

## **International Comparison of Entrepreneurial Sub-Cultures within Cultures: Effect of Territory on Entrepreneurial Strategies for Fundraising**

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### **ABSTRACT**

Two technological hotspots: Silicon Valley (USA), and Sophia Antipolis (France) have been assessed for differences in entrepreneurs' fund raising strategies. The study analyzed different stages in the venture capitalist's (VC) investment decision process from the entrepreneur's perspective, not from the frequently examined VC's viewpoint. The qualitative study of nine cases compares the two different cultural contexts, where the parties negotiate the investment agreements. The results underline, that the different subcultures require markedly different entrepreneurial strategies for successful VC fundraising. The investment decision process leads to a faster investment in US companies than in the French examples. Entrepreneurs in both regions advised strongly against signing exclusivity agreements. An unfavorable bargaining position was seen by entrepreneurs to arise from an urgency of receiving funding, where a prolonged investment decision process would make the venture apt to accepting worsened financing terms offered by the VC, and would increase the risk of VC opportunism.

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## I. INTRODUCTION

Environment seems to play a key role in entrepreneurship, as certain cultures seem to foster entrepreneurship astonishingly efficiently, and some domains within entrepreneurially oriented countries seem to flourish particularly well. Without doubt, Silicon Valley has been benchmarked as the top area for successful entrepreneurial activities world-wide. The “Regional Advantage” of Silicon Valley, as Saxenian (1996) called it, is built on a flourishing pool of available venture capital (VC) funding, strong communities of practice, and a concentration of university talent and previous success stories. The creation of the French technology cluster of comparison, Sophia Antipolis, was directly inspired by Silicon Valley, and the two have been compared in a previous study by Bernasconi et al. (2006) on communities of practice in high-tech clusters. What unites the two clusters is a similarity of industry activity within computer technology, semi-conductors, software, biotechnology, and air-space industry, though Silicon Valley boasts a higher level of activity, and a higher specialization in the mentioned sectors, and Sophia Antipolis a lack of communities of practice. The largest noted performance gap lies in the contrasts on the availability of risk capital funds in the two regions, and the ability for critical company growth, both in the favor of Silicon Valley. Given these territorial differences, this paper investigates the pathways an entrepreneur in each of the two domains must undertake with the goal of a successful funding outcome with VC s.

## II. THEORETICAL REVIEW

The vast body of previous research on the VC-E relationship has been rooted in agency theory, with the focus on the investors’ position in the relationship, and examining the agent’s own interest maximizing behavior. Numerous studies, such as Barney et al. (1994) have been conducted on the venture capitalist (VC) entrepreneur (E) relationship from an agency theory perspective, where the investor represents the principal and the entrepreneur the agent. Also the entrepreneur (the agent) can be an object of the investor’s selfish behavior, and object to the principal’s opportunistic defect, as suggested by Shepherd and Zacharakis (2001) and Cable and Shane (1997). A key focus of this article has been to introduce the demand side viewpoint, and the idea of context-bound negotiations, which are impacted by region, its communities of practice, and cultural diversity.

Tyebjee & Bruno (1984) have depicted the classic model of the VC investment decision process to include stages of deal origination, screening, evaluation, structuring and post-investment activities. Also this process has been examined from a VC perspective by previous research, and an inclusion of the demand side view has been supported by Stuart (2007). The investment transaction represents an interesting point in VC’s and E’s relationship, because up until that point the two parties compete with each other on the terms of the shareholders’ agreement. Therefore, gaining a deeper insight of the entrepreneur’s position in the process, her bargaining strength, and the environment’s impact on the inception and duration of the process *ex ante*, is very important.

### III. METHODOLOGY

The research question of this paper can be stated as: “*what is the effect of territory, and culture within the territory, on the entrepreneurial strategy in fundraising?*” The research investigates, issues affecting the entrepreneur’s bargaining position with a VC investor in the investment decision process. Given a preference for inductive, rather than hypothesis testing research, this paper follows a qualitative case study methodology, as advocated by grounded theorists Glaser and Strauss (1967). Nine case companies have been gathered and analyzed for richness of data, and two selected cases are presented in narrative detail. Data collection has mainly relied on face-to-face semi structured interviews between Fall 2006 in France and Spring 2007 in the United States, and additional data has been collected over e-mail. Eisenhardt (1989) advises within-case analysis as a key, initial step in data analysis, which has been adopted. Each case has been told as closely as possible to the descriptive language used by the informant, and re-building the story (the investment decision process) in chronological sequence of events. Participant feedback, peer review, negative case sampling (an inclusion of an unsuccessful case example to increase theoretical validity and solve the confirmation bias), and pattern matching strategies have been used to promote validity of this research as suggested by Johnson (1997).

#### A. Description of Territory: Silicon Valley, USA

The following sections draw together the distinctive elements of the region, which extant literature has found to play a role in its capacity to fuel entrepreneurship. Despite overall growth in the technology sector throughout the United States, Silicon Valley’s pace is unchallenged, and according to Lee et al. (2000), its edge arises from an entire environment, tuned for innovation and entrepreneurship. Saxenian (1996) portrays Silicon Valley as an industrial system; one which is based on networks, a strong culture of experimentation and sharing of information, toleration of failure and encouragement of risk-taking. The network view portrayed by Saxenian (1996) and the important shift towards understanding culture’s effect in the territory’s competitive strength is complemented by the industry cluster perspective by Lee et al. (2000). Together these perspectives allow for a framework of the region’s complex characteristics.

##### 1. Introduction and brief history

Geographically speaking, Silicon Valley is the southern part of San Francisco Bay Area located in Northern California, the United States. According to Rogers and Larsen (1986), Silicon Valley has been home to a fast growing electronics industry, and the region has earned a famous reputation for innovation and entrepreneurship. The structure of the area has evolved in steady decenniums starting from the 1950’s when there was an increased demand for electronics products for warfare, which initially supported entrepreneurial firms such as Hewlett-Packard. In the 1960’s and the 1970’s it was the semiconductor industry, which grew explosively after the integrated circuit was invented in 1959. More than 30 semiconductor firms were founded in the 60s, starting with Shockley Semiconductor followed by Fairchild and its many offspring, including Intel. The following wave of innovation was personal computers, which

followed in the 1980s including firms such as Apple. After the slump in economic growth due to diminishing defense spending, the wave of the 1990s begun with the commercial development of the Internet in 1993, and the creation of the Internet. With a distinctive strength in technology, the Silicon Valley region became leader in the Internet revolution and produced firms such as Netscape and Cisco Systems, see Lee et al. (2000). The dot.com boom, which then begun in roughly 1995 and lasted until 2001 saw a sudden rise in the Internet sector and produced a speculative bubble, which burst in 2001 and marked a relatively mild but lengthy early 2000s recession in the developed world. Contrasted with Route 128, and the US East coast area, Silicon Valley has emerged from industry slowdowns at a faster pace, due to its region's distinctive elements, which were the focus of Saxenian's (1996) thorough investigation on its regional advantage.

## **2. Tax and legal environment**

According to Lee et al. (2000), the U.S. government has had an enabling role in the rise of Silicon Valley by providing an extensive set of American laws and institutions regarding securities, employment, pensions, and bankruptcy, which have created an environment that enabled the Valley's rise. These constructs provide incentives for risk taking not only for entrepreneurs, but also those who finance the risky ventures, namely venture capitalists and investors in the funds (enabling the existence of the venture capital industry). According to Lee et al. (2000:289 and 299), an important factor in augmenting the pool of venture capital funding available was due to a change in the interpretation of the Employee Retirement Income Security Act (ERISA) of 1974 in 1978, which allowed institutional investors to invest in high-risk assets such as venture capital. This change was combined with another incentive in favor of risky investments due to the change in the tax treatment of capital gains and of stock options, when the top capital gains tax rate was lowered from 49 percent to 28 percent in 1978 and then to 20 percent in 1981. Also, entrepreneurs benefit from bankruptcy laws, which do not burden failed entrepreneurs. Nor is there a requirement of a history of profits, for listing stocks of firms on public exchanges. In addition, options are taxed only when exercised, not when granted. Finally, the availability of skilled workforce via the Immigration Act of 1965, which is often called the Hart-Celler Act, according to Lee et al. (2000), increases high rates of job mobility, which spreads technology, promotes the recombination of skills and capital, and aids the region's development. The labor laws of United States also make it easy to fire workforce, if necessary, while other countries make it difficult to fire workers, which creates a disincentive to hire them.

## **3. Social characteristics and social networks**

Lee et al. (2000) and Saxenian (1996) describe Silicon Valley as a prime example of a very dense network with many connections, one that makes information on the good and bad aspects of one's reputation spread more easily, but also one with individuals having overlapping memberships. Saxenian (1996) presented an important argument that it is the network structure in Silicon Valley that differs significantly with that of the American East Coast Route 128, a distinction which translated into what she called in her book's title a specific "regional advantage" for the Valley. Also, helping

competitors in this light is normal, when loyalty to one's group (i.e., same professional identity) and disclosure of information is necessary for the collective, through exchange each individual draws benefit, and where collective learning takes place, see Saxenian (1996). It would be worthwhile labeling the region's strength as something of systems intelligence. Also it follows a reputation structure rather than any formalized hierarchy or protocol. Saxenian (1996), also underlines that in order to have a flourishing economy that is driven by start-ups, it is necessary to encourage their formation by tolerating productive failure.

#### **4. Communities of practice: A focus on venture capital**

Silicon Valley is marked with a dense concentration of specialized services, also called communities of practice. Bernasconi et al. (2006) defined 12 communities of practice, which are partly institutionalized in the organizations that are located within the cluster. This ranges from university institutions to VC firms, lawyer firms and recruitment agencies and consulting companies to name a selected few. The most famous of the mentioned communities of practice is the grouping of venture capital firms, which are especially important for entrepreneurial ventures as a source of not only financing, but help in shaping strategy and attracting talent to the venture, due to the VCs' networks of contacts and expertise in the industry.

The goal of VCs is to invest in start-ups that they believe have the potential to return five to ten times the invested capital in a period of five to seven years. According to Lee et al. (2000), surveys typically show Silicon Valley receiving 30 to 40 percent of all U.S. venture capital investment and the lion's share of IPO proceeds. Contrary to popular belief, however, Silicon Valley's venture capital industry emerged out of the region's base of technology ventures and not vice versa. According to Saxenian, (1996), it was former successful entrepreneurs such as Fairchild's founder Eugene Kleiner (who set up Kleiner & Perkins) who decided to reinvest their money and expertise in semiconductors into new ventures. Also the funds do not operate on a going concern principle, but have a lifespan of typically 10 years until maturity. After the fund is fully invested, the VC firm will raise another fund, and the reputation and past track record determines the success of the following funds. (Lee et al., 2000:287). VCs also gain significant additional experience and contacts in the course of practicing their profession. The highest ranked Top 4 VCs in the Valley are considered as Accel Partners, Benchmark Capital, Kleiner Perkins Caufield & Byers, and Sequoia Capital. In this respect, the relationship between entrepreneurs and venture capitalists is symbiotic: they rely on each other for their survival and success. The experienced former entrepreneurs tend to act as VCs, and are able to provide "hands-on" help also in strategic issues to the ventures, if needed, in the form of non financial contributions as put forth by Gorman & Sahlman, (1989). While hands-on activity is important, so is geographic proximity due to this factor. Valley VCs rarely invest outside the valley, and the VCs' emphasis on geographic proximity is thus one example of how a high level of interdependency creates agglomeration economies (Lee et al., 2000:292). The availability of the stock market affects the viability of venture capital, and Lee et al., (2000) describe, that it provides a source of funding, a tool for risk diversification, and a competitively determined valuation. It allows VCs to cash out their investment at a

certain stage of maturity and allows them to focus on investing in firms in early stages of development, see Lee et al. (2000:288).

### **5. Full case study Silicon Valley, USA: Trulia Inc.**

Sami Inkinen, the second-time entrepreneur, co-founder and Chief Operating Officer of Trulia Inc, runs a venture, which is currently the fastest growing real estate website in the United States. It is headquartered in San Francisco, and the company has its sales office in New York, and software development in Delhi. Mr. Inkinen founded the company together with Pete Flint, both immigrants to the US and Stanford MBA graduates. In year 2000, when Mr. Inkinen realized the real estate industry had a very bad consumer experience, and after a year of research, and meetings with large real estate brokerage firms, the entrepreneurs decided to hire their first engineer employee. By 2005 the team consisted of two founders and two engineers, and at the end of September 2005, the company's first on-line beta version was launched. The entrepreneurs closed their first financing round of 2.1 M \$ just two days prior. The funding consisted of an angel round and institutional money in the form of a convertible note (a loan). The second round of funding, which is described in more detail, was raised before Christmas Eve 2005, which consisted of an 5,7M \$ equity investment by Accel, a Silicon Valley top tier VC firm. To date, two rounds of VC funding has been raised, the latest of which was in the end of 2007. Once fundraising, the entrepreneurs had checked the VCs backgrounds and were looking at targeting the top VCs in the valley: they wanted Secoya, Kleiner Perkins, Accel or Benchmark, because their partners have the best networks, and it is critical to find the best partner for the board seat. The entrepreneur perceived the first phase as getting to know the potential partner, Accel, a phase which started in March 2005, and which lasted seven months, when Mr. Pete Flint, the co-founder and COO of Trulia had been contacted by the VCs through existing contact networks. The two parties had already been discussing in summer 2005 at the time of the first non-VC round. At the end of September 2005 the venture was able to create competition, when Mike Morris from Secoya e-mailed them (invested in Yahoo!), and after this point more VC companies approached the entrepreneurs. At that point, since Benchmark had already decided to invest in a competitor, and Kleiner had already invested in a similar company, which had made an IPO, Accel was on the top of the list. The entrepreneurs told the partner at Accel, that they were interested in the situation, and that they wanted to minimize the courting period. Secoya, which had gotten introductions from business angels, said no in October 2005, once the decision got to the partnership meeting, which finally left the entrepreneurs with the option of choosing Accel as their VC partner. It took 10 days from the initial financing contact to complete the process. The investors were told that the terms were needed in five days. The entrepreneurs looked at the term sheet and it looked good, and replied that they would take the VCs deal at the proposed time line. After signing the term sheet a legal due diligence was performed right before the signing the final contract documents. Subsequently, in five more days the money was in the bank. The very short period of time for the process was mainly thanks to the existing relationship, and the entrepreneurs managing to create competition between the VCs. Regarding documentation, there was no formal written business plan, which was sent to investors, and instead, a two page executive summary and a power point was used. The

relationship was marked by mutual trust: and the entrepreneur perceived that the Stanford MBA degree carried a lot of value. In terms of external advisors in negotiations, the entrepreneurs used a law firm, which was awarded with a one percent ownership. In addition, also the existing angel investors performed as advisors. The venture had already succeeded in an initial proof of concept, and had received customer feedback, with 1.5 million in the bank, so financially they were in a good negotiating situation. The majority of the ownership of the venture is still held by management and employees, the outside investors own close to half. He sums up that the process went so well that they could have raised funding later with a higher valuation, "*We did the real work even better than we expected.*"

## **B. Description of Territory: Sophia Antipolis, France**

### **1. Introduction and brief history**

Sophia Antipolis was developed as a project of a new science park, a techno pole, from the vision of a politician called Pierre Laffitte starting from 1968. He had observed the early Silicon Valley development, and envisioned the possibility to create a new Silicon Valley in the French Riviera region, between Nice and Cannes. The evolution pattern of Sophia Antipolis varies from that of Silicon Valley, but has distinct development phases, which can be observed. In its first period (1974-1990), the development of Sophia Antipolis, which was then essentially an empty space, was exogenous through successfully attracting French public research laboratories as well as subsidiaries of international companies. The accumulation of research and development activities made endogenous development possible, and was significant in two main areas. The first and most important relates to computers, electronics and telecommunications, which have been at the origin of the region's development. The second area encompasses activities in life sciences and health. A continuous stream of SMEs has been set up, most of them, arising from a close relationship with companies or labs, acting as subcontractors in either services or research activities. At the same time this trend of new business creation has been impeded by a reverse spin-off effect, due to the substantial human resources and technological skills demands of big companies. In the second period (1991-1994) the unique model of building up the region through attracting companies no longer worked. A slowdown in the economy and in the computer industries forced big companies to restructure, to reduce people, and even to leave, during which a new spin-off wave was observed, which arose from engineers who had been made redundant from big companies. According to Longhi, (1999), the non-academic spin-offs did not represent a positive process but were the result of a process of restructuring and outsourcing of activities, and many were established to carry out subcontracting for their parents. In the third period (1995-2000) the development of the techno pole was driven by a double dynamic process: the investment in development by local companies and the attraction of companies in software and telecommunications activities, as well as a strong flow of new business creation driven by the new economy phenomenon. In that period, and particularly since 1997, the number of new ventures increased significantly (Observatoire Dynamis, Bernasconi and Moreau, 2003). More than 90% of the new company creations were in information technologies, and less than 5% in the life and health sciences. In that

period, in order to attract more VCs to Sophia Antipolis, a yearly event, the International Venture Capital Summit (IVCS) was active between 1997 and 2005. It was very helpful to present the local entrepreneurs to international investors. In the last ten years, 50 companies have raised more than 370 million Euros in venture capital money from French or foreign investors. In that period new incubation initiatives were undertaken by research labs and universities (Eurecom and Incubateur Paca Est) to facilitate the creation and the development of academic spin-offs. The fourth period (2001-2007) began with the aftermath of the internet bubble, when subsidiaries of major telecommunications companies were closed, reduced, or relocated like Nortel, and Cisco. The disappearance of potential markets and the crunch of investors pushed many new ventures to failures.

## **2. Tax and legal environment**

France is not necessarily well known for its favorable environment for entrepreneurs and investors. But in the recent years, the situation improved significantly for entrepreneurs, the new ventures and for investors. For entrepreneurs, a recent law allows the entrepreneur to exclude one's home from the creditors. The previous situation was excessively risky in case of failure. Significant evolutions are available for entrepreneurs in order to obtain favorable legal and tax conditions for their new ventures. Since 2004, a new innovative company can access the status of "Jeune Entreprise Innovante" and therefore it obtains a total or partial tax rebate for the next 5 years, in addition to a social cost reduction. The new regulations improve significantly the competitiveness of new ventures. However, legal constraints prevent investors to be actively involved in their investment, and provides the French entrepreneurs with far less strategic steering than in the Silicon Valley contexts. Its explanation lies more in the regulations than in the culture. In fact, in case of failure, if the company has more liabilities than assets, the investors could be pursued to pay for the difference, if they have taken part in management decision of the company.

## **3. Communities of practice: A focus on venture capital**

A comparison by Bernasconi et al. (2006) between Sophia Antipolis and Silicon Valley, shows that one of the growth hinders in Sophia Antipolis is related to the lack of certain communities of practice (in particular venture capitalists, company lawyers and merchant banks). According to Bernasconi et al. (2006), due to the systemic interdependence of the efficiency of communities of practice, an absence of certain communities of practice, hinders the efficiency of those, which are present (research laboratories, universities etc.) and, more globally, handicaps the endogenous growth of the cluster. Sophia Antipolis has only one early stage VC, which means entrepreneurs have to look for venture capital elsewhere. To the contrary with the US venture capital industry, which has been set up by entrepreneurs, the French VC industry originated from the bank industry. Traditionally the VC industry in France is geographically concentrated in Paris, which largely omits this community of practice from Sophia Antipolis. The VC industry in France, however, is the second largest in Europe, after the UK. In 2006, more than 10 billions have been invested by French venture capitalists, which put France in the third place worldwide after the USA and United

Kingdom. If money is available for investment, the amount dedicated for early stages is insufficient. The amount invested in 2006 in seed and creation is 536 million Euros with an 11% increase compared with 2005. Regarding the pool of funding, Sophia Antipolis has very little money locally available for the young ventures. Today, there are only two VC offices located in Sophia Antipolis: a French (Sophia Eurolab), and a Dutch (IFEX). The funding of the early stage phases is long and difficult to obtain like elsewhere in France.

#### **4. Full case study example: Open plug**

Eric Baissus, co-founder and chief executive officer of Open Plug, has successfully raised two rounds of VC funding. The firm creates and commercializes open software framework for mass-market phones. The first round was completed in July 2003, raising 1.6 million Euros and the second round raising 15 million dollars in September 2006. The venture is based in Sophia Antipolis, with testing and development performed in Romania, and sales and support are in Taiwan. The entrepreneur's personal funds and consulting revenues financed them before the VCs were involved. In addition, they had a few rounds of grants from Anvar. For the seed capital round the entrepreneurs worked with a CERAM business school department, which helped identify potential VCs in 2003. The entrepreneurs were contacting both French VCs and international VCs (with presence in France), but only the French VCs participated, four in all. Initially, the venture sent the executive summary as a teaser to awaken interest for the VCs. Then they met with the VC and provided the information memorandum, financial model forecasting revenue, after which the whole business plan was given. For the first round, an expert from CERAM functioned as an external advisor in negotiations. Eric adds, "*In the negotiations there are lots of conflicts and you need to have your own advisor.*" Even though the entrepreneurs were only two people with just an idea and a patent, what strengthened their bargaining position was their consulting revenue, and regardless of the VCs investment, they could still continue with the business. Eric adds, "*If you really want to negotiate, you have to be in a good position. If you are desperately looking for money it is bad.*" In July 2003 the team used one of the top French lawyers as their advisor, because for the first round, they had several VCs in one contract, which was a complex difficult situation. For the second round of funding, the venture was seeking expansion funding in terms of life stage of the venture. The venture used a fund raising advisor for the second round as an external advisor in negotiations, which checked VCs track records, and whether they had already invested in the same kind of products, and also ranking different reputations. The entrepreneurs had the choice of VCs in Europe or US, but the ones not having offices in Europe (US based firms) were difficult with laws. The final solution was a syndicate of Baytech (German VC, no premises in France), and also a new French VC. There were six investors all together, two in addition to the four previous investors. The round was closed in September 2006, and the ownership division is a majority holding by the VCs (2/3), and a minority ownership owned by founders and employees. Open Plug had several term sheets on the table, then a period of exclusivity for due diligence and the final contract. This period took six weeks. In the second round, however, they could have gone back to the other VC candidates if needed. The only difference between the first and subsequent rounds was the position of negotiation strength. In the

second round, the entrepreneur already had the former VCs in his camp helping on advice and actively helped in the fundraising.

#### IV. RESULTS AND CONCLUSIONS

The results underline regional differences in entrepreneurial strategies for successful VC fundraising. The American (Silicon Valley) style investment decision process can be described as a fast, flexible and informal network based process, where word of mouth, reputation and informal networks play an important role for receiving information about potential investment candidates. There is no mandatory need for a formal business plan, but proof of concept (market feedback) and an exciting revolutionary idea were deemed a “must-have”. A strategy adopted by the successful American entrepreneurs was to create fierce competition among the VCs, and select the best match based on interpersonal compatibility, proposed terms and deal, as well as perceived marketing (PR) value based on the VC firm’s reputation. Obtaining the most appropriate VC partner was highly valued, as it plays a key role in recruiting top quality managers, and opening networks. The French entrepreneurs, in contrast, focused heavily on obtaining the desired capital amount. Regarding deal sourcing, the US investors seem to rely on a very proactive approach by favorable referencing (investment tips from existing portfolio companies, friends and contacts), rather than a more passive review of incoming flow of investment proposals. Clearly, the network structure put forth by Saxenian (1996) aids investors with information flow from several communities of practice (lawyers, investment banks etc.). The American entrepreneurs relied almost solely on Silicon Valley VC firms within close proximity of the venture’s location, due to a local abundance of funding, and signaling (if a need to search further than the valley, the venture may not be top quality). To the contrary, the French style is more reliant on entrepreneur contacts towards the prospect VCs, sending out business plans and making presentations to the VCs. This approach gradually leads to advancement in the VC investment decision process. The successful French entrepreneurs approached a wide pool of VC candidates, and the investment deal often consisted of a syndicate of international (but European) VC investors. In the entrepreneurs’ favor, Silicon Valley’s communities of practice, i.e. experienced investment lawyers, may work for entrepreneurs on an equity basis, which helps the entrepreneur’s bargaining process economically. An absence of communities of practice, in contrast, disfavors the Sophia Antipolis entrepreneurs, as there are very few support pillars in the fund raising process. The French investment decision process, was clearly much slower, and was more reliant on planning (business plan) than market feedback. Entrepreneurs in both regions advised strongly against a weak bargaining position by means of urgency of funding. In such cases, a prolonged investment decision process could make the venture apt to accepting unfavorable financing terms offered by the VC. The slow investment decision process in the Sophia Antipolis cases, poses risks for the cash dry entrepreneurial venture. French VCs are also characterized by a lower risk taking and failure tolerance than their American counterparts. The funding rounds are smaller than in Silicon Valley, and there is a clear need for subsequent follow-up rounds of funding. Also the legal hinders impede VCs from actively taking part on managerial aspects of the venture. The strategic path for both Silicon Valley and Sophia Antipolis entrepreneurs is mainly to avoid the risks imposed

by exclusivity agreements and urgency of funding, and the Sophia Antipolis entrepreneurs' additional risk lies in a very slow investment decision process. The main differences of the two cultures' effects on entrepreneurs' fundraising have been summarized in Figure 1.

#### A. Suggestions for Further Research

Classically the non financial contributions of VCs, as described by Gorman and Sahlman (1989) have included an installment of considerable business knowledge necessary in turning the venture to a successful enterprise. Because the French legislation largely impedes this option, we propose an explorative study into its entrepreneurial implications.

**Figure 1**  
Model of cultural effect on entrepreneurial negotiation success

	<b>France</b> <b>Sophia Antipolis</b>	<b>USA</b> <b>Silicon Valley</b>
<b>Business Plan</b>	Formal plan required	Business plan not required
<b>Availability of VC funding</b>	No local VC funds	Abundant local VC funds
<b>Investment Decision Process</b>	Slow	Fast
<b>Communities of Practice</b>	Limited	Abundant
<b>Risk tolerance of VCs</b>	Moderate	High
<b>VC proactivity</b>	Low	High
<b>Entrepreneur proactivity</b>	High	High
<b>Networks</b>	Limited	Abundant
<b>Size of Investments</b>	Moderate	Large
<b>VC background</b>	Investment background	Entrepreneur background

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