This research examines the factors responsible for the management conflict between venture capital investors (VCIs) and information and communications technology venture businesses (ICT VBs) in the emerging venture capital and ICT industries of the Multimedia Super Corridor (MSC), Malaysia. In the management process of venture business, VCIs emphasize financial and managerial considerations while ICT VBs emphasize technical considerations. This is the area of management where conflict is most likely to arise between the two key stakeholders of a venture business (VCIs and ICT VBs are categorized as stakeholders in the economics literature). For a successful venture business, this conflict has to be reduced. Before the start-up stage of a venture business, ICT VBs hold the majority equity. However, at the start-up stage, VCIs play a crucial role in providing additional equity. Once an investment by VCIs is agreed upon and executed, that is, the venture business has started its business operation, careful managerial considerations are important; otherwise, the above-mentioned management conflict is likely to arise and affect the performance of the venture business.

The increasing complexity of managing venture businesses has made it necessary for stakeholders to develop amicable relationships with each other to achieve mutual goals. As a consequence, researchers and practitioners alike have focused their attention on searching for ways to improve relations between stakeholders. On one side, the ICT VBs need financing, management know-how, and marketing contacts, among others. VCIs are in a good position to assist by channeling not only financing but also their practical hands-on experience in business operations, e.g., general management and marketing. On the other, VCIs need information and technological know-how of their venture business from the ICT VBs so that they are aware of the opportunities and threats of their investment. Therefore, if the two key stakeholders wholeheartedly work together to develop their aggregate competence, their venture business will have a better chance for successful outcomes.

The general tenet is that differences do exist in the nature and characteristics of VCIs and ICT VBs, especially their expertise. Thus, a natural move would be to investigate the following: Firstly, what are the specific differences in their expertise? Secondly, do these differences have any impact on their recognition of managerial factors (ROMFs) in managing their venture business? Thirdly, do their ROMFs have any influence on their management conflict? While many past studies have been conducted in developed countries to shed light on issues related to reducing management conflict in venture capital, there is a paucity of empirical studies to investigate the association of ROMFs and management conflict, especially in the ICT industry. In almost all studies, a critical role of VCIs is generating information about the ICT VBs’ prospects. While such an emphasis is important, it does little to shed light on the complementary role of key stakeholders’ expertise and ROMFs in affecting those strategies of reducing management conflict. Thus, it is important to understand their managerial factors, whereby the nature of management conflict between these stakeholders is a consequence of their characteristics.

Here, this explorative study hopes to fill the gap and selects ROMFs as one element of an empirical investigation into reducing management conflict. The main purpose of this research is to empirically establish the theoretical linkage between ROMFs and management conflict across the full venture capital process.

Past studies have tended to focus on venture businesses in general. Building on the knowledge and findings derived from these studies, this research focuses on the following aspects: venture businesses in ICT industry; venture capital financing from pre-investment to post-investment stages, and risk management. The independent variables are the ROMFs at the pre-investment stage, namely: deal origination and screening, evaluation, deal structuring, and at the post-investment stage: monitoring and post-investment activities, acquiring liquidity, and risk management. This research focuses on sources of due diligence, techniques of evaluation, factors or criteria used, risk management and the perception towards market and agency risks, and other related aspects at each stage of the venture capital process. The dependent variable is management conflict with two sub-variables as indicators (i.e., the extent of management conflict experienced and the affected management policies).

The triangulation approach (i.e., multi-methods of investigation and sources of data) was selected for this
research, i.e. survey questionnaires, direct interview exercises, and secondary sources. The survey questionnaires were tested in a pilot study before they were used in the field study for data and information collection. Pre-tested questionnaires were mailed to 24 VCIs and 100 ICTVBs operating in the MSC, with 18 and 39 replies received, respectively. Then the collected responses were statistically analyzed through two parts. The first part of data analysis is the descriptive statistics, i.e. the profiles of VCIs and ICTVBs and case studies. Generally, both the VCIs and ICTVBs are just emerging in MSC having the following characteristics: a small number of venture capital executives and technical workers. The second part is the statistical analysis of the hypotheses of this research. It is suggested that if the differences in ROMFs between the VCIs and ICTVBs are large, the management conflict between the two will be intensified. For example, the difference in monitoring preferences (i.e. the VCIs prefer hands-on approach but the ICTVBs prefer hands-off approach) will intensify their management conflict and ultimately affect the business relationship in their venture business.

The Thesis is divided into five chapters. Chapter 1 is an introduction to the research. The statement of the research problem or the area of interest is discussed; followed by justification, purpose, study design; and finally the organization of the Thesis. Chapter 2 reviews the literature on venture capital and the managerial factors involved. The review is meant to synthesize the various studies on the subject and also to identify the theoretical and conceptual underpinnings of the venture capital dynamics. It also focuses on this research’s model of development. The hypotheses to be tested are also derived from the literature reviewed. Chapter 3 outlines the data theory and methodology used for this research. The chapter specifies the conceptual framework of analysis and operational definitions. This chapter also provides the sampling design and the criteria used in selecting the respondents of this research. Chapter 4 presents the data analysis and reports the results. It covers the descriptive statistics and statistical analysis used to describe and test the hypotheses of this research. The results from the data analysis are then summarized and discussed accordingly. Finally, Chapter 5 concludes this research. This chapter discusses the findings and conclusions that could be derived from the data analysis. It also covers discussions on the theoretical and practical implications of the findings of this research. It also indicates the limitations and suggestions for potential future research on this subject.

Among the most important conclusions that may be derived from the findings of this research can be briefly summarized as follows:

a) The roles of VCIs as principal and of ICTVBs as agent are found to be clearly demarcated, with the VCIs providing financial and managerial commitments and the ICTVBs providing technological knowledge and commitments. Their expertise is also clearly distinguishable, with the skill sets of each being almost separated, i.e. the VCIs are so-called expert on financial and managerial matters and the ICTVBs on the technological matters. Thus, these differences increase the acuteness of information asymmetries between them that may contribute to the management conflict.

b) Theoretically, VCIs and ICTVBs should not be having management conflict in managing their venture businesses because they could have agreed upon the terms and conditions in their financial contracts. However, in reality, due to their differences in expertise and ROMFs (as proposed in this research), they may have management conflict.

c) Differences in their ROMFs at the pre-investment stage become more pronounced at the post-investment stage and for risk management. This fact suggests that in order for both VCIs and ICTVBs to reduce their management conflict in the venture business, it is important to reconcile their differences in ROMFs as early as at the pre-investment stage, and then continue to improve them at the post-investment stage and in risk management. In addition, selecting the right business partners upfront seems to have been crucial for both VCIs and ICTVBs.

d) Improvements in some of their ROMFs are useful for reducing management conflict between them. For example, their ROMFs in screening, due diligence and evaluation at the pre-investment stage; in exchanging strategic business information at the post-investment stage; and in the need for a balanced attitude towards market and agency risks in risk management are found to be useful for reducing this conflict.

e) The exchange of strategic business information through interactive communication between the VCIs and ICTVBs constituted central importance at the post-investment stage and risk management, particularly for monitoring purposes by the VCIs as principal. This matter seemed to be among the most important challenges of venture business management in the emerging venture capital and ICT industries in Malaysia and, perhaps, other developing countries too.

In general, the findings of this research indicate that VCIs and ICTVBs have differences in their expertise and ROMFs, but improvements in information exchange on
technological, financial and business strategies, screening, due diligence process, etc. are essential for reducing their management conflict. Hence, this confirms that improving expertise and ROMFs by both the VCI and ICTVBS for successful venture businesses is a useful undertaking. In other words, seeking to make a constructive business relationship between the VCI and ICTVBS operating with incomplete information, among others, in risky environments of the emerging venture capital and ICT industries in MSC, Malaysia, is indeed a theoretical and practical goal.

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