LOCAL APPROACH TO V2C ACTIVITY:

CASE TAMPERE

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Abstract

Thanks to the institutionalisation of the venture capital industry and the transformation of the venture capital process into the venture capital spiral, the average size of a venture capital fund and hence the minimum size of a venture capital investment have grown phenomenally. At the same time, target ventures and business in general have transformed from capital intensive to increasingly knowledge intensive. Together, these phenomena have accelerated the emergence of a capital gap as well as a knowledge gap between new venture activity and the venture capital industry. The development has given rise to an all-new breed of players in the value chain of the venture capital industry, referred to as venture-to-capital or V2C players, whose job is to refine ventures 'investable' in the eyes of the venture capitalist. Needless to say, the dynamism of the local V2C market plays a central role to the functioning of a regional innovation system.

This descriptive study focuses on Tampere, Finland's number two urban region, with the objective of portraying the V2C players of one local arena. The city of Tampere has undertaken an ambitious knowledge society development program, a far-reaching local partnership initiative, at the core of which is the process of accelerating the development of ventures to capital. In Tampere, V2C players cover all of the four basic categories of the V2C arena – business angels, incubators, advisers, and corporate venturers – topped with an emerging category referred to as emergent operating models. While business angel activity has a rather low profile in the region, incubators play the most visible role in new venture development. Advisers and corporate venturers fall in between, in terms of visibility. Together, these groups fulfil the capital gap and knowledge gap to some extent. However, the V2C operating models could be more effective. One key feature to make this happen could be ownership as a payment from the time and knowledge V2C player contributes to the venture.

Keywords

Venture capital, venture-to-capital, V2C, entrepreneurship, growth resource allocation

INTRODUCTION

While the city of Tampere has ca. 200.000 inhabitants, a good 300.000 people live within a 30 minutes drive from the city centre. With help of two universities (Tampere University of Technology and University of Tampere), other institutions of higher education and research, and a number of knowledge centres and technology parks – and the eTampere program – the Tampere region is rapidly emerging among the most recognised local knowledge areas in Europe. The driver of this development, the eTampere knowledge society development program, is largely geared at putting eEurope – the vision of Europe – into action on a local level.

The goal of the eTampere program is no less ambitious than to make Tampere the world's leading knowledge society. One mean to achieve this target is creation of new businesses, acceleration of their growth and development. According to the city of Tampere strategy, this activity is supported by providing help in set-up activities and in evaluation of business ideas, creating culture that encourages entrepreneurship, securing appropriate finance, helping to get required working premises, and promoting networks (Tampereen elinkeinostrategia 2002).

Some time ago, the venture capital industry would have been looked at as the solution for the acceleration. However, since 1995 venture capital market and the size of venture capital funds, and hence also the minimum investment amounts, have grown substantially. After the internet hype era, since 2001, the venture capital industry has also escaped from early stage financing to later stage funding. The interest of venture capital firms has shifted from seed and start-up companies to companies that have matured beyond the start-up stage, because these investments are considered safer, easier to manage, and markedly more capital (than knowledge or monitoring time) intensive. At the same time, new ventures have become more knowledge intensive than capital intensive, requiring even more hands-on investments. (See e.g., Mason & Harrison 2000; for observations of an earlier shift see Bygrave & Timmons 1992). Thanks to both of these phenomena a capital gap and a knowledge gap have emerged between young knowledge intensive ventures and the radar scan of venture capital industry as illustrated in the following figure.

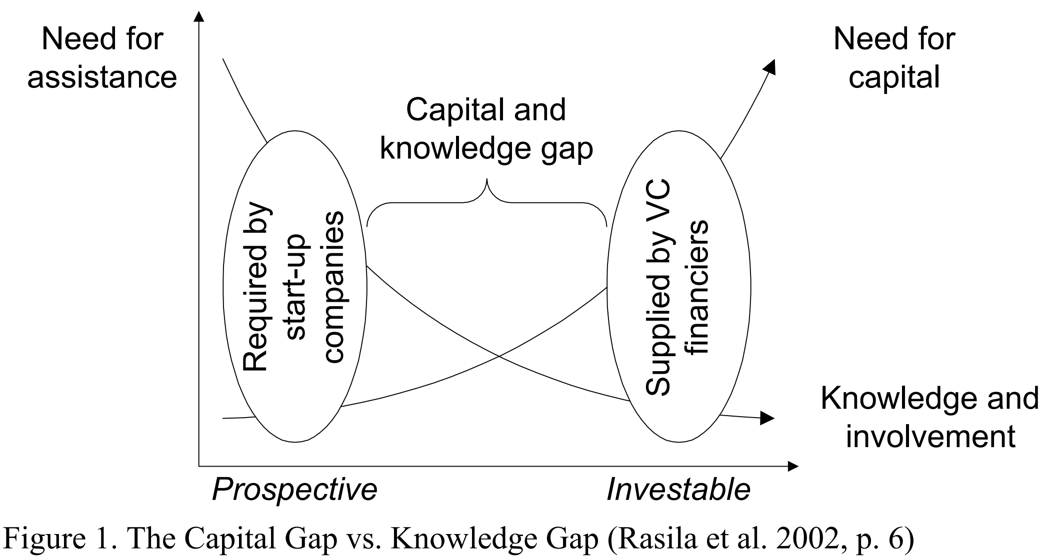

Figure 1. The Capital Gap vs. Knowledge Gap (Rasila et al. 2002, p. 6)

As a solution to this problem an all-new breed of players has emerged and there is already a number of different operating models up and running. The task of these new players is to push prospective ventures to the radar scan of the venture capital industry by making (refining) them 'investable' in the eyes of venture capitalists i.e. pushing ventures to capital – hence the name venture-to-capital or V2C activity. This is activity to overcome the 'dual gap' (capital gap and knowledge gap): A concern on the EU level, the national level, as well as the regional level. Benefits of successful V2C activity include increase in the amount of investable ventures, new jobs, and quality of related research and education. The services provided by these players do differ, but in general they do provide managerial support and/or guidance besides mere financing. Managerial support may come for example in form of businessman wisdom, growth management skills, ability to provide managerial advice and introductions to networks.

It looks as if V2C players could assume (a part of) the classic role of the venture capital industry. The argument can be grounded in David Brophy's classic discussion on the role of the VC financier as modified below, where the term "venture capital" has been replaced by the term "V2C" (Brophy 1986):

> "To put the role of [V2C] in context, it is useful to think of it as a key part of the economic growth process now facing the United States and other countries as well. The [V2C] process is important in marshalling resources for the attainment of benefits for government, business, and the public at large… It is… to the point to think of the [V2C] financier as the overseer of the market exchange system, in a sense deciding through financing decisions, on behalf of society at large, which new projects should go forward and which should not. This is an important function in the economic transition now facing many economies. It is unlikely that a country or area can be competitive in commercial exploitation of innovative process, products, and services without a strong local [V2C] community."

Economically, V2C activity clearly plays a significant role in the value chain of the venture capital industry as a pre-screener of ventures and provider of knowledge and capital for the most prospective one, the ones with most potential as investment targets of the venture capital industry. Furthermore, this activity will speed up the growth of new companies and therefore increase the pace of job creation. And as lent from Brophy (1986), V2C players will decide, as the overseers of the market exchange system, on behalf of society at large, which new projects (businesses) should go forward and which should not.

To meet the challenges created by the dual gap, the city of Tampere has been active in developing specialised incubators (as key financier and part owner). The task of these new players is to turn prospective ventures 'investable' in the eyes of venture capitalists, i.e., to help ventures to cross the dual gap. In addition to these mainly public sector driven incubators, there are some business angels, advisers, and corporate venturers, in the region, that can also be labelled as V2C players. The city of Tampere has also invested in venture capital funds especially targeted to finance early stage companies.

This study has a local focus on V2C activity; it seeks to make sense and describe the market situation in Tampere. First of all, the study aims to identify the key players in the region, second, to describe how these players operate, and, third, what is the overall volume of their activity. The intention is to gather information through public sources and interviews. The study is restricted only to the region of Tampere.

CATEGORISATION OF V2C PLAYERS

Based on early work on the V2C phenomenon, V2C players fall into four categories: (1) business angels, (2) incubators, (3) advisers and (4) corporate venturers. In addition to these basic categories, venture capitalists themselves may seek to be active in the V2C space, by setting up funds specialised in early stage financing; almost as often such funds have been eventually seen sliding towards later stages or even dissolution, due to inability to make (small enough) investments. As in any other new industry, new emerging operating models have been developed continuously to overcome the shortcomings of the existing ones contributing to a fifth (5) category: Emergent V2C models.

Next, a basic overview of each of the five V2C categories is provided.

Business angels

Business angels are, by definition, wealthy individuals putting some of their hard-earned capital, business-experience, and contact-networks back to the entrepreneurial process. They are profit-driven, market-educated players vested with an extensive value-adding potential. However, they are, by definition, also hobbyists. This is neither their profession nor full time job. Even if this is their main job, post-retirement, it does not necessarily fill the hours of their days. Importantly, they are not dependent on any market forces to maintain a long-term in what they are doing; they do not need to serve any particular stakeholder group such as outside investors, or even the entrepreneurs. They do not seek organised growth of their business, as do, for example, the players of the formal venture capital industry. In other words, their business reality (for example, stakeholder pressures) lacks certain dynamism.

Common to most business angels is that they like to remain anonymous; hence it may be difficult for entrepreneurs to find such players – let alone the Right One. Anyhow, the number of business angels has grown in the most recent years due to the increased number of millionaires produced by the entrepreneurial revolution. On relative terms, business angels serve more as a solution for the V2C space in USA vs. Europe. In the USA, they invest about twice as much in monetary terms as the formal VC industry (Harrison & Mason 2000, p.110)

Incubators

Also incubators lack certain dynamism, but from a different angle, when compared with business angels. Most incubators are based on a formal process and professional management; this is someone's main job – not a mere hobby. However, whereas business angels personally participate as owners in underlying ventures, incubator staff seldom has such personal incentive. Many incubators are public sector based or semi-public players under the public eye with little or no space for making mistakes. In other words, their activity lacks different aspects of dynamism when compared with business angels. According to Aernoudt (2002, p. 2) a business incubator's task is to "nurture young firms, help them to survive and grow during the start-up period when they are most vulnerable." In addition to premises, business incubators should also provide services such as hands on management, access to finance, legal advice, operational know-how and access to new markets. Furthermore, according to Aernoudt (2002), "a business incubator's main goal is to produce successful firms that will leave the incubator financially viable and free-standing within reasonable delay."

In Finland, the number of business incubators have grown rapidly since 1995, e.g. in the region of Helsinki there was only one incubator in 1995 compared to 16 in 2000. Most of the incubators in Finland are located in one of the 16 technology parks, and are strongly affiliated with university research. (Aernoudt 2002, p.7)

Advisers

Compared with business angels and incubators, advisers are the most focused on their own short-term gains and profitability. By definition, they are also involved for the shortest time with a given venture. On the negative side, a standard image of an adviser relates to quick-and-dirty, get-the-money-and-run type operation. Advisers are often faced with accusations according to which they do not care what happens in the client firms once they finished. On the more positive tone, advisers are highly skilled and motivated professionals who have seen many cases and can derive advise from experience. Also, advisers certainly work under market pressure, under pressure of profitability. This is neither a hobby for them, nor are they around to fulfil (soft) economic-policy-related missions.

Corporate venturing

Corporate venturing brings about new business by building on internal entrepreneurship, sometimes referred to as intrapreneurship. In environments and societies that lack entrepreneurial incentive, large corporations are natural platforms for new venture activity. Conversely, in environments boasting with entrepreneurial incentive, corporations have tougher time keeping new venture activity indoors. Compared with America, Europe relies much more on corporate venturing. As a form of "institutionalised parenthood," corporations have a significantly better track record as a platform for new venture activity than state or government related entities – although there are exceptions also to this rule. Nevertheless, the difference between the two is likely to be a function of incentives and responsibility.

It is worthwhile, herein, to make difference between corporate venturing and corporate venture capital: The latter refers to investments made from corporate funds directly in external start-up companies i.e. it excludes investments made through a fund managed by a third party and the funding of new internal ventures. The former, on the other hand, refers especially to investments in-house. (See, e.g., Chesbrough 2002, p. 92)

Emergent V2C models

By definition, the common denominator of all V2C players is that they operate to push ventures to capital, help ventures cross the dual gap. It also seems that most of them depict entrepreneurs (if not their own financing sources) as their main customers. Furthermore, it is typical to many V2C players that they are not overly interested (for example financially) in what happens after the venture has received venture capital financing, i.e., transferred from the V2C player's portfolio to the VC player's porfolio. After the transfer, it is considered to be the venture capitalist's task to push the venture from investable to 'listable'. The V2C process is illustrated in figure 2.

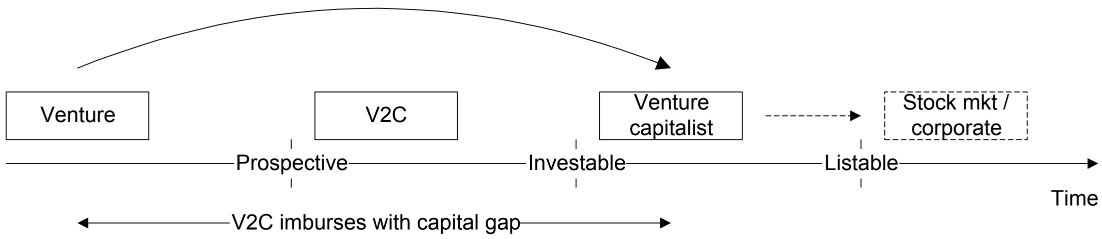

Figure 2. Standard depiction of the V2C process

The lack of long-term commitment, due to lack of financial interest, has opened space for new and innovative V2C business models, which seek to integrate the best practises of each existing player. It seems that ownership issues and investment of knowledge (intellectual capital) are the key building elements of the emergent V2C models. It can be argued, that the emergent V2C models link the field to the roots of the classic venture capital industry.[1]

All of the V2C player categories are present in the Tampere region. In the next chapter, an initial overview of the V2C market in the Tampere region is provided divided into the said five categories.

CASE TAMPERE

The case study was started in October 2002, and the work is ongoing. The main sources of information, utilised so far in the study, have been company brochures, presentations and information provided via internet, and structured interviews. The interviewed people were key representatives of the V2C organisations. The interview form is presented as appendix 1.

Business angels

In America, business angels play the main role in overcoming the dual gap. In Europe, and this holds also for Finland, their role is (unfortunately) far less significant. The internet hype of the late 1990s, particularly the successful initial public offerings (IPOs) it enabled, produced several new players in the business angel arena also in Finland. Within Finland, the Tampere region was not among the top scorers of individual IPO related wealth creation of the hype era, however. Hence, in Tampere this category of V2C players is not particularly strong, but of average strength.

Nonetheless, notable measures – on the Finnish national scale – to activate business angel activity have been taken precisely in Tampere. In 1997, Finnish Business Angel Association was registered with Tampere as hometown. This was the first registered business angel association, and to date the only one, in Finland. One of the functions of the association is to arrange for elevator pitch sessions where entrepreneurs are pre-screened for presentation to participating members. Initially the association limited its focus to Western Finland, but after

[1] For a more general overview on emerging V2C models, see Rasila & Okkonen (2002)

cooperation with the governmental Sitra (a central developer of business angel and venture capital activity in Finland), the association expanded scope and changed name. It is to be noted that the association has not been successful, so far, in attracting the attention of Finland's leading business angels. Even within Tampere, there are unofficial round-table-clubs of business angels that have not yet actively participated in the operations of the association.

In Finland, and this holds also for the Tampere region, business angels typically make investments between €8 400 – 13 400 and their investment times range from 2 to 4 years. (Ledi 2002)

Incubators

There are four players in Tampere that can be labelled as the city's strategic V2C players. All four have their own sector specific development responsibilities. While they differ in target venture segments, one of their common denominators is the V2C process.

Finn-Medi Research Ltd is the business development organisation that concentrates on health technologies. The company was founded in 1996 and now employs 13 people. The personnel of Finn-Medi Research Ltd help entrepreneurs to develop their business plans in co-operation with a specialist network. They also provide loans that typically range from 11 000 to 50 000 euros. (Finn-Medi 2002, Eskola 2002)

Tampere Technology Centre Hermia Ltd. is, one could say, in the context at hand, the crown jewel of Tampere: Together with the Tampere University of Technology, an internationally significant both mental and physical concentration of ICT based business, research and development activity. The company is 90%-owned by the city of Tampere. Much of the company's business development services, including incubator activities, have been outsourced for over ten years from entrepreneurial (management-controlled) firms, mainly from *Hermia Business Development Ltd.* Hermia Business Development is a management controlled (management owns majority of shares) company, with elements and strong tradition of private-public cooperation. The company is an exception among the incubators in the region of Tampere, and Finland in general, because it is management controlled and public sector based players are only minority owners (Tampere Technology Park Ltd owns 10% in Hermia Business Development Oy). Hermia Business Development manages, among other things, the *Hermia Incubator*. The incubator is specialised in technology based product and business innovations. At present, there are 12 start-up companies in the incubator. Their product is clearly knowledge, and as a payment they prefer cash to shares. The incubator doesn't make any investments by itself, but it provides help in finding venture capital financiers. (Hermia Business Development 2002, Huhtamella & Jussila 2002)

Oy Media Tampere Ltd. is minority-held by the City of Tampere, whereas private sector (mainly large) enterprises own the majority. Media Tampere manages the national centre of excellence in the media and communication space. Media Tampere can be said to have creatively outsourced incubator services. *Media Club* was recently established as the Tampere incubator specialised in content production and media business. The incubator is not (yet) a legal entity, but a project and, as such, fully owned by Tampere Polytechnic. The (other) financiers of the incubator comprise Pirkanmaa TE-Centre, Media Tampere, and the city of

Tampere. The project was set up for two years, in 2001, and has still one year to go. The business incubator programme provides access to Media Club's expert advice and consultation services, extensive networking opportunities and direct contacts with people who can foster business growth and profits. At the moment there are four start-up companies in the incubator, and the number is expected to increase by two in the beginning of 2003. Their biggest challenge is to get venture capital financing for these companies. (Media Club 2002, Sulonen 2002)

Professia Ltd. is the latest entrant to the city of Tampere sphere of strategic sector-specific business development entities. Professia is owned, in four equal shares, by the city of Tampere, the University of Tampere, Finnvera Ltd (a Finnish national governmental business financing agency), and Sentio Invest Ltd (a local venture capital management company that has gone through a management-buy-out and transformed from government-controlled to management-controlled VC player). Professia manages a business incubator that develops knowledge-intensive advisory and business service companies. The incubating services include business plan preparation, help in seeking financing and modern premises and telecommunications. They also provide access to the expertise and networks of their partners. At present, there are four start-up companies in the incubator. (Professia 2002)

Advisers

There are several advisory firms, in the Tampere region, that are active in the V2C space. Many of these firms are – actually – the incorporated form of activity of a given business angel. One advisory firm has been selected as a case example of this category, namely Ledi Oy.

Ledi has been one of the most active independent and entrepreneurial (management-controlled) companies in the V2C space, and hence a good case example – not merely a choice of convenience (access granted). Ledi was established in Tampere in 1997 and it today has a presence at technology centres in both Tampere and Helsinki. Ledi is a corporate finance boutique that arranges for financing for mainly early-stage enterprises. Sometimes Ledi has been offered, and accepted, shares as partial payment for its services. Ledi and/or its individual partners played instrumental roles in establishing the business angel association (introduced above) and, not less importantly, in creating and setting up a private-public seed-investment partnership which resembles the round-table sessions of business angels. This is a structure where institutional investors, in a way, replace business angels around the table. In the set-up, Ledi has served as the coordinator that pre-screens target ventures, helps put their presentations together, and is engaged in post-investment activities. The investors of the consortium are Sitra, OKO Venture Capital, and TSOP (Tampere Regional Co-operative Bank). The seed consortium provides profit-sharing based subordinated loans, ranging from €50.000 up to €200.000, to seed, start-up, and growth companies. The maturity ranges from 2 to 4 (or even to 7), years. The loans are intended to cover for the seeking of financing options and, ultimately, the expenses of the due diligence process related to a potential venture capital investment. The consortium (the investing institutions) doesn't provide any operational help. (Laine 2002, Ledi 2002)

Corporate venturing

There are several larger industrial corporations with active corporate venturing schemes and programs with a presence in Tampere; none of them are Tampere based, however. One such company, with a particularly strong R&D presence in Tampere is Nokia. Nokia Ventures Organisation is established to create new business ideas outside the natural development path or focus of the company's current activities. It provides seed financing for business ideas from within the company, but also invests in Nokia Venture Partners, a global venture capital firm based in California. Their interests are mainly strategic, like keeping new ideas inside the company and outside the reach of competitors, keeping key personnel in the company, and developing possible new business areas. (Nokia 2002)

Emergent V2C models

eAccelerator is one of six subprograms of eTampere. It was launched in 2001, in the outset, as a virtual incubator. The entity legally responsible for the eAccelerator project is Tampere Technology Centre Hermia Ltd. In practise, based on the outsourcing arrangement, the project is managed by Hermia Business Development Ltd. At present, the project employs 3 people. The task of eAccelerator is to operate in venture projects as an intermediary between early-stage companies and venture capitalists as well as to incubate new companies. Its products are local, national and international contacts and knowledge on financial, general and technological management for companies admitted to the program. eAccelerator leans on a network of 15 core experts and an advisory board of 54 persons; 22 corporate finance experts, 16 growth management experts and 17 technology experts. As an intermediary between ventures and capital, eAccelerator plays the role of catalyst. Its most important task from the point of view of an entrepreneur is to generate venture capital funding. On the other hand from the point of view of a venture capitalist its most important task is to generate investable ventures for venture capitalists i.e. provide reliable investment targets and quality deal flow. Its secondary task is to give advice about economical, managerial and technological issues. The core of the organisation plays an active role in solving problems. The advisory board is designated to help the core personnel in customer service and, at present, they are the primary source of knowledge on legal, managerial and technological matters. The advisory board also plays a central role in evaluating new customer ventures and in making contacts with investors. The members of the advisory board do not necessarily collaborate closely with the core personnel, but they are available if their special knowledge is needed. The use of the advisory board encourages organizational learning, as the core personnel can be "mentored" by the network of experts. The organisation is arranged virtually to gain economies of scope: On one hand eAccelerator has more knowledge than its customers and therefore customership is based on asymmetrical knowledge. On the other hand the members of the network have expertise in different fields and therefore they form strong synergy advantages. (Okkonen 2002, eAccelerator 2002)

Tamseed Ky is seed and start-up venture capital fund managed by Innofinance Ltd in co-operation with Sentio Invest Ltd. The fund was founded at October 29th 2002 and is looking to raise about €10.000.000 (Innofinance 2002). Negotiations are underway regarding the role of the regional sector specific business development entities that are part of the city of Tampere's V2C portfolio. It is to be seen to which extent the partnership-arrangement-in-making between VC and V2C players serves to complete the value chain of the venture capital investment process.

Venture Stables is a support model for testing innovations and facilitating entrepreneurship within the faculty and students of the Tampere University of Technology. This V2C operation is managed by Hermia Business Development. The ventures accepted to the stables gain an access to office space, computers and office equipments for one year and an option to one additional year. The contract also includes up to €7.000 for expert services, patenting and formation expenses. The stable staff can also provide contacts to customers and financiers. If the company succeeds it is obliged to pay back the money the university has invested in it. (Venture Stables 2002)

SUMMARY AND DISCUSSION

Key features of different V2C players

A number of similarities and differences marks the players of the regional V2C arena of Tampere. The following table summarises the key features of each player.

Table 1. Summary of V2C players in the region of Tampere

Player	Owners	Main customer group	Preferred area of business	Mission	Investment size (€ 000)	Take ownership	Length of investment
Business Angels							
Anonymous	Individuals themselves	Entrepreneurial ventures	Depends upon personal interest	Financial gains and fulfilment	8,4 – 13,4k	Yes	2 – 4 years
Incubators							
Finn-Medi Research Ltd	Finnvera Ltd, Sitra, Tampere University Hospital, City of Tampere, Tampere University of Technology, University of Tampere and Finnish Red Cross	Entrepreneurial ventures	Health technologies	Indirect strategic gains (new jobs)	11 – 50k	Yes	Negotiable
Tampere Technology Centre Ltd. (TTC) and Hermia Business Development Ltd. (HBD)	TTC owned 90% by the city; HBD majority owned by mgmt, 10% by TTC	TTC: Entrepreneurial ventures; HBD: Entrepreneurial ventures, investors	Technology based product and business innovations	TTC: Indirect social strategic gains (new jobs); HBD: financial gains	-	Prefer cash to shares	-
Oy Media Tampere (MT) Ltd and Media Club	MT majority-owned by private sector firms, city; Media Club (as a project) owned by Tampere Polytechnic	MT: Entrepreneurial ventures, education and research institutions, financiers, investors and developing companies	MT: Focusing on information network based e-services, web service systems and digital media company development	MT: Generate know-how of mobile and digital communication, information based web services and project funding	MT 100k	No	-

Player	Owners	Main customer group	Preferred area of business	Mission	Investment size (€ 000)	Take ownership	Length of investment
Professia Oy	Owned in equal shares by the city of Tampere, Tampere University Foundation, Finnvera, and Sentio Invest	New and existing knowledge intensive business	Knowledge intensive business services	Commerciali-sation of knowledge intensive inventions	-	No	-
Advisers							
Ledi and the Tampere seed consortium	Ledi partner-owned; consortium investor based	Entrepreneurial ventures, investors	Any tech of knowledge intensive businesses	Financial gains	Ledi 5 – 50k; consortium 50 – 200k	Ledi: prefers cash to shares, but also takes; consortium no	2 – 7 years
Corporate venturing							
Nokia Ventures Organisation	Nokia Oyj	Parent	New growth for parent's core businesses	Indirect strategic gains (corporate interests)	n.a.	No	n.a.
Emergent							
eAccelerator	TTC (practically HBD)	Entrepreneurial ventures, investors	Technology based product and business innovations	Indirect strategic gains (new jobs)	-	No	-
Tamseed Ky	Investors, managed by Innofinance and Sentio Invest	Entrepreneurial ventures	Seed and start-up stage companies from different sectors	Mixture of financial and strategic interests	n.a.	Yes	n.a.
Venture Stables	Hermia Business Development	University faculty and students	Research results at the Tampere University of Technology	Commercialise university innovations	7	No	1 – 2 years

There are players, in the Tampere region, in all of the five main categories of the V2C arena. In principle, the market is dynamic and offers a balanced mix of V2C related services to entrepreneurs facing the dual gap. Overall, the players seem to provide monetary investments in small enough doses, and offer specialised business development services to several different business areas and sectors of economy. It is also evident that the city of Tampere portfolio of V2C players, and the incubators they manage, play the most visible role in the regional V2C arena. Domination of the V2C space by public sector entities is quite a common feature in Europe vs. America, where business angels play the key role. In Europe, the mechanism by which V2C resources are provided and distributed differ between countries and regions. In Tampere, several creative private-public cooperation schemes are underway as well as all new emergent V2C models. The picture is not complete even in Tampere, however. Importantly, each of the key players agrees that further development is still needed.

Ideas for further development of V2C services

In the words of an incubator representative interviewed for this study: "The biggest challenge in the field is to clarify and communicate to each other the needs and objectives of V2C players and venture capitalists and, in the course of the dialogue, develop an operating model that fulfils these needs and, ultimately, makes the growth resourcing of young ventures more efficient." Also the other interviewees underscored the importance of dialogue and two-way cooperation between V2C players and venture capitalists.

As stated above, a more efficient and appropriate distribution and use of target venture ownership could be a key to more successful V2C activity. In fact, ownership – not financing – is key to both VC and V2C activity. In return for the time, money and services, businessman wisdom, if any, they contribute to target ventures, V2C players could receive a small minority share-holding in the target company. By definition, a V2C player's financial gains should be maximised at the point where a venture capitalist enters the 'investable' venture, or – better yet – the later point where the venture capitalist completes a successful exit (Rasila et al 2002, p. 10). In the following figure, the ideal development of the market valuation of a given venture is illustrated as a function of time. The picture does not reflect reality in the Tampere region at the present moment, since most of the local V2C players prefer cash to equity.

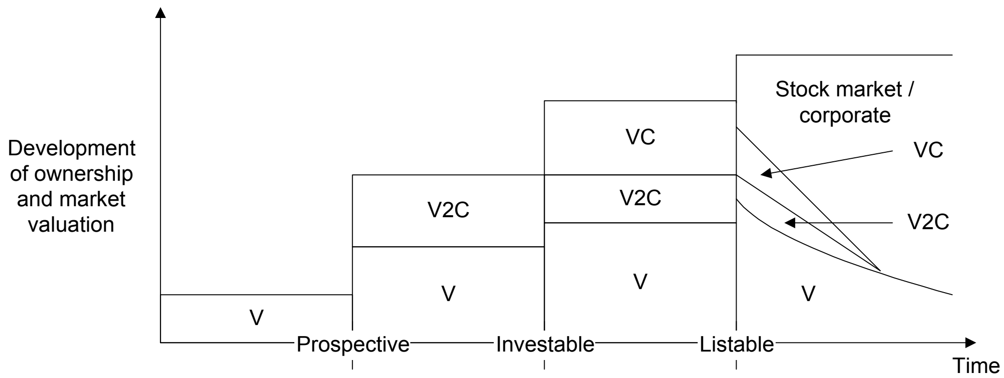

Figure 3. Development of ownership and market valuation through ventures life

In the world of figure 3, V2C players have an incentive to pay attention to the time after venture capital investment. Likewise, the VC players have an incentive to pay attention to the time before their own investment. Herein, V2C activity completes the venture capital investment value chain as shown in figure 4. In this world, the ultimate customer or end-user is the stock market investor (or an industrial acquirer) who, as a group, set the criteria or rules of becoming 'listable' – based on which venture capitalists set the rules of becoming 'investable' – based on which V2C players set the rules of becoming 'prospective'.

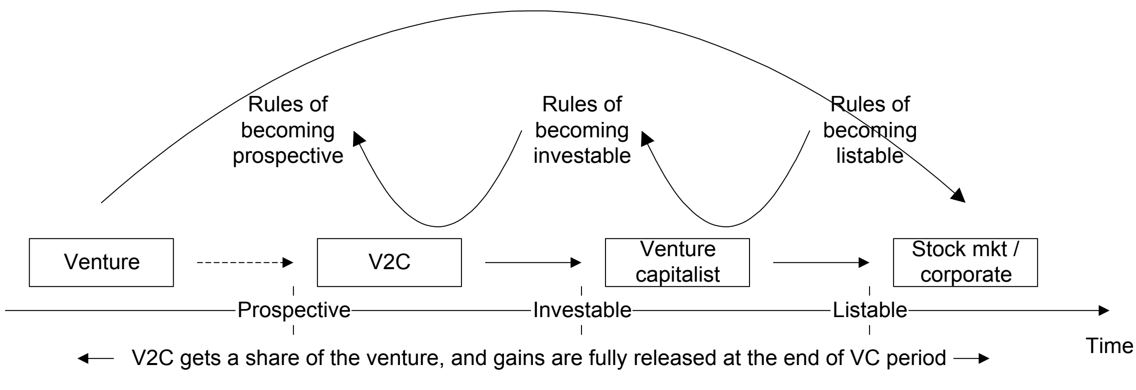

Figure 4. New kind of V2C process

The operating model depicted above could help the different parties to better understand each other's motives and operating logic and enable fruitful long-term relationships. Such an operating model would require much closer cooperation between V2C players and venture capitalists which brings about new challenges: V2C players may become servants to a given venture capitalist and lead to neglecting of other stakeholders. Also, misplaced ownership distribution, for example in favour of faceless institutions rather than entrepreneurial teams responsible for delivering the results, can cause more harm than good to the entrepreneur.

The above discussion is meant as stimulation and leads for further research and development on the V2C activity. In conclusion, probably the highest yield would come from further work on the development of an operating model that understands and appreciates the needs of entrepreneurs, V2C players and venture capitalists, but is set to serve the stock market investor (or acquiring corporation) as the ultimate customer. Since the city of Tampere and many other key players of the region recognise the importance of a strong local V2C community, Tampere continues to facilitate one of the most potential 'testing environments for new V2C laboratories' in Europe and the world.

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APPENDICES

Appendix 1: The interview form

Interview of V2C players

1. PLAYER

COMPANY		DATE	
INTERVIEWED PERSON			

2. WHO

INCUBATOR	BUSINESS ANGEL	ADVISER	CV
VC	OTHER		
OWNERS			
MANAGEMENT			
COMPANY FORM			
POSTAL ADDRESS		YEAR OF FOUNDATION	
POSTCODE		LOCALITY	
WWW-PAGE		E-MAIL	

3. WHY

MISSION	

4. HOW

STRUCTURE			
DECISION MAKER	MANAGEMENT	BOARD	SPECIALISTS
ROLE OF INVESTORS	DECISION MAKING	GOVERNING	NOT REPRESENTED
DECISION MAKING PROCESS			

5. CAPITAL AVAILABLE

AMOUNT OF CAPITAL AVAILABLE			
INVESTORS AND THEIR SHARES	STATE	CITY	PRIVATE INVESTORS
	OTHER		

6. SPECIALISTS AVAILABLE

AMOUNT OF SPECIALISTS			
CATEGORIES	CEO	RESEARCHERS	ENTREPRENEUR
	X-ENTREPRENEUR	OTHER	

AREAS OF SPECIALISATION	

7. TARGET VENTURES

INVESTMENT CRITERIA	BUSINESS AREA	TECHNOLOGY	DEVELOPMENT PHASE
	SIZE OF INVESTMENT	LOCALITY	OTHER
AMOUNT OF PORTFOLIO VENTURES			
ENTRY STAGE IN PRACTISE			
INVESTMENT SIZE	MINIMUM	TYPICAL	MAXIMUM
	DOESN'T INVEST		

8. WHAT VENTURES GET

PARTICIPATION IN THE DEVELOPMENT OF VENTURES (1=NOT AT ALL … 3=OFTEN)	DIRECTOR	GLOBALISATION
	NET WORKER	OPERATIONAL WORK
	SPECIALIST	OTHER
OWNERSHIP		
VALUE ADDING IN PRACTISE		

9. WHAT VENTURE CAPITALISTS GET

10. EXIT

NUMBER OF EXITS	TOTAL	VC / CORPORATE	IPO
	SALE-BACK	WRITE-OFF	OTHER
EXIT STAGE IN PRACTISE			

11. SUCCESS FACTORS

12. AREAS OF DEVELOPMENT
