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Investigating the Dynamic Relationship between Entrepreneurs and Formal Venture Capital Providers

The Development of Knowledge Exchange, Goal Congruence, Commitment, and Trust over Time

by

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Abstract

For decades, it has been acknowledged that a formal venture capital provider adds a wide range of values to an entrepreneurial firm that are beyond the capital. This highlights the importance of establishing a cooperative relationship through which these values can be mediated. Still, there is a gap in research regarding factors that influence how these two parties interact over time. Building on previous relationship research, this study aims to investigate how defined relational factors develop independently and in interrelation to each other, as the entrepreneur-VC relationship matures. By using a qualitative research approach, detailed data could be gathered from interviews with the founders of high-tech ventures. Interviews were structured to gain entrepreneurs retrospective reflections of how the relationship with their VC changed over time, enabling data for each individual relational factor to be presented longitudinally. This laid the groundwork for subsequent in-depth analysis of interrelations between factors. Resultantly, this study found evidence that knowledge exchange, in interplay with goal congruence, builds an important foundation for a stable relationship that allows commitment and trust to rise over time. In addition, this study argues that, as opposed to previous research, knowledge sharing routines could be an indicator of relationship quality rather than trust. Taken together, these findings implicate the need for further qualitative investigations of how those factors that impact a relationship are interlinked to the performance of a venture over time.

Keywords: venture capital, entrepreneurship, relationship, knowledge exchange, goal congruence, commitment, trust

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1 Introduction

A study by Timmons and Bygrave (1986) ironically indicated that the capital in venture capital is actually the least important factor when generating innovation (Timmons & Bygrave, 1986). A finding which suggests that there are other values that should be taken into consideration when investigating interactions between formal venture capital providers (VCs) and their portfolio companies. Scholars have emphasized that VCs contribute to a relationship by offering strategic advice, providing network contacts, or management support and hence contribute beyond the factor of capital (Politis, 2007; Timmons and Bygrave 1986; Fried and Hisrich 1995; Sapienza, Manigart & Vermeir, 1996; Sapienza 1992; Cumming and Johan 2008). Therefore, the relationship between entrepreneurs and venture capitalists has generated a considerable body of research. This body of research generally emphasizes the great importance of establishing and nurturing a sound relationship between entrepreneurs and VCs (Panda & Dash, 2016; Shepherd & Zacharakis, 2001). At the same time, as entrepreneurs and VCs often differ in their incentives and goals, tensions in their relationship are often predetermined (Appelhoff, Mauer, Collewaert & Brettel, 2016; De Clercq & Manigart, 2007). Yet, little research has focused on showing how such a relationship develops over time or what factors influence it (Huang & Knight, 2017; De Clercq & Manigart, 2007). This makes the relationship between entrepreneurs and VCs an interesting and promising field of research.

Throughout history, several different theoretical models have been used to portray the relationship between entrepreneur and VC. At first, agency theory treated the two actors as principal and agent (Jensen & Meckling, 1976; Eisenhardt, 1989; Arthurs & Busenitz, 2003). A VC was seen as the principal counteracting unpredictable behavior, represented by adverse selection and moral hazard, of the entrepreneur (agent) (Arthurs & Busenitz, 2003). However, it is a pronounced unidirectional model that does not acknowledge changes in a relationship over time. Therefore, the Prisoner's Dilemma arose as another option for deconstructing the relationship. Through the lens of this model, both entrepreneurs and VC will act according to their own interests and relational factors will continue to affect their interaction with each other post-investment (Cable & Shane, 1997).

Scholars continued to acknowledge the impact of specific relational factors on the relationship between entrepreneur and VC, with De Clercq and Manigart (2007) suggesting that the nature of interactions between the two parties is greatly affected by factors associated with either content or process (De Clercq & Manigart, 2007). Recently, Huang and Knight (2017) presented a theoretical model in which a relationship is depicted as a continuous process. In addition, their model illustrates how an entrepreneur-investor relationship will be detrimental for social and financially added values which in turn have a great impact on venture outcome (Huang & Knight, 2017).

However, even if the relationship between entrepreneur and VC is now considered a dynamic process that plays an important role in venture outcome, there is a need for investigating relational changes throughout the lifetime of a venture (Huang & Knight, 2017). Furthermore, De Clercq and Manigart (2007) stated the need for in-depth research of interrelations between relationship factors. Taking the relational factors defined by De Clercq and Manigart (2007) as a framework, this study serves to collect qualitative insights from an entrepreneurial standpoint about how the relationship between the two parties develops and changes over time. These relational factors refer to knowledge exchange, goal congruence, commitment, and trust. While knowledge exchange equals sharing knowledge through effective means of communication, goal congruence describes the degree of how two opposing parties in a relationship hold common beliefs towards it (De Clercq & Manigart, 2007). Further, in this study commitment is defined as an individual's engagement to maintain or improve a relationship with another party, while trust refers to a subjective belief about the likelihood of honesty towards a potential trading partner (Morgan & Hunt, 1994; Bottazzi, Da Rin & Hellmann, 2016).

This study aims to answer the research question: How do the relational factors knowledge exchange, goal congruence, commitment, and trust interrelate with each other as the relationship between entrepreneur and VC develops over time? In that respect, this study extends beyond current research by combining the view of an entrepreneur-VC relationship as a continuous process influenced by relational factors proposed by Huang and Knight (2017), with factors argued to have an impact on the relationship by De Clercq and Manigart (2007) which remain to be investigated in a longitudinal manner demonstrating their interrelation.

To gather data, founders from European high-tech ventures were interviewed and asked to reflect upon critical events and factors that impacted their relationship with their VC investors as it evolved over time. Therefore, this study can be considered as longitudinal with a basis in retrospective reflection. In general, it has to be stated that this study exclusively analyzes the relationship between entrepreneurs and formal VCs. To avoid misconceptions, this study acknowledges formal VCs as professional individuals that provide unquoted ventures with equity capital derived from i.e. pension funds to gain long-term financial rewards. Informal VCs however, often referred to as Business Angels, are wealthy individuals that provide a relatively large amount of their private capital in exchange for equity (Landstöm, 2017; Politis, 2008).

This study is not without delimitations, as it acknowledges that the flow of resources between the participating parties in a relationship is bi-directional (Huang & Knight, 2017). To analyze this complex topic in a comprehensive way, optimally, both parties should be taken into account. However, the scope of this master thesis does not allow to investigate the relationship from both perspectives due to a considerable time limitation. Collewaert (2012) further indicated that entrepreneurs and their investors perceive conflicts in a similar way and share a similar view on their relationship. Therefore, it is argued that interviews with entrepreneurs can be considered as a sufficient initial reflection on how the bi-directional relationship with their VCs changes over time. This study further recognizes the research limitation of basing a longitudinal study on interviews conducted at a single occasion, based on the interviewees reflecting on experiences in retrospect, as it can trigger a recall bias (Zott & Huy, 2007).

In the remainder of this thesis, the theoretical framework presents how the entrepreneur-VC relationship has been analyzed throughout history, it emphasizes the importance of cooperative behavior between the two parties and elaborates on the factors used to investigate changes in the relationship over time. Subsequently, the research methodology chapter has the purpose of describing processes regarding data-sampling, -collection and -analysis as well as data presentation. The chapter further touches upon study limitations. Thereafter, data regarding the development of each relational factor is presented separately, before continuing with an elaborative analysis and discussion of their interrelation. The study ends with a concluding segment providing both recommendations for entrepreneurs in terms of practice as well as suggestions for future research.

2 Theoretical Framework

This chapter has the purpose to critically review and assess relevant literature regarding the relationship between entrepreneurs and their VC investors as well as how this relationship develops over time. To begin, this chapter will portrait how the theoretical view regarding the relationship between entrepreneurs and VCs has evolved and changed throughout history. Thereafter, the importance of cooperative behavior, as well as factors that hamper a sound relationship, will be highlighted. Further, relevant factors that have an important impact on a relationship will be reviewed and categorized in either content or process-related matters. Finally, a summary presents all the relevant findings with a short overview.

2.1 The Entrepreneur-VC Relationship Through History

There have been various models attempting to conceptualize the relationship between entrepreneurs and VCs throughout history which emphasizes its complexity. Agency theory was an early model, explaining how agency problems can occur between principal and agent (Jensen & Meckling, 1976; Eisenhardt, 1989; Arthurs & Busenitz, 2003). It is based on the assumption that the principal and agent, in this case, VC and entrepreneur respectively, will act in their own best interest. By taking only the perspective of the principal, it provides guidance regarding how a VC can protect themselves from an entrepreneur's exploitative behavior (Arthurs & Busenitz, 2003). This behavior can be represented by adverse selection and moral hazard. Adverse selection refers to an agent overselling his or her skills to the investor while the moral hazard is simply a lack of commitment to the relationship from the agent (Eisenhardt, 1989). However, agency theory does not account for the fact that both parties in a relationship can take advantage of a given situation nor does it demonstrate that factors affecting their cooperation will change over time (Cable & Shane, 1997).

Years later, Cable and Shane (1997) suggested that their conceptual model of the Prisoner's Dilemma is more representative of the relationship. A model based on the fact that an actor will behave selfishly even if cooperation will result in a greater reward. Several factors with an impact on cooperation are introduced, categorized into either information, the resemblance of personalities, and procedures related to transactions. As opposed to agency theory, this framework does not rely on a hierarchical structure in which only the principal counteracts agent behavior. Instead, it acknowledges that a relationship will change during the post-investment phase and that there are relational factors affecting both parties. Thus, this model serves as an initial introduction of considering the relationship between the entrepreneur and VC as a continuous process. However, as suggested by the authors, there is a need for an in-depth investigation of specific relationships as well as interrelations of relational factors (Cable & Shane, 1997).

In their review of modern research on the relationship between entrepreneur and VC, De Clercq and Manigart (2007) further emphasized the influence of specific relational factors on how the two parties engage with each other. Factors were grouped into either those related to content or process. Content refers to the exchange of knowledge between entrepreneur and VC, including the quality of shared information but also the frequency and willingness to share it. Process factors were considered to be trust, common goals, and commitment between the two parties, as they influence how entrepreneurs and VC engage with each other. Acknowledging that both categories of factors are greatly intertwined, the authors emphasized the need for future investigation of their interrelation. For instance, what is the link between the degree of initial trust and continuous knowledge exchange or how does both content and process factors interplay with the characteristics of a formal VC (De Clercq & Manigart, 2007).

Recently, Huang and Knight (2017) proposed a theoretical model that aims to illustrate how a relationship between entrepreneur and investor evolves over time, using exchange theory. It considers both the instrumental and affective dimension of a relationship, the firstly mentioned represents the commitment of both parties to execute certain tasks and reach goals while the latter refers to a personal and emotional commitment. These two dimensions of the relationship are affected by the initial informational and interpersonal signaling by the entrepreneur, as well as the type of venture capital provider.

Depending on how the relationship then develops, a varying degree of financial and social resources will be transferred into the venture and promote growth. In other words, the model illustrates how the relationship between entrepreneur and VC will have an impact on value added by the investor, which in turn will affect venture outcome (Huang & Knight, 2017).

If considering the presented research, it can be concluded that the view of the relationship between entrepreneur and VC has changed considerably over the years. From being considered as unidirectional in which a VC holds all the power, through the lens of agency theory, to being conceptualized as a dynamic bidirectional phenomenon that dictates venture outcome. One could argue that there is a great need of gathering qualitative insights regarding the impact of defined relational factors on the development of specific relationships between entrepreneur and VC, as it will increase theoretical understanding and suggest practical implications for venture outcome.

2.2 The Importance of a Cooperative Relationship

As previously emphasized, the relationship between entrepreneurs and VCs is often characterized by uncooperative behavior (Cable & Shane, 1997). There are underlying differences between the two parties before initiating a relationship, such as a contrasting operating logic. A case study conducted by Steier and Greenwood (1995) showed that the dynamic structure of a start-up firm can be considered incompatible with the prediction based decision-making logic of VCs (Steier & Greenwood, 1995). In addition, there is an existing information asymmetry between the two parties (Volkmann, Tokarski & Grünhagen, 2010). Entrepreneurs often have better insights regarding operations within the venture which an external investor does not have access to (De Clercq & Manigart, 2007). Information asymmetry in high-tech ventures may be even higher when comparing it to other industries due to general information opaqueness and entrepreneurs in-depth knowledge about innovative and complex technologies (Manigart, 2013). However, information asymmetry is not a one-directional phenomenon that only impacts the VC but instead, it has to be regarded as a bidirectional phenomenon that also impacts the entrepreneur. This is due to the fact that VCs often have access to superior knowledge regarding the industry, competition, and market acceptance of the company the entrepreneur is operating in (Landström, 2017; De Clercq & Manigart, 2007).

Despite numerous factors that might hamper collaboration between the two actors, substantial amounts of research indicates that it is essential to establish a cooperative and healthy relationship in order to maximize the success of the VC backed venture. (Shepherd & Zacharakis, 2001; Cable & Shane, 1997; Timmons & Bygrave, 1986). Timmons and Bygrave (1986) supported the importance of a cooperative relationship by arguing that such a relationship is in fact more important than the investor's capital itself (Timmons & Bygrave, 1986). If cooperating, VCs contribute with their networks to effectively secure funding, provide credibility to the venture, and by finding suppliers and customers, while the specific knowledge of entrepreneurs concentrates on recognizing and exploiting overseen opportunities, combining resources, and the day-to-day development (Cable & Shane, 1997).

2.3 Knowledge Exchange between Entrepreneur and VC

As highlighted by potential information asymmetry between the two parties, knowledge exchange between entrepreneur and VC is a crucial dimension for determining the potential of their relationship. Ideally, the parties should possess complementary expertise, as it will promote a learning relationship. As one might expect, knowledge exchange is dependent on an effective means of communication (De Clercq & Manigart, 2007). Therefore, communication is a determinant for achieving a successful partnership in which both parties benefit from the collaboration (Mohr & Spekman 1994; Collewaert & Sapienza 2016). For that reason, knowledge exchange, information sharing, and communication are used interchangeably in this study. If considering the definition of communication provided by the Cambridge Dictionary "the process by which messages or information is sent from one place or person to another, or the message itself." the need for two opposing parties to engage in communication is highlighted (Cambridge Academic Content Dictionary, n.d.). In practice, communication can take various forms such as e-mail, voice memos, and phone calls. It can also require the physical presence of two parties through board meetings or other formal face-to-face meetings (Fritsch & Schilder, 2008).

The broad term communication can be divided into different subcategories such as the quality of information, level of sharing, and participation in joint planning. In that respect, quality does not only refer to the credibility and sufficiency of information but also how well-timed the sharing is. Out of these three categories, Mohr and Spekman (1994) found communication quality as well as participating in discussions regarding planning to be central for a sound partnership (Mohr & Spekman, 1994). The importance of communication quality or more specifically, the influence of when the information was shared in the entrepreneur and VC relationship was further highlighted by Sapienza and Korsgaard (1996).

When considering the term communication, it is also of importance to highlight that entrepreneurs might be prone to use information as leverage in their relationship with investors. Withholding information, thereby actively denying knowledge exchange, is one way for entrepreneurs to retaliate against investors if they perceive that initial expectations of the investor were not met (Utset, 2002). In that sense, knowledge exchange is used as bargaining power. An argument further supported by Sapienza and Korsgaard (1996), stating that increased information sharing activities of an entrepreneur has a negative impact on the entrepreneur's power since the advantage of having valuable information gets diminished (Sapienza & Korsgaard, 1996). Therefore, one could argue that not disclosing information in order to gain a benefit is the opposite of transparent communication.

Finally, factors influencing the relationship between the entrepreneur and VC are greatly intertwined. For instance, Sapienza and Korsgaard (1996) argue that if an entrepreneur increases communication to investors, a greater level of trust will be generated which will ultimately decrease the VCs monitoring (Sapienza & Korsgaard, 1996). However, this phenomenon is dual-sided, as excessive trust may simultaneously have a negative impact on communication quality (De Clercq & Manigart, 2007). If considering the importance of knowledge exchange for the relationship between entrepreneur and investor, together with how it greatly influences process-like dimensions of the relationship, it is highly relevant to investigate how knowledge exchange impacts the relationship over time. Especially since Yitshaki (2008) argues that the degree of communication varies depending on which life cycle stage a venture is in, with more communication taking place in the initial stages (Yitshaki, 2008).

2.4 The Entrepreneur and VC Relationship as a Process

2.4.1 Goal Congruence

An additional factor that has to be taken into consideration when investigating the relationship between entrepreneurs and VCs, is the alignment of their individual goals. De Clercq and Manigart (2007) refer to the alignment of goals between two exchange partners as goal congruence and define the term as follows "Goal congruence refers to the degree to which two exchange partners hold common beliefs regarding their relationship" (De Clercq & Manigart, 2007, p. 29). Since the importance of aligning goals between the VC and entrepreneur in order to reach success for the venture is broadly proven in the literature (Sapienza & Gupta, 1994; Turcan, 2008, Cable & Shane, 1997), one could assume that both parties would strive towards a common goal. However, such alignment within an investor and investee relationship is rarely observed (Cable & Shane 1997). Sahlman (1990) argued that even if both parties have access to the same information, they would still be likely to disagree (Sahlman, 1990). Even though aligning goals in the early stage of a relationship seems to be crucial for success, Politis and Gabrielsson (2009) argue that setting goals should be considered as a continuous process in order to cope with the highly uncertain environment of entrepreneurship (Politis & Gabrielsson, 2009).

When considering the Initial Public Offering (IPO) of a VC backed venture, for instance, the misalignment of goals between entrepreneurs and VCs becomes especially apparent. A VC might tend to take the venture public as early as possible to increase their reputation. Further, they might pursue actions to "dress up the bride" with the goal to reach a better bottom-line for the IPO by cutting expenses before selling the company (Zacharakis, Erikson & George, 2010). However, cutting expenses can have negative impacts on the long-term perspective of a company which then comes at the expense of the entrepreneur who might want to stay within the company for a longer period of time (Christensen, Wuebker & Wüstenhagen, 2009; Zacharakis, Erikson & George, 2010). In other words, there is a difference in growth ambitions with entrepreneurs promoting lasting growth and VCs focusing on early exits to maximize profits. This misalignment of goals and incentives expressed by the opposing parties might lead to tensions in their relationship which becomes even more critical when the operations are based in the high-technology market segment, where information asymmetry is higher (Turcan, 2008).

As a consequence, the underlying misalignment of goals between the VC and the entrepreneur might hamper the degree of information exchange which results in bad communication (Cable & Shane, 1997; & Zacharakis, Erikson & George, 2010). The negative impact on communication may ultimately end in a decrease of the VCs input (De Clercq & Manigart, 2007).

2.4.2 Commitment

Another important factor affecting the interaction taking place between the two parties is commitment. Morgan and Hunt (1994) defined commitment as the engagement in significant efforts of an individual to improve or maintain the relationship with another party. In other words, a committed individual believes in working on a relationship in order for it to endure indefinitely. One prerequisite for commitment in a relationship is that the relationship has to be considered as important. The presence of an ongoing desire to maintain the relationship is therefore crucial (Morgan & Hunt, 1994). Even though research regarding commitment concentrated largely on micro-interactions between peers within an organization, indications have been provided for the existence of commitment on an inter-organizational level (Mäkelä & Maula, 2006). The VCs commitment in that scenario manifests itself to the degree of how much energy and time the VC devotes to supply the entrepreneur with specific advice for their venture. Entrepreneurial commitment on the other side concentrates mainly on the actual efforts of supplying the VC with various information and reporting data about the performance of their venture (De Clercq & Manigart, 2007).

As VCs are rarely able to commit to the same degree to their portfolio companies, the investors tend to devote a larger portion of their time to those portfolio companies that are considered as successful (De Clercq & Sapienza, 2005). Through the VCs time allocation dilemma which is provoked by the various different task of securing additional funds, closing new investment deals, as well as managing the current portfolio, the ventures with stagnating performance are eventually not experiencing the same level of commitment as successful ventures do (De Clercq & Manigart, 2007; De Clercq & Sapienza, 2005). De Clercq and Fried (2005) further indicated that the more effort a VC dedicates to a venture, the higher the ultimate success of that venture will be (De Clercq & Fried, 2005).

The honeymoon phase can further be considered as an interesting phenomenon regarding the commitment in a relationship. According to Fichman and Levinthal (1991), the honeymoon phase refers to a phase in the early stage of a relationship that is characterized by a high level of commitment that eventually stagnates over time (Fichman & Levinthal, 1991). This phase of a relationship is further characterized by the excitement of an individual regarding first-time experiences in a new environment or surrounding (Black & Mendenhall, 1991). In an organizational context, this commitment might be associated with the initial capitalization of the firm which leads to temporary goodwill that blocks a clear judgment of the desired activities. In this temporary stage, referred to as the honeymoon phase, the relationship is shielded from negative outcomes (Fichman & Levinthal, 1991). The duration of this phase depends on the degree of commitment expressed by the engaging parties (Fichman & Levinthal, 1991). After the initial fascination begins to stagnate, the individuals are confronted with reality (Black & Mendenhall, 1991).

2.4.3 Trust

This study follows the definition of trust derived from social capital literature. Therefore, trust is defined as an individual's subjective belief on the likelihood of honest behavior expressed by a potential trading partner (Bottazzi, Da Rin, & Hellmann, 2016). Trust embedded in the context of a relationship between entrepreneurs and VCs has a significant impact on the degree of monitoring activities carried out by the investor as well as the probability of future investments (Sapienza & Korsgaard, 1996). This is emphasized by research from Manigart et al. (2002), demonstrating that trust has a considerable effect on the contractual agreements between entrepreneurs and equity investors from an entrepreneurial perspective (Manigart, Korsgard, Folger, Sapienza & Baeyens, 2002). Therefore, entrepreneurs that trust their investor are inclined to accept a contract that strongly favors an investor in terms of control, meaning that a high level of trust compensates for a low degree of control. Furthermore, trust makes collaboration between the two parties easier, as agency costs decrease (Manigart et al. 2002). In addition, trust also increases the likelihood of an investor promoting the entrepreneur to others which will enable new relationships with for example producers and consumers (Sapienza & Korsgaard, 1996).

On the other hand, Manigart et al. (2002) further argue that the willingness of entrepreneurs to sacrifice control early on, due to trust, might have a negative impact as the relationship develops. Giving up control will most likely increase an entrepreneur's expectations of returns, later on, ultimately promoting retaliation if expectations are not met (Manigart et al. 2002). Klabunde (2013) refers to this as “Trust serves as a way of forming expectations when the future is highly uncertain” (Klabunde, 2013, p.5). If retaliation occurs, it can be in the shape of not sharing information or intentionally slowing down company growth (Manigart et al. 2002; Utset, 2002).

An indication that trust might correlate with venture performance was brought up by Klabunde (2013) by her stating trust might vary with the interest payments an investor receives from an entrepreneur (Klabunde, 2013). Thus, as the venture does not show anticipated performance, the trust might decrease which could ultimately lead to a termination of the relationship (Klabunde, 2013). Additionally, it was stated by De Clerq and Sapienza (2001) that trust might correlate with a commitment to the extent that decreased trust could lead to a decrease in commitment (De Clerq & Sapienza, 2001)

Despite the advanced understanding of trust, Bammens and Collewaert (2014) encourage future research to investigate how trust between exchange partners can be maintained over time and how this factor interacts with other related constructs (Bammens & Collewaert, 2014). This study attempts to contribute to this gap in research by providing qualitative insights that provide indications for the development and interrelation over time.

2.5 Chapter Summary

As emphasized throughout the chapter, the relationship between the entrepreneur and VC should be viewed as a complex matter. Immediately as the two parties engage with each other, there are several aspects that favor uncooperative behavior. As the relationship matures, interactions are greatly influenced by a wide range of relational factors highlighted by De Clercq and Manigart (2007). Dimensions of communication will dictate the amount and quality of exchanged knowledge, while goal congruence, commitment, and trust are key factors when considering the relationship as a continuous process. However, despite efforts to separate the factors in theory, there are indications of interrelations that remain to be investigated in practice.

The following chapter will account for the methodology behind this investigation of using the relational factors suggested by De Clercq and Manigart (2007) as a framework for examining how the entrepreneur-VC relationship develops over time.

3 Research Methodology

The purpose of this chapter is to outline the methods that will be used in order to present and analyze the process of how a relationship between entrepreneurs and VCs unfolds over time. Firstly, the argumentation for the usage of a qualitative approach is presented. Thereafter, the reasoning regarding the composition of this study's interview population is justified. Subsequently, it is described how data was collected. Afterward, the way of presenting and analyzing the data is elaborated. The chapter ends by highlighting limitations regarding the research methodology of this study.

3.1 Research Design

To investigate the dynamics of the relationship between entrepreneurs and VCs, this study gathered in-depth data by conducting qualitative interviews with founders of VC backed ventures. In general, a qualitative study is a useful approach when investigating the reasons behind certain actions or situations and how they impact the behavior of parties involved (Bickman & Rog, 1998). For this reason, a qualitative approach is most suitable to demonstrate the complexity of relational factors. It allows for an in-depth understanding of why these factors changed over time and how they affected the relationship.

A qualitative study can be considered a constantly ongoing process, as each interview may provide additional information influencing the original design. Therefore, a qualitative research method requires flexibility (Bickman & Rog, 1998; Gioia, Corley & Hamilton, 2013). As proposed by Gioia, Corley and Hamilton (2013) flexibility is enabled by adapting a semi-structured interview approach. Semi-structured questions enable the interviewees to reflect upon their current and past situations, engaging them in the interview, and facilitating the extraction of as much information as possible (Gioia, Corley & Hamilton, 2013).

In order to make the interviewee reflect on how the relationship developed over time, interviewees were asked to create a timeline from contract signing until today or until the termination of the relationship by the exit of the VC. On this timeline, interviewees mapped out critical events that impacted the relationship. The interviewee then had to analyze each event in terms of its impact on knowledge exchange, trust, goal congruence, and commitment. In that sense, it was a longitudinal study based on retrospective reflection. Berg-Utby, Sørheim and Erikson (2007) conducted a study with a similar approach, asking interviewed entrepreneurs at a single occasion to reflect on how a relational factor has changed the relationship with a VC over time (Berg-Utby, Sørheim & Erikson, 2007).

3.2 Data Sampling

This study focuses on the entrepreneurial perspective in the relationship between the entrepreneur and VC. As argued by Brettel, Mauer and Appelhoff (2013), demonstrating the entrepreneurial point of view in an investor relationship contributes to the literature that otherwise mainly measures the success of a relationship through venture outcome (Brettel, Mauer & Appelhoff, 2013).

This study acknowledges the underlying heterogeneity among entrepreneurs that derives from a tremendous variability regarding motivations, ideas, and backgrounds of the founders that embark on their entrepreneurial journeys (Davidsson, 2007). The data sampling of this study will, therefore, be restricted by certain criteria, such as the focus on VCs as external and formal capital providers, by concentrating on European high-technology ventures, and by considering firms that have been financially backed for a minimum of 2 years. Landström (2017) argues that in order for capital to be defined as venture capital, specific criteria have to be fulfilled. This study acknowledges those criteria and therefore strictly includes data that derives from companies backed by VCs that provided capital in exchange for equity, hold minority ownership in the venture, and are considered as temporary as well as active partners (Landström, 2017).

An additional inclusion criterion for this study is the high-tech operating context of the entrepreneurial venture, which is a typical investment sector for VCs (Colombo & Grilli, 2010; Carpenter & Petersen, 2002; Cumming & Johan, 2008; Turcan, 2008).

Most importantly, high-tech companies are exposed to substantially higher information asymmetries between founder and external investors than companies from other sectors (De Clercq & Manigart, 2007). The rapid and dynamic environment and resulting difficulties in evaluating the firm exposes insiders to better and more frequent information than outsiders (Carpenter & Petersen, 2002). Hence, the high-tech sector is relevant for this study as the importance of information sharing can be considered high in this fast-moving sector.

Since this study examines changes in relationships over time, it is further important to define a timeframe in which the relational factors are investigated. According to Landström (2017), the time span from the initial investment to the exit of the VC is between 4 to 8 years (Landström, 2017). Considering that timespan, the engaging parties have up to 8 years to build and maintain a stable relationship. Changes in a relationship over time can be demonstrated by using the life-cycle model (Blut, Backhaus, Heussler, Woisetschläger, Evanschitzky and Ahlert, 2011). The commonly used life-cycle stage model suggests that an evolving relationship can be divided into four stages: 1) formation 2) exploration 3) maturity and 4) termination (Dwyer, Schurr & Oh, 1987). Whereas one can expect the properties of a relationship to be the highest in the maturity stage (Blut et al. 2011). However, even though this framework helps to extend the current understanding of relationships, it lacks conceptual details (Dwyer, Schurr & Oh, 1987). Due to the complexity and lack of conceptual details regarding the life-cycle model, we argue that the duration of different life-cycle stages differs between individual relationships. Therefore, it is difficult to pinpoint an exact timeframe during which the relationship between the entrepreneur and VC reached the maturity phase. Considering the investment horizon of VC, interviewed entrepreneurs of this study were backed for at least two years by their VC. This timespan ensures that the relationship is not diluted by the initial honeymoon phase which is characterized by an increased commitment in the early stage of a relationship but, at the same time, leaves enough time for the relationship to mature (Fichman & Levinthal, 1991).

Furthermore, this study only includes the founders of entrepreneurial ventures. It is important to distinguish between founders and non-founders when considering an investor relationship due to the following differences that have important implications for the relationship with their VC investors. Firstly, founders are more likely to own a greater amount of shares in the company compared to professional managers (Nelson, 2003). This leads to more seats on the board of directors, resulting in more control of the company (Wasserman, 2003).

Secondly, founders have typically invested a substantial amount of their personal wealth into a venture, a personal investment that increases bonding between founder and venture (Arthurs & Busenitz, 2003).

Finally, the founders engage in the process of crafting the company's vision and building infrastructure around it, whereas professional managers join the venture after this initial founding stage. Therefore, the identity of founders is tightly linked to the venture in comparison to managers that joined the organization in a later stage (Wasserman, 2003).

3.3 Data Collection Method

Through public databases, LinkedIn and personal networks, 6 founders of entrepreneurial firms were accessed that had been financed by VCs for a minimum of 2 years. The firms were located in Sweden, Germany, and Finland. As illustrated by the semi-structured interview guideline (Appendix A), the questionnaire was separated into three subsequent segments of questions. After providing the interviewees with a brief introduction to the topic as well as presenting the scope of this study, interviews began with general questions, followed by questions about their choice of financing and finalized by questions about the relationship between the interviewee and their VC investor. General questions were asked in order to obtain a comprehensive understanding of the entrepreneur's underlying incentives, business idea, as well as the ventures operating industry. The following questions were mainly concerned with the entrepreneur's decision to choose a VC investor over other capital providers. Questions were formulated in a way that verifies if their VC investor meets the requirements defined by Lanström (2017) regarding investment horizon, minority or majority equity position and if the VCs are being an active or passive investor. The third segment focused on asking questions specifically related to either knowledge exchange or process-like factors, during which the interviewee had to reflect upon topics in retrospect. He or she was asked to highlight events that had an impact on their relationship, in relation to these factors.

Due to the COVID-19 pandemic, interviews were conducted by using the online communication tool Zoom. While some interviewees preferred not to activate their camera during the online meetings, other interviews were conducted with digital face-to-face communication by using Zoom’s integrated video-function.

Data collection from interviews that were conducted without the integrated video function is therefore limited to the choice of words and tonality of the interviewees. On the other hand, data from interviews that were conducted with the video function further allows us to collect additional data about gestures, posture, and mimics. All the interviews were conducted in English.

3.4 Data Analysis and Presentation

In this study, transcripts of semi-structured interviews comprised the analyzed data which is a common way of collecting data for qualitative studies. As a result, it is often difficult to separate data from the processes of analyzing it while conducting qualitative research. Both during the collection and construction of data, the individual researcher has a lot of influence on what is to be considered as data and why (Corbin & Strauss 1990; Thorne, 2000). With that in mind, this study adapted a data analysis concept suggested by several scholars but with a few changes. In principle, the original concept consists of several separate parts: data immersion, coding of data, generating categories based on these codes and finally relating categories to common themes (Green, Willis, Hughes, Small, Welch, Gibbs & Daly, 2007; Gioia, Corley & Hamilton, 2007) The first part, immersion, can be considered as an in-depth examination of the transcripts by reading them over and over again. The following coding is about translating specific segments of the text to representative labels, in that way organizing the text. The aim of the third part, generating categories, is to link codes with each other and create a representative category. The fourth and final step of the analysis, identifying themes, aims to explain several categories by correlating them to a common theme (Green et al. 2007). Although, since this study uses predetermined content- and process-like relational factors as a framework, we assigned them as categories.

In practice, the authors individually did an in-depth analysis of each transcribed interview, coded them, and ascribed each coded segment to the predetermined categories. In the final step, identifying themes, the findings were jointly analyzed in relation to a timeline of each venture. On this timeline, it was mapped out how each relational factor changed over time based on findings from the interview. When all factors had been individually analyzed, the authors investigated if there was any common pattern in between factors.

Data is presented jointly, with the exception that findings from interviews with six entrepreneurs have been separated into two groups of three. After analysis, a pronounced difference emerged between entrepreneurs with regards to their interaction with the VC at the beginning of the relationship. This difference seemed to play an important role in the continuous development of their relationship. Thus, jointly presenting data divided into two groups, improves readability, and facilitates answering the research question. To keep the identity of the interviewees of this study confidential, names were replaced with numbers between 1 and 6. While Group 1 consists of entrepreneurs 1, 2, and 3, Group 2 refers to entrepreneurs 4, 5, and 6. In addition, if mentioned, the names of co-founders or VC firms have been left out.

3.5 Limitations of Study

This qualitative study of the relationship between entrepreneur and investor, is not without known limitations. First of all, this thesis acknowledges that investigating this relationship from only one perspective in the entrepreneur - VC dyad is not an optimal representation of its complexity. As emphasized by Huang and Knight (2017), the flow of resources between the two parties is bi-directional and a comprehensive analysis should take both parties into account (Huang & Knight, 2007). However, research by Collewaert (2012) indicates that the difference between entrepreneur and investor in terms of perceiving conflict in a relationship, might not be as great as previously believed (Collewaert, 2012). In addition, we argue that it is beyond the scope of this master thesis, due to a considerable time limitation, to investigate the relationship from both the perspective of entrepreneur and VC.

Furthermore, investigating how a relationship has developed over time by conducting interviews at a single occasion, is a considerable limitation. When relying on entrepreneurs to be reflective in retrospect, there is always a recall bias (Zott & Huy, 2007). Especially since the timespan of the relationship between the different entrepreneurs and their VC investors was between two years for Interview 3 and fifteen years for Interview 6. However, with regards to conducting a longitudinal study at one occasion, the approach has been adapted by previous scholars (Berg-Utby, Sørheim & Erikson, 2007).

Another limitation of this study is the relatively small sample size of six interviews which has an impact on generalizability. Generalisation of a qualitative study derives from developing a theory that holds the potential to be extended to other cases. This analytical approach is contrasting the statistical generalization and hence allows the study to be based on a small population when compared to quantitative approaches (Maxwell, 2008). Therefore, a consensus about the sample size of study is difficult to find since it is strongly context related (Malterud, Siersma & Guassora, 2016).

However, this study acknowledges that a small sample set of six interviews is suboptimal. Furthermore, using a sample of entrepreneurs from several different countries (Sweden, Germany, and Finland) might also have an impact on generalizability. The ongoing Covid-19 pandemic had a considerable impact on access to entrepreneurs in general.

As mentioned in the introduction of this thesis, it has to be acknowledged that this study concentrates on the relationship between entrepreneurs and formal VCs and that the findings can not be transferred to other forms of external capital providers. This is due to the differences in characteristics of different capital providers that have an important implication for the development of the relationship with their investees (Huang & Knight, 2017).

4 Results

In this chapter, findings regarding how the relational factors knowledge exchange, goal congruence, commitment, and trust developed individually over time in a relationship between entrepreneur and VC are presented. To facilitate presentation and communication of findings, data from interviews with six entrepreneurs are presented jointly but divided into two sets based on the similarity of their respective relationship with a VC. Group 1 refers to Interview 1, 2, and 3 while Group 2 represents Interview 4, 5, and 6. Presented data aims to separately display the development of these factors in a longitudinal manner, one by one, drawing inspiration from the life-cycle model proposed by Dwyer, Schurr & Oh (1987). With the exception that the first two stages, formation, and exploration, are merged into one. Therefore, the evolving relationship between entrepreneur and VC has been divided into formation, maturation, and termination for the purpose of data presentation. Termination refers to the present time, at which the interview was conducted, or when the investigated firm made an IPO.

4.1 Knowledge Exchange

4.1.1 Formation Phase

According to our data, the early-stage relationships in Group 1 are characterized by active and transparent communication (Interview 1, 2, 3). Active in the sense that all entrepreneurs engaged in substantial information sharing with their investors from the very beginning. Transparency was demonstrated by a willingness to disclose all information, a phenomenon especially portrayed by one of the entrepreneurs (Interview 2). This entrepreneur did not only exchange knowledge about the business but was also fully transparent regarding personal incentives behind starting a company.

"And of course, we always we interact with, with the VCs as much as possible in the beginning" - Interview 1

"After he invested I shared much more you know, naturally of course" - *Interview 3*

"I think one of the reasons why it has been really transparent is that before, before the VC invested in us, me and the other owners took help with writing something called Ägarvilja: what we truly wanted ... So we invited them [the VC] to do this just before the transaction." - *Interview 2*

When comparing the findings from Group 1 to Group 2, contrasts emerge. As the early-stage knowledge exchange in Group 1 was characterized by active and transparent communication, Group 2 indicates varying data. One entrepreneur (Interview 5) did not prioritize information sharing with the VC, instead, a rather passive approach was adapted. As a result, there was a lack of transparency between entrepreneurs and investors. Another entrepreneur participated in more active knowledge exchange at first, however, this phase quickly came to an end, and communication stagnated (Interview 4). The third and final entrepreneur of Group 2 (Interview 6), also experienced active information sharing but perceived it as more of a one-sided dialog between firm and VC from the beginning.

"You are not that confident in your communication ... So the way of communicating is more in a passive way ... There's no transparency." - *Interview 5*

"Maybe almost weekly updates. That was probably the first month you know, you when we were happy about the cap ... Then you kind of come into the more stagnated face where you know ... maybe a conversation of like twice a month" - *Interview 4*

"They were like, we want this: buff buff buff buff. Less of dialogue and less of like, let's sit together and discuss it." - *Interview 6*

4.1.2 Maturation Phase

After the initial phase of a relationship, during which the two parties get to know each other, it is of interest to investigate how entrepreneurs and VCs handle challenges that might arise with respect to their relationship.

If considering the development of knowledge exchange with regards to Group 1 at first, there seems to be a trend of continuing to value transparency as a crucial aspect of communication. All of the entrepreneurs emphasize its importance, highlighting that there is no gain in keeping information from the investor.

"I will say that that transparency has to follow, even though questions are being sent back and forth." - Interview 1

"But I think once the investors are in the company, there is nothing to be won. There is not really that much to be won with, with trying to withhold information because they are going to find out the information anyway if they want to" - Interview 3

The level of knowledge exchange does not seem to be compromised even if the firm is facing a great challenge (Interview 1), as the entrepreneur prioritized to inform the VC as quickly as possible. Instead, an event with a positive impact on information sharing was highlighted by another entrepreneur (Interview 3). This entrepreneur explained how the entry of a VC representative on the board, a year into the relationship, increased the level of information sharing.

"The first thing we did was to inform the VCs that okay, you have seen the deal that it's signed, but something happened. It's not on our side, we have done everything right." - Interview 1

"This VC joined our board right away when they invested in us, but their partner became the chairman of the board last year and that has significantly raised the amount of information that we share between each other. So he is much more active and much more effort towards him in terms of information sharing." - Interview 3

The entrepreneur who started the relationship with writing an informal contract about the personal incentives of both parties (Interview 2), continued with this approach as the relationship evolved in order to promote transparency. Once a year, the entrepreneur and the VC took in a professional mediator to initiate an open discussion between the two parties thus making sure that everyone understands the current situation and is prepared for the future.

As a result, the entrepreneur did not experience any drastic changes in communication as the relationship progressed.

"He [the professional mediator] is helping companies and the founders of companies to come together once a year and everyone speaks really from the heart, what do they want?... now the VC has to be a part of this once a year" - Interview 2

Taken together, data from Group 1 demonstrates how knowledge exchange was either maintained at a high level as the relationship with their respective VC progressed (Interview 1, 2) or an event took place which had a significant positive impact on the level of information sharing (Interview 3). If considering Group 2, data indicates an interesting finding regarding knowledge exchange. For Interview 4 and Interview 5, the degree to which the entrepreneurs and their VC communicate seem to be linked to venture performance. For one of them (Interview 5), poor venture growth triggered a period of more intense communication between the two parties. The other (Interview 4), also emphasizes that the degree of knowledge exchange has been going up and down dependent on performance.

"We had that emergency meeting, we had regular updates, we reported on a weekly basis, then for a few months, and it got better." - Interview 5

"So it's been like a little bit of a roller coaster." - Interview 4

However, the third entrepreneur of Group 2 (Interview 6) provided insights into a critical event with regard to knowledge exchange that occurred a few years into the relationship. After a series of conflicts, a VC representative made an effort to explain to the entrepreneur how VCs operate.

"He actually took me aside after a couple of years. And we spent like two days together, where he really really explained how the VC companies work, how the logic is, how they are funded, why the contracts look as it looks, etc. And after that, that is when I understand how the VC companies work and operate." - Interview 6

This event provided the entrepreneur with in-depth knowledge that would come to affect the future relationship with the VC. It elevated the level of information sharing, with respect to mainly information quality, as the entrepreneur demonstrated that the two parties could now understand each other to a greater extent. In that respect, there is a similarity between this event and the early knowledge exchange between an entrepreneur of Group 1 (Interview 2) and their VC. Both entrepreneurs shared knowledge with their investors that was crucial for the future understanding of the relationship.

"You shouldn't be VC funded unless you understand how the VCs think and operate. Because we got paranoid before, we thought whatever they suggested wasn't in our benefit. We didn't see their side. " - *Interview 6*

4.1.3 Termination Phase

For entrepreneurs of Group 1, knowledge exchange either increased over time or it was already on a relatively high level to start with. One entrepreneur, who started the relationship with very high and active knowledge exchange, prioritized direct and honest communication with his VC as the relationship developed over time. This individual always ensured that the VC had access to the most recent and relevant information. As the founder reflects on the knowledge exchange activities in retrospect, it becomes apparent that the intensity has not changed and maintained on an advanced level throughout their relationship (Interview 1).

"As soon as we stumble into something that might cause problems, we always communicate this to the VCs. So they always have first hand information about everything, even before it has actually becomes a real problem if there is a problem." - *Interview 1*

For another entrepreneur, transparency in the knowledge exchange processes played a major role. As the relationship developed over time, both parties held regular meetings with the incentive to promote transparent and honest communication (Interview 2). The third entrepreneur (Interview 3), highlighted a critical event that enabled an already high level of knowledge exchange to increase over time. Knowledge exchange with the VC is now on a level where the entrepreneur shares every important information while the VC supplies the company with relevant information (Interview 3).

"And they provide a lot of context, a lot of information, a lot of sort of, a lot of survey information that they get from elsewhere" - Interview 3

"So I with with the current investors, I share everything with of course"- Interview 3

While the knowledge exchange in Group 1 either maintained on a high and active level or steadily increased over time, findings from Group 2 deliver contrasting results. When concluding the level of knowledge exchange expressed in Group 2 over time, it becomes apparent that it seems greatly dependent on venture performance (Interview 4, 5). One entrepreneur (Interview 5) started off with an insecure and passive way of communicating, with the level of knowledge exchange increasing due to a state of emergency in terms of venture performance. Having the entrepreneur reflect on the degree of knowledge exchange in the relationship in a longitudinal matter shows that as the venture gained traction, the amount of knowledge exchange increased simultaneously. Therefore, even though there were a lot of fluctuations throughout the relationship the entrepreneur increased the level of knowledge exchange compared to the early-stage relationship. However, reflecting upon previous experiences, the entrepreneur stated that VCs do not add any value (Interview 5).

"In the first two and a half, three years, we shared a lot less ... These days I can show a lot of KPIs because they look very nice ... So the amount of information I've shared increased significantly over time." - Interview 5

"After six years in the business, I would not say that a VC can add value" - Interview 5

Regarding a second entrepreneur of Group 2 (Interview 4), the relationship started off with high knowledge exchange which decreased quickly. Comparable to Interview 5, as to how the relationship developed over time, the degree of knowledge exchange seems to be dependent on venture performance which led to less frequent communication in stagnating phases. This entrepreneur also stated that the company never received anything valuable from the VC that helped the business when reflecting on the relationship in retrospect (Interview 4).

"I have never got presented to like a you know sales people like contact persons where I can gain business out of my VC, never." - Interview 4

For the third entrepreneur of the group, knowledge exchange between firms and VC increased over time. It started off formally in the early stage of their relationship but as the two parties got to know each other, the communication got better. The critical event in which the underlying VC logic was explained to the entrepreneur by a VC representative eventually facilitated this transition. Therefore, having the individual reflect upon the amount of knowledge exchange over the course of the relationship suggests that it was more active and more efficient in the end compared to an early stage (Interview 6).

"Interviewer: There was basically a learning you had throughout the time where you started off with communication, very formal, over board meetings, and then over time, as you learned to get to know each other, like communication changed, and got better and better. Was that something you could approve? Interviewee: That's a good summary!" - Interview 6

"if you know at least where the other guys are coming from, then you can meet half-way. If you don't know that, then you don't even know what half-way means." - Interview 6

Interestingly, according to the interviews of this study, the majority of the entrepreneurs did not use their privileged access to information as leverage to increase their bargaining power over VCs. Even though one entrepreneur mentioned that withholding information can be considered as a common strategy for entrepreneurs before initiating a relationship with an investor, he further suggested that as soon as the VC invested an entrepreneur should share every detail so the VC can help the company in a right way (Interview 3). This was further supported by insights that there is no specific information that should be withheld since the entrepreneur would rather get the VCs feedback on the information that was shared (Interview 5). Furthermore, as stated above other entrepreneurs generally mentioned that transparency and honesty in the knowledge exchange process is one of the most important values (Interview 1, 2).

"So with the current investors, I share everything of course. With investors that I'm trying to get to invest in the company, I don't share everything. So that's clear. But I think once the investors are in the company, there is nothing to be won with trying to withhold information ... But withholding some information from a potential investor is, you know, that's just normal game." - Interview 3

"But there's apart from that I'd say nothing very specific that I would keep for myself, I'd rather be open. Because I feel that it's better to get feedback on it then, I wouldn't lie ... rather share more and get feedback then keeping information to yourself." - Interview 5

4.2 Goal Congruence

4.2.1 Formation Phase

Previously working for a VC firm seemed to have helped one entrepreneur to understand the consequences of receiving VC funding, from the beginning (Interview 3). The two other entrepreneurs (Interview 1, 2) did not demonstrate a personal understanding before the relationship. However, both of them engaged in planning activities with their VC investors in the form of setting up a detailed 100-day plan (Interview 1) and initiating a discussion with the intention to align professional as well as private goals (Interview 2).

"I think for us, I mean, and I of course hope that this is for everyone that raises VC funding, that they understand what they're getting into when they do take VC money in the company. I, at least personally, know what it means."- Interview 3

"We together can design these 100 days to be a good start. And then everyone knows that business will change a bit." - Interview 1

"We describe the goals we saw with our firm, and they described the goals they have with the VC firm." - Interview 2

Again, Group 2 displayed dissimilarities when compared to Group 1 since the latter indicates a high goal congruence (Interview 1, 2, 3), while Group 2 shows tendencies of a misalignment of goals at the start of their relationship (Interview 4, 5, 6). One entrepreneur stated that goals and interests are generally not aligned while another mentioned that the entrepreneur frequently formulates goals that are too optimistic (Interview 4, 6). The third entrepreneur of the group explains this difference between the two parties as a result of different perspectives.

Reporting to VCs promotes a focus on actions that bring short term profits, that are not always the best for the business long-term. Therefore the goals of the entrepreneurial firm and the goals of the VC often do not align (Interview 5).

“You always overshoot it [the goals]” - Interview 4

“you’re looking at a short term decision to earn money, and not always at the, okay, what’s the best thing for the business. So yes, I think that the two things here clash ... You have a lot of short term orientated decisions because it’s like the stock market. It’s about the next monthly reporting”. - Interview 5

4.2.2 Maturation Phase

To present data on how goal congruence changed over time, comparing the early stage of the relationship between entrepreneur and VC to a more mature stage, we begin by considering Group 1. The two entrepreneurs who decided upon common goals with their VC at the beginning of the relationship (Interview 1, 2), continued with this process as the relationship evolved as well. The details of the process were highlighted in one of the interviews, demonstrating the use of well defined short-term goals (Interview 1). This strategy also made sure to reduce future confusion or even conflict (Interview 2).

“We had some [goals] for every financing round. We set up some, I would say work related goals. It's not goals in terms of, they're not quantified, it's about during a period of 100 days, you will achieve 12345 tasks, then exactly how they are performed, that is something for the team.“ - Interview 1

“The first one is that this annual this annual meeting, we have with all the shareowners, which I talked about, when we sit down and talk about our personal and business goals.” - Interview 2

“So it's hard to come up afterwards and say that someone didn't like the goals as long as everyone was fully transparent, which I think everyone was.” - Interview 2

The third and final entrepreneur of Group 1 (Interview 3), who started off with the previous experience of the VC operating logic, did not experience any changes in terms of goal congruence as the relationship progressed. Taken together with the other entrepreneurs of Group 1, so far they all manifest a strong alignment of goals between them and their investors that have not changed since the start of the relationship.

“The goals were aligned at all time” - Interview 3

For Group 2 on the other hand, it seemed to be a continued disharmony derived from misalignment of goals between entrepreneur and investor (Interview 4, 5, 6). Interviews with entrepreneurs of this group, highlight that the misalignment became more apparent at times of stagnating venture performance or during the transition into a new life cycle stage. Two entrepreneurs either perceived the VC to hold them wrongfully accountable for long term goals that were set several years earlier (Interview 4) or not striving towards the same end goal anymore (Interview 5). The third and final entrepreneur experienced a conflict several years into the relationship, due to several strong wills without a shared understanding (Interview 6).

“They [the VC] just look at the presentation that the entrepreneur did and 2 years later they say: well, well, we are a little bit behind on our goals so how is it going?” - Interview 4

“I bet that internally we were at one euro. The investment was written down to one euro two years ago. I don't think we were in the books anymore. So the focus of the people is just going down. And at the same time, I had the same interest.” - Interview 5

“It became a lot of friction when we were supposed to do time to market. And everyone wants to do different things. And so it became quite conflicted.” - Interview 6

4.2.3 Termination Phase

The entrepreneurs in Group 1 experienced a high goal congruence (Interview 1, 2, 3). Two of the entrepreneurs (Interview 1, 2) engaged in joint planning activities at the beginning of their relationship with their investors, aligning goals from the start. Since both entrepreneurs continued to align their goals through the progress of their relationship, the goals were aligned over time (Interview 1, 2).

Even though the third entrepreneur did not engage in joint planning activities, the goals between the two parties seemed to align throughout the whole relationship (Interview 3).

"We've been aligned on what the goals are the whole time." - Interview 3

The alignment of goals between Group 2 and their investors over time, has not been as harmonic as for Group 1. Entrepreneurs of Group 2 state that the interests of the two parties do not align in the early stage of the relationship, as a result, aligning goals was not facilitated over time (Interview 4, 5, 6). One entrepreneur states that VCs are focused on growth and making profits instead of creating healthy companies (Interview 4). When another entrepreneur reflected upon the relationship (Interview 5), a similar standpoint emerged as the interviewee stated that the company would have been managed differently if it would be funded by the individuals private capital in contrast to venture capital (Interview 5). Therefore, when the entrepreneurs reflect upon the alignment of goals over the course of their relationship in retrospect, it becomes apparent that the goals between entrepreneur and VC did not align (Interview 4, 5, 6).

"When they buy into the idea, they buy into the growth too fast, then they get disappointed, they focus too much on the growth. They all want that 3X, 3X, 3X. To double up their money. They should focus a lot more on creating healthy companies with the amount they sat in." - Interview 4

"So I think we took a lot of decisions that, um, throughout the time if I, um, if it would have been my money, and I would have said, Okay, I want to build a business that's sustainable and long term, and so on. I would have taken different decisions. But now you need to think about the next reporting like also moving numbers in between months and whatever." - Interview 5

"It got easier, but I mean, the interests are not aligned." - Interview 6

4.3 Commitment

4.3.1 Formation Phase

The relationship between the VCs and interviewees in Group 1 started off with a high commitment. Especially one entrepreneur showed an exceptionally high commitment and willingness to deliver information, from the very start of the relationship (Interview 1). This entrepreneur further optimized the interactions in a way that all of the co-founders have constant interaction with their VC investor. This level of commitment had the purpose to indicate the skills and professionalism of their company. It is further stated that besides the efforts this entrepreneur committed to the relationship, the companies VC has also shown commitment in a form of supporting the CEO with information as well as being active on their board meetings immediately after they invested in the company (Interview 1). Another entrepreneur provided indications that their VC investor was committing to the relationship by acting as a professional board member and by providing insights regarding business development (Interview 2). Interestingly, the founders within Group 1 talked a lot more about the entrepreneurs' side of commitment rather than about the VCs contribution to the relationship when asked neutral questions about the topic (Interview 1, 2, 3).

“We did divide the work internally so that all of the founders have some interaction with the VCs, a show that we're doing stuff professionally, that we are skilled that we are fast in what we are doing ... We started out with a very high commitment and wanted to deliver a lot more information and more structured information.” - Interview 1

“So they are not active in terms of operations. Okay. But they're definitely active in terms of being good support to the CEO. And being very active in terms of board meetings being active in terms of decisions and stuff like that” - Interview 1

“We were really looking for a professional board and someone that could help us build a business, that was the case. So, and for us it has been a great match” - Interview 2

All entrepreneurs in Group 2 had in common that they experienced a high commitment from their VC in the beginning of their relationship (Interview 4, 5, 6).

One of the entrepreneurs referred to this period, after contract signing during which the VC is very active in their involvement with the firm, as “the honeymoon phase”. Indicating that commitment promptly decreases once this phase is over (Interview 5). While Group 1 mainly emphasizes the commitment they as founders have shown, interviewees of Group 2 were mainly focusing their answers on the commitment their VCs have shown (Interview 4, 5, 6).

“So we started off in a honeymoon phase. If you're a new investment, they are with you all the time and they look at what you're doing and so on.”- Interview 5

“They were very eager when they invested.” - Interview 4

“Tech-investors are always active.” - Interview 6

4.3.2 Maturation Phase

Data regarding the relational factor commitment indicates that both groups of entrepreneurs, Group 1 and 2, experienced an increase in commitment from their VC during certain scenarios as their relationship developed. In that sense, it did not matter if commitment was maintained on a high level from the beginning (Group 1) or if a honeymoon phase occurred during which commitment decreased as the relationship matured (Group 2). However, there seems to be a difference between the groups in terms of how the entrepreneurs perceive timing and intentions behind the increased commitment. Entrepreneurs of Group 1 emphasize, in a rather positive manner, that their VCs were there for them when they needed assistance.

“But then 2019 was a more difficult year but at that point, the investors step up and actually started spending more time with us to sort of helping us through that.” - Interview 3

I say that it [commitment] has been going up and down. And what I think is really important is that when we need them, they have always increased.” - Interview 2

On the other hand, entrepreneurs of Group 2 generally experienced their VCs to mainly demonstrate commitment either when the firm was performing well or during a complete crisis. If the venture is in a stagnated growth phase or continues to not perform as expected, the entrepreneurs perceived a lack of commitment from their investor (Interview 4, 5).

One entrepreneur (Interview 5) felt that the VC did not commit to the venture, even though they were in a very challenging situation, eventually leading to a total loss of interest from the VC.

"Their commitment was similar to the information sharing, commitment is usually high in the beginning and with time it slows down and stagnates. When we get big events, then it gets interesting for the VC again." - Interview 4

"But basically, the reporting led to an emergency mode for two months where they got very active and said, so what's your solution to this? How do you need to approach this? And they tried to save the business somehow and then got very active and very involved and put a lot of pressure on us" - Interview 5

"We were trying to raise new money and that was very very challenging. And they realised that and we were kind of running out of money so they [the VC] lost the interest after basically two years" - Interview 5

4.3.3 Termination Phase

Consistent for all entrepreneurs in Group 1 was that commitment from the VC increased in times of critical setbacks or great challenges (Interview 1, 2, 3). When the three entrepreneurs reflect upon their relationship and how the level of commitment developed and changed over time, they state that they managed to create a close relationship with their VC and thus experience a high commitment of their VCs in retrospect (Interview 1, 2, 3).

"They are always open, they always respond to emails and phone calls, as soon as something happens they are eager to come up with advice and tips." - Interview 1

"I feel like I can always sort of pick up the phone and call, call our VC and ask for help. And I'll receive it." - Interview 3

In contrast, two entrepreneurs from Group 2 however experienced the commitment of their VCs to be largely dependent on venture performance (Interview 4, 5). When they reflect upon the level of commitment over the course of their relationship they state that the commitment of their VC is rather low to non-existent (Interview 4, 5).

However, the third entrepreneur states that the VC was committed to supplying the company with valuable insights throughout the relationship (Interview 6).

“It's like, we haven't gotten nothing from [the VC] when it comes to business or, you know, free help or something.” - Interview 4

“That's why I'm so negative about VCs at the end. They spent the time on making new deals and they spent very little time on their portfolio.”- Interview 5

“They were there. We had a lot of board meetings. We had like once a month or something like that. And they were committed. They were calling in between with ideas. They were pushing us to take the company in a different direction, sometimes bad but sometimes good.” - Interview 6

4.4 Trust

4.4.1 Formation Phase

The fourth and final factor is trust. The interviewees in Group 1 emphasized that there was a high level of trust between them and their VC from the beginning (Interview 1, 2, 3). One entrepreneur highlighted that the VCs relaxed approach and their intentions of a longer investment horizon promoted trust in the early stage of their relationship (Interview 1). Another entrepreneur went as far as interviewing other companies that received investments from their VCs before signing the contract in order to verify the claims the VC made (Interview 2). Therefore, the entrepreneurs in Group 1 started the relationship with a high level of trust and dedicated efforts to build a stable foundation for their relationship (Interview 1, 2).

“They are not the typical investor because they are a lot more relaxed. And also they build a lot of trust and they have longer investment periods ... That’s a huge difference in building a company.” - Interview 1

"And so we interviewed other companies that they made an investment in two or five companies ... So we really wanted to make sure that what these guys are saying is actually true." - Interview 2

When investigating the data from Group 2, it becomes apparent that the same trend can not be observed. While trust in one relationship derived from a shared background with the VC representative (Interview 4), another entrepreneur was not able to trust his VC (Interview 6).

"I have a relation to him before I took the money. I know him as a friend. I used to go to school with him when I was young, but that was many years ago. ... He could trust me. - Interview 4

"We got paranoid before we thought whatever they suggested wasn't in our benefit. We didn't see their side. ... It's not logic, it's VC logic, because they have their own logic. And we didn't get that. So we saw a bit of conspiracy" - Interview 6

4.4.2 Maturation Phase

Presented data regarding the fourth and final factor indicates that all entrepreneurs of Group 1 experienced an increased level of trust as the relationship developed (Interview 1, 2, 3). Trust either increased due to continuous contact with the investor (Interview 1, 2) or due to a conflict, after which it was elevated (Interview 3).

"I say that it increased because of the fact that the more we get in touch the more we get to know each other." - Interview 2

"But then after a while, you come into a phase where the investor, I'll say, you have full trust already." - Interview 1

"And this VC in particular, sort of stood on the founder's side of things the whole time. ... So that really brought me in that sense that really brought me even closer to closer to this, this sort of main VC. I believe, sort of feel that they have our back" - Interview 3

As for the other group of entrepreneurs (Group 2), data does not suggest any general trend in relation to trust. An interview with one of the entrepreneurs (Interview 5) suggests trust might be correlated to venture performance. Another Interviewee (Interview 4) highlights a specific conflict as important for promoting trust and the third entrepreneur (Interview 6) emphasizes that it has always been present throughout the relationship. Although, if comparing Group 1 and Group 2, both mention that dealing with conflict within the relationship had a positive impact on trust.

"When we weren't in a position of strength I would not know if they would tell the greatest stories about us when another VC would ask them" - Interview 5

"I think since I handle it [the conflict] pretty good right now, I gained a lot of trust again I would say." - Interview 4

"We always trusted" - Interview 6

4.4.3 Termination Phase

For the entrepreneurs in Group 1, trust generally increased over time (Interview 1, 2, 3). The entrepreneurs that started their relationship with a high level of trust eventually reached a level of "full-trust" or experienced that the level of trust increased over the course of getting to know each other (Interview 1, 2). When both entrepreneurs reflect upon their level of trust in retrospect one entrepreneur goes as far as referring to the VC investor as a "pal of the business" while the other entrepreneur expresses a strong level of trust between both parties. Therefore, trust played a major role in their relationships (Interview 1, 2).

"Think that honesty and transparency is the only way to build proper trust. And that and the VC that you're aiming to work with, happened to be the best pal of your business for as long as you are in it." - Interview 1

I'd say that [trust] it's extremely high. And trust was really like when I talk about values, I think trust this is one of the values that's really important for us" - Interview 2

In a situation of conflict during which the VC supported and defended the entrepreneur, trust increased in the relationship. This critical event may have strengthened the founder's trust in the investor, elevating mutual trust to a new level (Interview 3).

"So they sort of trust us completely regarding the business, for example" - *Interview 3*

Two of the entrepreneurs from Group 2 experienced trust to change according to how the venture performed over the years, perceiving a greater sense of trust from the VC with improved performance (Interview 4, 5). They further stated that conflicts that occurred over the course of the relationship had a positive impact on trust. Even though the level of trust was exposed to greater fluctuations over time when compared to Group 1, it eventually increased over time for the two entrepreneurs (Interview 4, 5). One interviewee (Interview 6) was paranoid that the VCs suggestions were not benefitting the entrepreneurs firm while also suspecting a conspiracy at the beginning of their relationship. However, reflecting upon the level of trust throughout the whole relationship, the entrepreneur says that every agreement was always honored and that trust was constantly present.

"I gained a lot of trust again I would say." - *Interview 4*

"These days I think they would tell the story of the guys that did not have a business model but survived anyways." - *Interview 5*

"We always trusted. I mean, I must say every agreement has always been honored in the spirit of what it was written for, by everyone." - *Interview 6*

5 Analysis and Discussion

As emphasized earlier, the theoretical view on the relationship between entrepreneurs and VCs developed over time was described by multiple models as research evolved and got more detailed. Despite the ongoing efforts to understand this complex phenomenon, research is still seeking answers regarding the longitudinal development of relationships and to which degree the predefined content and process-factors are intertwined and evolve over the course of a relationship. To contribute to this gap in research, this study is seeking answers to the research question: How do the relational factors knowledge exchange, goal congruence, commitment, and trust interrelate with each other as the relationship between entrepreneur and VC develops over time? To approach this question, the previous chapter presented the development of each individual factor over time while this chapter aims to demonstrate the interrelations of these factors. The major findings are separated into three subchapters.

5.1 Knowledge Exchange and Goal Congruence as a Foundation

If considering the presented relationships between entrepreneurs and their VC with the aim of investigating the interrelation between the relational factors, there is one aspect that separates the two groups of entrepreneurs in the formation phase. All members of Group 1 displayed a considerable understanding of their investor from the beginning, either through participating in transparent discussions or having previous knowledge about VC financing. Subsequently, the degree of knowledge exchange either increased over time or maintained at a considerably high level. In contrast, Group 2 did not adopt a similar approach of establishing knowledge-sharing routines and information sharing varied greatly as the relationship evolved. Collewaert and Sapienza (2016) argue that communication is a crucial stepping stone for establishing a sound and collaborative relationship (Collewaert & Sapienza, 2016). Findings from this study support this theory and give an explicit example of why it is so crucial, by demonstrating a relation between knowledge exchange and goal congruence.

As presented in the previous chapter, one entrepreneur (Interview 2) had annual meetings with the VC to discuss personal as well as business-related matters. An almost identical observation was made during another interview (Interview 1), with the difference that the entrepreneur shared extensive business knowledge to make up a 100-day plan with the VC. This study argues that these specific events during which extensive knowledge exchange took place, facilitated goal alignment for both parties. Since Interviewee 3 initiated the relationship with a deep understanding of the goals of the VC due to his or her first-hand experience as working for a VC fund, the goals were aligned without additional extensive knowledge exchange. As the entrepreneurs from Group 1 experienced aligned goals throughout their relationship. Group 2 however, with for instance one entrepreneur (Interview 5) stating initial passive knowledge exchange and later communication dependent on venture performance, showed results that implicate a distinct misalignment of goals between the two parties over the course of their relationship.

As previously emphasized, VCs and entrepreneurs express significant differences regarding their operating logic. While entrepreneurs are embedded in a dynamic environment characterized by uncertainty, the VCs operating logic is characterized by prediction-based decision-making (Steier & Greenwood, 1995). However, data of this study suggest that the two parties might have to overcome this misalignment and engage in efforts to understand the logic of the opposing party. The importance of understanding how VCs reason and operate, in order to agree upon common goals, was especially highlighted in one of the interviews (Interview 6). The entrepreneur explained how there was a considerable misalignment of goals between him or her and the investor until a VC representative took the entrepreneur aside and shared crucial information regarding the structure and operating logic of a VC. Thereafter, the entrepreneur acknowledged that there was still some misalignment between the two parties but it got easier as they now understood each other in a new way. Interviewee 6 further stated that after receiving the explanation by the VC representative, both parties now had the ability to meet “half-way” which was not possible before. This event made him or her further realize that entrepreneurs should not be VC funded unless they understand what it means. If the entrepreneur would have obtained this knowledge at the very beginning of the relationship, as interviewees of Group 1 did, there is a high likelihood of a greater goal congruence throughout the relationship which could have had a positive influence on the relationship in general. This finding supports previous research by Sapienza and Korsgaard (1994) stating that communication is also a matter of timing.

Timing in the sense that information quality is influenced by when it was chosen to be shared with the other party (Sapienza & Korsgaard, 1994). The information would have been worth considerably more for the entrepreneur early in the relationship, and significantly less later in the relationship as a lot of decisions based on a poor understanding of the other party would have already been made.

De Clercq and Manigart (2007) established that the potential of knowledge exchange as a relational factor is determined by how effective communication between the two parties is (De Clercq & Manigart, 2007). Taken together, these findings suggest that the kind of meetings held by entrepreneurs of Group 1 is one way of achieving effective communication. In other words, this study argues for the relevance of joint planning as a method of communication which was originally proposed by Mohr and Spekman (1994). A method that is demonstrated here to not only have implications on knowledge exchange but also on goal congruence. As it allows communication to bridge a gap between entrepreneur and VC and enables to establish goal congruence between the two parties. Taken together, knowledge exchange and goal congruence build a stable foundation for the development of a fruitful collaboration between entrepreneur and VC.

5.2 Interrelations between Process-like Factors

As previously emphasized, the content factor knowledge exchange and the process factor goal congruence seem to be intertwined and this might be important for building a solid foundation that has considerable implications on the future development of the relationship between entrepreneurs and VCs. Data from this study further suggests that as soon as the engaging parties managed to build such a foundation in their relationship, it allowed the additional process factors of commitment and trust to rise over time.

Evidence about a positive relationship between goal congruence and commitment derives from the qualitative findings of this study. Previous research by Parhankangas, Landström, and Smith (2005) has shown that the level of commitment, is interlinked with the established goal congruence in a relationship to the extent that when goals are not met the level of commitment might decrease (Parhankangas, Landström & Smith, 2005).

While those empirical findings are prevalent in literature, it was further reflected in the data of this study by the ongoing efforts of Interviewee 1 & 2 to constantly align goals throughout the relationship and the resulting constant high level of commitment. Concurrently, Interviewee 4 & 5 did not present aligned goals and therefore experienced varying levels of commitment that were dependent on venture performance.

Goal congruence in combination with extensive knowledge exchange seems to further decrease the likelihood of experiencing a honeymoon phase at the beginning of a relationship. As stated by Fichman and Levinthal (1991), the honeymoon phase refers to a stage at the beginning of a relationship with increased commitment which then decreases after a certain period of time. This phenomenon was only experienced by entrepreneurs that did not have aligned goals and experienced commitment dependent on venture performance. To illustrate, an entrepreneur of Group 2 (Interview 5) demonstrates that there was a misalignment of goals already from the beginning which might derive from passive and infrequent knowledge exchange. Later on, this entrepreneur perceived the VC to lose all the commitment to their investment as performance goals were not met.

This phenomenon might be explained by the mistake of not setting precise and reachable goals through extensive knowledge exchange in the early stage of their relationship. While Interviewee 1 & 2 were subsequently setting up new goals prior to each investment round to increase commitment and counteract tensions, Interviewee 4 from Group 2 highlighted a conflict with the VC due to not reaching goals that were agreed upon several years earlier. Hence, in the latter scenario, the goals were formulated long-termly and not adjusted accordingly to the process of the venture. The importance of adjusting goals throughout the development of the venture to cope with the highly uncertain environment in entrepreneurship is stated by Politis and Gabrielsson (2009) (Politis & Gabrielsson, 2009). Therefore, if the parties do not align short-term and realistic goals, the likelihood of failing and not reaching those goals in the uncertain entrepreneurial environment is rather high. Subsequently, not reaching performance goals might ultimately lead to decreased commitment. While this finding derives from data of this study, it is further prevalent in literature since ventures with stagnating performance often experience less commitment from their VCs (De Clercq & Manigart, 2007; De Clercq & Sapienza, 2005).

This raises the question if engaging in efforts to build a robust foundation through extensive knowledge exchange, resulting in goal congruence from the very beginning of the relationship, reflects itself in increasing levels of commitment throughout the relationship.

Furthermore, the factors commitment and trust seem to be intertwined as well. While it is, on the one hand, argued that a decrease in trust might lead to a decrease in commitment, the opposing site states that an extremely high level of trust might hamper the willingness to engage in discussions (De Clercq & Sapienza, 2001; De Clercq & Sapienza, 2005). The latter argument was reflected in data of this study by Interviewee 1 stating that as soon as the relationship between the entrepreneur and the VC eventually reached a “full-level” of trust, the commitment stagnated and decreased after stabilizing on a healthy and active level. Due to the qualitative research design, it was possible to gather in-depth data on why the monitoring activities were decreased. Against common believes that the opposing parties reduce their commitment due to feeling a decreasing need to engage in penetrating discussions once full trust is established (De Clercq & Sapienza, 2005), it was found that the VC perceived the reportings from the entrepreneur as too detailed and encouraged the entrepreneur to dedicate more time into growing the business rather than writing reports.

5.3 Knowledge Sharing Routines as Indicator of Relationship Quality

De Clercq and Manigart (2007) state that trust is a strong indicator regarding the quality of a relationship (De Clercq & Manigart, 2007). Even though this study acknowledges the importance of trust in a relationship, data suggests that trust does not necessarily indicate a high-quality relationship. Instead, this study argues that the establishment of knowledge sharing routines should be given more attention when assessing the quality of relationships.

The data of this study suggest that the level of trust seems to develop independently according to established goal congruence or knowledge exchange. This finding is mainly supported by the fact that Group 1 and Group 2 both experienced an increase in trust throughout their relationship. However, when comparing the other factors it becomes apparent that Group 1 experienced significantly fewer fluctuations and instabilities when compared to entrepreneurs from Group 2.

In other words, while the level of trust in Group 1 and Group 2 was comparable in the termination phase, Group 1 outperformed the relationships of Group 2 regarding the amount of knowledge exchange and goal congruence. Hence, despite indicating an equal level of trust, Group 1 presented more stable and healthy relationships in the view of the factors analyzed in this study.

Contrasting to the statement of De Clercq and Manigart (2007), this study considers the amount of knowledge exchange to be a superior indicator of the relationship quality instead of trust. This is due to the fact that, according to the presented data, the entrepreneurs that engaged in extensive knowledge exchange at the beginning of the relationship to align goals (Interview 1, 2) or initiated the relationship with extensive knowledge about the operative logic of VCs (Interview 3) started to develop relationships that outperformed Group 2 (Interview 4, 5, 6) regarding the level of goal congruence and commitment.

6 Conclusion

By providing in-depth insights regarding the interrelation between knowledge exchange and the development of goal congruence, commitment, and trust, this study contributes to existing research on the relationship between entrepreneur and VC. Throughout history, this relationship has been analyzed using several different models. From being considered as unidirectional in agency theory with a VC monitoring the entrepreneur (Arthurs & Busenitz, 2003), to acknowledge that there are relational aspects that affect both parties continuously using Prisoner's Dilemma (Cable & Shane, 2007). De Clercq and Manigart (2007) later compiled years of research on the subject, proposing that knowledge exchange, goal congruence, commitment, and trust are key relational factors in the relationship (De Clercq & Manigart, 2007). However, as emphasized by Huang and Knight (2017) there is a gap in research regarding how the relationship between entrepreneur and VC develops over time. This study demonstrates how exchanging knowledge regarding personal and business-related goals with the VC at an early stage, thus establishing goal congruence, promotes the positive development of commitment and trust as the relationship matures. Furthermore, findings presented here serve as an initial indication of the degree of information sharing routines being a stronger measurement of relationship quality between entrepreneur and VC compared to trust. Even though the trust has been recognized as an indicator of quality by previous scholars (De Clercq & Manigart, 2007).

In terms of implications for future research, we acknowledge that only accounting for the entrepreneur's perspective on the relationship, conducting a longitudinal study in a retrospective manner and being limited to a small sample size within a specific sector, leaves room for further investigation. Therefore, we argue for the need for a study that embraces a bi-directional perspective by including a larger sample of both entrepreneurs and VC investors while conducting interviews at several points in time. We recommend a study of that nature to further investigate the importance of knowledge sharing routines for developing a productive relationship between entrepreneur and VC, as this study implicates that it is not only the type of shared information that is of importance but rather how it is communicated.

Furthermore, this study did not measure venture performance but findings indicate that a majority of the analyzed factors might be dependent on it. Therefore, research would benefit from investigating this correlation.

To conclude, findings from this study provide useful advice for entrepreneurs who are considering formal VCs as a future source of external capital. To establish a cooperative relationship, in the sense that both parties are striving towards the same goal, transparency should be promoted from day one. Organize recurring meetings with the VC, during which precise short-term plans are made together, to ensure commitment from both parties throughout the relationship. Knowledge sharing routines will enable goal congruence, together they will constitute the stepping stone of which commitment and trust will flourish.

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Appendix A – Interview Questions

General questions

- Please tell us a bit about yourself as an entrepreneur?
- Could you explain your venture and the idea behind it to us?
- In what development/life cycle stage would you consider the venture to be in right now?

Form of financing

- What are the reasons behind choosing formal venture capital financing?
- For how long have you been financed by a VC?
- Are they a majority or minority stakeholder?
- Would you consider them to be an active or passive investor?
- How did you first come in contact with your VC? Guide us through the process from deciding that you wanted to secure venture capital financing, until you signed the first contract.

Development of their relationship over time in respect to content and process-like factors

- Could you tell us about your relationship with your VC?
- If you reflect on your relationship right now, compared to how it was when you signed the contract, how has it changed over time?
- Are there any events that come to mind, that changed your relationship? If you could put it in a perspective of a timeline, how would it look?

Knowledge exchange

- With regards to communication and the timeline you just presented, how has communication with your investor changed over time?
- Has the way you communicate changed?
- How often do you communicate now compared to then?
- Are there any differences in the subjects you talk about?
- Do you share the same information with your VC now as you did then?

- Were there any scenarios in which you actively decided not to share certain information?

Trust

- Do you trust your VC? Please elaborate.
- Do you think your VC trusts you? How is this displayed?
- If looking at the timeline, is trust something that has changed over time? How is this portrayed? Are there certain events in your relationship that had an impact on the trust between you?

Coal congruence

- If you would compare the goals of the company before your relationship started with now, are they the same? If anything has changed, could you relate it to any certain events?
- Do the goals of your firm align with the goals of your VC? How is this displayed?

Commitment

- How much energy and time do you consider the VC spends on your firm to reach these goals?
- How much energy and time do you spend on displaying your commitment to the VC? (Reports, improved communication etc)
- Is commitment something you perceive to have changed over time or be related to certain events in your relationship? How has it changed?