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Are Entrepreneurs Overburdened? Exploring the Agency Dilemma in an Entrepreneurial Setting

by

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Abstract

Entrepreneurial finance is of key importance for young firms and as in any other hierarchical structure, it is strongly linked with the agency dilemma. While the principal-agent dilemma has been well documented in large companies, there is a limited contribution focused on agency theory within start-ups and young firms. When considering new enterprises, the key actors do not fit quite so neatly into the existing frameworks because the entrepreneurs are also stockholders of their ventures. We believe that this might have implications regarding the agency control mechanisms with regards to the costs which are incurred by the agent. Thus, this research aimed to examine agency theory within the context of the investor-entrepreneur relationship. By employing a qualitative, multiple-case study design we aimed to discover which mechanisms are used by investors (principal) to control the entrepreneur's (agent's) behavior, and how these mechanisms affect the agent. We find that while incentives, monitoring, and screening are also common within young firms, other agency control mechanisms have weak applicability in this context. The effects of these mechanisms are manifold and relate mainly to the risks which are beared by the entrepreneurs and the necessary efforts required from them to ensure the progress of their relationship. Besides contributing to academia by exploring the agency dilemma in an overlooked area, our findings can be useful to entrepreneurs when considering financing options for their ventures.

Keywords: agency theory, entrepreneurs, agency costs, agency control mechanisms, entrepreneurial finance, venture capitalists, business angels

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1 Introduction

Entrepreneurship provides a vital contribution to economic growth and productivity (Baumol & Strom, 2008). The role of entrepreneurship in both the generation and appropriation of value ultimately plays an important part in creating employment, international competitiveness, and innovation (Coleman, 2016). Entrepreneurs need capital to fund their start-up ventures both in the early stages as well as when the firm develops and expands in later stages.

Finances are raised both internally and externally. Internal finance refers to funds that are raised from within the firm and through its founders. This includes the personal savings of the entrepreneur and of their close network known as *'The 3 Fs'* (Founder, Friends, and Family). Bootstrapping pertains to the personal liabilities of the founder such as the use of private credit cards and home mortgaging or the internally retained earnings of the business. Finally, Business Alliances which refers to cooperative agreements with another firm (Markova & Petkovska-Mirevska, 2009). Forms of internal financing are the initial sources of finance for the vast majority of new enterprises (Coleman, 2016).

While an entrepreneur depends on internal fund sources in the early stages of a business, a start-up must also seek funding through external avenues (Bolton & Freixas, 2000). This refers to funds raised from outside the firm such as government funding or through business angels (BAs), venture capitalists (VCs), banks, corporate investors and equity markets (Markova & Petkovska - Mirevska, 2009).

Apart from in the case of funding raised through some governmental grants, an entrepreneur will need to choose between taking on debt or ceding equity as part of their external financing decision. Debt financing refers to money borrowed from institutions such as banks or building societies which is repaid in full after an agreed time frame with an added interest (Coleman, 2016). Equity financing refers to the raising of funds through the sale of shares in a company. In other words, selling a percentage of the ownership rights of a firm. Capital decisions such as the use of debt and equity have been shown to have a great impact on firm performance, potential expansion as well as the risk of failure. Much attention has been given to the difficulties that new businesses face in securing funding (Ang, 1992). A key difference in the ability to attract financing between large, publicly owned firms and small, private firms is the level of informational opacity (Hamilton & Fox, 1998)

From a theoretical perspective, the difficulties experienced by entrepreneurs in their efforts to secure financing stem from *information asymmetry* between the potential investors and the entrepreneur, and due to *moral hazard* problems, which refers to the potential misuse of funds by an entrepreneur (Denis, 2004). Moral hazard problems and information asymmetries are two fundamental issues concerned with the topic of agency theory. Agency theory focuses on conflicts of interest and the relationship between the principal, who has ownership of a company, and the agent, who is charged with the management and control of the company. Predominantly agency theory has centered around the relationship between shareholders and management within large corporations with a view to understanding how shareholders can best ensure that management is running the organization in their best interests (Jensen & Meckling, 1976; Fama, 1980; Fama & Jensen, 1983).

From the perspective of large corporations, the separation between ownership and control is long established and the roles of individuals are strongly defined (Fama, 1980; Fama & Jensen, 1983). However, when considering new enterprises, the key actors do not fit quite so neatly into the existing frameworks. When an entrepreneur starts their own business they are usually the sole owner and controller of the organization. After equity is sold to outside investors, the ownership structure is altered and new interests are incorporated into the organization. It is rational that these new shareholders should be vigilant about the potential for misuse of their investment and in turn, it is natural that they should wish to exercise some control over how the company is managed. While the principal-agent dilemma has been well documented in large companies (Jensen & Meckling, 1976; Fama & Jensen, 1983), there is a limited contribution focused on agency theory within start-ups and young firms (Davis et al., 2016). They conclude that agency theory in an entrepreneurial setting has some serious flaws stating that “The entrepreneurship and family business domains may offer fruitful and unique grounds for examining complicated principal-agent issues, but they are domains that agency theory currently fails to thoroughly address.”

When considered from the perspective of a new enterprise, agency theory can also be used to describe the relationship between an investor and an entrepreneur. When an entrepreneur raises capital by ceding equity in their business, it represents a genesis of the principal-agent dilemma within the organization. However, this is not strictly true in its totality as the entrepreneur also remains as a principal themselves and usually has the best interests of the firm at heart. Notwithstanding this, investors must also endeavor to ensure that the entrepreneur is also acting in their best interests and so must ensure they can safeguard their investment against any conflicts of interest (Jensen & Meckling, 1976; Eisenhardt, 1989).

The literature outlines ways in which the agent can act against the wishes of the principal, ways in which the principal can control the agent's activities and the cost of this control, known as 'agency costs'. Jensen and Meckling (1976) describe three core sources of agency costs. Firstly, there is the cost of the loss in residual claims (profit) caused by the agent acting in a sub-optimal manner with regards to the principal's interests. Secondly, there is the cost incurred by the principal in monitoring the activities of the agent so as to limit residual loss. And finally, there are the bonding costs which are incurred by the agent. Bonding aims to align the interests of the agent to the interests of the principal by adding an element of risk to their earnings. In this way, the agent's actions have a direct effect on the total income that they receive. In classical agency theory, these costs are incurred by shareholders as they endeavor to control the agent. Examples of this include such expenses as, the use of a board of directors, external audit and the price of aligning incentives, etc. (Jensen & Meckling, 1976; Eisenhardt, 1989). However, we expect that the effects of these costs, in an entrepreneurial setting, are incurred by the agent as well.

Our research aims to examine agency theory within the context of the investor-entrepreneur relationship. We feel that there are sufficient theoretical divergences from traditional principal-agent dynamics to warrant further investigation into this area. Furthermore, as it will be elaborated later, there is suitable existing theoretical and empirical evidence to justify an investigation into the nature of the costs incurred in mitigating agency problems. Thus, the research question is established:

In an Entrepreneurial setting, which mechanisms are used by investors (principal) to control the entrepreneur's (agent's) behavior, and how do these mechanisms affect the agent?

Much of the research and debate in the area of strategic entrepreneurship focuses on the difficulties that come with attracting external investment. In addition, much of the emphasis is on overcoming these difficulties while outlining the techniques and methods in which entrepreneurs can more successfully finance their businesses from a pre-investment standpoint (Fraser et al., 2015). There is an opportunity to delve into features of the investor-entrepreneur dynamic from the perspective of the relationship between the investor and entrepreneur in the time period following the investment. Much of the agency theory groundwork which centers on shareholder-executive relations within large firms are also applicable in an entrepreneurial setting, however, there are underlying differences which allow for an adjusted view of the principal-agent dilemma in the context of startups.

This research follows a qualitative approach in order to examine elements of the principal-agent dynamic within an entrepreneurial setting by extrapolating this relationship onto the investor-entrepreneur dynamic. In other words, the role of the agent is represented by the entrepreneur and the role of the principal is represented by the investors. The focus of the study will concentrate on the relationship from the perspective of the entrepreneur and their perceptions of their investors. The entrepreneurs we have focused on are owner-managers whose investors are either venture capitalists or business angels. Our data was collected through comprehensive and semi-structured interviews with owner-entrepreneurs.

This thesis begins with a comprehensive literature review of the key concepts and terms relating to both agency theory and entrepreneurial financing. Following this, it includes an in-depth methodology and empirical analysis. We leave the final part of this thesis for contemplation and discussion of the results while contrasting and comparing these results to existing theory and ending with a contemplative conclusion.

2 Literature Review

This section will give a review of research important to understanding the fundamental concepts and considerations of our study. Firstly, we begin by giving a brief history of the development of agency theory in academic literature along with the key researchers and themes as well some criticisms of the theory. Secondly, we define the significant terms and definitions on the topic of agency theory. The third part of this section will give a focus to the key actors of the study, namely the agent (Entrepreneur) and the principals (Investors). Lastly, we discuss the contracts and mechanisms used in the relationship between these two actors in order to build a foundation to answer our research question.

2.1 Origins of Agency Theory

Early consideration for the differing interests of firm owners and firm managers can be found in Adam Smith's 'The Wealth of Nations'. With reference to joint-stock companies, Smith surmised that managers cannot be expected to be as vigilant with someone else's property as they would be with their own (Smith, 1776).

By the 1960s and 1970s, the focuses of economic researchers centered around the matter of risk sharing among individuals or groups (Wilson 1968, Arrow 1971). This research was aimed at incorporating varying attitudes towards risk within a corporate setting which was supplemented by aspects of agency theory such as differing goals and the division of labor (Jensen & Meckling, 1976; Ross, 1973).

Agency theory has developed from its origins along two streams of thought: Positivist and Principal-Agent (Fama & Jensen, 1983). Both streams use the contract between a principal and an agent as the unit of analysis and share common assumptions about organizations, people and information (Eisenhardt, 1989).

The positivist's stream focuses more on identifying situations in which interests and goals between principals and agents can become conflicted and suggest governance mechanisms which can limit an agent's self-serving behavior. Research in this stream has focused almost exclusively on the special case of the principal-agent relationship between owners and managers of large, public corporations (Berle & Means, 1932).

The principal-agent stream, on the other hand, is more concerned with the theoretical relationship between the two parties which can be applied in different hierarchical layers. In summary, positivists outline contract alternatives while principal-agent theorists explore the efficiency of a contract based on variables such as risk or information availability (Eisenhardt, 1989).

Three positivist articles have been particularly influential on the topic of agency theory (Eisenhardt, 1989). Jensen and Meckling (1976) set out to integrate elements from the theory of property rights, the theory of agency and the theory of finance to develop an ownership structure of the firm. By defining agency costs and its relationship with the existence of debt and outside equity, consideration was given to questions about who bears agency costs and why they bear it, along with outlining methods in which the interests of managers within a firm can be aligned to those of the owners. Fama (1980) takes a closer look at the separation of ownership and control with a particular focus on large corporations. The role of efficient capital and labor markets are discussed as a mechanism to control executives. Fama and Jensen (1983) develop on the concept of separation of ownership and control further by focusing on the decision management process. Key considerations concern decision and risk-bearing functions within a firm and when these functions should be kept separate or combined.

In recent years more attention has been given to the understanding of agency theory with an entrepreneurial focus, however, research is still relatively limited. Notable contemporary work gives consideration to the effects of outside financing and its effects. Ang et al. (2000) examine the measures of agency costs related to variations in management and ownership structure. Schulze et al. (2001) and Villalonga and Amit (2006) focus on agency relationships in family firms while Landstrom (1993) gives consideration to testing agency theory's application within small firms. Bitler et al. (2005) test agency theory from the perspective of entrepreneurial effort and wealth. Hamilton and Fox (1998), Bruton et al. (2015) and Coleman et al. (2016) address the financing alternatives of startups and young firms. Arthurs and Busenitz (2003) and Bammens and Collewaert (2014) discuss the relationship entrepreneurs have with venture capitalists and business angels respectively. Bammens and Collewaert (2014) give special focus to the positive and negative implications of trust between an entrepreneur and a business angel.

While agency theory has risen to prominence within organizational and behavioral research, it also has its critics. Stewardship theory addresses the relationship between a principal and their agent from a different viewpoint (Donaldson & Davis, 1991). They argue that while agency theory is based on the self-interested and maximizing individual that aims to avoid punishment and seek to attain rewards, there are other types of individual. The authors present an alternative view of agents as being motivated by a need to achieve and when successfully achieving difficult tasks, they gain a sense of intrinsic satisfaction. In other words, there are non-financial motivators for agents, which can lead to a merging of individual ego with corporate prestige. They debate the ubiquity of the clear separation of interests between principals and agents as defined by Jensen and Meckling (1976). In essence, the stewardship theory holds that there is no inherent problem with executive motivation.

2.2 Agency Theory

Agency theory is concerned with resolving two problems that can occur in agency relationships. Firstly, problems arise when there is a conflict of goals held by the principal and the agent. Secondly, it is expensive and difficult to identify what an agent is doing. (Eisenhardt, 1989)

The agency relationship is defined by Jensen and Meckling (1976) as being "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent." It is understood that both the agent and the principal will aim to maximize their own utility and will act in their own interest. On this basis, it can be assumed that the agent and the principal's interests will not always be aligned, and that the agent will not always act in pursuit of the best interests of the principal (Jensen & Meckling, 1976).

The principal, who has considered the implications of a conflict of interest on behalf of the agent, will act to mitigate its effects. This can be done in several ways. Firstly, the principal can attempt to align the interests of the agent to achieve congruence with their own priorities. Secondly, they can limit an agent's actions which diverge from the principal's preferences by monitoring the agent's decisions and behavior. Finally, the principal may choose to obligate an agent to expend some of their own resources. This is done in order to guarantee that the agent will not take certain actions which may be harmful to the principal, or ensure that the principal will be compensated in the event that such actions are taken. This is referred to as ‘Bonding’ (Jensen & Meckling, 1976).

2.2.1 Sources of Conflict – Key Differences

Saam (2007) outlines the three key differences between principals and agents in the principal-agent dilemma. Firstly, there exist informational asymmetries between the two parties. Aspects such as the agent’s competencies, intentions, knowledge, and actions are hidden from the principal. These asymmetries arise as the principal cannot monitor the agent or can only monitor them at a high cost. The principal needs this information in order to pay the agent depending on the level of effort exerted by the agent.

Secondly, the principal and the agent have different risk preferences. These are different attitudes that are related to the structure of each’s compensation scheme, outcome-based and behavior based. Agents are generally risk-averse as a reduction in their income would see the agent’s livelihood and existence endangered. Principals are deemed to be risk neutral as they have the ability to diversify their risk.

Thirdly, there is a conflicting nature to the goals of the principal and the agent. Each has different preferences, however, they both aim to maximize their individual utility. The agent aims to maximize their income, while the principal seeks to maximize returns. The source of the conflict becomes evident as both the principal and the agent’s utility are based on the efforts of the agent with the greater the effort from the agent, leading to a greater the outcome for both. However, greater effort is also associated with greater disutility for the agent and so, the agent seeks to maximize their income while also minimizing their disutility. In contrast, the principal wants to maximize returns while the agent maximizes effort

2.2.2 A Nexus of Contracts

An important notion of the agency theory is the definition of an organization as a legal entity which serves as a nexus of contractual relationships (Fama & Jensen, 1983). This definition includes not only private firms but also non-profit institutions, mutual companies, governmental bodies and so on. Hence, the contract makes for the unit of analysis which controls the relationship of principal-agent and the explicit focus of this theory is depicting the most effective contractual agreement by taking into consideration assumptions about the nature of people, characteristics of the organization and the information commodity (Eisenhardt, 1989). Contracts represent the core of the firm and they occur not only with employees but every stakeholder (creditors, customers, suppliers, and others).

2.2.3 Ownership and Control: Separation versus Combination

The relationship between the ownership and control of an organization is central to Fama (1980) and developed further in Fama and Jensen (1983). They describe an organization as a nexus of contracts that are both written and unwritten. Their primary focus is on contracts that allocate the steps in an organization’s decision process and defining residual claims. The key discussion centers on the establishment of devices which control agency problems during the decision-making process. To achieve this, the concept of the decision-making process is split into two elements: management and control. Decision management focuses on the initiation of ideas as well as the subsequent implementation of decisions. Decision control is concerned with ratifying initiated ideas and giving permission to proceed while also monitoring the progress of decisions which are being implemented. (Fama & Jensen, 1983)

When decision management and control are combined into one or a few agents, it is efficient that the residual claims are largely restricted to these agents. This reduces agency problems as decision makers have a vested interest in the outcome of their own decisions and so will act in the organization’s best interest, as well as their own. However, when decision managers do not bear the risks associated with their decisions, it becomes important that decision management and control are separated. This is done in an effort to limit agency problems as business owners attempt to ensure that the business controller’s decisions are aligned with shareholders’ interests (Fama & Jensen, 1983).

Separation of decision management and control is particularly evident in organizations where specific knowledge is diffused among many agents throughout an organization. It becomes efficient that decision functions are delegated to agents at all levels as better decisions are made by agents who have relevant and specific knowledge. These decisions are then ratified and monitored by a controlling function, usually directly above in the hierarchical structure. Separation is also necessary when there are too many residual claimants to efficiently make decisions. This is due to the fact that it becomes costly for all claimants to be involved in the decision-making process. Separation of decision management and control is again effective as it allows specific knowledge to be used at critical points of the decision-making process while also helping to control the agency problems associated with diffused residual claimants. (Fama & Jensen, 1983)

2.2.4 Agency Costs

Jensen and Meckling (1976) consider it to be generally impossible to ensure that the agent will make optimum decisions from the perspective of the principal without incurring a cost. Jensen and Meckling (1976) define agency costs to be the sum of:

(1) the monitoring expenditures by the principal,’

(2) the bonding expenditures by the agent,

(3) the residual loss.

Monitoring expenses, as mentioned above, refers to the cost of overseeing the actions, decisions, and behaviors of the agent. Bonding costs, on the other hand, are costs that are incurred by the agent to assure the principal that they are acting in their best interests. The residual loss represents the reduction in the principal’s welfare as a consequence of divergences between the agent’s decisions and those decisions that would maximize the principal’s welfare (Jensen & Meckling, 1976).

2.2.5 Moral Hazard and Adverse Selection

Two key aspects of agency theory refer to forms of undesirable behavior from the agent, with regards to the interests of the Principal. *Moral Hazard* and *Adverse Selection* occur when an agent's behavior is unobservable. Moral Hazard is defined by a lack of effort on behalf of the agent. This is referred to as 'Shirking' and occurs when an agent operates at below the agreed upon level of productivity. Adverse Selection, on the other hand, occurs when an agent misrepresents their ability to the Principal. This situation arises when the principal cannot verify the claims of an agent with respect to their abilities and skills. This can take place either at the time of hiring or while the agent is working (Eisenhardt, 1989).

The principal has two options in which to manage these problems. Firstly, they can invest in information systems to discover the agent's behavior. Reporting systems, the board of directors, budgeting procedures and management hierarchy allow for the agent's behavior to be revealed to the principal allowing for more complete information.

Secondly, the principal can contract the agent based on the outcome of their behavior. Through the alignment of the principal and the agent's preferences, as situation can be reached whereby the agent is motivated to act in the interest of the principal. This comes at the cost of transferring risk to the agent.

In order to demonstrate a clear portrayal of the agency relationship in an entrepreneurial setting and to pave the way for further discussion, a depiction of the principal-agent relationship with regards to equity financing by venture capitalists and business angels is presented below in Figure 1.

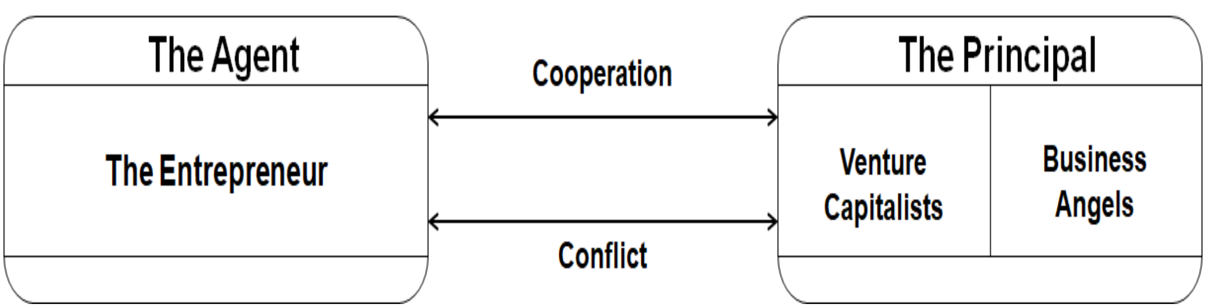

Figure 1 The Principal-Agent Relationship in an Entrepreneurial Setting (Designed by Authors)

2.3 The Agent

2.3.1 The Entrepreneur as an Agent

Once one or more entrepreneurs start a business they are usually the sole owners of the business. From the perspective of agency theory, these entrepreneurs can be considered to be the principal owners of the firms (Jensen & Meckling, 1976). As they are the sole residual claimants, the interests of the organization are also in their interests so they are suitable motivated to work to the benefit of the firm. However, as the entrepreneurs cede ownership to outside investors, they also become agents. This is because they are engaged to make decisions and to perform a service on behalf of the principal, as is outlined in Jensen and Meckling (1976). This moment forms the genesis of the principal-agent dilemma in the organization and establishes the entrepreneur as an agent. In an entrepreneurial context, there is a notable difference in how this relationship is founded. In traditional agency literature (Fama & Jensen, 1983; Eisenhardt, 1989), the relationship between the principal and the agent is studied within large organizations where the principal will choose an agent to represent them. This is usually done through a selection committee on the board of directors. However, in an entrepreneurial setting, the agent is the party that has a final say on the introduction of new principals.

An important clarification for this study is the difference between owner-managers and hired managers. Attention has been given to this topic in the literature from an agency perspective (e.g Fahlenbrach, 2009; Villalonga & Amit 2006). Hired managers are more susceptible to succumbing to agency problems as the principals are unable to write a perfect contract or to perfectly monitor their behavior (Fama & Jensen, 1983). An owner-manager, on the other hand, is a claimant of the firm’s profits and incentives and is, therefore, more likely to exert a higher effort and less likely to shirk than a hired manager (Sanders & Nee, 1996). In relation to this paper, our focus is only on owner-managers as was mentioned above.

2.3.2 Debt vs Equity: Decisions for the Entrepreneur

In the efforts to raise finances, entrepreneurs face different challenges than those of publicly held firms. The informational opaqueness of new firms makes both debt and equity financing particularly difficult (Ang, 1992). New, small firms are particularly susceptible to the problems of financial distress and failure as high monitoring costs as well as high failure rates leads to caution on behalf of capital suppliers making it difficult to raise funds (Coleman et al, 2016). Cosh and Hughes (1994) outline a pecking order of preference from small firm owners with regards to their funding sources of choice. First, the entrepreneur's personal capital such as savings or retained earnings, second is short-term borrowing, thirdly longer-term debt and finally, new equity investors. Entrepreneurs are thought to favor financing options which minimize intrusion into their business (Hamilton & Fox, 1998; Holmes & Kent, 1991).

Coleman (2016) describes a preference of startups for undertaking external debt rather than equity as a means of preserving ownership and control. Asymmetric information contributes to a financier's moral hazard and adverse selection problems causing firms to become credit rationed (Stiglitz & Weiss, 1981). Kaousar et al. (2016) of the OECD describe circumstantial reasons why access to debt for entrepreneurs is scarce. The effects of the 2008 global recession have added to a negative bias in banks' perceptions of SME's riskiness and profitability resulting in reduced lending. Also referenced is the expensive and cumbersome bank lending processes that discourage entrepreneurs from seeking bank credit.

The benefits of equity financing include such things as increased creditworthiness, visibility, and credibility by association as well as more efficiently distributed risk (Kaousar et al., 2016). Non-financial benefits such as mentorship, guidance, access to new networks and industry knowledge also make equity investors an appealing option for entrepreneurs.

2.4 The Principal

2.4.1 Venture Capitalists

Venture capitalists act as an intermediary between fund seeking managers and financial resources. Funds are raised from wealthy investors and are subsequently redeployed into start-ups or young firms. These firms are usually high-risk and with low levels of informational visibility (Potter & Proto, 2007). Venture capitalists oversee the screening, monitoring and contracting of the receiving companies while also determining the timing and the type of the investment (Gorman & Sahlman, 1989). Venture capitalists participate in the planning and decision making of the firm. Public corporations, private limited partnerships, and small business investment corporations are an example of some of the firms that operate in the venture capitalist market (Abdulsaleh & Worthington, 2013). Venture capitalist investments typically have high levels of intangible assets, low information visibility and usually contain a strong element of uncertainty (Gompers, 1995). When a venture capitalist has a sufficiently large stake in an organization, active monitoring takes place. This usually involves spending time in the company and regularly meeting with managers (Hellmann, 1998). Venture capitalists also provide nonfinancial support in the form of access to new suppliers, clients and strategic partnerships (Bygrave & Timmons, 1992)

Agency problems such as moral hazard and adverse selection are a significant problem that venture capitalists regularly encounter (Smolarski & Kut, 2011), as well as the agency problem (Berger & Udell, 1998). This may arise as information about the investment is initially incomplete and reveals itself gradually over time (Bergemann & Hege, 1998).

2.4.2 Venture Capitalists and Entrepreneurs

The post-investment relationship between VCs and entrepreneurs has been described by two literature streams: *value-added* research and *monitoring* activities (Ţurcan, 2008). The former refers to venture capitalist's non-financial contribution to the firm such as the yield of social capital, business knowledge support, strategic information and so on. This main purpose of this contribution is to secure the value maximization of their investment (Florin et al., 2005; Mäkelä & Maula, 2005; Manigart et al., 2002).

Monitoring refers to the investor's attempts to regulate the entrepreneur's possibly damaging behavior. In order to manage these issues, trust and control must be implemented. Zacharakis and Shepherd, (2001) emphasize that trust in this relationship can be built through effective communication between the parties, commitment, and goal alignment. The most common instrument that VCs and every other principal uses to control potential harmful behavior are contractual agreements. Other governance means include the participation on the board of directors (Berglund et al., 2007) frequent communication and discharge (Bruton et al., 2010).

Goal alignment is an important aspect in the VC-entrepreneur relationship and different growth objectives can become future disagreement sources. For instance, venture capitalists might pressure entrepreneurs towards short-term profits because as investors, they are interested in early exits with high returns (Petty, 2015). They might guide companies towards market peaks although it may not be the best timing. Thus, entrepreneurs that are more focused on securing long-term profitability are faced with the option of early exit which would correspond with the VC strategy and focusing on long-term growth. Aligning their goals with investors represents a dilemma itself for entrepreneurs and is strongly linked with the agency problem.

The alignment of goals between the entrepreneur and venture capitalists can be related also with procedural justice research. This theory deals with situations in which individuals who are attached to decisions cannot exercise direct or full control over them (Sapienza & Korsgaard, 1996). Therefore, the only way to exercise a certain control over the decision is indirectly through procedures. Tyler (1989) examined whether procedural justice judgments are affected by neutrality, trust, and social standing. Neutrality refers to equal treatment with regard to other ventures in the portfolio of the venture capitalist. It implies that they will take decisions on the venture based on the information they get from the respective entrepreneurs. Trust denotes the certainty to predict someone else's behavior. And standing reflects the position of someone in a relationship which allows him/her to speak honestly and without being affected. Goal alignment between a venture capitalist and the entrepreneur is correlated with their opportunity to defend their opinions, reject other opinion and so on (Ţurcan, 2008). Research on procedural justice is a relevant area regarding the behavior and attitude of both pairs in the relationship which is strongly related to long-term performance. As such, entrepreneurs and venture capitalists have to develop procedures which assure effective communication and impartiality (Busenitz et al., 2004).

Coltman et al. (2001) argued that in high technology ventures where technology is in its early phase, the market is unpredictable. The alignment of goals becomes not only more relevant but also more difficult to achieve. In emerging industries, performance benchmarks become harder to depict (Lovallo & Kahneman, 2003) and both parties adapt their attitude as the industry is being established. Therefore, the problem is whether procedures can be established to ensure effective communication and impartiality in such ambiguous environments (Ţurcan, 2008). For instance, by using the information given from entrepreneurs, venture capitalists may decide to not invest again in the further rounds. This conflicts with the assumption of neutrality and it is unclear how these types of decisions will be perceived by the entrepreneur. Information reporting might impact negatively their firm and venture capitalists have no tools to prove the confidentiality of the information in such environments.

Goal congruence is considered to be a key success factor for young firms (Bruton et al., 2010; Zacharakis & Shepherd, 2001). However, the relationship between venture capitalists and entrepreneurs and its outcomes has been under-researched (Ţurcan, 2008).

2.4.3 Business Angels

Business angels represent an informal market for direct finance which does not make use of an intermediary (Berger & Udell, 1998). Angels are usually highly experienced business people with considerable wealth that invest in high growth SMEs, usually without any prior relationship (Madill, Haines, & Riding, 2005). Business angels play a vital role in startups in addition to the financial capital they bring, both through access to their personal networks as well as their business expertise (Kelly, 2007). Although defined as being individuals, Angel investors sometimes cooperate in small investment groups. Contracts between entrepreneurs and angel investors usually involve the business ceding equity to the investor in the form of common stock with funds typically provided in the early rounds of financing (Mason, 2006; Sohl, 2003). In order to promote and protect their interests, angels typically work closely with their portfolio of firms (Politis, 2008). Post-investment, angels periodically assess a venture's financial and non-financial performance and intervene when required (Van Osnabrugge, 2000; Fiet, 1995).

There are three reasons as to why business angels are an appropriate source of finance for start-ups according to Harrison

Mason (1992). Business angels act as a bridge in the early stages of an enterprise and help close the finance gap between initial internal fundraising from the entrepreneurs and outside investment from larger investors in the later stages. Secondly, they are more patient and helpful to entrepreneurs than other sources of capital and have a longer exit horizon. Thirdly, they prefer to invest in their local economies which help with proximity factors such as onsite support. The amount of capital that business angels provide is estimated to be eleven times larger than that of venture capitalists (Morrissette, 2007). This view is reinforced by Fairchild (2011) who found that worldwide angel financing dominates venture capitalist both in terms of total investment value and the number of firms benefiting based on quantitative analysis.

2.4.4 Business Angels and Entrepreneurs

In addition to financial backing, business angels offer a range of non-financial support to the entrepreneurs they partner with. This is beneficial as an angel's previous career experience has suitably equipped them with the skills necessary to add value to ventures in which they invest (Politis & Landstrom, 2002). This includes activities such as networking, marketing, financial and strategic advice, general administration and accounting aid (Mason & Harrison, 1996). This point was previously denied by Barry (1994) who concluded that business angels were not active investors, however, researchers such as Landstrom (1993) and Harding and Cowling (2006) support Mason and Harrison's (1996) view.

Politis (2008) outlines four key ways in which a business angel adds value within an entrepreneurial setting both through resource provision and governance. Firstly, an investor provides value to a new enterprise by utilizing their business acumen in order to provide strategic advice to the entrepreneur as mentioned above. Secondly, value is provided to the venture through the use of an angel's personal network which aids a new firm in the acquisition of timely resources. These networks can also help in attracting additional funds, providing a connection to important business contacts as well as capitalizing on unexpected opportunities or 'strategic windows'. In terms of access to bank loans, a business angel can lend credibility and legitimacy to an otherwise risky proposition.

From a governance perspective, business angels act in a supervisory role by helping to shield the main stakeholders in a new enterprise from potential managerial misbehavior. This includes other investors, employees, and debt holders and is achieved through monitoring activities which reduce agency costs by minimizing informational asymmetry. Finally, highly experienced angel investors act as mentors for less experienced entrepreneurs. The aim here is to build a stable relationship between the two parties which is based on commitment and trust. As trust is established, entrepreneurs are more likely to share sensitive information about the firm with the investor (Carmeli et al., 2011). This also helps to improve the quality of the advice that an angels provides. Good communication typically leads to a successful relationship between the investor and the entrepreneur (Bammens & Collewaert, 2014).

2.4.5 A Comparison of Business Angel and Venture Capitalist Investment Procedures: An Agency Theory-Based Analysis

There are generally contrasting approaches to mitigating agency problems employed by business angels and venture capitalists (Van Osnabrugge, 2000). Venture capitalists generally take an ex-ante view of investments which aligns with the principal-agent approach. This is due to the fact that venture capitalists regard themselves as a professional body and must demonstrate competent behavior (Van Osnabrugge, 2000). As they act as an intermediary between entrepreneurs and financiers, they are accountable to fund providers. This means they must act with competence and use due-diligence and effective screening. These requirements best match a principal-agent contractual approach (Van Osnabrugge, 2000).

Business angels, on the other hand, tend to place a greater emphasis on ex-post investment monitoring which better suits an incomplete contract approach. This is mainly due to the fact that they have not got the competencies to effectively screen investment opportunities in the way a venture capitalist might. They also use their own resources so are under no pressure to behave in a professional fashion. In order to protect their interests in an investment and to mitigate agency problems, business angels will generally become actively involved in the new enterprise (Van Osnabrugge, 2000).

2.5 Contracts and Mechanisms

In this section of the literature review, we outline considerations regarding the types of contract structure that are used in the principal-agent relationship. We begin by outlining the two contractual approaches which include a distinction between outcome-based and behavior-based contracts. Figure 2 below is used to illustrate these alternative approaches. In the second part of this subchapter, we outline the mechanisms used by principals to reduce agency problems as described in the academic literature. This represents a fundamental component of our study by helping to establish a theoretical framework as well as forming the basis for our interview questions.

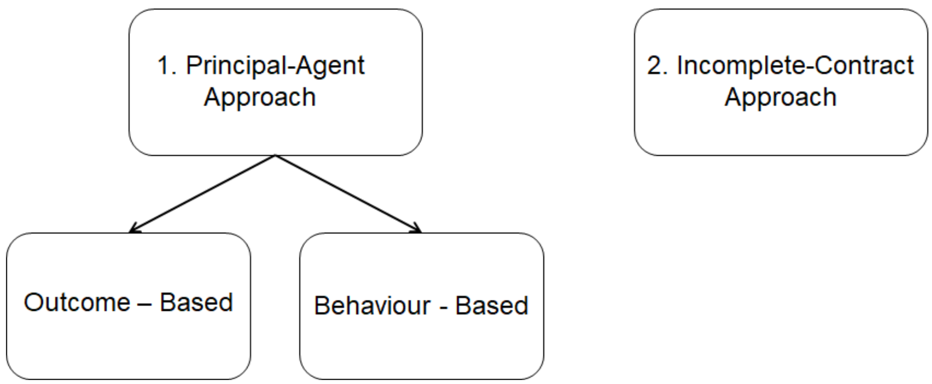

Figure 2 Contractual Approaches used by Principals (Designed by Authors)

2.5.1 Two Theoretical approaches to establishing a contract

Within the agency theory literature, there are two main contractual approaches to mitigating agency problems from the principal's perspective. An investor may choose to pursue the principal-agent approach or the incomplete contracts approach. While both methods aim to reduce the principal's risk, the emphasis is placed at different stages of the process.

2.5.1.1 The Principal-Agent Approach

This approach is considered to be the classical approach to establishing contracts for addressing agency problems. The aim here is to achieve a position of an optimal contract between the principal and the agent (Jensen & Meckling, 1976). In order to pursue this approach, an investor places an emphasis on mechanisms such a pre-investment screening and due diligence in an effort to minimize information asymmetries. This is done in order to reduce the effects of adverse selection and moral hazards. A principal aims to restrict an agent's potential divergence from the interests of the principal by establishing a comprehensive contract which is used to influence the agent's behavior. When it is possible for a principal to observe an agent's behavior, they may choose to pursue a behavior-based contract. This will result in the principal incurring monitoring costs (Van Osnabrugge, 2000). However, if the principal is unable to observe the agent's behavior, then a behavior-based contract is not efficient. In these circumstances, a principal will be required to establish appropriate contractual incentives for the agent, which is reliant on the agent's performance (Jensen & Meckling, 1976).

a) Principal-Agent Approach - Outcome-Based Vs Behavior-Based Contracts

Within the positivist stream, there are two proposed types of contracts used as governance mechanisms to reduce agency problems. The first approach aims to counteract an agent's opportunism by using an outcome-based contract. The rationale behind the use of these types of contracts is a desire to develop a situation in which there is a reward for both the principal and the agent which depends on the same actions. In this way, the preferences of the agent and the principal can be coaligned which is effective in reducing conflicts of self-interest within the relationship (Eisenhardt, 1989). An example of how this might be achieved within a firm is to increase the ownership of the firm's managers (Jensen & Meckling, 1976).

The second contractual method to reduce opportunism is through the use of information systems. The logic behind these types of contracts stems from the idea that if the principal has greater levels of information about the agent's activities then it is likely to reduce opportunism. This is because the agents are less likely to act against the interests of the principal if they believe it is not possible to deceive them (Eisenhardt, 1989). Fama and Jensen (1983) describe how a board of directors improves shareholders' access to information which in turn reduces managerial opportunism.

The trade-off between the cost of measuring an agent's behavior and the cost of measuring outcomes while transferring risk to the agent is a fundamental dynamic in principal-agent theory. In the principal-agent approach, there are a number of unavoidable agency costs (Van Osnabrugge, 2000).

2.5.1.2 The Incomplete Contracts Approach

The alternative to striving to attain an optimal contract is the incomplete contract approach. The fundamental reasoning behind this approach assumes that writing a good contract is in itself a costly endeavor (Van Osnabrugge, 2000). The alternative is to establish a robust ex-post allocation of power within the principal-agent relationship. This approach views the principal-agent approach as being inefficient as contracting costs can be sizable (Hart, 1995).

The incomplete contracts approach outlines three reasons that writing contracts are costly. Transaction costs such: as planning for all eventualities, negotiation costs, the cost to actually write the contract as well as enforcing a contract if it is ultimately broken (Spier 1992, Hart 1995, Sappington, 1991). Secondly, agents are bounded by rationality and therefore unable to predict the occurrence of unlikely eventualities (Hart, 1995, Spier, 1992). Thirdly, there is asymmetric information due to an agent wishing to avoid signaling aspects of their type through fear of deterring a potential investor (Spier, 1992).

According to Hart (1995) in relation to large established firms, it is the ex-post allocation of power and control that matters. Van Osnabrugge (2000) proposes that in a small firm environment that is characterized by being high risk, the best way to gain control and to exert power is through active involvement in the investment.

2.5.2 Agency Control Mechanisms

After establishing the key concepts of agency theory and having outlined the key actors of the agency dilemma in an entrepreneurial setting, the emphasis can be placed on agency control mechanisms. There are a number of mechanisms for reducing the agency problem for the principal which have been presented throughout the literature (Saam, 2007). Some aim to reduce informational asymmetries between the principal and the agent while others give greater focus to aligning the interests of both parties.

1. Incentive compensation systems (Jensen & Meckling, 1976) or reward systems (Eisenhardt, 1989) are used by allocating a share of the business returns to an agent. In this way, there is an incentive for the agent to maximize the business performance to the benefit of both the principal

and the agent. There is also an added element of risk to the agent's position. This reduces agency problems caused by hidden information and action by aligning the preferences of both parties. There is an added cost incurred by the principal that is associated with this method as a portion of the rewards are lost to the agent, however, the more difficult or expensive monitoring is for the principal, the more important the incentive structure is.

2. Monitoring systems (Jensen & Meckling, 1976) or information systems (Eisenhardt, 1989) are ways in which a principal can control an agent by collecting information about the agent's activities. The objective of these monitoring systems stems from the belief that an agent is more likely to behave in the interests of the principal when they know that their actions are being assessed. These systems act as a solution to problems relating to hidden action with structures in place such as budgeting, status reporting as well as boards of directors in a corporate setting. While this method gives greater transparency of the agent's activities, it is also costly and is limited in its effectiveness.

3. Vertical integration (Klein et al., 1978) is used in the principal-agent dynamic to establish an authoritative relationship between parties. The originally equal partnership of principal and agent is restructured so that an agent complies with the principal. This compliance is enforced through the use of sanctions for non-compliance. This mechanism is not seen to be an incentive structure but still has a cost for the principal as monitoring will still be necessary to ensure compliance. This method is seen to be a solution to problems associated with the hidden intentions of the agent.

4. Game theoretical solutions with respect to the agency dilemma can be described as a "hybrid between a cooperative and non-cooperative game" (Myerson, 1982). From this viewpoint, the principal-agent relationship can be compared to the dynamic of the two prisoners in the 'Prisoner's Dilemma''. The principal seeks to generate a situation which is suitably advantageous to both parties in an effort to establish ongoing cooperation. This method aims to solve problems relating to the hidden intentions of agents by the use of theoretically established principles.

5. Self-selection (Arrow, 1986) is a useful method for a principal to understand an agent's hidden intentions and knowledge at an early stage of the relationship. A principal will offer the agent different contract structures which vary in the risk and return for the agent. For example, the variations in the types of contract may offer an agent the choice between behavior based or an

outcome-based contract. Through the agent's selection, the principal can establish the agent's willingness to work and their risk preferences.

6. Signalling (Spence, 1973) occurs when an agent will give an indication of their risk preferences and willingness to work to a principal voluntarily. This often occurs as an agent wishes to convince the principal of their work ethic or dedication by revealing their hidden characteristics. Signalling also occurs if an agent offers information about their educational background or other qualifications in an effort to demonstrate their abilities or skills. When this is the case, the agent incurs the agency cost as they pay for their education, etc. in advance.

7. Bonding (Jensen & Meckling, 1976) describes how a principal can control the hidden actions of an agent. As part of this system, an agent is bound to carrying out certain actions and produces information to exhibit their performance. The agent's income is at least partially dependant on their performance and they agree to be sanctioned if they do not achieve predetermined objectives.

8. Finally, screening (Spence, 1973) is a way in which a principal can improve their selection procedure. This is achieved by requiring potential agents to complete competency tests or partake in assessment centers etc. In this way, the principal can help to minimize factors surrounding the agent's hidden characteristics and knowledge. All aforementioned mechanisms are summarized in Table 1 below.

Table 1 Agency control mechanisms

	Mechanism	Foremost Theorist	Central Concept
1	Incentive Compensation Systems	Jensen and Meckling, 1976	Alignment of the interests of the agent with those of the principal.
	Reward Systems	Eisenhardt, 1989	
2	Monitoring Systems	Jensen and Meckling, 1976	Observation of the agent's behaviour to reduce the hiddeness of the agent's actions.
	Information Systems	Eisenhardt, 1989	
3	Vertical Integration	Klein et al., 1978	Establishment of an authoriative relationship between the principal and the agent.
4	Game Theoretical Solutions	Myerson, 1982	Establishment of a Win-Win situation for both parties, aligning incentives.
5	Self-Selection	Arrow, 1986	Observation of an agent's hidden intentions and characteristics.
6	Signaling	Spence, 1973	Voluntary demonstration of an agent's risk preference or willingness to work.
7	Bonding	Jensen and Meckling, 1976	The agent's income is at made to be a least partially dependent on their performance.
8	Screening	Spence, 1973	Observation of an agent's competencies and characteristics before contracting.

3 Methodology

This section describes the methodology used for this research study with regards to answering the predefined research questions. The chapter provides insights on the applied methods that were used in this research. In order to ensure comprehension of the methods employed and their significance to the aim of this research, arguments are provided. Firstly, the chosen approach is described and then the focus is put on the design of this study. Afterward, a section describes the data collection method and the process which was followed in order to convert this data into findings that answer the research questions. Lastly, the quality of this research is assessed with regard to its reliability and validity. This chapter serves as a link between the literature review and the empirical data and as such, it plays an important role in understanding how the study was conducted.

3.1 Research Approach

In order to reflect on the chosen approach of this study it is important to pose the research question again:

In an Entrepreneurial setting, which mechanisms are used by investors (principals) to control the entrepreneur's (agent's) behavior, and how do these mechanisms affect the agent?

Based on the identified literature gap as well as the aim of capturing insights and opinions that entrepreneurs have in this relationship, the research calls for a qualitative approach. This approach was deemed appropriate due to several reasons. As claimed by Creswell (2014), the need to explore certain topics arises from the lack of research in the area and this makes for our main motivation. Secondly, this research approach allows for a better understanding of the phenomenon, which in our case is the agency dilemma in an entrepreneurial setting. Lastly, a qualitative approach aims to capture views and perceptions of respondents which is the main aim of this research. Discovering whether the entrepreneur (agent) incurs part of the costs which arise from agency problems can be a matter of perceptions by the agent and these insights cannot be captured in a quantitative form. Despite the aforementioned arguments supporting the choice for qualitative research, it can be argued that since the first part of this research question indicates theory testing, a quantitative approach would be more suitable. However, in order to assess whether these mechanisms result in agency costs for the agent, they need to be tested on the same sample. In other terms, it was necessary that the same agents (interviewees) were asked about both the mechanisms that were used and how they perceive their effects. Moreover, some authors argue that theory testing using case studies (the chosen method explained below) can have several contributions to research quality (Løkke & Sørensen, 2014). They conclude that by using this method, the researcher can evaluate the explanatory power of a theory, contributing in this way to external validity. To sum up, employing a qualitative method allowed for an in-depth view of agency costs incurred by the agent (entrepreneur). The method allowed for a more comprehensive analysis of the topic in hand and a better understanding of the respondent's point of view (Bell et al., 2018).

The study was performed in an iterative manner by following an abductive reasoning. This approach is designed to address the weaknesses inherent in deductive and inductive approaches (Bryman & Bell, 2015). The main criticism around deductive reasoning revolves around the ambiguity in terms of the appropriate way to select a theory while inductive reasoning is criticized due to the difficulty of deriving theory based on a certain amount of empirical data (Saunders et al., 2012). Hence, abductive reasoning takes a pragmatic perspective in order to make logical inferences and construct theories. In simple terms, it uses incomplete observations to make the best possible prediction (Dudovskiy, 2018). In this research, abductive reasoning was deemed appropriate due to the twofold research question which entails both theory testing and theory building. Thus, the aforementioned weaknesses of deductive and inductive approaches could impact the quality of this research to a larger extent, considering the two distinct sides of the research question.

To start with, a theoretical framework was built based on previous research on agency theory. The literature stream was then narrowed down to the subject of interest by explaining the main concepts that pave the way for the analysis and address the research questions appropriately. Moreover, while gathering data, the theory was constrained on the most relevant concepts that were useful for the analysis and appeared interesting. Thus, the study took more of an iterative approach by going back and forth from theory to data analysis. Upon gathering the data, inferences from the theoretical framework were made in order to conduct its analysis. This process is in line with the abductive reasoning which was adopted, and according to Bell et al. (2018), it allows for the confirmation of the existing theory as well as the establishment of new theory.

3.2 Research Design

In order to address the research question proposed in this study, several diverse companies needed to be analyzed. Exploring the agency dilemma in an entrepreneurial setting requires the study of several actors in order to overcome bias issues and provide more comprehensive results which allow for valid generalizations. While the vast amount of research in the area has motivated our choice of qualitative approach it also drove the decision to take an exploratory research design. Since the purpose of this study is to understand a topic, seek insights and clarify a phenomenon that has not been researched extensively, an exploratory stance was more effective as suggested by Easterby-Smith et al. (2015).

In business research, one of the most common research designs is the case study approach because it allows for a better analysis of cases which are complex and have a specific nature (Bell et al., 2018). This research follows an exploratory multiple case study design which was considered appropriate based on (Yin, 2003) prerequisites for evaluating the suitability of this method. First of all, this study seeks to explore monitoring as a phenomenon arising from the agency dilemma rather than to depict a causal relationship with other factors. The second precondition suggested by Yin (2003) is that the focus of the research should be a modern phenomenon. While in this case, the agency theory itself is not a contemporary phenomenon, the relationship of the entrepreneur with investors is a quite recent study area, especially given the emergence of high-tech startups looking for funding. Lastly, in line with the third precondition, the topic in hand cannot be manipulated by researchers. Case study research is of three types: intrinsic, instrumental and multiple case studies. Intrinsic case studies are used to analyze a specific case in which the case itself represents the main interest of the researcher. On the other hand, instrumental and multiple case studies analyze specific cases in order to draw generalizations and build theory. Multiple case studies investigate a number of cases that jointly can answer a more comprehensive question. The aim of this research could not be fulfilled by using a single case study due to the exploratory nature of the research question. By focusing on a single firm, the results are more likely to be particular to the case in hand and would not be sufficiently comprehensive to account for valid findings. For instance, the bad relationship and experience of a single firm with its investors would provide biased opinions on the issue and limit the validity of the data.

3.3 Data collection

In order to fulfill the research aims and answer the research questions, primary data was collected and analyzed. This type of data has a higher methodological value since it can be structured and analyzed according to the researcher's aims. Conducting interviews is the most used method of collecting primary data (Bell et al., 2018) and this research furthermore utilized semi-structured interviews to gather information on the selected topic. Given the exploratory nature of this study, semi-structured interviews were deemed more appropriate. This interview type is more useful in such studies because the interviewee can lead the conversation into interesting areas and insights that could not be captured otherwise (Easterby-Smith et al., 2015). In this way, unexplored topics could be emphasized by the respondents and then be further probed in the current and following interviews. More concretely, the entrepreneurs (interviewees) could guide the interviewer into important aspects regarding their relationship with investors which would not be explored if the interview was highly structured. The data was gathered from young ventures and therefore, the setting of this study is the firm. The interviewees, or the actors of this research, are the entrepreneurs who founded and hold the majority stakes in these firms. This choice of owner-managers is particularly relevant to this study due to the significant difference in risk-sharing and other factors that owner-managers have compared to hired-managers. Such differences were explained above in the literature review.

3.3.1 Interview Type

The interviews were conducted in a face to face setting at a meeting place chosen by the interviewee. This interviewing mode was deemed appropriate due to the ability to engage in a more effective conversation with the respondent (Sekaran & Bougie, 2016). In such a setting, the researcher can modify questions, clarify uncertainties and ensure the proper comprehension of the responses by rephrasing the questions. Additionally, the ability to detect non-verbal cues such as body language is another advantage of this method. The interviews lasted between 30-45 minutes and were all audio recorded. Before conducting the interview, the respondents were asked whether their answers could be recorded and if they would prefer to remain anonymous. The interview process followed the protocol suggested by (Creswell, 2014). Such protocol involves the introduction of the topic to the respondents, ice-breaking or opening questions to encourage his/her active participation and probes designed to ask respondents to explain their ideas more thoroughly. The latter is considered to have particular importance due to the ability to provide more exhaustive answers from the interviewees (Easterby-Smith et al., 2015). Theoretical jargon was avoided not only because of the complexity it can create in the questions but also because the interviewees might feel insecure about their answers (Bryman & Bell, 2015; Easterby-Smith et al., 2015)

3.3.2 Case selection

Interviewees were based on both accessibility as well as in a strategic manner by following specified criteria. This type of sampling is defined by (Easterby-Smith et al., 2015) as a mixture of techniques which include snowball-sampling, purposiveness, and convenience. Regarding the latter, the most notable factor was Sweden as a location for the firms. Initially, the most relevant criteria used to select the sample for this study were four. Firstly, the chosen firms needed to be startups as it corresponds with our main research aim of exploring the agency dilemma in an entrepreneurial setting. Secondly, the entrepreneur needed to be an owner-manager in this firm, otherwise, the concept of residual loss as an agency cost wouldn't apply. Lastly, the sample needed to include a balanced number of entrepreneurs backed by ventures capitalists and by business angels, in order to examine whether there are differences between the two. We managed to reach the optimal ratio by including in our sample three entrepreneurs financed by venture capitalists and three financed from business angels.

Minimizing attribution errors is one of the main concerns when employing interview techniques (Lovallo & Kahneman, 2003) and generally when selecting interviewees. Attribution errors arise when respondents have a tendency to make biased claims on the cause of a certain event. Lovallo and Kahneman, (2003) argue that typically people will assign negative results to external factors and take responsibility only for positive outcomes, despite their real cause. In order to ensure the minimization of such errors, other sampling strategies were undertaken. Firstly, in order to control for the external environment effects (industry structure, market size, time effects, legislation), the selection of firms was made on the same location and on the same period of time. Secondly, the possible effects of resource bias were reduced by selecting start-ups as the unit of analysis. There are several definitions and criteria on what is considered a start-up venture but, a reasonable categorization would be that every relatively young company with 1 to 15 employees can classify as such. Lastly, in order to capture aspects from multiple operating areas and make credible conclusions, companies were selected from a diverse selection of industries. Based on these criteria entrepreneurs from six companies were contacted and interviewed (Table 2).

Table 2 Case descriptions

Firm	**Sector**	**Entrepreneur**	**Investor**	**Founding year**	**Number of employees**	**Length of interview**
Axel's Venture	Technology Hardware	Axel A.	Venture Capitalist	2017	15	30 min
Bjorn's Venture	Energy	Bjorn B.	Venture Capitalist	2015	5	35 min
Caroline's Venture	Food Processing	Caroline C.	Venture Capitalist	2014	5	29 min
Venture Alfa	Home Appliances	Interviewee Alfa	Business Angel	2015	11	30 min
Venture Beta	Consulting	Interviewee Beta	Business Angel	2018	9	38 min
Venture Gamma	Information Technology	Interviewee Gamma	Business Angel	2018	8	36 min

3.4 Data Analysis

Since qualitative research generates large amounts of data, a logical approach needs to be applied in order to analyze the findings (Bell et al., 2018). The content analysis was based partly on selected categories which were derived during the theoretical framework. However, except theory derived codes, there were new codes which spun out of the empirical work which is in line with Easterby-Smith et al. (2015) grounded analysis approach. Thus, this analysis took the form of a template approach because it utilizes techniques of both content analysis and ground analysis (Easterby-Smith et al., 2015). Template analysis is a variation of thematic analysis which provides a balance between a highly structured process of textual data analysis and a flexible process which is adapted based on the needs of certain research.

To start with, in order to increase the data analysis quality and ensure the incorporation of important elements captured during the interviews, all the recordings were transcribed. Transcriptions help to overcome possible bias and misinterpretation issues which occur when the analysis is based on the interviewer's notes. After transcribing the interviews, multilevel coding was applied based on the aforementioned approaches. In order to transform the data into a more suitable form and increase its reliability, long and complex sentences were shortened into more analyzable fractions of information. Then, after the first-level coding, the highlighted data was compared and categorized by taking into consideration the theoretical framework. This second level coding helped to answer the research questions and fulfill the explorative character of this study. During this analysis new perspectives emerged from the empirical work, representing in this way the inductive approach of this study. Thus, it was necessary to modify the template throughout the analysis by redefining the codes and also inserting and deleting new ones. The essence of this template-based approach is to create a final template containing codes for all collected data, after going back and forth from the gathered data to the template (King, 2004). The final template for this analysis is presented in Figure 3. Moreover, the empirical section is accompanied with selected quotes that were extracted from the interviews and were considered as relevant to be presented in such a way. Finally, the last and most essential part of this data analysis was synthesizing the findings, drawing conclusions and relating them back to the research questions. The process of collecting the data, analyzing it and relating it back to theory followed an iterative approach. Additionally, in order to capture all relevant information, a literature review was conducted also after discovering interesting concepts and topics during the data analysis stage.

1. Rewards
    1.1 Incentive Schemes
    1.2 Performance
2. Monitoring
    2.1 Reporting procedures
    2.2 Compensation schemes
    2.3 Board Member
3. Vertical Integration
    3.1 Delegated tasks
4. Game theoretical
    4.1 Collaborative relationship
5. Self-selection
    5.1 Milestones
    5.2 Objective based contract
6. Screening
    6.1 Educational background
    6.2 Competency test
    6.3 Experience-based evaluation
    6.4 Team potential
    6.5 References

A.1 Integrative theme – Effects of agency control mechanisms

A 1.1 Time-consuming	A 1.6 Conflicting ideas
A 1.2 Intrudes with operations	A 1.7 Scepticism towards advices
A 1.3 Beneficial reporting procedure	A 1.8 Short vs. long term relationship
A 1.4 Strict contractual agreements	A 1.9 Unaligned goals
A 1.5 NDA's	A 1.10 Trust

Figure 3 Final template

3.5 Reliability, validity of data and ethical considerations

Concepts such as reliability and validity are more ambiguous criteria when it comes to measuring the quality of qualitative research. What is considered as relevant criteria in this type of research varies greatly but yet, reflection upon these criteria shows that the authors have taken into consideration the usefulness of the research (Bryman & Bell, 2015). Definitions of validity and reliability in qualitative research are related to quantitative research definitions to a certain degree. Validity is generally defined as the degree to which the research has evaluated and presented findings that are effectively representing its investigation aim (Easterby-Smith et al., 2015). Reliability refers to the degree to which the data and findings are trustworthy and reliable (Bryman & Bell, 2015). Validity is further categorized into internal validity and external validity. The former refers to the extent to which results are representing the reality while the latter signifies the degree to which the findings can be generalized and transferred to other settings (Easterby-Smith et al., 2015). In order to achieve internal validity, the interviews were recorded and transcribed as mentioned above. This allowed for a better comprehension of the collected data ensured the incorporation of all information gathered throughout the interviews. External validity, on the other hand, is more difficult to achieve using case study research because they may not represent a sample. Thus, although this study analyzed a sample of six interviews, the ability to generalize the findings and transfer them in other settings is a limitation.

Lastly, the nature of qualitative studies requires for a reflection also on ethical considerations. Therefore, ethical challenges such as informed consent, confidentiality, anonymity and the potential impact of the research on the respondents (Sanjari et. al., 2014) were taken into consideration in the conduction of this research. Since the questions included in the interview are of a sensitive nature, the respondent's answers might have a potential impact on their relationship with investors. Thus, besides being informed thoroughly on the potential implications of this study, all the interviewees' anonymity was held throughout the paper to avoid future negative effects on them.

3.6 Limitations

Like all other studies, there are limitations which can be tackled by future researchers in this field. Concretely in this study, more interview respondents could have presented a more comprehensive view of the topic in hand and our ability to generalize the findings. Moreover, the approach of this study has its own limitations. A quantitative approach which analyses a bigger sample might capture more efficiently the correlation of monitoring activities performed by investors with the entrepreneur performance. Testing the existence of the agency control mechanisms could also be done via a quantitative approach that could both analyze a larger sample and avoid interpretation bias.

4 Empirical Results

In this section, we present the results that were obtained from our primary data collection. To begin with, the findings are structured in line with the research question and the approach of this study. Firstly, we describe the interview responses on agency control mechanisms. Following the deductive character of these questions, the aim is to test their existence in the entrepreneurial setting. These mechanisms are approached separately to improve the readability. However, after testing the use of authoritative relationship, game selection, signalling and bonding the findings indicate limited applicability. Therefore, they are summed up in one section. Secondly, after presenting the initial findings on these mechanisms, we continue with the presentation of the interview results regarding their perceived impact. These findings represent the perceptions that these entrepreneurs have of the influence of these control mechanisms on their ventures, based on their experience and assumptions. This section will be divided in two of the main factors which are seen as most relevant: trust and control. Throughout the chapter, exemplifying quotes from the interviews are incorporated in order to present the entrepreneur's view appropriately and to avoid misinterpretation.

4.1 Controlling Mechanisms of the Agency Problems

4.1.1 Incentive systems

Incentive schemes are used to align the interests of the principal with the agents. In corporations, such alignment is achieved by giving shares to the managers. By sharing parts of the ownership, the principal will encourage the agent to work towards a common goal because the agent's bonus will also be dependent on the share performance. When considering the entrepreneur as an owner-manager, one could argue that these goals are already aligned since they own shares in the company, and they are completely dependent on its performance just like the investors. However, as several interviewees identified, there are certain incentive systems that exist between the entrepreneurs and the investors.

The most notable pattern identified in this regard is the milestones that are to be achieved from the agent (entrepreneur). All interviewees mentioned that such milestones have a direct impact on their entrepreneurial activity because future rounds of financing are secured only by achieving the promised targets. As Axel A. noted:

"There are a certain set of milestones that need to be reached in order to satisfy the investors. We basically set these milestones ourselves and then we share them with the investor which is a venture capitalist in our case. They don't come from the investor directly because usually, they don't know the product as much as we do. In addition, they cannot set milestones for the company or me as an entrepreneur because we have strict shareholder agreements and I am committed to the job in certain ways. We use these milestones for ourselves and more importantly as a selling document for future rounds of financing." - Axel A.

Bjorn B. mentioned that it is very likely that investors will provide incentives. He noted that although this is very dependent on specific cases and on specific agreements it is quite probable that venture capitalists might try to motivate these entrepreneurs in several ways in order to ensure the effective use of their money.

4.1.2 Monitoring systems

Monitoring systems are one of the central and most common mechanisms used to control agency problems. Principals use these information systems to ensure that there are not any hidden actions from the agent. A typical measure that investors undertake to control for these actions is reporting. All our interviewees claimed that they need to prepare performance reports for their investors. However, the presentation of these reports varied in frequency amongst the respondents. The CEO of Venture Alfa, who is financed by a business angel, placed a strong emphasis on the structure of the contract when it comes to reporting (Interviewee Alfa, 2019).

"We don't have a fixed or rigid contract when it comes to reporting activities. Actually, we decided that this reporting must not be frequent or determined explicitly in the contract because that would take us more time. Instead, our requirement for the investor was that this reporting would be done only in cases where there are new and important figures which we need to discuss. A rigid schedule

of reporting could tie our hands later on, and that is why we required another approach from our investor." -Interviewee Alfa

When asked about the concerns that he had regarding these reporting activities, interviewee alfa mentioned that he also wanted to build a relationship based on trust with his investor. He emphasized that reliability must form the core of this relationship and by dedicating a lot of time on reporting activities, the company would waste time. Additionally, time spent on these activities also translates into wasted money when looking at it from the investor's perspective. Therefore, such a relationship can be effective on both sides as long as they do not focus on their own interests but rather, the ventures.

Another monitoring mechanism used by investors is achieved by adding additional layers to the hierarchy. Assigning a board member on the venture is an example of such layers. This is typically an instrument used by venture capitalists and this member is expected to represent the investor's interests in board meetings. Thus, the member serves as a supervisor of the entrepreneur's activities by remaining updated on the performance of the company. In our sample, this was also applicable for entrepreneurs who are backed up by venture capitalist. In such cases, ventures had at least one member whose main function is to monitor the entrepreneur's actions and to ensure that they are aligned with the investor's aims.

"We have a board member who represents the investor in the company. His main purpose is to stay in the loop of the daily activities of the company. Based on my previous experience I would say that the investor chose this monitoring option because of the complexity of our product. It can be hard for them to stay updated if they do not understand the technology very well. This way, they can be closer to the company and our activities." - Axel A.

On the other hand, Caroline C. thinks that the board member is quite effective in their meetings and is not there only to monitor but also to help them grow the company.

"The owner of the investment company is the representative on our board. He is quite active in our meetings and is always open for discussion. We can communicate at any given time if there are some issues or if we need his help. Usually, meetings take place a couple of times per year but the board can be assembled whenever we need it. So, I believe the board member doesn't solely have a monitoring purpose, but he also aims to assist us in decision making" - Caroline C.

4.1.3 Vertical integration, Game Theory, Self-selection, Signaling, and Bonding

Findings on these mechanisms are of a vague character. Entrepreneurs did not seem to be familiar with them and this indicated a weak perception of these mechanisms in their situation. The answers that were provided appear as repetitions of other parts of the interview. For instance, when asked whether the structure of their contract was behavioral- or outcome-based, they gave unclear answers due to the lack of information on the specificity and structure of their contract. It must be noted that explanations were given on the two types of contracts as provided also in the literature review section of this study.

"I would say it's of a hybrid form. Usually, it is based on outcomes and sometimes it is based on reporting. This is something we are not very informed about and it's difficult for me to set a line." -Axel A.

Another instance is when the entrepreneurs were asked about the dependence of their income on the completion of predetermined objectives. Their answers were again unclear and several respondents tended to connect it with their ability to obtain future rounds of financing. Additionally, they mentioned that their income is not dependent on the investors, at least not in a direct way, but even the profit that the venture generates is invested back into the business and is not allocated to the owners. Argumentation on these findings will be provided later in the discussion.

4.1.4 Screening

Screening is related to the background check that principals perform on the agents in order to minimize hidden characteristics that might be the source of agency problems in the future. In order to test for the occurrence of these screening activities, the interviewees were asked about the information that they provided before securing financing. All the respondents confirmed that besides the product or the technology that they were developing, the investors were very interested in their background, experience and the team behind the venture. The interviewee representing Bjorn's venture which serves as a connector between startups and investors further made a generalization by mentioning that almost all venture capitalists are very interested in the entrepreneur's experience and sometimes, they put more emphasis on it rather than the product.

"Of course there is an interest in the technology, the potential of this technology, the market penetration ability, the stage of the company [...]. They definitely pay a lot of attention to the entrepreneur and the team behind the product. They analyze the product first and then when they arrive at the team, that is when they evaluate the potential and make their decision regarding the venture. All venture capitalists that we collaborate with are very interested in the entrepreneur's background and experience." - Bjorn B.

Similarly, Axel A., the entrepreneur behind a high-tech startup admitted that even in such a complicated industry where product potential seems like a very important factor, investors believe that the entrepreneur's capabilities can have a higher effect on the progress of the venture.

"I as the founder of the company had to introduce and convince them on the product and its future potential, how we differentiate ourselves and so on. [...] Definitely, they care also about the team. So, when they see me as a founder they try to evaluate if I am the right person who is going to drive this, what are my achievements, my background, etc. I have also heard from my current investors that sometimes they are more interested in the entrepreneur rather than the product. Their argument is that the product can always be adapted but when investing in the wrong person, there is nothing you can do" -Axel A.

Caroline C. thinks that the aim of the numerous meetings that they had prior to receiving the investment was to get more familiar with the team behind their product.

"They asked for information about the product, our current sales, the vision of the company, patents and so on. They were very interested also on the job we had done before, our previous experiences, etc. Apart from checking the financial health of the company, they wanted to have several meetings with us to get to know us better. Information on our experiences seemed very appealing and I can say that their decision to invest was based 50% on the products and 50% on the entrepreneurs behind those products." - Caroline C.

4.2 The Mechanisms Effects on the Entrepreneurs

The most common tool for monitoring activities is reporting and preparing informative materials for the investors, as discovered throughout our interviews. What represents a relevant aspect in these activities is the impact that they have on the entrepreneurs themselves and the progress of their ventures. When asked about the workload that is associated with these reporting activities, several interviewees admitted that it might require some time to prepare the necessary information. Interviewee Alfa mentioned that this can also be dependent on the investor's requirements over time and the frequency that they require reports from the entrepreneur.

"It is hard to estimate how much time we spend on it [reporting]. It might be significant when taking into consideration the pressure coming from these reports but in my experience, it varies between investors" - Interviewee Alfa

He further stated that most importantly, these reporting activities are very time consuming when applying for further rounds of financing. In order to attract more capital, they need to dedicate a considerable amount of time preparing materials that ensure the potential of their product. Such time he states could be used for other activities which have benefits for both the company and the investors. In the end, it is also the investor's resources that are being used inefficiently.

Interviewee Beta showed that workload which comes from the investor's demands can also emerge from the flexibility of the contracts. The entrepreneur mentioned that certain materials which he was required to prepare were not agreed upon at the start of their relationship and this was due to the "blurriness" of their initial contracts. Thus, they are engaged in quite frequent communication with the investors which was not expected at the beginning of their agreement.

"At the start, the term sheet we signed to receive the investment was based on the investor handling the operations, which is quite a grey area. So, the lines were a little bit blurred as to what was included as part of operations. And some of the things that we thought were included, in the end, weren't. So, we were slightly wary at the start. In some ways, I have taken on more work. There is some additional auditing of operations and checking in with the operations in terms of recruitment and other initiatives, which I didn't think would be the case. I thought there would be a smoother

transition and communication channels. So, it seems we have to stay in semi-regular communication with these people.” - Interviewee Beta

Another respondent thinks that reporting itself might not take that much time, at least not in a direct way (Axel A.). However, the board member who represents the investor's interests might apply more pressure on the venture and request for more frequent information which needs to be prepared by the team.

“It *[reporting] does not take substantial time. Board meetings on the other hand, can be more demanding. We need to share information on our weekly activities, the performance of the product, our research and so on.” - Axel A.*

On the other hand, two of the interviewees think that although it is an extra workload, reporting can be useful for them as entrepreneurs. Caroline C. mentions that they might need to do it either way. It helps them understand the position of the company and to set new objectives. He further states that board meetings also help their team to gain more perspectives and are very effective in their decision making. Bjorn B. thinks that in some of the companies that he is under collaboration, investors’ pressure to present reports and their demands for extra work are beneficial. It encourages them to train themselves on different aspects of the market and not only the product which they are passionate about.

“Some companies are more focused on the technical side and not so much on the business side because they don’t have the expertise or the background. In these cases, the investor’s requirements force the entrepreneur to pay more attention on the economic side. So, of course, it takes time for them, but this extra pressure can be beneficial. For instance, some companies do not have marketing experience and they are not very competent in selling the idea, which can be detrimental to them. It’s the investors who pressure them to learn these aspects.” - Bjorn B.

An important factor which can impact the entrepreneur’s activity is the ability of investors to affect the operations of the firm. For instance, Interviewee Gamma mentioned that disputes between them in terms of what is expected from both sides can hinder the productivity of the entrepreneur. Although this is an indirect effect, he thinks that it is causing a lack of focus from his side.

"Starting off, I thought that I was going to be focused on advertising, marketing, and sales. Whereas, when I have to deal with the end customer coming in via the platform, that's just a completely administrative task. So I thought that the investor was going to handle that but actually now I'm handling that. It's not so much a waste of time but more a distraction of focus from more productive things that I could be doing." - Interview Gamma

Monitoring is also associated with costs that arise from the risk of sharing information which is exclusive to particular ventures. Several interviewees mentioned that this is part of their concerns whenever they need to share such information. Entrepreneurs are generally aware of these risks and the respondents mentioned that they always need to find the right balance between sharing enough information to keep the investors happy as well as maintaining their industrial secrets. Two of the entrepreneurs mentioned the importance of having non-disclosure agreements because they are quite concerned regarding the discretion of their products and operations.

"We have non-disclosure agreements with our investors so it might be hard for them to misuse the information which we provide. We are definitely careful to share the right amount of information and this is a risk that we are undertaking continuously." - Caroline C.

One of the entrepreneurs further stated that even when there are non-disclosure agreements between them and the venture capitalist, there are always gaps in the legislation which can endanger them (Caroline C.). However, she is not concerned regarding their classified information because of the mutual trust relationship which they, as a team, have built with their investors.

There are also cases when entrepreneurs bear all the risk because they are not offered the possibility to sign non-disclosure agreements or a non-compete clause (Bjorn B.). For instance, the company that our interviewee represents does not sign these types of agreements and they rely only on the investor's trust. These investors might also use the information to compare technologies with other competitors in the same technology before making their investment decision. The venture might be used as a comparison basis based on the information that the entrepreneur provides, and in most of the cases, this is not something they are aware of (Bjorn B.).

4.2.1 Trust

Trust is considered to be an important factor which has a considerable impact on the relationship between investors and entrepreneurs. Building a relationship based on trust would typically reduce the need for monitoring of the agent and provide insurance for the principal regarding the entrepreneur’s decisions. From the investor's side, trusting the agent would mean putting fewer efforts and resources on the observation of the entrepreneur activities. From the entrepreneur’s perspective, it would mean more autonomy and time dedicated to running the business. This would also translate to an advantage for the investor because their money would be used more efficiently. Although not all entrepreneurs confirmed to have such a relationship with their principals, they all agreed that building a trust-based collaboration rather than relying on strict monitoring would allow them to work more efficiently.

“It’s definitely 100% better to build the relationship built on trust because that can give you autonomy to go out and complete tasks and take ownership over different portions of the business. Whereas if it is strict control it would feel like someone was always looking over your shoulder.”
- Interviewee Gamma

One of the entrepreneurs thinks that the relative amount of trust or monitoring that is involved in their relationship with the investor is also dependent on the degree to which they share the same vision (Caroline C.). She suggested that this is very dependent on the type of investor and their investing strategy. Her current investor is very committed to their vision and strategy and this has led to less strict monitoring and more trust between them.

Another respondent added that trust needs to be earned and this can be achieved by fulfilling the objectives of their contractual relationship (Interviewee Alfa). Consequently, this would also lead to better reliability in future rounds of financing and provide more financial streams for their venture. He added that when trust is achieved, it results in a win-win situation.

However, trust needs to be mutual. In other terms, the entrepreneur also needs to be able to rely on the investor’s advice when running the business. Although several respondents admitted that they generally trust professional advice provided by their investors, there is still a certain degree of risk associated with it.

"We always need to discuss internally as well. Maybe they could be wrong because they might also be taking their own interest into consideration. We need to try to evaluate their purposes carefully to arrive at good decisions, so sometimes decision-making becomes trickier due to their advice." - Caroline C.

Another entrepreneur added that the amount of trust that they put in their investors can also be associated with the industry (Axel A.). Since they operate in a high-tech industry it is common that there might be overlapping technologies. This means that investors and other providers of funds could manipulate their position by leading the company into the direction that they want. This can provide an advantage to the investor in the case that he/she has invested in other similar ventures as well. Such situations can also emerge when there are different goals between the principal and the agent.

4.2.2 Goal alignment

A potential cost for entrepreneurs is also the guidance of the company in the wrong direction. In order to follow their interests, investors can impact the future of the venture by encouraging initiatives that benefit them more than the company. The entrepreneurs representing this sample stated that they recognize this as a potential problem with all investors. This is why they take it into consideration as a substantial factor when choosing the right funding source for their ventures (Caroline C.). The potential mismatch between the investor's purpose of investment and the entrepreneur's vision of their venture can become a major issue. For instance, such problems can occur when the investor considers his stake in the firm as a short-term investment while the entrepreneur is looking for a longer relationship which allows the venture to grow. Axel A. states that such potential problems can be avoided starting from the early stages of the investment by having the right contracts.

"They [investors] might guide your company in the wrong direction and in some way, this can create issues. These issues must be tackled from day one, by having the right contractual agreements that limit such occurrences." - Axel A.

Another interviewee thinks that the investor's experience with their other ventures leads to advice which can create a certain path dependency (Interviewee Beta). Such investors can hinder the progress of the venture to a certain extent because the entrepreneur will not have the necessary freedom to experiment and be creative, which is the main characteristic of these startups.

"I think the investors are very timeline driven, in terms of reaching the two-year mark, which is fine as that's a financial decision but I think because of that, it leaves us with less room to experiment with different processes throughout the business. It forces us to focus more on what they've done. So I think it's less about self-discovery and more about following a template, which can be difficult because you might not have trust in everything and you can be following things blindly at times." - Interviewee Beta

Another potential cost which arises for the entrepreneur due to the different aims of their investor is the loss of control of the venture. Arguably this might be the most detrimental cost for the agent and one of the interviewees thinks that this is highly dependent on the entrepreneur's background. Bjorn B., who represents the intermediary company states that when a venture capitalist doesn't trust the entrepreneur's experience and skills they tend to guide the direction of the company and also gain control of it. This would typically happen when they evaluate a startup with high potential but with an inexperienced manager behind it (Bjorn B.).

Caroline C. further adds that with the investor gaining more control of the venture another immense cost for the entrepreneur will be the loss of passion. Investors can guide the firm towards their desired objectives even in cases when they do not own the majority of shares but, the entrepreneur is highly dependent on their future financing. This is when goal alignment between the principal and the agent becomes a major issue because the entrepreneur can lose not only share control but also the purpose of running the venture (Caroline C.). This is a typical case where the costs of financing can outweigh its benefits.

5 Discussion

The aim of this study is to test which agency control mechanisms are used in an entrepreneurial setting when the entrepreneur is considered as an agent and whether these mechanisms have an effect on their venture by making for an unnecessary agency cost. Our theoretical summary indicates that typically bonding costs are incurred by the agent in any given relationship between investors and owner-managers (Jensen & Meckling, 1976). When considering the entrepreneur (owner-manager) as an agent, the residual losses are incurred by both the agent and the principal because they are both equity-holders in the firm. However, despite the sharing of residual risk, investors still exercise control over entrepreneurs by demanding to report and performing monitoring on their agents. Reporting and monitoring activities can create time and other resource constraints on the agent and we argue that this is an inefficiency which has a negative impact on the agent who will incur all three agency costs. In this section, we initially discuss findings on the mechanisms used by investors. Then we move on the perceived effects of these mechanisms. Lastly, we conclude with the most notable findings on the differences between business angels and venture capitalists with regards to these effects.

5.1 The Mechanisms Used by Investors

5.1.1 Incentive Systems

In the classical agency literature (e.g Jensen & Meckling, 1976; Eisenhardt, 1989) ways are described in which a principal can reduce agency problems by means of aligning both parties' interests. Incentive or reward systems are seen as an ideal method for achieving this alignment within large firms whereby shareholders, represented by a board of directors, allocate some of their ownership in the form of shares, to high ranking employees. In this way, part of the employee's remuneration is contingent on the performance of those shares. In other words, the higher the firm's share value, the higher the income of the firm's key decision makers. In this way, the organization's agents are incentivized to improve their own position in a way that is also in line with the interests of the shareholders.

In the case of a startup in which the entrepreneur is backed by outside investors, both parties are bound by the same rationalities as they would have been if they were operating within a much larger organization. However, in the case of owner-operated entrepreneurship, there are several key differences in the relationship dynamic.

Firstly, the starting point of the agent in each scenario, from an ownership point of view, are on totally opposite ends of the spectrum. Predominantly, the vast majority of the remuneration of a CEO in a large organization is based on a salary, which is earned irrespective of the agent's performance. Usually, the agent, in this case, will have a minor element of their pay in shares or stock options and these shares usually amount to a tiny fraction of the total value of the firm. In the case of an owner-entrepreneur, up until the point at which they cede some of their equity to an external investor, they are the sole owners of the firm that they operate. Even after they sell some of their equity, in most cases they remain in control of the firm with at least half of the total equity of the firm. And again, in stark contrast to the CEO of a large firm, the total remuneration of an entrepreneur is based on the performance of the startup. From an incentives perspective in the traditional sense, there is clearly much greater risk and reward that is dependent on firm performance in the case of the entrepreneur. This vast difference in ownership on behalf of the two hypothetical agents means that the interests of the Entrepreneur are aligned to the interests of the Investor to a much greater extent as a default position.

Secondly, if we are to view the psyche of the agent in both a large firm and a startup with respect to their attitude towards the firm in which they operate, we can see further contrasts. Throughout our data collection process, the entrepreneurs we interviewed all demonstrated what could best be described as having an almost parental affiliation with their startups. Often, they have invested all they own, taken on significant personal risk and enlisted the support of their friends and loved ones. They have attached a significant portion of their own wellbeing and reputation into the success of their startup. While, there are doubtless, highly committed CEOs in large organizations, it would be amiss to suggest that they have quite as much on the line as an Entrepreneur with regards to the personal attachment to the company that employs them. It can be argued therefore that beyond financial reward, there is a greater incentive for an Entrepreneur to see the firm grow and succeed. This perspective has similarities to the concept of 'Stewardship Theory' (Donaldson & Davis. 1991) which comes from a contrary view of managerial motivation than that of agency theory and sees managers as having a much more inherent motivation to help their firm succeed, even without incentive, than agency theorists.

Lastly, there is an additional incentive which we had not anticipated prior to our interviews with the entrepreneurial agents. Almost all of our interviewees mentioned in one way or another, that a positive relationship with their investors would improve the entrepreneur's chances of receiving further investment. This related both directly to the current investors, in the hope that they would commit additional funds during the later rounds of financing and also through network factors. Entrepreneurs felt that if they demonstrated capability and met the expectations of their investors then the investors were more likely to give their endorsement to the venture and encourage additional outside investors to back the startup. This element of the relationship between the principal and the agent was quite unexpected as it didn't feature in any of the reviewed research on classical agency theory during our literature review. This makes sense as in the context of a large firm, the raising of additional finance is not paramount to the role of the CEO as generally the ownership structure in a mature organization is established and outside financing is limited to bank debt or through the sales of existing shares. This network effect was, however, more prominent in contemporary literature which focused on entrepreneurial ventures.

5.1.2 Monitoring

From a theoretical perspective, monitoring is described as a mechanism that is used to reduce agency costs within a firm. This is done by reducing the level of information asymmetry between the principal and the agent which is a fundamental source of agency problems in this relationship. Monitoring is seen as a way for the principal to eliminate the hiddenness of an agent's actions, intentions, knowledge, and character. However, monitoring is both costly and inexhaustive.

In large firms monitoring is established through methods such as hierarchical structures, external auditing, the board of directors, reporting lines and peer evaluation. In this way, shareholders forego some of their profits to pay for the monitoring mechanism. While monitoring is generally used in all large companies to some existent, it is seen to address agency problems from a different angle than the use of incentives. The rationale behind this approach is that an agent is much less likely to work against the interests of the principal if they know they are being monitored. In other words, the agent is not compelled to work towards the goals of the principal due to aligned interests, but rather controlled into acting in a certain way for fear of repercussions from the board of directors and indirectly from the firm's ownership.

Throughout our investigation process in the entrepreneurial setting, we encountered several different approaches to monitoring on behalf of the investor and varying attitudes towards monitoring on behalf of the entrepreneurs. Mechanisms such as weekly or monthly reporting were present throughout the majority of the startups with several also having an operational board of directors. Opinion about the merit of such monitoring varied. Some entrepreneurs felt that the effects were beneficial and helped to keep them focused. They appreciated the sense of security that was established by having such transparent information channels between the day-to-day operations and their financiers. However, to the contrary, some of the entrepreneurs we spoke to, had an active dislike for these methods and felt it represented an unwanted intrusion and distraction. There was a dislike for the implication it symbolized with regards to how much investors trusted the entrepreneurs to perform their roles adequately. In one case, an entrepreneur had actively stipulated on a contractual level that he would not be expected to produce regular reports and would instead update the investor after significant milestones. Another entrepreneur felt a sense of uneasiness stating that it felt like someone was always looking over his shoulder and that it took time away that could be better used in more productive ways.

This raises two key questions. Firstly, is there the same need for monitoring in an entrepreneurial setting as there is in a large organization. From a theoretical perspective, according to Jensen and Meckling (1976), agency costs are made up of the sum of the residual loss, monitoring costs, and bonding. A fundamental aspect of this is that a firm should aim to minimize agency costs by finding the most efficient balance among these three costs. For example, they should not invest so much into monitoring that it outweighs its benefits towards reducing residual loss. If we are to apply this principle to an entrepreneurial setting where the entrepreneur is the majority residual claimant while also being bonded to the outcome of the organization, then is there a need for monitoring costs as well? Can it not be expected that the incentives are so well defined for the entrepreneur that it could be considered inefficient to impose strict monitoring on top of already aligned interests.

And secondly, who bears the cost of these monitoring practices. In a large corporation, shareholders pay for mechanisms such as external audits to provide oversight into their investment and the literature establishes that it is the principal who bears the cost (e.g Jensen & Meckling, 1976). In a newly founded company, however, these structures do not exist. This leaves all the reporting and due diligence solely as the responsibility of the entrepreneur. While the financial costs of these monitoring activities are likely to be minimal, the cost of time and effort to the agent can be significant.

5.1.3 Screening

Screening, which refers to the ex-ante checks that an investor conducts before making an investment is an important stage of the entrepreneurial financing journey. The goal here is for a potential investor to minimize the level of information asymmetry between the principal and the agent. Ultimately, the purpose of screening is to eliminate as much of the uncertainty within a startup as possible so as to avoid losing their capital on a bad investment.

While a focus is natural given to the financial and operational factors of a young enterprise in order to determine the validity of the business, careful consideration is also given to familiarization with the characteristics of the entrepreneur themselves. While screening has a limited ability to detect the hidden intentions of an entrepreneur, it has some capacity in identifying the hidden knowledge and characteristics of the agent. In this way, the principal can ascertain if their future relationship with the agent would be a good fit and can minimize the likelihood of adverse selection.

Throughout the interview process, it became clear that pre-investment screening was a decisive element in the investment process. Entrepreneurs understood the importance of this stage in attracting outside capital and most of the interviewees stressed the importance of the investor's checks on their own background. One entrepreneur went as far as to say that even if there were aspects of the business that were below the expectations of the investors, they would still maintain interest if they felt that the entrepreneur was a good fit. The rationale behind this was that shortcomings in the business or product could be addressed and improved, however, if the entrepreneur was the difficulty, then that would remain a long-term issue and could cause problems later on in the relationship. If the entrepreneur had sufficient skill and openness to cooperation, then other issues could be overcome.

The literature review provided an indication that pre-investment screening was more prominent from venture capitalist than business angels due to their professional experience and capabilities. This seemed to be consistent with the evidence gathered from our empirical studies, however, we found that while venture capitalists had a strong focus on screening the legitimacy of the business's capabilities, Business angel backers were keen to establish an understanding and relationship with the entrepreneurs themselves. According to the entrepreneurs we spoke to, this was because the business angels liked to take quite a hands-on approach in terms of their involvement with the business and so were eager to determine if they could form a suitable partnership with their agent. This generally took the form of both formal and informal meetings between the two parties in which discussions would take place about factors such as long-term vision, business priorities, and key success determinants. It would seem that developing mutual trust on both sides is particularly important.

5.1.4 Vertical integration, Game Theory, Self-Selection, Signaling, and Bonding

The results of our tests for these mechanisms in an entrepreneurial setting proved to be insubstantial. This would appear to be the case due to the limited applicability of these mechanisms within a startup environment.

Vertical integration refers to an authoritative relationship between a principal and an agent, whereby a principal will give instructions to an agent as to how the company is to be operated (Klein et al., 1978). This has strong applicability within a large organization where shareholders, through the medium of a board of directors will indicate how the company should be run. However, in the case of a young enterprise where the agent has significant ownership, this is rarely the case as the relationship between the investor and the entrepreneur is seen as a partnership of equals. This proved to be a consistent feature throughout our interviews as the interviewees felt in no way compelled to take certain courses of action at the behest of the investors. While this response was homogenous throughout the data gathering stage, it did not inspire any additional insight from the entrepreneurs.

Similarly, game theory which is perhaps an overly abstract concept to be considered relatable to our interviewees focuses on creating a relationship between the principal and the agent which is considered to be favorable to both parties (Myerson, 1982). The feature of this concept which is applicable to the reduction of agency problems is related to creating a win-win situation by which both the principal and the agent benefit from the cooperation of the other. In an entrepreneurial setting, this mechanism closely resembles the dynamics associated with the concept of aligned incentives. In other words, this would appear to be universally applicable as a win-win situation for the investor and the entrepreneur is achieved through the success of the organization.

Self selection of contracts is concerned with the structure of the contract between the principal and the agent (Arrow, 1986). More specifically, this relates to the principal determining the motivations of the agent based on the type of contract they seek, and so garnering information about the hidden characteristics and intentions of the agent. This is closely associated with the investor's screening process and would therefore not be obviously apparent to our interviewees as the investors would use this mechanism without the knowledge of the entrepreneur. The responses we got to this question, as well as the follow up probing questions, were limited. This is perhaps due to the personal nature of an individual's contract as well as the fact that in an entrepreneurial setting contracts are predominantly already customized. This mechanism is perhaps more applicable in a large organization where the principal can offer a choice between uniform contracts associated with either behavior or outcome.

Signaling, which refers to voluntary information that an agent provides a principal in order to signal aspects of their intentions, abilities or character (Spence, 1973) also provided inconclusive and limited results. The difficulty here stems from the lengthiness of time since the entrepreneur and the investor originally met. As this is quite a subtle and perhaps subconscious element of conversation between the two parties it was not easily recallable by our interviewees. It was difficult for them to remember which information they had been asked for and which they had offered voluntarily after such a long period of time. Results of this part of our analysis were inconclusive.

Finally, bonding, which refers to the dependence of an agent's income on the fulfillment of certain requirements (Jensen & Meckling, 1976) can be considered a universal feature of owner-manager entrepreneurs. This is due to the fact that an entrepreneur's income is derived from the performance of the organization due to the fact that as owners, they are residual claimants. Answers to this question strongly correlated to the questions regarding the entrepreneur's reward structure and incentives system. From a theoretical standpoint, it can be concluded that in all owner-managers are in some way bonded to the success of the organization.

5.2 The Effects of Control Mechanisms on the Agent

One of the main implications that agency control mechanisms might have on the entrepreneur as an agent are time constraints, as presented in our findings. Different views were obtained on what monitoring is for entrepreneurs. Some argued that it can become an extra pressure on the daily operations while others said it can also be beneficial. While it still remains unclear, it can be argued that in certain cases monitoring entrepreneurs do not create value for the investor. Since they still own the majority of shares, it is in the agent's best interest to work towards the venture's growth, in this way making monitoring activities redundant.

Important findings throughout this study also involve implications regarding the incomplete contract approach. This approach views the principal-agent approach as being inefficient due to contractual costs (Hart, 1995). However, one of the entrepreneurs mentioned that the openness of the responsibilities in his contract with investors had created problems in the venture. Mainly, these problems related to the operations of the company and the management of operations by the entrepreneur which would change unexpectedly due to the investor's requirements and his ability to do so, because of the flexible contract standing between them. Although the incomplete contract approach aims to reduce the costs of contract-writing (Van Osnabrugge, 2000), findings indicate that the ambiguity that is associated with it might be a burden to the agent.

Zacharakis and Shepherd (2001) mention that trust is an important element in avoiding the costs of monitoring the agent. In this sense, the establishment of trust seems to be combined with monitoring as control mechanisms. It is clear that a trust-based relationship cannot be considered as a mechanism but rather a collaboration model which is considered to be beneficial for both parties involved. Based on our findings, the entrepreneurs suggest that trust is used by investors in order to avoid unnecessary monitoring costs and efforts. In other terms, trust is negatively related to monitoring activities performed by the investors. However, not all respondents claimed to have such a relationship with their principals, because such cooperation is not easy to achieve. Besides acknowledging the importance of building trust, they further suggest that is is hard to find investors that are willing to use trust rather than control to ensure the proper use if their funds. One of the entrepreneurs suggests that this is very dependent on the type of investor and the degree to which they share the same vision. While Țurcan (2008) mentions this in the context of venture capitalists, in our findings there was no difference between venture capitalist and business angel backed entrepreneurs regarding the emphasis that they put on trust and the effect that it has in monitoring.

It is important to note that in an entrepreneurial context, trust in the entrepreneur's intentions must be already established since they are equity holders. In this case, moral hazard should not be a problem because it is in the entrepreneur's interest to contribute to the development of the venture. However, trust in the entrepreneur's capabilities is one of the investor's main concerns. This corresponds to the concept of adverse selection which is one of the sources of the principal-agent problem (Eisenhardt, 1989). In this case, the principal does not have information on the agent's abilities and this is the part where trust comes to play in the case of entrepreneurial firms.

What is particularly important in the case of trust is the way it is achieved. As one of the entrepreneurs mentioned, building trust can require considerable effort, especially from the agent's side. Except for communication, commitment and goal alignment (Zacharakis & Shepherd, 2001), achieving trust is also dependent on the ability of the entrepreneur to design and reach their objectives. This way entrepreneurs can dedicate efforts to create a good reputation which will help them build trust and also obtain future investment rounds. While the benefits emerging from these efforts can be high, looking at it from a cost perspective, entrepreneurs will incur all associated costs. Moreover, it is debatable as to who will benefit more, the principal or the agent. In the end, it is in the principal's best interest to reduce these monitoring costs.

So far, the discussion has been based on the trust that investors have in entrepreneurs. However, trust must be mutual. The entrepreneurs also need to trust their investors, and in this case, trust must be on intentions. This is significantly different in large corporations because when the CEO does not own shares, they might not be as affected by the intentions of the shareholders. Thus, in an entrepreneurial context, the moral hazard problem can become an issue more for the agent (entrepreneur) than the principal (investor). The entrepreneur will take on all the risks associated with moral hazard problems from the investor. Based on our findings, such risks mainly include the misuse of information by the investors. They can use the information obtained by entrepreneurs in many ways that can endanger the position of the venture. The entrepreneurs involved in this study acknowledged that they face the risks that this information can be used to give advantage to other companies within the investor's portfolio. It was further noted that this is especially important in high technology industries where technologies are overlapping, and information is an important asset. Another finding from our cases is that classified information on certain products can be used as a comparison basis from investors to evaluate other ventures, contradicting in this way with the prerequisite of neutrality (Tyler, 1989). Without maintaining neutrality in their portfolio, procedures that are followed by the investors to control the agent's behavior can become a threat for the entrepreneurs. Moreover, Lovallo and Kahneman (2003) mention that in high tech sectors, it is difficult for investors to set benchmarks and therefore they need to use this information to control their investment. However, it is the agent who provides this information, taking in this way all the costs associated with it. The greatest cost, in this case, is losing the control and rights over a technology or product copyrights due to the mal-intentions of the principal.

Efforts associated with the achievement of goal alignment between the principal and the agent also require certain costs to be felt by the entrepreneur. Bruton et al. (2010) recognize goal congruence as a key success factor in entrepreneurial firms and this is confirmed also by the findings of this study. Moreover, this study managed to capture how the entrepreneurs see this aspect of their relationship with investors. It is unclear who benefits more from goal alignment but what attracts our interest is who bears the costs of achieving such congruence. Here, a distinction can be made between venture capitalists and business angels. Venture capitalists are more likely to guide the company into their desired direction in order to make profits quickly (Petty, 2015) as it was confirmed also by the entrepreneurs backed up by venture capitalists in this study. However, our respondents mentioned that this risk also exists with business angels, although their objectives might be different from venture capitalists. For instance, a business angel can take the wheel in a venture because of a certain passion that they have, and not because of short term profit. What is noticeable is that in both cases, the entrepreneur bears most of the risk. Such risks involve the threats opposed to their venture's longevity due to the short-term orientation of investors (venture capitalists) or the misguidance due to the investor's different intentions (business angels). Other risks that were found in this study include the loss of shares from the entrepreneur and also a reduction in passion and motivation associated with starting the venture in the first place. Such risks are emergent due to the different interests of both the principal and the agent and are strongly linked to the moral hazard problem of the agency dilemma.

5.3 Differences between Business Angels and Venture Capitalists

At first glance, empirical results seem to be similar for entrepreneurs financed by business angels and those financed by venture capitalists. With regards to the agency control mechanisms which are used by these investors, it appears to be no significant difference between their preferred methods. According to the literature, the main difference between venture capitalists and business angels with regard to the agency dilemma is their investment control approach towards the agent. While venture capitalists take an ex-ante approach, business angels rely on post-investment monitoring to control for the agent behavior (Van Osnabrugge, 2000). Our results do not show a significant difference regarding this monitoring approach. Pre-investment screening, which is typically an ex-ante monitoring approach is used by both types of investors in our sample, as claimed by the respondents. Additionally, active participation in the venture activities which is a post-ante approach does not seem to be consistent with our findings with regard to BAs and VCs. This is typically a method used by business angels because of their inability to monitor the investment otherwise (Van Osnabrugge, 2000). None of the interviewees confirmed active participation of the investors in the venture. While the expectations were that BA-backed entrepreneurs would claim a higher involvement of their investor in the firm, our sample did not confirm this. On the other hand, venture capitalists seem to take both an ex-ante and post-ante approach by getting involved in the venture indirectly through the assignation of a board member. Respondents claimed that the board member manages to stay actively informed and this illustrates strong prudence of VCs in their investments. However, it is difficult to compare the difference which VCs and BAs have with regard to the effects that their monitoring approach has on the entrepreneurs. In the end, our main interest is to observe if there is a difference in terms of the effects that this might have on the agent. Entrepreneurs which had experience with both types of investors were not able to depict a difference and this might also be related to their lack of information regarding the risks associated with different monitoring approaches that we mentioned above.

6 Conclusions

Entrepreneurial finance is a relevant topic due to the key role which it plays in the development of startups. Entrepreneurs need funds to ensure the continuity of their operations and therefore, securing investments takes a major role in the startup operations. Apart from the difficulties that these entrepreneurs face to secure funding, further problems can arise after this stage is completed. Certain trade-offs and compromises are associated with different types of financing which makes the relationship between investors and entrepreneurs interesting to analyze.

Two of the main problems which emerge in this relationship are information asymmetry and the moral hazard problem. Such issues are a fundamental part of the agency dilemma which occurs whenever a principal delegates authority to an agent. While this is a well-established theory which centers around the shareholders and management, its application to young entrepreneurial ventures is still under-researched. Thus, we concentrate on the agency dilemma between the investors as principals and entrepreneurs as the agents. Since entrepreneurs are not typical agents as they also own a large portion of the firm, their relationship with investors is different from the relationship between shareholders and management in large corporations. The main aspects of the agency dilemma are the costs that arise when the principal aims to control the agent's behavior. There are three costs which arise when control mechanisms are used over the agent: monitoring costs, bonding costs, and residual loss. While bonding costs are incurred by the agent in an entrepreneurial setting, they also incur the residual loss, monitoring costs are known to be incurred by the principal. We argue that all three of these costs have an effect on the entrepreneur as an agent due to the control mechanisms used by the investor.

This thesis tested for the control mechanisms used by investors to control the entrepreneur's behavior and aimed to explore the implications of these mechanisms on the entrepreneur. We found that while incentives, monitoring, and screening are commonly used by investors, other mechanisms such as vertical integration, game selection, signaling and bonding have limited applicability in the entrepreneurial context. An important finding in this context is that incentive systems differ from large corporations. Since the interests of the agent are already aligned with the principal because they are already owners of the venture, entrepreneurs strongly relate incentives with the ability to obtain future rounds of financing.

We further found that the principal's monitoring efforts can have considerable negative effects on the agent and the venture. Such effects relate mainly to the risks that are attributed to the agent due to information-sharing and the principal's conflicting interests. These effects arise from both information asymmetry and moral hazard. In large corporations, such effects are not very applicable because information sharing can endanger the firm's position but not the agent's. Similar to this, the principal's interests can also have an impact on the firm but not directly on the agent.

Other implications of these mechanisms which were found within this thesis are the efforts that the agents put on ensuring trust and goal alignment in their relationship. Although such forms of relationship are beneficial for both parties, it results in the agent dedicating the required time and effort to achieve it. This results in a cost for them because of the effect that it might have in the venture. Another relevant cost which is imposed on the agent is the risk of losing control of the company due to the principal's tendency to guide the direction of the company according to their own interests.

6.1 Recommendations for Future Research

Our suggestion for future research would be to analyze the other side of the coin also: the investor (principal) point of view. This would allow for a comparison in terms of perspectives on monitoring from both sides. Exploring this topic in other locations could also provide interesting findings on the importance of culture and also country differences. Investigating this dilemma in a more competitive environment for entrepreneurial ventures could also lead to other results which might challenge the findings of this study. Such case could be Silicon Valley as one of the most influential high-tech startup clusters in the world. Another suggestion for further research is another analysis of the agency dilemma in ventures financed by public institutions. Public ventures might have different implications for entrepreneurs in the agency framework due to the special nature of investors. Lastly, it would be interesting to see family, fools, and friends (The three Fs) as principals in their relationship with the entrepreneur.

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8 Appendix

Topic guide for the interviews

Introductory questions

- What is your role within the company?
- How long have you been working for the company (When did you found the company)?
- Are you a majority owner of the company?

- How many employees does the company operate with?
- What are the primary activities of the company?
- What is considered to be the core offering of the company?
- What are the current growth strategies that the company is following?

- How long have you been collaborating with these investors?
- Was the investment secured from an Individual or from a professional venture capitalist?
- Why did you pursue that option? Choice/Necessity/Experience

Agency Controls for Entrepreneurs

- Is there an Incentive scheme aligned to the business's performance which is included in your compensation?
- What type of schemes?
- In what ways do the Investors monitor your performance?
- Who produces this information?
- Is there an authoritative relationship between you and your Investor?
  Is work delegated from the the Investor to the Entrepreneur/Does the Entrepreneur follow the instructions of the Investor
- Do you consider yourself you have a cooperative relationship with your Investor? Is it a Win-Win situation?
- Did you choose your own structure of contract?
- Is it based on the results which are achieved in the end or it includes constant monitoring?
- What information did you provide before securing financing?
- Is any of your income dependant on your performance or the completion of predetermined objectives?
  What screening was carried out by the investor pre-investment? Competency Test, Background check or Accounts/ References/Recommendations etc.

Determining the Cost incurred by the agent themselves

- Do you believe that you have additional workload(costs) due to requirements from investors? *To probe:* What kind of extra work?
- Do you believe that this affects your ability to run the organisation?
- How many hours per week would you estimate is spent complete investor reports/due diligence etc.?

Relationship of entrepreneurs with investors

- How many meetings do you have with your Investors?
- How many activity reportings do you prepare per year?
- Do you think that this reporting benefits your business operations? In what sense if yes.
- Do you think the amount of monitoring activities performed by the investors intrudes with your operations?
- Are these meetings formal or informal? What do you think about the level of formality in your relationship?
- Do you have concerns about sharing information with your Investors?
- What type of non-financial support do you receive from investors?
- Do you trust advice given from your Investors?
- Are your goals aligned with your investors in terms of long-term objectives and aims?
- Do you see any problem in your relationship with investors which emerges from having different goals and objectives?
- Do you consider your investors as provider of funds or partners?
- Have you had any particular case when the investors' monitoring has affected your business negatively?

Summary Questions

- From your experience, do you think that building your relationship with investors based on trust is more effective than strict monitoring?
- Do you think the costs of outside financing can sometimes outweigh its benefits?