Critical Factors for Successful Strategy Formation in Venture Capital Funded Companies

- a study made for SEB Venture Capital

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Abstract

Problem Statement

Venture capital, a form of risk capital invested in early stage companies with high growth potential, has an important role in creating job opportunities and new innovations in the society. In order for these important venture capital funded companies to be successful it is essential to have a good strategy. To be able to create a good strategy it is vital to have successful strategy formation, i.e. the process leading to a realized strategy. How the strategy formation is performed in venture capital funded companies today is poorly studied and it would therefore be of great interest to investigate this further. This thesis was initiated by SEB Venture Capital with the aim to study the strategy formation in selected companies they had invested in and to investigate how the strategy formation could be improved.

Purpose

The purpose of this study is to investigate how to achieve a successful strategy formation in a venture capital funded company, from the perspective of a venture capitalist.

Method

The research was a qualitative study with an explorative approach based on semi-structured interviews and a survey in order to investigate strategy formation. In the first interview round interviews were held with strategy consultants and a board work specialist. Following, in the second interview round interviews were conducted with CEO, Chairman of the Board and Investment Manager of the studied companies. Problems, improvements and important factors related to strategy formation was identified and analysed in order to compile the result.

Result

The analysis resulted in 8 critical factors for successful strategy formation and 24 actions to take. To know what to start with and to know what to focus the resources on, the critical factors were given a relative ranking among each other. The critical factors are in order of importance:

1. Have the right people in management and board.
2. Be creative, come up with new ideas, and be open minded for change.
3. Start up with the strategy work shortly after the investment.
4. Have effective en efficient board work.
5. Have effective and efficient strategy meetings.
6. Division of roles and tasks shall be clear.
7. Measure the performance of the strategy work.
8. Document the strategy work.

Conclusion

The factor most critical for successful strategy formation, to have the right people in management and board, was investigated further to answer what the right people are and how one can determine if a person is right. Concluded was that venture capitalists should evaluate people regarding strategy related behavioural characteristics to a greater extent. Concluded further was that when evaluating people the venture capitalist needs to have self-perception and be aware of the way he/she evaluates people and the process of how he/she makes a decision.

Keywords: strategy formation, venture capital, critical success factors, people evaluation
Preface

Firstly, we would like to say that this master thesis has been a great opportunity for us to sum up our studies in Industrial Engineering and Management at KTH by studying a topic that combined both business and technology. We have learnt a lot during this time about the venture capital industry and strategy but also gained valuable insights in how the business and strategy work in practice.

Secondly, we would also like to thank the persons who have made this thesis work possible. First of all we would like to thank our supervisor, Associate Professor Henrik Blomgren at KTH for his time, energy and interesting inputs throughout this study. We would also like to thank our thesis initiator, David Sonnek at SEB Venture Capital for allocating time and making this master thesis possible by providing information and access to the companies and respondents. We have learnt very much in this limited time about the venture capital industry. Further, we would also like to thank the strategy consultants and the board work specialist for contributing and sharing their view on strategy and answer our many questions.

Finally we would like to thank the CEO:s, Chairman of the Boards and Investment Managers for their willingness to participate and contribute to this study and by this making it possible to carry out. They have provided us with good insights within strategy work in their companies and a huge amount of information, which constitutes the essence of our study.

We hope this study will be useful and that it can provide new ideas and perspectives on strategy work.

Happy reading!

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Stockholm May 24th 2012
# Table of Content

1. **INTRODUCTION** ........................................................................................................... 1  
   1.1 Background .................................................................................................................. 1  
   1.1.1 Purpose .................................................................................................................... 2  
   1.1.2 Research Questions ................................................................................................. 2  
   1.2 Delimitations .............................................................................................................. 2  
   1.3 Structure of the Remainder of the Report ................................................................... 3  

2. **METHODOLOGY** ......................................................................................................... 5  
   2.1 Initial Understanding and Starting Point ................................................................. 5  
   2.2 Scientific Approach .................................................................................................. 5  
   2.3 Method and Research Design .................................................................................... 5  
   2.4 Procedure .................................................................................................................. 6  
   2.5 Justification for Choice of Methodology .................................................................... 12  

3. **REVIEW OF THE LITERATURE** ............................................................................... 14  
   3.1 Description of Venture Capital ............................................................................... 14  
   3.1.1 Definition of Venture Capital .............................................................................. 14  
   3.1.2 Ownership and Organizational Structure ......................................................... 16  
   3.1.3 Venture Capital and the Company Life Cycle ................................................... 18  
   3.1.4 The Venture Capital Process .............................................................................. 19  
   3.2 Description of Strategy ........................................................................................... 21  
   3.2.1 Defining Strategy ................................................................................................. 21  
   3.2.2 Strategy Dimensions ............................................................................................ 22  
   3.2.3 Strategy Process ................................................................................................... 22  
   3.2.4 Strategy Formation ............................................................................................... 24  
   3.2.5 Roles within Strategy Formation ......................................................................... 27  
   3.3 Former Research within Venture Capital .................................................................. 29  
   3.3.1 Actors and Roles within Strategy Formation .................................................... 30  
   3.3.2 Venture Capitalist Investment Criteria ............................................................... 31  
   3.3.3 Venture Capital Investment Decision Making .................................................... 32  
   3.4 Research Gap ........................................................................................................... 33  

4. **STUDIED COMPANIES AND ACTORS** .................................................................. 34  
   4.1 Description of Companies ....................................................................................... 34  
   4.2 Map of Companies and Actors ................................................................................. 36  

5. **EMPIRICAL FINDINGS** ............................................................................................. 37  
   5.1 Strategy Formation From the Perspective of Strategy Consultants and Board Work Specialist ................................................................. 37  
   5.1.1 Definition of Strategy ............................................................................................ 37  
   5.1.2 Best Practice of Strategy Formation ..................................................................... 38  
   5.1.3 Suggestions for Successful Strategy Formation ................................................ 41  
   5.1.4 Challenges for Venture Capital Funded Companies ........................................... 46
1. Introduction

1.1 Background

The Swedish economy is small and exposed to intense competition in a surrounding world with rapid changes. In order to retain and develop the Swedish welfare and strong companies providing job opportunities there is a need for company owners with changeability and with capacity to adapt to new conditions. (Riskkapitalet behövs, Dagens Industri, 10 May 2012) New businesses have a very important role in creating jobs and innovation (Carvalho, Calomiris & Matos, 2007). During the last decades the capital from institutions have not been sufficient and a new form of ownership has emerged, risk capital. This has in Sweden attracted a great deal of world leading competence and capital. The industry has with its ownership structure become an important complement to the market and its different forms of family companies, privately owned companies and public companies. The Swedish risk capital industry has become more and more prominent and today 7 % of the employees within the private sector work at a risk capital financed companies with a turnover of 250 billion SEK, which equals 8% of the Swedish GDP. With an active ownership, the risk capitalists have an important role in developing companies and generate growth. This moreover, leads to new job opportunities and an increase in the Swedish competitiveness. (Riskkapitalet behövs, Dagens Industri, 10 May 2012)

There are different definitions and types of risk capital, where capital invested in early stage companies with significant growth is often referred to as venture capital.

Venture capital has an important role since new companies create jobs and new innovations in the society. For early stage companies, to get external funding is often critical and venture capitalists have a very important role. They do not only provide funding, but also knowledge and access to contacts and with an active ownership they can provide strategic support. (Carvalho et al., 2007)

Strategy and strategic thinking are very important for a venture capital funded company. To have a good strategy is essential and in order to be able to create a good strategy it is of great importance to have successful strategy formation. How the strategy formation is performed in venture capital funded companies today is poorly studied and it would therefore be of great interest to investigate this further. This thesis was initiated by SEB Venture Capital, which is a venture capital company investing in growth companies in the Technology, Life Science and Industrial Growth
sectors (for more information see appendix B). The aim was to investigate the
strategy formation in selected companies SEB Venture Capital invested in, to learn
how to work with it in a more efficient and effective way. If a venture capitalist can
learn how the strategy formation could be improved and what he/she can do to make
the strategy formation successful, there would be a lot to win with. A better
performance of a company would lead to a better investment and exit, which is the
goal for venture capitalists.

1.1.1 Purpose

The purpose of this study is to investigate how to achieve a successful strategy
formation in a venture capital funded company, from the perspective of a venture
capitalist.

1.1.2 Research Questions

The purpose will be fulfilled by answering the following research questions.

1. How is strategy formation performed in venture capital funded companies
   and how shall it preferably be performed?
2. What are the problems and possible improvements for strategy formation in
   venture capital funded companies?
3. What are the critical factors for successful strategy formation and what
   actions can be taken to achieve these factors?
4. Which factor is most critical for successful strategy formation and how shall it
   be managed?

1.2 Delimitations

The strategy formation process is studied, however the research is not aimed to give a
complete picture of strategy formation, but rather to give a better understanding of
the activities that lead to the creation of the strategy.

The relative importance of strategy of strategy compared to other activities has not
been studied in this thesis. Thus, our initial assumption was that strategy is
important for the venture and assume that it would be beneficial for the company if
strategy formation can improve.
Further, it was not studied if the formation or the actual strategy was the most important for a new venture. The inductive approach to the area was that if the strategy formation was improved, this would imply a better strategy, which would lead to a better performance of the company and consequently a better exit for the venture capitalist.

In this thesis, the actual strategy of the companies is not studied and no standpoint regarding if it is a good strategy or not is taken.

1.3 Structure of the Remainder of the Report

The structure of the remainder of the report is presented in figure 1.
Abbreviations
Hereafter the following abbreviations will be used in the report.

CEO - Chief Executive Officer
CoB - Chairman of the Board
IM - Investment Manager
2. Methodology

Below is a review of the methodology, methods and the approach used in the research. The research has been performed as a qualitative study with an explorative approach. Methods used are semi-structured interviews and a survey. The research consists of several steps that build on each other. Further, best practices, problems and improvements have been studied.

2.1 Initial Understanding and Starting Point

Before the start we had little knowledge and no prejudices about the venture capital industry. Both the thesis initiator and we regarded it as an advantage in this case to be free from prejudices and to be able to perform interviews from an outside perspective.

The starting point in this research was that strategy is important. The implication of this premise is the assumption that well-performed strategy formation will induce a better exit for the company from the perspective of a venture capitalist.

2.2 Scientific Approach

This study was grounded on the premises that social reality is not objective but rather subjective and shaped by our perceptions (Collis & Hussey, 2009). The implication of this is that the investigation of the social reality also has an effect on it. The approach in this study was holistic with a flexible design to facilitate further studies of ideas that occurred during the research.

The methods used in this study were semi-structured interviews and a survey. In a qualitative study as this one, inductive research is the most common, which was also used in this research. In inductive research the theory is developed from observations of the empirical reality and general conclusions can be induced from singular instances (Collis & Hussey, 2009).

2.3 Method and Research Design

The research was a qualitative study with an explorative approach based on semi-structured interviews and a survey in order to investigate strategy formation. The respondents were provided by the thesis initiator at SEB Venture Capital and chosen with regard of role, experience and accessibility. The respondents hold the position as
either CEO, Chairman of the Board or Investment Manager at four companies that SEB Venture Capital has invested in.

In the research a qualitative approach has been taken which is suitable when one is not initially familiar with the subject. A qualitative study is also a suitable method when gathering information regarding an unwell defined subject as strategy. Our presence, i.e. during the interviews, has further had an affect on the research and the findings, and we are consequently a part of the research.

The research was as stated before aimed to be performed in an explorative manner and consists of several steps that build on each other. It is designed in a way of firstly try to understand how strategy currently is performed and how it preferably should be performed and secondly investigate how to accomplish this. This was done by creating best practices and by searching for problems and possible improvements.

2.4 Procedure

Below is a presentation of the procedure of gathering the information and making analysis leading to the result and conclusion. The procedure is illustrated in figure 2 below.
Figure 2. Description of the procedure of gathering the information and making analysis and result compilation and conclusion for the thesis work.
Literature Review

Literature and scientific articles regarding venture capital was studied in order to create an understanding of how the industry works. To provide a correct understanding of the venture capital industry and venture capital process, which is applicable for this research, Anders Isaksson who thoroughly has studied and mapped the Swedish venture capital industry, has in a wider extent been used in this study. There is a vast amount of international literature regarding venture capital but we are of the opinion that to use research from Isaksson gives a better understanding for venture capital in Sweden and the way SEB Venture Capital and the four studied companies’ function.

Following, literature regarding strategy was studied. Different types of books have been studied to get a fundamental understanding for strategy and how it should be performed. This also served as a foundation to base the following interviews on. The literature used is in a great extent focused on mature companies. However, we are of the opinion that the literature is also applicable for the companies that we are studying, i.e. companies in an earlier stage in the company life cycle. The corporate governance and fundamentals for creating strategies are similar between the different company types.

Moreover, a review of current research in strategy within venture capital has been performed, in order to understand what have been done in the area before. This led to an identification of a gap within earlier research and a take-off for this research.

Interviews Strategy Consultants and Board Work Specialist

Strategy literature is highly theoretical, and in order to better understand how strategy work is performed in practice, interviews were conducted with strategy consultants and a board work specialist. The strategy consultants have long experience from working within management consulting at firms as Boston Consulting Group, Arthur D. Little, Applied Value Group and Accenture and holds today senior positions. The board work specialist works for The Swedish Academy of Board Directors (Styrelseakademin) with education in and development of board work and with recruitment to boards. Several of the interviewees had experience from working with high growth companies and/or private equity.
The interviews were used to get a better understanding for how strategy work is performed and how it preferably shall be performed. The interviews lasted for about 1.5 h and were recorded and transcribed.

**Interview Compilation Strategy Consultants and Board Work Specialist**

The interviews were also compiled to better understand how strategy work is performed and desirably should be performed, in order to be prepared for interviews with actors from the studied companies. However, the information from the interviews were used with some caution since most of the experience that the interviewees possess is from more mature companies and they are not primarily working in the venture capital industry.

**Creation of Strategy Formation Map**

From the literature and interviews with consultants and the board work specialist we developed our own map of strategy formation, which served as a basis for the following work and research.

**Interviews CEO, CoB and IM**

Interviews were conducted with two CEO:s, two Investment Managers and two Chairman of the Board who all works or have been working in one or more of the four chosen companies that SEB Venture Capital has invested in. One of the investment manager worked for SEB Venture Capital and one worked for a co-investor. Access to the interviewees was provided by the thesis initiator from SEB Venture Capital. The interview questions with CEO, Chairman of the Board and Investment Manager were compiled with help from literature, interviews with strategy consultants and the board work specialist and our own strategy formation map. The interviews were carried out in a semi-structured manner with an explorative approach to learn more from each interview in order to get an as comprehensive understanding for strategy formation as possible. Further, the interviews were used to better understand how the strategy work is performed and to identify problems and possible improvements to use to help define critical factors for successful strategy formation and to find concrete actions to take.

The interview questions served as a base and support during the interviews. A great part of the discussions during the interview originated in follow up questions. Before the actual interviews a mock-interview was carried out with our thesis initiator to test the questions and their level in order to see to what extent it was possible to answer
the questions, and what kind of answers we could expect. The interviews lasted for about 1.5 h and were recorded and transcribed.

**Analysis Part 1 – Strategy Formation**

After the interviews had been transcribed, they were analysed and information regarding who, how and when for the different steps in our own strategy map was extracted. The meetings and documents used in the strategy formation were described in more detail.

**Analysis Part 2 - Critical Factors for Successful Strategy Formation and Actions**

In the second part of the analysis, information dealing with problems and possible improvements, i.e. concrete actions and factors that seemed to be important for successful strategy formation, were extracted. An active search for patterns and information that were brought up by the interviewees was performed. The factors were derived both top down (what was said explicitly on the interviews and what we have concluded) and also bottom up (from identified problems and from improvements that could be done). In total 18 factors that were of high importance for successful strategy formation and a great number of concrete actions were identified. The actions were assigned to what factor it was perceived to belong to. The importance of the critical factors for successful strategy formation was also considered and discussed from a venture capitalists perspective.

The critical factors were elaborated with the following layout structure, see figure 3 below:

<table>
<thead>
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<th>Critical success factor</th>
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<tr>
<td>+ Motivation for why this is a critical factor for successful strategy formation.</td>
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<tr>
<td>+ Problems that are related to this critical factor.</td>
</tr>
<tr>
<td>+ Literature presence.</td>
</tr>
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<table>
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<tr>
<th>Actions that can be taken to achieve the critical factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ Action 1</td>
</tr>
<tr>
<td>+ Action 2</td>
</tr>
<tr>
<td>+ Action 3</td>
</tr>
</tbody>
</table>

**Figure 3.** Structure for analysis of critical success factors and actions.
The factors were then reworked and synthesized into 9 factors that we saw as critical factors for successful strategy formation, i.e. factors that are crucial and of high priority for successful strategy formation. These critical factors were called our preliminary factors and had 2-3 actions each (out of total 24 actions).

**Conduct Survey**
Critical factors and actions were put together in a survey and sent out to the persons whom had been interviewed in order to be able to share answers between respondents and also to test the extracted and self-created critical factors and actions. In the survey the different success factors were graded regarding how well they were perceived to lead to successful strategy formation. Actions were ranked according to their impact and effort.

To the survey the chosen evaluation rating scale was a bipolar scale, i.e. a scale from low to high with a neutral choice in the middle. This was chosen because a neutral option was needed in the survey.

We understand that the specific role each respondent holds affected the answers given. Since the purpose was to get an indication of the opinion of professionals within the industry we chose not to focus on the specific role each respondent hold and one of the instructions for the survey was. *With the role that you have today it might be hard for you to answer certain questions in the survey, please do your best and answer all questions with the approach that the overall goal is to improve the strategy formation.*

**Analysis Part 3 – Survey**
The survey was analysed regarding the grading and the ranking the different factors were given. The analysis led to a survey ranking of the critical factors. The ranking of the actions were analysed regarding in what extent we agreed with the impact and effort mean score set by the respondents.

The mean scores from the answers were studied to give a guidance and indication of what the respondents considered of the different factors and actions.
Result Compilation
Analysis part 1, part 2 and part 3 are combined to establish the final critical success factors for successful strategy formation. The final ranking was created with regard to our insights, the preliminary ranking and survey ranking.

Conclusion Formulation
The most critical factor was investigated more thoroughly by studying literature and by interviewing a venture capitalist at SEB Venture Capital. From this, final conclusions were drawn regarding how to achieve a successful strategy formation in a venture capital funded company, from the perspective of a venture capitalist.

2.5 Justification for Choice of Methodology
The use of more than one source or various research methods is called triangulation and aims to reduce bias in data sources and methods. In this study a methodological triangulation has been performed, where the survey complemented the analysis of the interviews when concluding the critical success factors. Triangulation is valuable since it enhances both validity and reliability of the study (Collis & Hussey, 2009).

Reliability
Reliability refers to the absence of differences in the results if the research was repeated (Collis & Hussey, 2009). Since the author influenced the activities in this study, it is not possible to redo the study with the exact same results, thus is the reliability of less importance in this study compared to validity. Consequently has the emphasis in this study been on authenticity and richness in the results rather then replication.

Validity
Validity is the extent to which the research findings accurately reflect the phenomena under study (Collis & Hussey, 2009). Since the aim was to receive rich and authentic information from the interviews, validity has been of great importance. Through asking clarifying questions, feedback from the respondents and the survey, the obtained information has been validated.

Generalizability
Another concept worth discussing is generalizability of the methodology and methods. To perform an explorative qualitative study could be useful when
investigating other unknown and complex phenomenon as well. The approach to first create an understanding for how activities are performed and to read literature and make interviews with specialists in the area to create an understanding for a best practice and from that find problems, improvements and critical success factors could be used by others as well.
3. Review of the Literature

The literature review consists of four parts. First is a description of venture capital, what it is and what the venture capital process looks like in order to provide the reader with a basic understanding of the terminology and the industry. After that, strategy is presented and defined and an explanation of strategy formation is given. Following, an investigation of the research done within venture capital and the activities performed prior to and after an investment are presented. Lastly is an explanation of the gap in the literature and where our research fits in.

3.1 Description of Venture Capital

Venture capital is a form of risk capital invested in early stage ventures. There are different types of venture capital presented in the section below with different organizational structures. Investments of venture capital can be seen as a process of finding a venture to invest in, add value and ending with an exit.

3.1.1 Definition of Venture Capital

Venture capital is a subset of risk capital, where the risk taken by the investor is compensated by partaking in a future success of a firm as a part owner (Isaksson, 2006). Venture capital is further described as investments in unlisted companies. The main part in a venture capital investment constitutes of private equity, but it is also common with intermediate forms of capital with e.g. convertible loans or debentures with option to subscribe for shares. A venture capital investment implies that the investor becomes, or is offered to become, part owner in the company. Venture capital is thus not just a capital investment but also assumes that the investor has an active owner involvement, as for example representation in the board. (Isaksson, 2010)

The definition of venture capital is not exactly described. The majority of the American actors refer to venture capital as investments in high-technological companies, which are in an early stage of their life cycles. In Europe, venture capital is seen as all forms of risk capital investments in unlisted companies. In recent years, these approaches have converged and venture capital investors are viewed upon as specialized in actively supporting companies with potential to develop when providing risk capital and competence. (Isaksson, 2010)
The European Private Equity and Venture Capital Organisation, EVCA, defines venture capital as following:

“Professional equity co-invested with the entrepreneur to fund an early-stage (seed and start-up) or expansion venture. Offsetting the high risk the investor takes is the expectation of higher than average return on the investment. Venture capital is a subset of private equity.” EVCA, 2012

The concept risk capital is often used synonymous to venture capital, which is not entirely correct. A venture capital investment is a form of risk capital investment. But not all risk capital investments are venture capital. Risk capital can be divided into public equity and private equity where private equity can be further divided into informal venture capital, formal venture capital and other venture capital (Isaksson, 2010). This structure is illustrated in figure 4 below. Informal venture capital is investments made by private persons who are investing their own money and are referred to as business angels. They often invest in an earlier stage than formal venture capital investors. Formal venture capital is sometimes referred to as “classic venture capital” (Isaksson, 2006) and “other private equity” is sometimes referred to as “private equity”. The distinction between formal venture capital and private equity is that private equity is commonly investments in a later stage (turnarounds, buy-outs etcetera) and does not necessarily imply quite as active owner involvement as in venture capital investments (Isaksson, 2010). This research is carried out for SEB Venture Capital, which is a formal venture capital investor. The following section and report is therefore focused on formal venture capital.
3.1.2 Ownership and Organizational Structure

Formal venture capital can be divided into subcategories based on their ownership structure. Isaksson (2010) describes the different ownership structures as private venture capital structure, captive venture capital structure and public venture capital structure.

Private venture capital companies are primarily owned by private persons and companies that administrate capital from external investors such as pension funds. The private venture capital companies are though often partly owned by large corporations or public institutions. The majority of the capital that private venture capital companies administrates comes most often from institutional investors such as insurance companies, pension funds and large corporations (Isaksson, 2010). A private venture capital company typically consists of a management company that sets ups one or many venture capital funds, see figure 5. A venture capital fund is organized as a limited partnership, where the venture capitalist acting as the general partner of the fund and the investors as the limited partners (Metrick & Yasuda, 2011). The general partner has responsibility for the investment while the limited partners have limited responsibility. External investors can invest capital in the venture capital funds. The venture capital is thereafter placed in different portfolio companies. The management company is administrating the funds and are
responsible for all contact with the portfolio companies. Normally the management company also invest a certain amount in the fund and is also compensated by an administrative fee and also a share of the returns of the investments, symbolized by the arrows in figure 5. The return of the investment can be refunded to the limited partners successive depending on investment and exits. Another common setup is that the capital input is done when the fund is established and then the revenue is shared when the fund is dissolved, which has been predetermined. (Isaksson, 2010)

**Figure 5.** Private venture capital companies establish funds, in which external actors can invest, from which they make investments in their portfolio companies. The venture capitalists act as general partner and the investors are limited partners.

Captive venture capital companies are funded mainly from internal sources in a corporate group whose main business is not venture capital. Examples are affiliates, banks, insurance companies, investment companies or departments in an industrial corporate group. Stock exchange listed industry companies are now in greater extent than before performing venture capital business, partly as a way of administrating capital, but also as a way of controlling innovative developments within a strategically important area (Isaksson, 2010). If it is a non-financial company such as an investment company in an industrial company, it is often called a corporate venture capital company (Isaksson, 2006). For example The Volvo Group has their own venture capital company called Volvo Technology Transfer (VTT). Isaksson (2006) means that corporate venture capital companies might have other objectives with their investments than only financial objectives that the private venture capital companies have. SEB Venture Capital is a captive venture capital company, but they
differ from VTT in the way that they are financial investors. However they differ from private venture capital companies since they do not set up funds during a limited time. Due to this SEB Venture Capital has a so called “evergreen structure” which mean that they are not bound by funds or to forced to exit a company when the time of a fund is ending as for a private venture capital company. For more information about SEB Venture Capital, see appendix B.

Public venture capital companies are mainly owned by state interests. In Sweden the state has been one of the most active actors on the venture capital market since Företagskapital started in the middle of 1970s. Industrifonden and AP fund 6 are two large state actors that perform venture capital investments both directly and indirectly through part- or fully owned venture capital companies (Isaksson, 2010). According to Isaksson (2006) public venture capital differ from private and captive venture capital companies since they might be restricted by legal constraints. Their objective is also different and is often to strengthen the growth of new ventures rather that making a profit.

3.1.3 Venture Capital and the Company Life Cycle

There are different phases a growing firm passes within its life cycle, see figure 6 below (Isaksson, 2006). The European Private Equity and Venture capital Association, EVCA, has defined the different stages of a company life cycle as seed stage, start up stage and expansion stage. In the seed stage financing is needed for research, assets and the development of an initial business concept before the business has reached the start-up phase (EVCA, 2012). In this stage the company usually have relatively low costs in developing the business idea. In this stage the ownership model is considered and implemented. In the seed phase it is a high risk for a total loss and normally the venture capitalist’s equity share is relatively small in this phase (Isaksson, 2006). In the start up stage financing is needed for product development and initial marketing. Firms in this phase may be in the process of setting up a business or they might have been in the business for short time, but not sold their products commercially (EVCA, 2012). In this phase cost are increasing affectedly because of e.g. product development, market research and the need of recruiting personnel. Revenues are starting to come, although at a low level (Isaksson, 2006). The third phase is the expansion phase and financing is needed for the growth and expansion of a firm. The capital may be used to finance an increased production capacity, product or market development or hire additional personnel (EVCA, 2012). The expansion phase is when the firm matures and is sometimes
divided into early and late expansion. In the early expansion phase sales and production increase but there are not yet any profit. The later expansion stage is when the firm typically encash profit but need extra capital for further development, marketing efforts or improvement of the product.

SEB Venture Capital primarily invests in the start-up and expansion stage.

**Figure 6.** Depending on where in its lifecycle a company is, different sources of funding is used (Isaksson, 2006).

### 3.1.4 The Venture Capital Process

According to Isaksson (2006) the work of a venture capitalist can be seen as a process consisting of five steps presented in figure 7 below. The steps are: establish fund, deal flow, investment decision, business development and value adding and exit.
Figure 7. The venture capital process can be presented as five steps. First a fund is established. Then is the deal flow and investment decision. Following that is the value adding period ending with an exit (Isaksson, 2006).

**Step 1. Establish Fund**
For the venture capital process to start there need to be a venture capital company. If there is a private venture capital company there is a need to raise a fund from which the investments can be made (Isaksson, 2006). Funding can be provided by for example banks, pension funds or insurance companies (EVCA, cited in Isaksson, 2006).

**Step 2. Deal Flow**
There are two different ways to find new ventures to invest in. Either one can actively search for entrepreneurial firms or one can let entrepreneurs come and propose their business ideas. The latter is the most commonly used approach (Isaksson, 2006).

**Step 3. Investment Decision**
The next step is then to evaluate and make a complete examination, a Due Diligence of the venture. This is often hard and time consuming due to limited information and high level of uncertainty about the product, market and potential customers. Then the value of the venture must be determined to arrive at a price for the deal. Following that is a process of negotiation, which if successful, ends with capital transformation. (Isaksson, 2006)

**Step 4. Business Development and Value Adding**
Venture capitalists do not only contribute with capital, they are also part of developing the ventures. But there is a contradiction within research regarding venture capitalists’ value adding activities. The common understanding is that venture capitalists contribute with knowledge and contacts/networks. This is done by being a part of the strategy development and bringing expertise to the work within
the company. Venture capitalists are also seen as providing access to good contacts. (Isaksson, 2006)

**Step 5. Exit**

There are several ways to exit an investment in a company. According to Macintosh (cited in Isaksson, 2006) common exits are:

- **IPO** (Initial Public Offering): The venture's shares are offered in a public sale on an established share market.
- **Trade sale** (Acquisition): The whole venture is sold to another company.
- **Secondary sale**: The venture capital firm's sell their part of the venture's shares only.
- **Buyback or MBO**: Either the entrepreneur or the management of the firm buys back the venture capital company's shares of the firm.
- **Reconstruction, liquidation or bankruptcy**: If the project fails the venture capital firm's will restructure or close down the venture.

**3.2 Description of Strategy**

There is a very large amount of literature covering strategy and strategic management (Mintzberg, Ahlstand & Lampel, 2009). Even though there are a great number of books on the subject, strategy is one of the least well-defined areas in management theory (McGee, Thomas & Wilson, 2005). There are many definitions of strategy and a vast number of ideas regarding how strategy shall be made (De Wit & Meyer, 2004). An overview of strategy and a presentation of how it is formed will be given below.

**3.2.1 Defining Strategy**

Strategy has been defined by many scholars, who all have differing opinions and thus there is no clear definition of strategy. The definition that seems to be the most common is the one by Harvard business historian Alfred D. Chandler who in his book Strategy and Structure from 1963 (cited in McGee, Thomas & Wilson, 2005) defines strategy as:

“*the determination of the basic long-term goals and objective of an enterprise and the adoption of course of action and the allocation of resources necessary for carrying out these goals.*”
Other definitions are:

“Strategy is the means by which individuals or organizations achieve their objectives.” (Grant, 2010, p. 16)

“An organization’s strategy consists of the moves and approaches devised by management to produce successful organization performance.” (Thompson & Strickland, 1992, p. 2)

3.2.2 Strategy Dimensions

De Wit and Meyer (2004) approaches strategy from three dimensions: process, content and context. These dimensions are not different parts, and all are present in a strategic situation. The three dimensions will be presented below, with a greater focus on the strategy process.

**Strategy Process**

Strategy process refers to the way in which strategies are created, the flow of strategy activities. It deals with questions like: How is and shall strategy be made, formulated, changed and controlled? Who is involved? When do necessary activities take place?

**Strategy Content**

Strategy content is the result of the strategy process. It answers the question: What is or what shall the strategy be?

**Strategy Context**

Strategy context is the circumstances and surrounding conditions under which both the strategy process and strategy content are determined. It answers the question: In which firm and in which environment.

3.2.3 Strategy Process

The strategy process has traditionally been presented as a linear process with different distinct steps: analysis, formulation and implementation. In the analysis step, external opportunities and threats and internal opportunities are identified. The following formulation stage encompasses to determine what options that are available and to evaluate and chose one option. Finally the chosen strategy shall be implemented and converted into concrete actions to be carried out. The strategy process is traditionally also presumed to be rational, the process follows a logical
order with access to important factors. An assumption that the process is comprehensive and that the strategy can be made for the entire organization is often also made (De Wit & Meyer, 2004).

The rational and analytical approaches to strategy have been challenged. Some scholars argue that the analysis are more intuitive and creative, there is a tension between logic and creativity. To present the strategy process as linear and with distinctions between the three stages have also been criticized. The process is presented as more complex and the stages are intertwined and on going all the time. Strategies are said to be formed incrementally along the way, a tension between deliberateness and emergence is created, see figure 8 (De Wit & Meyer, 2004). According to Mintzberg and Waters (1985) some strategies may be planned, but a greater part emerge without being consciously intended. Emergent strategies are responses to unexpected opportunities and problems (McGee, Thomas & Wilson, 2005). A realized strategy that was intended is called a deliberate strategy (De Wit & Meyer, 2004). According to Mintzberg and Waters (1985), a realized strategy is a blend of deliberate and emergent strategy, see figure 8. The final major assumption of the traditional view, dealing with comprehensiveness, is criticized, as it is unrealistic to presume that the entire company can be radically changed at the same time. Change is said to be more gradual and fragmented than radical and coordinated (De Wit & Meyer, 2004).

![Figure 8](image)

**Figure 8.** Intended strategies can be unrealized strategies or deliberate strategies. A realized strategy is a blend of deliberate and emergent strategy (Mintzberg et al, 2009, p. 12).
Despite the criticism of rational and analytical approaches to the strategy process, a systematic analysis is vital to understand the strategy process. Different concepts and theories can be used as a complement to experience, commitment and creativity and can provide a framework for information processing and discussions.

3.2.4 Strategy Formation

In this section strategy formation will be defined and further a presentation of the design school and the positioning school will be presented. Also critique of the two schools will be discussed.

Strategy Formation Definition

The process by which a realized strategy is formed is called strategy formation. As stated in 3.2.3 a realized strategy can be based on an intended strategy and an emergent strategy. Since an intended strategy is created by strategy formulation and an emergent strategy is created along the way, strategy formation covers both strategy formulation and action. Strategy formation is the entire process leading to strategic behaviour in practice.

10 Schools of Strategy Formation Process

There are many perspectives on strategy formation. Mintzberg et al. (2009) define ten different schools, where each school has its own point of view on strategy formation. Each school has its own focus and contributions but also limitations, hence no one is complete in describing strategy formation. The actual creation of strategy is by most schools seen as a mysterious black box. Mintzberg et al. (2009) also means that strategy formation is more than one first might think at a first glance.

“Strategy formation is not just about values and vision, competence and capabilities, but also about crisis and commitment, organizational learning and punctuated equilibrium, industrial organization and social revolution.”

(Mintzberg et al, 2009, p. 8)

Further two of the schools, the design school and the positioning school, will be presented. These are two basic descriptive schools that are used widely and can be used to get a primary understanding for strategy formation.
The Design School

Of all ten schools, the design school have had the greatest influence on the view of the strategy formation process. The design school sees strategy formation as a process of concept. The school means that one shall seek for matching the internal capabilities with the external possibilities and to position a firm in its environment, see figure 9. Emphasis is on assessment of threats and opportunities in the environment and strengths and weaknesses of the organization, i.e. a SWOT analysis. Managerial values and social responsibility are also believed to be important factors for strategy formation. The actual creation of strategy is described as a creative act and as being an iterative process. After different alternative strategies have been developed the next step is to evaluate these and chose the best strategy. The chosen strategy shall then be implemented.

**Figure 9.** First are internal and external capabilities assessed. Strategy options are then created and evaluated. Finally the strategy is chosen and implemented. (Mintzberg et al, 2009, p. 26)
There are 7 premises of the design school:

1. Strategy formation should be a deliberate process of conscious thought.
2. Responsibility for that control and consciousness must rest with the chief executive officer: that person is the strategist.
3. The model of strategy formation must be kept simple and informal.
4. Strategies should be one of a kind: best ones result from a process of individualized design.
5. The design process is complete when strategy appears fully formulated, as perspective.
6. The strategies should be explicit, so they have to be kept simple.
7. Finally, only after these unique, fully-blown, explicit and simple strategies are fully formulated they can be implemented.

Critique of the Design School

The design school is argued to have a narrow perspective and to miss important aspects of the strategy formation such as emergent strategy and other important actors for strategy creation, except for the CEO. Critique is directed towards that the strategy is a result of conscious thought and that the ones formulating the strategy are different than the ones implementing it. That the school builds on the conception of e.g. the competences or strengths of the company is also criticized, since to actually know what these factors are might be very hard. The school is also criticized for that the strategy must be explicit and that this results in inflexibility. The separation of formulation and implementation is also criticized (Mintzberg et al, 2009).

The Positioning School

The positioning school describes strategy as an analytical process. It has made a great contribution to strategic management and it have had and still today has a great influence on the topic. It started with Michael Porter when he in 1980 published *Competitive Strategy*. It builds on the Design School but it also emphasizes the importance of the actual strategy, not only the importance of the formation. The design school is also freer in the content of the strategy, while it in the positioning school should be a position within the marketplace. Strategy was perceived as a controlled process, which produced deliberate strategies that could be formally implemented. It specifically focuses on calculations and generic strategic positions while the design school focuses more on developing integrated and unusual
strategies. The positioning school views strategy formation as finding a position that enables the company to withstand competition (Mintzberg et al. 2009).

The positioning school is described as suitable for consultants and strategic applications, such as the growth-share matrix was developed by Boston Consulting Group. The school also includes the search for relationships and refers to Porter who viewed it as a business strategy shall be based on the market structure. His book Competitive Advantage from 1985 became a foundation for strategy and provided several concepts. In this book, Porter’s model of competitive analysis and his set of generic strategies were presented (Mintzberg et al, 2009).

**Critique of the Positioning School**

Both the design and positioning school can be critiqued since they separate thinking from acting and have a perspective on strategy as something made at the top through calculations and analysis and further that the strategy then shall be implemented through actions lower down in the organization. Mintzberg et al (2009, p. 115) mean that:

“In our view no one have ever developed a strategy through analytical technique. Technique has certainly fed useful information into the strategy-making process. But it has never developed a strategy.”

The authors continue this with saying that:

“Technique does not create strategies; people do.”

To see strategy as finding a position is narrow and inhibits creativity. The authors conclude with saying that with its focus on calculation and analysis, the role of the positioning school in strategy formation is reduced to being a support to the strategy formation. Strategy formation incorporates a lot more and is a dynamic process and not as static as described in the positioning school.

3.2.5 Roles within Strategy Formation

To better understand how strategy shall be formed and what role the different actors have a section regarding corporate governance is presented below. The board of directors have a great part in governing actions and strategic choices taken.

**Corporate Governance Definition**

Corporate governance incorporates the relationship between shareholders, the board of directors and management (Fitzroy & Hulbert, 2005). It is concerned with issues
of governing the actions and strategic choices taken by top management. A common
definition is that corporate governance “addresses the issues facing boards of
directors”, defined by Tricker (cited in De Wit & Meyer, 2004). Others have argued
that this is a narrow definition and that the board of directors are only one part of the
governance. There are also other factors such as regulations from authorities and
pressure from societal groups that can work as checks for the management actions.

Corporate Governance Functions
De Wit and Meyer (2004) present three corporate governance functions. The first is
to govern the forming of the corporate mission. This can be done by the board of
directors by influencing and questioning strategic choices and to consider advantages
and disadvantages with the strategy. The second function is to contribute to improve
the performance of the company by participating in the strategy process and
development. The board of directors can do this by participating in strategy
discussions and acting as a sounding board. Finally the corporate governance shall
monitor and ensure that what the management undertakes is in conformance with
the stated mission and strategy. The board can audit the management and press for
changes determine incentive packages and appoint new managers (De Wit & Meyer,
2004).

In chapter 8 in ABL The Swedish Companies Act 2005, Aktiebolagslag (2005:551) is
the tasks of the board of directors stated in 4 § and the tasks of the CEO in 29 §.

Managing Strategy
According to Thompson and Strickland (1992) the most important strategy manager
is the chief executive officer, CEO, who has the responsibility of leading the tasks of
formulating and implementing the strategic plans of the entire organization. Vice
presidents for different departments are also important for the strategy formation
and strategy implementation. Thompson and Strickland (1992) argue that the
process is not restricted to only these positions but

“Every manager is a strategy-maker and strategy-implementer for the area
he/she has authority over and supervises. “
(Thompson & Strickland, 1992, p. 13)

Further is the strategic role of the board of directors discussed as to oversee that the
task of managing strategy is adequately done. The board does not formulate the
strategy but reviews strategically important activities and becomes responsible for
the actions taken by approving plans from senior management. The board
determines whether the CEO is doing a good job in strategic management
(Thompson & Strickland, 1992).

Shareholders and Management
The so-called agency problems arise when the objectives of managers differ from
those of the shareholders. The agents (managers) make decisions that are in their
own interest and not in those of the principal (shareholders). Ownership
(shareholders) is separate from control (managers) and this might lead to discussion
in risk taking and in what to do with the free cash flow. While shareholders are
interested in financial returns, managers might be interested in other things such as
growth and firm size, or prestige of the company (Fitzroy & Hulbert, 2005).

3.3 Former Research within Venture Capital
Research within venture capital and strategy deals to a great extent with the role of
the board as in Rosenstein (1998) which states that in high technology ventures the
board of directors have an active role in strategy formulation. The strategy and board
of directors is also studied in Fried, Bruton and Hisrich (1998). The effects of venture
capitalists on the governance of firms is investigated by Bonini, Alkan, Salvi (2011)
who found that as the amount of funding to the firms increased, the involvement of
the venture capitalists also increased. Gompers; Hellmann and Puri; Kaplan and
Stromberg (cited in Bonini et al, 2011) have concluded that venture capitalists not
only provide funding but also value adding activates with the aim to examine the
development of the strategy of the firm.

There has been a lot written about what makes an investment successful and how the
performance of a new venture can be improved, e.g. in Sandberg and Hofer (2002).
Gimmon and Levie (2010) refers to Colombo and Grilli (2009) who describe that
there is a great amount of research within venture capital regarding what influences
the survival of new ventures. However, few of these focus on high-technology
companies and very few focus on the entrepreneurs in these kinds of companies.

According to Kollmann and Kuckertz (2010), literature regarding venture capital
funding has in depth analyzed the process prior to and after the investment. Research
dealing with the process prior to investment has identified central steps of the
process leading to a decision to invest in a venture in Wells; Tyebjee and Bruno; Fried and Hisrich (cited in Kollmann & Kuckertz, 2010). Others as MacMillian; Siegel and Subba Narashima; Muzyka; Birley and Leleux (cited in Kollmann & Kuckertz, 2010) have investigated the importance for certain investment criteria. How decisions regarding an investment are taken is discussed in Shepherd (1999) who means that investors do not always make decision in the way that they think that they do. Zacharakis and Meyer (1998) conclude that the presented criteria might have a quite small influence on the decision. Also methods for adding value after making an investment is discussed in Sapienza; Jain and Chen (cited in Kollmann & Kuckertz, 2010). Sapienza (1992) analyses the role of the venture capitalist and how well the venture performs is correlated with the venture capitalist’s involvement. This is also supported by Bottazzi, Rin and Hellmann (2007).

3.3.1 Actors and Roles within Strategy Formation

A large amount of the literature deals with who is involved in the strategy formation and what role different actors, venture capitalists board members and management have. Several studies have investigated the board of directors in venture capital funded firms e.g. Fried, Bruton and Hisrich (1998). Venture capitalists usually have significant influence over, and a great part of the ownership rights in the firms they have invested in. This lets them have an active role in the development of the strategy of the firm by having a venture capitalist representative on the board and engagement of the investment manager (Wijbenga, Postma & Stratling, 2007). Two main activities are presented connected to agency theory and resource dependency theory. There are activities that arise from the agency problem, thus that the management of the firm has more or better information than the venture capitalists do and that there is a difference between the interests and goals between the actors. Further, there are activities that stem from an asymmetric resource dependency between the firm and the venture capitalists and that continuity of the firm depends on critical resources provided by the venture capitalist (Wijbenga et al, 2007).

Resource Dependency Theory

The theory of resource dependency imply that venture capitalists assist the entrepreneurial firms to manage their dependency of external resources that are critical to the firms by giving access to these. Venture capitalists can give access to important actors such as possible suppliers, customers and other investors. They can also give information and legitimacy but also advice and contribute with their
knowledge when decisions are taken in the firm. Other activities might be to recruit managers, help finding more financing and assisting with introduction of new products. This means that the venture capitalist reduces uncertainty regarding resources, relationships and strategy. These activities shall ease the corporate decisions by facilitating important resources (Wijbenga et al, 2007).

The entrepreneurial firm’s dependency of the resources presented above indicates the venture capitalist’s control over the firm. Venture capitalists can use control systems to enhance their importance for the firm by identifying resources that are most appropriate to supply to the firm. Entrepreneurs tend to focus on the primary focus of the firm and venture capitalists can help firms to operate more efficiently by using a control system for cost (Wijbenga et al, 2007).

**Agency Theory**

The agency theory leads to governing of the firm by monitoring of financial and operational performance and evaluation of the firm’s strategy and products. Emphasis is on result-oriented management, the principals (venture capitalists) use for examples incentives and punishments to monitor the agent’s (management’s) actions and to align interests. This perspective is used to reduce goal conflicts by connecting rewards to firm performance. There might be conflicts in risk taking, strategic goals and exit timing. When interests diverge and in situations of asymmetric information between principal and agent, agents might act in a way so the resources are used inefficiently and that is disadvantageous for the principal. The board can have an important role in finding ways to monitor and control the management in order to lessen the problems with incentives and gaps in information by evaluating strategic plans and having the possibility to appoint or remove management. The monitoring is aimed at securing efficiency, productivity and profitability. This can be done by forcing the entrepreneurial firm to use information from a cost control system during the strategy formation. (Wijbenga et al, 2007)

**3.3.2 Venture Capitalist Investment Criteria**

According to Shepherd (1999) there are many studies regarding how venture capitalists evaluate a venture proposal. Most of the research that deals with how decisions are taken have investigated what criteria that venture capitalist use in assessing new ventures. The criteria used in assessing the performance of the venture have often been studied by asking venture capitalists to rank criteria based on its importance for an investment decision and the probability for success and for failure
MacMillian et al. (1985) have studied the criteria when deciding regarding investing in a new venture and they conclude that what determines an investment decision is the quality of the entrepreneur. This have also been studied by Kollmann and Kuckerts (2010) who in their research states that:

“Empirical studies of the decision making behaviour of venture capitalists suggest that characteristics of the entrepreneur and the entrepreneurial team are of the utmost importance: The influence of a management team’s quality on venture performance is not merely a cliché popular with venture capitalists; it is also supported by various empirical studies.”

Further they refer to MacMillian et al. (1985) whose research showed that five out of the ten most important criteria was related to the personality or experience of the entrepreneur. It is not the product, market or financial situation that determines if a venture capitalist decides to make an investment, but rather the entrepreneur. Prior to an investment much focus is on the business plan but it does not deal with the characteristics of the entrepreneur but rather with the product, market, competition etcetera. The latter are important to investigate but it is according to the authors not enough. They suggest evaluating if the entrepreneur has perseverance, his or her track record, reaction to risk and familiarity with the market. The authors state that an increase in the venture capitalists knowledge regarding weights of investment criteria could help the venture capital market to be more efficient (MacMillian et al, 1985).

3.3.3 Venture Capital Investment Decision Making

Gimmon and Levie (2010) mean that former research regarding criteria for the investment decision is limited since it has been based on asking the investors what they look for e.g. in MacMillan et al. (1985), and not by observing the actual investment decision. This is also investigated by Zacharakis and Meyer (1998) who mean that past research regarding decision taking might be misleading and biased. They refer to studies from cognitive psychology which suggest that people are not good at reflecting their past thoughts and feelings. Shepherd (1999) means that investors do not always make decision in the way that they think that they do and Zacharakis and Meyer (1998) concludes that the criteria presented in past research actually might have a quite small influence on the decision.
Zacharakis and Meyer (1998) and Shepherd (1999) have studied the “espoused” decision polices and “in use” decision polices and conclude that when there is an increase in the information that a venture capitalist receives, there is a decrease in insight and there is an increase in the gap between the “espoused” and “in use” decision-making polices. Zacharakis and Meyer (1998) conclude that the venture capitalist’s understanding of the actual decision-making polices may be low and that there might be room for improvement. Further they refer to Khan (1987) and MacMillian et al. (1985) that mean that venture capitalists rely on intuition when investing in new ventures. They further refer to Fiske and Taylor who mean that typically a decision maker wants to evaluate all available information, which is impossible, and certain prominent information makes the decisions bias. One might also recall information from the memory regarding for example if an entrepreneur has been successful before.

3.4 Research Gap

There is not much former research regarding strategy formation within venture capital funded companies. There is little explanation for how the strategy formation is performed or how it preferably should be performed to be as successful as possible within venture capital funded companies. Therefore it is of interest to look further into how the strategy formation is performed and to investigate what one can do to make the strategy formation better.

There is not much research regarding the importance of people for strategy formation in venture capital funded companies. How people are evaluated prior to an investment have been studied but not regarding how to manage to find the right people for strategy formation.
4. Studied Companies and Actors

Below is a short presentation of the studied companies and map of the studied companies A, B, C, D and what companies the different actors CoB 1, CoB 2, CEO 1 and COE 2 holds a position in.

4.1 Description of Companies

Below is a presentation what business the companies are active in, the status of the investment and key ratios.

---

**Company A**

**Business:** Software within telecom

**Investment status:** On-going

**Interviews held with:** CEO, Investment Manager

**Key ratio (2001)**

- Number of employees: 38
- Net profit: 0.5 MSEK
- Revenue: 22.5 MSEK

---

**Company B**

**Business:** Security software

**Investment status:** Divested for 21MUSD 2006

**Interviews held with:** Investment Manager, Chairman of the Board

**Key ratio (2002)**

- Number of employees: 21
- Net profit: -5 MSEK
- Revenue: 6.3 MSEK
Company C

Business: Interleaving technology within electrotechnology

Investment status: On-going

Interviews held with: CEO, Investment Manager, Chairman of the Board

Key ratio (2007)
Number of employees: 16
Net profit: -7.1 MSEK
Revenue: 5.4 MSEK

Company D

Business: Software and service provider

Investment status: Divested for 142 MSEK 2009

Interviews held with: Investment Manager, Chairman of the Board

Key ratio (2002)
Number of employees: 31
Net profit: ~4 MSEK
Revenue: 28 MSEK
4.2 Map of Companies and Actors

The four studied companies A, B, C and D are presented in figure 9 below. Two CEO:s have been interviewed. CEO 1 is CEO for company A and CEO 2 is CEO for company C. CoB 1 is chairman of the boards in both company B and C and CoB 2 is chairman of the board in company D. IM 1 is investment manager in company A and IM 2 is investment manager in company B, C and D.

![Diagram of Companies and Actors]

**Figure 9.** Map of the studied companies A, B, C, D and what companies the different actors CoB 1, CoB 2, CEO 1 and CEO 2 holds a position in.
5. Empirical Findings

Below is a compilation of the findings from the interviews with the three strategy consultants and one board work specialist. From here on called strategy consultant 1, strategy consultant 2, strategy consultant 3 and board work specialist. Their view on strategy and a best practice for strategy work are presented. Following that are suggestions for how to succeed with strategy formation and possible challenges for venture capital funded companies. Last is a presentation of our strategy map, which has been the base for the following interviews and the work with the research.

5.1 Strategy Formation From the Perspective of Strategy Consultants and Board Work Specialist

Strategy can, as stated earlier, be described in many different ways. Several suggestions for how a venture capitalist can contribute to an improved strategy formation are given. Challenges with the strategy formation deal with what roles the actors have and that there is not much experience of strategy formation and working with strategy in a structured way in venture capital funded companies.

5.1.1 Definition of Strategy

According to strategy consultant 3, strategy is one of the most important aspects for a company to compete with on the market and it has to be a direct linkage between strategy and value. The strong connection between value and strategy is essential for strategy consultant 2 as well. A good strategy clearly shows how to increase shareholder value and also shows the potential of the company and how to reach it. Strategy consultant 2 defines strategy as the following:

“For me, strategy is to build shareholder value.”

Strategy consultant 2 further believes that the strategy literature focuses mostly on positioning, as for example how to position oneself to customers and competitors. Moreover, strategy consultant 2 means that this is only a small part of strategy and describes that strategy is also about identifying potential, developing plans, obtaining commitment and to follow up. Strategy consultant 1 has a more concise definition of strategy:

“Strategy is an integrated set of choices that positions a firm to win.”
According to strategy consultant 1, strategy formulation induces strategic decisions but also the opposite holds, that decisions induces strategy. When making a certain decision, one might not until afterwards realize that it was a strategic decision. If a strategic decision taken is not aligned with the overall strategy, the strategy might be changed and the decision has created a new strategy.

The board work specialist defines the distinction between strategy and tactic as “Strategy answers the question what and tactic the question how”. Strategy is created by first discussing the different strategic choices and options that condenses from strategy discussions. Next step is to choose between the options and to make decisions. Strategy consultant 1 consequently means that strategy is both analysis and decisions. The board shall make decisions about what the company shall do, meaning the board shall create the strategy and the CEO is responsible for the tactics, thus to decide how to make it.

5.1.2 Best Practice of Strategy Formation

The strategy formation has in the literature been described in many different ways. Below is a presentation based on the interviews to give a better understanding for how executors believe that the strategy formation shall be performed.

The board work specialist has created his own view of the strategy process similar to the positioning school described in 3.2.4. For him it is important to take a stand and have a clear picture of what the strategy process is. See figure 10 for the board work specialist’s view on how strategy formation should be performed.

<table>
<thead>
<tr>
<th>VISION</th>
<th>The owners are responsible for the vision.</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUSINESS IDEA</td>
<td>This shall presuppose from the vision and is to be formulated by the board of directors.</td>
</tr>
<tr>
<td>GOAL</td>
<td>Shall be set by the board of directors.</td>
</tr>
<tr>
<td>STRATEGY</td>
<td>Shall be formulated by the board of directors.</td>
</tr>
<tr>
<td>TACTICS</td>
<td>Is the responsibility of the CEO to formulate.</td>
</tr>
<tr>
<td>(Business plan)</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 10.** The board work expert describes strategy formation process as consisting of vision, business idea, goal, strategy and tactics.
This process describes the theoretical ideal way of strategy formation, but decisions are also taken in more informal settings, which is not professional corporate governance. The board work specialist also said that the gut feeling has a great influence and concludes, "Often the strategy is not the result of a professional process". In the case of the board, individuals does not necessarily have to be good at strategy since they might be there for their complementary and specific competences. The board work specialist means that hopefully someone in the board is good at strategy and then will lead the strategy work.

The board work specialist further describes how there once a year should be a strategy meeting where the future of the company is discussed. The CEO shall prepare material, such as current situation analysis before the meeting. Analysis of the strengths, weaknesses, opportunities and threats of the company, industry analysis, competitive analysis, market analysis and analysis of the surroundings shall be done and presented to the board of directors. The role of the board of directors is dualistic, it is to serve as a control function and also to be responsible for developing the company. The board members shall think of possible roads to choose and then make decisions. The strategy shall then be defined in a strategy document. The business plan shall be reviewed and the board shall tell the CEO to take the strategic decisions and make them operational. The CEO and the management create a business plan that shall tell about the tactical actions to be undertaken to reach the goals and the board of directors shall approve this. The board shall also give instructions regarding the budget.

Strategy consultant 1 describes the strategy process as similar to the one described by the board work specialist. Further strategy consultant 1 means that a strategy process shall start with diagnosis of the strategic situation. This incorporates an investigation of the industry dynamics, segmentation and evolution of demand and sources of competitive advantage, step 1, step 2 and step 3 in figure 11 below. Then an analysis of the company and its relative advantage and performance is performed. It is also important to understand competitors and whom that actually is winning the game, step 4. After that an identification of choices and assessment of options is done, given the former analysis of the market and our competitive advantage, step 6 and step 7. This leads to that a strategy can be selected, step 8. Then one should act according to the strategy and to do follow up on the strategy and allocate capital in the most efficient way. This is a formal process and strategy consultant 1 also means that one can not just drive this in isolation, one must also react on what is happening in the
surrounding environment. It happens that companies rationalize their decisions after they are taken and claim that they were planned ones, even if they were not.

**Figure 11.** The strategy formation described as making analysis and generating options, which leads to a choice of strategy. (Figure provided by strategy consultant 1)

When asking about how strategy work should be performed in venture capital funded companies, strategy consultant 1 answered that the CEO must be responsible for the strategy while the venture capitalist should have a control function to see whether the plan is concrete enough, if trade offs between different goals are made and that strategic decisions are taken.

Strategy consultant 2, means that in a good strategy formation it is defined how and when to reach a goal, who shall do what, what shall be measured and followed up and who is responsible for doing that. For strategy consultant 2, strategy formation should also incorporate to do something different from what one does today. To succeed with this strategy consultant 2 suggested that one should start with two activities:

1. Create an understanding that a change is needed.
2. Make sure that the organization sees that there is a possibility to change towards doing something better.

These two factors need to come from the top, from the board of directors, from CEO or from the management. This will then be spread down in the organization to create
actions. The formation of a process will then start and there will be iteration between the organization that develops suggestions, the CEO and the board. According to strategy consultant 2 the initial strategy will always change because when discovering along the way that a goal cannot be reached the strategy consequently has to be changed.

Strategy consultant 3 described strategy formation in a similar way as the other consultants did. He means that the strategy formation can be described in many different ways, from a process with different steps to simply making a change. However he also added a more pragmatic view on the strategy formation. For strategy consultant 3 the process of strategy formation is secondary. If strategy formation is going to a restaurant and brainstorming and coming up with a new idea that enables the company to find a unique niche on the market, then that is strategy formation.

5.1.3 Suggestions for Successful Strategy Formation

Below is a compilation of 10 suggestions from the strategy consultants and the board work specialist to consider for successful strategy formation.

**Strategy Implementation**

The strategy implementation is a very important part of the strategy formation process. The board work specialist describes that there might be a strategy leakage of up to 80%, thus only 20% of the strategic decisions taken by the board are actually carried out. The board work specialist means that:

“In order to secure that the strategic decision taken by the board actually are implemented there could be a follow up on every board meeting. Today the focus often is on historical numbers and comparing them with the budget. “
Using Leading Indicators
The interviewees meant that strategy is not always followed up in a good way and strategy consultant 2 said:

“When following up on the strategy implementation financial terms are often used and these are lagging indicators based on the past. It is also important to have leading indicators, measurements that indicate the direction.”

The problem with lagging methods was also brought up by strategy consultant 3 who stressed that one should focus on planning ahead instead and said:

“Too much reporting steals valuable time from management and it also increases the prejudice of the venture capitalist as being distant.”

According to the board work specialist a board meeting could include reporting, discussion and decision taking. A great part of the time is often spent on reporting historical happenings rather than taking future related decisions.

Strategy consultant 2 meant that the venture capitalists shall take into consideration that:

"As a new owner of a smaller company, one shall not be afraid of being dominant, even though these smaller companies often are not used to having big owners.”

Practice and Learn How To Perform Strategy Work
Strategy consultant 3 meant that the management will always know the industry and what will happen in the future better than external actors such as consultants or investors since they work daily with suppliers, customers and competitors. What they might not know as well is the functional part of strategy since they do not do it very often, and what a venture capitalist can do is to provide logic and structure of strategy work. Strategy consultant 3 exemplified this with saying:

“Strategy is like procurement, HR or IT, it is something that one does not naturally know how to do, one must practice and do it repeatedly, develop a methodology for it.”
Clear Strategy That Is Allowed To Be Tweaked

It is according to strategy consultant 1 important to create a clear strategy that is thoroughly worked through since:

"The really big strategic choices does not happen very often, therefore it is important to work through the strategy right from the beginning when investing in a venture capital funded company. It is important to have a clear strategy that will be maintained but can be tweaked over time. If you have a good strategy, you will not need to make big changes all the time."

Strategy work is according to strategy consultant 2 to work top down, strategic decisions should be a result of the overall strategy. When forming a strategy one should define and segment the market and think of what position to take. Moreover one need to use the moment to think wide and try to think differently, which will give what strategic decisions to take. However options will arise in the everyday work, a customer might for example ask for service of the product, and suddenly a strategic decision to not only provide product, but also services, has been taken. To conclude, strategy consultant 2 meant that strategy results in strategic decisions, but decisions taken must also be allowed to lead to a strategy.

“Strategy should be used as direction and to see if an option is the right way to go. If the option is something that after investigation is a great opportunity, but does not conform with the current strategy, the strategy should be changed. Thus the company must be agile and change the strategy according to the surrounding environment. To have a very rigid strategy, will not work.”

The board work specialist means that decisions taking during the year, between the strategy meetings, are often more complementary and it is not so common to suddenly change track. But at the same time things might happen during the year and you might have to change course in order not to miss a great opportunity.
Allocate Time

The consultants mean that strategy work often takes more time than one imagines. Since it is of such a great importance it shall also be allowed to take time. Strategy consultant 3 meant that:

“Strategy work must be allowed to take time, the big trick is that if you plan to take one half day to discuss strategy, take three days, it will take a lot more time than one thinks.”

Right Level

It is according to strategy consultant 3 important that the discussions about strategy are held at the right level. It is easy to instead start to discuss actions and activities and thus fall of from the strategy discussion. To be able to keep the right level, an idea would be to have a person who facilitates the discussion and who makes sure that the right level is kept, in order to ensure that the “what question” and not actual solutions are discussed.

Fact Based

According to strategy consultant 3, strategy work and discussions should be based on facts in order for the company to move forward and to challenge the ones who work with the strategy. When facts are gathered and analyses are done one can see what the results point at. Following that a discussion about future direction can take place, it is important to use facts and not just chose to head in one direction because that is what “we always have done.”
Make Use of the Important Period After Investment

Strategy consultant 3 meant that the period after the investment should be focused on the prerequisite that the investment was based on. Converting the prerequisites into a plan can constitute the strategy of the company. After an investment there is great possibility to make changes and one should make sure to use this period. Strategy consultant 3 further said:

“At this stage [shortly after the investment] the venture capitalist shall take time to sit down with management and together and discuss what they are thinking about the company and about the market and together create a plan for the company. It is important to explain to the management what shall happen and to get them on track. It is important to create a clear strategy, otherwise the analysis and plans made prior to the transaction will not be realised.”

Having the Right People and Handling Them Right

The board work specialist talked about the fact that venture capitalists have a shorter time horizon and thus it is important for them to have the right persons in the management and board. Moreover the board work specialist meant that the competencies of the persons present in the board should complement one another.

“There is a trend to focus on team building and working with behaviour among the management, but to manage to get the board to work as a team is equally important. The work of the board is today evaluated to a greater extend which I think is good, of course the owner wants to know how good the board is.”

Use Incitements and Be Transparent

Strategy consultant 3 was of the opinion that in order to succeed with strategy work in a venture capital funded company one should use incitements. As an owner, it is also important to be transparent and to make sure that everyone knows what he or she has mandate and is expected to do.
5.1.4 Challenges for Venture Capital Funded Companies

Challenges and problems that may arise within strategy formation in venture capital funded companies are firstly that the firms are recently founded and often with little experience of working structurally with strategy. Strategy consultant 2 said that a challenge is to create a better structure for strategy work within these companies.

Another challenge according to strategy consultant 3 is that venture capitalists are very competent, driven and experienced, which might lead to that when the venture capitalists enters the board they might overtake much of the management’s mandate. The management has usually a more in-depth knowledge about the industry and the company, which might then be left out of the strategy discussions.

Another potential problem with strategy formation in venture capital funded companies is according to strategy consultant 1 that goals and strategy often are mixed up. This may lead to that no proper strategy is created in order to reach the goals.

To be able to perform professional board work it is according to the board work specialist necessary to have independent individuals in the board without relations to the owners. Board members must have integrity and make their own opinion and stand up for it. This might be a problem since recruitment to positions in the board might be persons from the owner’s personal network.

5.2 Our Strategy Formation Map

After studying strategy literature, intermutual discussions and discussions during interviews with strategy consultants we created our own picture of how strategy formation is performed, see figure 12. It might look similar to the strategy formation process in figure 9 and to what the consultants have said. But we have tried to simplify and create a basic picture, which has served as our common understanding for strategy formation through out the work with this thesis.

First the vision and mission of the company must be clear. The arrows pointing in the right direction in the map mean that the previous step leads to the next. So the vision and mission leads to how the analyses are made. After that the goals of the company are set. The goals shall then lead to the strategy of the company. The arrows pointing in the left direction mean that the step it originates from fulfils the target step. Thus,
the goals lead to the formation of the strategy and the strategy then fulfils the goals. The strategy then leads to that strategic decisions are taken and these also fulfil the strategy. However, there might also be strategic decisions that emerge along the way and leads to that a new strategy is created. Finally the strategic decisions are implemented. We do not see this map as a step-by-step process but rather as an on-going iterative process. When studying strategy with our strategy map, the different steps are studied by asking:

**Who is involved?**

**How is it performed?**

**When do activities take place?**

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**Figure 12.** Our strategy formation map where we view strategy as iterative steps. The different steps lead to the next and strategic decisions fulfil the strategy and the strategy fulfils the goals. One part of strategy formation is the emergent strategy that develops along the way.
6. Analysis

Below is an analysis of the interviews with CEO, Chairman of the Board and Investment Manager. The first part is an analysis of what strategy is for the CEO, CoB and IM. Following this is an analysis of strategy formation in the studied companies. The core of the analysis is to identify critical factors for successful strategy formation and to create a preliminary ranking. The analysis also contains how the factors can be reached through more concrete actions. Finally there is an analysis of the outcome of the survey regarding how the factors were graded and ranked and the impact and effort of the actions are analysed.

6.1 Strategy Formation from the Perspective of CEO, CoB and IM

As in the literature, the interviewees have different definitions of strategy and each individual has their own view on strategy formation. One part of the strategy formation is the different actors (owners, the board and management) and formal activities (board meetings, strategy meetings and shareholder meetings). There are also several documents related to strategy formation, e.g. business plan and budget.

6.1.1 Definition of Strategy

When asking the interviewees about what strategy is for them, several different explanations were given. Some view strategy as the long-term evolution of the company and as a tool for navigation and CoB 1 said:

“Strategy is a tool for navigation in order to be able to get somewhere.”

Strategy is also explained by IM 2 as:

“A tool for success and long term planning.”

CEO 2 described strategy as

“The long term development of the company, not so much of a plan but rather that you know in what direction you are heading. There might be obstacles on the way that requires one to temporary do other things, but strategy is that you know in your head where you want to end up.”
For CoB 2 strategy is about reaching the goals:

“Strategy formation is to reach the goals and to focus on the vision and mission and to break these down into what and how.”

CoB 1 said that there are different ways to reach a goal and that one must find out which way is the best. CEO 1 simply explains strategy as “it is what the company shall do” and meant that what he/she refers to as strategy is corresponding to as strategy implementation for others.

From this we can conclude that the interviewees have an overall understanding for what strategy is but that each individual has their own picture of it. We believe that it would be beneficial to create a more conform comprehension of strategy so that everybody in the company are at the same level and have the same foundation to build a strategy discussion on. We are also of the opinion that it would be helpful to explain and make it clear for the actors why strategy formation is important.

6.1.2 Strategy Formation in Venture Capital Funded Companies

To describe the strategy formation in venture capital funded companies our strategy map, see figure 12 is used and for each step the following questions are taken into consideration.

Who is involved?
How is it performed?
When do activities take place?

To better understand the strategy formation, actors, meetings and documents are compiled in figure 13 below. The question: Who is involved? is answered by the different actors. Further, the question: How is it performed? can partly be seen as being described by the different documents. The question: When do activities take place? is answered by the meetings.
Figure 13. An overview map of the actors, meetings and documents related to strategy formation.

The strategy formation in the studied companies is analysed with regard to the different steps in our strategy map: Vision and mission, analysis, goals, strategy, strategic decision and implementation.

Vision and Mission
The vision and mission is formulated by the entrepreneur and is one component of what an investment decision is based on. CoB 1 said that after the investment the venture capitalists could be part of forming vision and mission.

Analysis
Analysis is made by the venture capitalists prior to the investment. CEO 2 explained that after the investment is made the CEO makes most of the analysis. The board of directors can give the CEO a task to investigate an opportunity e.g. a certain market.
Goal
According to CEO 2, goals are set by the venture capitalists and are often financial goals focused on growth and a possible exit. These goals are broken down to subgoals and milestones, e.g. into goals regarding turnover, product development or organizational goals.

Strategy
CoB 1 said that the original strategy is formulated by the founders. Prior to the investment there are strategic discussions but the interviews have shown that these discussions decrease after the investment is made.

The strategy formulation that takes place is done by CEO together with CoB. CoB 2 explained that the board is responsible for the strategy and takes the final decision. Further, IM 2 explained that the CEO might come up with ideas that are not aligned with the strategy, but if the board is interested the CEO might be asked to investigate the idea deeper. This is aligned with the comprehension of CEO 2 who said that the CEO can present a new strategic direction for the board and after discussions it might gradually be more and more evident that it is the right way to go.

The role of the board and the role of the CEO with regard to their part in strategy formation have also been discussed in the literature. According to De Wit and Meyer (2004) one function of the board is to participate in the discussions and development of the strategy. Thompson and Strickland (1992) mean that the most important strategist is the CEO and that he/she has the responsibility for the strategy formation. The role of the board of directors is to review the strategy. In the interviews with strategy consultant 2 and 3 we got the understanding that they believe that the venture capitalists in the board shall take a big part in the strategy work since they are good at this and have worked with strategy before. However, we have understood that the venture capitalists are not very active in strategy discussions. A reason for this might be that it is hard for venture capitalists to have a great part in the strategy formation since they do not work directly with the customers and competitors, as strategy consultant 3 explained it.

Board meetings take place five to six times a year and the board usually has five to seven board members. The Chairman of the Board shall according to the literature be independent. However, to what extent the chairman of the board is independent can be discussed since they are recruited from the venture capitalists’ network and, e.g.
CoB 1 has worked a lot with SEB Venture Capital and is CoB in two boards. The other positions in the board are typically held by the CEO, two investment managers, the founder (who is often the CEO) and external actor(s) that e.g. knows the industry well. According to the literature, the board has several responsibilities where one is strategy work (De Wit & Meyer, 2004). To what extent strategy is discussed and followed up is not clear and it became evident during the interviews that strategy does not get any particular attention on board meetings. According to the board work specialist there should be a longer strategy meeting once a year, which is something that the studied companies have. The Chairman of the Board is encouraged by the venture capitalists’ to take initiatives to the strategy meeting. The board and part of management are invited to a one day long meeting, often with a stay-over. During the meeting, analyses and other information are presented and there is an open discussion and time to brainstorm ideas. During the strategy meeting a follow-up on what was decided the previous year is done and this is then developed further.

According to literature strategy formation is both intended and emergent (Mintzberg et al. 2009) and this is also how we have understood that strategy is formed in the studied companies. Strategy is partially formulated and deliberate and leads to that certain strategic decisions are taken. Strategy can also be formed in more informal settings and emerge along the way according to IM 2. Opportunities can emerge in the operative work which can lead to that decisions are made. It can afterwards be evident that these decisions were strategic and led to that the current strategy was changed and developed into a new strategy. CoB 1 explained that the strategy has changed several times as a result of customers’ demands. CoB 1 further said that in these kind of smaller companies there is close cooperation between CEO and the CoB, but at a certain point the discussion has to be taken up on board meetings. CEO 2 was of the opinion that to develop a strategy is a process of learning new things from the customers and the surroundings and from that develop strategies. IM 2 means that fundamentally it is about what the customers want and this is discussed during strategy meetings and leads to the strategy. Further he/she means that the strategy is formed during the strategy meetings. Overall goals are set on the strategy meetings and strategy and the goals are documented in a power point presentation.
**Strategic Decision**

CoB 2 means that smaller decisions are made by the management, while those considered to have a greater impact are presented to the board, which makes the decision. Continuously CoB 1 said that many decisions are discussed and made in less formal settings and to take a decision at a meeting is more of a formality. CoB 2 also pointed out that many decisions develop along the way. Decisions made on strategy meetings are then broken down to concrete actions to proceed with.

**Implementation**

Strategy meetings might result in action points, e.g. product development or geographical expansion. IM 1 meant this is a way to quantify strategy so that it can be followed up on board meetings.

As the strategy changes the business plan shall be revised. It shall be used as an integrated part of strategy but does not seem to be used correctly. CEO 2 described how the business plan had not been revised at all and that other documents were used instead.

After the strategy meetings the CEO and management can be assigned tasks to perform and to for example make a deeper analysis and a plan. CoB 1 explained that this is then presented on the next board meeting where a decision can be taken.

CoB 1 described how decisions shall lead to activities, which are made-up by the CEO and management. In these kind of smaller companies where the board often has more experience than the management regarding strategy work, the board can give a lot of support, e.g. if there is a need to hire more people or if the company needs more financing.

**Other Related Documents and Meetings**

Below is a short description of other documents and meetings related to strategy work that are presented in the overview map, see figure 13.

**Shareholder meeting**

Every spring there is a formal shareholder meeting, the annual meeting, where the composition of the board is decided. IM 1 further explained that there are also other meetings, 2-3 times a year, where the owners discuss among each other regarding exit, employees etc. The agenda of the owners shall always be in the back of the head
of the members of the board, but the shareholder meeting is an opportunity to discuss questions important for the owners in more depth.

CEO Instruction

The board of directors issue instructions for the CEO. In this document tasks and the authority of the CEO are described. CoB 2 explained that the CEO instruction is revised once a year as a formality. In contrast CEO 2 described it as being used in a greater extent close after the investment but later on it was used less frequently.

Letter to CoB

The owners write a letter to the CoB about their ideas and wishes for the time ahead.

Shareholders’ Agreement

Shareholders’ agreement is an agreement among the biggest owners regarding voting on annual and board meetings. It also regulates possibilities for veto, questions regarding exit and new financing.

Owner's Agenda

In the owner's agenda the investors write why they believe in and why they invested in the company.

Monthly Reports

The CEO writes monthly reports to the board of directors.

Budget

A yearly budget is used, which is worked out and set during the fall. The budget results in financial goals that are broken down further by management.

6.2 Analysis of Interviews to Identify Critical Success Factors and Actions

Below is an analysis of the interviews that identifies critical factors for successful strategy formation. In total 9 critical factors for successful strategy formation were defined and an explanation of why they are important and how they can be reached is given. The identified critical success factors were selected and concluded on several criteria. Some of the critical success factors were brought up by the interviewees, whom highlighted their importance. Other critical success factors were recognized by
us during the interviews and some were recognized from the literature and discussed with the interviewees. Some of the factors were also concluded from identified problems and possible improvements. The identified factors are also discussed from the perspective of their importance for a venture capitalist.

To be able to put this critical success factor into practice, a couple of actions have been suggested during the interviews or concluded by us. These actions are a breakdown of the critical success factor into a more tangible and actionable form. Some of the actions are performed at the companies today but could be done in a wider extent or in a more refined way. Some of the actions are not done at all at the companies and should preferably be introduced.

6.2.1 Critical Success Factors and Actions

Below is an analysis that leads to the first critical factor and actions to take.

**Factor 1. It is important to allocate time and start up with the strategy work shortly after the investment.**

The first critical success factor was concluded from the interviews held with both the consultants and from the interviews with CEO, CoB and IM. According to strategy consultant 3 it is important to allocate time for the strategy work shortly after the investment is made and to take advantage of the initial possibilities that emerges. Strategy consultant 1 points out that it is important to work through the strategy thoroughly from the beginning since really big changes does not happen very often. Another aspect, brought up by CoB 1, was that since there is a clear time constraint in the investment, it is critical not to “waste time” and “fumble” too long, but rather quickly start up the strategy work and move on to be able to e.g. find market segments.

To start up with strategy work shortly after the investment is also of great importance so that all involved in strategy formation, i.e. board of directors and management, have a common picture of strategy and strategy formation and also an understanding of where the company is heading. An identified problem was that SEB Venture Capital is not clear with their aim of the investment and this is something that they could communicate more clearly to create a common understanding. It is desirable to
start with strategy work shortly after the investment since another problem is that the actors involved might not have sufficient understanding for strategy and therefore might expect different outcomes. It may also take time for everyone to realize what is expected from them and what they shall do.

One problem that was brought up during the interviews was that the strategy work often was postponed until something emergent happened. This critical success factor stresses the importance of working with strategy in a more prophylactic manner, which also solves the previously mentioned problem.

We have understood that the venture capitalists work very hard prior to the investment with strategy and not as much after the investment is done. But to start up the strategy work shortly after the investment is very important and this is especially something that we believe that the venture capitalists should think of. Both from the perspective to not fulfill prejudice about a venture capitalist as only to provide funding and then “disappear” until it is time for exit, but also that of course the work prior to the investment is important, but it is what happens afterwards that will determine the success of the investment.

To be able to put this critical success factor into practice several actions has been suggested during interviews or concluded by us. These will be presented below.

**Action 1.1.** Form a potential board during the period of evaluation of a possible investment. After the investment is made, the start up period of the board work can be shortened since the board members know each other and are used to working together.

Action 1.1 was suggested by CoB 1. The action will help to see whether the investment is a good idea and the strategy work can start up earlier.
To be able to discuss strategy it is important to have the same view and frame of reference. CEO 2 suggested that one way of creating a common picture of what strategy is and how it should be performed is to have a general education in strategy. This action will also help SEB Venture Capital to communicate their vision, goal and strategy with the company clearly. CoB 2 meant that if the board members agree upon the strategy, they could provide feedback on feasibility and other aspects. During the interviews we observed that many mix up strategy and goals and this is a problem that also could be solved by having an education in strategy.

Action 1.2 A while after the investment, start up strategy work in a more structured way. Have a general education in strategy theory and its importance and how strategy work shall be performed. The owners shall give their view on strategy and have a discussion about how it shall be performed more operatively.

During the interview CEO 1 pointed out that the business plan, containing the strategy, is too rarely challenged with new ideas. We suggest to work more with the business plan and to start discussing the strategy of the company in an early stage and not wait until it is emergent. This action solves the common problem with postponing the strategy work until something emergent happens and also simplifies irresolute situations when it is desirable to see whether a decision is aligned with the overall strategy or not.

Action 1.3 Pick up the strategy discussion from before the investment and discuss the strategy of the company and challenge the original business plan. This can be done in combination with a more general education in strategy.
Factor 2. Provide CEO with the prerequisites needed to perform good strategy work.

The second critical success factor was identified from that it during the interviews became evident that it was hard for the CEO to find sufficient time to work with and reflect over strategy. According to both CEO 1 and CEO 2 it is hard to prioritize between the strategic and operative work. Therefore it is important that people with mandate provide the CEO with the prerequisites needed to facilitate the balance between strategic and operative work. It is good to have a strategic long term focus all the time, but as CEO 1 said:

“As the workload increases, the focus will move from long term to more short term focus.”

Further CEO 2 said that it would be good to bring up the strategy on every board meeting. CEO 2 continued with saying that if it was needed to present or update the board on the strategic direction on every board meeting, he/she would be legitimized to allot time for strategic work. It was also explained to be hard to find information to be able to create good strategy material.

According to Thompson and Strickland (1992) the most important strategy managers the CEO who should lead the strategy work and therefore it is important that he/she is given the best possible prerequisites.

To be able to put this critical success factor into practice a couple of actions has been suggested on the interviews or concluded by us. These will be presented below.

Action 2.1 Appoint a chairman of the board who is aware of the importance of strategy and who encourages the CEO to allocate time for working with strategy.
This will solve the problem that no one is responsible for the strategy. It will also give the CEO push and legitimacy to allot more time for strategy work. This could be done in a manner that the chairman of the board gives the CEO “strategy tasks” to present on the next board meeting and the action was brought up by CEO 2.

**Action 2.2 Initiate a development program for the CEO where he/she will be part of a group with other CEO:s that have meetings on a regular basis where they e.g. discuss respectively company’s strategic challenges.**

The action above was brought up by CEO 2 who participates in a similar program. CEO 2 said:

“For me, this program is great. Because strategy work is easily postponed, it does not actually matter if I do it today, or tomorrow, or even next week. It [strategy work] is easy to postpone and you just continue with the operative work. Therefore this program has been really good, since it forces me to think more strategically and look ahead.”

**Action 2.3 Initiate an advisory board to be able to get information and knowledge about the technology and the industry and also to get new ideas.**

Action 2.3 is another suggestion on how to help the CEO to think more strategically and also provide him/her with tools and give a push.

According to CoB 2 it is important to be able to fast take well-grounded strategic decisions. Action 2.3 will help in the decision making process since it facilitates the process of collecting certain knowledge and information needed for specific decisions.
Factor 3. It is important to have the right people in the management and board.

The third critical success factor is a factor that has been persistent through all the interviews. More or less all respondents have highlighted the importance of having good people in the management and board.

IM 1 said:

“Rather an A-entrepreneur with an B-idea than an B-entrepreneur with an A-idea”

The quote above highlights the essence of having good people in the management and board. IM 2 further said:

"In reality it is all about investing in good people. People that are responsive and are good at teamwork”

The quote above further stresses that as a venture capitalist the contribution is not solely capital but rather finding and investing in good people.

According to CEO 1, one of the greatest problems a company can have is troublemakers. Therefore it is necessary to focus on finding the right people. Though is it hard to find good people, since one need to have a combination of both technical competencies and personal skills. CEO 2 said that it is hard to define the competence when they are not clear operative ones.

During the interview with IM 2 it was described how a company was struggling due to wrong people in the board. Previous mentioned investment manager also pointed out the problem of finding the right people for the board.

Another contributing factor to the problem of finding good people according to CoB 1 is that too little time is spent on trying to understand the individuals.
The importance of the people for the performance of a venture in general is supported by several studies. Kollmann and Kuckerts (2010) and MacMillian et al. (1985) mean that it is the entrepreneur and the management that are most important when deciding regarding making an investment of not.

We are of the opinion that from the perspective of the venture capitalist it is very important to have the right people in management and board. One could see it as that a venture capitalists invest money to be used by other people to build a company that the venture capitalist can sell and earn money on. We believe that, since a venture capitalist is somewhat distant to the company and not active in the operations, it is very important for them to have good people that they can trust and believe in.

To be able to put this critical success factor into practice a couple of actions has been suggested on the interviews or concluded by us. The suggested actions are presented below.

**Action 3.1 Introduce a section in the investment memorandum about the founders/CEO and management that include tests and various evaluations.**

One action to take for being able to assure that the right people is hired is to test and evaluate the people before doing the investment. Factors to test could be: stress level, energy level, honesty, risk level and strengths and weaknesses. Track record, references and criminal records registry could serve more as a hygiene factor. The precedent test and evaluations could be done in a case form. This action was suggested by both IM 1 and CoB 1.

A document with evaluations of people should preferably be incorporated in the investment memorandum and performed before every investment.

**Action 3.2 Make a profile of demands that includes competencies, experiences and personalities needed for the board.**
To be able to easier evaluate people needed for the board it would ease if a profile of demands was created. This would make it easier to e.g. evaluate the board regularly and see if the competences needed are present. IM 1 mentioned criteria for evaluations such as competences, former performance and other workload. From the evaluation and the profile of demands it could further be analysed what e.g. competencies were missing and then complement with a new person, either from the network or with help from a headhunter.

Another criteria that was brought up from both CoB 1 and IM 1 was to have an independent chairman of the board so that h/she is not restricted by any specific interests. Also the board should include independent persons that are not bound to the owners.

**Action 3.3 When investing in a company, focus on finding good people. Actively search for great individuals.**

We are of the opinion that one way to have good people in the management and board is to actively search for them. Venture capitalists should always have in mind that good people are very important for the success of the strategy and the performance of the venture. This could be done by being in suitable environments, such as innovation events, in order to meet entrepreneurs in a more informal setting. Since the importance of the people is so great we suggest to look at how other venture capitalists work with actively searching for great people, to get new ideas and to become a little more of a “HR venture capitalist”.

**Factor 4. It is important that division of roles and tasks are clear.**

Since strategy is of great importance it is critical that someone is held responsible for it. From all the interviews held it became evident that strategy is not getting enough time and attention since no one is responsible for bringing up strategy. When it is
brought up there us further problems since strategy does not get enough say in the board meetings. CEO 2 said:

“When strategy is brought up it is handled somewhat loosely”

A problem that lead to this critical success factor is that according to CoB 1 board members do not have enough knowledge about how to work with strategy and also do not always know their role during the board meeting. He means that it takes time to realize what to do when roles are not very clear. It is important that the CEO and board members are aware of their respective role within strategy (Rosenstein, 1998).

The role of the venture capitalist had been debated and there are discussions regarding what role they take in contrast to what they say and also what role they should take. It is important that the roles are clear and that the venture capitalists explain what they will contribute with.

To be able to put this critical success factor into practice a couple of actions have been suggested during the interviews or concluded by us. These are presented below.

**Action 4.1 Discuss what each role (CEO, management, board member, chairman of the board and investment manager) holds responsibility for regarding strategy work. This can be done in combination with a more general education in strategy.**

All the actors that are involved within strategy work shall be aware of what they are expected to deliver and contribute with. The venture capitalists shall be clear with their role as financial investors and also in a clear manner communicate how much knowledge, contacts etcetera they will provide. A good forum for discussing and communicate these question is in conjunction with the initial more general education in strategy presented above in action 1.2.
Action 4.2 Document the defined roles within strategy work and who is responsible for more concrete tasks (e.g. in a handbook, CEO instructions or other document) The chairman of the board shall e.g. be responsible for bringing up strategy on board meetings and CEO shall be responsible for gathering information and making analysis.

The responsibility that has been assigned to respective role within strategy work shall be documented to ease the communication of the roles and ease the accessibility to the information. This could preferably be done in a handbook, but also in the instructions for the board members and CEO. The performance of strategy formation could be more efficient and effective if everyone is aware of each other’s responsibility areas and roles.

Factor 5. Important to have effective and efficient board meetings.

Factor 5 was concluded by us because it became evident from the interviews that strategy discussions did not get enough attention on board meetings. According to De Wit and Meyer (2004) and the perspective of corporate governance, one task of the board is to participate in strategy discussions. That the board has an important role in strategy formation and that the work therefore should be performed in the best way, is also supported by the board work specialist who means that the board has the responsibility of the strategy formulation. Rosenstein (1998) concludes that the board is a very important link between owners and managers and that it is important that the board of directors are active in strategy formulation.

A problem identified with this success factor according to CEO 2 is that it is hard to find information about for example the market, since the market often still is relatively undefined and new. This complicates the work between board members and the CEO. Another problem brought up by IM 1 is that there is no formalised process or standard for the material to be presented to the board, which makes the board work less effective and efficient.
A problem brought up during the interview with CoB 1 was that strategy does not get enough attention at the board meetings. This implies that what should be brought up during the board meeting is not covered enough, and thus that the board work is ineffective. Consequently, it is important that the board meetings are more effective.

We believe that to have efficient and effective board meetings is important for the venture capitalists since this is a chance for them to have a say regarding the strategy and direction of the company. One part of the venture capitalists’ role is to provide knowledge and since they are not part of the operative work, these meetings are an opportunity for them to affect the strategy.

To be able to put this critical success factor into practice a couple of actions has been suggested on the interviews or concluded by us. These will be presented below.

**Action 5.1** Give strategy a greater say at the board meetings. More time shall be spent on strategic discussions and less on operative. Each board meeting shall have strategy work on the agenda.

The action above was suggested by CEO 2 and will solve the problem that strategy does not get sufficient attention on board meetings.

**Action 5.2** CEO shall with help from management compile good strategy material before board meetings. Initiate criteria for how material presented to the board shall be formulated.

IM 1 suggested to define instructions and criteria for layout and content for the material presented to the board. The material presented for the board shall pass a check before presentation, which will lead to an improvement of both the effectiveness and efficiency on meetings.

The material shall be sent to the board in advance so there is sufficient time to read and prepare for the meeting.
For a board to be able to work in an efficient and effective way and have an efficient and effective decision making process, it is an advantage if the board members are familiar with each other. Therefore we suggest having more social activities outside the board meetings to create a better team spirit. Most decisions are concluded in a form of consensus, which can be obtained through this action. This has also been confirmed in the interviews where IM 1 said:

"The strategy is somewhat formed in consensus, which I believe is good"

It is critical to have effective and efficient strategy meetings since this is time allocate specially for strategy work. This is the one time where the main focus is on strategy and therefore it is important that this meeting is made use of in the best way.

As stated above regarding the importance of board meetings, we believe that also the strategy meetings are very important for the venture capitalist. This is a great opportunity for them to affect the direction of the company and to take part in creating a successful strategy.

To be able to put this critical success factor into practice a couple of actions has been suggested on the interviews or concluded by us. The suggested actions are presented below.

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**Action 5.3 Have social events outside work so that the group gets to know each other.**

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**Factor 6. It is important to have effective and efficient strategy meetings.**

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**Action 6.1 Have a facilitator i.e. someone that will lead the process and also make sure that the discussion is held at the right level.**
CEO 1 said during interviews that it would be desirable that someone with experience from strategy work would lead the work during the strategy meetings. Strategy consultant 3 said that a facilitator could help to hold the discussion at the right level. This is important since it is easy to start to talk about activities rather than the strategy.

**Action 6.2** Have a short focused strategy period of 2-3 weeks with a couple of meetings, instead of having one strategy day. The time between meetings can be used to process information to get a more thorough material for making strategic decisions.

Action 6.2 was suggested by CEO 1 and would solve the potential problem with of information asymmetry between the CEO, who prepares the strategy material, and the other members on the meeting. If having a strategy period instead of just one strategy meeting the initial information asymmetry could be diminished.

**Action 6.3** Invite external actor to the strategy meeting who has desirable knowledge to provide input and new ideas e.g CEO from other company or expert.

To get new ideas and perspectives from an external actor could be very helpful for the strategy formation. To be able to proceed in the strategy work and challenge the strategy it is good to invite an external actor to the strategy meeting.
Several interviewees brought up the importance of measurement of the strategy work. To be able to follow up and prognosticate the strategy work, appropriate measurements are needed. Both measurements of the financial assets and more intangible assets are needed within strategy work. Measurements are also needed to ensure implementation and to be able to see if what is decided also is carried out and to see whether a new direction is necessary. With good measurements it is easier to see if the company is heading in the right direction and also if the actions are coherent with what was decided initially. All the interviewed consultants stressed the need of measuring the performance. CEO 1 said:

“Historical follow-up gives both satisfaction and motivation. It is easier to tick off what has been done from the list and also easier to see what is left to do. It is also satisfying to be able to see which things we actively choose not to do as well.”

A problem is though that this is not done to a greater extent. CEO 1 continued:

“However, we are not very good at doing follow-up”.

Once again we are of the opinion that the fact that the venture capitalist is not operative but distant has an affect on the strategy formation. Thus it is important to follow up the strategy formation so that the venture capitalist can be in involved in how the strategy work is going and if desirable results will be achieved.

Measurements are an on-going discussion within literature as well. Measuring financial and more tangible assets are done today but measuring the value of the intangible assets within strategy work and their contribution to a ventures exit is not as studied. Kaplan and Norton (2004) highlight the difficulty of this:

“Measuring the value of such intangible assets is the holy grail of accounting.”
Henceforth, unlike financial and physical assets, intangible assets are hard for competitors to imitate. Intangible assets make companies powerful and are a source of sustainable competitive advantage. Managers need to find a way to estimate the value of their intangible assets, to be able to prognosticate, measure and manage the company’s competitive position better and more accurately (Kaplan & Norton, 2004).

To be able to put this critical success factor into practice a couple of actions has been suggested on the interviews or concluded by us. These will be presented below.

**Action 7.1 Follow up regularly to evaluate what have been achieved and what is left to do.**

To follow up strategy work regularly was suggested by CEO 1, who proposed that this could be done e.g. every sixth months. An evaluation could be done of what has been carried out, what was not possible to carry out and what is left to do.

According to CoB 1 action points and tactical moves should be outlined and used to able to follow up the strategy.

**Action 7.2 Use appropriate measurements, do not only use financial measurements and lagging indicators. Measure also e.g. customers.**

It is important to use both lagging and leading indicators. Leading indicators might help prognosticate the future and to easier measure the impact of the strategy work. It is most common to use financial lagging indicators, but it would be desirable to complement with other types of lagging indicators to get a better measurement.
This critical success factor was brought up by CEO 1, who meant that it is problematic that the same people discuss the same problems every year. Partially a reason to this is conformity in the board and CEO 1 pointed out that it is not good to have the same persons at the same positions too long. Further CEO 1 said:

“It is easy to get stuck in the same way of thinking and do things in a way they always have been done.”

CEO 1 also said that it is a problem that one does not dare to make sufficient changes or that one is not visionary enough.

During all interviews with the consultants, the importance of being responsive towards the environment and to pick up new ideas and to be able to respond to changes in the surroundings was pointed out.

The literature in the area of strategy describes a paradox between logic and creativity, noted by many management theorists, e.g. Langler and Pondy (cited in De Wit & Meyer, 2004). The most fundamental question for strategists is how to escape from getting stuck with an outdated cognitive map. A main question is how to avoid the danger of building up an inconsistent picture of the industry and the market. Old cognitive maps usually have a built-in forceful logic, locking people into old patterns of thinking (De Wit & Mayer, 2004). The need for being able to identify, diagnose strategic problems and sometimes challenge the cognitive map's fundamental assumption, are reasons that stresses the importance of creativity.

To be open minded for change and to be adaptive is especially important for venture capitalists since they invest in early stage companies which might not have very clearly defined customers or markets. Challenges with technology evolving at a higher pace and a turbulent business environment give rise to the need of an adaptive strategic approach, as described by Reeves, Deimler, Morieux and Nicole (2010).
To be creative and open minded for change, there are several actions one can take.

**Action 8.1 Use external actors that can give new ideas to the CEO and to the board. (Can invite an expert/other CEO to strategy meetings, CEO participates in development program and CEO meet with advisory board.)**

This action has the ambition to solve the problem of “being stuck in the old way of thinking”. The action above can enable to get new ideas without making changes in the board or management. It was concluded from the interviews held with CEO 1 and CEO 2.

**Action 8.2 Encourage employees (especially sales people) to pick up new ideas. Establish a structured way to handle all new ideas e.g. form a group that meets and discusses which ideas to proceed with. Introduce compensation for realized ideas.**

The action above was suggested by us. This action is another solution on the problem of attaining new ideas. Sales people are the persons most frequently in contact with the company’s customers and should therefore be particularly encouraged to try to pick up new ideas from the surroundings and customers. These ideas should be taken care of and documented to investigate further and discuss in the company. One example is to initiate an informal meeting where new ideas are discussed to identify which ones that are of interest to proceed with. Incitement such as compensation could be rendered for realized ideas.

**Action 8.3 Change the composition of management from time to time, new group constellations can ease to come up with new idea.**
It is easy to get stuck in the same way of thinking if the group constellation is to static. Creativity is essential and can be increased in a group when changing the composition of the members. Diversity is also good for creativity since it gives new perspectives and it creates the friction needed to come up with new ideas. This action was suggested by CEO 1.

**Factor 9. Important to document the strategy work.**

In order to be able to follow up the strategy work it is important to document it. If the strategy work is documented it is easier to ensure there is a common understanding for the strategy and it makes the strategy more tangible. It is also easier to communicate the strategy if it is documented.

An expressed problem was the lack of documentation of strategy. The board work specialist said:

*“There is often no specific document for strategic decision making”*

Another identified problem according to IM 1 was that the formulated strategy shall lead to a revision of the business plan, but the business plan is revised too seldom. CEO 2 further explained that the business plan had not been revised in the last five years.

From the perspective of the venture capitalist it is important that the strategy work is documented so that the venture capitalist easily can access and look up what the strategy is, when needed. If a possibility arises it is important to fast be able to decide if it is something that conforms or deviates from the strategy. This can facilitate to be able to fast take a strategic decision.

The importance of documenting the strategy work is brought up by Kaplan and Norton (2000). Further they mean that today businesses to a great extent rely on intangible assets, such as customer relations, employee skill and knowledge, information technologies etcetera, which stresses the need for documenting the strategy to make it more tangible. Kaplan and Norton (2000) conclude that if people
can describe strategy in a more disciplined manner, they will increase the likelihood of it being successful implemented. They also say that the greatest benefit of documenting strategy is the ability to communicate strategy to an entire organization.

To be able to put this critical success factor into practice two actions has been suggested on the interviews or concluded by us. These will be presented below.

**Action 9.1 Revise the business plan regularly. Do not only update the financial goals, but also update the information about competitors and customers.**

This action was suggested by IM 2. IM 1 said that it is important with an updated business plan to be able to fast take well-grounded strategic decisions.

**Action 9.2 Document decisions made on strategy meetings and what actions to take. What is decided on the meetings shall be developed into action points and measurable goals that are assigned to different people to perform. These shall be followed up regularly during the coming year and customers.**

This action should be done in a wider extent than it is done today. IM 1 suggested to make a schedule for the year ahead and plan meetings to follow up and make a documented plan for what the CEO should present on each meeting.

6.2.2 Summary of Factors and Preliminary Ranking

The analysis has lead to 9 critical factors and 24 actions. The critical factors above are presented in an approximate chronological order of which they could occur. To review this large amount of information in order to know what to start with can be hard to know. More interesting would be to know what factors that are of greater importance and the factors are therefore ranked from most critical to least critical. A first preliminary ranking based on the interviews and literature is presented below.
Factor 3, to have the right people on the management and board is according to us the most critical factor for successful strategy formation, see figure 14. Strategy is created by people and to have people with the right experience and characteristics are therefore very important. When the investment is made and the right people are in place, it is important to allocate time and start up strategy work, factor 1. Right after the investment there is great possibility for change and it is important to work through the strategy properly from the beginning since really big changes does not happen very often. We believe that following this, in order of importance, is to have effective and efficient board and strategy meetings, so that strategy work gets attention and that there is room for discussions that can lead to good strategies, factor 5 and factor 6. We have understood that the CEO is a very important person for strategy creation and therefore it is important to support and help her or him to manage the strategy work in the best way, factor 2. We are of the opinion that following factor 2 in a relative ranking is factor 8, to come up with new ideas and be open minded for change. The CEO shall work together with the management and board, since strategy is about being visionary and finding a direction for the company. When this is accomplished one should think about working with strategy in a more structured way and have clear roles so that everyone knows their responsibility. The implementation of strategy is an important part of strategy work and factor 7 and factor 9 are critical factors but are ranked as less critical in our preliminary ranking. We are of the opinion that to measure the performance of strategy work in order to follow up the strategy and to document the strategy and revise the business plan so that the strategy can be communicated are the least important.
6.3 Analysis of Survey

The survey is used to understand what the interviewees think of each other's suggestions and thoughts. It is also used to test our findings on the interviewees to see how people that work with strategy in the venture capital industry view our findings.

In the survey the respondents were asked to grade the critical factors regarding the importance of each critical factor for successful strategy formation. The grading was from: strongly disagree (1), disagree (2), neither agree nor disagree (3), agree (4), strongly agree (5). The mean values of the grading have been analysed, thus a factor

<table>
<thead>
<tr>
<th>Preliminary ranking</th>
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<tbody>
<tr>
<td>1</td>
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<tr>
<td>Factor 3. A critical factor for successful strategy formation is to have the right people in the management and board.</td>
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<tr>
<td>2</td>
</tr>
<tr>
<td>Factor 1. A critical factor for successful strategy formation is to allocate time and start up with the strategy work shortly after the investment.</td>
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<tr>
<td>3</td>
</tr>
<tr>
<td>Factor 5. A critical factor for successful strategy formation is to have effective and efficient board work.</td>
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<tr>
<td>4</td>
</tr>
<tr>
<td>Factor 6. A critical factor for successful strategy formation is to have effective and efficient strategy meetings.</td>
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<tr>
<td>5</td>
</tr>
<tr>
<td>Factor 2. A critical factor for successful strategy formation is to provide the CEO with the prerequisites needed to perform good strategy work</td>
</tr>
<tr>
<td>6</td>
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<tr>
<td>Factor 8. A critical factor for successful strategy formation is to be creative, come up with new ideas and to be open minded for change.</td>
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<tr>
<td>7</td>
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<tr>
<td>Factor 4. A critical factor for successful strategy formation is that the division of roles and tasks are clear.</td>
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<tr>
<td>8</td>
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<tr>
<td>Factor 7. A critical factor for successful strategy formation is to measure the performance of the strategy work.</td>
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<tr>
<td>9</td>
</tr>
<tr>
<td>Factor 9. A critical factor for successful strategy formation is to document the strategy work.</td>
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**Figure 14.** Preliminary ranking of critical factors for successful strategy formation.
with a higher mean value (where the maximum is 5) is seen as to be more critical for successful strategy formation.

The respondents were also asked to make a relative ranking of the critical factors from 1-9 regarding their relative importance for successful strategy formation, to see how important the different factors were seen when compared to one another. This ranking is presented below as survey ranking and is compared to our preliminary ranking.

The respondents were asked to grade the impact and effort for the different actions. They were asked to grade both impact and effort from low (1), fairly low (2), neither low nor high (3), fairly high (4), high (5). Thus, it is good to have a high mean for the impact and low mean for the effort (where the maximum is 5). The actions were analysed intermutually under respective critical factor and also with regard to what extent we agree with the impact and effort given by the respondents. The actions are presented in chart below showing the impact and effort. The higher impact and lower effort the actions have, the closer to the right bottom right corner will they be.

6.3.1 Critical Success Factors and Actions

Factor 1. It is important to allocate time and start up with the strategy work shortly after the investment.

Survey grading: 4,5/5  Survey ranking: 5  Preliminary ranking: 2

To allocate time and start up with the strategy work shortly after the investment was on average graded between agree and strongly agree and the survey ranking was 5.

Right after the investment there is a great possibility for change and we believe that to take advantage of this is very important because we believe it to have a very big affect on the following strategy work. We have the opinion that this factor is of greater importance than what was shown in the ranking in the survey.
Action 1.1. Form a potential board during the period of evaluation of a possible investment. After the investment is made, the start up period of the board work can be shortened since the board members know each other and are used to working together.

Impact mean score: 3,0/5   Effort mean score: 2,7/5

Action 1.2 A while after the investment, start up strategy work in a more structured way. Have a general education in strategy theory and its importance and how strategy work shall be performed. The owners shall give their view on strategy and have a discussion about how it shall be performed more operatively.

Impact mean score: 3,8/5   Effort mean score: 3,2/5

Action 1.3 Pick up the strategy discussion from before the investment and discuss the strategy of the company and challenge the original business plan. This can be done in combination with a more general education in strategy.

Impact mean score: 3,8/5   Effort mean score: 3,3/5
Figure 15. A diagram showing the impact and effort for action 1.1, action 1.2 and action 1.3.

Figure 15 shows that action 1.2 and action 1.3 received the highest impact mean score from the respondents and the effort mean score differs marginally. These grades correspond to our perception. Action 1.1 received an impact mean score 3.0, which means that the respondents are of the opinion that the action has neither low nor high impact. Even though action 1.1 was ranked by the respondents to have neutral impact we still think the possible impact of action 1.1 is higher. Action 1.1, to form a potential board, is a way to better understand if it is a good investment and to see if it is good dynamic between the board members that lay up for successful future strategy work. Since the respondents also ranked action 1.1 with a relatively low effort we believe that action 1.1 might not been communicated clearly enough, because we believe it has both a higher impact and higher effort compared to the result from the survey.

**Factor 2. Provide CEO with the prerequisites needed to perform good strategy work.**

Survey grading: 4.0/5  Survey ranking: 6  Preliminary ranking: 5
To provide the CEO with the prerequisites needed to perform good strategy work was graded as agree regarding if it is a critical factor for successful strategy formation. The relative ranking was 6, which is similar to our preliminary ranking.

**Action 2.1 Appoint a chairman of the board who is aware of the importance of strategy and who encourages the CEO to allocate time for working with strategy.**

Impact mean score: 4.3/5  
Effort mean score: 3.2/5

**Action 2.2 Initiate a development program for the CEO where he/she will be part of a group with other CEO:s that have meetings on a regular basis where they e.g. discuss respectively company's strategic challenges.**

Impact mean score: 3.3/5  
Effort mean score: 3.0/5

**Action 2.3 Initiate an advisory board to be able to get information and knowledge about the technology and the industry and also to get new ideas.**

Impact mean score: 3.7/5  
Effort mean score: 3.0/5
Action 2.1 received the highest impact mean score, but also the highest effort mean score. The result can be studied in figure 16. We also share the opinion that this action has a high impact since it will give the CEO a push to allot more time for strategy work and also ensure that the strategy is brought up. Action 2.2 and action 2.3 received the same effort mean score but action 2.3 was given a higher impact mean score than action 2.2.

**Factor 3. It is important to have the right people in the management and board.**

Survey grading: 4,8/5   Relative ranking: 1   Preliminary ranking: 1

To have the right people in the management and board was by the interviewees ranked as the most critical factor for successful strategy formation. It also got a high value, 4,8/5, regarding how important it is for successful strategy formation. We agree that this factor is the most critical one. There are different tools to use in order to create strategy, but it is individuals who actually are the ones who do the strategy
work, and therefore it is crucial to have the right people that are capable of doing strategy work.

**Action 3.1 Introduce a section in the investment memorandum about the founders/CEO and management that include tests and various evaluations.**

Impact mean score: 3.2/5   Effort mean score: 2.7/5

**Action 3.2 Make a profile of demands that includes competencies, experiences and personalities needed for the board.**

Impact mean score: 4.3/5   Effort mean score: 3.0/5

**Action 3.3 When investing in a company, focus on finding good people. Actively search for great individuals.**

Impact mean score: 5.0/5   Effort mean score: 3.7/5
Action 3.1 received an impact mean score 3.2, which means that it is near the perception of having neither low nor high impact, which can be studied in figure 17. Our opinion is that the action has a higher impact since it substantially increases the possibility of hiring the right person for the position. Action 3.2 was given the impact mean score 4.3 and the effort mean score 3.0, which is a grading we agree with. Action 3.3 received the highest impact mean score possible in the survey. Although it also received a quite high effort mean score compared to action 3.1 and action 3.2. Our opinion is that action 3.3 is highly significant since we have seen from the interviews that the individual in this company context is very important and thus deserves a high impact mean score.

**Figure 17.** A diagram showing the impact and effort for action 3.1, action 3.2 and action 3.3.
Factor 4. It is important that division of roles and tasks are clear.

Survey grading: 3.5/5    Survey ranking: 8    Preliminary ranking: 7

Factor 4 was graded between neither agree nor disagree and agree regarding how critical it is for successful strategy formation. It was also ranked as being less critical than most of the other factors, both in the survey and by us.

Action 4.1 Discuss what each role (CEO, management, board member, chairman of the board and investment manager) holds responsibility for regarding strategy work. This can be done in combination with a more general education in strategy.

Impact mean score: 3.8/5    Effort mean score: 3.2/5

Action 4.2 Document the defined roles within strategy work and who is responsible for more concrete tasks (e.g. in a handbook, CEO instructions or other document) The chairman of the board shall e.g. be responsible for bringing up strategy on board meetings and CEO shall be responsible for gathering information and making analysis

Impact mean score: 3.5/5    Effort mean score: 3.0/5
Figure 18. A diagram showing the impact and effort for action 4.1 and action 4.2.

In figure 18 it is possible to study the score of action 4.1 and action 4.2. Action 4.1 received the highest impact mean score of the two actions and also the highest effort mean score. We agree with the suggested ranking.

Factor 5. Important to have effective and efficient board meetings.

Survey grading: 4,7/5  Relative ranking: 2  Preliminary ranking: 3

To have good board work got a high grading and was ranked as the second most critical factor in the survey. That this factor is of great importance is something that we also agree on.

Action 5.1 Give strategy a greater say at the board meetings. More time shall be spent on strategic discussions and less on operative. Each board meeting shall have strategy work on the agenda.

Impact mean score: 3,7/5  Effort mean score: 2,5/5
Action 5.3 Have social events outside work so that the group gets to know each other.

Impact mean score: 3.7/5    Effort mean score: 2.5/5

Action 5.2 CEO shall with help from management compile good strategy material before board meetings. Initiate criteria for how material presented to the board shall be formulated.

Impact mean score: 3.5/5    Effort mean score: 3.2/5

**Figure 19.** A diagram showing the impact and effort for action 5.1, action 5.2 and action 5.3.

Action 5.1 and action 5.3 received the same impact mean score and effort mean score from the respondents. This can be studied in figure 19. Action 5.2 was given a lower impact mean score than the other actions. In our opinion all actions do deserve an impact mean score grading higher than 4, which means they have a fairly high impact or greater. This is because action 5.1 and action 5.2 will solve the problem that
strategy does not get enough attention on board meetings and that the material presented at board meetings is good enough to use as a base to discuss strategy. Action 5.3 will improve the efficiency in the decision making process at the board meeting and thus deserves a higher impact.

Factor 6. It is important to have effective and efficient strategy meetings.

Survey grading: 4,2/5   Survey ranking: 3   Preliminary ranking: 4

To have effective and efficient strategy meetings are very important since it a time allocated specifically for discussing and coming up with new strategies. Both we and respondents ranked this factor among the most important factors for successful strategy formation.

Action 6.1 Have a facilitator i.e. someone that will lead the process and also make sure that the discussion is held at the right level.

Impact mean score: 2,8/5   Effort mean score: 2,5/5

Action 6.2 Have a short focused strategy period of 2-3 weeks with a couple of meetings, instead of having one strategy day. The time between meetings can be used to process information to get a more thorough material for making strategic decisions.

Impact mean score: 3,3/5   Effort mean score: 2,8/5
Action 6.3 Invite external actor to the strategy meeting who has desirable knowledge to provide input and new ideas e.g. CEO from other company or expert.

Impact mean score: 3.5/5    Effort mean score: 2.8/5

**Figure 20.** A diagram showing the impact and effort for action 6.1, action 6.2 and action 6.3

Action 6.1 and action 6.3 received the same effort mean score from the interviewees but action 6.3 received a higher impact mean score. This can be studied in figure 20. Action 6.2 was the only action in the survey that received an impact mean score lower than 3, which means that the impact was rated between fairly low and neither low nor high.

**Factor 7. Measure the performance of the strategy work**

Survey grading: 3.7/5    Survey ranking: 7    Preliminary ranking: 8
Factor 7, to measure the performance of strategy work, is graded between neither agree nor disagree and agree regarding it being critical for successful strategy formation. The relative ranking of 7 in the survey is also close to our preliminary ranking of 8.

**Action 7.1** Follow up regularly to evaluate what have been achieved and what is left to do.

Impact mean score: 4.2/5  Effort mean score: 2.7/5

**Action 7.2** Use appropriate measurements, do not only use financial measurements and lagging indicators. Measure also e.g. customers and competitors and develop leading indicators to help prognosticate.

Impact mean score: 3.8/5  Effort mean score: 3.0/5

**Figure 21.** A diagram showing the impact and effort for action 7.1 and action 7.2.
Action 7.1 received a higher impact mean score and also a lower effort mean score than action 7.2. This can be viewed in figure 21. We are of the opinion that action 7.2 should receive a fairly high impact and thus a higher impact mean score. This because it is important to introduce and use both lagging and leading indicators and we believe this could improve the strategy work to a great extent.

Factor 8. It is important with creativity, new ideas and to be open minded for change

Survey grading: 4,8/5        Survey ranking: 3        Preliminary ranking: 6

The result of the survey shows that factor 8, to come up with new ideas and to be open minded for change was seen as a very critical factor. It both got a high grading and high relative ranking in the survey. In our preliminary ranking it was ranked lower but after further discussion we agree with that factor 8 should have a higher ranking than it received in our preliminary ranking.

Action 8.1 Use external actors that can give new ideas to the CEO and to the board. (Can invite an expert/other CEO to strategy meetings, CEO participates in development program and CEO meet with advisory board.)

Impact mean score: 3,8/5      Effort mean score: 2,8/5

Action 8.2 Encourage employees (especially sales people) to pick up new ideas. Establish a structured way to handle all new ideas e.g. form a group that meets and discusses which ideas to proceed with. Introduce compensation for realized ideas.

Impact mean score: 3,8/5      Effort mean score: 3,0/5
Action 8.3 Change the composition of management from time to time, new group constellations can make it easier to come up with new ideas.
Impact mean score: 3,8/5  Effort mean score: 3,2/5

**Figure 22.** A diagram showing the impact and effort for action 8.1, action 8.2 and action 8.3.

In figure 22 it is possible to see that all actions received the same impact mean score. However was action 8.1 given the lowest effort mean score and is thus the best action to start with of these three actions. Action 8.3 received the highest effort mean score. Action 8.3 received the highest effort mean score but we were expecting the respondents to give action 8.3 an even higher effort mean score.
Factor 9. Important to document the strategy work

Survey grading: 4/5  Survey ranking: 9  Preliminary ranking: 9

Factor 9, to document the strategy work was graded as agree regarding its importance, which was fairly high compared to the grading of other factors. However, it was ranked as the least important factor in both the survey and in our preliminary ranking.

Action 9.1 Revise the business plan regularly. Do not only update the financial goals, but also update the information about competitors and customers.

Impact mean score: 3.8/5  Effort mean score: 3.3/5

Action 9.2 Document decisions made on strategy meetings and what actions to take. What is decided on the meetings shall be developed into action points and measurable goals that are assigned to different people to perform. These shall be followed up regularly during the coming year.

Impact mean score: 4.5/5  Effort mean score: 3.3/5
Figure 23. A diagram showing the impact and effort for action 9.1 and action 9.2.

As can be studied in figure 23, both action 9.1 and action 9.2 received the same effort mean score. Though did action 9.2 receive a much higher impact mean score and the respondents were of the opinion that the documentation of decisions made on strategy meetings has between fairly high and high impact and we agree with them.

6.3.2 Summary of Factors and Survey Ranking

The analysis shows that the interviewees agree (grading 4) or strongly agree (grading 5) on seven of the nine factors. Two factors (4 and 7) were graded between neither agree nor disagree (3) and agree (4). Factor 9 was graded as agree but was in the relative ranking considered to be least important for successful strategy formation. The relative ranking of the factors in the survey have the following order:
### Survey Ranking

<table>
<thead>
<tr>
<th></th>
<th>Factor</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Factor 3.</td>
<td>A critical factor for successful strategy formation is to have the right people in the management and board.</td>
</tr>
<tr>
<td>2</td>
<td>Factor 5.</td>
<td>A critical factor for successful strategy formation is to have effective and efficient board work.</td>
</tr>
<tr>
<td>3</td>
<td>Factor 8.</td>
<td>A critical factor for successful strategy formation is to be creative, come up with new ideas and to be open minded for change.</td>
</tr>
<tr>
<td>3</td>
<td>Factor 6.</td>
<td>A critical factor for successful strategy formation is to have effective and efficient strategy meetings.</td>
</tr>
<tr>
<td>5</td>
<td>Factor 1.</td>
<td>A critical factor for successful strategy formation is to allocate time and start up with the strategy work shortly after the investment.</td>
</tr>
<tr>
<td>6</td>
<td>Factor 2.</td>
<td>A critical factor for successful strategy formation is to provide the CEO with the prerequisites needed to perform good strategy work.</td>
</tr>
<tr>
<td>7</td>
<td>Factor 7.</td>
<td>A critical factor for successful strategy formation is to measure the performance of the strategy work.</td>
</tr>
<tr>
<td>8</td>
<td>Factor 4.</td>
<td>A critical factor for successful strategy formation is that the division of roles and tasks are clear</td>
</tr>
<tr>
<td>9</td>
<td>Factor 9.</td>
<td>A critical factor for successful strategy formation is to document the strategy work.</td>
</tr>
</tbody>
</table>

**Figure 24.** The ranking of the critical factors from the answers of the survey.

### 6.3.3 Summary of Actions and Ranking

The analysis of the survey also shows that the impact mean score from the respondents on all actions except one are placed in the interval from neither low nor high (3) up to high impact (5). Only one action received an impact mean score less than 3. The effort mean score were all placed in the interval from fairly low (2) up to fairly high effort (4). In the answers to the survey two new suggestions for actions were given. These have been left out in this analysis since we are of the opinion that they have already been though of and taken into consideration in other actions and factors.

Below is a presentation of the 24 actions. In table 1 below the actions are sorted from highest impact to lowest impact. In table 2 the actions are sorted from lowest effort to highest effort. Since the purpose of the survey for the actions simply was to gather...
information about what others think about our suggested actions the impact and effort is presented in simple charts below. This result can be used as guidance for someone interested in carry out the actions, to see what others think about how big impact they would have and how big the effort would be.
Table 1. Actions sorted from highest impact to lowest impact.

<table>
<thead>
<tr>
<th>IMPACT</th>
<th>EFFORT</th>
<th>ACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.0</td>
<td>3.7</td>
<td>Action 3.3 When investing in a company, focus on finding good people. Actively search for great individuals</td>
</tr>
<tr>
<td>4.5</td>
<td>3.3</td>
<td>Action 9.1 Document decisions made on strategy meetings and what actions to take. What is decided on the meetings shall be developed into action points and measurable goals that are assigned to different people to perform. These shall be followed up regularly during the coming year.</td>
</tr>
<tr>
<td>4.3</td>
<td>3.0</td>
<td>Action 3.2 Make a profile of demands that includes competencies, experiences and personalities needed for the board.</td>
</tr>
<tr>
<td>4.2</td>
<td>2.7</td>
<td>Action 2.1 Appoint a chairman of the board who is aware of the importance of strategy and who encourages the CEO to allocate time for working with strategy.</td>
</tr>
<tr>
<td>3.8</td>
<td>2.8</td>
<td>Action 8.1 Use external actors that can provide the management and the board with new ideas. (Can invite an expert/other CEO to strategy meetings)</td>
</tr>
<tr>
<td>3.8</td>
<td>3.0</td>
<td>Action 8.2 Encourage employees (especially sales people) to pick up new ideas. Establish a structured way to handle all new ideas e.g. form a group that meets and discusses which ideas to proceed with. Introduce compensation for realized ideas.</td>
</tr>
<tr>
<td>3.8</td>
<td>3.0</td>
<td>Action 7.2 Use appropriate measurements, do not only use financial measurements and lagging indicators. Measure also e.g. customers and competitors and develop leading indicators to help prognosticate constellations can make it easier to come up with new ideas.</td>
</tr>
<tr>
<td>3.8</td>
<td>3.2</td>
<td>Action 8.3 Change the composition of management from time to time, new group and personalities needed for the board.</td>
</tr>
<tr>
<td>3.8</td>
<td>3.2</td>
<td>Action 1.2 A while after the investment, start up strategy work in a more structured way. Have a general education in strategy theory and its importance and how strategy work shall be performed. The owners shall give their view on strategy and have a discussion about how it shall be performed more operatively.</td>
</tr>
<tr>
<td>3.8</td>
<td>3.2</td>
<td>Action 1.3 Pick up the strategy discussion from before the investment and discuss the strategy of the company and challenge the original business plan. This can be done in combination with a more general education in strategy.</td>
</tr>
<tr>
<td>3.8</td>
<td>3.3</td>
<td>Action 9.1 Revise the business plan regularly. Do not only update the financial goals, but also update the information about e.g. competitors and customers.</td>
</tr>
<tr>
<td>3.8</td>
<td>2.5</td>
<td>Action 5.1 Give strategy a greater say at the board meetings. More time shall be spent on strategic discussions and less on operative. Each board meeting shall have strategy work on the agenda.</td>
</tr>
<tr>
<td>3.7</td>
<td>2.5</td>
<td>Action 5.3 Have social events outside work to create better relations between all board members.</td>
</tr>
<tr>
<td>3.7</td>
<td>3.0</td>
<td>Action 2.3 Initiate an advisory board for the CEO to be able to get information and knowledge about the technology and the industry and also to get new ideas.</td>
</tr>
<tr>
<td>3.5</td>
<td>2.8</td>
<td>Action 6.3 Invite an external actor to the strategy meeting(s) who has knowledge to provide input and new ideas, e.g CEO from other company or expert.</td>
</tr>
<tr>
<td>3.5</td>
<td>3.0</td>
<td>Action 4.2 Document the defined roles within strategy work and who is responsible for more concrete tasks (e.g. in a handbook, CEO instructions or other document) The chairman of the board shall e.g. be responsible for bringing up strategy on board meetings and CEO shall be responsible for gathering information and making analysis.</td>
</tr>
<tr>
<td>3.5</td>
<td>3.2</td>
<td>Action 5.2 CEO shall with help from management compile good strategy material before board meetings. Initiate criteria for how material presented to the board shall be formulated.</td>
</tr>
<tr>
<td>3.3</td>
<td>2.8</td>
<td>Action 6.1 Have a short focused strategy period of 2-3 weeks with a couple of meetings, instead of having one strategy day. The time between meetings can be used to process information to get a more thorough material for making strategic decisions.</td>
</tr>
<tr>
<td>3.3</td>
<td>3.0</td>
<td>Action 2.2 Initiate a development program for the CEO where he/she will be part of a group with other CEO:s that have meetings on a regular basis where they e.g. discuss respectively company’s strategic challenges.</td>
</tr>
<tr>
<td>3.2</td>
<td>2.7</td>
<td>Action 3.1 Introduce a section in the investment memorandum about the founders/CEO and management that include tests and various evaluations.</td>
</tr>
<tr>
<td>3.0</td>
<td>2.7</td>
<td>Action 1.1 Form a potential board during the period of evaluation of a possible investment. After the investment is made, the start up period of the board work can be shortened since the board members know each other and are used to working together.</td>
</tr>
<tr>
<td>2.8</td>
<td>2.5</td>
<td>Action 6.2 Have a facilitator i.e. someone that will lead the strategy meeting(s) and also make sure that the discussion is held at the right level.</td>
</tr>
</tbody>
</table>
Table 2. Actions sorted from lowest effort to highest effort.

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<tr>
<td>4.2</td>
<td>2.7</td>
<td>Action 7.1: Follow up regularly to evaluate what have been achieved and what is left to do.</td>
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</tr>
<tr>
<td>3.8</td>
<td>3.5</td>
<td>Action 4.1: Discuss what each role (CEO, management, board member, chairman of the board and investment manager) holds responsibility for regarding strategy work. This can be done in combination with a more general education in strategy.</td>
</tr>
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<td>3.5</td>
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<td>Action 5.2: CEO shall with help from management compile good strategy material before board meetings. Initiate criteria for how material presented to the board shall be formulated.</td>
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<td>3.7</td>
<td>Action 3.3: When investing in a company, focus on finding good people. Actively search for great individuals.</td>
</tr>
</tbody>
</table>
7. Results

Below is a presentation of the result of the identified critical factors for successful strategy formation and suggested actions. The actions are given a final ranking of their importance for successful strategy formation and the result is then presented in a chart with the critical factors and actions. The results shows that the most critical factor is factor 3, to have the right people in the management and board. Further it is important to provide the people with the prerequisites needed, i.e. the remaining factors, in order to succeed with the strategy formation. Below is a presentation of the critical factors for successful strategy formation and why they are important and their relative ranking among each other. The result is 8 critical factors for successful strategy formation with 2-5 actions respectively.

7.1 Final Ranking of the Critical Factors

The analysis gave 9 critical factors for successful strategy formation and 27 actions to take. This is a great amount of information and in order to be able to focus resources on the most important it would be beneficial to know the factors’ relative ranking and which factor that is most critical. After combining analysis part 1, part 2 and part 3 there were two changes in our preliminary ranking. Factor 8, to come up with creative and new ideas was, after more thorough analysis, given a higher ranking in our final than in our preliminary ranking. Further the analysis gave that one critical factor, namely factor 2, could be eliminated which led to 8 critical factors for successful strategy formation, see figure 25 below. The 8 factors with 2-5 actions each are compiled in figure 26 below. To view a complete list of the factors and actions see appendix D.
<table>
<thead>
<tr>
<th></th>
<th><strong>Final ranking</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Factor 3.</strong> A critical factor for successful strategy formation is to have the right people in the management and board.</td>
</tr>
<tr>
<td>2</td>
<td><strong>Factor 8.</strong> A critical factor for successful strategy formation is to be creative, come up with new ideas and to be open minded for change.</td>
</tr>
<tr>
<td>3</td>
<td><strong>Factor 1.</strong> A critical factor for successful strategy formation is to start up with the strategy work shortly after the investment.</td>
</tr>
<tr>
<td>4</td>
<td><strong>Factor 5.</strong> A critical factor for successful strategy formation is to have effective and efficient board work.</td>
</tr>
<tr>
<td>5</td>
<td><strong>Factor 6.</strong> A critical factor for successful strategy formation is to have effective and efficient strategy meetings.</td>
</tr>
<tr>
<td>6</td>
<td><strong>Factor 4.</strong> A critical factor for successful strategy formation is that the division of roles and tasks are clear.</td>
</tr>
<tr>
<td>7</td>
<td><strong>Factor 7.</strong> A critical factor for successful strategy formation is to measure the performance of the strategy work.</td>
</tr>
<tr>
<td>8</td>
<td><strong>Factor 9.</strong> A critical factor for successful strategy formation is to document the strategy work.</td>
</tr>
</tbody>
</table>

*Figure 25. Final ranking of the critical factors for successful strategy formation.*

The result is that the most critical factor is factor 3, to have the right people in management and board. Strategy is performed by people and they are consequently very important. According to Mintzberg et al. (2009):

“Technique has certainly fed useful information into the strategy-making process. But it has never developed a strategy” and they conclude with “Techniques does not create strategies; people do”.
This shows the importance of people within the creation of strategy. It is also critical to have the right people since the characteristics and experience of the people have great impact on what they can come up with. To have the right people in management and board is important for successful strategy formation and is something that became evident early in the work but it was after thorough analysis and long discussions that we could decisively establish that it is the most critical factor. Successful strategy formation could simply be seen as having people that can be visionary and come up with new directions and strategies. However, it is not enough to solely have the right people, but rather in order to have successful strategy formation the people must be given the prerequisites needed to perform good strategy work. This can be accomplished through the remaining 7 factors, which can be seen as a way to ensure that the activities surrounding and supporting the people are performed in the best way.

What is most critical for successful strategy formation is to have the right people in management and board.

To more easily accomplish successful strategy formation there are several ways to support people. Strategy is about looking forward and being visionary and therefore responsiveness and the capability to come up with innovative ideas is very important, as stated in factor 8. After further analysis our view on the importance of this factor has increased and its relative ranking was raised from being ranked as number 6 to number 2. Thus, we believe that to be open minded and visionary is the second most critical factor after having good people in the management and board.

As described earlier the settings in which strategy formation takes place are very important for the strategy formation. To describe strategy work one could see it as allocating time and having discussions with other people to come up with a strategy. Therefore it is important that the settings in which strategy is focused on and is discussed, i.e. strategy start up (factor 1), board meeting (factor 5) and strategy meeting (factor 6) are performed in a good way.

After having the right people and supporting them to be visionary and creative one must ensure that the strategy settings and meetings are performed in a good way. It is also important to have clear roles, as stated in action 4, so the people can work in
the best possible way. A big part of the strategy work is to implement and make sure that the strategies are realized, and this can be done through factor 7 and factor 9.

To conclude, the most critical factor is to have the right people in management and board and to provide them with the prerequisites needed since strategy cannot be formed without these. One can for example start up with the strategy work right after the investment (factor 1), but if having the wrong people, the strategy work will not be successful anyway. To conclude, we believe that factor 3, to have the right people, is the most critical factor for successful strategy formation and to provide them with the prerequisites needed through the remaining factors.

7.2 Rework to Create Final Critical Factors

After further analysis one factor, factor 2, could be eliminated and in factor 1, the parameter of time was removed.

Factor 2, to provide the CEO with the prerequisites needed to perform good strategy work is something that we believe can be seen as being included in the overall finding and result in that it is important to provide the management and board with the prerequisites needed to perform good strategy work, and in this we can include to provide the CEO with prerequisites needed. After further investigation, the actions could also be divided between other critical factors, see figure 26 below or appendix D. Action 2.1 was moved to factor 3 and action 2.2 and action 2.3 was removed to factor 8.

Factor 1 included the parameter “to allocate time” and this is something that one needs to do consistently in the strategy work and not only in the beginning when strategy work is started up. We remove this from the title of critical factor 1 and instead see it as important through the entire process.

7.3 Critical Factors and Actions Chart

The critical factors and actions are presented below in a chart which visualizes that action 3 is the most critical factor followed by the 7 remaining factors in order of importance, see figure 26. As stated in section 3.2.2, strategy formation deals with questions like: How is and shall strategy be created? Who is involved? When do necessary activities take place? Each critical factor belongs to one of the three questions, see figure 26. Factor 1 and factor 4 is related to the question who. Factor 1,
factor 5 and factor 6 covers *when* strategy is created. Factor 7, factor 8 and factor 9 are related to the question *how*.

To have the right people in management and board led us to further investigate how the venture capitalists work today with finding the right people. In the next section, conclusions are drawn about how the question of people is handled today and suggestions for improvements are given.
Action 3.1 Introduce a section in the investment memorandum about the founders/CEO and management that include tests and various evaluations.

Action 3.2 Make a profile of demands needed for the board.

Action 3.3 When investing in a company, focus on finding good people.

Action 2.1 Appoint a chairman of the board who is aware of the importance of strategy and who encourages the CEO to allocate time for working with strategy.

Figure 26. Critical factor chart with the 8 critical factors for successful strategy formation and actions to take.
8. Conclusion
The conclusion of the result is that it is critical to have the right people in management and board and to provide them with the prerequisites needed. This gives rise to questions concerning how people are handled by the venture capitalists today and furthermore what is the right people and how to determine if a person is right. Evaluation of people is one part of the evaluation of a potential investment and this will be discussed further in the following section. When investing, the people are judged by the venture capitalists and also evaluated through various tests. However, the venture capitalists generally do not evaluate people with regard to their strategic competence, which is something that we suggest to do. It has also appeared that there are possibilities for improvements in the process of evaluating people.

8.1 Importance of People when Evaluating a Potential Investment
The evaluation of people is one part of the work performed prior to making the investment decision and therefore it would be valuable to look deeper into how this work is carried out. Within research many studies have been performed regarding how venture capitalists evaluate a new venture (Shepherd, 1999). Several authors mean that the most important criteria when deciding regarding investing in a new venture is the characteristics of the entrepreneur, for example MacMillian et al, (1985) and Kollmann and Kuckerts (2010). However, other researchers mean that the studies regarding investment criteria is limited due to the way it has been performed and that other criteria are of greater importance (Gimmon & Levie, 2010); (Zacharakis & Meyer, 1998). To better understand how a new venture is evaluated in practice a discussion regarding this was carried out with a venture capitalist at SEB Venture Capital. According to the venture capitalist, good people are seen as a hygiene factor. What the venture capitalists focus on and say that what they invest in is the business idea and the market and it is important that it is a good product with great potential. We interpret this as that the venture capitalists focus on the more concrete and tangible evidence for what a good investment is. However, a great part is to actually invest in people but this was nothing the venture capitalist would explicitly say is something that they do. When asking why, two explanations were given by the venture capitalist. Firstly, they are financial investors and are therefore presumed to behave in a certain way and also in a way that accord with the industry.
Secondly, they do not want to glorify and say that they see the entrepreneur as a “hero”, since according to the venture capitalist this could attract the “wrong” people (e.g. overconfident people). The venture capitalist further explained that they can invest in a venture and later on if there is a problem with the founder CEO, he/she can be exchanged. However, the opposite scenario is not possible. This means that the venture capitalists do not invest in a great person if they do not believe in the business idea or venture. Even though SEB Venture Capital explicitly expresses that they invest in the technology and the business idea, one could argue that they invest in people. This is because people that fulfil certain criteria can be coupled to a great venture and its outcome. To conclude, to be able to find the right people for management and board the activities during evaluation process of a new business is important. However, it is possible to exchange and hire a new CEO at a later stage and the appointment of board members occur after the investment and because of this the activities following the investment are also important. The activities prior to and after the investment are explored more thoroughly in the section below.

8.2 Finding and Evaluating People

To be able to have the right people in management and board raises new questions as, what is right people and how to determine if a person is right? When talking about having the right people in management and board one first needs to determine which are the right people. Furthermore, to be able to have the right people in the board one must recruit the right people. The following section is a more thorough presentation regarding how a venture capitalist can be more successful in finding the right people for successful strategy formation when making an investment.

During the period of investigating a potential venture, the entrepreneur and management are judged by the venture capitalists and they are often also tested in different ways. People are judged according to individual preferences of the venture capitalist and are today not evaluated according to any particular characteristics good for strategic thinking.

8.2.1 How to Evaluate People

The people are judged by the venture capitalists and a further evaluation of the people is often assigned to firms specialized in human Due Diligence. Among other things, characteristics such as social ability and trustworthiness are tested. The result of the test can determine if the investment will be carried out or not, which according
to us shows that the people are of great importance for an investment decision. The tests can also serve as an indication for how to complement people in the management when appointing the board. SEB Venture Capital has thought of testing the members of the board, but is not anything they feel they can do today (Venture Capitalist SEB).

Participants in our study stressed the importance of the entrepreneur in an early stage, since they possess a de facto competency that makes them hard to replace. The importance of the characteristics of the entrepreneur is analysed in several studies, see section 3.3.2. Therefore we have further investigated what the critical traits of an entrepreneur are in this context. In Sandberg and Hofer (1987) the characteristics of the entrepreneur are discussed. They investigate what types of characteristics of the entrepreneur that correlates to the venture performance. They found that quantitatively oriented biographical data and psychological characteristics (such as need for achievement, need for power, locus of control and risk preferences) had only limited influence on new venture performance. In earlier studies on using psychological variables to predict venture performance, Brockhaus (cited in Sandberg & Hofer, 1987) found very limited success. The focus on behavioural traits of the entrepreneur rather than the biographical and psychological traits received strong (though indirect) support in the study. This is further backed up with the current practice of venture capitalist, which search for behavioural traits within the entrepreneurs experience and also Drucker and Gartner (cited in Sandberg & Hofer, 1987) are of the opinion that behaviour rather than personality best explains entrepreneurship.

We find these results about the entrepreneur interesting since from the interviews performed, biographical and psychological characteristics are shown to be the most frequently tested. Several respondents explained how much easier it is to submit background requirements than other, and it is understandable that these are the most frequently used traits to test. It is relatively easy and tangible and a good way to start. It is of course most practical if a more adequate starting point is used. However, it is many times better to start from a simplified and common frame of reference when trying to compare and evaluate traits of the entrepreneur, in order to include all people necessary in the evaluation process. To evaluate people on the basis of their background and psychological traits is less time consuming and easier.

Thus, one step closer of finding the right people and to determine whether a person is right is to focus on behavioural traits rather than background and psychological. This
conclusion is drawn in a venture capital environment and therefore we believe that this focus on behavioural traits can be generalized from the entrepreneur to the other roles in the management and board as well. What may differ between the roles are rather what types of behavioural traits should be evaluated and searched for. The desirable requirements should be evaluated with consideration to both strategy formation and the specific role the person possess. This is a question for further research and an implication for the venture capitalist is to further develop their skills in evaluating the specific success behavioural characteristics for the various roles they appoint in their specific context. As stated before a founder or CEO can be replaced, but this is by the venture capitalist explained as hard to do and is sensitive.

After an investment, the board of directors shall be appointed and the determination of the right people is a hard task, since it is contextually bounded. This is a general problem, which was also discussed in by Coyne and Coyne in McKinsey Quarterly (March 2011), where seven steps to better brainstorming were discussed. In the article they concluded that it is important to choose the right people. Their rule of what is right people was in their opinion simple: “pick people who can answer the questions you’re asking”. Even though this may sound obvious, the participants are too frequently chosen with regard of their prominence on the organizational chart than for their specific knowledge. This is a discussion that has been brought up during the interviews when talking about how people in the board are appointed. One respondent said that board members sometimes are appointed because of their position rather than what they potentially could contribute with to the board work. We further believe that the earlier mentioned rule is something that could be transferred into our context and partly describe and add insight of what is the right people.

8.2.2 Right People and Behavioural Characteristics

To be able to perform the tests presented above and to make an evaluation of the people one needs to know who the right people are and what behavioural characteristics to evaluate. To evaluate people on behavioural characteristics is hard and it would be interesting to investigate how the venture capitalists themselves judge people. When asking the venture capitalist about what characteristics that are important, one factor that was brought up was that one can see that the entrepreneur truly believes in the idea. An important characteristic is also that the entrepreneur has social skills and has the ability to build relations with his/her surroundings.
These characteristics are just examples of what could be important for a venture capitalist and we believe that how a venture capitalists judge people is highly individual. What might be most important is that the venture capitalist finds someone that they enjoy working with and then personal chemistry plays a great role.

Similar to when judging people we believe that when appointing members to the board it is very individual what characteristics a venture capitalist looks for. What someone believes to be good characteristics are often a reflection of the traits the venture capitalist him-/herself possesses. This leads to the fact that it is easy to appoint people similar to oneself. A venture capitalist might also appoint people that accord with what the venture capitalist prefers or admires. Diversity in groups and group compositions is important to take into consideration when appointing members to the board. The venture capitalist explained it as that they think about these things to find out why a problem occurred, and then they think about if the group was too homogeneous and thought in the same way or if the group was too heterogeneous and could not agree. The venture capitalist also explained that the chairman of the board is a very critical recruitment and is important to be successful. The chairman of the board is often recruited from the venture capitalists own network. When appointing the remaining board members the network can be extended. We conclude that personal relations are a great part of finding people.

To conclude, before an investment the operative characteristics of the people are evaluated and there is no particular focus on good characteristics important for strategic thinking. An explanation was given by the venture capitalist that if there today is a greater need for strategy someone good at this could be added to the board of directors. However, we suggest that the evaluation should focus more on strategic characteristics of the entrepreneur and management as well. This gives rise to questions regarding what good characteristics for strategic thinking are. The explanation given was that this is hard to judge but it could for example be someone who has experience of making a turnaround before. Also characteristics such as intelligence, ability to process data and information, distinguish patterns and being prestige less were brought up by the venture capitalist as important. We believe that being visionary and coming up with new ideas further is a good characteristic, but what might be most important is to be prestige less. To evaluate people with regard of their strategic skills might be problematic since this might contradict with other characteristics such as perceived leadership traits for being a good leader. The venture capitalist’s perspective on this was that a good leader might be seen as
someone who can give clear instructions and directions. This perspective on leadership contradicts to the desirable traits a person who is good at strategy shall possess, as for example the ability to try different options and ways. However, the perspective on leadership is changing. Leadership as a field of study focused in the beginning predominantly on the actions of the individual ‘leader’ (Bolden, Hawkins & Taylor, 2011). This is coherent with the expectations the venture capitalist has on a leader, thus within this concept of the ‘heroic’ leader it is endeavoured to distinguish the core traits of effective leaders in order to identify individuals with a predisposition to take on leadership roles. This portrays the perspective of successful leadership as the product of effective leaders. However, there has been a shift within leadership from who is leading to how leadership is accomplished. This approach regards leadership as a social influence process through which emergent coordination (i.e. evolving social order) and change (i.e. new values, attitudes, approaches, behaviours, ideologies, etc.) are constructed and produced. In recent years, partially because of corporate scandals, catastrophes such as 9/11, the recent global financial crisis and the need to address climate change in combination with help from accessibility of information and the speed of communication, a shift towards the perception of leadership as a social process has accelerated. Within this collective approach on leadership a more ‘post-heroic’ perspective is taken, where the leader do not necessarily have to be extraordinarily gifted and that much of the work of leadership may be rather mundane (Bolden et al, 2011). Within this perspective on leadership the earlier mentioned characteristics desirable within strategy, such as the ability to try different options, are as welcome as the other more direct and clear ways of leading. This is also in line with the changes in the market. The market is now more changeable than ever and it is a high volatility between the winning companies on the market. To be able to make it, a more adaptive strategic approach is needed (BCG lecture at Stockholm School of Economics, 2012-05-04). To conclude, we are of the opinion that the importance of the strategic adaptable characteristics will increase in order to cope with the changes in the surroundings.

Venture capitalist should evaluate people regarding their behavioural characteristics related to strategy.
8.3 Self Perception and Understanding of Decision Making

To make a fair and correct evaluation of people regarding good behavioural characteristics might be hard, but this is very important for venture capitalists. We believe that the challenges recur to that we all are individuals with our unique experience and preferences that affect the choices we make. Prejudice might lead to that the first impression of a person might not be correct, for example someone who is not particularly communicative might be underestimated. Shepherd (1999) presents that investors do not always make decision in the way they think they do and this is also supported by Zacharakis and Meyer (1998), which conclude that the venture capitalist’s understanding of how he/she actually made a decision may be low. Fiske and Taylor (1991) cited in MacMillian et al. (1985) mean that when taking a decision one wants to evaluate all information available. Since this is not possible certain salient information will be taken into consideration to a greater extent, which makes the decision biased.

A venture capitalist’s presumption, i.e. to believe that one is better than one actually is, is dangerous when evaluating people. It is important to have self-perception and to know oneself so well that one can be distant and understand why one behaves the way one does. By being aware of one owns limitations these can be minimized. We believe it to be an advantage to have experience and to be able to relate back to previous experience. The venture capitalist said that when evaluating a person one can think of if the person has been successful before. This is also brought up by Fiske and Taylor (1991) cited in MacMillian et al. (1985) which mean that one might recall information from the memory regarding for example if an entrepreneur has been successful before. According to Henry Montgomery, professor in psychology at Stockholm University, gut feeling often tells us valuable things that build on former experience in life. A large amount of information that one is not aware of is stored in the long-term memory. One should listen to the gut feeling but also look things up before a decision is made (Montgomery, 21 March 2012).

It is very important to be aware of the way one evaluates people and the process of how one makes a decision.
9. Discussion

In this section a summary of our findings and contributions to knowledge will be presented. Following that is an explanation of how the results can be used and generalized. Limitations with the research are also presented. Lastly is a compilation of the authors’ thoughts and reflections.

9.1 Summary of Findings and Contribution to Knowledge

This part will summarize the findings and present them as they serve the purpose of this study. Further, contribution of the result to knowledge and the generalization and use of result will be discussed.

9.1.1 Summary of Findings

The purpose of this study was to investigate how to achieve successful strategy formation in a venture capital funded company, from the perspective of a venture capitalist. The purpose was fulfilled by answering the research questions. This resulted in eight critical factors for successful strategy formation where to have the right people in the management and board was found to be the most important. The factor, to have the right people in the management and board, created new questions as: how are people handled by the venture capitalists today and furthermore what is the right people and how to determine if a person is right? Today the venture capitalists are evaluating people with help from several tests. This resulted in possibilities for improvements when firstly, deciding who the right people are and secondly determine whether a person is right. When deciding what the right people are it is preferable to in a greater extent search for desirable behavioural traits. The desirable requirements should be evaluated with consideration of both strategy formation and the specific role the person possesses. To furthermore be able to determine whether a person is right or not is a great challenge, which depends on both context and the person who performs the evaluation. We believe that the challenges recur to that we all are individuals with our unique experience and preferences that affect the choices we make. This boils down to that the venture capitalist need to have self-perception and be self-aware of the choices and decisions made and not made, and also why. By being aware of one owns limitations these can be minimized, which in the prolonging will increase the possibility of finding the right people.
To achieve the critical success factors, 24 actions were identified. When looking at the suggested actions three elements became evident as important for strategy formation. Several of the factors imply that in order to have successful strategy formation it is important to allocate time. What a large amount of the actions actually were about, was to create structure for the strategy work. We have also seen that communication is a persistent and important element in the actions. Thus, if a venture capitalist carries out the suggested actions, what he/she actually does is to allocate time, create structure and create better communication within strategy work. To have the three elements: time, structure and communication in the back of the head, would be a great start for a venture capitalist who wants to improve the strategy work.

9.1.2 Contribution to Knowledge

The first contribution to knowledge from this study is the presentation of how strategy formation is performed within venture capital funded companies. Further a presentation of how strategy formation preferably should be performed is presented to be able to improve the strategy formation. Moreover, critical factors for successful strategy have been developed and further analysed. This contributes with a great amount of information regarding what actually is important for strategy formation in this kind of companies. The actions contribute with many ideas to be inspired by and to implement for being able to improve the strategy formation in practice.

The overall aim of contribution to knowledge is to provide insights of how to improve the strategy formation within venture capital funded companies, from the perspective of a venture capitalist.

9.2 Generalization and Use of Result

The factors presented in this study are of interest for anyone investing in an entrepreneurial company or new business. We are of the opinion that the factors are useful for companies in different industries and not only for companies working with technology, even though this is what we have based our study on. The result might also be of interest for an owner in any early stage company.

The companies studied have undergone an exit, or are most probable to undergo an exit with a trade sale. However we believe the result to be generalizable to companies having an IPO as goal of exit as well, since it is the strategy formation and not the
actual strategy that has been studied. We believe that the critical factors can be used to create a successful strategy for any venture capital funded company.

Some of the factors might also apply for more mature companies, but in these kinds of companies there are other challenges and there might be many other factors that are more critical. More mature companies often have someone responsible for strategy and in these kinds of companies a big challenge might be to execute the strategy and communicate it through the entire company.

The actions can be applied to various settings and businesses that want to have concrete ideas for how to improve the strategy work. However it might be hard to perform the suggested actions due to limited resources in new businesses.

That people are important can be generalized to many other areas and the way we discuss how this questions shall be handled can be of use in other contexts than strategy as well.

9.3 Limitations of Research

Below are the limitations with the result and the limitations with the approach and methods used in the research discussed.

9.3.1 Limitations of Method

In this section criticism of the methods and research approach are presented. There are several limitations with the approach and methods used in the study.

There are limitations with the literature review since most of the literature and articles are international and their applicability to Swedish companies can be questioned. Many of the articles are also quite specific but we have used them in a more general manner.

There are limitations with the interviews carried out. First of all there is only six interviews in total, with two CEO, two IM and two CoB. From the beginning the plan was to have nine interviews and three for each role but it was problematic with gaining access to more respondents. To have a greater number of interviewees would have increased the validity of the research and given a greater trustworthiness. However, since the focus of the study changed from initially to make a complete overview of the strategy formation process to instead make a deeper study and
investigate possible improvements we felt that we were able to get enough depth with our interviews since the four interviews carried out with strategy consultants and the board work expert could after the purpose of the study changed be used to a greater extent. We are of the opinion that the ten interviews carried out provided us with sufficient information for a valid result. We did not have the ability to choose our CEO, IM and CoB interviewees since access to these were provided by our thesis initiator. Role, experience and accessibility influenced the thesis initiator’s choice. However, also their preconceived willingness to allocate time and participate in an interview was taken into consideration. This might have had an effect on the outcomes, which might have been different if the interviewees had been carried out with persons more critical to participate in this study.

The answers given during the interviews can also be questioned. The CEO:s and CoB:s might have chosen to not say certain things due to their relation to and dependency on SEB Venture capital. It might also be the case that the interviewees gave answers that they believed they were expected to say according to their professional role.

The way the analysis of the interviews was carried out can also be criticised. The answers from the recordings of the interviews were transcribed and extensively analysed. A risk with this is that information with less importance might be given to much weight in the analysis.

There are also limitations with the design of the survey. We understand that it might have been hard for the respondents to evaluate the factors and actions when only provided with a short description of about one or two sentences. This might be the reason for that most of the actions were given an average grade.

9.3.2 Limitations of Result

At a first glance, the result might not be seen as rocket science. Venture capitalists already know that people are important. However, this result further stresses the importance of people and hopefully leads to a greater focus and awareness of the importance of people when venture capitalists make investments. Some of the actions might be activities that the venture capitalists already do today, but hopefully will the presented results of this study further stress the importance of these actions, which gives greater reasons for allocating resources to work with the actions in a greater extent than today.
The result is very comprehensive with many suggestions for actions to take and can be seen as hard to implement. We have tried to focus on understanding how strategy works in practice and to give a result that can be applied and used in reality. But to make the implementation of the actions as simple as possible have not received very much focus due to time constraints of this research.

9.4 Suggestions for Further Research

Suggestion for further research would be to test the critical actions on a greater number of companies and individuals to be able to draw more general conclusions regarding the critical factors. There might be other critical factors and the relative ranking among the actions can be questioned and studied further. It would be interesting to initiate research about the most critical factor, to have right people in management and board and to further analyse what the right people are and how to find them. We also suggest looking into if there are certain characteristics that are suitable for a person to have for successful strategy formation within venture capital funded companies.

Suggestion for further research would also be to look deeper into the suggested actions and to make a more detailed plan for how to execute the actions.

It would further be interesting to investigate the importance of good strategy work for venture capital funded companies. There might be other areas that are of greater importance and in would be interesting to see what role strategy actually has. In these kinds of companies other things such as sales or product development might be of greater importance.

It would also be interesting to investigate the importance of having a “clear” strategy process or if it in these kind of entrepreneurial companies or if it is alright to have more “abstract or spontaneous” strategy work since it is hard to work in a structured way when so many parameters might be unknown such as customers, which market to be in, where in value chain to be and that the strategy must be allowed to develop along the way. It would also be interesting to study strategy formation from not so much of a process but rather to use adaptive approach as described by Reeves et al. (2010).
9.5 Authors’ Reflections and Thoughts

During our research there has been time for reflections and discussions related to the research, that we believe could be of interest for the reader to take part of. Below is a compilation of our thoughts and reflections within the areas: the venture capitalist, people and technology, strategy and lastly we give some thought about the progress of our research process.

The Venture Capitalist
We are of the opinion that it today is easier than ever before to come up with new innovations. But in contradiction, we also believe that it is harder to profit on these new types of innovations such as, mobile phone apps, webpages and social media. It is hard to know if the innovation will be a hit, and even if it will, the interest for it might decrease quickly again. We further believe that new innovations come and go at an increasing speed, which makes the job for a venture capitalist harder. In this new climate, it appears hard to take fast decisions and to know what innovations are worth investing in.

People and Technology
Initially we believed that what consistently would affect our study was the fact that we were studying companies with advanced technology and that this would imply certain challenges. But instead the focus of the study has rather been on people and all that this implies. However, we are of the opinion that the challenge to find good people might be greater for companies with high technology. All companies must find customers and sell, in order to be successful. However, we believe that to find people that are good at sales and at the same time understand advanced technology might be harder.

Another reflection about people is that a lot comes back to that “we all are human beings”. By this we mean that regardless of experience or professional role, people are very similar when it comes to behaviour and needs. First of all we need to have some kind of basic understanding or simplification of the real world to hold on to and relate to. The venture capitalists initially use quite simple tests when evaluating people, just to have something that is easy to understand and to rely on. This was the same for us in this thesis project when we used a simplified explanation for the strategy process to have something as a take-off. Another thing that one could see as a fact among human beings is that we have prejudice. When meeting new people we
quickly decide what kind of person it is and if we like him/her or not. This is something that all of us need to think of. We have also discussed the need of having deadlines. CEO 2 explained how he had hard times prioritizing to allocate time to do strategic work instead of operative work and do business. He said that it would be good to have more deadlines within the strategy work.

**Studying and Defining Strategy**

During the research we have realized how complex and intangible strategy is. A lot of literature has been produced within the area and there are many different definitions of what strategy and strategy formation is. We have obtained an understanding for that strategy is very complex and that it is something that both can be planned and intended, but at the same time that a great part of strategy work is to be adaptive and to let the strategy emerge. We are of the opinion that the different descriptions of strategy formation in the literature are very theoretical and agree with Mintzberg et al, (2009) who say that most of the schools of strategy formation in their book see the actual creation of the strategy as a “black box”.

One reflection that came to us towards the end of the work with this report was that we have been able to study how strategy is formed in several companies without being given any clear explanation of what the strategy is and without knowing much at all about the business or how the technology of the companies function.

We have also thought about the quite special situation that a venture capital funded company is in. To build a successful company and create a strategy one shall think long-term, but everybody knows that the company shall be sold in the future. As consultant 3 said:

> “It is a special situation to talk about separation already when entering into a relation.”

This led us to further wondering: How does one manage to think long-term when knowing that the company will be sold and what are the implications of this?
Methodology and Progress of the Work

We have had a curious approach and have been eager to learn more about new things. We believe that the fact that we can be seen as ‘curious and harmful students’ might have had a positive effect when gathering information. Thanks to this we might during the interviews have had a discussion different from what someone professional from the venture capital industry could have had and from this come up with new and interesting perspectives.
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Investment Manager 1, 3 April 2012

Investment Manager 2, 13 March 2012

Strategy consultant 1, 7 March 2012

Strategy consultant 2, 7 March 2012

Strategy consultant 3, 12 March 2012
## Appendix A: Wordlist

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buy out</strong></td>
<td>A transaction where a business is acquired from the current shareholders. Buy out capital is invested in more mature companies (companies in a later stage of their life cycle than what venture capital funded companies are).</td>
</tr>
<tr>
<td><strong>Critical</strong></td>
<td>Crucial, decisive, vital, all important, high priority. Opposite: unimportant</td>
</tr>
<tr>
<td><strong>Corporate governance</strong></td>
<td>The system of controls, regulations and incentives designed to minimize agency costs between managers and investors and prevent corporate fraud.</td>
</tr>
<tr>
<td><strong>Debentures</strong></td>
<td>A type of unsecured corporate debt. Debentures typically have longer maturities (more than ten years) than notes, another type of unsecured corporate debt.</td>
</tr>
<tr>
<td><strong>Deliberate strategy</strong></td>
<td>Is a realized strategy that was fully intended.</td>
</tr>
<tr>
<td><strong>Due Diligence</strong></td>
<td>To gather and analyse information to evaluate a potential investment before investing.</td>
</tr>
<tr>
<td><strong>Emergent strategy</strong></td>
<td>Is strategy that is created along the way without being intended, gradually shaped during an iterative process of ‘thinking’ and ‘doing’.</td>
</tr>
<tr>
<td><strong>General partner</strong></td>
<td>The partners in a private venture capital firm are responsible for debts and obligations in the limited partnership (see explanation below).</td>
</tr>
<tr>
<td><strong>Initial Public Offering, (IPO)</strong></td>
<td>Is a way to exit an investment in a company. The process of selling stock to the public for the first time.</td>
</tr>
<tr>
<td><strong>Intended strategy</strong></td>
<td>Is what individuals or organizations formulate prior to action, a pattern of decisions that lead to a strategy.</td>
</tr>
<tr>
<td><strong>Limited partner</strong></td>
<td>External actors investing in funds set up by private venture capital firms. Have limited responsibility in the limited partnership (see explanation below).</td>
</tr>
<tr>
<td><strong>Limited partnership</strong></td>
<td>Legal structure of a private venture capital firm. Is the partnership between firm management and the investors of the fund.</td>
</tr>
<tr>
<td><strong>Private equity</strong></td>
<td>Capital invested in existing privately held companies.</td>
</tr>
<tr>
<td><strong>Realized strategy</strong></td>
<td>The strategic behaviour exhibited in practice (a pattern of actions).</td>
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<tr>
<td>-----------------------</td>
<td>------------------------------------------------------------------------</td>
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<tr>
<td><strong>Risk capital</strong></td>
<td>Capital invested in companies where the risk taken by the investor is compensated by partaking in a future success of a firm.</td>
</tr>
<tr>
<td><strong>Strategy formation</strong></td>
<td>The process by which a realized strategy is formed.</td>
</tr>
<tr>
<td><strong>Strategy formulation</strong></td>
<td>The process by which an intended strategy is created.</td>
</tr>
<tr>
<td><strong>Strategy implementation</strong></td>
<td>Is to convert strategic plans into actions and further into results. Is one part of the strategy formation process.</td>
</tr>
<tr>
<td><strong>Trade sale</strong></td>
<td>Is a way to exit an investment in a company. Implies that the whole venture is sold to another company.</td>
</tr>
<tr>
<td><strong>Venture</strong></td>
<td>A business enterprise in which something is risked for the hope of profit.</td>
</tr>
<tr>
<td><strong>Venture capital</strong></td>
<td>Capital invested in early stage or start up companies with the potential for significant growth, often where revenues are not sufficient to support working capital needs for planned growth.</td>
</tr>
</tbody>
</table>
Appendix B: Facts About SEB Venture Capital

<table>
<thead>
<tr>
<th>Established</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of investments since start</td>
<td>95</td>
</tr>
<tr>
<td>Total number of exits since start</td>
<td>60</td>
</tr>
<tr>
<td>Assets under management</td>
<td>2.4BSEK</td>
</tr>
<tr>
<td>Investment horizon</td>
<td>4-7 years</td>
</tr>
<tr>
<td>Investment amount</td>
<td>20-100 MSEK</td>
</tr>
<tr>
<td>Ownership stake</td>
<td>20-49 %</td>
</tr>
<tr>
<td>Businesses sales</td>
<td>100–500 MSEK</td>
</tr>
</tbody>
</table>

**Focus of investments:** Emerging companies within technology, life science as well as more mature growth companies from most sectors.

**Business concept:** SEB Venture Capital invest venture capital and supply expertise and a broad network of contacts to growth companies in the Technology, Life Science and Industrial Growth sectors.

**Investment criteria:**

- The company should have unique products, services or a market position offering a long-term competitive advantage and preferably an internationally scalable business.
- That the company has a skilled and committed management that is, or wants to be, co-owners of the company.
- Revenues must have reached a level that demonstrates the viability of the business model, investments are rarely made in the early startup stage.
Appendix C: Interview Questions

Interview Questions to CEO, IM, CoB

1. Please give a short description of your background and current position.

2. What is strategy for you? How do you view strategy work?

3. What is/was the goals of the company? Financial and strategic? What was the time horizon? How were the goals formulated? Who was involved? When did necessary activities take place?

4. What was the strategy of the company? How was the strategy formulated? Who was involved? When did necessary activities take place?

5. What are the most important decisions that have been taken?

6. How do you work with strategy implementation and follow up? Who is responsible for this?

7. What problems are there with the strategy work?

8. What are the possible improvements in the strategy work?

9. What do you believe is important for successful strategy formation?
Interview Questions to Consultants and Board Work Specialist

1. Please give a short description of your background and current position.
2. What is strategy for you and how do you view strategy work?
3. Please describe the way you work when you are assigned a project to review or create a strategy for a client.
4. What is the first step in strategy work? How do you work with vision/mission, analysis and goals?
5. How is the formulation of the goals carried out? When do activities take place? Who is involved? How is it performed?
6. Are the goals documented?
7. What problems are there with setting the goals?
8. How do you work with goals and to reach these?
9. Do you/How do you work with identifying challenges for reaching the goals?
10. Do you/How do you work with identifying success factors for reaching the goals?
11. How do you work with developing the capacity of the company?
12. How is the actual formulation of the strategy carried out? When do activities take place? Who is involved? How is it performed?
13. Is the strategy documented?
14. Please describe your view on if strategy is formulated and then carried out or does strategy emerge along the way?
15. Do you believe that strategy lead to strategic decisions or does strategic decision lead to the strategy?
## Appendix D: List of Critical Factors and Actions

<table>
<thead>
<tr>
<th>Factor 3. A critical factor for successful strategy formation is to have the right people in the management and board.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Action 3.1</strong> Introduce a section in the investment memorandum about the founders/CEO and management that include tests and various evaluations.</td>
</tr>
<tr>
<td><strong>Action 3.2</strong> Make a profile of demands that includes competencies, experiences and personalities needed for the board.</td>
</tr>
<tr>
<td><strong>Action 3.3</strong> When investing in a company, focus on finding good people. Actively search for great individuals</td>
</tr>
<tr>
<td><strong>Action 2.1</strong> Appoint a chairman of the board who is aware of the importance of strategy and who encourages the CEO to allocate time for working with strategy.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Factor 8. A critical factor for successful strategy formation is to be creative, come up with new ideas and to be open minded for change.</th>
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</thead>
<tbody>
<tr>
<td><strong>Action 8.1</strong> Use external actors that can provide the management and the board with new ideas. (Can invite an expert/other CEO to strategy meetings)</td>
</tr>
<tr>
<td><strong>Action 8.2</strong> Encourage employees (especially sales people) to pick up new ideas. Establish a structured way to handle all new ideas e.g. form a group that meets and discusses which ideas to proceed with. Introduce compensation for realized ideas.</td>
</tr>
<tr>
<td><strong>Action 8.3</strong> Change the composition of management from time to time, new group constellations can make it easier to come up with new ideas.</td>
</tr>
<tr>
<td><strong>Action 2.2</strong> Initiate a development program for the CEO where he/she will be part of a group with other CEO:s that have meetings on a regular basis where they e.g discuss respectively company’s strategic challenges.</td>
</tr>
<tr>
<td><strong>Action 2.3</strong> Initiate an advisory board for the CEO to be able to get information and knowledge about the technology and the industry and also to get new ideas.</td>
</tr>
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</table>
Factor 1. A critical factor for successful strategy formation is to start up with the strategy work shortly after the investment.

**Action 1.1** Form a potential board during the period of evaluation of a possible investment. After the investment is made, the start up period of the board work can be shortened since the board members know each other and are used to working together.

**Action 1.2.** A while after the investment, start up strategy work in a more structured way. Have a general education in strategy theory and its importance and how strategy work shall be performed. The owners shall give their view on strategy and have a discussion about how it shall be performed more operatively

**Action 1.3** Pick up the strategy discussion from before the investment and discuss the strategy of the company and challenge the original business plan. This can be done in combination with a more general education in strategy.

Factor 5. A critical factor for successful strategy formation is to have effective and efficient board work.

**Action 5.1** Give strategy a greater say at the board meetings. More time shall be spent on strategic discussions and less on operative. Each board meeting shall have strategy work on the agenda.

**Action 5.2** CEO shall with help from management compile good strategy material before board meetings. Initiate criteria for how material presented to the board shall be formulated.

**Action 5.3** Have social events outside work to create better relations between all board members.

Factor 6. A critical factor for successful strategy formation is to have effective and efficient strategy meetings.

**Action 6.1** Have a short focused strategy period of 2-3 weeks with a couple of meetings, instead of having one strategy day. The time between meetings can be used to process information to get a more thorough material for making strategic decisions.

**Action 6.2** Have a facilitator i.e. someone that will lead the strategy meeting(s) and also make sure that the discussion is held at the right level.
**Action 6.3** Invite an external actor to the strategy meeting(s) who has knowledge to provide input and new ideas, e.g. CEO from other company or expert.

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**Factor 4. A critical factor for successful strategy formation is that the division of roles and tasks are clear**

**Action 4.1** Discuss what each role (CEO, management, board member, chairman of the board and investment manager) holds responsibility for regarding strategy work. This can be done in combination with a more general education in strategy.

**Action 4.2** Document the defined roles within strategy work and who is responsible for more concrete tasks (e.g. in a handbook, CEO instructions or other document) The chairman of the board shall e.g. be responsible for bringing up strategy on board meetings and CEO shall be responsible for gathering information and making analysis.

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**Factor 7. A critical factor for successful strategy formation is to measure the performance of the strategy work.**

**Action 7.1.** Follow up regularly to evaluate what have been achieved and what is left to do.

**Action 7.2.** Use appropriate measurements, do not only use financial measurements and lagging indicators. Measure also e.g. customers and competitors and develop leading indicators to help prognosticate

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**Factor 9. A critical factor for successful strategy formation is to document the strategy work.**

**Action 9.1** Revise the business plan regularly. Do not only update the financial goals, but also update the information about e.g. competitors and customers.

**Action 9.1** Document decisions made on strategy meetings and what actions to take. What is decided on the meetings shall be developed into action points and measurable goals that are assigned to different people to perform. These shall be followed up regularly during the coming year.