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A comparison of Business Angels and Venture Capitalists

The case of technological startups

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12

Abstract

In this research the differences between business angels (BA's) and venture capitalists (VC's) is investigated. A firm perspective was used in order to find out how these investors help with resource base and the dynamic capabilities of the firm they invest in. Previous work of Fried & Hirsch (1995), in which they investigate how VC help the firms they invest in with their resource base, was used as a starting point to investigate how BA's help with the resources of the firms. The article of Eisenhardt & Martin (2000) about dynamic capabilities was used as a starting point for finding dynamic capabilities that investor can help with. Two firms with BA investors and four firms with VC investors that all have technological innovations were interviewed and analyzed. The of the results of the research are that BA's help with the same resources as VC's (network, image, business knowledge and pressure), but there are some difference. BA's don't replace CEO's and use less formal ways to pressure the management of the firm. There is also big overlap in how investors help with the dynamic capabilities of the firm. There are clearly more and less active investors, both BA's and VC's. Again VC's are more likely to hire someone to help with the capabilities, while BA's will themselves help the firms.

Table of Contents

1.0 Introduction 4

1.1 Research question 5

2.0 Sector description 7

3.0 Theory 9

3.1 Overview 9

3.1.1 Entrepreneur 9

3.1.2 Venture capitalists 9

3.1.3 Business Angels 9

3.1.4 Comparison 10

3.2 Resource based view & Dynamic capabilities 11

3.2.1 Resource based view 11

3.2.2 Dynamic capabilities 12

3.3 Resource based view & Venture capitalist 13

3.4 Overview 14

4.0 Method 16

4.1 Research design 16

4.2 Field access 16

4.3 Operationalization 17

4.3.1 Resources & Business Angels 17

4.3.2 Dynamic capabilities 18

4.4 Data Analysis 20

4.4.1 RBV 20

4.4.2 DC 20

4.5 Validity & Reliability 20

5.0 Results 22

5.1 Firm description 22

5.2 Resources & Business Angels 23

5.2.6 Overview 24

5.3 Investors & dynamic capabilities 25

5.3.1 Business angels 25

5.3.2 Venture capitalists 27

5.4 Comparison 30

5.4.1 Resources 30

5.4.2 Capabilities 31
6.0 Discussion 33
7.0 Conclusion 36
8.0 References 38
9.0 Appendix 40
9.1 Questions about Business Angels: 40
9.2 Questions about Venture capitalists: 43

1.0 Introduction

Money is an important resource which is necessary throughout the lifetime of a firm. It can be acquired from different sources. Most firms need less than five thousand dollars to start up and they can often be funded by the capital of the entrepreneur, and money of family, friends and fools (Baron & Shane, 2005). An entrepreneur who starts a firm uses his knowledge and money to invest in the firm, however, this is often not enough (Lei, 2005). Often entrepreneurs do not only lack financial means, but they also lack knowledge and contacts so they cannot do everything themselves. In the rare situation that the entrepreneur only needs money to and start the firm, he can try to get a loan from the bank. However, getting a loan from the bank is difficult because the entrepreneur often does not have any collateral he can offer, since the starting business has little worth. When an entrepreneur is unable to convince the bank to give him a loan, which is often the case, he will have to find a different source of money to finance the new firm (Mason & Stark, 2004). He can either go to a venture capitalist (VC), an investor who is specialized in investing money of third parties in startup firms, or he can go to a business angel (BA), a wealthy individual with experience in starting a business who is willing to invest his money and knowledge to help entrepreneurs. VC's and BA's do not lend the money to the firm but they invest in the firm and become shareholders. Also do they not only invest the money, but they also help the firm with their knowledge and contacts (Madison & Stark, 2004; St-Pierre et al, 2010).

The main goal of VC's is to make money for the people they invest the money for. BA's on the other hand often invest because they want to help new entrepreneurs or because they want to participate in the new firm (Paul et al, 2004, Bruton et al, 2010). Because both these investors monitor their investment directly and have experience in starting up a firm, they are able to take on riskier projects than a bank can and still overall earn money. This is partly due to the fact the when the firm becomes successful the investor will earn a lot of money, far more than the interest a bank would get, because they did not lend the money to the firm but bought shares of the firm (Mason & Stark, 2004). However, because these investors take bigger risks, this big sum of money will probably have to repay some losses they made with other projects. VC's, who invest money for big corporations and retirement fund, often have more money to invest than BA's have, who use their own money to invest (Mason & Stark, 2004). Therefore the BA's role is often viewed as an intermediate one to make the firm ready for venture capital. However, some VC's are specialized in investing in startup firms and thus fulfill the same role as BA's. On the other hand, there are also very wealthy BA's who can invest as much money as many VC's can (Rikhof & Mulder, 2011).

Chahine et al. (2007) investigated what the effect is of the type of investor on the underpricing of the initial public offering of firms. They compared the UK and France situation by using a sample of 444 firms in both countries. They found that BA's often have a bigger part of the shares than VC's (6.68% and 4.27% respectively) and that VC's are more popular in France than in the UK. At IPO, investors on average represent 32.26% of the board members. The UK founders were better connected with other directors than the France founders (6.06 and 1.36 ties respectively). In the UK, VC's decrease the underpricing at IPO but in France they increase the underpricing because in France IPO is more often used by VC's as an exit strategy. The more shares the investor sells, the higher the underpricing becomes.

In an older study of Fried & Hirsch (1995), is investigated in what way VC's help the firm they invest in. In this research is focused on how VC's help with the resources of the firm. Resources are the base of the firm and therefore their research has provided valuable insights. However, by focusing on the resources only a part of the picture is investigated, because not only the resources of the firm determine its success, also how the resources are used and managed is a very important factor (Arthurs & Busenitz, 2006; Teece et al, 1997; Grand, 1991). How a firm uses and manages its resources is called the dynamic capabilities of the firm. Therefore this research will continue to investigate how VC's help make new ventures successful by combining the insights from Fried & Hirsch (1995) with new insight gained from the dynamic capabilities perspective.

To get an even more complete picture, the help that VC's give will be compared to the help of BA's, the second important group of investors. Previous studies have shown that there are some important differences between VC's and BA's (Madill et al, 2005; Madison & Stark, 2004; Bruton et al, 2010; Chahine et al, 2007) and therefore it is reasonable to expect differences between the support offered by the two groups as well. Studies investigating the differences between investors often focus on the perspective of the money loaner (Madison & Stark, 2004; St-Pierre e.a. 2010) and thus neglect the perspective of the entrepreneur. While an earlier studies has shown that VC's and BA's place different emphases on selection criteria when selecting firms to support (Madison & Stark, 2004), whether they are also able to help the entrepreneur with different problems has not yet been investigated. According to Madison & Stark (2004), VC's place more emphasis on the market with their selection of projects, while BA's focus more on the people running the firm. This suggests that VC's and BA's think they are capable of helping ventures with different problems and thus are capable of developing different resources in the firm, because the investors select projects they think they can successfully support. Likewise there is probably a difference between the capabilities the BA's and VC's can help the entrepreneur with.

To unravel these differences, a systematic comparison between VC's and BA's in the Netherlands is made, by investigating how they help technological firms. This includes companies that produce green energy but also for example companies that produce coolers or fingerprint scanners. These companies are selected because these firms are often started by engineers and can thus benefit from advice from people with a financial background. Because these firms use new technologies to create their products they are often active in changing markets. So it is important for the firms to be flexible in order to be able to react to these changes, which means that the dynamic capabilities of the firms are also important.

1.1 Research question

This research will focus on revealing from an entrepreneurial perspective what the differences are in the help that VC's and BA's can give to the resource and capabilities of firms they invest in. This will be investigated using the following research question:

What are the differences and similarities between BA's and VC's in their help with resources and capabilities of startup firms with technological innovations in order to increase the value of the firm?

Ideally, the exact value of the firms would be compared at the moment of investment and a couple of years later in order to measure the effect of the investors. However, these numbers are often not available because only when the firm or shares of the firm are sold the value of the firm is determined. Also, measuring the exact value of a firm is very hard because of fluctuating markets and subjective measurement. Therefore even if these figures were available, it would not necessarily reflect the influence of the investor. In order to avoid these problems, in this research the effect of the investors is measured with the change in turnover. This figure is also influenced by fluctuating markets but will probably give a better measurement because it is an actual number and is not influenced by subjective measurement.

To answer the research question it is subdivided in the following sub-questions (SQ):

SQ1. How do BA's help Dutch firms with technological innovations with their resources, in order to increase the turnover of the firm?

SQ2. How do BA's and VC's help with the dynamic capabilities of Dutch startup firms with technological innovations in order to increase the turnover of the firm?

SQ3. What are the differences and similarities between the help that BA's and VC's give to Dutch firms with technological innovations?

It is not uncommon that both BA's and VC's invest in the same company. Often the involvement of a BA is viewed as the first step to make the company ready for bigger investments. If this is the case, the entrepreneur is asked which investor has had the biggest influence on the firm. The firm is treated as if only this type of investor has invested in the firm in order to be able to analyze the case. This will be further described in the method section.

The insights gained in this research can help understand the differences in the support that VC's and BA's can offer new firms, and can help the firms in choosing the right kind of money provider for their firms. This can save the entrepreneur time and money by not trying to get funds from parties that will not be able to help them, but instead help them focus on money loaners who can provide the most appropriate help in securing the best resources and help with their dynamic capabilities. These insights could help make entrepreneurs aware that not all equity investors can give the same kind of support. Therefore the goal of this research is to make both investors and entrepreneurs more efficient and successful.

2.0 Sector description

The Dutch VC market has become more active last year, the total investment having risen from 1,3 billion euro to 2.1 billion, and this money was invested in 351 companies (NVP.nl). The following section is based on the book 'Hoe vind ik een investeerder' written by Rikhof & Mulder in 2011. In this book they describe the investment climate in the Netherlands.

In the Netherlands, about 80 percent of risk bearing capital is provided by family and friends. This money is easily acquired and there is a trust relation between the entrepreneur and the money provider. However, these individuals often have less than 30.000 euro to spare so a big money investment should not be expected from them. Also these individuals often don't have experience that can be helpful for the entrepreneur. So if the entrepreneur needs more money or wants help with the business, he will need to approach another party (Rikhof & Mulder, 2011).

A group of investors that might be able to help the entrepreneurs is the group of BA's. It is estimated that there are about 2000 BA's active in the Netherlands. They typically invest between 50.000 and 250.000 euros. These investors have experience and a network that can be helpful for the entrepreneur. BA's often cooperate with other BA's in networks. They are hard to find, and have high return expectations, but they are patient investors and leave a lot of room for the entrepreneur to run his own business (Rikhof & Mulder, 2011).

Another option for the entrepreneur are the venture capitalist firms (VC's). These firms often have a lot more money to invest (typically a couple of 100 million euros) and have a very professional attitude. There are about 150 VC's in the Netherlands, of which 69 participate in the 'Nederlandse vereniging van participatiemaatschappijen', the NVP. VC's administer the money of other parties and therefore have to achieve a certain return on investment. To be able to do so these investors don't take a lot of risks and want a relative big part of the shares for their money. On the other hand, they have a lot of money and big networks that they can use to help the entrepreneur (Rikhof & Mulder, 2011, NVP.nl).

In the Netherlands there are also the so-called 'seedfondsen' active. These are publicly paid venture capital firms that supplement the investments of privately held venture capital firms. There are approximately 30 'seedfondsen' active in the Netherlands. These 'seedfondsen' never invest more than half of the total investment sum and have a long decision making time. However, they can spread the risk for privately held VC's by co-investing and thus improve the chance that a firm will receive financing at all. 'Seedfondsen' typically invest between 50.000-500.000 euro, and never more than 4 million euro. These organizations are very willing to invest in startup firms and are patient investors, even though they want a relative big share of stock for their money (Rikhof & Mulder, 2011).

The last group of investors is formed by 'super informals'. These investors possess a lot of personal capital and typically invest between 2-50 million euro. The 'super informals' have a lot of money to administer and therefore don't have much time to aid the firms they invest in. These investors are hard to reach and are very demanding of the firms they invest in. However, they can invest a lot of money and can make quick investment decisions (Rikhof & Mulder, 2011).

Another possibility for a firm to get money is to sell stocks on the stock market. However, this is not feasible for startup firms because there is a lot of money needed to prepare the firm for entry and to maintain their position on the stock exchange.

3.0 Theory

3.1 Overview

There are many different ways for a firm to be successful, depending on the goals of the entrepreneur. However, there are two important goals that are the aim of many entrepreneurs. Some start a company to make a living and to build a successful company that can survive over a long period of time, or to become rich by selling the company to achieve this goal. Other entrepreneurs want to do something good for society and create firms that are beneficial for the environment. In this research, some of the companies that were investigated produce green energy. The entrepreneurs from these companies probably did not only want to make money, but also wanted to establish a successful firm that can be beneficial for the environment. However, because the companies in this study have received money from investors, it is very important that the firm becomes successful so that the investors can get a reward for the risk they have taken. Also making the firm more valuable is always a goal of an investor, even if this is not the most important goal. So in this study will be investigated how VC's and BA's influence the value of a firm. Therefore, in this study success is defined as the increase of value of the company in the first three years that the investors are active in the firm. There are three groups of interest in this research: the entrepreneurs, the VC's and the BA's. These groups will now further be described individually.

3.1.1 Entrepreneur

The entrepreneur is a person who starts a new firm based on a new idea that he wants to develop into a product or service. He will do so if there is no existing firm that wants to develop the idea, or if the entrepreneur wants to develop the idea on his own. He can use his own means to start the firm, try to get a loan by the bank, or attract investors that can provide him with money (Madison & Stark, 2004). Because it is hard to get a loan from the bank, and the means of the entrepreneur are sometimes not to be enough to support the entire project, the entrepreneur is sometimes forced to approach investors. There are two important kinds of investors he can choose between, venture capitalists and business angels. These two groups will now be described.

3.1.2 Venture capitalists

Venture capitalists (VC's) are firms that use the money of third parties to invest in firms in order to earn money. Some VC's invest in startup firms and try to help them become successful, others buy very big companies and sell the parts for a profit. VC's are focused on earning money because that is what the third parties hired them for. Typically, VC's administer the money for a period of time and they can keep a part of the profit they make. This research focuses on the first kind of VC, who invest in startups and try to make them successful, because these firms fulfill a similar role as BA's and try to increase the value of a startup firm.

3.1.3 Business Angels

Business angels are wealthy individuals who invest in startup firms. There are many different types of BA's (Prowse, 1998). Some actively operate in the businesses they invest in, others only provide money. These differences stem from both the source of wealth and the motivation of the BA. Some gained their wealth by being a successful entrepreneur and thus have experience in starting up a firm, other BA's inherited the money or got it in another way and do not know how to help a startup firm. The motivation of BA's also depends on personal circumstances. Some BA's invest to get financial returns, others want the prestige of an important job, and still others want to help new entrepreneurs with their knowledge or want to be valuable for society (Prowse, 1998). This research focuses on BA's with experience in running a company because they will be more capable to help the firm they invested in. The motivation of the BA is not important for this research, only the help that they can provide.

BA's often work together through BA networks. Together they invest money in one firm, but only one or two of them have an active role (Paul e.a.,2007; Prowse 1998). BA's invest their own money so they don't have to answer to a third party (only if they cooperate with other BA's). Also, they invest money that they don't need back of short term, because they are wealthy individuals. Therefore they do not need to have clear timeframes for the money to return to them and can accept whatever timeframe they think is reasonable (Prowse 1998). Therefore they don't need strict contact and they can be very flexible.

According to Madill (Madill et al, 2005, p109), "*angels contribute skills, expertise, knowledge and contacts that can enhance the performance of investee businesses*". So the BA, just as the VC, can improve the resources and capabilities of a firm he invests in. However, how they help with both the resources and the capabilities of the firm they invest in has not been investigated.

3.1.4 Comparison

Theoretically, there are quite some differences between VC's and BA's. First of all, BA's invest their own money and thus are free to do so however they like. They can decide their own timeframe for the investment and can accept whatever return on investment they think is reasonable. VC's on the other hand, who invest money for third parties, have fixed timeframes. They administer the money for a certain period of time and therefore need to have the money at the moment they have agreed upon with the owner of the money. Therefore they need to achieve a certain return on investment in a specific period of time (Mason & Stark, 2004).

Another difference is the value the investors add to the personality of the entrepreneur. For BA's, because they have to work together with the entrepreneur in a way they enjoy, it is important that there is some sort of click with the entrepreneur. Also, BA's don't use strict contracts to keep the entrepreneurs in line, but they manage their investment vey directly. Therefore they have to be able to trust the people they invest in because they don't have many legal options to force the entrepreneur to behave rationally. VC's, who are more money driven, focus more on the result the firm can achieve and don't attach much value to the relation they can have with the entrepreneur. Because they use strict contracts they have more power over the firm they invest in. Therefore if the entrepreneur appears to be incapable of leading the firm, the VC can often replace him or decrease his power (Mason & Stark, 2004).

A third difference is that VC's are able to do much more research before they invest in a firm in comparison to BA's (Mason & Stark, 2004). Therefore the investment is better understood at forehand and they have less risk in the process. This allows them to make strict contracts because they have more knowledge about the new venture and how much it will be worth in the future. BA's trust on their networks to get investment projects, while VC's do more research themselves. This makes it easier for the BA's to trust the entrepreneurs they invest in, but it makes it more likely for VC's to find an investment opportunity that is especially suited for them. An overview of the differences is provided in table 1.

Table 1

	Business angels	Venture capitalist
Money	Own money	Third party
Timeframe	Can accept whatever they want	Fixed timeframe
Personality	Click is needed	Not important
Method of control	Personal pressure	Strict contacts
Uncertainty	Fixed along the way	Much research
Finding project	Network	Network and research

3.2 Resource based view & Dynamic capabilities

The successfulness of a firm depends on two factors, the market it is in and the resources and capabilities it possesses (Grand, 1991, Alvares & Busenitz, 2001). Empirical research shows that differences between firms in the same market are bigger than differences between firms in different markets. Markets that used to be attractive are entered by multinationals and competition has become fiercer (Grand, 1991). Therefore, it is more important to focus on the internal strengths and weaknesses of the firm than looking at the environmental factors. Also because this paper focuses on startup firms, market influences are less important than they are for established firms. Startups often focus on a niche market without competition, so for the success of the firm the strong points of the firm (resources) are more important than external factors. The resource based view describes these resources and will now be discussed.

3.2.1 Resource based view

A new firm possesses the resources from the entrepreneur or the founding team (Brush et al., 2001). These resources are not only the money and network that the entrepreneur possesses, but also the experience of the entrepreneur can be viewed as a resource. The resources of each firm are different because every individual possesses different knowledge and connections. Resources that are unique to the firm can help the firm to generate rents which are essential for the firm's survival (Amit & Schoemaker, 1993; Mahoney & Pandian, 1992). When a firm generates a lot of rents the value of this firm will also increase. Because other firms will try to copy a successful firm, it is important that the unique resources of the firm are inimitable and non-substitutable, because only then can the firm protect it position in the market and thus its rents and value (Arthurs & Busenitz, 2006; Teece et al, 1997; Grand, 1991).

The resource based view (RBV) can be used to investigate the strengths and weaknesses that firms possess. These insights can help explain why rents are acquired by certain firms. Resources can be divided in human, social, financial, physical, technology, and organizational resources (Grand, 1991). Valuable, rare, inimitable and non-substitutable resources can give firms a unique position in the market which they can protect against competitors (Arthurs & Busenitz, 2006; Teece et al, 1997; Grand, 1991).

Often, at a certain point, these resources are not enough to support the firm's growth, and additional resources have to be acquired. The entrepreneur then has to use his network to acquire these additional resources (Lei, 2005). The addition of the network of a VC or BA can then be a big help for the new venture to get access to these additional resources. The investor can also help the firm by improving the organizational structure of the firm, adding to the human capital by hiring new people, supplying the firm with money, or bringing the entrepreneur into contact with people who can provide physical or technological assets. However, having the right resources is not enough. It is also important to be able to change the resources of the firm in response to changes in the environment, and to adapt to changes inside the firm. The changing of resources is described in the dynamic capabilities literature and will now be discussed.

3.2.2 Dynamic capabilities

According to Teece et al. (1997), when a firm has dynamic capabilities it can: "*renew competences so as to achieve congruence with the changing business environment*". Strategic management has the role of: "*adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment.*" (Teece et al., 1997, pp. 8). So a firm is dynamic when it can change its competences according to the development of the environments. Strategic management is in charge of changing the organizational skills, resources and competences of the firm accordingly (Teece et al, 1997). Managers have to understand what will be valuable resources in the future, and start developing them today to prepare for this future. So the dynamic capabilities of firms are used if strategic management is aware of the changes in the environment and actively steers the firm to a new competitive position.

Having dynamic capabilities can have both positive and negative consequences for the firm. On the one hand, dynamic capabilities can help the firm adapt to changes, and change the resources of a firm that are not appropriate anymore. Also combining resources in a new way can make the firm more innovative (Eisenhardt & Martin, 2000). On the other hand, when the environment does not change (much), dynamic capabilities can prevent the firm from becoming as efficient as they can be by making unnecessary changes. Changes take time to become implemented because people have to adjust to them. As long as these changes don't lead to results this is a waste of effort. If the competition does not change, but focus only on becoming more efficient in what they do, they can outperform the more dynamic firm. However, in this study markets are selected that fluctuate so the firms will have to deal with changing circumstances. Therefore it is likely that being dynamic is an advantage for these firms.

Eisenhardt & Martin (2000) highlight the same characteristics of DC in their paper that Teece et al. do (1997). They define dynamic capabilities as *"the antecedent organizational and strategic routines by which managers alter their resource base -acquire and shed resources, integrate them together and recombine them- to generate net value-creating strategies."*. In this article they divided dynamic capabilities in three classes: capabilities that integrate resources, capabilities that reconfigure resources, and the management of resources. For each of these categories they gave some examples:

- Capabilities that integrate resources
    - Using people with different backgrounds to develop new products
    - Using people with different backgrounds to make strategic decisions
- Capabilities that reconfigure the resources of the firm
    - Using results of previous projects to create new products
    - Using routines to allocate resources between projects
    - Using the network partners in new combinations in order to create new opportunities
    - Reorganizing the structure of the firm in response to changing customer needs
- The management of resources
    - Adding new resources to the firm from external sources
    - Creating new resources internally
    - Releasing old routines that lost their value

This list will be used in the method section to identify the ways in which investors can influence the capabilities of a firm.

3.3 Resource based view & Venture capitalist

Fried and Hirsch (1995) investigated what kind of help VC's give to the resource base of firms. They interviewed 18 VC's and 14 managers of the firms about the role the VC had in the firm. Also annual reports and business plans were studied. They used the method as described by Eisenhardt (1989) in her article called: *Building theory from case study research* from 1989. They found six types of resources, (money, advice to managers, business knowledge, network, image and pressure) with which a VC can help an entrepreneur (Fried & Hirsch, 1995). These will now be individually discussed.

The first resource that is always provided by a VC is *money*. Shortage of money is the most important reason for firms to approach a VC. The firm needs this money and can only get it by selling equity, because it does not have enough collateral to lend the money from the bank. Even if the firm does not want any other input, a VC will be approached for funds because they have no other choice.

VC's also often help the operations of the firms by giving *advice to managers*. However, both the VC and the firm managers agree that the VC should not run the company. VC's should only have a guiding role because they do not have time and the specific knowledge to run the firm successfully. Even though the VC only has a guiding role this input can be important for the firm because the VC has a lot of experience that he can use to help the firm with.

The *general business knowledge* of the VC's in running a business can also be of help for the entrepreneurs. The VC's acquired this knowledge in their previous projects. By using this knowledge the VC can prevent the entrepreneur from making common mistakes. The VC can also help the entrepreneur with problems with employees and skills like bookkeeping.

Also the *network* of the VC can be important for the supported firm. The VC can for instance use its network to find new high management to run the firm. VC's can also use their network to find firms that the startup can cooperate with, firms to sell to or buy from, or find acquisition partners.

VC's support will also improve the *image* of the startup, especially if it is a well-established VC company. The investor shows by investing in the firm that they believe the firm can be a success and can be taken seriously by other parties. This improved image can help the startup to convince investors to invest in the firm. Also other firms can be convinced to cooperate with the firm. Some potential employees will be more willing to work for a VC backed firm, because they will have the idea that the firm is stable and they are not investing time and effort in a project that will not be successful.

Last of al, VC's put *pressure* on the managers to achieve deadlines and reach goals. This improves the productivity of the top managers. Without this pressure they can work at their own speed, but now they are pushed to work faster and more efficient towards the goals. The VC's pressure the managers by treating that if the managers don't perform they will be replaced, or lose shares to the VC.

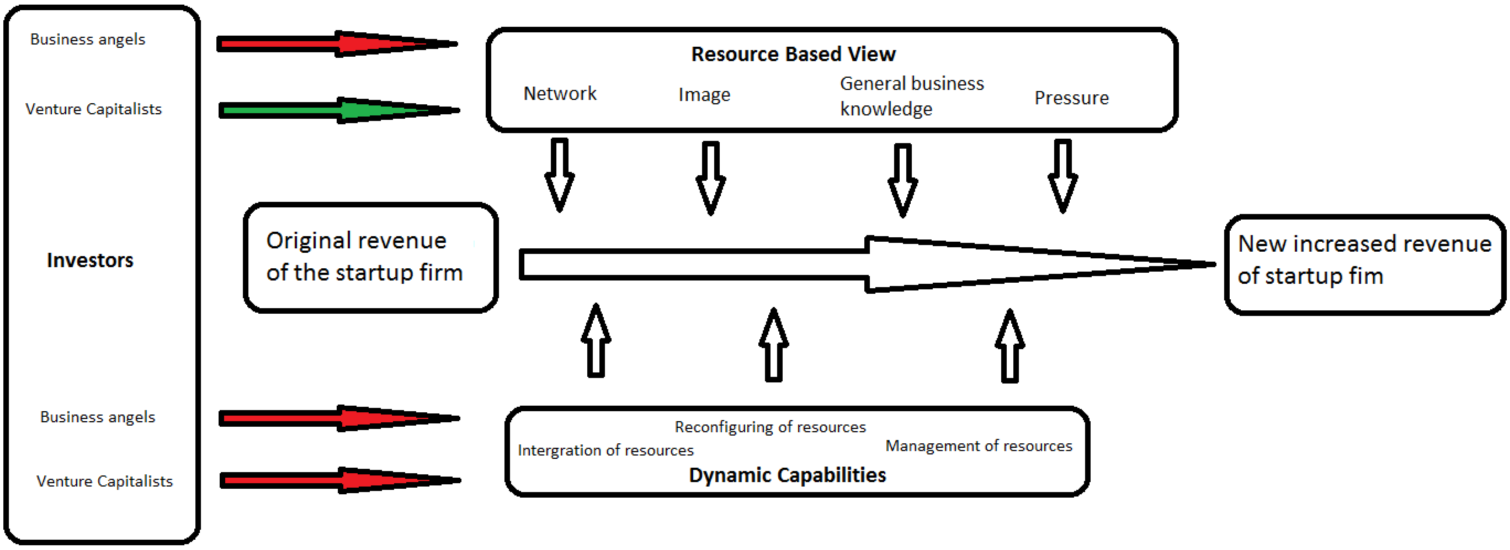
By helping with the resources this way, the VC tries to improve the value of the firm. By investigating how VC's help with the resources of the firm, a part of the help they get is investigated. In their research, Fried and Hirsch (1995) focused on the help VC's can give to the firm but they did not try to find the mechanism that BA's use. The goal of this research is to investigate whether BA's also use these mechanisms to help the firm, and if not, what mechanisms they do use. However, as argued before, investors also need to help the startup firm with the development of their DC if they want to help the firm in any way possible and improve the value of the firm as much as possible. Therefore, in this research is also elaborated on the help an investor can give to the dynamic capabilities of the firm. This can not only make the investors more capable to help the firms, but will also further improve our understanding about the differences between VC's and BA's.

The investment of *money* and giving *advice to managers* will not be used in this research because they will not lead to additional insights. Every investor has invested *money* in the firm he supports, so this information will be the same for every firm. *Advice to managers* overlaps with *general business knowledge* and because *advice to managers* is vaguer, in this research *general business knowledge* will be investigated as possible influence of the VC.

3.4 Overview

Figure 1 shows an overview of the previous research regarding the help to the resources and capabilities entrepreneurs get from VC's and BA's. As is indicated in figure 1, a lot of gaps in the literature still exist. The green arrow shows that the help VCs offer to the resource base of entrepreneurs is the only relation that has been researched previously. How BA's help the resource base, and how VC's and BA's help with improving the resources of the firm is still unknown, as is shown with the red arrows.

Figure 1



Business angels
Venture Capitalists
Investors
Business angels
Venture Capitalists
Resource Based View
Network
Image
General business knowledge
Pressure
Original revenue of the startup firm
New increased revenue of startup fim
Reconfiguring of resources
Intergration of resources
Management of resources
Dynamic Capabilities

4.0 Method

4.1 Research design

There are three goals in this research, which are expressed by the three sub-research questions. The first objective (SQ1) is to determine how BA's help the firms they invest with their resources. Because this research had already been carried out for VC's, some of the variables that might be important in this research are already known. In order to find new mechanisms that are only used by BA's an additional open question was asked.

In the second part of this research (SQ2) the concepts derived from the DC theory will be used to investigate how investors help with the DC of the firms. Whether these variables are influenced, and if so, how the investors do so in practice, was investigated by using semi-structured interviews with entrepreneurs. This interview is based on the article of Eisenhardt & Martin (2000). This way can be investigated how investors help the companies they invest in beyond helping with resources.

The third goal (SQ3) was, once the categories were developed, to compare how BA's and VC's help the firms they invested in. The investors were compared in order to highlight the differences and similarities between them.

4.2 Field access

As many firms as possible with BA funding and with VC funding are investigated in this research. An internet search was used as a starting point to find these firms. The first step was finding VC's and BA's that have invested in companies with technological innovations. These investors were found by using 'Google'. This search led to the site of NVP, the "Nederlandse Vereniging van Participatiemaatschapppijen' (the Dutch association of venture capital firms). An important part of the Dutch venture capitalist firms, 69 different VC's, are members of this organization. The websites of these firms were investigated in order to find firms in which they had invested. The websites from these firms were investigated in order to find firms that met the requirements of this research. However, many VC's do not list on their website which firm they have invested in because of the secretive nature of the field, and even if they do, many firms they invested in are not suitable for this research because they are active in the wrong field or are too old.

A similar method was used to find firms that had received funding from BA's. This market is even more secretive, because the investors are wealthy individuals that don't want to be bothered with anything but business proposals. BA's are also organized in networks such as 'Business Angel Netwerken Nederland' (Business Angel Networks the Netherlands), Investormatch.nl and 'De Investeerdersclub' (The Investment Club). Some have posted on their website the firms they have invested in, but many have not and are very reluctant to provide this information, even after direct contact. However, some suitable firms were found that fulfilled all the requirements to serve as a starting sample for this research.

The suitable firms were approached, and the entrepreneur or manager was asked to participate in the research. This person was also asked if he could persuade the investor to participate in the research. The firms were approached and not the investors because in a small preliminary investigation it was established that it is very hard, if not impossible, to approach the BA's directly.

In order to find more interview partners, the snowball method was used. Each interview partner was asked if he or she knew other firms that meet the criteria of the research so that they can also participate in this research. Originally the idea was to search for more firms until new interviews did not lead to new insights and saturation was achieved (Eisenhardt, 1989). However, because the snowball method did not lead to the identification of any new firms, the interviews stopped after the starting sample was investigated.

It was intended in this research to interview the entrepreneur as well as the investor. However, none of the interviewed managers was able to persuade the investor to participate in the research. Therefore, unfortunately, the answers of the managers cannot be verified with the viewpoint of the investors. However, because the goal of this research was to find possible ways to influence the company and no 'hard' statistical results are gained, these answers will still be used in this research because they can lead to additional insights. For each firm, there needed to be determined whether the turnover of the firm was influenced by the investment of the investor. Therefore each manager was asked to give a rough estimate of how the turnover developed in the first three years after the investment. If the turnover changed, it is assumed that this is caused by the help that was offered by the investor.

If the investor was a BA, first questions were asked about the help they gave to the resources of the firm. Then, questions were asked about the help they gave to the capabilities of the firm. If the investor was a VC, only the questions about the capabilities were asked because the help they give to the resources of the firm they invest in was already known. Notes were made during the interviews which were analyzed as described in the analysis section. In the special situation in which the firm had received investments from both BA's and VC's, the interviewee was asked which investor has helped the firm the most. The firm was then further treated as a firm that has only received money from this type of investors.

4.3 Operationalization

In this section is described how the variables derived from the theory were measured. First the RBV is operationalized and then the DC.

4.3.1 Resources & Business Angels

Mahoney & Pandian (1992) claim that the extent that resources should be subdivided among classes is dependent on the case. Because this research builds on previous research of Fried & Hirsch (1995), the resources were subdivided in the same way as was done in that research. This way was investigated how BA's helped with the resources of the firms they invested in. Fried & Hirsch (1995) found that entrepreneurs who received VC funding were helped with the resources shown in table 2. This list was used as a starting point for finding resources that BA's helps the firm they invest in with. In order to find new resources that BA's help with but are not supported by VC's, an additional open question was asked. In order to be able to connect the help to the appropriate variable definitions were developed for these variables. This way the Qualitative Content Analysis as described by Mayring, (2000) can be used which will be described in the data analysis.

Table 2

Variable	Definition	Indicator	Scale
Dependent variable:			
Value adding to the firm	The increase in revenue between the year of investment and three years later	Revenue in year of investment Revenue 3 years after the investment.	Interval
Independent variable:			
Network	The usage of the network of the investor to locate possible new resources.	The entrepreneur uses the network of the BA to come in contact with: • Investors • High management • Service providers like law firms and marketing companies • Customers	Nominal
Image	Signaling the improved image to convince third parties to cooperate	The entrepreneur mentions the improved image in meetings with: • Other investors • New employees • New customers	Nominal
General business knowledge	The sharing of information about running a business from the investor to the entrepreneur.	Using the first hand experience of the BA to aid the entrepreneur	Nominal
Pressure to achieve goals	The pressure that an investor puts on an entrepreneur to commit time to the firm.	The investor puts pressure on the entrepreneur to achieve goals The investor pressures the entrepreneur to perform or be replaced	Nominal
Other	Other mechanisms that BA's use to increase the turnover of the firm.		Nominal

4.3.2 Dynamic capabilities

The second goal of this research was to investigate how BA's and VC's help entrepreneurs with their capabilities. Because there is no previous research, a complete list with dynamic capabilities had to be created to make sure no concepts were missed. Eisenhardt & Martin (2000) described which types of dynamic capabilities exist as was shown in the theory section. For each sort of dynamic capability a definition was developed, as well as indicators to measure them. Again definitions were developed for every variable to be able to connect the results from the interviews to the variables using the Qualitative Content Analysis as described by Mayring, (2000). Informative decisions were made to make the indicators more applicable for startup firms. This leads to the following list of capabilities that investors can possibly influence (table 3):

Table 3

Variable	Definition	Indicator	Scale
Dependent variable:			
Value adding to the firm	The increase in turnover between year 3 and year 5	Turnover in year of investment Turnover 3 years after the investment.	Interval
Independent variable:			
Capabilities that integrate resources	Methods suggested by the investor to use the current resources in new combinations	The firm uses people with different background to develop new products	Nominal
		The firm uses people with different background to make strategic decisions	Nominal
Capabilities that reconfigure the resources of the firm	Methods suggested by the investor to change/reorganize the current resources	The firm uses results of previous projects to create new products	Nominal
		The firm uses the network partners in new combinations in order to create new opportunities	Nominal
		The firm reorganizes the structure of the firm in response to changing customer needs	Nominal
The management of resources	Methods suggested by the investor to develop and attract new resources	New resources are added to the firm from external sources	Nominal
		New resources are internally developed.	Nominal

To determine what help VC's and BA's have given to the capabilities of the firms, questions are asked regarding each variable. First was asked if the investor helped with the variable. If so, in a follow-up question was asked how this help was given in practice to get more in-depth information. In order to make sure that no categories were missed that were not in the list of Eisenhardt & Martin (2000), the interviewer was also asked if there were other ways in which the investor helped with the capabilities of the firm. If this was the case, this category was added to the operationalization table and to the list of interview questions.

4.4 Data Analysis

4.4.1 RBV

The data that was acquired in the semi-structured interviews (see appendix 1) needed to be analyzed to reveal the ways in which the BA's helped the firms with their resources. Once the help was distilled from the interviews, it had to be put into one of the categories developed in the operationalization in order to be able to further analyze it. The Qualitative Content Analysis, as described by Mayring, (2000) was used to link the answers of the interviewees to the variables derived from the article of Fried & Hirsch (1995). With the Qualitative Content Analysis there is a definition developed for every variable (Mayring, 2000). In the data is searched for answers that fit in the definitions. So the results from the interviews can be connected to the variables from the literature in an unbiased way. The definitions that were used for the Qualitative Content Analysis can be found in table 2. If there were activities discovered that cannot be linked to an existing variable, a new variable was developed for the activity. The results of this analysis can be found in the results section and are compared to the help that VC's give to the firms they invest in as described by Fried & Hirsch (1995).

4.4.2 DC

In the second part of the research the aim was to discover how investors helped with the capabilities of the firms they invest in. By conducting a semi-structured interview with the entrepreneur/CEO in which the indicators as shown in table 3 were addressed, the information was acquired. The interview questions can be found in appendix 1 & 2. Because the variables of this research were based on the DC theory, the research was deductive (Mayring, 2000; Kondracki & Wellman, 2002; Hsieh & Shannon, 2005). Again the Qualitative Content Analysis as described by Mayring, (2000) was used to analyze the interviews. For the three variables of DC, 'capabilities that integrate resources', 'capabilities that reconfigure the resources of the firm' and 'the management of resources', a definition was developed that is used to link the method of influence to the variable. These definitions can be found in table 3. The results of this analysis are presented in the 'result' section.

4.5 Validity & Reliability

An important aspect of validity is the internal validity, defined as "*whether or not an observed co-variation should be considered a causal relationship*" (Calder et al, 1982; 240). The theoretical framework suggests that there is a causal relation between the RBV and DC of a firm, and the value of the firm. Therefore it is assumed that there is a causal relationship between the improvement of the RBV and DC and the increase of value of the firm as well. However, due to the qualitative nature of this research it is impossible to prove this relationship.

The reliability of this research will be improved by using the Qualitative Content Analysis method, to establish clear relationships between the answers of the interviewee and the variables derived from the theory. By presenting the definitions of all the variables and describing as detailed as possible the methods used in this research it will be possible to gain similar result when redoing this research.

Originally the idea was to approach the BA's and VC's first, and contact the firms they invested in through them. However, it was impossible to approach BA's directly. They are organized through a couple of BA networks, but these networks are not willing to give contact information of the BA's for research. The only way to come into contact with the BA's through these networks is with a business proposal. Also the BA's don't have their own websites that can be used to approach them. Therefore another approach was chosen in which not the investors but the firms themselves were approached. This has as advantage that this way the subject of analysis, the firms, are approached directly. However one drawback of this method is that the firms that received funding from an investor can only be identified indirectly, through the website of the investor. Another drawback is that the firms have fewer connections with investors, which can explain that snowballing did not lead to the identification of any additional interview partners.

5.0 Results

5.1 Firm description

The primary sample that was obtained through an internet search contained 14 firms. These were all startup firms that sell a technological product. In each firm was invested by either a BA or a VC. From this, sample 8 companies did not participate in the research because they were too busy, could not be reached or were bankrupt. From the remaining 6 firms, two had a BA as investor and 4 had a VC as investor. Snowballing did not lead to additional firms for this research; possible reasons will be provided in the discussion section. A short description is now given of each firm that participated in the research. The names of the firms are not mentioned because secrecy was promised to the participating managers. Firms 1 to 4 have received funding from a VC and firms 5 & 6 received funding from a BA.

Firm 1

Firm 1 develops and sells solar panels that can be used to charge mobile devices. The firm was founded with money from 'Friends Family and Fools' (FFF), and attracted investors (VC's) in a later stage. The turnover of this firm has not increased since the investment. However, the investor has replaced the CEO and it is expected that the turnover will increase in the following years once the new CEO has had more time. So even though the turnover of this firm did not increase until now, this case will be used in this research because it can lead to additional insights.

Firm 2

The second firm is also active in the green energy field. The firm produces reactors that can transform wood into coal in such a way that it can be used to produce energy in power plants. By turning the wood into coal the transport of the material becomes easier, and makes the transformation into heat and power more efficient. The investor (VC) provided the firm with early stage funding to allow the firm to further develop their reactors. The turnover of the firm is very low, because only recently the technology is developed far enough to be able to sell it. However the turnover of the firm has increased since the investment because they have built a testing facility that converts biomass into coal which they sell to energy producers.

Firm 3

The third company produces machines that convert heat into work using the Rakine Cycle. The work created can then be used to produce electricity. The company uses an organic molecule with a low boiling point to transfer the heat into work which improves the range of possible applications for the machine. The company was founded in 2001 and the product was ready for the market in 2010. The turnover of the firm has increased since the firm received money from the investor (VC).

Firm 4

The forth company has developed a machine that can remove dissolved ions from water. The ions are attracted with the use of electricity. This technology has lower economic and environmental costs than competing technologies. The company was founded in 2006 and received funding from a VC company about 5 years ago. The firm has developed the technology and is now changing into a production company. The turnover of the firm has increased since the investment of the VC.

Firm 5

The fifth firm develops and sells air refresher systems that eliminate odor from the air. The machine uses a combination of filters, electricity and chemical processes to transform harmful and smelling molecules into CO_2, O_2 and H_2O. The firm was founded 5 years ago and received funding from BA's right at the start. The turnover has remained stable since the first year, but new management should change that soon.

Firms 6

The sixth firm sells and develops software and hardware for fingerprint scanners. They have built a big network in order to develop both the hardware and the software which has given them a unique position in the market. They are changing the focus from developing the product into selling the product. 2 BA's have invested into the firm together 5 years ago and since then the turnover has tripled.

5.2 Resources & Business Angels

In order to answer the first sub-question, the firms that have received funding from BA were asked how the investors helped them with their resources. There are four different ways in which the investor can influence the resources of the firm according to the findings of Fried & Hirsch (1995): they can use their network to complement the *network* of the firm, the cooperation with the investor can influence the *image* of the firm, the *business knowledge* of the investor can help the firm, and the *pressure* on the manager can make the firm more efficient. These four variables will now be discussed separately.

5.2.1 Network

The two firms that received funding from BA's (firms 5 and 6) both did not receive help with the development of their product through the network of the BA. This was caused by the fact that the BA's did not have relevant connections in the field of the product and thus did not have connections they could use. However, in both firms the network of the investors will be/is more important to find customers, a field in which the investors have more experience and thus relevant network partners. Both managers suggested that the BA's have big networks in this area that can be a great help for the startups. Since both firms are turning their focus into the marketing direction, the networks of the BA's will become more relevant soon. Also, the investors of firm 5 used their network to contact new investors.

5.2.2 Image

The image of firm 5 was not influenced by the investment of the BA, or at least it was not used to convince third parties to cooperate with the firm. The image of firm 6 was improved by the investment of the BA's. Even though the BA's remained anonymous, the fact that the firm was backed up by BA's was used to convince customers to do business with the firm. They could be convinced not to be worried that the firm would go bankrupt in which case the firm would not be able to provide the customers with after sales support. Now that the firm has had some big clients already, their own image is strong enough and thus they don't need the image of the BA's to support their own image anymore. Neither firm suggested that the improved image of the firm was used to attract new investors or employees. Because firm 6 sells their product to big clients which place big orders, image is more important for them than for firm 5. These clients place big orders and thus lose a lot of money if the firm becomes bankrupt. The projects of firm 5 are smaller and therefore their customers take less risk ordering from them. Therefore it is understandable that their image is less important than that of firm 6 and thus they did not need help with it from the BA.

5.2.3 Business knowledge

The BA's that have invested in firm 6 have a lot of experience in the construction industry, but fingerprint scanners are more technological and the development of them falls outside of their expertise. For fingerprint scanners to work, not only hardware but also software needs to be developed. However, the BA's use their general business knowledge to steer the development of product in broad lines by suggesting which markets can be valuable for the firm. They also focus the firm on providing good after sales support, and help them with commercial problems. These are the fields in which they have more experience. The BA of firm 5 also provides the firm with general business knowledge. The BA helps for example with reporting the financial situation of the firm and with the evaluation of employees. Because the firm is still small and thus does not possess this knowledge in-house, this is very valuable help that saves the firm a lot of money.

5.2.4 Pressure

Both firm 5 & 6 are not formally pressured by their investors. This is not only caused by that fact that neither of the BA's has formal power to pressure them, but also because they use other techniques to make sure that the managers will perform. The manager of firm 5 needs to perform because the firm needs to pay interest on the loan, so this way they are indirectly pressured to perform. Firm 6 on the other hand is morally pressured to perform. Their investors are really flexible and have helped the firm out with money on several occasions. Because the firm is still small they don't have much money available to invest. But for the big projects they need money upfront to be able to start the project. Down payments have to be made for the scanners, and the installers need to be paid as well. To get the money, the BA's help them with interest-free loans or additional investment. Therefore the BA's are very important for the firm and thus the manager is stimulated to perform so that he not only does not lose them as investors, but also to do something back for them.

5.2.5 Additional results

Both managers were also asked if there were other ways in which the investor helped with the resources of the firm. There were no kinds of help revealed this way that could not be put into one of the categories that were developed in method section.

5.2.6 Overview

BA's use their network to help the firms come into contact with parties to sell the product to. So the BA's help the firms with the resource 'network'. BA's can also influence the 'image' of the firm they invest in, which make the firm a more reliable business partner and this can thus be used to convince customers to cooperate with the firm. The BA's in this research use 'general business knowledge' to help the firms they invest in. They help with the development of the product, but also with bookkeeping and employee reviews. The BA's use indirect methods to make sure that the firms they invest in perform, which is the only kind of 'pressure' they use and have. There are additional insights gained by asking the open question. An overview of the results will be given in table 4.

Table 4

Resource	Firm 5	Firm 6
Network	Finding customers, finding investors	Finding customers
Image	-	Convincing big customers that they are trustworthy
Business knowledge	Employee review, bookkeeping	Product development
Pressure	Financial pressure	Moral pressure
Additional results	-	-

5.3 Investors & dynamic capabilities

In order to answer the second research question, all the managers were asked how their investors influenced the DC of the firm. As discussed in the operation section, there are three types of dynamic capabilities: capabilities that integrate resources, capabilities that reconfigure resources, and management of resources. First the two firms that received support from BA's will be presented and then the four firms that received support from VC's.

5.3.1 Business angels

5.3.1.1 Capabilities that integrate resources

According to the manager firm 5 did not receive help with the integration of resources. The manager claims that the firm is too small and therefore there are no separate divisions or people with different backgrounds that can work together. However, because the people that work for the firm are working on different aspects of the product there will be integration of resources even though it is not an active process. When people are having responsibilities with both the development of the product and the selling of the product, they will use the insights gained by selling the product for better developing the product. But because in the definitions of this capability people from different divisions or with different backgrounds are needed, formally the firm does not integrate resources. And even if a broader definition had allowed this type of actions to be accepted, there is still no evidence that the investor helped with this capability.

In firm 6 the resources are integrated and people from different divisions work together. In order to make the fingerprint scanners work, software is needed that connects the printer to a server. Therefore, the developers of the scanners, the developers of the software and the developers of the server all need to work together to make the system work. However, because this cooperation is inherent to the product, this process was already developed before the investor invested. So the investors did not have any influence on this capability and the manager sees it as his own responsibility to integrate the resources.

5.3.1.2 Capabilities that reconfigure resources

According to the manager firm 5 does not reconfigure the resource base of the firm because they are still developing their product. There are no old resources that need to be adapted in order to be able to develop the product. Because they are still a small firm with little resources they can only focus on developing the product and they cannot spend resources on this capability. However, it can be said that developing the product is a sort of changing of an old resource. In this broader sense, because one of the investors is the director of the firm and thus helps with development of the product, the investor does help with this capability.

According to the manager firm 6 does reconfigure the resource base of the firm either. But, as firm 5, they also develop their product and thus reconfigure their resources. The investors help with the development of the product by giving advice, but further the development of the product is viewed as the responsibility of the firm.

5.3.1.3 Management of resources

Firm 5 has received help from their investor with managing the resources. The network of the investor was used to attract new partners for financing. Also, the investors gave advice during periodical meetings, also on the management of resources. However the initiative for the management of resources is the responsibility of the manager of the firm. So the investor does help with the management of the resources, but the decision to manage resources always comes from the manager of the firm.

According to the manager of firm 6, there was no need for new resources since the investment of the investor. However by providing the firm with money when there are liquidity problems, they do help with the management of this resource. Further, the manager suggested that, once the firm has been fully turned into a selling company, help from the investor with the management of the resources might become more important to help the firm grow. So the firm does receive help with this capability even though the manager does not experience it as such.

5.3.1.4 Additional results

The managers of the companies with BA investors were asked if there were other ways in which the investor helped with the capabilities of the firm. No additional insights were gained this way, suggesting that the categories used in this research include the most important sorts of capabilities that BA's help the firms they invest in with.

5.3.1.5 Overview

The integration of resources is defined as employees from different divisions who work together. Therefore, in firm 5 this capability is not used because it is too small for separate divisions. However, insights are transferred from R&D to sales, because some employees are operating on both fields. But even in this broader sense there is no evidence that the investor influences the integration of resources in firm 5, even though the director of the firm is an investor. In firm 6 there are separate divisions, but also in this firm the investor does not influence this capability. It is seen as the responsibility of the manager.

In firm 5 the investor is director and is thus involved in the development of the product and thus also involved in the reconfiguring of resources. In firm 6 the investors are not actively involved with the reconfiguring of the resources, but they give the manager advice on how to execute this capability.

The investors of firm 5 have helped with the management of resources by providing the firm with potential new investors, and by giving advice on how to manage the resources of the firm. Firm 6 has received financial help from their investor. An overview of the help given by BA to the capabilities of the firm is presented in table 5.

Table 5

Capability	Firm 5	Firm 6
Integration of resources	No different divisions, no help from investor	Integration of divisions, no help from investor
Reconfiguring of resources	Investor is director and helps with product development	Advice from investor, responsibility of the firm
Management of resources	Financial partners, advice on management of resources	Financial help
Additional results	-	-

5.3.2 Venture capitalists

5.3.2.1 Capabilities that integrate resources

Integration of resources is important for firm 1. For the production of new types of solar panels it is important that the development team has feedback from the sales division so they know what the customers want. However, running the firm is seen as the responsibility of the manager of the firm, not the VC. Therefore, firm 1 does not receive help with the integration of resources from the investors. In meetings that take place every two weeks the progress of the firm is discussed, so the VC is informed about how the firm is run. However they only have a controlling role, not a steering one.

As for firm 1, the integration of resources is important for firm 2. The designers of the reactors work together with the maintenance crew in order to make the reactor run smoothly. However this capability was already executed before the investor invested. As with firm 1, the VC of firm 2 has a more controlling role and does not influence how the firm is run, even though they are always informed about how the firm is run.

For firm 3 it is also important that there is good communication between the R&D and sales division in order to develop a product for which there is a market . Therefore, for making strategic decisions, firm 3 integrates the viewpoint of different parts of the firm to come to a good decision. The head of sales, consultants and the venture manager (who is an employee of the VC) together make strategic decisions. So in this case the VC is actively involved with the execution of this capability.

Firm 4 does not have strictly different divisions but is built up with flexible people with a wide range of experience. Therefore there is a lot of interaction between the people with different responsibilities in the firm. So the resources of the firm are integrated even though there are no strict divisions. However, this is more a result of the smallness of the company and not the input of the investor. The firm also practices ‘Open Innovation’ and thus has a lot of connections with other firms. This way knowledge is integrated, even though it does not all stem from inside the firm. One of the investors is specialized in connecting firms with possible partner firms and has helped the firm with a lot of new partners. So this way the investors do help with the integration of resources.

5.3.2.2 Capabilities that reconfigure resources

The investor of firm 1 is not very involved in the management of the firm and thus as with the integration of resources, the reconfiguring of resources is also the responsibility of the management of the firm. However, reconfiguring of resources takes place and products are further developed.

Indirectly, by influencing who works for the firm the VC influences the capabilities of the firm, but these people are not further steered by the VC, only their progress is checked every two weeks.

Resources are reconfigured by firm 2. As discussed with the integration of resources, the designers of the reactor work together with the maintenance crew in order to further develop the product. This process however is not initiated by the investor, but is the responsibility of the managers of the firm.

The resources of firm 3 are also reconfigured. Employees from different divisions work together to improve the resources of the firm. This process is initiated by the manager who was appointed by the VC. So the VC did not directly influence this capability, but they have brought in the required expertise in order to make this routine better executed in the firm.

Also in firm 4, the resource that is reconfigured is the product. The product designers work together with the marketing division when adapting the product because they know the demands of the customers. It is very important to have a good fitting product because the customers have high demands on quality of the product; the legislation on the purification of water is very strict. The investor has a lot of experience in this area and advises the firm. However, the process of reconfiguring of resources was not initiated by the investor but was already in place before the investment.

5.3.2.3 Management of resources

Firm 1 received help with the management of resources in two different ways. First of all the firm needed a new financial top executive. The VC selected three possible candidates from their network and together with the manager of the firm they chose the best candidate. This procedure does not only have the advantage of cheap access to many possible candidates, but this way also the financial executive has the support of the investor making the cooperation between the investor and the firm smoother. The second example of help that was given to this capability is that the firm came into contact with a manufacturing partner through the network of the investor. So in this case the investor helped quite a lot with the management of resources.

The investors of firm 2 help the firm with the management of resources, mostly the resource knowledge. When the firm needs additional knowledge the investors help to come into contact with parties that possess this knowledge. The investors also help the firm when it cooperates with other firms. The arrangements that are created between the firm and other parties are always supervised and steered by the investors.

Firm 3 has received quite some help from the investor with the management of resources. The manager of the company was brought into the company by the VC, and together with the VC he changed the structure of the firm. A new manager was trained internally on advice from the VC. The company also uses the financial network of the VC in order to come into contact with new investors. Furthermore, when the firm was in need of a PR-company the network of the investor was used to come into contact with one.

Firm 4 started as an R&D company and is now switching into a production company. Therefore the company needed a new resource, a building that could house production facilities. A suitable building was found with the help of the investor and the firm is relocated to this building. The network of the investor is also used to find new employees (for example a new CEO). The investor uses his business knowledge to influence in which markets the firm is active and uses its network to come into contact with new customers.

5.3.2.4 Additional results

The managers of the VC companies were asked if there were other ways in which the investor helped with the capabilities of the firm. Three of the managers from the VC backed firms claimed that the VC's helped with the resources of the firm. But because this is not the focus of this resource this information will not be presented. Also two managers suggested that the VC helped with tracking the progress of the firm. However this is not really help with capabilities of the firm so this is also not included in this report. Overall, no additional results were gained with the open questions, which suggests that the categories were appropriately chosen.

5.3.2.5 Overview

Table 6

Capability	Firm 1	Firm 2	Firm 3	Firm 4
Integration of resources	Checked by investor but no help	Checked by investor but no help	Actively involved VC	Only help with external resources
Reconfiguring of resources	The new manager who was hired by the VC improves this capability	Responsibility of the firm	The new manager who was hired by the VC improves this capability	Advice from investor, responsibility of the firm
Management of resources	Financial top executive, manufacturing partner	Knowledge through new network partners	New manager, new structure, new investors, PR-company	New building, new employees, knowledge, customers
Additional results	-	-	-	-

Mostly, VC's are not actively involved with the capability 'integration of resources' of the firms they invest in. They help with coming into contact with possible partners or overview the execution of this capability from a distance but they do not influence or stimulate the integration of resources. Only in firm 3 the investor helped the firm a lot by putting a venture manager into the firm who works for the VC but is actively involved in the decision making of the firm.

Furthermore, VC's do not stimulate or help the firms they invest in with the capability 'reconfiguring of resources', which is viewed as the responsibility of the firm. By hiring the people that work for the firm the investors indirectly make sure these processes are implemented, but they do not directly influence this capability.

VC's do help with the management of resources. They use their network to attract new employees or partner firms, and they can even help with the location in which the firm is based. This is in line with previous results from Fried & Hirsch (1995). A new result from this research is that VC's can even influence the structure of the firm, in this case in cooperation with a new CEO they brought into the firm. However, VC's don't change the capabilities of the firms they invest in. They can hire people that can implement the capabilities necessary in the firm, they help with the execution of the DC in the firm and they oversee the execution of capabilities of the firm, but they don't directly influence the DC of the firm they invest in by stimulation the firm to become more dynamic. If a capability is executed, it is always on the initiative of the firm itself, not the investor.

5.4 Comparison

5.4.1 Resources

The resources that a BA can help the firms they invest in with have some overlap with resources that VC's help with. BA's in this research use their network to bring the firm into contact with customers and investors just as VC's do. However, the BA's in this research don't help the firms to come into contact with service providing firms or high management, things that VC's do use their network for to help the firm they invested in.

BA's can positively influence the image of the firm they invest in as was done for firm 6. They improved the credibility of the firm in order to make them more reliable partners for big clients. The firms in this research did not use their image to convince investors or employees, something that some VC backed firms do.

The BA's in this research did use their general business knowledge to help the firm they invested in. They help with reviewing the employees and the bookkeeping and give advice about product development. Fried & Hirsch (1995) have found that VC's also use their business knowledge to help the firms they invested in.

The BA's do not directly pressure the firms they invest in, but indirectly they make sure that the firms perform. Because the firms they invested in experience moral or financial pressure, BA's don't need to pressure them more directly. This indirect method is different from VC's who often use very strict contracts to make sure that the firm they invested in performs.

There are no new insights derived from the open question. All the help that was given to the firms with BA investors could be placed into one of the categories developed in the method section. So it can be assumed that the categories that are derived from the previous work of Fried & Hirsch (1995) can also be applied on BA's.

So there is a lot of overlap between the help that VC's and BA's give to the resources of the firms they invest in. Some of the help that is offered by VC's is not found in this research. This can either be caused because BA's don't help with this resource, or because the sample was too small and therefore these cases were not found. These results are summarized in table 7.

Table 7

Resource	Firm 5	Firm 6	VC's (Fried & Hirsch, 1995)
Network	Finding customers, finding investors	Finding customers	Investors, high management, service providers, customers
Image	-	Convincing big customers that they are trustworthy	Investors, employees, customers
Business knowledge	Personal review, bookkeeping	Product development	Using the firsthand experience of the BA to aid the entrepreneur
Pressure	Financial pressure	Moral pressure	Achieve goals, be replaced
Additional results	-	-	-

5.4.2 Capabilities

The BA's are very uniform in their help with the capability 'integration of resources'. Both firms did not receive any help. The VC's help with this capability is more divided. Two managers suggested that this capability is the responsibility of the firm and the VC's are not involved at all, they only check the progress of the firm. One firm does not receive help with this capability internally, but has one investor who helps them to come into contact with other firms with which knowledge is shared. The last firm, firm 3, does receive help with this capability and one employee of the VC is actively involved in this process.

The BA's don't give the same kind of help with the capability 'reconfiguring of resources'. One of the BA's only gives advice; the other is director of the firm and is actively involved in the process. One of the VC's also gives advice with the execution of this capability. For firm 2 this capability is seen as the responsibility of the firm, and the VC does not have any influence on it. Two of the firms hired a new manager who improves this capability. This way the capability is improved without the direct involvement of the investors.

Every firm has had help with the management of resources from their investor. However this help was relatively less for the BA's. Firm 6 only had financial help, firm 5 was brought into contact with financial partners and has gained advice on the management of resources. From the firms with VC investment, three have come into contact with new employees, three have come into contact with partner firms, and in one firm even the structure of the firm was changed. Also one firm moved to a new building, and one was brought into contact with new investors.

Table 8

Capability	Firm 1	Firm 2	Firm 3	Firm 4	Firm 5	Firm 6
Integration of resources	Checked by investor but no help	Checked by investor but no help	Actively involved VC	Only help with external resources	No different divisions, no help from investor	Integration of divisions, no help from investor
Reconfiguring of resources	The new manager who was hired by the VC improves this capability	Responsibility of the firm	The new manager who was hired by the VC improves this capability	Advice from investor, responsibility of the firm	Investor is director and helps with product development	Advice from investor, responsibility of the firm
Management of resources	Financial top executive, manufacturing partner	Knowledge through new network partners	New manager, new structure, new investors, PR-company	New building, new employees, knowledge, customers	Financial partners, advice on management of resources	Financial help
Additional results	-	-	-	-		

6.0 Discussion

The snowball method did not lead to new firms that could be investigated. This can be caused by the fact that the financial market is very secretive and therefore people often do not want to talk about it. It can also be because the first sample consisted of managers of startup firms, not of BA's and VC's with big networks in the financial market. Therefore the sample remained quite small which makes it hard to make strong claims.

Firm 1 and 5 have no increased revenue since the investment of the investors. However, the data had quite some consistency with the other data and the managers suggested that the revenue was likely to increase in the future. Even though three years is quite a long time, it is possible that the investors needed longer to increase the revenue of the firm. Because the cases both led to additional insights they were kept in the sample to increase the size. Also because the aim of this research was to find out how the investors helped, even in cases were the revenue was not increased some important lessons could be learned, because not only when the revenue is increased have the investors helped the firm.

All the help that BA's give to the firm they invested in can be put into one of the four categories (network, image, business knowledge and pressure), that were derived from the article of Fried & Hirsch (1995). Also, every category was filled with at least one sort of help of the BA's. Therefore it can be said that there is a much overlap between the help that BA's give and the help that VC's give to the firms they invested in. This overlap could be expected because the investors fulfill similar roles, so it is not strange that they do so in similar ways. However some ways in which the VC's helps the firm they invested in were not used by the BA's in this research. BA's don't use their network to help the firms with finding high management and service providers. The firms with BA investors don't use their improved image to convince investors or customers to cooperate with the firm. BA's don't pressure the management with being replaced, but they use financial of moral pressure. Some help that VC's give to the resources of the firm thus could not be found for the BA's in this sample. This either means that BA's don't use these ways to help the firms they invested in, or that the sample was too small to find cases in which all these ways to help the firm were used by the BA's. However with a closer look the individual differences can be explained. One example is that BA's don't help with finding new high management. This result is can be explained by the insight that BA's don't want to replace the top management because BA's chose a firm to invest in where they have a click with the entrepreneur. Also, even if they would want to change the CEO they often don't have the power to do so. That the firms with BA investors are not brought into contact with service providers can be explained because both the firms did not need input from these firms. However, because of the small sample, it is hard to determine if BA's would help with finding service providers if they were needed by the firm, even though there is no clear reason why they would not do so. The firms with BA investors don't use their improved image to convince new investors or new employees to cooperate with the firm. In one case there have been no new investments and no new employees were needed, so they could not have used this method even if they wanted. However the manager was convinced that the improved image was not needed to convince them anyway. The other company did need new investors but they were not convinced by using the improved image, and new employees are also not convinced this way.

There are two sorts of strategies the BA in this research use for helping the firms they invested in with their capabilities. The investors of firm 6 are not really involved in the firm, but help with money and advice when this is necessary. The investors of firm 5 are more actively involved and one of them is even working as director of the firm. This way the investors help the firms they invested in more ways, because they don't only give advice, but also help the firm more directly. This difference can be explained by the need for help, firm 6 is almost fully developed and will be a selling company soon, while firm 5 still needs more time to develop its product. On the other hand, because the BA's of firm 6 are very big and busy entrepreneurs and therefore don't have the time to be more involved in this firm. The BA of firm 5 does have the time to be actively involved in the firm.

The VC's in this research also use different tactics in helping the firm with the management of capabilities. For the capability 'integration of resources' two firm only check the process, one only helps to connect the firm with external resources and in one firm the investor is directly involved in this capability. This difference can possibly be explained because firm 4 has an investor who is specialized in bringing firms that can help each other into contact, and because firm 3 needed the most help and therefore the investor had to be more actively involved in the firm. For the second capability, 'reconfiguring of resources', a similar pattern can be seen. Firm 3 and firm 1 received the most help with this capability, the two firms that needed the most help with this capability. The other two investors view this capability as the responsibility of the firm and therefore only give advice but don't help the firm actively. With the capability 'management of resources' did firm 2 again received the fewest help, only knowledge, from their investors. The other firms were brought into contact with new employees, new network partners, new buildings and even the structure of one firm was changed. This can either mean that firm 2 did not need much help with their resources, or that this investor is not involved enough in this firm. However, because the revenue of firm 2 did increase the level of involvement is probably fine.

A clear difference between VC's and BA's is that in three of the four firms with VC investors the CEO is replaced or will be replaced soon. In the firms with BA funding none of the CEO's has changed. This is in line with previous findings of Mason & Stark (2004) who found that VC's have more power over the firms they invest in and thus can easier replace the CEO if it can help the firm, while BA's look for entrepreneurs that they like and trust and thus don't have to change the leader of the company. Also, as could be expected, BA's use different mechanisms to stimulate the firms they invest in to perform. Were VC's use strict contracts, the BA's in this research use moral and financial pressure to stimulate the managers. This is logical because, as with the replacements of CEO's, the VC's have more power over the firm and can pressure them more, while BA's have to rely on the responsibility of the manager.

The match between the investor and the firm they invest in is very important because every firm needs other types of help, and the investor need to be suited to give this help. Firm 4 for example, that practices 'open source innovation', needs contacts with lots of other parties. Therefore, the investor that is specialized in bringing firms that can help each other into contact is very important and very suitable form this firm. Firm 3 that needed a lot of help has found a very suitable investor that appoints a venture manager in every firm they invest in who can be actively involved in the firm.

The new viewpoint that was used in this research, the perspective of the firm, has led to a couple of insights. First of all, the results are very similar with previous research in which the viewpoint of the investor was often used, instead of the firm's viewpoint (Mason & Stark, 2004; Fried & Hirsch, 1995). The results from the help that the BA's have given to the firms they invest in has much overlap with the previous results from Fried & Hirsch (1995), who investigated how VC help firms with the VC of the firm. As suggested by Mason & Stark, have he VC's in this research more power over the firm they invest in, and are able to replace management.

Secondly, because of the secretive character of the market, it is very hard to come into contact with BA's. The insight that managers of firm can provide similar information as the investors might make research in this field easier, because the firm can be investigated instead of the very hard to reach investors themselves with similar results. However it is important that in future research is checked how big this overlap is, because in this research only the firms are investigated thus it is possible that the difference in viewpoints is bigger than it appeared in this research.

Another new viewpoint in this research is the studying of the BA. Even though in previous research the BA is sometimes investigated the focus had been thus far on VC's. This research has shown that even though there is overlap between the two groups of investors, there are also important differences. Because BA's are an important group of investors it is important to further investigate them separately from VC's and not view them as one homogenous group of investors. Also, within the group of VC's and BA's, there are important differences between individual cases. Every investor is specialized in helping in particular cases and provides the firm with help accordingly. Therefore it is both for the investor and the firm important to find a suitable match to make the cooperation a profitable as possible.

Also the focus of this research on the capabilities of the firm is a new viewpoint and has not been previously studied. This research had shown that investors help the firm with the capabilities as is required by the firm, whether they are VC's or BA's. Active investors will look for firms who need much help. Even though there is a lot of overlap between BA's and VC's adding capabilities to the research has increased the knowledge about the role of the investor in the firm they invest in. The capabilities 'integration of resources' and 'reconfiguring of resources' are viewed as the responsibility of the firm, and only firms that need a lot of help are helped actively with these capabilities. The capability 'management of resources' was supported by every investor and is thus an important way for the investors to influence the firm they invested in. When firms with VC investors need help with their capabilities, often new people are hired to help. This is in contrast with BA investors who are more likely to help the firms with their own knowledge.

The external validity "*examines whether or not an observed relationship should be generalized to and across different measures, persons, settings and times*" (Calder et al, 1982; 240), and thus describes how broad the results of the research can be generalized. Because this research has a quite narrow scope, VC's and BA's investing in Dutch technological startups, some of the results of this research can possibly be extrapolated to VC's and BA's active in other fields in the Netherlands and BA's and VC's investing in technological startups in other countries. However, because only a small sample is used, it is important to be cautious when extrapolating the results to other situations.

7.0 Conclusion

The aim of this research is to find out what the differences are for startups when they chose between a VC or a BA. In order to unravel these differences, the following research question was formulated:

What are the differences and similarities between BA's and VC's in their help with resources and changing of capabilities of startup firms in order to increase the value of the firm?

To answer this question it was sub divided into three sub-questions who will now be discussed separately.

The first sub-question is:

How do BA's help Dutch firms with technological innovations with their resources, in order to increase the turnover of the firm?

The answer to this question is that BA's help the firms they invest in with their network, they improve the image of the firm, they help the firm with their general business knowledge and put pressure on the managers. The network of the BA is used to come into contact with new customers and investors, and the improved image is used to convince customers that they are trustworthy. The general business knowledge of the BA is used to help the managers with reviewing the employees and helping with bookkeeping. The BA's pressure the firms they invested in by using moral and financial pressure.

The second sub-question is:

How do BA's and VC's help with the dynamic capabilities of Dutch startup firms with technological innovations in order to increase the turnover of the firm?

BA's and VC's both help the firms they invested in with their capabilities. There are two styles used by the BA's in this research. One BA is actively involved and is director of the firm, the other gave advice and money but let the entrepreneur run the business. VC's also give advice, but depending on how much help is needed they only monitor the firm, they hire new CEO's to run the business, or they have venture managers who are actively involved in the firm. The capabilities 'integration of resources' and 'reconfiguring of resources' are seen as the responsibility of the firm, and only if the investors are actively involved in the firm they help with these capabilities. All the investor helped with the capability 'management of resources' and thus is an important way for investor to help the firms.

The third sub-question is:

What are the differences and similarities between the help that BA's and VC's give to Dutch firms with technological innovations?

BA's help the firms they invested in in a similar way as VC's do, because all the sorts of help that were offered by BA's could be put into categories developed by using previous research on VC's. They both will use their network and general business knowledge to help the firm they invest in. However VC backed firms use this network for finding new employees, high management, new customers and service providers, while BA backed firms only use it for finding new customers. Also, the relation with both sorts of investors will influence the image of the firm. However, were BA backed firms only use this improved image to convince customers, VC backed firms also use this image to convince new investors and new employees to cooperate with them. VC's have more power over the firm they invest in and can replace and pressure managers. BA's have to work together and use financial and moral pressure to stimulate the managers. Overall it can be said that the help of both type of investors has a lot of overlap, but the focus and means of the two types of investors differ. BA's have less control and leave the management operate more freely, while the VC's have more control.

BA's and VC's help the firms also in similar ways with their capabilities. However, VC's are more likely to hire new personal when they encounter problems while BA's are more likely to get themselves more actively involved in the firm. Both types of investors helped the most with the capability 'management of resources'. The capabilities 'Reconfiguring of resources' and 'Integration of resources' are viewed as the responsibility of the firm and not much help is given by the investors unless they have hired a new CEO or are actively involved in the firm.

Overall, the most important difference for a startup between a VC and a BA is that a VC has more power over the startup because they have stricter contracts. VC's are more likely to hire someone to manage the company. BA's are more willing to help the management with skills as bookkeeping and problems with employees instead of replacing them. Also, because BA's don't have strict contracts they use more indirect means to pressure management.

With the capabilities VC's are also more likely to hire someone to help, while the BA's help personally. However, it is important that there is a good matchup between the firm and the investor. A firm that needs a lot of help will need an active investor, a firm that does not need much help only needs advice from the investor. If the CEO/entrepreneur does not have the appropriate background a VC investors can help to find appropriate replacement. If the entrepreneurs only lack certain skill a BA can perhaps help with developing these skills.

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9.0 Appendix

9.1 Questions about Business Angels:

Introduction:

I am a master student at the Utrecht University, and I am working on my graduation project for the master program 'Science and Innovation Management'. In my research I am searching for the differences between Business Angels and Venture capitalist, and I focus on the help they can offer to the entrepreneur. In my research I use firms that sell a technological product. The goal of this research is to make the cooperation between investors and firms more efficient by making firms more aware of what they can expect of different investors.

The information gathered in this research will be kept confidential and your name or the name of the company will not be published.

If there are multiple BA's who have invested in your firm, you should answer the questions as if they only apply to the BA who has given the most help.

Part 1

Description of the used terms

Resources are the strong points of the company. This can be money and materials, but also the knowledge and skills of the people working for the company. Resources make the company unique and are the source of its strength.

Questions

1. First of all it is important to determine whether the investor actually helped the firm. In order to do so i would like to determine if the cooperation with the investor led to higher revenue. I don't need exact numbers but the development of the revenue since the investment is enough get a picture of how much the investor has helped you. Would you please describe the revenue development in the first three years since the investment by using rough estimates of the revenue?

2. The network of the investor is sometimes used by the entrepreneur. Sometimes this network is useful for the entrepreneur, sometimes it is not. For example the network of the investor can be used to come into contact with other investors, high management, new customers and service providing firms. Is the network of the BA used to come into contact with these or other parties?

Do you have examples of cooperation's that are created this way?

3. The cooperation with the BA can influence the image of the company. This can influence the willingness of other parties to cooperate with the firm. The cooperation can be mentioned with meetings with potential investors, new employees or new customers to persuade to cooperate with the firm as well.

Do you mention the cooperation with the BA in meeting with new parties to persuade them to cooperate with the firm?

Do you have examples in which the willingness of the other party to cooperate with the firm changed after you mentioned the cooperation with the BA?

4. BA's have experience and therefore have knowledge that could be useful for you.

Does the BA use this knowledge to help you?

Do you have examples of the BA using his knowledge to help you?

5. The goal of the BA is to make the company run smoothly. Therefore, it is important that you perform as good as possible. Venture capitalist can pressure the entrepreneur to perform in accordance with the business plan or threaten the entrepreneurs with becoming replaced if they don't perform.

Does the BA pressure you to perform?

How does the BA pressure you to perform?

6. Are there other methods the BA uses to improve the resources of the company?

What kind of methods does he use?

Part 2

Description of the used terms:

Capabilities are the ways used to manage the resources of the company. By adapting resources, using them in different ways or acquiring new resources the company can become more innovative and efficient.

Questions:

7. By letting people with different training or people working in different departments cooperate, the company can become more efficient and more innovative. These groups can also be used to develop new products or make strategic decisions.

Did the investor advice you to let people with different training or from different departments cooperate in new ways?

Do you have examples of these kinds of projects?

8. Sometimes the old resources of the company have to be adapted to respond to changes in the market. Managers from one division can tell what changes are needed and managers from other divisions can tell what changes are possible. Also a product can be introduced into a new market (with or without changes)

Did the investor advice you to use old resources in new ways or to adapt old resources?

Do you have examples of resources that are used in a new way as advised by the investor?

9. Sometimes new resources are necessary in order to respond to the market or to further develop the company. These resources can be developed in-house, or can be acquired from external sources.

Did the investor advice you to develop new resources or acquire them from external sources?

Do you have examples of resources you developed or acquired as advised by the investor?

10. Are there other methods that the investor uses to aid the capabilities of the company?

Do you have examples?

Do you think that the investor would be willing to participate in this research?

How can I best come into contact with this person?

Do you know some other companies that I can approach to participate in this research?

Can I call/mail you if i have additional questions?

9.2 Questions about Venture capitalists:

Introduction:

I am a master student at the Utrecht University, and I am working on my graduation project for the master program 'Science and Innovation Management'. In my research I am searching for the differences between Business Angels and Venture capitalist, and I focus on the help they can offer to the entrepreneur. In my research I use firms that sell a technological product. The goal of this research is to make the cooperation between investors and firms more efficient by making firms more aware of what they can expect of different investors.

The information gathered in this research will be kept confidential and you name or the name of the company will not be published.

If there are multiple VC's who have invested in your firm, you should answer the questions as if the only apply to the BA who has given the most help.

Description of the used terms

Resources are the strong points of the company. This can be money and materials, but also the knowledge and skills of the people working for the company. Resources make the company unique and are the source of its strength. In previous literature is determined that VC's help the firms they invested in with network and business knowledge, but also by pressuring the entrepreneur and by improving the image of the firm.

Capabilities are the ways used to manage the resources of the company. By adapting resources, using them in different ways or acquiring new resources the company can become more innovative and efficient.

Questions:

1. First of all it is important to determine whether the investor actually helped the firm. In order to do so i would like to determine if the cooperation with the investor led to higher revenue. I don't need exact numbers but the development of the revenue since the investment is enough get a picture of how much the investor has helped you. Would you please describe the revenue development in the first three years since the investment by using rough estimates of the revenue?

2. By letting people with different training or people working in different departments cooperate, the company can become more efficient and more innovative. These groups can be used to develop new products or make strategic decisions.

Did the investor advice you to let people with different training or from different departments cooperate in new ways?

Do you have examples of these kinds of projects?

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Do you have examples of resources you developed or acquired as advised by the investor?

5. Are there other methods that the investor uses to aid the capabilities of the company?

Do you have examples?

Do you think that the investor would be willing to participate in this research?

How can I best come into contact with this person?

Do you know some other companies that I can approach to participate in this research?

Can I call/mail you if i have additional questions?