the key phenomena. This paper was a conceptual delineation and an attempt to tackle one of the most important catalysts of company growth. Future research on the issue of this paper level should concentrate on following themes in empirical level beyond description: How social capital exists in the context of growth venture? What are sources of social capital to different operatives? How does structural, dimensional and cognitive social capital affect the growth company process? What is the role of social capital as “glue” in activity system? How does social capital affect the dynamics of the activity system? And, how transfer of intellectual capital can be measured and managed?

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